

***FASTER,  
CLOSER,  
STRONGER***



# About the Report

The Annual Report of PJSC Magnit for 2022 (hereinafter also referred to as Magnit or the Company) was prepared based on the information available to PJSC Magnit and its subsidiaries (hereinafter together referred to as the Group) as at 31 December 2022, unless otherwise implied by the meaning or content of the information provided.

This Annual Report was developed in accordance with applicable laws, is addressed to a wide range of stakeholders and reflects the key performance results of Magnit for 2022 in such matters as strategic and corporate governance as well as financial and operating results.

The Annual Report should be read as a whole taking into account the content of all sections as well as the notes and the explanations herein.

In addition to official information on the activities of Magnit, this Annual Report contains information obtained from third parties and from sources which Magnit finds to be reliable. However, the Company does not guarantee the accuracy of this information, as it may be abridged or incomplete.

Forward-looking statements contained in this Annual Report, including 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 operates, are not based on actual circumstances.

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. 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.

Magnit offers no guarantees that the actual results, scope, or indicators of its performance or the industry in which the Company operates will correspond to the results, scope, or performance indicators clearly expressed or implied in any forward-looking statements contained in this Annual Report or elsewhere. The recipients of the information presented in the Annual Report should not base their assumptions solely on it. Magnit is not liable for any losses that any person may incur due to the fact that the above person relied on forward-looking statements.

Except as expressly envisaged by applicable law, the Company assumes no obligation to distribute or publish any updates or changes to forward-looking statements reflecting any changes in expectations or new information as well as subsequent events, conditions, or circumstances.

# Contents

## Company overview

- 6 Magnit at a glance
- 14 Achievements in 2022
- 15 Our geography
- 16 Business model
- 18 Faster. Closer. Stronger
- 24 Case studies
- 38 Digital projects

## Strategic report

- 42 Market overview
- 52 Strategy
- 54 Innovations
- 58 Operational review
- 66 Financial review

## Sustainable development

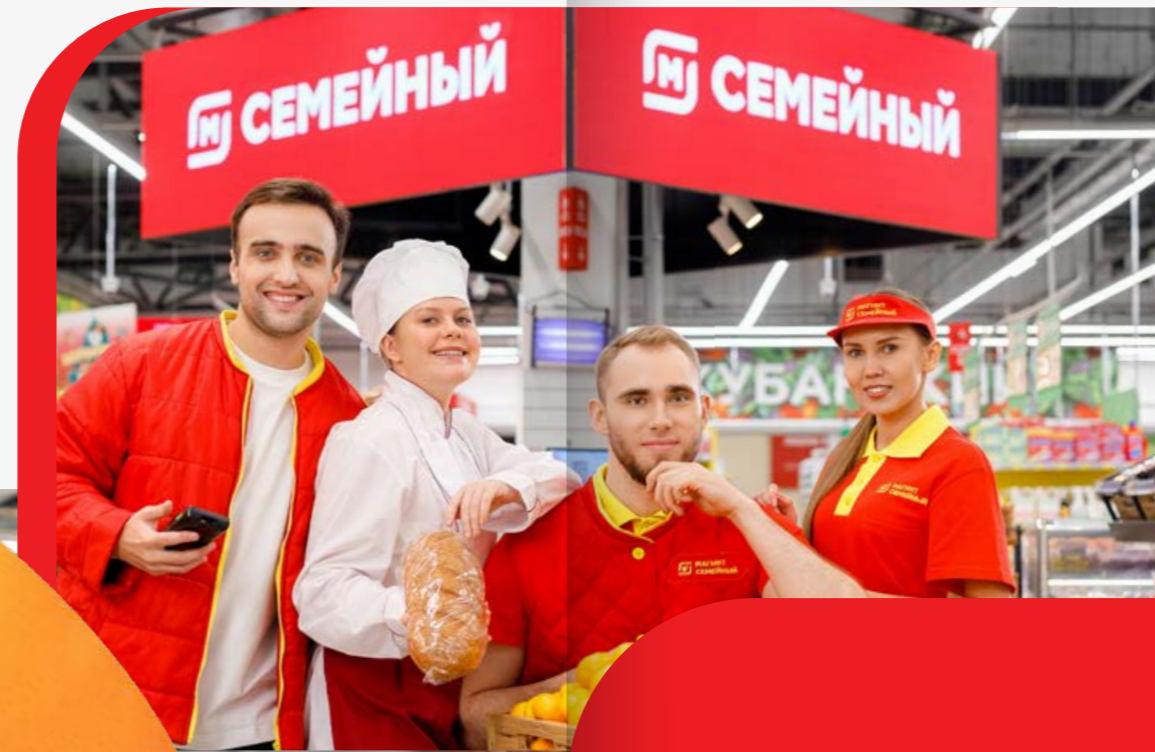
- 74 Our sustainability approach
- 76 2022 performance
- 82 Resource consumption

## Corporate governance

- 86 Corporate governance framework
- 87 General Meeting of Shareholders
- 88 Board of Directors
- 90 Management Board
- 90 Corporate Secretary
- 91 Internal control and risk management system
- 102 Business ethics and anti-corruption
- 106 Shareholder and investor engagement

## Appendices

- 118 Report on compliance with the principles and recommendations of the Corporate Governance Code
- 152 Major transactions
- 152 Related party transactions
- 153 Glossary
- 155 Contacts



# MOVING FORWARD

Magnit strives to contribute to the health and wellbeing of millions of its customers. We develop various formats and expand our geography and our own food production facilities to be helpful to all Russians by meeting their needs for everyday goods and providing equal opportunities to purchase quality and affordable products.

## Company overview

Magnit at a glance	6
Achievements in 2022	14
Our geography	15
Business model	16
Faster. Closer. Stronger	18
Case studies	24
Digital projects	38

# Magnit at a glance

Magnit is one of Russia's leading food retail chains founded in 1994 in Krasnodar. Today, it is the country's largest retail operator by the number of stores and geographical coverage.

Magnit is the only food retailer in Russia with its own food production capacities. It operates 20 production facilities, including six agricultural and 14 dry food and confectionery complexes.

Magnit is continuously developing its own logistics infrastructure while also testing new logistics formats. Today, the Company operates 44 distribution centres and over 5,000 trucks, making up one of Russia's largest in-house fleets.

Our multiformat model includes convenience and drogerie stores, supermarkets and pharmacies under the Magnit and DIXY brands. Customers can also shop across the Company's formats online, choosing between regular or express delivery options.

The Magnit Group includes, inter alia, PJSC Magnit and its subsidiaries JSC Tander, JSC DIXY Ug, Selta LLC and Retail Import LLC.

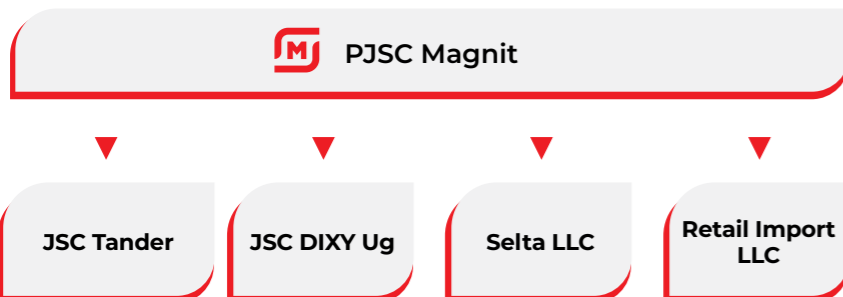
**27,405** stores across 67 regions of Russia and in the Republic of Uzbekistan

**361 thous.** employees as at 31 December 2022

**395 thous.** tonnes of in-house produce in 2022

**>16 mln** customers daily

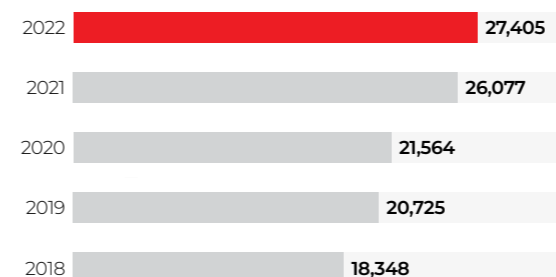
**>68 mln** loyalty card holders



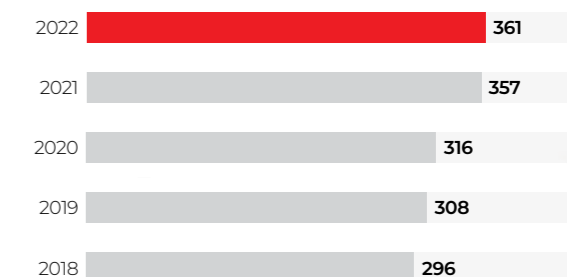
▲ For the list of the key Group companies, see consolidated financial statements

## Key highlights

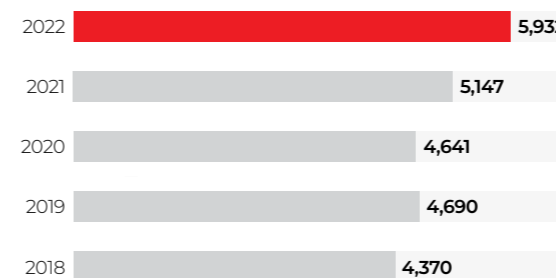
### Number of stores



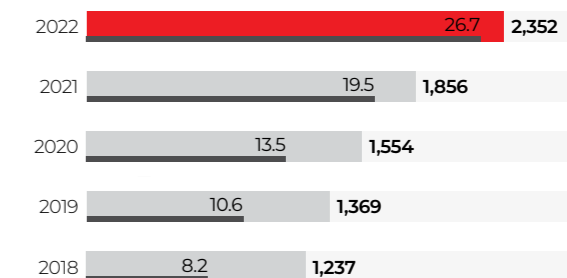
### Headcount, thous.



### Number of tickets, mln

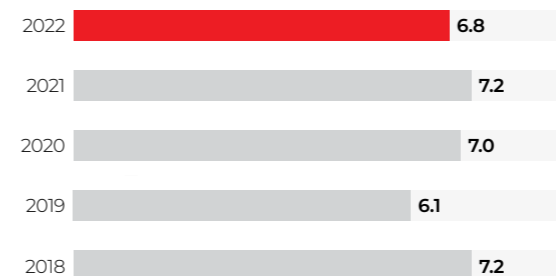


### Revenue, RUB bln

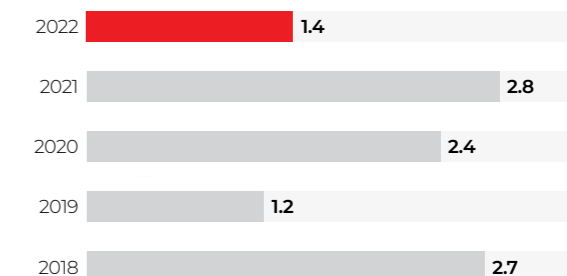


■ Revenue  
■ Revenue growth YoY, %

### EBITDA margin, %



### Net income margin, %



Note: financial metrics are provided in accordance with IAS 17.

## Our mission, culture and values

Our mission is to become the store of choice for every Russian family.

At Magnit, we are committed to continuous operational improvement and professionalism in all areas of activity, while aiming to deliver exceptional quality and customer service.

We highly value the principles of teamwork and respect for each other and our customers, and encourage open and constructive dialogue and effective cross-functional cooperation.

We implement best practices and innovative technologies in our operations and strive to build a better future for all.

Our sustainability strategy to 2025, "Retail with Purpose", sets ambitious goals, promotes a sustainable corporate culture and focuses on embedding sustainability principles into all aspects and facets of our business.



## Our values

Customers at the heart of everything we do.

### Caring for our customers

We build long-lasting connections with our customers. Our team members can easily relate to customers because they also shop in Magnit

### Stronger together

We achieve success through teamwork, incorporating the views of our employees

### Focusing on results

We always accomplish our goals and strive to do so in the most efficient manner

### Taking responsibility

We scrupulously follow the Company's principles and we take responsibility for our decisions

## Investment case

### Market potential

We offer exposure to a sizeable market with potential for further organic expansion and consolidation.



Sizeable market with increasing penetration of modern food retail and opportunities for organic expansion



Growing market share of major players

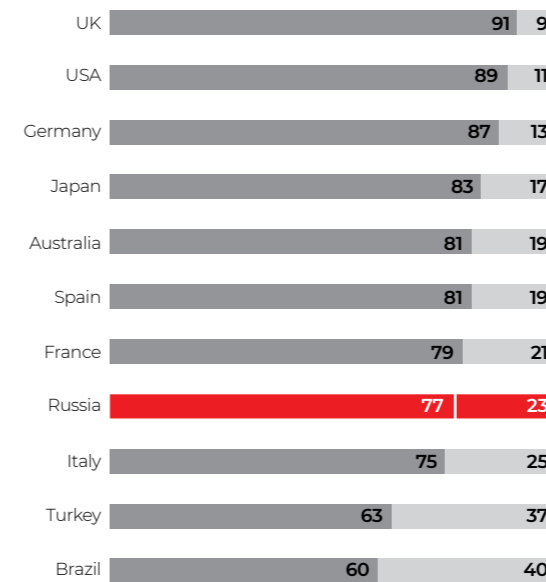


Fragmented market with high potential for further consolidation



New niches and growth opportunities coming along in the consistently growing e-grocery segment

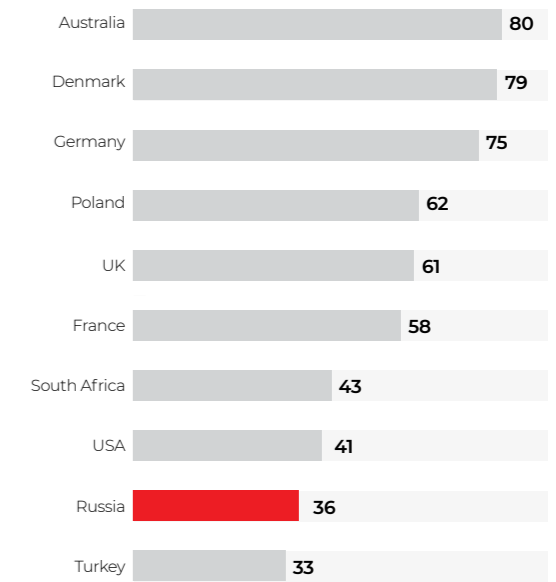
Share of modern and traditional retail in 2022, %



● Modern retail ● Traditional retail

Source: Euromonitor, 2022

Share of top 5 players in grocery retail in 2022, %



### Leading player

Magnit is one of the largest food retailers in Russia with well-developed infrastructure, strong customer base, a recognisable brand, and a growing market share.

- ▶ Multiformat offering with four core formats covering a range of shopping missions in grocery, drogerie and pharma segments



Food



Drogerie



Pharma

- ▶ Wide coverage:

**27,405**  
stores

**4,068**  
cities and townships

**7**  
federal districts

**12.8%**  
market share in food retail sales

Serving customers in all highly populated Russian regions

**67**  
regions of operation

**68 mln**  
mln loyalty card holders

- ▶ Well-developed supply chain

**44**

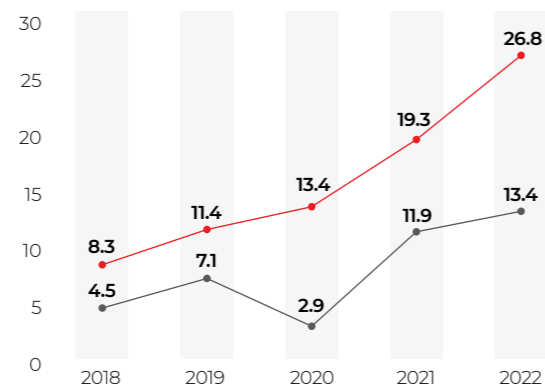
distribution centres and one of the largest own truck fleets in Russia

- ▶ The only vertically integrated retailer in Russia

**20**

own production facilities and agricultural complexes

### Magnit's sales growth



Source: Federal State Statistics Service, Magnit data

### Growth ambitions

On track to speed up profitable return-driven growth leading to further market share gains.



Acceleration of value-accretive organic growth



Smart expansion implying high profitability targets for new openings



Selective small to mid-size value-accretive M&As to strengthen market positions



Adherence to sustaining high return requirements for new projects



Store network redesign programme to improve sales density



Building a leading e-grocery platform to account for over 5% of total turnover



Proactive forays into adjacent value-accretive niches



**+5.3%**

selling space YoY growth in 2022

**+9%**

in-house produce YoY growth in 2022

### Efficiency gains

We have great potential for further business development.



Further CVP<sup>1</sup> improvement to drive sales density and profitability



CVP initiatives to enhance consumers' perception and experience



Increase in sales density partly through redesign acceleration and process improvements



Extension of consumer offering complimentary to core business



<sup>1</sup> Customer value proposition.

### Dividends

Strong capital discipline with a focus on returns in all investment decisions with a view to generating substantial dividend payments.



Focus on the quality of new store openings as a way to maximise ROI



Keeping Net Debt / EBITDA at a comfortable level



Clear plan to improve working capital with a focus on stock days optimisation

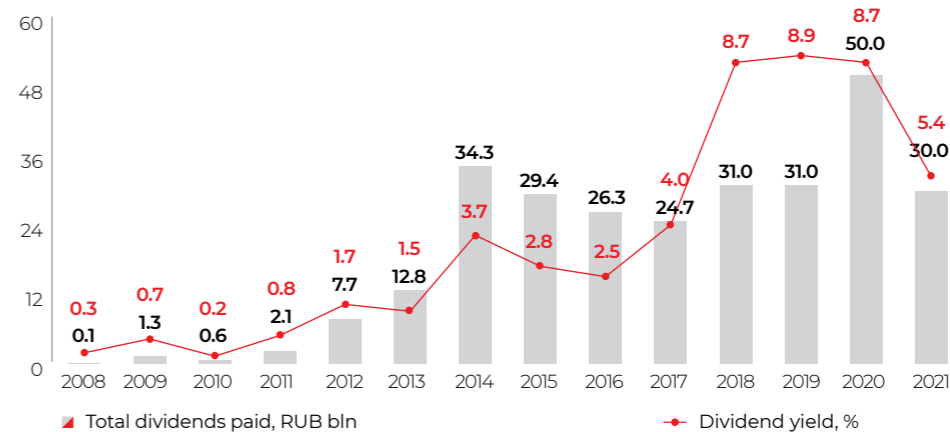


Value accretion for shareholders to deliver consistently solid dividends



**2.1x**  
leverage (IFRS 16) as at 31 December 2022

### Magnit's dividend yield in 2008–2021



Source: Magnit data

# Achievements in 2022

We faced a number of external and internal challenges in 2022. To ensure the resilience of our business, we had to redesign existing business processes and revisit our approach to many business elements. That said, the Company delivered on its key objective of providing customers with high-quality and fresh goods in a timely and complete manner.

In spite of the headwinds, we continued to grow organically by opening new stores and experimenting with new formats. Magnit focused on efficiency and

localisation. We ramped up our own production capacities to bolster our independence from fluctuations of external markets, create new jobs, and build trust in the quality of the products we offer to our customers. In the reporting period, we placed particular emphasis on contracts with local suppliers, which have favourable impact on economy across our regions and maintain customer confidence. We have invested a lot of effort into streamlining our supply chain management by optimising our warehouses and selling space and mapping out new

transport routes. Our logistics has proven resilient in the most challenging circumstances.

One of our priorities is to track changes and respond appropriately. We keep a watchful eye on the market and customer behaviour and identify new niches to become even friendlier and closer to our customers.

We will work hard to optimise processes, increase efficiency, localise, and cooperate with our partners. Day by day, we continue doing our job to become the store of choice for each and every family.

## Highlights of the year



**1,736**  
new store openings (gross)



**26.7%**  
total sales growth



**12.1%**  
LFL sales growth



**72** thous.  
online orders per day



**RUB 32.6** bln  
e-commerce GMV



**70%**  
increase in DIXY's EBITDA after integration, bringing DIXY's margin closer to that of Magnit



**10.6** days  
reduction in inventory turnover; RUB 42.1 bln<sup>1</sup> cash release

<sup>1</sup> Based on management accounts in accordance with IAS 17.



## Strategic priorities in 2022



LFL sales growth



Smart ROI-centric organic growth



Development of new formats



DIXY stores consolidation and margins improvement



Improvement of the working capital cycle

## Our geography

Federal District	Convenience stores <sup>2</sup>	Supermarkets <sup>3</sup>	Drogeries	Convenience stores	Distribution centres
North Caucasian	518	19	255		1
Southern	2,713	122	1,323		8
Central	4,596	85	1,876	1,742	14
Volga	4,607	124	1,833		10
Northwestern	2,059	37	706	466	4
Urals	1,812	82	826		4
Siberian	1,111	24	457		3
<b>Total</b>	<b>17,416</b>	<b>493</b>	<b>7,276</b>	<b>2,208</b>	<b>44</b>
	Magnit			DIXY	

**27,405**  
stores

**4,068**  
cities and townships

**7**  
federal districts<sup>4</sup>

<sup>1</sup> Magnit convenience stores include Magnit City and My Price stores.  
<sup>2</sup> Magnit supermarkets include Magnit Family supermarkets and superstores.  
<sup>3</sup> 12 drogerie stores operate in Uzbekistan.



# Business model

Magnit is further solidifying its position in Russian retail by transforming the business and improving its customer proposition. We strive to become the number one choice for our customers, employees and investors.

## Our resources



**Our customers**  
**>16 mln**  
 customers daily



**Employees**  
**~361 thous.**  
 people employed by the Company<sup>1</sup>



**Suppliers**  
**~6 thous.**



**Shareholders**  
**>250 thous.**  
 investors<sup>2</sup>



### Government and regulators

Magnit has an efficient corporate governance framework that complies with Russian laws and the Rules of the Moscow Exchange.



### Environment and communities

Magnit aims to integrate sustainability principles into all aspects of its operations and business processes.

## How our business is different



### Multiformat and omni-channel

**>9,472 thous. sq. m** selling space  
**4,068 cities and townships**  
**>10 thous. offline stores**  
 and **31 dark stores**  
**in 67 regions** of Russia connected to online services



### Own production capabilities and private labels

**6 agricultural complexes**  
**14 production facilities**

# Focus on caring for our customers



### Largest supply chain network in Russia

**44 distribution centres** in **7 federal districts**  
**>5 thous. trucks**  
**1.9 mln sq. m** of warehouse space



### Recognised for supreme quality and breadth of range

**136 quality awards** in 2022  
**14 quality control laboratories** conducting  
**>3 thous. daily tests**  
**>5 thous. private label SKUs**  
**20% share of private labels** in sales<sup>3</sup>

## Value for our stakeholders



### Everywhere for our customers

- ▶ Adapting existing and creating new formats tailored to specific customer needs in different localities
- ▶ Implementing CVM<sup>4</sup> tools
- ▶ Developing online shopping and delivery services
- ▶ Improving availability of goods by leveraging new technology and communications development



### Rewarding our employees

- ▶ Stable wages
- ▶ Employee benefits and perks
- ▶ Professional and career growth opportunities for employees at all levels



### Cooperating with our suppliers

- ▶ Engaging local suppliers
- ▶ Inviting supplier representatives to work at Magnit's offices



### Delivering returns to our shareholders

- ▶ ~RUB 29 bln of dividends paid in 2022
- ▶ New store openings payback with ROI<sup>5</sup> >40%



### Economic contribution

- ▶ Supporting social and economic development in the regions of operation
- ▶ Hosting regional procurement sessions
- ▶ Making timely tax payments



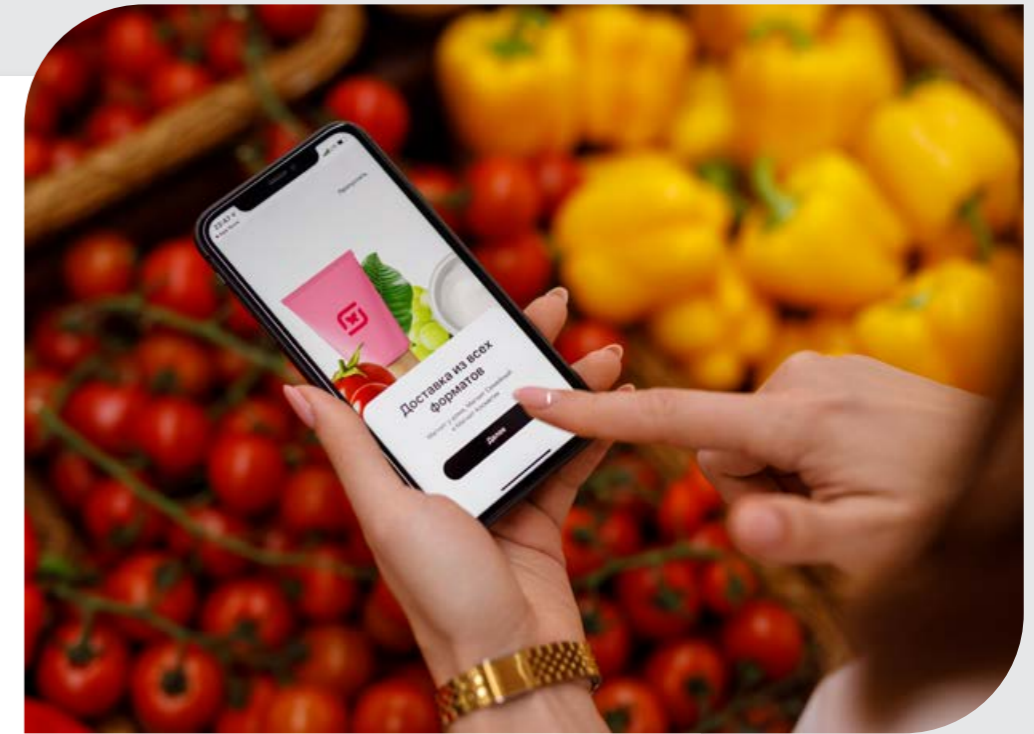
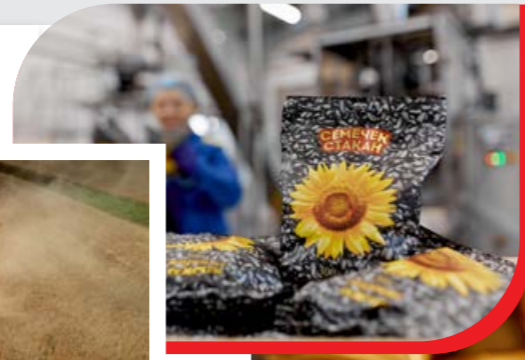
### Supporting local communities

- ▶ New jobs
- ▶ Social and charitable programmes in the regions where we operate
- ▶ Mitigation of our environmental footprint, including reduced waste generation

<sup>1</sup> As at December 2022.  
<sup>2</sup> As at June 2022.

<sup>3</sup> In value terms.  
<sup>4</sup> Customer value management.  
<sup>5</sup> ROI = OCF for the year with ramp-up phase / CAPEX.

# Faster. Closer. Stronger



## Faster

### Response to market challenges



► Growth in our own production

**64%**

own production capacity utilisation at Magnit in 2022



► Transition to digital checks

**~1 mln km**

of cash register tape to be saved by Magnit annually thanks to the use of digital checks



► Capped markup on socially important goods

**5%**

maximum markup on key consumer basket goods at Magnit stores



► Among the first Russian retailers to launch a food sharing programme

**18 tonnes**

of products donated to vulnerable population groups as part of the programme in 2022

### Adjustment to changing consumer needs



► Enhanced private label offering

**+700**

new private label products on offer in 2022



► Launch of self-service cash desks

**20%**

reduction in queuing at stores with self-service terminals

### Introduction of new technologies



► Testing of AI-based promotions

**x3 ROI<sup>1</sup>**

from promotions driven by Magnit's in-house ML-based innovations



► Improvements in efficiency powered by Big Data and neural networks

**RUB 2.1 bln**

contribution in EBITDA from digital projects in 2022



► Transition to cloud-based technologies

**up to 20%**

of Magnit's services to migrate to the cloud until the end of 2023

<sup>1</sup> Return on investment

# Faster. Closer. Stronger



## Closer

*Bringing our products closer to customers*



▶ Expanding into marketplaces

**6 thous.**

SKUs from the Magnit Cosmetics product range available on Ozon and Wildberries at the end of 2022



▶ Developing our own delivery service

**121**

cities and towns covered by Magnit's own delivery service



▶ Launching ready-to-eat foods across stores in Moscow and the Moscow region

**1.5 thous.**

stores in the Moscow region now offering ready-to-eat foods



▶ Increased cashback available

**x20**

bonuses accrued for favourite product categories



▶ More stores of all formats

**+1,736**

new stores (gross) in 2022



▶ Scaling up soft discounters

**>500**

My Price soft discounters opened in 2022



▶ Opening new dark stores

**+11**

dark stores in 2022

# Faster. Closer. Stronger



## Stronger

### Operational performance



▶ Streamlined logistics

**>5.5%**

average cost saving potential across certain product categories available from streamlined supplier logistics



▶ Investments in customer experience

**RUB 13 bln**

invested in product and service quality and customer experience in 2022

### Financial performance



▶ Growing volume

**+26.7%**

sales growth in 2022 YoY



▶ Developing online sales

**2.9x**

E-commerce GMV growth in 2022

### Employee and customer engagement



▶ Improved engagement

**84.9%**

employee engagement rate achieved by Magnit in 2022



▶ Improved loyalty

**76.9%**

of employees are loyal to the Company



▶ Winning customers over

**70%**

of purchases made with Magnit loyalty cards by the end of 2022



# Case studies

## Completion of DIXY's integration into the Company's structure

Following the 2021 acquisition of DIXY, the fifth largest grocery retailer in Russia, Magnit considerably strengthened its positions in the Russian food retail sector.

With DIXY's strong presence in Moscow, St Petersburg and the Moscow and Leningrad regions, which altogether in 2022 accounted for 28% of the Russian food retail market, Magnit was able to ramp up its share and solidify its standing in these regions.

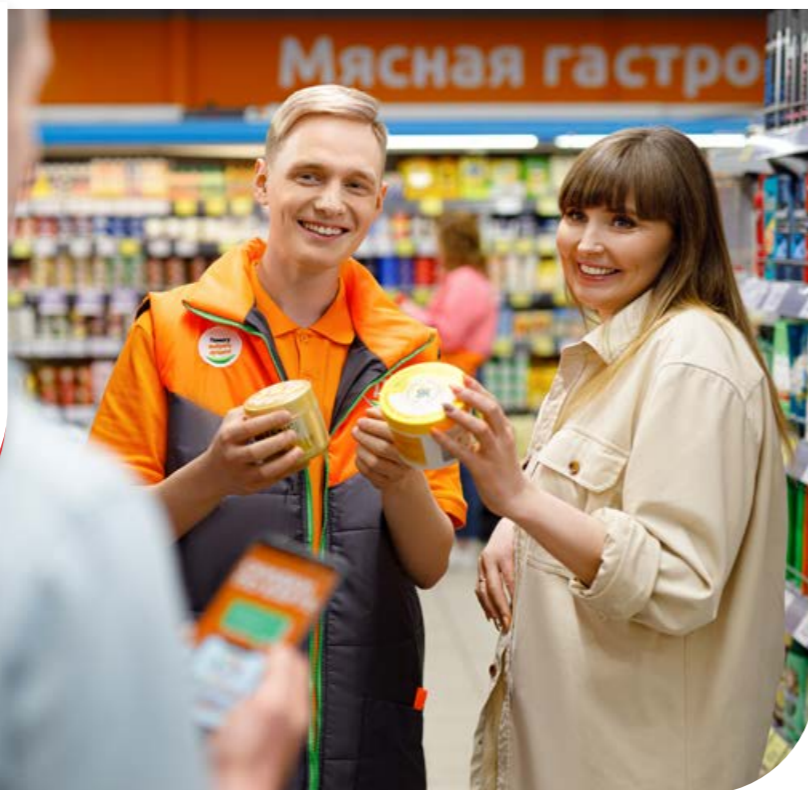
As early as 2021, the integration of DIXY provided Magnit with synergies in procurement, category management and technology along with cost savings achieved through optimisation of business processes. The integration process was successfully completed in 2022.

### Key integration initiatives Key results

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>▶ Unified commercial terms for both retailers as a result of negotiations with suppliers</li> <li>▶ Improved merchant acquiring conditions for DIXY</li> <li>▶ Optimised personnel costs at Magnit</li> <li>▶ Ad savings as a result of reliance on the same service providers for both retailers</li> <li>▶ Optimised sales of recyclable waste materials</li> <li>▶ Optimised rent rates for Magnit and DIXY</li> <li>▶ Harmonisation of IT systems of both retailers</li> </ul> | <ul style="list-style-type: none"> <li>▶ Smooth integration while maintaining growth and meeting DIXY's original key financial targets (revenue, sales density and EBITDA)</li> <li>▶ Business synergies as a result of joint efforts of the commercial teams of Magnit and DIXY</li> <li>▶ Introduction of best practices in HR management and operations</li> <li>▶ DIXY EBITDA catching up with that of Magnit</li> </ul> |
|---|--|

**-39%**  
in staff turnover TMMMA<sup>1</sup> at DIXY

**+70%**  
DIXY EBITDA growth following integration



## Private label and own production

Magnit continues developing its private labels to offer exclusive products with great value for money. With our own production, we are well-positioned to make the business more resilient and fully control all the product manufacturing stages.

**+28%**  
growth in revenue of private label sales to RUB 400 bln

**>5 thous.**  
SKUs in private label portfolio, including 2.2 thous. food SKUs

**20%**  
share of private labels in sales<sup>2</sup>

The development of various private labels is central to our customer value proposition. Our private label goods offer excellent value for money, have higher margins compared to branded products and are available at a wide range of prices to suit various customer needs. Demand for Magnit's private labels is steadily growing, also among consumers who previously preferred medium and premium segment products. This was partly driven by increased price sensitivity that consumers started demonstrating in response to the COVID-19 pandemic and the financial crisis that followed.



In 2022, as some of the famous brands left the market or faced limitations in their supplies, we decided to expand our private label portfolio and launch a number of new brands.



<sup>1</sup> Three Months Moving Average.

# Case studies (continued)

## Private label and own production (continued)

In the reporting year, we added over 700 new private label goods to our product range. The sales of Magnit, our largest brand in terms of sales, reached RUB 114 bln (an increase of 91% vs 2021), with sales of Premiere of Taste, our fastest growing brand, delivering a 2.2x surge.

Winning customer trust and turning their attention to new brands is quite a challenge. We focus a lot on the preparatory stage to make sure we offer customers something that they really need, with top-notch quality. The success of Magnit's private labels is largely driven by a thorough approach to the way they are launched:

- ▶ preliminary analysis of the market and competition;
- ▶ search for market niches that are still available;
- ▶ deep dive into best international practices and the offering of manufacturers, including as part of own production;
- ▶ engagement of cutting-edge in-house R&D labs and test studios to develop products and upgrade their quality.

To improve the quality of our private labels, we collect and analyse customer feedback. At our own test studios in Krasnodar and Izhevsk, customers participate in blind tests of our products and provide advice on how to improve them. With this feedback under our belt, we can considerably improve our sales, sometimes by as much as 70%. In the reporting period, Magnit's test studios held 1,118 tests, including 234 tests of new products.

These efforts have been delivering some excellent results. In 2022, Magnit's private label goods – Casper and NaNi diapers – for the first time ever outperformed an established international brand (Pampers). Based on this, we are revising our vision of our exclusive brands to treat them as full-fledged competitors of renowned brands and to plan their promotion accordingly.

The quality of our private labels is evidenced not only by stronger demand we see for them but by expert opinion as well. Magnit's private labels were recognised as some of the best at the 2022 Private Label Awards. The event was held as part of the SobMaExpo

**29%**  
share of Magnit umbrella brand in our private label structure

International Exhibition for Contract Manufacturing and Private Label Market (formerly IPLS). Magnit won in the Best Private Label Department category for its professional efforts in developing and marketing its private labels, promoting them among customers, and securing superior quality. Our Stellar brand was recognised as the best in the cosmetics and perfumery segment. Also, Magnit's private labels won prizes across a range of categories: KuMiHo, a Korean skincare cosmetics brand, became the winner of the Best Non-Food Private Label category; the Magnit family of brands, which includes M Freshness, M Kitchen, M Health and M Lifestyle, was recognised the Best Private Label in the Medium Price Segment category, and the Casper



diaper brand won accolades as the Best Private Label in the Children's Goods Segment.

At the 2022 International Quality Assurance awards, Magnit's and DIXY's private labels won a total of 78 awards: 44 gold and 22 silver medals, as well as twelve diplomas.

We continue to optimise our private label portfolio and product range in response to changing customer demand by enhancing in-house production capabilities and building long-term relationships with our partners and external suppliers. Our private label portfolio expanded by adding over 700 SKUs and today features

more than 5,000 SKUs. These include milk and dairy products, fish gastronomy, processed meat and sausages, fruit and vegetables, cheese, bread, dry food, confectionery, soft and hot drinks, snacks, canned and frozen food, cosmetics, household goods and other non-food items.

By 2025, we aim to increase the share of private labels from 20% to 25% of our total sales and seek to reach 100% core private label SKUs availability in all Magnit stores. While today we have 25 private labels, discontinuation of Russian operations by some of the brands in 2022 opens up opportunities for us to expand the portfolio.

**78 awards**  
of the 2022 International Quality Assurance event brought home by private labels of Magnit and DIXY

**+700**  
SKUs in 2022

**25 to 50**  
exclusive SKUs is the targeted increase in our private label portfolio



# Case studies (continued)

## Own production

When creating a new product, we benchmark our own production capabilities with those of external partners and compare economic efficiency metrics. All opportunities and costs being equal, we opt for our own capacities, as this plays a major role in expanding Magnit's private label range and enables us to quickly respond to changes in consumer preferences.

Today, Magnit operates 14 industrial production and 6 agricultural complexes which produce a vast range of goods, including vegetables, spices, cereals and frozen fish. The total headcount at our own production facilities is around 5.8 thous. people.

## Magnit's own facilities

### Southern Federal District

#### Krasnodar territory

- ▶ Kuban Factory of Bakery Products LLC
- ▶ Kuban Confectioner LLC
- ▶ Plastunovskaya separate division
- ▶ Tikhoretsk separate division
- ▶ Novotitarovskaya separate division
- ▶ Cheese Slicing Facility Krasnodar JSC Tander
- ▶ Cheese Slicing Facility Novorossiysk JSC Tander
- ▶ Zelenaya Liniya LLC – Tikhoretsk separate division
- ▶ Zelenaya Liniya LLC – Plastunovskaya separate division
- ▶ Zelenaya Liniya LLC – Mushroom complex
- ▶ Zelenaya Liniya LLC – Exotic and oyster mushroom complex

### Central Federal District

#### Tver region

- ▶ Tver separate division
- Tea, snacks, coffee

#### Moscow region

- ▶ Cheese Slicing Facility Dmitrov JSC Tander
- Cheese slicing and packaging

#### Lipetsk region

- ▶ Moskva na Donu LLC
- Vegetables

#### Belgorod region

- ▶ Greenhouse LLC
- Fresh vegetables

### Volga Federal District

#### Saratov region

- ▶ Saratov separate division
- Dry food, snacks

#### Penza region

- ▶ Cheese Slicing Facility Penza JSC Tander
- Cheese slicing and packaging

#### Samara region

- ▶ Togliatti separate division
- Frozen products

#### Republic of Bashkortostan

- ▶ Ufa separate division
- Dry food, snacks

#### Orenburg region

- ▶ Cheese Slicing Facility Orenburg JSC Tander
- Cheese slicing and packaging

**395 thous.** tonnes of products made by Magnit's own production facilities in 2022

**+9%** own production output vs 2021

Confectionery, pasta, pastry, fresh vegetables, herbs and mushrooms  
Packaging of cheese and fruit

— Agricultural assets

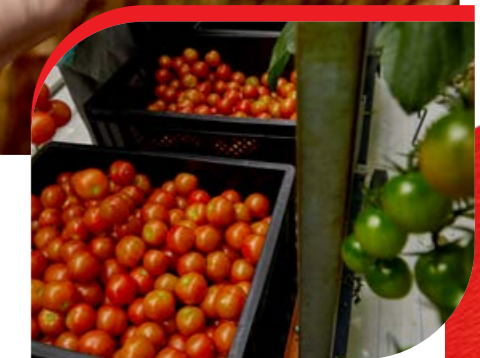
## Fast facts

**25%** of all tomatoes sold in Magnit stores are produced in our own greenhouses

**18%** of all fruit and vegetables at Magnit are sold under private labels

**120%** is the growth in sales of our Premiere of Taste premium brand as compared to 2021. This is Magnit's fastest growing private label

**Stellary** brand was named the best private label in the cosmetics and perfumery segment at the IPLS 2022 exhibition



All production facilities are equipped with modern equipment with a high degree of automation. With 14 in-house laboratories, we ensure quality control throughout the entire production process, from feedstock procurement to the manufacture of finished products. All the facilities are constantly monitored online. Our production complies with GOST R ISO 22000-2007 and the international Food Safety System Certification (FSSC) v.5.

Product contests, receiving prizes in the Fresh Vegetables, Dry Food, Confectionery, and other categories.

## Sustainable packaging

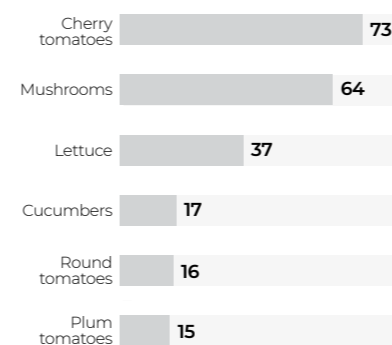
In 2022, the Company's process engineers took part in developing the Voluntary Sustainable Packaging Standard (ECR Russia). As part of our commitment to sustainability, at least 50% of the packaging for private label and own production will be recyclable, reusable or compostable by 2025.

Today, recyclable packaging makes up 32% of total packaging at our own production, with the share of potentially recyclable packaging standing at as much as 46%.

In 2022, Magnit made 395,000 tonnes of products, including 111,000 tonnes of agricultural products, a 9% increase vs 2021. Concepts for a total of seven new projects were approved, including two ready meal factories to be located at the Krasnodar industrial park and the Solnechnogorsk hypermarket. These plans are aligned with the corporate strategy to offer ready-to-eat products. We launched three new own production facilities and started making 70 new SKUs.

In 2022, products from our own sites won 136 awards in various categories of the International Quality Assurance, Product of the Year, and Best

## Share of in-house production across different product types<sup>1</sup>, %



<sup>1</sup> Share in the category's total sales in kg.

# Case studies (continued)

## Own production (continued)

### Import substitution

In 2022, we did our utmost to minimise reliance on imports (raw materials, ingredients and packaging) at all of our own production sites.

As a result, we delivered a 30% reduction in imported components, with components originating from imported raw materials declining by as much as 37%.

The share of packaging materials made in Russia saw a 3.5x growth vs 2021. Today, more than 70% of all packaging materials used by the Company come from Russia, compared to just 20% in 2021.

### Lean production

For three years now, Magnit's own production facilities have been adhering to lean production principles, which aim to increase employee engagement, create a culture of responsibility, and instil high standards of work. In 2022, 85% of personnel at our own production sites underwent training in lean production basics.

During the year, the Kuban Factory of Bakery Products team won a silver prize at the second Rationalisation and Productivity Cup, an award initiated by the Professional Skills Development Agency, Ministry of Economic Development, and the Federal Centre for Competences. Competing at the Cup were eight facilities from six regions: the Novgorod, Leningrad and Yaroslavl regions, Udmurtia, Buryatia and the Krasnodar territory.

**RUB >170 mln**  
of confirmed economic savings delivered as a result of optimisation initiatives

At the Path to Perfection regional contest in the Krasnodar territory, which aims to identify best practices in lean production, seven Kuban facilities became the winners. Kuban Factory of Bakery Products won the first place (gold in terms of technology implementation), with TD-Holding as the runner-up. The silver went to Kuban Confectioner and Zelenaya Liniya.

Also, a rationalisation system is strongly in place across Magnit's sites. As a result, in 2021 and 2022, our employees submitted 3,185 proposals on how to improve the Company's operations. 69% of the proposals were accepted, and of that number, 86% were implemented as at December 2022.



## New production facilities

### Centre for growing oyster mushrooms and honey fungus

In December 2022, Magnit opened a new centre for growing oyster mushrooms, honey fungus and shiitake at its existing white mushroom facility in the Krasnodar territory. With the project investment of approximately RUB 1 bln and production capacity of more than 1,000 tonnes of mushrooms per year, the centre has become Russia's largest facility of this kind.

Consumption of mushrooms is steadily growing. Today, oyster mushrooms, honey fungus and shiitake account for 10% of Magnit's total mushroom sales and their share is expected to grow faster than the market. The new centre will secure a guaranteed supply of large batches of high quality mushrooms, while offering a great price proposition thanks to tight cost control.

The new facility supports a full production cycle, from harvesting straw to be used as a substrate for growing mushrooms to packaging

finished products and handling country-wide deliveries by in-house trucks. Magnit uses the packaging materials made by domestic producers and the straw harvested in the southern Russian region of Kuban. The centre features mushroom fruiting chambers that maintain the required microclimate environment for different species of mushrooms. Grown mushrooms are picked by hand, immediately cooled to preserve their properties and then packed. A dedicated laboratory is in place to ensure quality control.

The first batch of mushrooms grown by the centre and offered under the Magnit Freshness private label was supplied to our stores across all regions of operation as early as the New Year's eve.

**100%**  
self-sufficiency in honey fungus and shiitake

**70%**  
self-sufficiency in oyster mushrooms to be secured by the new centre



# Case studies (continued)

## Own production (continued)

### Coffee roasting and packaging facility

In October 2022, the Company launched coffee roasting and packaging operations at its facility in Tver.

We have already begun supplying organic coffee beans and ground coffee of eight roast types under the My Price, Magnit and Gusto di Roma brands to all stores across our 67 regions of operation. By leveraging in-house roasting and packaging capacities and logistics infrastructure, we are able to achieve a 10% lower price vs peer products in the low-price segment and a 20% lower price in the medium+ price segment.

Coffee beans for the new facility – Arabica and Robusta – come from Brazil, Ethiopia, Uganda, and Vietnam. For whole bean coffee, we use a hybrid roasting technology, which helps preserve the high quality of beans and bring out their full potential. For ground coffee, cold grinding is used, where beans are not heated and preserve their original aroma and flavour.

**>800 tonnes** of coffee roasting and packaging capacity per year

up to **26%** self-sufficiency in coffee

### Mini-brewery in a superstore

In 2022, Magnit launched its first own mini-brewery in one of the superstores in Krasnodar. The brewing equipment is placed behind a glass wall, so that shoppers can see the brewing process.

The new facility will offer consumers a new mid-priced quality product, while helping the Company build up expertise in this promising market niche: in 2022, beer sales in Magnit stores were up by almost 22% in monetary terms.

The beer will be sold under the Company's Magnit private label. The decision to develop and scale up the project will be made based on the testing results and evaluation of customer response and business performance.



up to **6,000 litres** of monthly brewing capacity for various types of beer



### Deli and sausage production line

In 2022, Magnit launched its first deli and sausage production line in one of its superstores in Krasnodar. The line is part of the store's meat department and is designed to produce about 45 tonnes of products per month.

The products are made from natural Russian feedstock and include various sausages, meatloaves, cured meats, wiener sausages and hot dogs. There are also plans to launch special products dedicated to the New Year and other holidays, for example, sausages with added green or black olives or nuts.

If the project is successful, it will be scaled up to other Magnit stores.

**35** exclusive deli and sausage products under M Kitchen private label

### Plans for 2023

Magnit plans to begin production of mycelium at its own mushroom centre in the Krasnodar territory. This will help us fully substitute European feedstock, improve product quality and create additional local jobs. The mycelium will be produced in a state-of-the-art laboratory, where highly qualified experts will be continuously selecting the genetic material to maintain and improve the quality of mushroom strains.



**1.5 mln litres** of mycelium production capacity per year



# Case studies (continued)

## Expansion of the My Price soft discounter chain

In 2022, Magnit opened more than 500 My Price soft discounters across 62 regions of Russia. The new stores feature an area of 100–300 sq. m, easy-to-navigate zoning and an assortment of about 2,000 SKUs.

The new soft discounters were launched both in large cities and small towns with a population of up to 2,000 people, helping to improve the availability of products and enhance food security. Most stores opened in Tatarstan, the Chelyabinsk region and Krasnodar territory, and their total number went up to as many as 700 discounters.

Soft discounters offer a variety of special price value packs in the following categories: fruit, vegetables, dry foods, dairy, confections, baby food, drinks, pet food, household chemicals, and others.

This store format is popular with customers and meets the prevailing trend of lean consumption. Its prices are on average 15% lower than those in convenience stores, and may be 30–40% lower in some product categories. The soft discounters also benefit from optimised headcount (an average of up to 5 employees compared to 11 employees in convenience stores, without compromising the

quality of service) and improved efficiency of retail space utilisation, which helps them save costs on purchasing additional equipment.

The discounter segment is underpenetrated in Russia compared to a number of other developed markets where they are often seen as market disruptors, providing considerable room for growth. In 2021, hard discounters had 3.3% penetration in Russia, and their share is expected to grow to around 11% by 2025<sup>1</sup>. Given the continued contraction of the real disposable income of households in Russia since 2012, the macroeconomic conditions are also conducive to the development of this format. Discounters fit well in small and remote locations, where opening a convenience store may be inefficient, and where consumer income is lower than average.

Approximately 20% of the My Price sales come from Magnit's private labels. Going forward, we plan to increase their share to 50% and launch a dedicated range of private labels for our discounters.

### 40%

less investment in new discounter openings vs similar-size convenience stores

### 52%

LFL sales growth in 2022

### x2

higher sales density vs first launches

### 2022 performance

- ▶ Higher sales productivity despite the limited product offering.
- ▶ Better merchandise margin vs convenience stores thanks to a significant share of private labels.
- ▶ Higher profitability of discounters converted from convenience stores vs their performance as convenience stores driven by higher sales density and lower SG&A.
- ▶ Higher inventory turnover owing to the assortment of highly rotated products.

<sup>1</sup> Alfa-Bank, INFOLine, December 2022.

## Efforts to streamline logistics

For a retail business of our scale, efficiency in logistics is a key success factor. In 2022, we focused on achieving logistics efficiency gains and tested new logistics formats, which may soon become industry best practices.

### Supply chain logistics improvement

The Company and its partners embraced an end-to-end supply chain to streamline product shipments in a meaningful way. Magnit took over part of the suppliers' logistics functions to increase delivery speed, improve inventory turnover and reduce distribution costs.

Cost savings in logistics unlock additional opportunities for lowering the price of products, thus improving their affordability and value for customers. The end-to-end supply chain helps harmonise all logistics processes from manufacturer to buyer, while also reducing inventory levels, improving delivery times and increasing turnover.

### >5.5%

of potential average cost efficiency gains across some product categories



# Case studies (continued)



## Launch of fruit and vegetables sourcing via ports in the Russian Far East

Magnit embarked on developing intermodal transportation of products from Asia-Pacific through the Russian Far East, pioneering in fruit and vegetables sourcing via this route. The efficient operation of the customs service makes it possible to streamline clearance processes and reduce clearance time. Products are then delivered to the Company's distribution centres in special reefer containers that maintain the required temperature levels.

**30–40 minutes**  
average time needed for staples customs clearance

The launch of these new logistics operations will help reduce both the cost of goods and delivery time, boost efficiency of Magnit's distribution processes and ensure consistently high quality of fruit and vegetables, one of the most popular product categories.



## Unmanned logistics corridors testing

Magnit and other logistics and transport operators signed the Common Programme of the Regulatory Sandbox Regime (RSR) for the implementation of the Unmanned Logistics Corridors (ULC) initiative on the M11 Neva highway.

The programme was developed by the Digital Transport and Logistics Association with support of the Russian Ministry of Transport. The unmanned logistics corridor on the M11 highway is slated for launch by 2024, with a total of 19,500 km of Russian public roads potentially becoming available for autonomous vehicles by 2030.

Over the next three years, digital innovations in truck transportation will be tested in areas of designing, building and operating highly automated trucks and infrastructure for

them as well as developing unmanned transport and logistics services. The testing of technical solutions and business models for unmanned trucking will make it possible to scale the project to other highways in the shortest possible time and at the lowest cost.

**30%**  
potential saving in driver payroll costs

**28%**  
potential saving in fuel costs by 2025

them as well as developing unmanned transport and logistics services. The testing of technical solutions and business models for unmanned trucking will make it possible to scale the project to other highways in the shortest possible time and at the lowest cost.

**x2**  
faster introduction of new SKUs

**600 SKUs**  
introduced at a faster rate

**2%**  
improvement in on-shelf availability at Magnit Cosmetics

**5%**  
increase in supplier service provision for new SKUs

## Improved assortment rotation at Magnit Cosmetics

Maintaining and improving the on-shelf availability of products is the number one priority for Magnit amid the headwinds caused by the limited supply of imported goods and raw materials, logistics constraints and the departure of major players from the Russian market.

Against this background, we launched an initiative to improve the assortment rotation and new SKUs introduction at Magnit Cosmetics, which is strongly dependent on imports. By leveraging early volume and date arrangements with suppliers, reviewing our internal processes, and optimising the supply chain, we were able to accelerate both SKU rotation and introduction.

These efforts also helped us increase the transparency of processes both on the Company side and the supplier side, improving supply discipline and accuracy of product shipments.



## Swift arrangements to source products in short supply

Magnit joined forces with its key suppliers to develop sourcing arrangements for products in short supply caused by global feedstock shortages and external logistics constraints.

We work in lockstep with suppliers to ensure monthly alignment of our sourcing needs with their supply capabilities. To do that, we:

- ▶ define sourcing priorities by region;
- ▶ leverage similar available products to handle shortages;
- ▶ identify priority promotional products;
- ▶ ensure targeted replenishment for high-traffic stores.

**3%**  
increase in availability of products in short supply

**2%**  
increase in availability of products for targeted promotions

# Digital projects

We develop our in-house digital solutions and implement big data and AI-based innovations to streamline business processes and drive consistent improvement in our operating and financial performance.

## Multi-cloud approach in partnership with Yandex Cloud

Magnit and Yandex Cloud agreed to cooperate using the platform's cloud services. We plan to gradually migrate to the Russian cloud infrastructure and move up to 20% of our services there as early as the end of 2023. At present, most of Magnit's data – over 500 petabytes – is stored in our own and third-party data centres, with a limited number of digital and analytical services moved to the cloud so far.

Going forward, Magnit will use Yandex Cloud's infrastructure and platform tools, including container development solutions, serverless computing tools and data platform services. This will help us minimise our own IT infrastructure and focus

on investing in digital product development, improve the quality of data storage and use, and accelerate the processes of launching and scaling new and existing client products.

Today, more than ten projects have already been launched in Yandex Cloud, including solutions for inventory control, a platform for interaction with suppliers, and a solution for product layout monitoring.



**20–30%**

saving on IT equipment procurement and maintenance costs driven by the use of cloud services

## Scaling up product recognition technology

In 2022, Magnit began scaling up a technology for product recognition on retail store shelves, which was launched in 2021 and developed by a domestic software company. The solution helps identify and swiftly remedy any inaccuracies in the product layout, driving higher staff productivity and sales growth. The technology will be rolled out across 1,000 retail stores of all major formats, including convenience stores, supermarkets and Magnit Cosmetics drogeries.

It is based on a neural network algorithm that recognises products on the shelf by analysing shelf images and controls the layout's conformity with the planogram. The technology reviews the availability of products on the shelf and the remaining stock in the store, the sequence in which the products are placed on the shelves as well as the front shelf and other layout arrangements. Store personnel receive prompts in the mobile app to correct errors.

Currently, automated layout monitoring covers three product categories: coffee, care and hygiene, and pet products. From 2023, the range of automatically monitored product categories will be expanded to include tea, baby food, alcohol, snacks, dairy products, confections, household chemicals and more.

**x4**

time saving for checking the product layout thanks to a shelf recognition technology



## Migration of Magnit Delivery to its own IT platform

The Company completed the migration of the Magnit Delivery service to its own IT platform based on Russian-made software. The platform covers the entire digital customer journey from placing orders on the website or in the mobile app to order processing and assembly, courier assignment, and delivery itself.

The proprietary platform is better suited to the needs of the online offering development going forward, enables a faster launch of new services and more effective control over service quality, and also supports the operation of Magnit's own courier delivery service in Moscow and St Petersburg.

The Magnit Delivery app is now testing the self-pickup option, which will soon be available to all customers.

**20%**

saving on the cost of attracting and retaining customers thanks to migration to Magnit's own platform



The Company is currently implementing a number of its own and partner online delivery projects, including express delivery, regular delivery as well as online pharmacy, cosmetics and partnerships. As at the end of 2022, Magnit's online sales totalled RUB 32.6 bln.



# DELIVERING OUTSTANDING RESULTS

Magnit seeks to become the number one choice for consumers, employees and investors. To achieve this, we streamline our business processes, improve customer experience and solidify our position in Russian retail by increasing sales and expanding selling space.

## Strategic report

Market overview	42
Strategy	50
Innovations	54
Operational review	58
Financial review	66

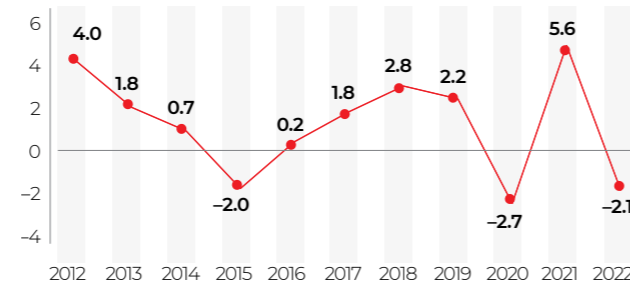
# Market overview

## Macroeconomic environment

In 2022, the Russian economy entered a phase of structural adjustment and had to face many headwinds triggered by changes in foreign trade and wide exchange rate fluctuations. Nevertheless, the country managed to avert a severe financial crisis, and the decline in economic activity was less than anticipated.

GDP fell by 2.1% compared to 2021 – less than in the forecast by the Bank of Russia (2.5%) and by the Ministry of Economic Development (2.9%). According to the Federal State Statistics Service (Rosstat), the GDP decline ensued from a reduction in the index of value added in volume terms, including in wholesale and retail trade. That said, the share of net exports in the structure of the main GDP components increased by 3.5 p.p., while the shares of final domestic demand (-2.3 p.p.) and gross savings (-1.2 p.p.) shrank.

Real GDP change in Russia, %

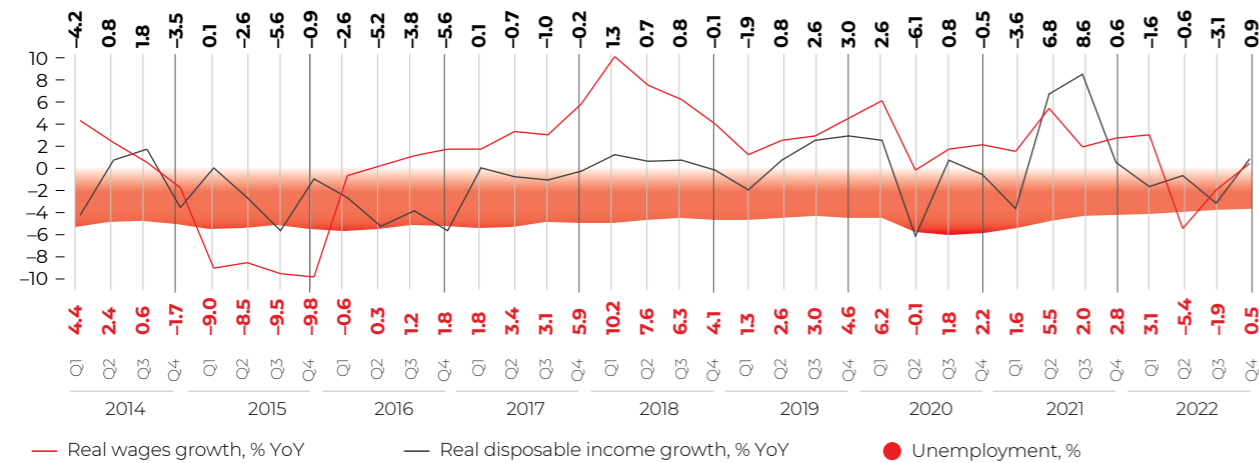


Source: Federal State Statistics Service, Ministry of Economic Development

In 2022, inflation was 11.9%, the highest rate since 2015 (12.9%), but still it was below expectations. The forecast of the Bank of Russia was 12–13% and that of the Ministry of Economic Development – 12–12.4%. In Moscow and St Petersburg, inflation stood at 11.7% and 11.5%, respectively. Average real wages in Russia fell by 1.0%, with

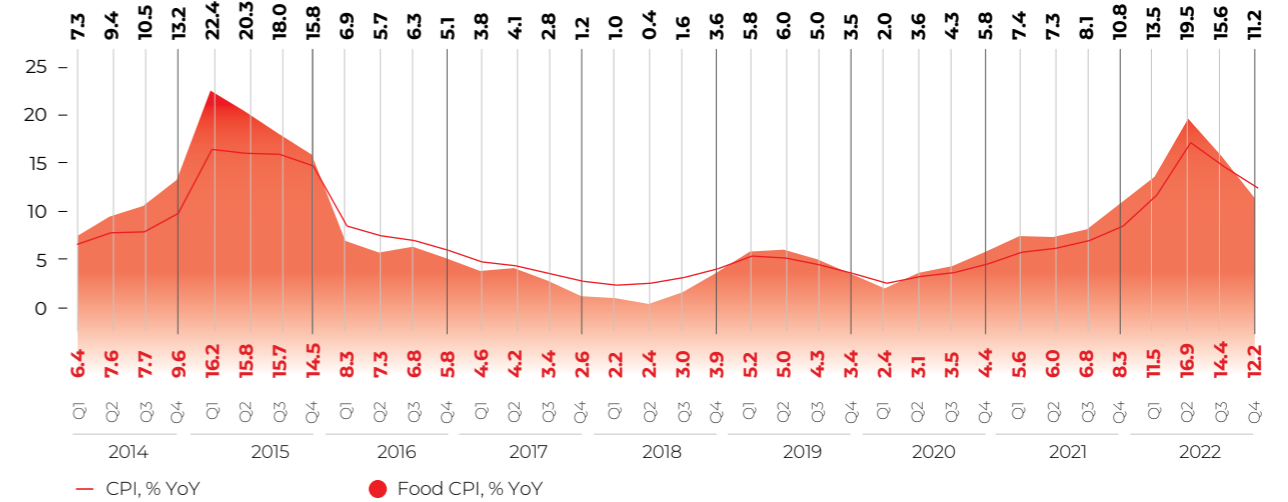
a considerable drop in real income observed in March–April amid high inflation, while income growth resumed towards the end of the year.

Real wages, real disposable income and unemployment rate, %



Source: Federal State Statistics Service

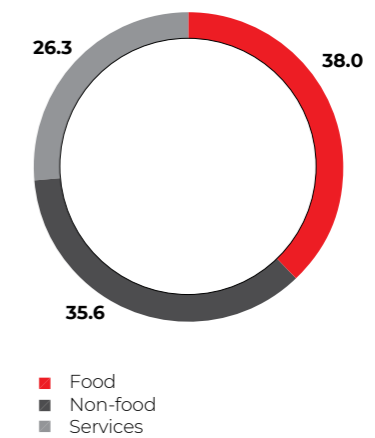
CPI and food CPI in Russia, %



The labour market was stable. By December, the unemployment rate remained at historic lows (3.7% of workforce, or 2.8 million people) and the annual average was 3.9% vs 4.8%<sup>1</sup> in 2021.

Despite elevated inflation expectations, which peaked in the spring of 2022, the consumer price index (CPI) slowed down to 11.9% by December and the food CPI to 10.3%. Food accounted for 38% – the largest share in consumer spending.

Consumer spending in 2022, %



<sup>1</sup> The unemployment figures for 2021 have been adjusted against the Annual Report 2021, according to data from the Federal State Statistics Service.

# Market overview (continued)

## Russian retail market

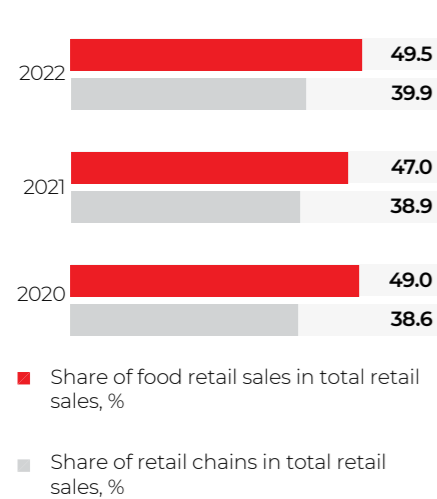
In 2022, retail sales in Russia increased by 7.7% in nominal terms YoY and amounted to RUB 42.5 trln according to Rosstat. At the same time, food retail sales rose by 13.4% in nominal terms to RUB 21.0 trln.

In the reporting period, retail chains accounted for 39.9% of the total retail sales compared to 38.9% in 2021. The share of food retail sales increased by 2.4 p.p. to 49.5%.

In 2022, the Russian market faced supply chain disruptions and sharp fluctuations in the rouble exchange rate. In 2022, fewer international companies entered the Russian market than during the COVID-19 pandemic in 2020 and 2021.

The purchasing patterns of Russians have also changed dramatically. In light of the economic downturn and falling real wages, many consumers have become more conscious about their shopping habits, reducing spending on non-food items, large home appliances and furniture, reprioritising non-essential purchases and favouring mid- and lower-price items. 38% of consumers began to make fewer purchases, including online. Among companies in the food consumer segment, premium retailers and restaurant businesses have been affected most of all.

### Russia's retail market in 2020-2022, %



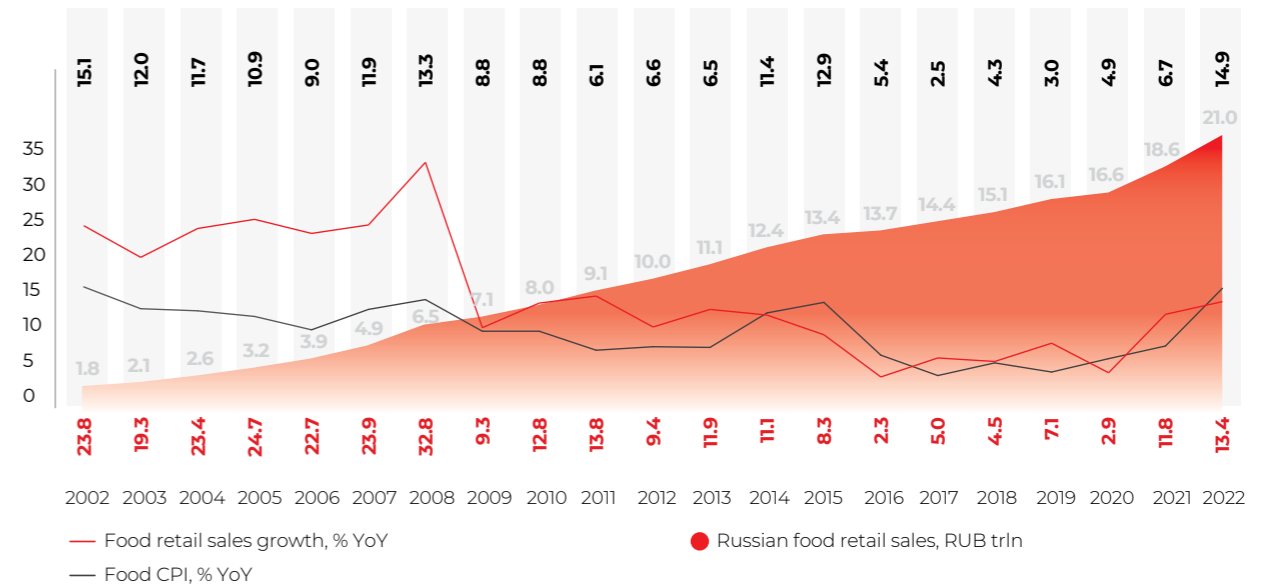
Source: Federal State Statistics Service

### Grocery retail market in 2022, USD bln



Source: Euromonitor

## Food retail sales in Russia in 2002-2022<sup>1</sup>

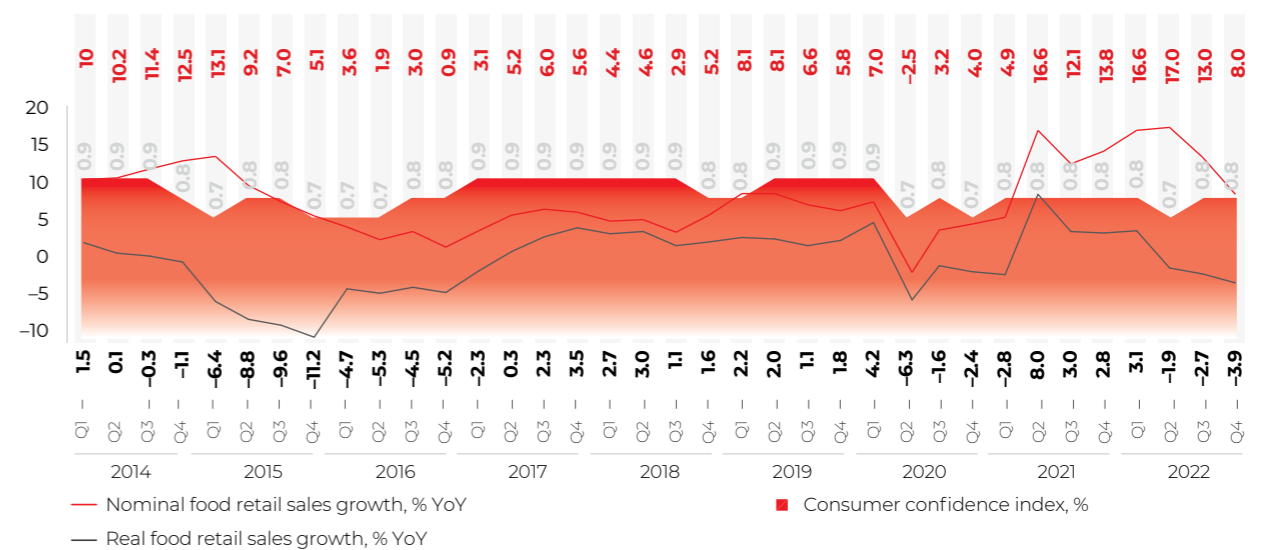


Source: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis

The development of import substitution and new partners in the Asian and Middle Eastern markets helped offset the consumer demand issues. Stronger demand for domestic products contributed to Russia's 2022 industrial production index of -0.6%, significantly above forecasts. Food production, meanwhile, showed moderate growth (+0.5%) accelerating at the end of the year.

In 2022, the Russian grocery retail market remained the eighth largest in the world in terms of revenues.

## CCI and food retail sales growth, %

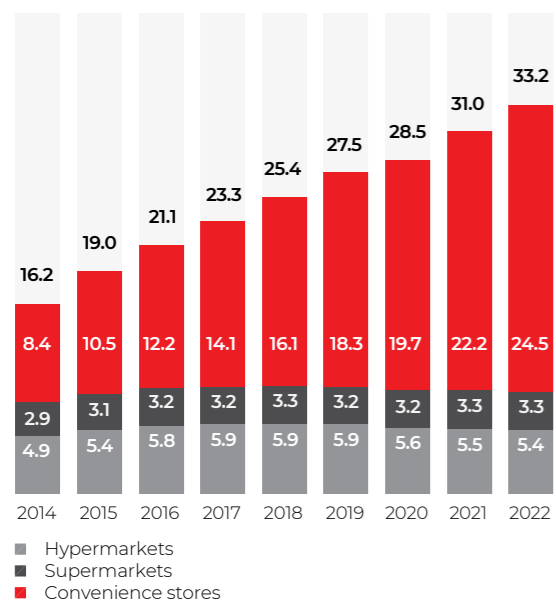


Source: Federal State Statistics Service, Ministry of Economic Development

<sup>1</sup> Food retail sales figures for 2021 have been adjusted against the Annual Report 2021, according to data from the Federal State Statistics Service.

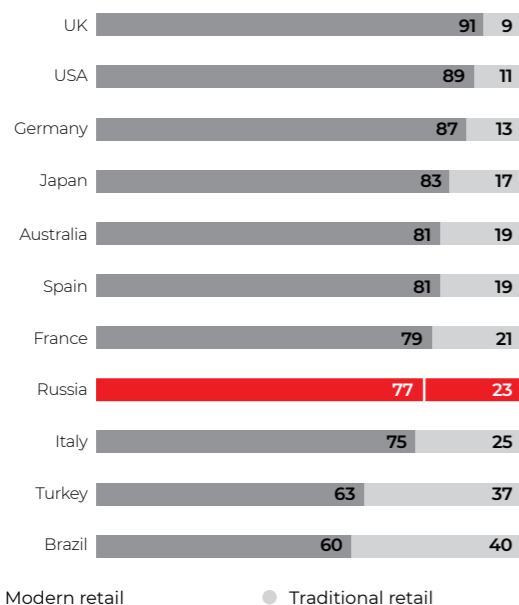
# Market overview (continued)

## Total selling space for modern retail in Russia, mln sq. m



Source: INFOline, Magnit analysis

## Share of modern and traditional retail in 2022, %



Source: Euromonitor

The crisis of 2022 opened up new opportunities for development to Russian retailers. Most leading players continued to invest in expanding retail space and own production, develop private labels, and ramp up product offering at affordable prices.

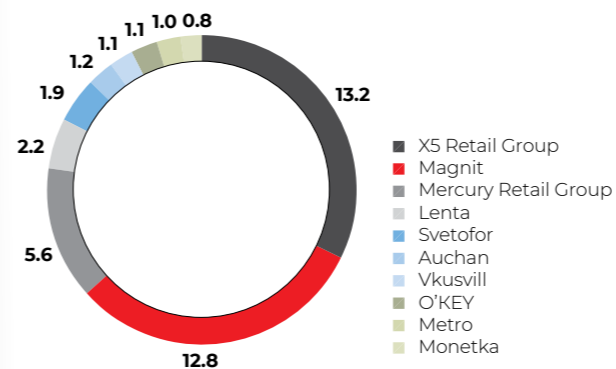
The market for online grocery sales in Russia grew to RUB 625 bln. However, growth slowed down in large cities such as Moscow and St Petersburg due to a weaker low base effect.

At year-end 2022, Magnit was the second largest Russian FMCG chain in terms of revenue, growing 27% YoY. The Company significantly increased the number of Russian suppliers and the share of domestic products in stores to 95%. Magnit's proactive approach to developing its own production facilities contributed to food security and the availability of a wide choice of products on the shelf. In the reporting period, utilisation of the Company's own production capacity rose to 64% and output increased by 9% YoY.

In response to changing consumer demand, the Company continued to open new store formats (Magnit Convenience Plus, Magnit City and Magnit Go kiosks) and develop the My Price soft discounter chain. Emphasis was placed on maximising the adaptation of both selling space and store assortment to best meet consumer needs.

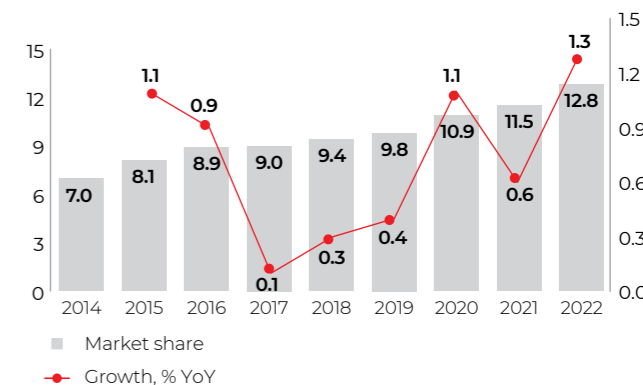
In 2022, the Top 10 companies in Russian retail demonstrated sales growth of 21% YoY. According to INFOline, the growth was mainly attributable to a fiercer price competition and a lower share of traditional and non-chain retail. In 2022, Magnit's market share increased by 1.3 p.p. to 12.8%, mainly due to qualitative changes related to a stronger value proposition to the customer resulting in higher sales density.

## Magnit market share by revenue in Russia in 2022, %



Source: INFOline, Magnit analysis

## Magnit market share by revenue in Russia in 2014-2022, %



Source: Federal State Statistics Service, Magnit analysis

In 2023, we plan to pursue a smart expansion strategy, improve our value proposition, and develop online sales and digital services. The development of private labels and own production will also remain a key area of our strategy.

### Key trends in consumer behaviour and preferences in 2022



#### Cost cuts and no spontaneous purchases

Customers have become more financially and budget-conscious. Major purchases and entertainment spending outside the home have been affected most of all.



#### Consumers becoming more digital

Demand for online shopping and delivery continues to grow. At the same time, the segment can develop further primarily in the regions, while in Moscow and St Petersburg, which previously saw stronger demand for delivery services arising from the high pace of life, have already shown some slowdown in the growth rate.



#### Increase in the popularity of mid- and lower-price segments

As a result of a drop in real disposable income, Russians no longer purchase premium brands and are looking at mid- and lower-price alternatives. This creates additional opportunities for the development of own production and private labels.



#### Interest in healthy products and responsible consumption

Greater awareness around the environment, nutrition and health is leading to consumers who are ready to pay more for healthy and eco-friendly products in certain categories.



# Market overview (continued)

## Key trends in Russian retail market



### Growing share of Russian manufacturers

Many brands withdrawing from the market set stage for the growth of Russian manufacturers, including local suppliers and farms.



### Rise of hard discounters

Discounters are gaining popularity due to consumers' price sensitivity and, unlike other formats, are in demand, including in remote locations. Availability of smaller retail outlets is helping to drive expansion.



### eGrocery sales growth

The share of eGrocery sales in food retail is expected to approach 5% by 2024. This will also lead to an increase in the number of dark stores that serve the online delivery market.



### Emerging digital systems

Digital technologies continue to evolve enabling personalised approaches and streamlining business processes.

## Key changes in the regulatory environment in 2022

Change	Regulatory document	Effective date
Increase in the minimum retail prices for alcoholic beverages, including vodka and cognac	Order of the Ministry of Finance of Russia No. 11n dated 26 January 2022	1 January 2022
Indexation of the Platon heavy vehicle charge system tariff (an increase by 20 kopecks compared to the previous tariff)	Resolution of the Ministry of Transport of the Russian Federation	1 February 2022
Extension until 1 September 2022 of the executive order approving the list of goods and packaging to be disposed of after the loss of their consumer properties	Executive Order of the Government of the Russian Federation No. 3324-r dated 26 November 2021	1 January 2022
The minimum retail price for a pack of cigarettes has been increased to RUB 112	Federal Law No. 504-FZ dated 30 December 2020	1 January 2022
Abolition of weight control for trucks that bring medicines, food, and essentials into the country	Regulation of the Government of the Russian Federation No. 702	19 April 2022
Extension of the abolition until 1 February 2023	Regulation of the Government of the Russian Federation No. 1670	22 September 2022

Change	Regulatory document	Effective date
Extension (until the end of 2023) of the period when retail companies can apply under a simplified procedure for registration of alterations to the premises carried out after the retail outlet was opened	Regulation of the Government of Moscow No. 3005-PP dated 26 December 2022	26 December 2022
Simplification of permit issuance for trucks to enter and move around Moscow	Regulation of the Government of Moscow No. 357	15 March 2022
Introduction of a ban on freight haulage by truck in the country for companies from unfriendly countries. The ban does not apply to 14 categories of goods, including meat, fish, alcoholic beverages, etc. Effective until 31 December 2022	Regulation of the Government of the Russian Federation No. 1728	30 September 2022
Extension of the food embargo until the end of 2023. The document envisages a ban on the import of meat, dairy and fish products, vegetables and fruits, salt, live pigs and edible offal from the EU, the USA, Norway, Australia, Canada, Ukraine, UK, Albania, Montenegro, Iceland, and Lichtenstein	Decree of the President of the Russian Federation	11 October 2022
Approval of automatic extension and simplified procedure for permits in 2022. 120 types of permits were covered, including those in the retail sector	Regulation of the Government of the Russian Federation No. 353	12 March 2022
Extension of the programme to compensate small and medium-sized enterprises (SMEs) for the use of the national Faster Payment System. SMEs will be able to have their costs of using the system compensated until the end of 2022	Regulation of the Government of the Russian Federation No. 1306	20 July 2022
The recognition of soft drinks produced with sugar or other sweetening agents and containing more than 5 g per 100 ml of the drink as an excisable product. The excise duty of RUB 7 per 1 litre of drink will be introduced starting from 1 July 2023	Federal Law No. 443-FZ	21 November 2022
Extension of the simplified procedure for state registration of the most popular medical devices until 1 January 2025	Regulation of the Government of the Russian Federation No. 1643	19 September 2022
Amendments to the Law on Trade allowing retail chains to acquire foreign retail chains without having to comply with the 25% market share threshold until 31 December 2022	Federal Law No. 154-FZ dated 11 June 2022	15 June 2022
Amendments to the Law on Trade enabling the Russian Government to establish a procedure for introducing and withdrawing from circulation goods subject to mandatory labelling with means of identification	Federal Law No. 341-FZ	14 July 2022
Extension of the deadline for introducing mandatory labelling of dairy products for farms and agricultural cooperatives until 1 December 2023. Postponed start of mandatory code scanning at checkout for the sale of labelled dairy products from March to September 2022. Postponed start of mandatory code scanning at checkout for the sale of labelled bottled water to 1 March 2023	Regulation of the Government of the Russian Federation No. 477	26 March 2022
Early termination of the experiment and introduction of mandatory labelling of certain nicotine-containing liquids with means of identification (liquids for electronic nicotine delivery systems, including nicotine-free ones)	Regulation of the Government of the Russian Federation No. 2178	30 November 2022
Introduction of mandatory labelling for certain nicotine-containing products (tobacco / tobacco products intended for consumption by heating)	Regulation of the Government of the Russian Federation No. 228	24 February 2022
Introduction of mandatory labelling for beer and soft drinks	Regulation of the Government of the Russian Federation No. 2173	30 November 2022
Decision on an experiment in online sales of medicines	Federal Law No. 405-FZ	20 October 2022
Extension of transitioning to unified machine-readable power of attorney exchange	Federal Law No. 536-FZ	19 December 2022

# Strategy

Our strategic goal is to cement our current leading federal retail positions by growing our market share significantly and profitably.

Our strategic ambition is to become No. 1 for consumers, employees and investors.

Magnit recorded significant sales growth in 2022, driven by continued sales uplift from mature stores, increased selling space and inflation, resulting in a sales density improvement of 11.4% YoY. It is clear that our initiatives to enhance consumer perception and experience are working, as demonstrated by positive NPS and Consumer Satisfaction Index trends and net consumer gains. Our sustainability strategy is now embedded throughout our organisation as we continue to add more data metrics to monitor our performance and improvements. In 2022, we have continued to develop internal

processes to extract greater efficiency and our investment in people has intensified to ensure we have the right competencies and have an agile and innovative company.



Our strategy is driven by the desire to create value for our three major stakeholders – our consumers, our employees, and our investors.



### Consumers

Growing LFL, best in NPS/CSI<sup>1</sup> and more customer gains than losses



### Employees

Constant improvement of eNPS<sup>2</sup>, engagement and productivity



### Investors

Creating value for shareholders thanks to attractive returns

## Our goals are supported by four pillars



### Consumer first

- ▶ Consumer-centric decision-making with enhanced loyalty and improved personalisation powered by AI / Big Data
- ▶ Enhanced CVP and clustering to better serve consumer needs
- ▶ Improved brand positioning (including care, safety, ESG, and value for money)
- ▶ E2E consumer offering going beyond traditional offline space
- ▶ Digital / ecosystem



### Employer of choice

- ▶ Flexible and proactive approach to personnel attraction
- ▶ Intensified investment in people to ensure best competences and business continuity
- ▶ One team approach as the base for effective cross-functional cooperation
- ▶ Talent management and social lifts
- ▶ Agility and innovative thinking



### Most efficient and promising ways to market

- ▶ Smart expansion in core formats to profitably grow the market share, including M&As
- ▶ Actively and structurally consider new sales lines, new niches/markets
- ▶ OMNI including online
- ▶ Agile sourcing including partnerships with suppliers, crystallised offering in own production / private labels to enhance offering and secure positioning
- ▶ Vertical integration (agro/FMCG)



### Modern and efficient platform

- ▶ Defined and straightforward functional strategies
- ▶ Smooth and efficient processes
- ▶ Flexible organisational structure, clear responsibility split combined with entrepreneurial culture
- ▶ Flexible, reliable and scalable cloud-based IT solutions and data platform
- ▶ Product-centric technology organisation

## Sustainable development

Sustainability is firmly embedded in all areas of our strategy and it is key to the continued growth of the Company. It is an integral part of what we do and acting in the interests of all our stakeholders will produce better returns over the long term for our shareholders. Our Sustainability

Strategy sets out our ambitions and strategic principles and formalises our approach. We are committed to reducing our environmental impact and having a positive impact on the wider society, as well as ensuring our

employees are satisfied and upholding the highest standards of corporate governance.




<sup>1</sup> Net Promoter Score / Consumer Satisfaction Index.  
<sup>2</sup> Employee engagement and satisfaction survey.

# Strategy (continued)

## Strategic priorities

Priorities	Our strategic priorities for 2022	Our strategic priorities for 2025
Enhance CVP	Keep improving CVP as a key driver for material improvements of sales density and profitability supported by processes and ways of working enhancement	<ul style="list-style-type: none"> <li>▶ Efficient CVP initiatives to enhance consumer perception and experience</li> <li>▶ Clear potential to increase sales densities by way of speeding up value accretive redesigns</li> </ul>
Extract efficiency	Continuous focus on extracting efficiency to get higher profitability and cash generation	Thought-out strategic plan to capture tremendous business improvement
Pursue smart expansion	Focus on smart expansion implying high profitability targets for new openings	Smart organic expansion in line with projected sales channel split in the market
Strengthen our overall positioning	Due to overall market evolution and high consolidation potential we expect more opportunities to become available in the M&A field where we could selectively (based on strategic and value accretive approach) strengthen our overall positioning	Proactive and opportunistic return-driven consolidation play (M&A)
Extend consumer offering	Extend consumer offering complementary to our core business (including partnerships, e-commerce, new geographies and specialised formats in important adjacent consumer missions, etc.) to better satisfy consumer needs	<ul style="list-style-type: none"> <li>▶ Build a platform for an omni-channel consumer experience</li> <li>▶ Continue to proactively consider adjacent value accretive niches</li> <li>▶ Development of format offering (including by adapting new convenience store formats – Magnit Convenience Plus and My Price, and launching the hard discounter format)</li> <li>▶ Adherence to sustaining high return requirements for new projects</li> </ul>

In 2022, Magnit adjusted processes that underpin its strategy to better reflect the new market environment.

Functional area	New challenges	Magnit's response
Commerce (product range availability) 	<ul style="list-style-type: none"> <li>▶ Discontinuation of operations by some of the market players caused a drop in supply</li> <li>▶ The complexity of the production and supply chain for many foods created a variety of unforeseen risks that may result in shortages of raw materials</li> </ul>	<ul style="list-style-type: none"> <li>▶ Private label strategy update: launch of new brands, including imitation brands, to replace those that left the Russian market</li> <li>▶ Direct import projects</li> <li>▶ Vertical integration into the FMCG sector</li> </ul>
Logistics 	<ul style="list-style-type: none"> <li>▶ International logistics: disruption of logistics chains</li> <li>▶ Disrupted financial processes: changes to the way financial transactions are processed</li> <li>▶ Internal logistics: higher external and internal risks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Development of new logistics routes</li> <li>▶ Development of new financial processes</li> <li>▶ Transformation in logistics and initiatives to mitigate risks</li> </ul>
HR 	<ul style="list-style-type: none"> <li>▶ Reduction in the number of working age people as a result of a natural decrease in population</li> <li>▶ Uberisation of the labour market as a factor that attracts potential employees (especially younger cohorts)</li> <li>▶ Shortages in the labour market for rank-and-file employees as a result of growth in agriculture, e-commerce, delivery services, and reduced migrant population</li> <li>▶ Higher living costs and competition for rank-and-file personnel and skilled professionals as drivers of increased salary requirements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Development of flexible approaches to workplace management and working hours arrangements</li> <li>▶ Development of new recruitment channels and increase in recruitment speed and effectiveness</li> <li>▶ Broader target audiences to hire</li> <li>▶ Magnit employer brand enhancement</li> <li>▶ Focus on improved employee experience as a driver of perceived employer attractiveness, extended benefits package, and dedicated loyalty programme for employees to help them cut down on their basic shopping expenses</li> </ul>

# Innovations

Magnit is always looking for ways to evolve and improve. With in-house innovations under our belt, we can develop our own production capacities, make business processes more efficient, reduce environmental footprint, and enhance customer experience and customer value proposition.

## Agroindustrial technologies

### Vertical greenhouses

It is essential for us to make sure our stores always have high-quality and fresh products. Vertical greenhouses enable us to ship fresh herbs (lettuce, spinach, and basil) immediately after they are picked.

The first vertical greenhouse, developed in partnership with Israel's Vertical Field, a leading agri-tech company, has been operating at our Magnit superstore in Krasnodar since 2021.

#### Benefits

- ▶ Daily harvests
- ▶ Regular supplies of fresh products with no seasonality
- ▶ Zero logistics costs
- ▶ 90% reduced water consumption vs conventional greenhouses



**up to 5 thous.** product items with yield of **up to 4 thous. tonnes per year** can be delivered by each vertical greenhouse

#### Key features



- ▶ **Smart sensors**
  - provide data on the plant condition at different vegetation stages



- ▶ **User-friendly app**
  - to monitor seedlings in an online mode



- ▶ **Modular pods**
  - enable easy access to plants whenever they need to be picked or replaced with new seedlings



- ▶ **LED lighting**
  - provide precisely as much light as needed



- ▶ **High-quality nutrient-rich soil**
  - requires no pesticide application

### Green packaging

We seek to reduce our environmental impact, among other things by limiting the volume of non-recyclable waste. In 2022, Magnit teamed up with its private label suppliers to introduce the Voluntary Sustainable Packaging Standard and held a series of webinars for 700 partners, which produce some 5 thous. SKUs.

**32%** share of recyclable packaging of Magnit's private labels



#### Concern: lots of packaging materials

- ▶ Make up a meaningful share of waste in the retail sector
- ▶ Contain components that prevent recycling



#### Solution: Voluntary Sustainable Packaging Standard

- ▶ Relies on international and Russian best practices and tailor-made business recommendations
- ▶ Aligned with Russian laws and regulations
- ▶ Delivers considerable reductions in non-recyclable waste



# Innovations (continued)

## Machine learning and neural networks

### AI-powered technology for choosing cosmetics

In 2022, the Company began piloting an AI-powered service for choosing cosmetics across 14 Magnit Cosmetics stores in Moscow, St Petersburg, Krasnodar, Yekaterinburg, Saratov and Volgograd. To use the service, customers only need to answer a number of questions and upload a photo of their face.



**20%**

increase in skincare sales at Magnit Cosmetics since January 2022

#### Benefits

- ▶ Personalised service
- ▶ Improved customer experience
- ▶ Increase in sales of skincare products
- ▶ Focus on wellness and beauty

#### Key features



- ▶ **Individualised skincare recommendations**
  - taking into account cosmetics' ingredients



- ▶ **Products from various price segments**
  - to provide skincare to each and every customer



- ▶ **Personal data protection**
  - ensured by one of Russia's largest providers of cloud-based storage solutions

### AI-based promotions

In 2022, Magnit enhanced the performance of individualised promotions by relying on in-house ML-based innovations. Tests of the new solutions, carried out in segments of up to 500 thous. customers, demonstrated a meaningful increase in return on investments.



**x3 ROI**

vs conventional campaigns

#### Benefits

- ▶ Performance that matches conventional projects
- ▶ Targeting based on hundreds of parameters, including offers customised to meet the needs of a specific consumer
- ▶ Ability to gauge the campaign's performance on a daily basis and swiftly respond to changes in consumer behaviour

#### Key features



- ▶ **Personalised promotions**
  - relying on a variety of tools: express bonuses, individual discounts, and bonuses for purchases in a specific category



- ▶ **Selection of target segments and optimal mechanics**
  - done by AI

# Operational review

Total revenue in 2022 increased by 26.7% YoY to RUB 2,352.0 bln. Net retail revenue went up by 27.2% YoY on the back of LFL sales and selling space growth of 12.1% and 5.3% respectively.

In 2022, net retail revenue increased ahead of selling space growth thanks to higher sales density. In the reporting year, revenue per sq. m rose by 11.4% YoY, with drogerie revenue per sq. m adding 15.7% YoY.

Selling space increased by 5.3% YoY due to organic expansion. In 2022, the Company's gross and net store openings amounted to 1,736 and 1,328 respectively. Net selling space addition the same year was 475,000 sq. m. As at 31 December 2022, the total number of stores was 27,405.

The 12.1% LFL sales growth in 2022 was due to a 10.3% increase in the LFL average ticket and a 1.6% rise in LFL traffic. LFL base comprised 4,362 stores (net), including 2,047 Magnit and 2,315 DIXY stores. As at the end of the reporting year, 13% of the Company's selling space was in the process of achieving target indicators, while the rest 87% already reached

sales maturity. Therefore, the key driver behind LFL sales growth was strong performance of mature stores rather than selling space increase.

The 2022 LFL sales dynamics was attributable to the impressive 10.3% increase in the LFL average ticket mainly due to higher YoY inflation. LFL traffic turned positive and amounted to 1.6% thanks to pricing policy and increased promo activity.

All regions reported strong LFL sales growth with the best results coming from the Northwestern and Siberian federal districts. Southern, Moscow and Northwestern regions demonstrated the highest LFL traffic growth.

In 2022, the number of loyalty card holders exceeded 68 million. By the end of the year, the overall proportion of tickets using the loyalty card reached 56% with sales penetration of 70%, peaking at 60% and 74% respectively. The loyalty programme continued to deliver positive cross-format gains with the share of Magnit customer base visiting two or more formats reaching 44% by the end of the reporting period. The average ticket of an active loyalty card user is 1.8x higher compared to transactions without a loyalty card.

## Store chain development and results by format

In 2022, Magnit convenience stores accounted for 68.3% of the Company's retail sales. In the reporting year, the Company had 1,313 gross convenience store openings and 87 closures as a result of its continued campaign to introduce operational efficiencies. Thus, the net convenience store openings amounted to 1,226. 76% of the Group stores opened in the reporting year were Magnit convenience stores (including discounters). Net retail revenue went up 19.9% thanks to LFL sales and selling space growth of 12.3% and 7.6% respectively. LFL sales growth was driven by a 10.2% increase in the LFL average ticket and strong LFL traffic dynamics of up to 1.8%.

total number of drogerie stores was 7,288 as at 31 December 2022. Selling space growth amounted to 75,000 sq. m, or 4.6% YoY. This result, coupled with a 17.4% rise in LFL sales – the highest among all formats – led to a 26.5% revenue increase. LFL sales growth was driven by a 15.4% increase in the LFL average ticket and strong LFL traffic dynamics of up to 1.7%.

The share of DIXY stores in the Company's retail sales reached 12.7% in 2022 (vs 7.0% in 2021), despite the closure of 281 of the chain's stores (242 convenience stores and 39 supermarkets). Thus, DIXY comprised 2,208 stores and 719,000 sq. m of selling space as at 31 December 2022. LFL sales growth for DIXY convenience stores was 7.8% driven by a 6.3% increase in the LFL average ticket and a 1.4% rise in LFL traffic.

In 2022, Magnit supermarkets generated 10.2% of the Company's retail sales. In the reporting period, the Company opened 29 supermarkets and closed six. All the openings were the transformed Megamart stores. The format's selling space amounted to 984,000 sq. m (up 5.0% YoY). LFL sales grew by 9.9% in the large store format. This was due to a 10.5% increase in the LFL average ticket, while the LFL traffic declined by 0.5%. As a result, net retail sales at supermarkets grew by 12.2% in 2022.

Drogerie stores accounted for 8.4% of the Company's retail sales. In 2022, the format saw 356 gross store openings and 34 closures. Subsequently, the

**1,313 Magnit convenience stores**  
(gross) opened in 2022

**26.7 %**

increase in total revenue

**12.1 %**

LFL sales growth

**1,736**

gross organic store openings

**5.3 %**

selling space YoY growth

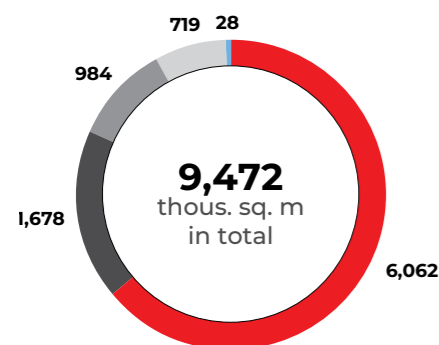
### LFL results<sup>1</sup> %

Format	2022		
	Average ticket	Traffic	Sales
<b>Total (Magnit and DIXY)</b>	<b>10.3</b>	<b>1.6</b>	<b>12.1</b>
Magnit	10.6	1.6	12.4
Convenience stores	10.2	1.8	12.3
Supermarkets	10.5	-0.5	9.9
Drogeries	15.4	1.7	17.4
DIXY convenience stores	6.3	1.4	7.8

<sup>1</sup> Including DIXY.

# Operational review (continued)

## Selling space by format, thous. sq. m



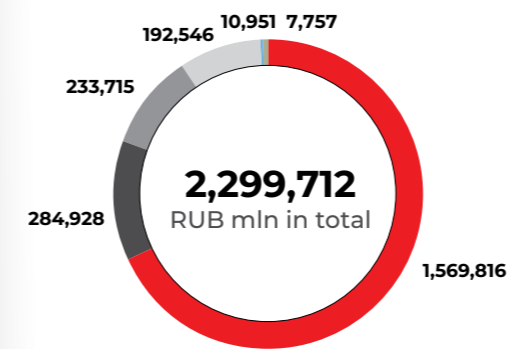
- Magnit convenience stores
- Magnit Cosmetics drogerie stores
- Magnit supermarkets
- DIXY convenience stores
- Other Magnit formats

## Stores and selling space

	2022	2021	Change	Change, %
<b>Number of stores (as at the end of period)</b>	<b>27,405</b>	<b>26,077</b>	<b>1,328</b>	<b>5.1</b>
<b>Magnit</b>	<b>25,197</b>	23,626	1,571	6.6
Convenience stores	17,416	16,190	1,226	7.6
Supermarkets	493	470	23	4.9
Drogeries	7,288	6,966	322	4.6
<b>DIXY</b>	<b>2,208</b>	2,451	-243	-9.9
Convenience stores	2,208	2,412	-204	-8.5
Supermarkets	0	39	-39	-100.0
<b>Net store openings</b>	<b>1,328</b>	<b>2,036</b>	<b>-708</b>	<b>-34.8</b>
<b>Magnit</b>	<b>1,571</b>	2,062	-491	-23.8
Convenience stores	1,226	1,279	-53	-4.1
Supermarkets	23	0	23	N/a
Drogeries	322	783	-461	-58.9
<b>DIXY</b>	<b>-243</b>	-26	-217	N/a
Convenience stores	-204	-26	-178	N/a
Supermarkets	-39	0	-39	N/a
<b>Total selling space (as at the end of period), thous. sq. m</b>	<b>9,472</b>	<b>8,997</b>	<b>475</b>	<b>5.3</b>
<b>Magnit</b>	<b>8,752</b>	8,204	548	6.7
Convenience stores	6,062	5,635	427	7.6
Supermarkets	984	937	47	5.0
Drogeries	1,678	1,604	75	4.6
Other formats	28	28	0	-0.5
<b>DIXY</b>	<b>719</b>	793	-73	-9.2
Convenience stores	719	718	1	0.2
Supermarkets	0	75	-75	-100.0
<b>Net selling space growth, thous. sq. m</b>	<b>475</b>	<b>701</b>	<b>-226</b>	<b>N/a</b>
<b>Magnit</b>	<b>548</b>	708	-160	N/a
Convenience stores	427	546	-119	N/a
Supermarkets	47	-4	51	N/a
Drogeries	75	175	-101	N/a
Other formats	0	-10	9	N/a
<b>DIXY</b>	<b>-73</b>	-7	-67	N/a
Convenience stores	1	-7	8	N/a
Supermarkets	-75	0	-75	N/a

Note: minor variations in calculation of totals, subtotals, and/or percentage change are due to rounding of decimals.

## Total net retail revenue, RUB mln



- Magnit convenience stores
- DIXY convenience stores
- Magnit supermarkets
- Magnit Cosmetics drogerie stores
- Other Magnit formats
- Megamart supermarkets

## Retail revenue

	2022	2021	Change	Change, %
<b>Total net retail revenue, RUB mln</b>	<b>2,299,712</b>	<b>1,807,752</b>	<b>491,960</b>	<b>27.2</b>
<b>Magnit</b>	<b>2,007,028</b>	1,680,528	326,500	19.4
Convenience stores <sup>1</sup>	1,569,816	1,309,682	260,134	19.9
Supermarkets <sup>2</sup>	233,715	208,316	25,398	12.2
Drogeries <sup>3</sup>	192,546	152,215	40,331	26.5
Other formats <sup>4</sup>	10,951	10,314	637	6.2
<b>DIXY</b>	<b>292,685</b>	127,224	165,460	130.1
Convenience stores	284,928	120,552	164,375	136.4
Supermarkets	7,757	6,672	1,085	16.3
<b>Number of tickets, mln</b>	<b>5,932</b>	<b>5,147</b>	<b>785</b>	<b>15.2</b>
<b>Magnit</b>	<b>5,206</b>	4,806	399	8.3
Convenience stores	4,403	4,044	359	8.9
Supermarkets	333	328	5	1.6
Drogeries	445	408	37	9.1
Other formats	25	27	-2	-8.4
<b>DIXY</b>	<b>726</b>	341	385	113.2
Convenience stores	715	331	384	116.2
Supermarkets	11	10	1	12.8
<b>Average ticket, RUB<sup>5</sup></b>	<b>388</b>	<b>351</b>	<b>36</b>	<b>10.4</b>
<b>Magnit</b>	<b>386</b>	350	36	10.3
Convenience stores	357	324	33	10.1
Supermarkets	702	636	66	10.4
Drogeries	433	373	59	15.9
Other formats <sup>6</sup>	429	371	58	15.6
<b>DIXY</b>	<b>403</b>	373	30	7.9
Convenience stores	398	364	34	9.3
Supermarkets	696	676	21	3.1

<sup>1</sup> Convenience stores include convenience stores and small pilot formats like Magnit City and My Price soft discounters.

<sup>2</sup> Supermarkets include Magnit Family supermarkets and Magnit Extra superstores.

<sup>3</sup> Drogerie stores include 12 cosmetics stores opened in Uzbekistan in 2022.

<sup>4</sup> Other formats include Magnit Cosmetics online, pharmacies and stores located at Russian Post offices.

<sup>5</sup> Excluding VAT.

<sup>6</sup> Based on Magnit Pharmacy.

# Operational review (continued)

## DIXY business consolidation and changes in the reporting standards

On 22 July 2021, Magnit completed the acquisition of the DIXY retail chain. Since then, DIXY performance indicators have been consolidated in the Company's results. Revenue and operational performance of DIXY stores are reflected separately. After 12 full months passed since the consolidation,

DIXY stores were included in the LFL base. DIXY retail business does not constitute a separate segment, and Magnit will keep disclosing consolidated financial results for the Group.

## E-commerce

Magnit started developing e-commerce services in Q3 2020. Today, the Company runs a number of both own and partner online delivery projects: express delivery, regular delivery, online pharmacy, cosmetics and partnerships.

of orders per day reaching 71,637 (up 2.4x YoY from 29,481 orders per day in 2021).

The average ticket for all online services was RUB 1,246 including VAT, up 19.3% vs 2021 (RUB 1,045 including VAT).

townships. 71% of current revenue is generated outside of Moscow and St Petersburg. The largest and fastest-growing segment is express delivery, which is designed to complete orders within 60 minutes.

In 2022, online GMV (including VAT) amounted to RUB 32.6 bln, with the average number

At present, Magnit's e-commerce services cover 10,900 offline stores and 31 dark stores in 67 regions and 506 cities and

	2022	2021	Change	Change, %
GMV, RUB bln	32.6	11.2	21.3	189.9
Average number of orders per day	71,637	29,481	42,156	143.0
Average ticket including VAT, RUB	1,246	1,045	201	19.3
Number of covered stores (as at the end of period)	10,887	4,490	6,397	142.5

## Soft discounters

Magnit began piloting the soft discounter format in July 2020 in response to the changing economic environment. The discounter concept is aimed at price-sensitive consumers who frequently make minor purchases of traditional goods or stock up on products.

As at 31 December 2022, My Price chain comprised 727 soft discounters as opposed to 190 stores in 2021. In the reporting year, the Company made 538 gross store openings, including 338 new and 200 reformatted ex-convenience stores.

The My Price average ticket excluding VAT increased by 15.6% YoY to RUB 312. Total LFL sales growth for the format (including both new and reformatted stores) exceeded 50%.

## Customer experience

New Challenges Mean Growth Opportunities was the main theme for the Company in 2022. We intend to remain an integral part of stability for millions of our customers and ensure availability and affordability of quality food and non-food products no matter what happens.

### Our approach to ensuring excellent customer experience at every store:



#### Transparency and communication with consumers at all levels

We develop our social media pages, offer delivery services, improve day-to-day operations, provide honest information on customer reviews and complaints and efficiently handle feedback.



#### Focus on working conditions

Experience begins with working conditions, personnel training and engagement. To ensure the comfort of our customers, we create comfortable environment for our employees.



#### Manager competencies in customer experience

We expect managers at all levels to be customer experience ambassadors, continuously develop respective competencies and share their knowledge with employees. Regional managers for customer experience supervise customer service improvement.

Magnit's main goal is to be simpler, faster, more accessible and loyal to all of its customers and employees. Every of the Company's external and internal changes aims at making Magnit the market leader by service quality.



**You offer a really high quality service when the customer has no reason to call the contact centre but to express gratitude.**

Sergey Oleynikov,  
Director for the Urals Federal District



# Operational review (continued)

In 2022, we put a lot of effort into making purchases at Magnit even more convenient for our customers. The Company invested some RUB 13 bln in ensuring product and service quality. The funds were allocated to finance independent audits of suppliers and lab product tests, as well as to maintain temperature conditions in stores and distribution centres, obtain certificates for our own products, etc.

In 2022, we carried out around 11,000 audits of supplier products. We partnered with 170 laboratories, including governmental bodies, R&D institutions and federal scientific centres. The experts audited ca. 600 production sites of food manufacturers working with Magnit. The Company ensured continuous monitoring, including through video surveillance, of ready-to-eat food production at Magnit's own super and supermarkets.

In December 2022, we engaged mystery shoppers to evaluate customer experience at Magnit stores. The final score was 97.6%, which exceeded our target of 95%. The number of customer complaints about store operations went down by 8%, including a 29% reduction in complaints about faulty or absent retail equipment, a 14% drop in grievances concerning employee incompetence, and a 5% decline in reports of inaccurate or absent price tags.

We offer our customers a number of ways to leave feedback – chat bot polls, QR codes, geoservice reviews, etc. – and thoroughly analyse every submission. We created an in-store experience

rating, which helps identify issues at certain selling points and take the necessary measures.

To improve product accessibility for consumers, in 2022 we continued to develop our Magnit Delivery service delivering orders from Magnit and Magnit Cosmetics stores. Customers can choose between a 60-minute delivery and delivery by set time. The service also covers purchases at supermarkets delivering orders up to 50 kg within three hours. In 2022, the service fully migrated to the Company's own IT platform.

In March 2022, Magnit began piloting 60-minute express delivery using its own couriers in Moscow. If it proves successful, the service will be rolled out to Moscow districts with the highest order density and potentially further to St Petersburg.

Moreover, we continued developing joint delivery services with our partners. In May 2022, Magnit and Sbermarket launched delivery from My Price soft discounters in 32 Russian cities. Before that, our customers could only make offline purchases at discounters.

In July, Magnit and Delivery Club expanded the geography of their guaranteed 30-minute delivery service. Today, it covers around 6,000 selling points in different formats and dark stores in 66 Russian cities – half of the cities across the regions of collaboration. According to Delivery Club, the average delivery time is 23 minutes. The service is sought after in the regions of operation and accounts for ca. 83% of the express delivery segment.

**RUB 13 bln**  
spent on product and service quality in 2022

The Magnit Pharmacy service launched in autumn 2020 was rolled out to pharmacies in the Urals Federal District. With it, users can pick up their orders from the nearest pharmacy within 30 minutes after reservation. At present, the service covers over 800 pharmacies in 58 regions. In 45 regions, users can also place a Magnit Pharmacy order through the Delivery Club app.

In November 2022, Magnit Cosmetics expanded into the Ozon marketplace, which attracts over 50 million monthly users. Our Wellness and Beauty, Children's Hygiene and Household Chemicals products are sold using a shop-in-shop concept. The collaboration with Ozon enables our customers to collect orders from around 19,000 pick-up points across the country or opt for a courier delivery. Moreover, in December Magnit Cosmetics successfully entered the Wildberries marketplace, which currently offers ca. 6,000 of the chain's SKUs.

In 2022, we upgraded payment options at Magnit stores. Nearly 1,000 convenience stores were equipped with domestically manufactured self-checkout units. As at 31 December 2022, the total number of self-checkout units in the Magnit retail chain stood at around 3,500. The units were installed in stores that register traffic surges and process

over 60% of payments wirelessly. An upgraded internal interface enables store employees to close their shifts faster: the average time for that has been reduced from 1.5 minutes to 40 seconds.

In May 2022, we introduced a payment option via the Faster Payment System (SBP) using a QR code. In DIXY stores, customers can pay via SBP using the DIXY Friends Club mobile app. All they need to do is scan their loyalty card at the checkout and confirm the transaction in the app.

We also continued to develop Magnit's own and partner bonus programmes, in particular, in e-commerce. For instance, customers can now get bonuses for online orders in Delivery Club and Yandex Go apps.

In 2022, Magnit launched and scaled up a subscription service. It has six subscription plans for different product categories and store formats, which enable users to accumulate more bonuses, use personal discounts and individual promos. Around 10,000 subscriptions per day are bought using the option to pay with bonuses. The project pilot showed that users tended to increase the purchase amounts and average tickets every month. Going forward, we plan to introduce new opportunities such as selecting a favourite product category with an increased bonus collection, seasonal campaigns, etc.

In addition, we launched cashback for purchases in favourite product categories for our loyalty card holders. The mobile app features 15 most

popular product categories to choose from. Once a month, the customer can select a favourite category and receive 10% of every respective purchase amount in bonuses.

In addition to the traditional bonus programme, we began to offer direct discounts to our customers. For instance, virtual loyalty card holders get a 10% discount for all products not included in promos on their birthday and three days before and after it.

## Customer personal data protection

Magnit collects customer personal data for marketing purposes. We understand the importance of keeping this data private and take all the necessary measures in that regard.

All personal data, as well as the consent to its processing<sup>1</sup>, comes to Magnit from data owners or their legal representatives. We process data in accordance with the applicable Russian laws. We care for the protection of rights and freedoms of personal data subjects, including the right to privacy, personal and family secrets.

As part of internal audit, we regularly assess risks related to personal data security, update potential threat models and develop solutions for their elimination.

Magnit supervises and monitors business processes involving personal data processing and ensures that personal data is processed appropriately and lawfully in information systems. We hold relevant trainings for the IT Department personnel and staff members who work with personal data and provide consultations to employees at our subsidiaries.

<sup>1</sup> Unless otherwise provided for in Federal Law No. 152-FZ.

# Financial review

## FY 2022 key financial highlights

- ▶ Total revenue in FY 2022 increased by 26.7% YoY to RUB 2,352.0 bln.
- ▶ Net retail sales rose by 27.2% YoY and stood at RUB 2,299.7 bln.
- ▶ Gross profit was up by 23.2% YoY to RUB 535.5 bln. Gross margin totalled 22.8% as a result of increased promotional intensity and higher shrinkage, partially offset by a favourable format mix.
- ▶ EBITDA was RUB 160.5 bln, with its margin down by 35 bps YoY to 6.8% on the back of changes in gross margin and other income and expense offset by strict cost control measures.
- ▶ Net income declined by 34.1% YoY to RUB 34.1 bln. Net income margin came in at 1.4% vs 2.8% in the previous year.
- ▶ As at 31 December 2022, net debt stood at RUB 552.2 bln (IFRS 16). The Net Debt to EBITDA ratio was 2.1x.

### 26.7%

increase in total revenue

### 6.8%

EBITDA margin

### RUB 180.0 bln

net cash flow from operating activities (IAS 17)

## FY 2022 key financial results

RUB mln	IAS 17			IFRS 16		
	2022	2021	Change	2022	2021	Change
Total Revenue	2,351,996	1,856,079	26.7%	2,351,996	1,856,079	26.7%
Retail	2,299,712	1,807,752	27.2%	2,299,712	1,807,752	27.2%
Wholesale	52,284	48,327	8.2%	52,284	48,327	8.2%
Gross Profit	535,488	434,773	23.2%	537,003	434,799	23.5%
Gross Margin, %	22.8	23.4	-66 bps	22.8	23.4	-59 bps
SG&A, % of Sales	-21.0	-20.4	-61 bps	-19.7	-19.0	-74 bps
Other Income and Expense, % of Sales	1.0	1.3	-27 bps	1.1	1.4	-36 bps
EBITDA pre-LTI <sup>1</sup>	161,409	134,069	20.4%	258,254	215,151	20.0%
EBITDA Margin pre-LTI, %	6.9	7.2	-36 bps	11.0	11.6	-61 bps
EBITDA	160,509	133,158	20.5%	257,354	214,239	20.1%
EBITDA Margin, %	6.8	7.2	-35 bps	10.9	11.5	-60 bps
EBIT	64,776	79,759	-18.8%	98,017	108,912	-10.0%
EBIT Margin, %	2.8	4.3	-154 bps	4.2	5.9	-170 bps
Net Finance Costs	-13,947	-12,966	7.6%	-54,819	-46,578	17.7%
FX Gain/Loss	-267	302	-188.4%	-333	281	-218.7%
Profit before Tax	50,561	67,096	-24.6%	42,865	62,615	-31.5%
Taxes	-16,475	-15,390	7.1%	-14,932	-14,497	3.0%
Net Income	34,086	51,706	-34.1%	27,933	48,118	-42.0%
Net Income Margin, %	1.4	2.8	-134 bps	1.2	2.6	-140 bps

Note: minor variations in calculation of totals, subtotals, and/or percentage change are due to rounding of decimals.

## 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, the lower the interest charges.**

# Financial review (continued)

Total revenue in FY 2022 increased by 26.7%. This growth was underpinned by net retail sales growth of 27.2% and wholesale revenue growth of 8.2%. Wholesale operations accounted for 2.2% of total sales.

Gross profit in FY 2022 increased by 23.2% YoY and stood at RUB 535.5 bln. Gross margin

was down by 66 bps YoY to 22.8% as a result of increased promotional intensity and higher shrinkage, partially offset by a favourable product mix. The latter positively impacted gross margin, with the share of wholesale operations decreasing to 2.2% from 2.6% a year ago. Promotional intensity was higher YoY driven by the 2H dynamics.

Shrinkage as a proportion of sales expanded by 16 bps YoY mainly on the back of consolidation of the DIXY business with higher shrinkage, as well as higher losses of fruit and vegetables resulting from their higher share in sales and an increased transport leg.

## Selling, General and Administrative Expenses (SG&A)

RUB mln			IAS 17		IFRS 16	
	2022	2021	Change	2022	2021	Change
<b>Staff costs</b>	<b>199,620</b>	<b>163,135</b>	<b>22.4%</b>	<b>199,620</b>	<b>163,135</b>	<b>22.4%</b>
as a % of sales	8.5	8.8	-30 bps	8.5	8.8	-30 bps
<b>Rent</b>	<b>99,209</b>	<b>80,838</b>	<b>22.7%</b>	<b>5,468</b>	<b>2,739</b>	<b>99.7%</b>
as a % of sales	4.2	4.4	-14 bps	0.2	0.1	8 bps
<b>Depreciation, amortisation &amp; impairment</b>	<b>95,732</b>	<b>53,399</b>	<b>79.3%</b>	<b>159,337</b>	<b>105,327</b>	<b>51.3%</b>
as a % of sales	4.1	2.9	119 bps	6.8	5.7	110 bps
<b>Utilities &amp; communication services</b>	<b>42,174</b>	<b>33,998</b>	<b>24.0%</b>	<b>42,174</b>	<b>33,998</b>	<b>24.0%</b>
as a % of sales	1.8	1.8	-4 bps	1.8	1.8	-4 bps
<b>Advertising</b>	<b>11,819</b>	<b>11,475</b>	<b>3.0%</b>	<b>11,819</b>	<b>11,475</b>	<b>3.0%</b>
as a % of sales	0.5	0.6	-12 bps	0.5	0.6	-12 bps
<b>Other expenses</b>	<b>16,143</b>	<b>10,815</b>	<b>49.3%</b>	<b>16,143</b>	<b>10,778</b>	<b>49.8%</b>
as a % of sales	0.7	0.6	10 bps	0.7	0.6	11 bps
<b>Bank services</b>	<b>12,126</b>	<b>9,022</b>	<b>34.4%</b>	<b>12,126</b>	<b>9,022</b>	<b>34.4%</b>
as a % of sales	0.5	0.5	3 bps	0.5	0.5	3 bps
<b>Repair &amp; maintenance</b>	<b>9,603</b>	<b>8,202</b>	<b>17.1%</b>	<b>9,549</b>	<b>8,179</b>	<b>16.8%</b>
as a % of sales	0.4	0.4	-3 bps	0.4	0.4	-3 bps
<b>Taxes, other than income tax</b>	<b>3,167</b>	<b>2,944</b>	<b>7.6%</b>	<b>3,167</b>	<b>2,944</b>	<b>7.6%</b>
as a % of sales	0.1	0.2	-2 bps	0.1	0.2	-2 bps
<b>Materials</b>	<b>4,739</b>	<b>4,884</b>	<b>-3.0%</b>	<b>4,739</b>	<b>4,884</b>	<b>-3.0%</b>
as a % of sales	0.2	0.3	-6 bps	0.2	0.3	-6 bps
<b>Total SG&amp;A</b>	<b>494,332</b>	<b>378,713</b>	<b>30.5%</b>	<b>464,142</b>	<b>352,481</b>	<b>31.7%</b>
as a % of sales	21.0	20.4	61 bps	19.7	19.0	74 bps

Note: minor variations in calculation of totals, subtotals, and/or percentage change are due to rounding of decimals.

SG&A costs increased by 61 bps YoY to 21.0% as a percentage of sales.

Staff costs as a percentage of sales went down by 30 bps YoY to 8.5% as a result of a higher productivity of in-store personnel and further automation of business processes.

Rental costs as a percentage of sales declined by 14 bps YoY to 4.2% driven by higher sales density, improved lease terms with landlords and the closure of inefficient stores. This was achieved despite the share of leased selling space growing to 81.8% at the end of 2022 vs 80.2% a year ago.

Advertising expenses dropped by 12 bps YoY to 0.5% as a percentage of sales on the back of more efficient marketing activities.

Other costs increased by 10 bps YoY to 0.7% as a percentage of sales amid increased online order picking and delivery expenses.

Utilities, repair and maintenance, materials, bank and tax expenses remained broadly flat as a percentage of sales YoY.

Other income and expense, including sublease income, went down by 27 bps YoY to 1.0% as a percentage of sales, reflecting a reduction in the share of income from sales of recyclable waste materials and provisions for the write-off of intangible assets linked to software not in use.

As a result, EBITDA stood at RUB 160.5 bln, with its margin down by 35 bps to 6.8% on the back of changes in gross margin and other income and expenses offset by strict cost control measures. LTI expenses in the reporting period totalled 0.04% of sales – as a result, EBITDA margin pre-LTI was 6.9%.

Depreciation as a percentage of sales went up by 119 bps YoY to 4.1% due to provisioning in Q4 2022 for impairment of a number of assets that are expected to deliver a potential reduction in cash flows.

As a result, operating profit in 2022 stood at RUB 64.8 bln with 2.8% EBIT margin.

Net finance costs in 2022 increased by 7.6% and totalled RUB 13.9 bln. Higher interest expenses driven by an increase in the Company's debt and total borrowings were partially offset by income from bank deposits.

The average cost of debt grew by 176 bps YoY to 8.2%, reflecting borrowings received at a higher rate compared to the previous year, which is due to an increase in market rates. 90% of the Company's debt profile is represented by long-term borrowings and bonds with an average maturity of 18 months.

In 2022, the Company reported an FX loss of RUB 0.3 bln related to direct import operations.

Income tax in 2022 was RUB 16.5 bln.



## RUB 160.5 bln

EBITDA

As a result, net income in 2022 declined by 34.1% YoY to RUB 34.1 bln. Net income margin was down by 134 bps YoY to 1.4%.

# Financial review (continued)

## Balance Sheet and Cash Flows

### Financial Position Highlights (IFRS 16), RUB mln

	31 December 2022	31 December 2021
Inventories	219,436	224,873
Trade and other receivables	20,197	11,727
Trade and other payables	273,972	241,135

Inventories were down RUB 5.4 bln (-2.4%) YoY compared with 31 December 2021 and stood at RUB 219.4 bln on the back of total sales growth of 26.7%. This was driven by a number of ongoing projects, including the reduction of slow-moving items, assortment harmonisation and IT solutions, which are aimed at better on-shelf availability and promotion forecasting. Inventory turnover<sup>1</sup> dropped by 10.6 days YoY.

Trade and other payables grew by RUB 32.8 bln compared with 31 December 2021 and stood at RUB 274.0 bln, driven by higher sales and a number of other positive effects. Accounts receivable increased by RUB 8.5 bln vs 31 December 2021 and stood at RUB 20.2 bln due to higher sales and improved commercial terms with suppliers.

As a result, working capital as at 31 December 2022 was negative, with the cash release of RUB 42.1 bln. Negative working capital was achieved for both the standalone Magnit and DIXY businesses.

## Debt Composition and Leverage

### Debt Composition and Leverage (IFRS 16)

	31 December 2022	30 June 2022 <sup>2</sup>	31 December 2021
Net Debt, RUB bln	552.2	628.4	653.3
Net Debt / EBITDA	2.1x	2.5x	3.0x

Under IFRS 16, net debt was down by 15.5% YoY to RUB 552.2 bln as at 31 December 2022.

The Company's debt is fully RUB-denominated, matching its revenue structure. The Net Debt to EBITDA ratio was 2.1x as at 31 December 2022 vs 3.0x as at 31 December 2021.

## Cash Flow Statement for 2022

### Cash Flow Statement for 2022, RUB mln

	IAS 17			IFRS 16		
	2022	2021	Change, %	2022	2021	Change, %
Operating cash flows before working capital changes	171,483	136,458	25.7	268,479	215,378	24.7
Changes in working capital	42,121	18,282	130.4	42,482	18,480	129.9
Net interest expense and income tax paid	-33,609	-30,776	9.2	-74,481	-64,388	15.7
Net cash from operating activities	179,995	123,965	45.2	236,481	169,470	39.5
Net cash used in investing activities	-54,746	-127,903	-57.2	-52,451	-126,689	-58.6
Net cash from financing activities	117,129	32,638	258.9	58,348	-14,082	-514.4
FX differences impact on cash and cash equivalents	-865	0	N/a	-865	0	N/a
Net increase in cash and cash equivalents	241,514	28,699	741.5	241,514	28,699	741.5

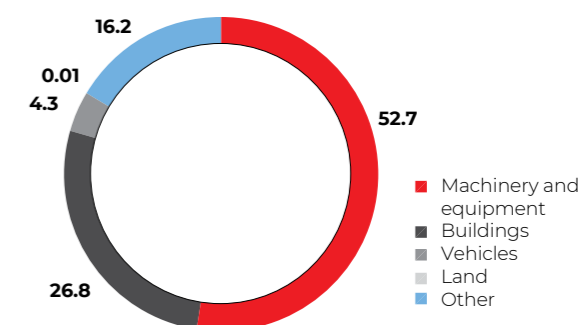
The Company's cash flows from operating activities before changes in working capital in 2022 equalled RUB 171.5 bln, which was RUB 35.0 bln or 25.7% higher YoY. The change in working capital continued to improve and stood at RUB 42.1 bln in 2022 compared to RUB 18.3 bln in 2021.

Net interest expense and income tax paid in 2022 increased by RUB 2.8 bln or 9.2% to RUB 33.6 bln. Net interest expenses were up by 14.1% YoY to RUB 14.3 bln in 2022 due to increased debt and a rise in total borrowings compared to the previous year. Income tax paid for 2022 rose by 5.8% to RUB 19.3 bln.

Net cash flow from operating activities in 2022 increased by 45.2% to RUB 180.0 bln as a result of higher EBITDA and a positive movement of working capital.

Net cash used in investing activities predominantly composed of capital expenditures was down by 57.2% to RUB 54.7 bln in 2022. Capital expenditure for the full year of 2022 stood at RUB 48.8 bln compared with RUB 66.9 bln in 2021. The reduction was driven by the slower pace of store opening and redesign programmes as well as other development projects.

### Capital expenditure split, %



<sup>1</sup> Inventory turnover in days = ((inventories as at 31 December 2021 + inventories as at 31 December 2022) / 2 / cost of sales for 12M 2022) x 365.

<sup>2</sup> Calculation included deposits recognised as financial assets. Money in these deposits is highly liquid and can be withdrawn at any point in time with no loss in value (no withdrawal penalty).



# WE CATER FOR EVERYONE

Our earnest priority is to provide customers with accessible and quality foods. At Magnit, we support local suppliers helping them enter new markets, care about our employees and contribute to the social and economic development wherever we operate.

## Sustainable development

Our sustainability approach	74
2022 performance	76
Resource consumption	82

# Our sustainability approach

Currently, no other Russian retailer has more stores across as many locations as Magnit. As industry leaders, we are committed to not only improving our financial and operational results but enhancing the sustainability of both our business and the industry at large.

As Russia's largest retail chain, a significant portion of the country's population comes through Magnit's doors. We sell society's most vital goods, such as food and FMCG. Our priority remains to provide customers with accessible, high-quality food and non-food staples. As evidenced by Magnit's extensive track record, including during challenging economic times, the availability of our stores, particularly economy class and discounter stores, is in itself a way of providing assistance and support to people.

Magnit joined the UN Global Compact and the Social Charter of the Russian Business and is committed to doing business responsibly. Our sustainability approach is based on the 10 principles of the UN Global Compact and the 17 UN Sustainable Development Goals (SDG), which we make a strong contribution to thanks to the scale of our operations. While Magnit chose eight priority SDGs to focus on, our initiatives contribute to a total of 15 out of the 17 SDGs.

▲ For more details on the Company's contribution to the UN SDGs, see our Sustainability Report for 2022 on p. 28

Magnit is constantly finessing its sustainability management and reporting. We listen to and speak openly with all stakeholder groups, identifying the most relevant topics to enhance our communication. Our stakeholder engagement is underpinned by a respect for human rights – something

we communicate to our employees, suppliers and partners on an ongoing basis.

▲ For more details on stakeholder engagement, see our Sustainability Report for 2022 on p. 208

As we continue expanding our footprint, we aim to foster development and positive social change in all our regions of operation. For over 28 years, we have been striving to provide local communities with equal opportunities of access to quality and affordable products, foster the health and well-being of our customers, create jobs and support over 5,000 suppliers, from large corporations to local manufacturers and farmers.

Our Sustainability Strategy 2025 responds to people's most pressing needs in terms of transformation of the food retail industry

and its sustainability. Magnit continues to make every effort to remain a socially and environmentally responsible business, which we believe is an essential component of our growth and development.

*In 2022, Magnit ranked among the leaders in an ESG ranking of Russian companies by sustainable corporate governance. Magnit was assigned A level for the Best Corporate ESG Practices in Russia.<sup>1</sup>*



<sup>1</sup> The ranking is compiled annually by the DA-Strategy Agency for Corporate Development, University of Perugia (Università degli Studi di Perugia, Italy), and the Russian Regional Network on Integrated Reporting.

# 2022 performance

Magnit was able to quickly adjust to the new market environment without compromising the resilience of its supplies. We transformed part of our international logistics chains, started focusing on multimodal shipments, improved the efficiency of in-house distribution, excelled in import substitution for goods that were no longer imported into Russia, and maximised the utilisation of in-house manufacturing capacity. Together these efforts saw us continue to provide our customers with quality and affordable products seamlessly every day.

### Magnit's Sustainability Strategy 2025 sets out five key areas:



Environmental stewardship



Sustainable sourcing



Employees

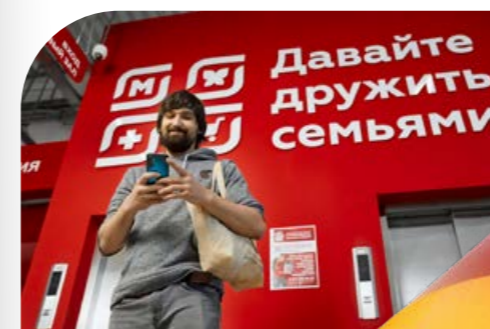


Communities



Health and well-being

*We aim to become the industry leader in terms of environmental impact reduction, create a 100% responsible supply chain, continue delivering positive changes to every Russian citizen's quality of life, and become the retail industry's number one employer.*



# 2022 performance (continued)

## UN SDG and its targets



### SDG 2: Zero Hunger

- ▶ 2.1. By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.
- ▶ 2.4. By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
- ▶ 2.5 (c). Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility.

## Why do we prioritise it?

Magnit is one of the largest retail chains that supplies goods and groceries across Russia. We do our utmost to offer our customers affordable and quality foods. We are the only retailer with our own production facilities, including in agriculture. We seek to maintain high quality standards, while also developing initiatives to increase the affordability of our own and third-party products for all Russians. We contribute to the creation of sustainable food production systems and provide tangible support to food and processed food markets. We ensure timely access to information about our food reserves in our regions of operation and take all possible steps to curb excessive food price volatility, particularly for socially important product categories. Additionally, we implement agricultural practices that increase yields while preserving ecosystems.

## Our strategic goals

### Sustainable sourcing

- ▶ Development and partnership programmes for local suppliers and farmers
- ▶ 100% responsible approach to our own production and agriculture – a target under Magnit’s Sustainability Strategy
- ▶ 100% responsible sourcing for socially important categories – a target under Magnit’s Sustainability Strategy.

### Health and well-being

- ▶ Healthy products available to all customers.



### SDG 3: Good Health and Well-being

- ▶ 3.9 (d). Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks.

As one of Russia’s largest retailers, we have a unique opportunity to promote healthy eating throughout the nation. In our Sustainability Strategy, we have set the goal of raising awareness of healthy lifestyles and supplying healthy foods. We are actively working towards this goal, with some good progress already achieved.

### Health and well-being

- ▶ Healthy products available to all customers
- ▶ Information about healthy lifestyles and nutrition available to all customers.



### SDG 6: Clean Water and Sanitation

- ▶ 6.5. By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate.

As one of Russia’s largest retailers with our own production assets, we consume a lot of water to ensure quality and effective operations. Aware of the vital need for properly managed water resources throughout the entire value chain, we run several initiatives to cut water consumption and apply higher treatment standards.

### Environmental stewardship

- ▶ Reducing specific water and energy consumption by 25%.



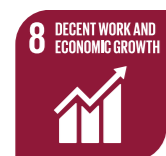
### SDG 7: Affordable and Clean Energy

- ▶ 7.3. By 2030, double the global rate of improvement in energy efficiency.

Having studied our key GHG emission sources, we singled out indirect emissions from energy sources as the main contributors to our environmental footprint. We intend to save energy and develop energy efficiency projects to consume less and minimise our carbon footprint.

### Environmental stewardship

- ▶ Reducing specific water and energy consumption by 25%
- ▶ Reducing specific GHG emissions by 30%.



### SDG 8: Decent Work and Economic Growth

- ▶ 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.
- ▶ 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
- ▶ 8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

We are responsible for a lot of employees. Our business keeps growing, which creates more jobs. We take responsibility for providing decent and safe working conditions along with opportunities for training and professional development.

### Employees

- ▶ Ensuring employee satisfaction of at least 70%
- ▶ Reducing lost time injuries by 50%, with zero occupational fatalities
- ▶ Maximum turnover rate of 40%.



# 2022 performance (continued)

## UN SDG and its targets



### SDG 12: Responsible Consumption and Production

- ▶ 12.2. By 2030, achieve the sustainable management and efficient use of natural resources.
- ▶ 12.3. By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.
- ▶ 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
- ▶ 12.6. Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.
- ▶ 12.8. By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.



### SDG 13: Climate Action

- ▶ 13.2. Integrate climate change measures into national policies, strategies and planning.
- ▶ 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.



### SDG 17: Partnership for Sustainable Development

- ▶ 17.10. Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organisation, including through the conclusion of negotiations under its Doha Development Agenda.
- ▶ 17.16. Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.

## Why do we prioritise it?

We seek to introduce sustainability principles along our entire value chain. Aware of our environmental footprint, we are working hard to reduce it. Packaging and waste are our key focus areas. We also strive to build a sustainable supply chain by introducing supplier assessment tools and continuously monitoring best practices and their applicability to our business processes.

Confronting the climate crisis is pivotal for all industries across the globe. We understand the importance of monitoring climate risks and their impact on our strategy. To that effect, we have taken several steps to reduce our impact on the climate in terms of both direct and indirect GHG emissions.

As one of Russia's largest retailers, we have a lot of business partners, including large international companies. By joining forces we boost our contribution to the above SDGs and implement important social and environmental projects.

## Our strategic goals

### Environmental stewardship

- ▶ 50% of private labels and own production packaging recyclable, reusable or compostable
- ▶ 100% recyclable plastics in own operations recovered and recycled
- ▶ Halving food waste.

### Sustainable sourcing

- ▶ 100% responsible sourcing for socially important categories
- ▶ 100% responsible own production and agriculture
- ▶ Increasing the share of environmentally friendly packaging
- ▶ Responsible sourcing for commercial and non-commercial purchases.

### Environmental stewardship

- ▶ Reducing specific water and energy consumption by 25% – a target until 2025
- ▶ Reduction of specific GHG emissions by 30% – a target until 2025
- ▶ Halving food waste – a target until 2025.

### Communities

- ▶ Community programmes throughout all our regions of operation.

### Sustainable sourcing

- ▶ Responsible sourcing for commercial and non-commercial purchases.

# Resource consumption

## Resource consumption<sup>1</sup>

### Fuel consumption by the Group's enterprises in 2018–2022, litre

Type of fuel	2018		2019		2020		2021		2022	
	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit
Diesel fuel	199,843,095	–	215,820,780	–	191,462,410	–	150,276,047	–	<b>162,475,670</b>	–
Gasoline	12,645,506	–	13,168,980	–	13,123,330	–	15,519,033	–	<b>14,861,083</b>	–

### Fuel consumption by the Group's enterprises in 2018–2022, RUB mln

Type of fuel	2018		2019		2020		2021		2022	
	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit
Diesel fuel	6,825.0	–	7,713.4	–	6,649.1	–	5,747.8	–	<b>6,884.6</b>	–
Gasoline	433.3	–	427.7	–	460.3	–	555.1	–	<b>621.4</b>	–

### Energy consumption by the Group's enterprises in 2018–2022

Type of energy	2018		2019		2020		2021		2022	
	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit
Thermal energy, Gcal	1,246,351	516	1,201,925	469	1,232,174	561	1,453,505	455	<b>1,308,244</b>	<b>166</b>
Electricity, kWh	2,564,578,505	217,587	2,725,130,567	241,101	2,839,098,541	266,604	3,401,217,373	235,758	<b>3,831,186,507</b>	<b>156,815</b>

### Energy consumption by the Group's enterprises in 2018–2022, RUB mln

Type of energy	2018		2019		2020		2021		2022	
	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit
Thermal energy	1,944.9	0.8	2,083.3	0.8	2,201.4	1.0	2,693.3	0.8	<b>2,552.0</b>	<b>0.3</b>
Electricity	13,762.9	1.1	15,066.8	1.4	17,295.9	1.6	18,626.5	1.5	<b>20,992.0</b>	<b>1.1</b>

### Natural gas consumption by the Group's enterprises in 2018–2022

Indicator	2018		2019		2020		2021		2022	
	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit	All Group companies	PJSC Magnit
Natural gas consumption, cbm	70,739,126	24,903	234,939,230	18,937	187,787,159	29,386	234,994,186	25,854	<b>266,970,770</b>	–
Cost of natural gas consumption, RUB mln	1,067.8	0.2	1,548.3	0.1	1,229.1	0.2	1,386.7	0.1	<b>1,525.8</b>	–

▲ For more details, see our Sustainability Report for 2022

<sup>1</sup> Data for 2021–2022 excluding the acquisition of DIXY. Data for 2021 differ from the data in the 2021 Annual Report due to improved data collection.



# WE OFFER RELIABILITY

Our corporate governance framework is set to manage the Company's finances and operations in an efficient manner and enhance the business value for the benefit of shareholders and stakeholders at large

## Corporate governance

Corporate governance framework	86
General Meeting of Shareholders	87
Board of Directors	88
Management Board	90
Corporate Secretary	90
Internal control and risk management system	91
Business ethics and anti-corruption	102
Shareholder and investor engagement	106

# Corporate governance framework

Governance, management and control responsibilities at the Company are vested in shareholders (via the 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 laws, Magnit's Articles of Association and internal policies.

## Corporate governance bodies

PJSC Magnit has built a robust corporate governance system and internal controls over its financial and economic activities.

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

The Board of Directors is elected by shareholders and is accountable to them. It provides strategic oversight and monitors the activities of Magnit's executive bodies – the CEO (Chairman of the Management Board), President and Management Board.

The executive bodies are responsible for day-to-day management of the Company and perform tasks set by the shareholders and the Board of Directors.

In accordance with the Company's internal regulations, there are four committees under the Board of Directors:

- ▶ Audit Committee
- ▶ HR and Remuneration Committee
- ▶ Strategy Committee
- ▶ Capital Markets Committee

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

The Corporate Governance Department carries out the duties of the Corporate Secretary, ensuring the efficient shareholder engagement, coordination of the Company's actions aimed at protection of shareholders' rights and interests, as well as support of the efficient operation of the Board of Directors.



## Regulations

In its corporate governance practices, Magnit adheres to the following regulations:

- ▶ Russian laws
- ▶ Moscow Exchange listing rules
- ▶ Corporate Governance Code recommended by the Bank of Russia<sup>1</sup>.

The Company's activities are governed by the new edition of its Articles of Association approved by the annual General Meeting of Shareholders of PJSC Magnit on 10 June 2021 and internal regulations,<sup>2</sup> including:

<sup>1</sup> For the full Report on Compliance with the Principles and Recommendations of the Corporate Governance Code prepared according to the recommendation letter of the Bank of Russia dated 27 December 2021 No. IN-06-28/102, see Appendix 1.

<sup>2</sup> The internal regulations can be viewed on the Company's website at: <https://www.magnit.com/en/corporate-governance/corporate-documents/>.

## Internal regulations

Document	Effective date
Regulations on the General Shareholders Meeting	11 June 2021
Regulations on the Board of Directors	11 June 2021
Regulations on the Committees of the Board of Directors	10 November 2021
Regulations on the Collective Executive Body (Management Board)	25 December 2020
Regulations on the Sole Executive Bodies (President and CEO)	31 May 2019
Code of Business Ethics	24 March 2019
Regulations on Internal Audit	31 October 2018
List of Insider Information	17 January 2022
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
Audit Fees Policy	6 September 2021
Anti-Bribery and Corruption Policy	25 February 2014
Regulations on the Information Policy	24 April 2021
Code of PJSC Magnit On Terms and Conditions of Transactions with Financial Instruments	25 June 2019
Anti-Alcohol and Anti-Drug Policy	1 January 2020
Safe Vehicle Use Policy	1 January 2020
Fire Safety Policy	1 January 2020
Occupational and Process Safety Policy	1 January 2020
Charity, Volunteer and Sponsorship Policy	1 January 2020
Environmental Protection and Safety Policy	1 January 2020

# General Meeting of Shareholders

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

The key responsibilities of the General Meeting of Shareholders include:

- ▶ approval of the Company's annual report

- ▶ approval of the Company's annual accounting (financial) statements
- ▶ election of the Company's Board of Directors
- ▶ distribution of profits, including dividend payments
- ▶ approval of major and related-party transactions
- ▶ approval of the Company's auditor.

The procedure for the General Meeting of Shareholders

aims to ensure the respect of shareholder rights and meets all the relevant laws and regulations of the Russian Federation.

The annual General Meeting of Shareholders of PJSC Magnit scheduled to take place on 30 June 2022 in the form of absentee voting was declared inquorate.

# Board of Directors

The Board of Directors of PJSC Magnit steers the Company's operations, defines strategic goals and implements effective management practices, while also electing the Management Board, 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.

According to the Articles of Association of PJSC Magnit, the Company's Board of Directors shall consist of eleven members. Magnit's Board of Directors is elected by the General Meeting of Shareholders. At least three members of the Board of Directors shall be independent directors.

The members of the collective executive body (Management Board) may not account for more than one-fourth of the members of the Company's Board of Directors. The sole executive bodies (President and Chief Executive Officer) may not simultaneously act as the Chairman of the Board of Directors.

The work of the Board of Directors goes beyond formal meetings. The Board constantly interacts with the management team to streamline cooperation between the executive bodies of the Company and the Board of Directors.

The make-up of the Board is primarily governed by Federal Law No. 208-FZ On Joint Stock

Companies dated 26 December 1995 and also by the Articles of Association, Regulations on General Shareholders Meeting, Regulations on the Board of Directors, and Regulations on the Committees of the Board of Directors.




The HR and Remuneration Committee of the Board of Directors made up of independent directors and/or presided by an independent director assesses, within the scope of its responsibilities and without limitation, whether nominees for the Board of Directors have the required experience, knowledge, business reputation, and are free from a conflict of interest, etc.; whether nominees for the Board of Directors meet the independence criteria set out in the Regulations on the Board of Directors; whether the engagement with shareholders (including minority shareholders) is sufficient to prepare voting recommendations for shareholders during the election of the Company's Board of Directors.

## Responsibilities of the Board of Directors

The Board of Directors is the collective governing body responsible for the overall management of the Company, except for the matters reserved to the General Meeting of Shareholders in accordance with the federal laws and the Company's Articles of Association. The Board of Directors is also responsible for the strategic management of the Company, risk management and internal control frameworks, oversight over the executive bodies of the Company, and other key functions.

## Induction and training of directors

Newly elected members of Magnit's Board of Directors complete an induction programme, which includes:

-  ▶ meetings with members of the Management Board and the Company's senior executives
-  ▶ introduction to the Company's history, strategy, corporate governance system, risk management and internal control system, the distribution of responsibilities among the Company's executive bodies, and the procedures of the Board of Directors
-  ▶ familiarisation with the Company's documents, including 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.

## Committees of the Board of Directors

In accordance with PJSC Magnit's internal regulations, there are four committees under the Board of Directors:

### Audit Committee

#### Key responsibilities:

- ▶ monitoring and verifying the integrity of financial statements
- ▶ verifying the internal control and risk management system
- ▶ monitoring the effectiveness of internal audits
- ▶ monitoring relations with the external auditor.

### Strategy Committee

#### Key responsibilities:

- ▶ strategic and investment planning
- ▶ identifying priority focus areas
- ▶ endorsing and verifying the business plan and budget.

The committees are made up from 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 chairs of the committees), the following aspects must be taken into consideration: the education and professional

### HR and Remuneration Committee

#### Key responsibilities:

- ▶ developing and monitoring the Remuneration Policy (including long and short-term incentives)
- ▶ endorsing and monitoring senior management appointments (CEO-1/CEO-2 levels)
- ▶ developing the talent management strategy
- ▶ assessing the performance of the Board of Directors and management team on an annual basis.

### Capital Markets Committee

#### Key responsibilities:

- ▶ developing and improving corporate governance systems
- ▶ preparing, developing and implementing IR strategies
- ▶ assessing the Dividend Policy and drafting relevant recommendations for the Board of Directors.

training of the candidates, their work experience in the Committee's focus area, 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 govern the make-up and activities of the committees.

The work of the committees goes beyond formal meetings. The committees constantly interact with the management team in order to streamline cooperation between the executive bodies of the Company and the Board of Directors.

# Management Board

The Management Board is the collective executive body responsible for the day-to-day management of the Company within its remit as defined by the Articles of Association.

The Management Board shall be guided by resolutions of the Company's General Meeting of Shareholders and Board of Directors. Resolutions adopted by the General Meeting of Shareholders and the Board of Directors within their remit shall be binding for the Management Board. The Management Board shall report to the Board of Directors and the General Meeting of Shareholders.

The Chief Executive Officer and the President of the Company shall be members of the Management Board by virtue of their office.

The Chief Executive Officer shall act as the Chairman of the Management Board by virtue of office.

Should the powers of the Chief Executive Officer be terminated, up to the moment when the Board of Directors elects a new Chief Executive Officer, the President shall act as the Chairman of the Company's Management Board by virtue of office.

In 2022, the number of Management Board members increased to 14 to improve the decision-making process.



Since 2022, the Management Board consists of

**14 members**

# Corporate Secretary

The Corporate Governance Department of PJSC Magnit discharges the responsibilities of the Corporate Secretary.

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

Corporate Governance Department reports to the President and CEO and is held accountable to the Board of Directors.

The main responsibilities of the Corporate Governance Department are as follows:

- ▶ to participate in improving the Company's corporate governance system and practices
- ▶ to participate in preparing for and holding of 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 to 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 to oversee their implementation.

# Internal control and risk management system

The Company's internal control and risk management system is set up to provide reasonable assurance that the Company fulfils its mission and values, whilst meeting business targets. The system gives an accurate, fair and clear representation of the Company's current affairs and prospects, whilst also ensuring the integrity and transparency

of Magnit's accounts and reports. Finally, the system establishes a reasonable and acceptable Company risk level.

The Company's Board of Directors and Management Board ensure the effective operation and development of the internal control and risk management system. This

helps control the Company's strategic and operational goal achievement, the reliability of information disclosure and compliance with external and internal requirements.

## Goals of the internal control and risk management system:

- ▶ strategic goals ensuring the accomplishment of the Company's mission and efficient management of its operations
- ▶ operational goals related to the efficient and effective use of the Company's resources
- ▶ goals ensuring the accuracy of the Company's accounts and reports
- ▶ goals related to compliance with applicable laws and the Company's by-laws.

## Objectives of the internal control and risk management system:

- ▶ reduce the number of unexpected events in the Company's operations
- ▶ define and manage Company risks to provide reasonable assurance that the Company will achieve its goals
- ▶ ensure the right balance between risk appetite and development strategy
- ▶ improve managerial decision-making, including risk response decisions
- ▶ develop a risk-oriented corporate culture with the corporate bodies and management disseminating knowledge and skills across the Company and engaging employees along the way.

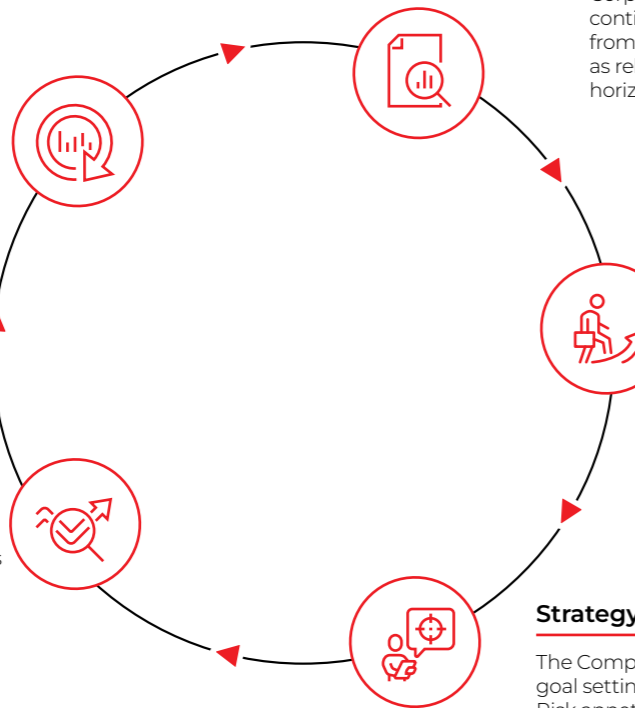
In the process of creating shareholder value, the Company makes management decisions based on a number of mixed factors that can have both a positive and negative impact on progress towards the set goals. One of the ways to reduce uncertainty caused by such factors is to raise the awareness of shareholders, management and employees of such factors and assess their potential impact.

# Internal control and risk management system (continued)

The Company adopts a consistent approach to the organisation of internal control and risk management with a focus on five key components.

## Analysis and review

Performance analysis helps the Company assess the efficiency of risk management components over time and in light of material changes, while also identifying the required changes.



## Information, communications, and reporting

Corporate risk management involves continuous sourcing of required information from inside and outside the Company, as well as relaying such information up, down and horizontally within the Company.

## Corporate governance and culture

Corporate governance controls risk management across the organisation, while also defining responsibilities in this area.

## Strategy and target setting

The Company's risk management, strategy and goal setting all contribute to strategic planning. Risk appetite is aligned with the strategy, while the achievement of business objectives translates into strategy implementation and lays the foundation for identifying, assessing, and responding to risks.

## Performance

Risks that may affect the implementation and realisation of strategy and business goals must be identified and assessed. Risks are prioritised in terms of severity in the context of risk appetite. Subsequently, the Company determines the right response and paints a comprehensive picture of the risk magnitude. The results are disclosed to key stakeholders.

The control and risk management system is governed by the following internal regulations:

- ▶ Internal Control and Risk Management Policy<sup>1</sup>
- ▶ Regulations on Process-Oriented Risk Management
- ▶ Risk Register

<sup>1</sup> Approved by the Board of Directors on 12 December 2019 (Minutes w/o No. dated 13 December 2019).

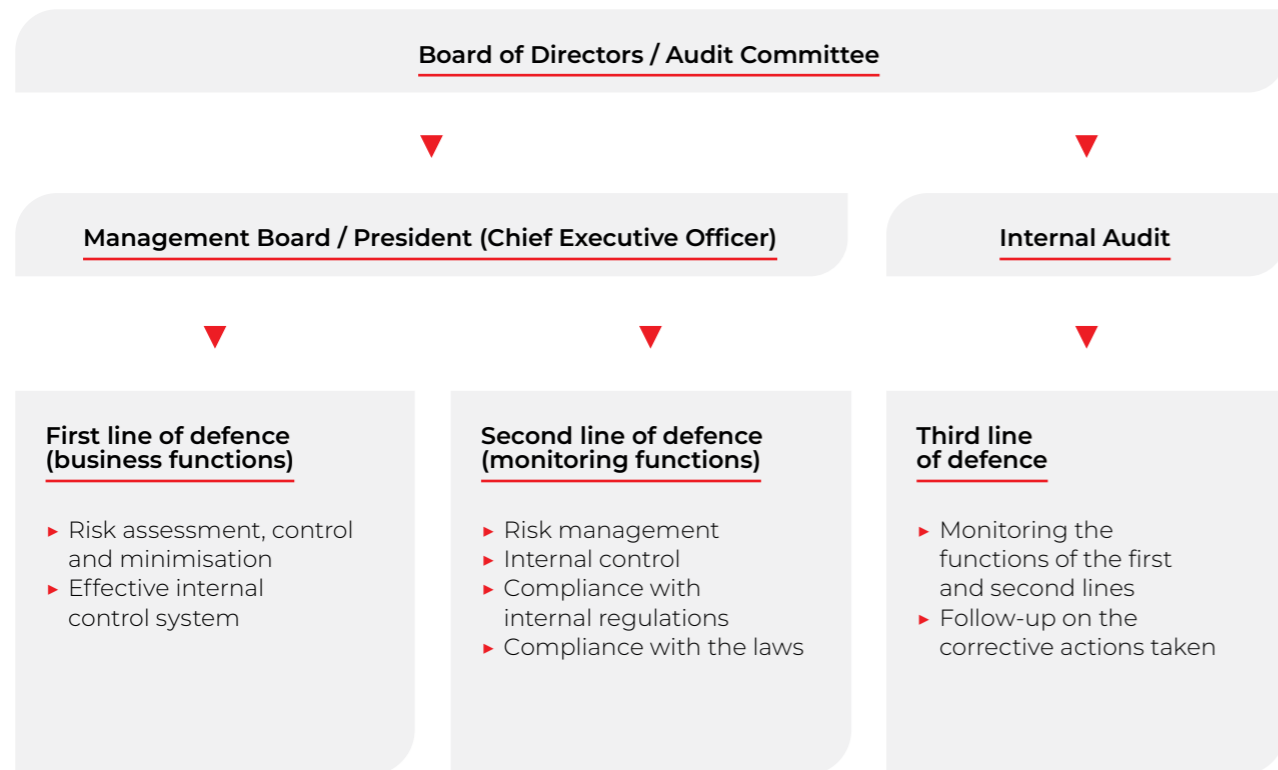
Core principles:

- ▶ **comprehensive and continuous operation.** Risk management and internal control are undertaken on a constant and cyclical basis and cover all areas of the Company's business operations across the governance hierarchy;
- ▶ **integration with governance.** Risk management is an integral part of the decision-making process. It supports sound management decisions and factors in the probability and consequences of risks;
- ▶ **distinction of decision-making levels.** Risk management decisions shall be made at various governance levels subject to the significance of the risk and area of the Company's business activities;
- ▶ **responsibility.** All subjects of internal control are responsible for compliance with risk management and internal control standards and approaches within their respective remit;
- ▶ **distribution of responsibilities and powers.** The responsibilities and powers of the internal control and risk management bodies are distributed to eliminate or reduce the risk of error and/or fraud;
- ▶ **balance between risk exposure and profitability.** Risks in each area of the Company's business activities are monitored with a focus on the risk/profitability ratio;
- ▶ **risk-focused approach.** Control procedures shall be established for business lines based on their significance in terms of the Company's operational efficiency;
- ▶ **reasonable assurance.** The Company relies on high rather than absolute confidence regarding the reliability of risk management and internal control;
- ▶ **ongoing improvement.** The Company constantly monitors its risk management system and works out new ways for its improvement and development.

# Internal control and risk management system (continued)

The Company applies a three lines of defence model<sup>1</sup> to coordinate risk management and internal control processes by clearly defining and delimiting respective functions and responsibilities.

## Three lines model



In the first line of defence, risks are managed by business process and business unit owners supported by control mechanisms that are responsible for embedding risk controls into the decision-making process and key business operations. Business units are risk owners responsible for identifying, managing and mitigating risks, analysing and reporting on key risks. Heads of business units draft, implement, and ensure the operation of controls in business processes.



The second line of defence consists of the Risk Management Office, Economic Security Department, Department for Compliance and Antitrust Practices, Financial Control and Operational Controlling Office, etc. They draft and implement risk management and internal control methodologies, set standards and coordinate the Company's activities related to risk management and internal control, including relevant processes, technologies, and culture, ensure continuous monitoring of the development and functioning of controls related to the first line of defence, and provide advice on risk management.



The third line of defence is operated by the Internal Audit Department, which provides independent performance assessment of internal controls and risk management and gives recommendations for their improvement.

<sup>1</sup> A control model developed and recommended by the Institute of Internal Auditors (IIA).



# Internal control and risk management system (continued)

## Internal control and risk management system improvement in 2022

In improving our internal control and risk management system throughout 2022, we aimed to reflect the scale of our business, retail focus, diversified lines of operations, and regulatory environment in which we operate.

### Highlights in 2022



▶ Work completed to update the Internal Control and Risk Management Policy to be submitted to the Board of Directors



▶ Risk quantification system put in place



▶ Initiative completed to integrate risk management into project management



▶ Risk registers of the Company and its subsidiaries updated



▶ Risk management workshops held for some of the Company's units



▶ Internal control projects successfully implemented



▶ Risk management training course developed for the Corporate Academy



In 2023, we plan to develop a procedure on how to use the Internal Control and Risk Management Policy. We are also committed to further improving employees' internal control and risk management skills.

# Internal control and risk management system (continued)

## The Company's key risks

The Company identifies risks that have the strongest impact on its business, regularly assesses them, develops procedures aimed at the mitigation or prevention of negative impact, and monitors the implementation and effectiveness of risk impact procedures.

## Risk description and management

### Risk level

### Risk description and management



#### Risk of changes in consumer preferences and demand

- ▶ Product mix adjustments

#### Understaffing as a result of reduced labour market capacity

- ▶ Expanded range of social benefits for rank-and-file employees
- ▶ Introduction of flexible working hours where possible
- ▶ Employee development, inclusion of employees in the talent pool, promotions in line with the career track
- ▶ Employer brand enhancement
- ▶ Labour market monitoring and employee engagement surveys

#### Higher prices of imported equipment and materials

- ▶ Search for alternative suppliers

#### Disruptions in supplies of equipment, spare parts and materials

- ▶ Engagement of third-party transportation companies
- ▶ Search for alternative channels to secure deliveries of spare parts for vehicles
- ▶ Search for alternative suppliers
- ▶ Reliance on internal resources if counterparties fail to provide support under existing contracts
- ▶ Development of corporate procedures to procure spare parts and consumables



#### Restrictions on settlements with counterparties

- ▶ Switching to alternative payment tools

#### Changes in the product mix

- ▶ Product mix adjustments
- ▶ Development of own production facilities and imports

#### More expensive logistics

- ▶ Refocus towards alternative logistics chains

#### Risk of regulatory changes

- ▶ Monitoring of legislative changes



#### Information security risks

- ▶ Functioning of access control procedures and mechanisms, approved access matrices
- ▶ Establishment of a software and infrastructure change management system
- ▶ Data backup, duplication of key information systems
- ▶ Functioning of a centralised monitoring system for information security events
- ▶ Additional investments in the development of information technologies

#### Risks related to availability of seed lots and supplements for the Company's Mushroom Complex, lack of fungal mycelium, availability of crop protection agents for greenhouses

- ▶ Development of alternative supply channels
- ▶ Signing contracts with domestic producers of mycelium, projects to produce and select mycelium
- ▶ Development of crop protection agents and supplements together with producers

#### Risks of negative epidemiological situations impacting the Company's activities

- ▶ Real-time monitoring of the spread of COVID-19
- ▶ Strict compliance with all guidance issued by Rospotrebnadzor, Russian Ministry of Health, and World Health Organisation (WHO)
- ▶ Disinfection of premises

#### Climate-related risks (physical and transitional)

- ▶ Elaboration of a plan of measures for the implementation and development of a system for identification, assessment, management and monitoring of climate-related risks
- ▶ Analysis and amendment (if necessary) of the Company's regulations with regard to climate-related risk management
- ▶ Analysis of the potential application of the results of the climate-related risk assessment and business opportunities
- ▶ Establishment of a team to assess climate-related risks and opportunities, hiring consultants
- ▶ Hiring an external auditor to assess the quality and effectiveness of the Company's climate-related risk management activities

# Internal control and risk management system (continued)

## 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

Centre for Audit Technologies and Solutions Limited Liability Company, a member of the Self-Regulatory Organisation of Auditors Association "Sodruzhestvo" (SRO AAC) (Centre for Audit Technologies and Solutions LLC is included in the control copy of the register of auditors and audit organisations with the registration number ORNZ 12006020327) and a leading professional services firm, is the auditor of the Company's consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Centre for Audit Technologies and Solutions LLC (previously Ernst & Young LLC) has been auditing the IFRS consolidated statements of PJSC Magnit and its subsidiaries since 2010. The partner of Centre for Audit Technologies and Solutions LLC is Ilya Ananyev.

In the reporting year, the auditor inspected the IFRS consolidated financial statements of PJSC Magnit and its subsidiaries for 2022. Based on the results of the audit, the auditor expressed an opinion on the accuracy of the IFRS consolidated financial statements for 2022.

The auditor's total remuneration paid by the Group in 2022 amounted to RUB 88.43 mln (excluding VAT). The auditor's fees were charged for audit and audit-related services, including RUB 88 mln charged for the statutory audit and review of the consolidated financial statements of the Company.

These amounts include payments for services the auditor was hired for in 2021 and which were completed in 2022.

### RAS Audit

The audit firm Faber Lex Limited Liability Company (TIN 7709383532), location: Krasnodar, 144/2 Krasnykh Partizan Street, was approved as the auditor of the Company's accounting (financial) statements for 2022 prepared in accordance with the Russian Accounting Standards (RAS).

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.

Following the audit of PJSC Magnit, 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 2022 amounted to RUB 5.951 mln (excluding VAT), including:

- ▶ remuneration for audit services – RUB 5.781 mln (97.14% of the total amount paid), including RUB 450,000 paid for the audit of the PJSC Magnit accounting (financial) statements for 2021;
- ▶ remuneration for other audit-related services ("non-audit services") – RUB 170,000 (2.86% of the total amount paid).



**IFRS auditor's total remuneration paid by the Group in 2022**

**RUB 88.43 mln**



**RAS auditor's total remuneration paid by the Group companies in 2022**

**RUB 5.951 mln**

# Business ethics and anti-corruption

## Key documents

### Magnit's policies and documents

- ▶ Business Ethics Code of Magnit
- ▶ Anti-Bribery and Corruption Policy
- ▶ Regulations on the Anti-Corruption Hotline of the Anti-Bribery and Corruption Policy of Magnit
- ▶ Contractual Policy of Magnit
- ▶ Internal Control and Risk Management Policy of Magnit
- ▶ Anti-corruption clause of the Anti-Bribery and Corruption Policy of Magnit
- ▶ Regulations on Trade Secret of Magnit
- ▶ Regulations on Internal Checks of Magnit
- ▶ Internal Workplace Regulations of Magnit
- ▶ Tendering Policy of Magnit
- ▶ Regulations on Counterparty Due Diligence



### External documents

- ▶ Criminal Code of the Russian Federation No. 63-FZ dated 13 June 1996
- ▶ Administrative Offence Code of the Russian Federation No. 195-FZ dated 30 December 2001
- ▶ Federal Law No. 273-FZ On Combating Corruption dated 25 December 2008
- ▶ Guidelines for the Development and Adoption of Measures by Organisations to Prevent and Combat Corruption (Decree of the President of the Russian Federation No. 309 On Measures Supporting the Implementation of Selected Provisions of the Federal Law On Combating Corruption dated 2 April 2013)
- ▶ Federal Law No. 152-FZ On Personal Data dated 27 July 2006
- ▶ Federal Law No. 149-FZ On Information, Information Technologies and Information Protection dated 27 July 2006

## Our approach to management

Magnit maintains high legal, ethical and moral standards as part of our business activities and cooperation with business partners. These standards are set out in Magnit's Business Ethics Code, which is grounded in best Russian and international business conduct practices, corporate governance and relationships with employees and other stakeholders.

Healthy human relations are at the core of every company, especially in the retail industry. The actions and

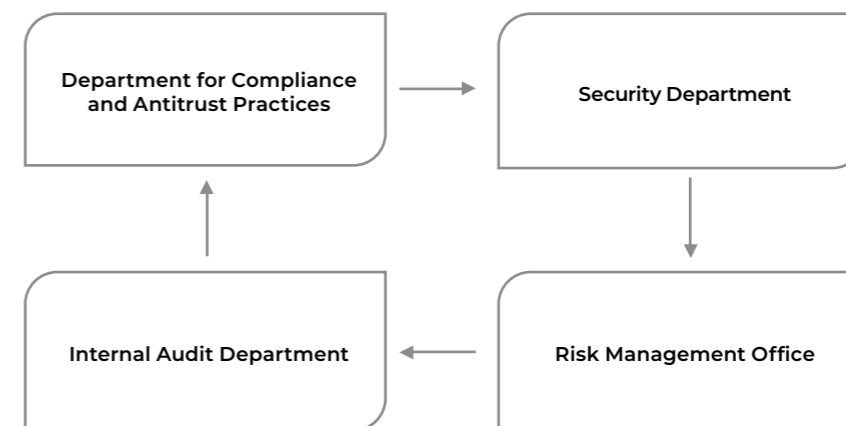
decisions of any of our employees build and strengthen the Company's overall reputation. We seek to ensure that all our hires make honest and appropriate decisions based on the principles set out in the Code and follow guidance that will enable us to meet the highest standards of business ethics.

Our zero-tolerance approach to corruption in all its forms provides the basis for the Anti-Bribery and Corruption Policy, which underpins our corruption risk management

system and our corruption prevention tools. Magnit's managers and employees should avoid being affected by any influences, interests, or relations that may harm the Company's business or facilitate any corrupt practices.

All new employees are required to attend courses on business ethics, information security and Anti-Bribery and Corruption Policy, with refresher courses provided every three years.

### Cross-functional model for combating corruption



→ Cooperation and coordination as part of anti-corruption activities, advisory support, training, risk assessment, and controls

# Business ethics and anti-corruption

(continued)

## Underlying principles of the Anti-Bribery and Corruption Policy

Principle	Our responsibility
<b>Zero tolerance towards corruption</b>	Our Company is committed to zero tolerance of corruption in all its forms, both on the corporate level and in stakeholder relations.
<b>Liability for corrupt practices</b>	We make every effort to promptly and indivertibly prevent any corrupt practices in accordance with the Company's by-laws.
<b>Senior management leadership by example</b>	Members of the Board of Directors, the Chief Executive Officer and other senior officers of the Company take a zero-tolerance approach to corruption, establish and observe high ethical standards of business conduct and set an example for all Magnit employees.
<b>Corruption risk identification and assessment</b>	We identify and regularly assess corruption risks relevant to the Company's operations, taking into account its strategic and investment development plans.
<b>Control procedures</b>	We have implemented control procedures to minimise corruption risks, including, but not limited to, checks of counterparties and addition of an anti-corruption clause to contractor agreements. We regularly assess the effectiveness of our anti-corruption control procedures and take steps to improve them.
<b>Counterparty checks</b>	To minimise reputational, financial and operating risks arising from relations with untrustworthy counterparties, we conduct thorough counterparty checks. We analyse information from open sources about the extent to which the counterparty adheres to ethical business principles and any anti-corruption practices it has in place, along with its willingness to comply with our principles, and include anti-corruption provisions in agreements, as well as cooperate to ensure ethical business conduct and minimise corruption risks.
<b>Communication and training</b>	Our Anti-Bribery and Corruption Policy is publicly available on the Company's website. We communicate anti-corruption principles and requirements to our employees, contractors, suppliers and other stakeholders. All our new hires go through mandatory anti-corruption training.
<b>Monitoring and control</b>	We regularly assess compliance with anti-corruption procedures and communicate the results to the senior management and shareholders.

All Company employees receive anti-corruption training after joining Magnit and are subject to control tests to check their acquired knowledge. In 2022, a total of 3,818 employees completed anti-corruption training.

## Hotline

The management of internal and external reports of corrupt practices and ethical issues falls within the remit of the Company's Ethical Values Officer. This role is assigned to the Department for Compliance and Antitrust Practices.

The Company maintains a 24/7 Anti-Corruption Hotline for handling reports of actual and potential violations of business ethics standards, conflicts of interest, abuse of office, abuse of authority, prejudiced behaviour, and damage to the Company.

The Anti-Corruption Hotline experts register and process every report received, including anonymous ones, and then forward it using an approved procedure to the Company's functions and units in charge for doing analysis and making appropriate management decisions.

All reports submitted through the channels described above are handled in line with confidentiality (anonymity) requirements. We guarantee whistleblowers acting in good faith confidentiality of their personal data and protection against retribution. The Anti-Corruption Hotline is supervised by employees of the Department for Compliance and Antitrust Practices and the Internal Audit Department within the scope of their responsibilities.

In line with strategic goals and common practice, the Department for Compliance and Antitrust Practices defines the ways to evaluate the Anti-Corruption Hotline performance, the frequency for reviewing its operation standards, and the methods applied to identify compliance risks.

### Communication channels:



▶ 24/7 answering service:  
8 (800) 6000-477



▶ Ethical Values Officer's  
email: [ethics@magnit.ru](mailto:ethics@magnit.ru)



▶ Website feedback form:  
<https://www.magnit.com/en/anti-corruption/>

# Shareholder and investor engagement

## Authorised and issued share capital

As at 31 December 2022, the authorised capital of PJSC Magnit amounted to RUB 1,019,113.55 and comprised 101,901,355 ordinary registered uncertified shares<sup>1</sup> with a par value of RUB 0.01 each.

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

As at 31 December 2022, PJSC Magnit did not hold any treasury shares. As at 31 December 2022, JSC Tander, owned by the Company, held 3,817,249 voting shares in PJSC Magnit, which represented 3.75% of Magnit's total ordinary registered shares acquired in 2018–2019 to implement its LTI programme. As at 31 December 2022, no other organisations controlled by the Company owned voting shares in PJSC Magnit.

As at 31 December 2022, there were 40 persons in the Company's share register, including 35 individuals, one nominal holder and three other legal entities.

The Company's ordinary shares are listed on the Moscow Exchange. As at the end of 2022, Magnit's market capitalisation on the Moscow Exchange was RUB 444.5 bln<sup>2</sup>.

### 2022 highlights

**Magnit's market capitalisation on the Moscow Exchange as at the end of 2022**

**RUB 444.5 bln**

**Magnit's authorised capital**  
**RUB 1,019,113.55**

## Structure of share capital as at the end of 2022<sup>3</sup>

	Number of registered entities	Share of authorised capital, %
Legal entities	4	97.57
including nominal holders	1	97.57
Individuals	35	2.43
Other (unidentified persons)	1	0.00004
<b>Total</b>	<b>40</b>	<b>100.00</b>

## Significant changes in the share capital structure in 2022

### Date of change    Change

January 2022	Marathon Group increased its share of votes attached to the voting shares in the authorised capital of PJSC Magnit to 29.23%.
--------------	---

<sup>1</sup> State registration number: 1-01-60525-P of 4 March 2004.

<sup>2</sup> Capitalisation in RUB is calculated using the following formula: number of outstanding shares × share price as at the end of 2022.

<sup>3</sup> The structure of share capital is provided according to the register of shareholders of PJSC Magnit as of 31 December 2022.

## 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

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

Conditional trading in GDRs certifying the rights to Magnit's shares commenced on the LSE. Later in April Magnit's GDRs were included in the official list of the UK Listing Authority.

### 2 September 2009

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 Magnit decided to increase the authorised capital by issuing 10,813,516 additional shares. The public offering was completed on 15 December 2011.

### 15 November 2017

The Board of Directors of Magnit decided to increase the authorised capital by issuing 7,350,000 additional shares. The public offering was completed on 15 January 2018.

### 21 August 2018

The Board of Directors of Magnit approved the total amount of funds allocated for share buybacks as follows (taking into account the changes approved by the Board of Directors on 4 October 2018):

- ▶ up to RUB 16.5 bln – for the LTI programme;
- ▶ up to RUB 5.7 bln – as payment for transactions related to the acquisition of SIA Group.

The programme was launched on 5 September 2018 and completed on 1 March 2019.

### 28 November 2018

JSC Tander, Magnit's subsidiary, concluded an agreement with Serengate Advisors Limited, under which the latter received 1,513,601 shares comprising 1.485213% of the total number of shares in Magnit, as payment for the transaction related to the acquisition of SIA Group.

### 30 August 2022

The UK Financial Conduct Authority (FCA) deleted Magnit's GDRs from the Official List and the London Stock Exchange cancelled their admission to trading on the Main Market.

# Shareholder and investor engagement

(continued)

## Listing of shares on the Moscow Exchange

The Company's shares have been traded on the Moscow Exchange (MGNT) since 24 April 2006 and are admitted to its first quotation list.

Magnit shares are included in the following Moscow Exchange's indices: Stock Subindex, MOEX Russia Index (IMOEX), MOEX Active Management Index, MOEX 15 Index, Blue Chip Index, Broad

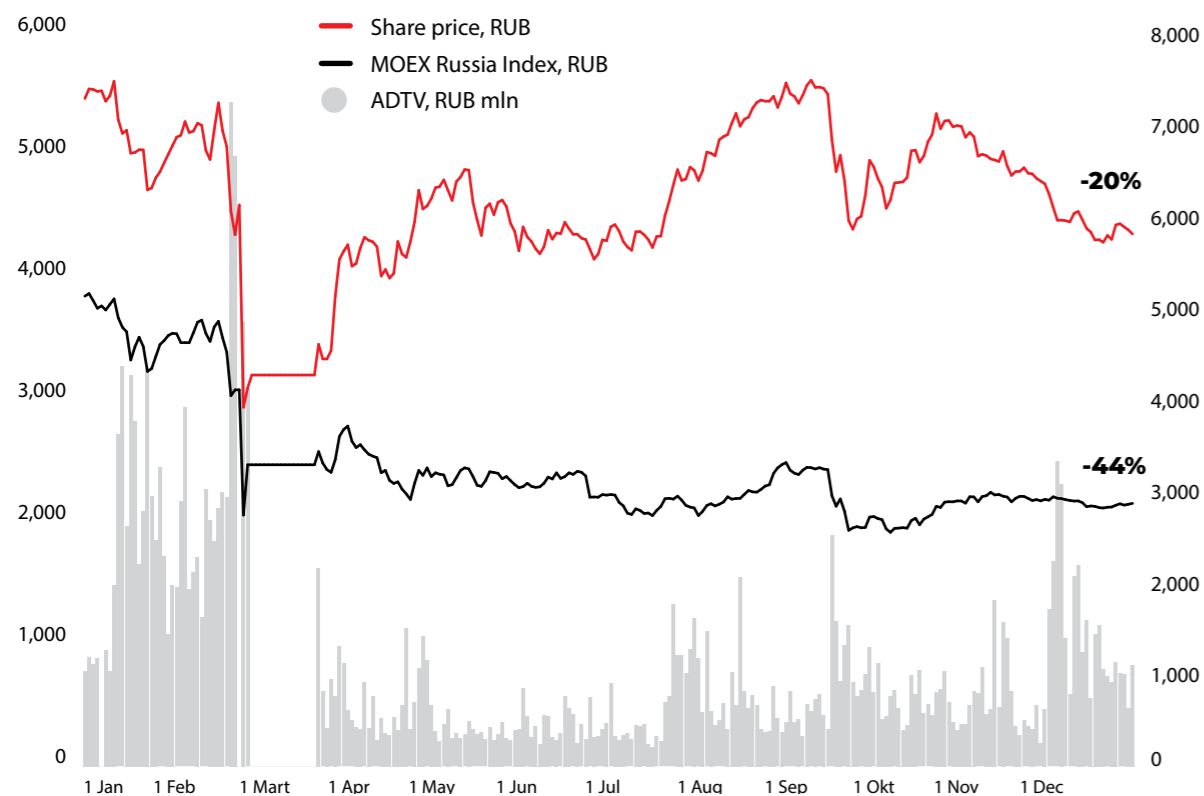
Market Index, Consumer Sector Index, RTS Consumer Sector Index, RTS Index, Broad Market RTS Index, MOEX Russia Index calculated during all trading day with additional trading sessions (IMOEX2), MOEX-RSPP Responsibility and Transparency Index, MOEX-RSPP Sustainability Vector Index, and MOEX-RSPP Sustainability Russian Companies Vector Index.



**The Company's shares have been traded on the Moscow Exchange (MGNT)**

**since 24 April 2006**

## Share trading on the Moscow Exchange in 2022



## Share price and trading volume on the Moscow Exchange in Q1–Q4 2022

Period	Share price, RUB			ADTV, RUB mln			Market capitalisation at end of period, RUB bln
	Min.	Max.	As at the end of period	Period total	Daily average	Daily median	
Q1	2,414	5,643	4,155	114,236	2,596	2,379	423.4
Q2	3,850	4,939	4,238	31,314	522	421	431.9
Q3	4,155	5,631	4,680	49,331	747	622	476.9
Q4	4,239	5,370	4,362	62,952	984	809	444.5

Source: Company estimates based on Moscow Exchange quotes

## Listing of GDRs on the London Stock Exchange

The Company's global depository receipts (GDRs) traded on the main market of the London Stock Exchange (MGNT) since 22 April 2008, with one share representing five depository receipts. As at 31 December 2021, 27.78% of the Company's total shares were listed on the London Stock Exchange in the form of GDRs.

Further to the enactment of Russian Federal Law No. 114-FZ dated 16 April 2022 requiring that Russian issuers terminate depository agreements for the listing of their depository receipts, on 20 May 2022, Magnit notified JPMorgan Chase Bank, N.A. of the Depository Agreement termination. On 26 August 2022,

the termination of the Depository Agreement became effective. On 30 August 2022, the UK Financial Conduct Authority (FCA) cancelled Magnit's GDR listing and the London Stock Exchange cancelled their admission to trading on the Main Market.

Pursuant to Russian Federal Law No. 319-FZ On Amendments to Certain Legislative Acts of the Russian Federation, which became effective on 14 July 2022, holders of GDRs recorded by Russian depositories were given an option to convert them into the Company's shares by way of automatic conversion, and holders of GDRs recorded by foreign depositories unable to convert such GDRs into the

Company's shares, including due to sanctions, were given an option to file an application for compulsory conversion of such GDRs to the custodian JPMorgan Chase Bank, N.A. (through 22 September 2022) or the custodian Raiffeisenbank JSC (from 23 September 2022).

# Shareholder and investor engagement

(continued)

## Bonds

The Company uses bonds, primarily exchange-traded ones, to raise debt financing for its business. Throughout 2022, Magnit had nine outstanding issues of exchange-traded bonds (BO-003P-01, BO-003P-04, BO-003P-05, BO-002P-01, BO-002P-02, BO-002P-03, BO-002P-04, BO-001P-05, BO-004P-01) with a total par value of RUB 110 bln, of which RUB 80 bln remained outstanding as at the end of the year. Three bond issues were redeemed in 2022:

BO-003P-01 (matured on 1 February 2022), BO-003P-04

(matured on 3 May 2022) and BO-003P-05 (matured on 22 December 2022).

On 6 December 2022, the Company issued 20 mln BO-004P-01 series exchange-traded bonds with a par value of RUB 1,000 each.

On 20 and 21 December 2022, the Moscow Exchange also registered the Company's series BO-004P-02 and series BO-004P-03 exchange-traded bonds.

**RUB 110 bln**  
issues of exchangetraded  
bonds were outstanding  
in 2022

### Parameters of Magnit's BO-003P-01, BO-003P-04 and BO-003P-05 series bonds

Issue identification number and assignment date	4B02-01-60525-P-003P of 1 February 2019	4B02-04-60525-P-003P of 29 October 2019	4B02-05-60525-P-003P of 23 December 2019
Issue value	RUB 10 bln	RUB 10 bln	RUB 10 bln
Number of bonds	10 mln	10 mln	10 mln
Par value of each bond	RUB 1,000	RUB 1,000	RUB 1,000
Offering price	100% of the par value	100% of the par value	100% of the par value
Offering date	5 February 2019	5 November 2019	26 December 2019
Offering type	Public offering	Public offering	Public offering
Maturity date	1,092nd day from the offering date	910th day from the offering date	1,092nd day from the offering date
Number of coupons	6	5	6
ISIN code	RU000A1002U4	RU000A100ZS3	RU000A1018X4
Coupon rate	8.70%	6.90%	6.60%

### Parameters of Magnit's BO-002P-01, BO-002P-02, BO-002P-03, BO-002P-04 and BO-001P-05 series bonds

Issue identification number and assignment date	4B02-01-60525-P-002P of 4 March 2020	4B02-02-60525-P-002P of 27 April 2020	4B02-03-60525-P-002P of 19 May 2020	4B02-04-60525-P-002P of 2 June 2021	4B02-05-60525-P-001P of 02 June 2021
Issue value	RUB 15 bln	RUB 10 bln	RUB 15 bln	RUB 10 bln	RUB 10 bln
Number of bonds	15 mln	10 mln	15 mln	10 mln	10 mln
Par value of each bond	RUB 1,000	RUB 1,000	RUB 1,000	RUB 1,000	RUB 1,000
Offering price	100% of the par value	100% of the par value	100% of the par value	100% of the par value	100% of the par value
Offering date	5 March 2020	29 April 2020	22 May 2020	2 June 2021	02 June 2021
Offering type	Public offering	Public offering	Public offering	Public offering	Public offering
Maturity date	1,092nd day from the offering date	1,092nd day from the offering date	1,092nd day from the offering date	1,092nd day from the offering date	1,092nd day from the offering date
Number of coupons	6	6	6	6	6
ISIN code	RU000A101HJ8	RU000A101MC3	RU000A101PJ1	RU000A1036H9	RU000A1036M9
Coupon rate	6.20%	6.70%	5.90%	7.05%	7.05%

### Parameters of Magnit's BO-004P-01 series bonds

Issue identification number and assignment date	4B02-01-60525-P-004P of 6 December 2022
Issue value	RUB 20 bln
Number of bonds	20 mln
Par value of each bond	RUB 1,000
Offering price	100% of the par value
Offering date	6 December 2022
Offering type	Public offering
Maturity date	1,092nd day from the offering date
Number of coupons	6
ISIN code	RU000A105KQ8
Coupon rate	9.15%



# Shareholder and investor engagement (continued)

## Credit ratings

Following the European Union's decision to ban the provision of rating services to legal entities, organisations and bodies established in Russia, S&P Global Ratings withdrew its credit ratings for a number of Russian companies, including Magnit.

In May 2022, ACRA affirmed its credit rating of Magnit at AA(RU), with a stable outlook, and on Magnit's bonds at AA(RU). In September 2022, ACRA upgraded its credit rating of Magnit to AA+(RU), with a stable outlook, and of Magnit's bonds to AA+(RU).

Magnit's credit rating

**AA+(RU)**

Rating of Magnit's bonds

**AA+(RU)**

ACRA estimate

Rating agency	Entity or instrument rated	Rating	Outlook	Date of rating (issued/reaffirmed)
	Issuer (national scale)	AA+(RU)	Stable	5 September 2022
ACRA	BO-001P-05, BO-002P-04, BO-002P-03, BO-002P-02, BO-002P-01 and BO-004P-01 series bonds	AA+(RU)		5 September 2022
	BO-004P-01	AA+(RU)		6 December 2022

## 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 striking the right balance between retained earnings and shareholder returns<sup>1</sup>.

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

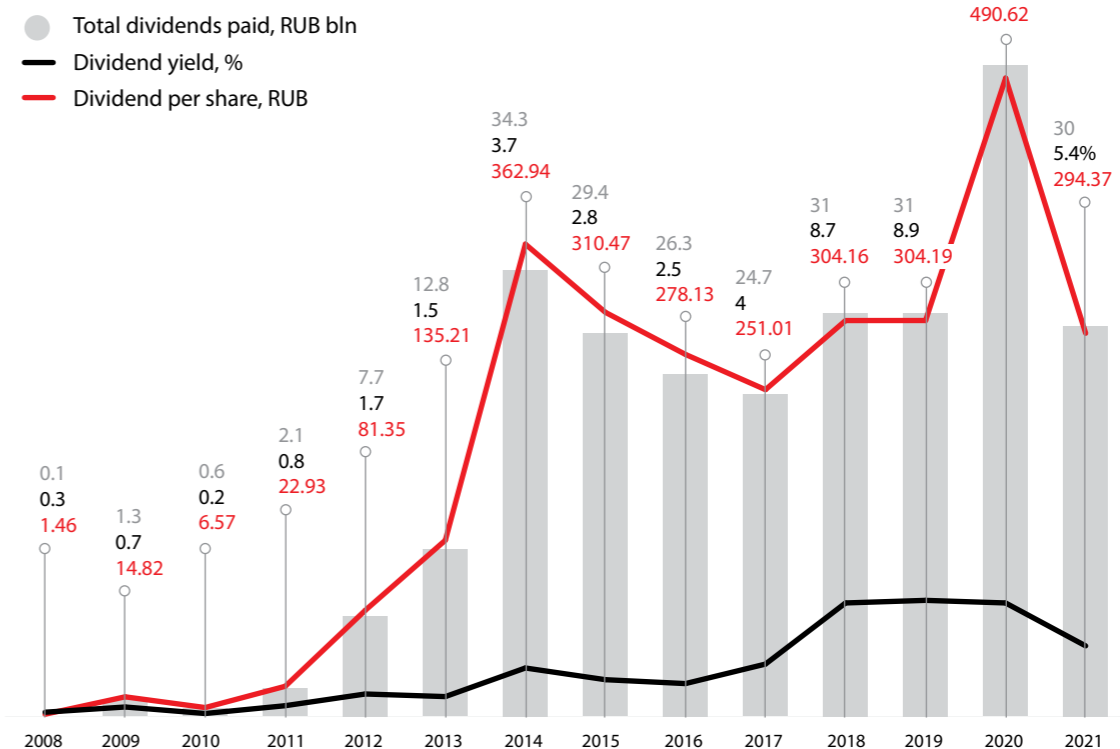
- ▶ **Transparency:** identifying and disclosing information about the duties and responsibilities of the parties involved in carrying out the dividend policy, including the procedure and conditions for deciding on the payment and amount of dividends.
- ▶ **Timeliness:** establishing time limits for 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 its 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.

<sup>1</sup> Regulations on the Dividend Policy of PJSC Magnit (new edition) dated 27 May 2016 available at: <https://www.magnit.com/en/shareholders-and-investors/dividends/>.

## Report on announced and paid dividends in 2008–2022

Year	Total dividends announced, RUB bln	Total dividends paid, RUB bln	Dividend per share, RUB
2008	0.1	0.1	1.46
2009	1.3	1.3	14.82
2010	0.6	0.6	6.57
2011	2.1	2.1	22.93
2012	7.7	7.7	81.35
2013	12.8	12.8	135.21
2014	34.3	34.3	362.94
2015	29.4	29.4	310.47
2016	26.3	26.3	278.13
2017	24.7	24.7	251.01
2018	31.0	31.0	304.16
2019	31.0	31.0	304.19
2020	50.0	50.0	490.62
2021	30.0	28.8	294.37

## Total dividends paid, RUB bln



# Shareholder and investor engagement (continued)

## Shareholder and investor engagement

Magnit is committed to strengthening its investment case, so we are constantly seeking ways to increase the openness and transparency of our activities. The Company looks to attract new and retain existing investors by maintaining a constant dialogue with the investment community and paying equal attention to all investor categories.

We use various engagement formats, including distributing press releases announcing operational and financial results; organising conference calls and face-to-face and virtual meetings; conducting road shows and site visits; and participating in investment conferences and other events.

On 17 February 2022, Magnit held its Capital Markets Day, reporting, in particular, on the accomplishment of its 2021 strategic commitments and progress of implementing its strategy until 2025.

### The Company improved its information disclosure and transparency, including through changes to the corporate website:

- ▶ the section featuring the Company's reports was upgraded, with reports now grouped by type and available to be filtered by year, which makes user search quicker and more efficient;
- ▶ the Business Model section was updated and infographics improved to give users a better understanding of the Company's stakeholder engagement;
- ▶ a new Private Investors section was added, featuring the Company's operational and financial highlights over the past few years, aspects of its equity story, helpful and informative materials, and a FAQ page;
- ▶ Our Strategy, Investment Case, and Capital Markets Day sections were updated.

### Key areas of interest for investors and analysts in 2022

- ▶ Consumer environment and trends in consumer behaviour
- ▶ Macroeconomic environment, inflation and promotional activity
- ▶ Competitive landscape, Magnit's strengths versus competitors
- ▶ Expansion plans and opportunities in the Russian market, the Company's redesign programme
- ▶ Status of DIXY's integration
- ▶ Geopolitical environment, the impact of sanctions on the Company's operations, including logistics, imports, on-shelf availability of products, payment processing and ability to find alternative suppliers
- ▶ Development of the discounter format
- ▶ IT infrastructure upgrade, digital transformation, transition to SAP
- ▶ E-grocery platform development
- ▶ Business sustainability and profitability
- ▶ Working capital improvements
- ▶ Leverage ratio and targets
- ▶ Dividend payments
- ▶ Management KPIs and incentive schemes
- ▶ Termination of the GDR programme and GDR conversion into ordinary shares

## IR Department activities in 2022

Investor engagement activities	Number of activities
Financial and operational results releases	5
Conference call	1
Institutional investor events (conferences, forums, client days, etc.) where Magnit participated	4
Private investor events where Magnit participated	2
Institutional investors covered	86

## Investor calendar

- 
**10–11 January 2022**  
Citi's GEMS Conference (Virtual)
- 
**18–20 January 2022**  
JP Morgan CEEMEA Opportunities Conference (Virtual)
- 
**25–26 January 2022**  
BofA EEMEA Conference 2022 (Virtual)
- 
**4 February 2022**  
FY 2021 Unaudited Financial Results Disclosure and Conference Call (Krasnodar)
- 
**9–11 February 2022**  
VTB Capital Russia Calling! Investment Forum (Virtual)
- 
**17 February 2022**  
Capital Markets Day (Virtual)
- 
**4 March 2022**  
FY 2021 Audited Financial Results Disclosure (Krasnodar)
- 
**29 April 2022**  
Q1 2022 Trading Update and Financial Highlights (Krasnodar)
- 
**25 June 2022**  
Smart-Lab Investor and Trader Conference (St Petersburg)
- 
**28 July 2022**  
Q2 2022 Trading Update (Krasnodar)
- 
**19 August 2022**  
1H 2022 Audited Financial Results Disclosure (Krasnodar)
- 
**29 October 2022**  
Smart-Lab Investor and Trader Conference (Moscow)



## Appendices

Report on compliance with the principles and recommendations of the Corporate Governance Code	118
Major transactions	152
Related party transactions	152
Glossary	153
Contacts	155

# Report on compliance with the principles and recommendations of the Corporate Governance Code

The Board of Directors confirms that the data provided in this report contains complete and reliable information on the Company's compliance with the principles and recommendations of the Corporate Governance Code for 2022.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1	2	3	4	5
<b>1.1 The company shall ensure fair and equitable treatment of all shareholders in exercising their corporate governance rights.</b>				
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 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 above means of communication were organised by the company and made available to shareholders in the course of preparation for each general meeting held in the reporting period.	Complied with	
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. In the reporting period the notice of an upcoming general meeting of shareholders is posted (published) on the company's website on the Internet no later than 30 days prior to the date of the general meeting, unless a longer period is required by law. 2. The notice of an upcoming meeting indicates 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 (if its establishment is stipulated by the company's Articles of Association).	Complied with	

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 the course of preparation for, and during, the general meeting. 2. The position of the board of directors (including dissenting opinions (if available) 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. 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.	Complied with	
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. The company's Articles of Association defines the deadline for shareholders to submit proposals to the agenda of the annual general meeting which shall be 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.	Complied with	
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. The company's Articles of Association provides for an opportunity to fill in the electronic form of the ballot online the web address of which is specified in the notice on holding of the general meeting of shareholders.	Not complied with	The criterion for compliance with this paragraph of the Report has not yet been reflected in the Company's corporate governance practice. The possibility and necessity of introducing the relevant amendments to the Company's Articles of Association is planned to be considered before the annual General Meeting of Shareholders for 2024. However, the majority of the Company's 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 of Shareholders.

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.6	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.	<p>1. During general meetings of shareholders held in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on, and discussion of, the agenda items. Shareholders had an opportunity to express their opinions and to ask questions on the agenda.</p> <p>2. The company invited candidates to the company's governing and control bodies and took all necessary measures to ensure their participation in the general meeting of shareholders at which their nominations were put to vote. The candidates to the company's governing and control bodies who were present at the general meeting of shareholders were available to answer questions of shareholders.</p> <p>3. The sole executive body, the person responsible for the accounting, the chairman or the other members of the board of directors' audit committee were available to answer shareholders' questions at the general meetings of shareholders held in the reporting period.</p> <p>4. In the reporting period the company used telecommunication means to ensure the remote participation of shareholders at general meetings, or the board of directors made a reasonable decision on the fact there was no need (opportunity) to use such means in the reporting period.</p>	Partially complied with	<p>Criteria 2 and 3 are only partially not complied with. Criterion 4 is not complied with. The Company's internal documents set out the possibility for candidates to the management and supervision bodies of the Company, as well as for the sole executive body, a person responsible for the accounting, and other bodies of the Company to participate at the meeting in person. However, in the reporting year, in line with Article 3 of Federal Law No. 25-FZ On Amending the Federal Law On Joint-Stock Companies and On Suspension of Certain Provisions of Legislative Acts of the Russian Federation dated 25 February 2022, the Company's General Meetings of Shareholders were held in the form of absentee voting. However, these persons are always available to answer questions – shareholders are able to address their questions regarding the Company's operation through the Investor Relations department or the Corporate Governance department. 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 the Company's 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 of Shareholders. The possibility and necessity of such a practice is planned to be considered before the annual General Meeting of Shareholders for 2024.</p>

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>1.2 Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.</b>				
1.2.1	The company has developed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	<p>1. The company's regulations on the dividend policy have been approved by the board of directors and disclosed on the company's website on the Internet.</p> <p>2. If the company's dividend policy that prepares the consolidated financial statements uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.</p> <p>3. The explanation of the proposed net profit distribution, including payment of dividends and the company's own needs, and the assessment of its compliance with the dividend policy adopted by the company, with clarifications and economic explanation of the requirement to direct a certain part of net profit to the company's needs in the reporting period, were included in the materials for the general meeting of shareholders, the agenda of which contains an item on profit distribution (including the payment (declaration) of dividends).</p>	Complied with	
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.	<p>1. In addition to the restrictions established by law, the company's regulations on the dividend policy identify financial/economic circumstances under which the company shall not make decisions on the dividend payment.</p>	Complied with	
1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	<p>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.</p>	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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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. In the reporting period the means of profiting from the company by the controlling persons, other than dividends (for example, through the transfer pricing, unjustified provision of services to the company by the controlling person at inflated prices, through internal loans replacing dividends to the controlling persons and (or) its controlled persons) were not used.	Complied with	
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### 1.3 The corporate governance system and practices ensure equal conditions for all shareholders owning the same type (class) of shares, 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 the company's controlling persons did not abuse their rights with respect to the company's shareholders, there were no conflicts between the company's controlling persons and shareholders, and if such conflicts occurred, the board of directors paid due attention to them.	Complied with	
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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.	Complied with	
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### 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 technologies and terms of provided services used by the company's registrar meet the needs of the company and its shareholders and ensure the account of rights for shares and realisation of shareholders' rights in the most efficient way.	Complied with	
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No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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### 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. In the reporting period the nomination (appointments and HR) committee reviewed the compliance of the professional expertise, skills and experience of the members of the executive bodies with the company's current and expected needs determined by the company's approved strategy. 3. In the reporting period the board of directors reviewed the report(s) by the sole executive body or the collective executive body (if available) on the implementation of the company's strategy.	Complied with	
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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.	Complied with	
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# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.3	The board of directors defines the company's principles of, and approaches to, setting up a risk management and internal control system.	1. The company's principles of, and approaches to, setting up a risk management and internal control system were defined by the board of directors and specified in the company's internal documents determining the risk management and internal control system policy. 2. In the reporting period the board of directors approved (revised) the appropriate amount of risks (risk appetite) of the company, or the audit committee and (or) risk management committee (if available) considered if it was reasonable to submit the issue of revising the company's risk appetite for consideration by the board of directors.	Partially complied with	Criterion 2 is not complied with. In December 2021, the Board of Directors considered the report on evaluation of the efficiency of the internal control and risk management system of PJSC Magnit and its subsidiaries for 2021, the key results of the evaluation, and activities proposed to improve the internal control and risk management system of PJSC Magnit and its subsidiaries. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ on Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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, the company's executive bodies, and other key executives of the company.	1. The company has developed, approved by the board of directors and put in place a remuneration and reimbursement (compensation) policy (policies) 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).	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	Partially complied with	Criterion 1 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ on Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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. Persons responsible for implementing the information policy are identified in the company's internal documents.	Complied with	
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 results of self-assessment and (or) external assessment of the company's corporate governance practices.	Complied with	

## 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 attendance of the board of directors and committee meetings by each member of the board of directors. 2. The annual report discloses key performance assessment (self-assessment) results of the board of directors in the reporting period.	Not complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ on Joint-Stock Companies dated 26 December 1995. Failure to comply with the above principle is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has a transparent procedure in place enabling its shareholders to forward inquiries to the chairman of the board of directors (and, if applicable, to the senior independent director) and receive feedback on them.	Complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ on Joint-Stock Companies dated 26 December 1995.

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>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.</b>				
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. 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.	Complied with	
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 assessment of the compliance of the professional expertise, skills and experience of the nominees with the company's current and expected needs, 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 information on availability of the nominees' written consent to be elected to the board of directors.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise, and business skills, and it has the trust of shareholders.	1. In the reporting period the board of directors reviewed its requirements to professional expertise, experience and skills and defined expertise essential to the board of directors in the short and long term.	Complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.
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. In the reporting period the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	Complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.
<b>2.4 The board of directors includes a sufficient number of independent directors.</b>				
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.	Complied with	



# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.2	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 prevails 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 issue on independence of incumbent directors (after their election). 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.	Partially complied with	Criterion 2 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
2.4.3	Independent directors make up at least one third of elected directors.	1. Independent directors make up at least one third of elected directors.	Complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.
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 in the reporting period and submitted the results to the board of directors.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.5 The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.</b>				
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.	Complied with	
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 (self-assessment) of the board of directors' performance in the reporting period.	Not complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above principle is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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 complete and reliable information for the agenda of a board meeting.	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>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.</b>				
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.	Complied with	
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.	Complied with	
2.6.3	Directors have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as the sufficiency of time for work on the board of directors, including its committees, was analysed as part of the procedure of assessment (self-assessment) of the board of directors' performance 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 the company), and of their election to such bodies.	Partially complied with	Criterion 1 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

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 receive information and documents necessary for the board of directors' members to perform their duties and related to the company and its controlled entities, while executive bodies of the company should ensure the provision of the relevant information and documents. 2. The company carries out a formalised induction programme for newly elected members of the board of directors.	Complied with	
<b>2.7 Meetings of the board of directors, preparation for such meetings, and participation of directors ensure efficient performance by the board of directors.</b>				
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.	Complied with	
2.7.2	The company's internal regulations formalise 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. 2. In the reporting period members of the board of directors who were not able to attend the meeting of the board of directors were provided with an opportunity to participate in the discussion of agenda items and voting remotely – by means of conference and video conference communication.	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 Articles of Association or internal document provides for the most important matters (including those listed in Recommendation 168 of the Code) to be passed at meetings of the board of directors held in person.	Not complied with	In the opinion of the Company, the development of modern telecommunications technologies practically eliminates the differences in the effectiveness of in person and absentee formats of meetings of the Board of Directors. The most important issues included in the agenda of meetings of the Board of Directors are preliminarily considered by the relevant committees of the Board of Directors and are comprehensively discussed by members of the Board of Directors before voting, including absentee form of voting. The Company believes that transferring a large number of meetings of the Board of Directors to in person format is not economically feasible. Taking into account the epidemiological situation that developed over the past few years and the related limitations, in person meetings for the Company were not possible. In the future, the Company plans to maintain this approach to holding meetings and to develop the use of modern telecommunication technologies when planning meetings and making decisions.
2.7.4	Resolutions on the most important matters related to the company's operations are adopted at meetings of the board of directors by a qualified majority vote or by a majority vote of all elected directors.	1. The company's Articles of Association provides for resolutions on the most important matters, including those 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.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.8 The board of directors sets up committees to preview key matters related to the company's operations.</b>				
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 during the reporting period.	Partially complied with	Criterion 1 is only partially complied with. Criterion 4 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. In the reporting period, the Audit Committee comprising solely independent directors retained the composition proposed by the Board of Directors elected by the General Meeting of Shareholders in 2021 until 30 June 2022 (inclusive). Failure to comply with the above criteria is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.2	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, and conditions (events), upon the occurrence of which the remuneration committee considers the revision of the company's remuneration policy for members of the board of directors, executive bodies and other key executives.	Partially complied with	Criteria 1 and 2 are only partially complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. In the reporting period, the HR and Remuneration Committee comprising solely independent directors retained the composition proposed by the Board of Directors elected by the General Meeting of Shareholders in 2021 until 30 June 2022 (inclusive). Failure to comply with the above criteria is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023. Criterion 3 is only partially complied with. The Company's internal documents do not specify the specific conditions upon the occurrence of which the remuneration committee considers the issue of revising the Company's remuneration policy for the members of the Board of Directors, executive bodies and other key executives. The criterion for compliance with this paragraph of the Report has not yet been reflected in the Company's corporate governance practice. The possibility and necessity of introducing the relevant amendments to the Company's internal documents is planned to be considered before the annual General Meeting of Shareholders for 2024. However, the HR and Remuneration Committee considered remuneration issues on a regular basis.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 set up 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. 3. For the purpose of forming the board of directors that meets the company's goals and objectives most fully, in the reporting period the nomination committee, on its own or jointly with other board of directors' committees or the company's authorised shareholder relations unit, organised the engagement with shareholders, not limited to the largest shareholders, in the context of choosing nominees to the company's board of directors.	Partially complied with	Criterion 1 is only partially complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. The Audit Committee comprising solely independent directors retained the composition proposed by the Board of Directors elected by the General Meeting of Shareholders in 2021 until 30 June 2022 (inclusive). Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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 structure of the board of directors was in line with the scale and scope, business goals and requirements, and the risk profile of the company. Additional committees were either set up or not deemed necessary.	Not complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above principle is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

# Report on compliance 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. The audit committee, remuneration committee, nomination committee (or the relevant committee with a combined function) were headed by independent directors in the reporting period. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee (or the relevant committee with a combined function) or the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.
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.	Partially complied with	As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above principle is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.9 The board of directors ensures performance assessment of the board of directors, its committees, and members of the board of directors.</b>				
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. The procedures of conducting the assessment (self-assessment) of the board of directors' performance are determined in the company's internal documents. 2. Assessment (self-assessment) of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual assessment of directors, and the board of directors in general. 3. Results of assessment (self-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.	Not complied with	The procedures of conducting the assessment (self-assessment) of the Board of Directors' performance are not formalised in the internal documents. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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.	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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**3.1 The company's corporate secretary ensures an efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests, and supports 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 biographical data of the corporate secretary are published on the corporate website and in the company's annual report (including information on age, education, expertise, experience), and information on positions in the governing bodies of other legal entities held by the corporate secretary at least for the last five years.	Complied with	
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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 company has adopted and published an internal document – regulations on the corporate secretary. 2. The board of directors approves the nominee to the position of the corporate secretary, terminates his/her powers, and considers the corporate secretary's additional remuneration. 3. The company's internal documents stipulate the right of the corporate secretary to request, receive documents and information from the company's governing bodies, structural units and officials.	Complied with	
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No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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**4.1 Remuneration payable by the company is sufficient to attract, motivate, and retain persons 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. Remuneration of members of the board of directors, executive bodies, and other key executives of the company is determined based on the results of a comparative analysis of the level of remuneration in comparable companies.	Complied with	
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# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.2	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 (or) its (their) introduction practices, carried out the assessment of its (their) efficiency and transparency and provided relevant recommendations on the revision of the policy (policies) to the board of directors as required.	Complied with	
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.	Complied with	
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.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>4.2 Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of shareholders.</b>				
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. In the reporting period the company paid remuneration to the board of directors in accordance with the remuneration policy adopted by the company. 2. In the reporting period the company did not apply any forms of short-term motivation or additional financial motivation, the payment of which depends on the results (indicators) of the company's performance, in relation to the board of directors' members. Payments of remuneration for the participation in meetings of the board of directors or committees of the board of directors were not made.	Complied with	
4.2.2	Long-term ownership of the company's shares ensures the best alignment of directors' financial interests with the long-term interests of shareholders. 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.	Complied with	
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.	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>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.</b>				
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 an efficient ratio of the fixed and variable parts of remuneration. 3. When determining the amount of remuneration to be paid to the members of the executive bodies and other key executives of the company, the risks borne by the company are taken into account in order to avoid incentives to take excessively risky management decisions.	Complied with	
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. If 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), the programme implies that the right to dispose of shares and other financial instruments takes effect no sooner than 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 certain performance targets.	Partially complied with	The Board of Directors approved the Long-Term Incentive Programme. The Programme is designed to motivate management to increase the market capitalisation of the Company supported by EBITDA growth. The Programme includes remuneration in the form of shares and options in annual tranches. Remuneration will depend on the share price. The Programme is designed for five years. There are no restrictions on the disposal of shares received under the Programme. Instead of a restriction on the disposal of shares (and the dependence of the right of disposal on the achievement of indicators), it provides for a dependence of the granting of shares on the achievement of certain indicators and the deferred provision of shares in each of the annual tranches in parts over three years, and the loss of participants' right to receive tranches (parts of tranches) in case of resignation from the Company. The Company finds this approach to the provision of shares as part of the long-term incentive most reasonable and plans to follow it in the future.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	Complied with	
<b>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.</b>				
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.	Complied with	
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 duties, powers, responsibilities related to risk management and internal control between the heads (managers) of business units and departments accountable to them.	Complied with	
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 a safe, confidential and 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.	Complied with	



# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.1.4	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 (the audit committee and (or) the risk management committee (if available) organised the assessment of the reliability and efficiency of the risk management and internal control system. 2. In the reporting period the board of directors reviewed the results of assessment of the reliability and efficiency of the company's risk management and internal control system. Information on the results consideration is included in the company's annual report.	Partially complied with	Criterion 2 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, PJSC Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

## 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 engaged an independent external organisation with the same line of reporting.	Complied with	
5.2.2	The internal audit division assesses the reliability and efficiency of the risk management and internal control system, as well as the corporate governance system, applies generally accepted standards of internal audit.	1. In the reporting period, the reliability and efficiency of the risk management and internal control system were assessed as part of the internal audit procedure. 2. In the reporting period, the corporate governance practice (certain practices) was (were) assessed as part of the internal audit procedure, including the procedures of the information interaction (including internal control and risk management issues) at all levels of the company's management, as well as stakeholders engagement.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>6.1 The company and its operations are transparent for its shareholders, investors, and other stakeholders.</b>				
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. In the reporting period the board of directors (or one of its committees) considered the issue on the efficiency of information engagement of the company, shareholders, investors and other stakeholders, and considered if it was reasonable (necessary) to revise the company's information policy.	Partially complied with	Criterion 2 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, PJSC Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
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.	Partially complied with	Criterion 2 is only partially complied with. The Company discloses information in accordance with Resolution of the Government of the Russian Federation No. 351 dated 12 March 2022 On the Specifics of Disclosing and Providing in 2022 Information Subject to Disclosure and Provision under the Federal Laws On Joint-Stock Companies and On the Securities Market and On the Specifics of Disclosing Insider Information under the Federal Law On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation starting from 30 June 2022. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>6.2 The company makes timely disclosures of complete, updated, and reliable information to allow shareholders and investors to make informed decisions.</b>				
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.	<ol style="list-style-type: none"> <li>The company has a procedure ensuring coordination of work of all structural units and employees of the company who are related to information disclosure or whose operation may result in the requirement to disclose information.</li> <li>If the company's securities are traded in foreign organised markets, the company makes disclosures of material information in the Russian Federation and in the said markets in the reporting year on a concurrent and equal basis.</li> <li>If foreign shareholders hold a substantial number of shares in the company, the relevant information was disclosed in the reporting period both in the Russian language and in one of the most widely used foreign languages.</li> </ol>	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	<ol style="list-style-type: none"> <li>The company's information policy outlines the approaches to the disclosure of information on other events (actions) that have a significant impact on the value or price of its securities in cases where the disclosure is not required by law.</li> <li>The company discloses information on its shareholding structure in its annual report and on its website as required by Recommendation 290 of the Code.</li> <li>The company discloses information on the controlled entities that are of significant importance to the company, including the key areas of operation, tools ensuring accountability of the controlled entities, the powers of the company's board of directors to determine the strategy and assess the performance of the controlled organisation.</li> <li>The company publishes a non-financial report – a sustainability report, an environmental report, a corporate social responsibility report or any other report containing non-financial information, including that on factors related to the environment (including environmental and climate change factors), society (social factors) and corporate governance, except for a report of the issuer of issue-grade securities and a report of the joint-stock company.</li> </ol>	Partially complied with	<p>Criterion 2 is only partially complied with. The Company has been required to disclose information, including in the form of the issuer's reports (quarterly issuer's reports), since 2006. As part of compliance with the disclosure legislation, the Company discloses the number of its shareholders, the number of voting shares broken down by share category (type) and the number of shares held by the Company and its controlled entities, the persons who directly or indirectly own shares and (or) can use the votes attaching to the shares that represent at least 5% of the authorised capital or ordinary shares in the Company and any other information required by applicable law, in the form of statements of material facts and as part of annual, quarterly reports (issuer's reports) and lists of affiliates, which are disclosed on the website.</p> <p>That said, the Company has no procedure for disclosing additional information about the Company's shareholding structure as specified by Recommendation 290 of the Code, specifically a procedure requiring the Company's executive bodies to make a statement that the Company is unaware of any shareholdings exceeding 5% other than those already disclosed by the Company. The Company plans to consider whether the relevant provisions can and need to be included in the Company's internal documents and its corporate governance practice before the annual General Meeting of Shareholders for 2023.</p> <p>Even though the Company does not disclose its unawareness in the form of a statement of its executive bodies, this does not result in any information on the Company's shareholding structure being concealed in violation of Recommendation 290 of the Code. The Company avoids a formalistic approach to the disclosure of material information about its activities.</p>

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2.3	The company's annual report, being one of the key tools for keeping its shareholders and other stakeholders informed, includes data that can be used to assess the company's performance in the reporting year.	1. The company's annual report contains the results of the assessment by the audit committee of the effectiveness of external and internal audit. 2. The company's annual report outlines the company's environmental protection and safety policies, as well as the social policy of the company.	Partially complied with	Criterion 1 is not complied with. As amid escalation of geopolitical tensions in the reporting year a number of countries introduced and tightened sanctions against Russia and businesses operating in Russia, PJSC Magnit, just like many other companies, faced uncertainty, in which getting many corporate procedures implemented as planned for 2022 turned out to be impossible. The annual General Meeting of Shareholders of PJSC Magnit scheduled for 30 June 2022 was declared inquorate. As a result, all powers of the Board of Directors except for the powers to prepare for, convene and hold an annual General Meeting of Shareholders ended under Article 66 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Failure to comply with the above criterion is temporary, as the Company expects the circumstances that gave rise to the non-compliance to have ceased before the annual General Meeting of Shareholders to be held for 2023.
<b>6.3 The company provides shareholders with equal and unhindered access to information and documents as per their request.</b>				
6.3.1	No unreasonable difficulties prevent the shareholders from exercising their right to access the Company's documents and information.	1. The company's information policy (internal documents determining the information policy) establishes (establish) the procedure for providing shareholders with unhindered access to information and documents of the company at the request of shareholders. 2. The company's information policy (internal documents determining the information policy) contains (contain) provisions stipulating that if a shareholder requests information on the company's controlled entities, the company shall make the necessary efforts to obtain such information from the relevant controlled entities of the company.	Partially complied with	Criterion 2 is not complied with. This recommendation of the Corporate Governance Code is not directly reflected in the Company's information policy. The Company adopted the Regulations on the Information Policy, which, inter alia, takes into account recommendations of the Corporate Governance Code. As for the practical implementation, the Company provides information about its operations at the request of shareholders, makes the necessary efforts to obtain information from the relevant controlled entities, and, in addition to the information required to be disclosed by applicable law, the Company discloses on its own initiative a large amount of data on the controlled entities that are of significant importance to the Company. In practical terms, access to the information on the Company's performance is not hindered. The Company finds this approach most reasonable and plans to follow it in the future.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.3.2	When providing information to shareholders, the company maintains a reasonable balance between the interests of individual shareholders and those of the company, as it is in the company's best interests to keep confidential any sensitive commercial information that may have a material effect on its competitive position.	1. In the reporting period, the company did not refuse to provide shareholders with requested information, or such refusals were justified. 2. In cases specified by the information policy, shareholders are informed of the confidential nature of the information provided and undertake to keep it confidential.	Complied with	
<b>7.1 Actions that have or may have a material effect on the company's shareholding structure and financial position and, on the shareholders' position (material corporate actions) are taken on fair terms ensuring that rights and interests of the shareholders and other stakeholders are respected.</b>				
7.1.1	Material corporate actions include reorganisation 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 delisting 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 Articles of Association set out a list (criteria) of transactions or other actions classified as material corporate actions, which are reserved to the company's board of directors.	1. The company's Articles of Association include a list (criteria) of transactions or other actions classified as material corporate actions. In accordance with the company's Articles of Association, decision-making with regard to material corporate actions is reserved to the board of directors. If and when the law expressly reserves such corporate actions to the general meeting of shareholders, the board of directors provides shareholders with relevant recommendations.	Complied with	

# Report on compliance with the principles and recommendations of the Corporate Governance Code (continued)

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.2	The board of directors plays a key role in making decisions or recommendations with regard to material corporate actions and relies on the opinion of the company's independent directors.	1. The company has in place a procedure for independent directors to express their opinions on material corporate actions prior to their approval.	Complied with	
7.1.3	When taking material corporate actions affecting the rights and legitimate interests of shareholders, the Company ensures equal treatment of all its shareholders; and where the statutory procedures protecting shareholder rights are insufficient, the Company takes additional measures 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. Approval of the Company's material transactions is reserved to Board of Directors in accordance with the company's Articles of Association, with due regard to the specifics of the Company's operations and in addition to regulatory requirements for transaction approvals. 2. All material corporate actions in the reporting period were duly approved before they were taken.	Complied with	
<b>7.2 The company ensures that material corporate actions are taken in a manner enabling shareholders to receive full information on such actions in due time and influence them, and guarantees respect and due protection of shareholder rights when such actions are taken.</b>				
7.2.1	Information on material corporate actions is disclosed, with an explanation of the relevant reasons, conditions and consequences.	1. In the reporting period, the company disclosed information on its material corporate actions (if any) in a timely and detailed manner, including the relevant reasons, conditions and consequences for the shareholders.	Complied with	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2.2	Rules and procedures for taking material corporate actions are set out in the company's internal documents	1. The company's internal documents set out the rules and procedure for engaging an appraiser to estimate the value of assets to be sold or acquired in a major transaction or a related party transaction. 2. The company's internal documents set out a procedure for engaging an appraiser to estimate the value of shares to be acquired and bought back. 3. If a member of the company's board of directors, the sole executive body, a member of the collegial executive body, or a person who is a controlling person of the company or a person entitled to give the company binding instructions has no formal interest in the company's transactions, but has a conflict of interest or other actual interest with regard to such transactions, such persons shall abstain from voting on the approval of such transactions as required by the company's internal documents.	Partially complied with	Criteria 1 and 2 are only partially not complied with. The Company's internal documents set out a procedure for engaging experts to obtain professional advice on matters considered at meetings of the Board of Directors without specifying the purpose of engaging such experts. In accordance with the applicable legislation, there are cases when the engagement of an independent appraiser is mandatory. Moreover, in accordance with the applicable legislation, an appraiser can be engaged in any of the specified cases (estimation of the value of property to be sold or acquired in a major transaction or a related party transaction, or assessment of the cost of an acquisition and buy-back). The possibility and necessity of aligning the Company's internal documents with the Code's recommendation is planned to be considered before the annual General Meeting of Shareholders for 2024.

## Major transactions

During the reporting year, there were no transactions that are recognised as major transactions in accordance with the Federal Law On Joint-Stock Companies.

## Related party transactions

During the reporting year, there were no transactions that are recognised as related party transactions in accordance with the Federal Law On Joint-Stock Companies.

## Glossary

**Average ticket** is the average ticket amount calculated by dividing total sales at all stores during the relevant period by the number of tickets in that period.

**CAPEX (capital expenditures)** are funds used by a company to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land.

**Cloud-based technologies** are a means of offering computer system resources as an online service.

**CPI (Consumer Price Index)** is 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.

**CSI (Customer Satisfaction Index)** is a metric that reflects the overall customer satisfaction with products, services, customer experience, and interaction with the company.

**Custodian** is a financial agent (usually bank) that holds a customer's securities for safekeeping.

**Dark store** is a warehouse store that is used for picking and fulfilling online orders and is not available to customers.

**Discounter** is a store that sells products at less than market average prices.

**Distribution** is the process of making products available across a chain of stores and setting up sales and relevant services.

**Drogerie** is a retail store selling beauty, hygiene and household related products as well as certain non-prescription medications.

**E-commerce** is the buying and selling of goods and services over the Internet.

**End-to-end (E2E) process** is a process that takes a service from its beginning to its end, delivering a complete functional solution.

**LFL (like-for-like)** is the method of comparing current year sales figures to prior year's sales figures excluding the expansion effect.

**Merchant acquiring** is a means of collecting card-based payments for goods and services using POS terminals.

**Net debt** is 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** is 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** is a 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 disposable income (RDI)** is the post-tax and benefit income available to households after an adjustment has been made for price changes.

**Real GDP** is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy.

**Real wage** is the amount of goods and services that can be bought with a nominal wage; basically the purchasing power of a nominal wage.

**Regulatory Sandbox Regime (RSR)** is cancellation of the general regulatory regime and introduction of special rules and regulations within a pre-defined territory as a way to pilot test new technologies and innovations.

**Sales density** is the revenue generated for a given area of sales space, presented as a monetary value per square metre.

**Selling space** is 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)** is a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise.

**Sustainable development** is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**Traffic** is the number of tickets issued for a specific period.

# Glossary (continued)

## Abbreviations

**ACRA** – Analytical Credit Rating Agency

**bps** – basis points

**CEO** – Chief Executive Officer

**CVM** – customer value management

**CVP** – customer value proposition

**DC** – distribution centre

**EBITDA** – earnings before interest, taxes, depreciation and amortisation

**eNPS** – Employee Net Promoter Score

**ESG** – Environmental, Social, Governmental

**FMCG** – fast moving consumer goods

**GDP** – gross domestic product

**GDR** – global depositary receipts

**GMV** – gross merchandise value

**HR** – human resources

**IAS** – International Accounting Standards

**IFRS** – International Financial Reporting Standards

**IT** – information technologies

**JSC** – joint stock company

**LLC** – limited liability company

**LTI** – long-term incentive

**M&A** – mergers and acquisitions

**NPS** – Net Promoter Score

**OCF** – operating cash flow

**p.p.** – percentage point

**R&D** – research and development

**RAS** – Russian Accounting Standards

**ROI** – return on investment

**ROIC** – return on invested capital

**SDGs** – UN Sustainable Development Goals (SDG)

**SG&A** – selling, general and administrative expenses

**SME** – small and medium-sized enterprise

**TMMA** – three months moving average

**VAT** – value-added tax

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