Magnit at a Glance

Who we are

Magnit is one of Russia's leading food retail chains and the country's largest by number of stores and geographical coverage. The Company was founded in 1994 in Krasnodar, the South of Russia, where it is still headquartered today.

As of 31 December 2021, Magnit had a total of 26,077 stores across 67 regions of Russia and about 360 thous. employees. We operate a multi-format and omni-channel model which includes convenience and drogerie stores, supermarkets and pharmacies under the Magnit and Dixy brands. Our significant scale and reach attract 15 million customers to our stores each day, and our cross-format loyalty programme boasts about 59 million loyalty card holders. Magnit offers its customers online options in both express and regular delivery.

Magnit's business model is unique in the Russian retail market as we are the only food retailer to operate our own private-label food production business. The Company owns and manages 17 production facilities, including 4 agricultural complexes and 13 plants for the production of dry food and confectionery, with an output of more than 360,000 tonnes of produce in 2021. Our advanced logistics and supply chain infrastructure comprises 45 distribution centres and more than 5 thous. trucks, one of the largest own truck fleets in Russia.

26,077 stores
across **67 regions** of Russia

~360 thous. employees

15 mln customers
daily footfall

17 production facilities

45 distribution centres

>5 thous. trucks

Our mission, culture and values

#1

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

A focus on sustainability underpins every aspect of our business, and our mission is to become the store of choice for every Russian family. We have a strong corporate culture of continuing operational improvement and focus on delivering exceptional quality and customer service. This is supported by our commitment to professionalism, teamwork and respect for each other and our customers.

We encourage open and constructive dialogue, ownership of responsibilities, effective cross-functional cooperation and commitment to innovation to ensure we achieve our goals.

Our five-year sustainability strategy to 2025, "Retail with Purpose", recognises the significant opportunity we have in building a better future for everyone. The ambitious goals we set for ourselves help to embed sustainability throughout the business, enhancing our corporate culture further.

Our values

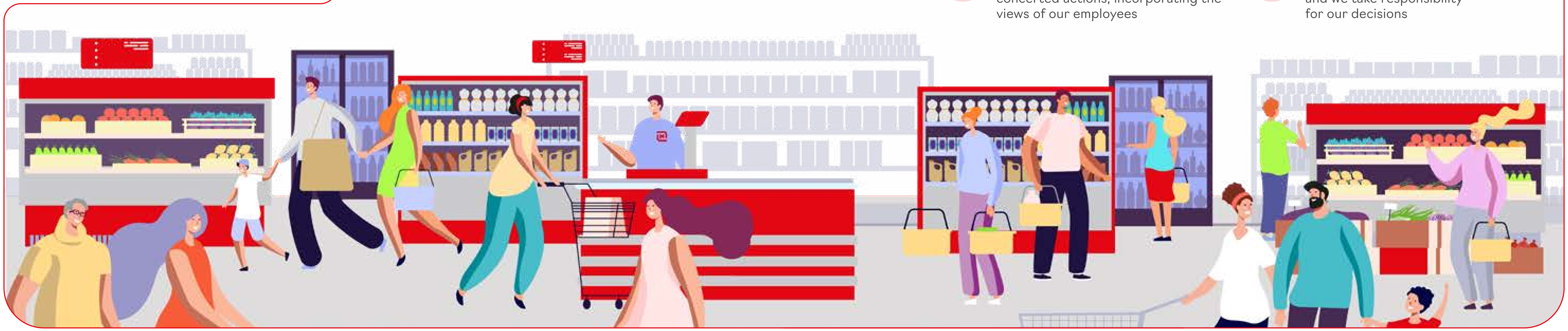
Underpinning our mission and culture is our set of values which places our customers at the heart of everything we do.

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

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

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

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



Chairman's
Statement

Magnit has continued to consolidate its position as one of Russia's largest retail and food production businesses. In 2021, we completed the acquisition of Dixy, and we continued to build our private label and multi-format offerings to meet consumer trends.

The ongoing global pandemic has demonstrated Magnit's ability to respond to change quickly and meet the challenges presented by constant uncertainty. First and foremost, our priority is to ensure the health and safety of our staff and customers alike, so we have put in place all the necessary measures to stop the spread of the virus and help vulnerable people to cope during these difficult times. Some of our large-format stores have been used as vaccination centers, supporting the road out of the pandemic. We also arranged vaccination of our employees in our head office, which made the vaccination process for our colleagues easier and safer.

Our strategy for sustainable growth – to continually improve our customer value proposition, bring about efficiencies, undertake considered expansion and a multi-format provision – resulted in a strong financial and operational performance with improvements across all KPIs. We are firmly positioned as a value for money store of choice for Russian families.

The acquisition of Dixy, the fifth largest grocery retailer in Russia, in July 2021 added 2,477 stores to the Magnit portfolio and strengthened our presence in the Moscow and St. Petersburg regions. The brand has a strong customer base and has added scale to Magnit's operations. Integration of the business is progressing well, with profitability improving since the acquisition.

Magnit's e-commerce sales channel continued to gain traction, achieving RUB 11 bln Gross Merchandise Value (GMV) for 2021, with the average number of orders per day exceeding 62,000 in the fourth quarter of the year. At the end of December Magnit processed 100,000 orders per day, and this is a big achievement as the Company has only recently started to roll out its e-commerce offering.

Magnit now runs a number of online delivery projects, including own delivery and partnerships, across grocery, pharma and cosmetics.

Chairman's Statement (continued)

A continued decline in real disposable income saw significant growth in discounter stores, a format that has had considerable success in Europe and which is underpenetrated in Russia. Magnit is at the forefront of this value-for-money offering, having opened over 200 My Price brand stores since July 2020.

The ongoing development of our private label is also supporting price-sensitive customers across all Magnit formats, offering high quality products at a range of prices to suit varying customer needs. We have expanded our unique own production capabilities and built new, and strengthened existing, partnerships to grow our Private label range. In 2021, we grew our Private label range by over 20%.

Our commitment to developing a 'best in class' corporate governance system resulted in a number of developments in 2021. The rapid growth of Magnit led us to reevaluate our Board structure to make sure we have a broad range of skills and knowledge needed to support our growth ambitions, while also ensuring greater diversity. As a result, the Board of Directors has been extended from nine to eleven members, strengthening its independence and gender diversity.

In parallel, the Management Board expanded from nine to 13 members to improve decision-making and reflecting the Company's strategic priorities and development in the retail market.

We continued to develop the long-term and short-term incentive (LTI & STI) programmes to ensure an optimal and fair method of motivation and compensation for top management, adding new members to the LTI and setting KPIs for the STI against which performance is evaluated.

Led by our President and CEO, Jan Dunning, our sustainability strategy is supporting the Company's overall strategy. In April 2021, Magnit published its second sustainability report, presenting the Company's progress on commitments to 2025 announced in June 2020. Now in its third year, the Sustainability Strategy is embedded fully in Magnit's day-to-day operations, underpinning many non-financial KPIs and long-term environmental and social aspirations.

We recognise that even more can be gained if we work with other influential partners to achieve our ESG goals. That is why we joined forces with eight of the largest international FMCG producers in the 'United for a Healthier Future' initiative. Our pledge is to improve the quality of life for consumers and local communities by promoting healthy living and environmental care through education, making available sustainable goods, solutions, and services, cooperating with other organisations, and investing in research.

Attracting and retaining talent is a key concern for all retailers in Russia as migration flows have slowed. In 2021, we continued to develop both financial and non-financial incentives for staff and evolved our unique internal training and development programmes. Our employees are part of the large Magnit 'family' around which there is a strong culture of communication and support both in and out of work. I would like to extend my thanks to all Magnit employees who worked tirelessly in 2021.

We maintained regular engagement with investors throughout the year, holding meetings and issuing regular announcements, reflecting the high degree of activity in this particularly busy year. We encourage two-way dialogue, responding to any concerns raised. Last year we introduced a new Audit Fees Policy in response to objections raised by shareholders in relation to non-audit fees. The new policy limits the amount of non-audit fees charged by Magnit's auditors. We welcome any feedback and would like to thank our investors for bringing this matter to our attention and for their continued support.

I would like to extend my thanks to all members of the Board and Management Board, both old and new, for their dedication to Magnit and supporting the execution of our strategy. I would also like to extend a warm welcome to all those who joined in 2021, as they support the continued growth and transformation of the Company.

Charles Ryan

Chairman of the Board of Directors

President and CEO's
Statement

Magnit had another remarkable year in 2021. We are now bigger than ever and have consolidated our market position as one of Russia's leading retailers and private companies. This has been achieved through a strategically important acquisition, organic expansion and an unwavering focus on delivering our strategic objectives.

We continued to enhance our value proposition founded on high quality at an affordable price, and addressing a wide range of consumer missions. Our customers are responding positively to the changes as evidenced by our growing loyalty programme, increased footfall and average spend.

Trading performance

We have delivered yet another year of record results, with robust sales growth and improved efficiencies in our operations and processes. Our strong sales increase benefitted from both organic and acquired growth.

Total sales grew by 19.5% to RUB 1,856.1 bln as a result of an increase in like-for-like sales and retail space growth. Net retail sales, adjusted for Dixy, grew by 11.3% to RUB 1,680.5 bln, outpacing selling space growth on further improvement of sales densities. LFL sales grew 7.0%, driven by a 7.1% average ticket growth with traffic flat year-on-year (0.1% LFL traffic decline).

The strategically important acquisition of Dixy was completed in July and the subsequent performance of Dixy has been consolidated into the Magnit Group results, with sales and operating performance of the Dixy brand also reported separately. The integration of Dixy has progressed well, with the first portion of synergies successfully extracted and further efficiencies to be gained.

EBITDA was RUB 133.1 bln with a 7.2% margin, a small improvement on 2020 as a result of stronger gross margin and efficiency initiatives, which were partially offset by the consolidation of Dixy.

Our gross debt position as at 31 December 2021 stood at RUB 270.4 bln, and our cash position increased to RUB 73.4 bln compared to RUB 44.7 bln the previous year. Net Debt to EBITDA ratio was 1.5x at the year-end compared to 1.1x as at 31 December 2020.

CAPEX in 2021 was significantly higher at RUB 66.9 bln, compared with RUB 32.1 bln in 2020, as the Company executed its expansion and redesign programmes.

Delivering on our strategic priorities

In 2021 we accelerated the expansion of our retail network, adding a total of 4,513 stores, resulting in 26,077 stores at the year-end, and increasing our selling space by 20% to 8,997 thous. sq. m.

Of this, the acquisition of the Dixy retail chain added 2,412 net convenience stores and 39 superstores operating under the Megamart brand to our network. The acquisition consolidated our market position further with the addition of a well-known brand and strong customer base in the strategically important Moscow and St. Petersburg regions. We are confident that we can extract significant synergies from Dixy through shared back office functions including procurement and supply chain management.

At an operating level, the Dixy brand will remain separate to Magnit, but sharing a single loyalty programme and many synergistic back office functions such as finance, investment, project management, procurement and supply chain.

A dedicated integration management office (IMO) providing cross-functional support, driving decision-making and tracking progress is making headway in aligning Dixy's operations as well as in the brick-and-mortar aspect of the business. Dixy stores located in close proximity to existing Magnit convenience stores are being evaluated with a view to being converted into a complementary format should they prove to generate better value that way. The integration process is expected to be largely completed by mid-2022.

Magnit further opened 2,281 stores (gross) across all major formats with a particular focus on convenience stores and drogeries. Convenience stores achieved the strongest performance across all Magnit store formats, driven by an increase in average ticket value and selling space growth. Several new formats were piloted to meet diverse consumer missions such as City stores, My Price discounters and kiosk-style Magnit Go, which offers on-the-go food and snacks.

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

President and CEO's Statement (continued)

Of these, we believe the discounter format may become a substantial business segment within the Company's ecosystem. The format is aimed at price-sensitive consumers and has a limited assortment and high proportion of private label products. Compared to convenience stores, they have higher sales densities, faster stock rotation, significantly lower operational expenses and lease costs, and around 40% less capital expenditures ensuring an attractive return on investment. During the year, 175 My Price stores were opened, bringing the total at year-end to 190 stores, compared with 15 at 31 December 2020. Further My Price store openings are planned in 2022 and beyond, to build on the success of this format.

eCommerce sales grew throughout 2021 with orders fulfilled via our own delivery and partner services linked to nearly 4,500 brick-and-mortar stores. An average of 72,000 orders per day were fulfilled in December, compared to 7,000 in the same period in 2020. Sales grew 32x overall during the year to RUB 11.2 bln. To enable eCommerce growth, we piloted our first dark store in February 2021, dedicated to serving online customers and their specific preferences. By the year end we had a total of 20 dark stores.

In line with our customer-centric approach, we implemented a number of initiatives to enhance our customer value proposition and perception. The focus was on improving our in-store experience and offering modern, well-designed and attractive shopping experiences.

A total of 703 Magnit stores were refurbished during 2021, resulting in over 78% of convenience stores, 45% of supermarkets and 62% of drogeries operating under the new concept.

During the year the number of loyalty programme cardholders reached 58.7 million, with the proportion of tickets using the loyalty card reaching 56% with sales penetration of 69%. The loyalty programme continued to deliver positive cross-format gains with 43% of our customer base visiting two or more formats. The average ticket of the active user is 1.8x higher compared to transactions without a loyalty card in a convenience store and 2.0x higher in larger formats.

We have continued to improve and expand our private label range to support a variety of consumer missions and price points. Our ambition to have an up to 25% private label share in sales by 2025 is being achieved through a focus on quality and price, investment in our own production, direct imports to differentiate our offering and strategic partnerships with suppliers. Private label sales grew by 23.8% during the year.

Magnit remains the only retailer in Russia that operates its own food production facilities out of 17 sites spread across Russian regions. The facilities currently manufacture around 500 articles, including socially important goods. Our own greenhouses ensure the availability and quality of fresh vegetables, including those that may be subject to import restrictions.

Output grew by 17% in 2021 to 360,000 tons reflecting the expansion of the private label range through a ramp-up of production rates and increased yields from greenhouse complexes.

Private label and own production is tied strongly to Magnit's sustainability commitments to 2025, since we can directly affect the decisions made in the products we produce. Our aim is to achieve a 50% share of recyclable, reusable or compostable packaging, and ensure 100% responsible production and agriculture.

Our rapid growth resulted in a 13% increase in staff at our operations to a headcount of about 360 thous., including the Dixy acquisition, a significant jump which cements our position as one of the largest private employers in Russia. We recognise the huge responsibility this comes with, so we keep working to be the nation's number one employer in retail in order to attract and retain the best talent.

Our strategy is driven by the desire to create value for employees, which will result in a constant improvement in employee net promoter score and reduced staff turnover. This is important since the labour market is experiencing increased competition, fuelled by an aging population, and by restrictions on population movements.
In response, the HR team have been developing our employer value proposition (EVP), working on our corporate culture and communications, recruitment, talent development, as well as benefits and employee loyalty programmes.

Special attention is being paid to reducing a comparatively high staff turnover at Dixy. This includes improving recruitment channels, compensation packages, reducing workloads, training and induction programmes, management oversight and non-financial motivation tools.

During the period we continued to strengthen our Management Board, growing it from 9 to 13 members to reflect the changes taking place at the Company and ensure more efficient cross-functional collaboration.

Appointments included a new e-commerce Director and Chief Digital and Technology Officer. They are responsible for accelerating the roll-out of our e-commerce strategy and the continuous development of our technology and IT-infrastructure, harnessing advanced analytics and big data.

Our supply chain transformation continued through the year replacing the legacy internal solution with a cloud-based platform based on AI and ML technologies. We also began implementing a single transport management system, replacing a number of disparate technologies to bring about greater efficiencies and better coordination in our logistics services.

Outlook

We began 2022 in a strong financial position, with optimised leverage, improved working capital and increased cash generation. This gives us confidence to continue our development and further strengthen our market position.

We will continue to follow our clear strategy to improve the customer value proposition, to offer formats that meet consumer missions and introduce operational efficiencies across the Group.

The market environment continues to be tough. Noticeable increases in inflation rates are putting greater pressure on consumers as well as the cost of raw materials and production costs. In response, we have taken measures to mitigate price increases on a broad range of socially important goods, allowing us to provide targeted assistance to cash-strapped consumers.

As a responsible retailer our purpose remains to provide safe, nutritious, affordable food and products to improve the lives of our customers. At the heart of this is a strong commitment to growing the business sustainably and continuing to reduce our impacts. During 2022, we will progress our ESG commitments, fine-tune our work to drive greater improvements and facilitate greater transparency and accountability in our operations.

Over the course of this year and beyond, I am confident in Magnit's ability to further cement our position as a leading Russian retailer. This would not be possible without the hard work and commitment of our skilled teams and support of all our stakeholders, and I would like to thank them for their continued dedication to Magnit.

Jan Dunning

President and Chief Executive Officer

Highlights

of the Year

Strategic priorities

- **Improvement of LFL sales growth**
- **Proactive and opportunistic return-driven consolidation play**
- **Margin regain**
- **High returns leading to strong dividend payment**
- **Accelerate smart organic expansion**
- **E-grocery platform development**
- **Improvements of the working capital cycle**

Achievements in 2021 vs 2020

>7 days optimisation of WC
with RUB 18 bln cash release and working capital turning negative

EBITDA margin improvement to **7.2%**
in 2021 from 7.0% in 2020 on the back of gross margin gains and strict cost control

2,281
gross new stores of core formats opened in 2021 vs. **1,292** in 2020

3 M&As
strategic acquisition of Dixy business and two bolt-on acquisitions of Edelweiss and Radezh

Full-year GMV of **RUB 11.2 bln**
with more than 62,000 orders daily

LFL sales growth of **7.0%**
2021 – second consecutive year of market-leading LFL sales growth

ROIC[1] growth to **16.5%**
in 2021 vs 13.8% in 2020 vs 7.9% in 2019 and 20% YoY increase in dividend payment[2]

[1] ROIC = (EBIT - Income Tax) / (Average Net Debt + Average Equity)
[2] Based on the first tranche of dividend payment – for 9M 2021 of RUB 30 bln vs 9M 2020 of RUB 25 bln
Note: All financial metrics are provided in accordance with IAS 17 standard.

2021 strategic priorities – We deliver what we promise

In 2021, Magnit delivered significant progress against its strategy. We continued organic expansion and improvement of customer experience in our stores, demonstrating industry-leading growth in LFL sales. We completed a strategically important acquisition of Dixy that strengthened our positions in Moscow and St. Petersburg and improved its profitability. Despite this large acquisition, we managed to maintain a "healthy" debt level at 1.5x EBITDA (IAS 17). The e-commerce channel, launched by Magnit in the second half of 2020, quickly gained traction and surpassed RUB 11 bln in turnover for the full year. We also managed to further optimise our working capital cycle and improve return on investments.

Corporate Governance

- Shareholders approved a new edition of the Articles of Association that expanded the size of the Board of Directors from nine to eleven members
- Magnit further strengthened the Board of Directors, introducing new independent Board Members with expertise in tech and finance
- We continued to strengthen the Management Board to improve decision-making. The Management Board was expanded to 13 members
- The Board of Directors introduced the Audit Fees Policy to limit the volume of non-audit fees received by the Company's external auditor to ensure its independence.

Securities

- Dividends paid for 9M 2021 amounted to RUB 30 bln. This represents 20% YoY growth compared with RUB 25 bln paid for 9M 2020
- Magnit placed RUB 20 bln of exchange-traded bonds with a 7.05% coupon
- Credit Rating Agency ACRA affirmed its credit rating for Magnit bonds at AA (RU)
- S&P upgraded Magnit's credit rating to BB+ with forecast "Stable"

Operations

- Redesign of more than 700 Magnit stores (including convenience stores, supermarkets and drogeries) to improve customer value proposition
- Magnit organic expansion to add 1,450 convenience stores, 825 cosmetic stores and 6 supermarkets during the year, boosting the gross number of store openings 77% from 2020
- Successful pilot of 190 My Price discounter stores showing returns of >50% has triggered the decision to further roll out this format
- Concept tailoring of new promising ventures City and Go and launch of updated pilots
- Multi-format e-commerce rollout (including dark stores scaling) led to 62,000 daily orders and annual GMV of RUB 11.2 bln
- IT landscape upgrade on track, including SAP-based ERP integration, supply chain software, focus on cloud-based technologies.

Sustainability

- Reducing carbon emissions in logistics operations via upgrading our truck fleet, switching to more environmentally friendly fuel
- Ongoing energy saving programme for refrigerator equipment, air conditioners and lighting systems
- Magnit headquarters in Krasnodar received a Green Office certificate for practices including waste recycling, energy and water saving
- Project to analyse waste composition at our stores to increase waste recycling vs disposal
- Joint initiative with eight largest FMCG brands – "United for a Healthier Future" – to promote healthy lifestyles among consumers and local communities
- Rollout of healthy food zones in our stores
- "Kind Bunny" project – creating an inclusive environment for people with disabilities in our stores, training personnel to serve this category of customers
- In July, National Rating Agency ranked Magnit No.3 in the ESG rating of Russian public non-financial companies and No. 1 among retailers
- In August, MSCI increased Magnit's ESG rating to BBB.

Market Overview

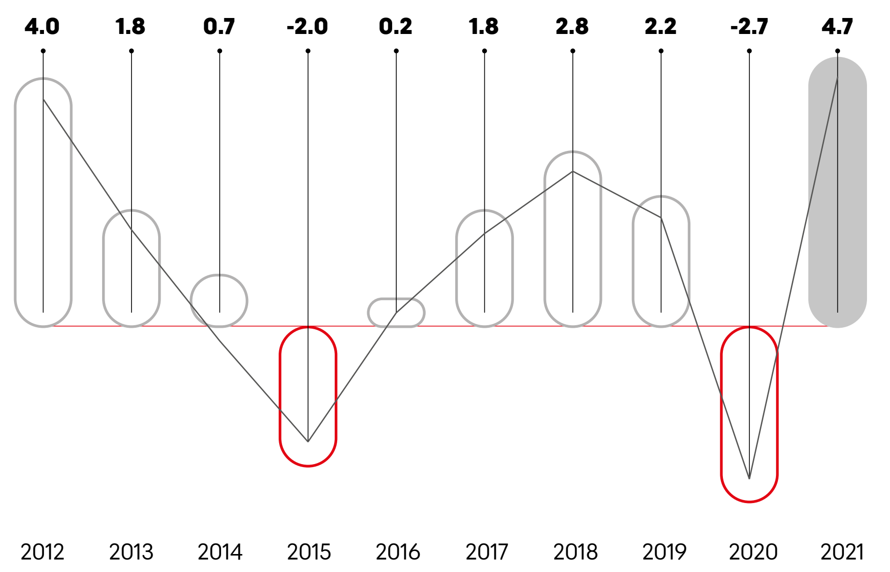
Consumer spending surged in April 2021 following the removal of restrictions and continued to show growth for the rest of the year, albeit at a slowing rate. Food retail has benefitted with a return to growth, and the market leaders, including Magnit, gained market share due to consolidation and the ongoing focus on modernisation and CVP improvements.

Macroeconomic Environment

Year-on-year GDP improved by 4.7% in 2021 due to the gradual recovery of economic activity following the implementation of the Nationwide Economic Recovery Plan and the removal of restrictive measures related to COVID-19. This was coupled with a highly supportive inflationary trends for retailers and a substantial recovery in real disposable incomes as people returned to work.

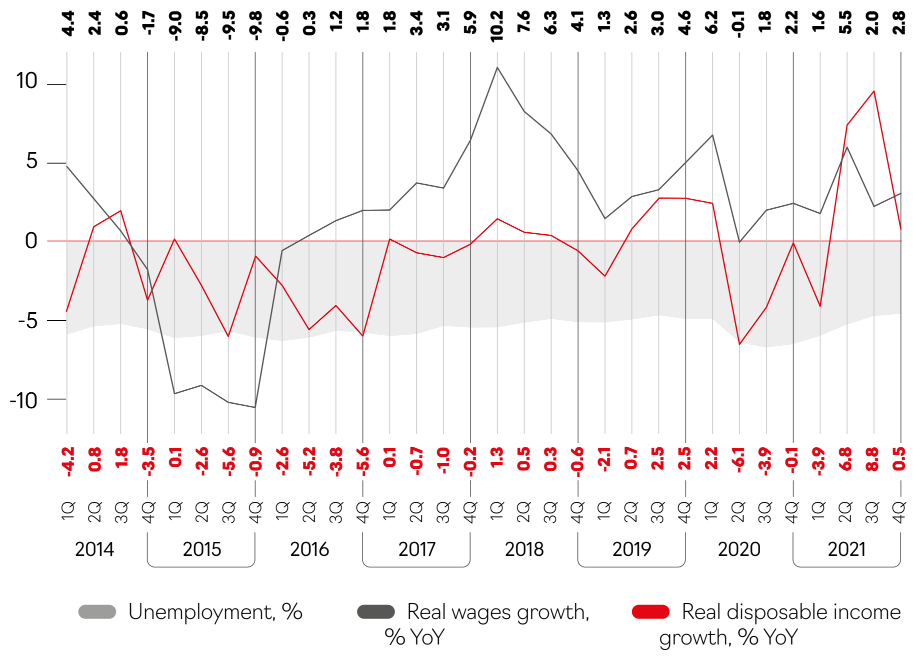
After the initial spike in consumer spending in 2Q 2021, retail and food sales growth weakened in subsequent quarters. To provide additional stimulus to the economy the government announced a series of additional financial support measures for families, vulnerable people and small businesses. This includes a one-off payment to pensioners, as well as elementary and secondary school students, of RUB 10,000 and RUB 15,000 to ex-military personnel. Meanwhile children aged 8 to 16 years from families with one parent now receive payments of on average RUB 5,650 a month.

Real GDP change in Russia, %



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

Real wages, real disposable income and unemployment rate, %



Source: Federal State Statistics Service

Low-income households typically spend around 40% of income on food and the implication of this extra support is that it will be directed towards food purchases.

According to SBER CIB bank, in total the government is expected to spend an estimated extra RUB 500 billion between 2021–2024 on social services, construction, and state oversight over environmental, digital, and customer-oriented development projects. This is being made possible thanks to strong economic performance and a recovery in non-oil and gas tax revenues[1].

The monthly minimum wage in Russia rose by 5.5% in 2021 to RUB 12,792. In Moscow it was set at RUB 20,589 and RUB 19,000 in St. Petersburg.

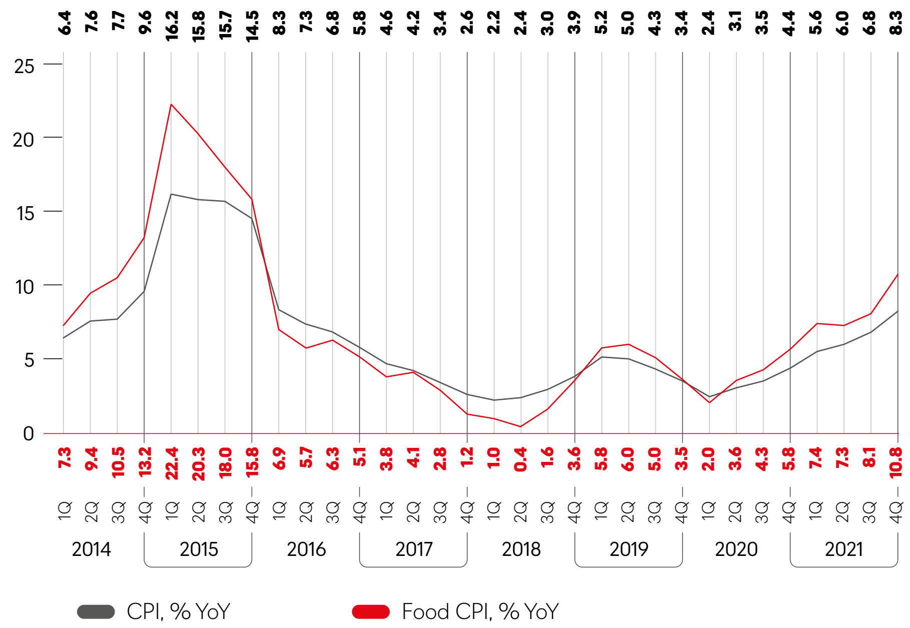
In 2021, average real wage grew marginally by 2.9% while real disposable income (RDI) has been slowly growing by 3.1% year-on-year, driven primarily by a rebound in incomes from property and business.

The average total number of the unemployed in December 2021 amounted to 3.2 million shrinking year-on-year to 4.3% compared to 5.9% the previous year. The unemployment rate has dropped to a record low, while the number of vacancies is at a record high.

The Consumer Price Index (CPI) rose throughout 2021 by 6.7%[2], while Food CPI increased by 8.4%[3] with particular rises in fresh foods such as vegetables and eggs. Rising food prices increased food spend by 2.4%, drawing growing concern by consumers.

Seasonally adjusted growth in consumer prices rallied to a six-year high in October and November. Household inflation expectations rose up to a five-year high in December. Businesses' price expectations also held close to multi-year highs. In response, the Central Bank of Russia raised its benchmark policy rate to 8.5% during its December 2021 meeting, to dampen the continually rising inflation.

CPI and Food CPI in Russia, %



Source: Federal State Statistics Service

[1] SBER CIB Investment research, Russia economic monthly – very strong revenues allow government to boost spending, 10 September 2021
[2] Average annual inflation rate is given based on the average quarterly CPI changes year-on-year.
[3] Inflation rate at the end of December 2021 since December 2020 was 10.6%.

Market Overview
(continued)

#1

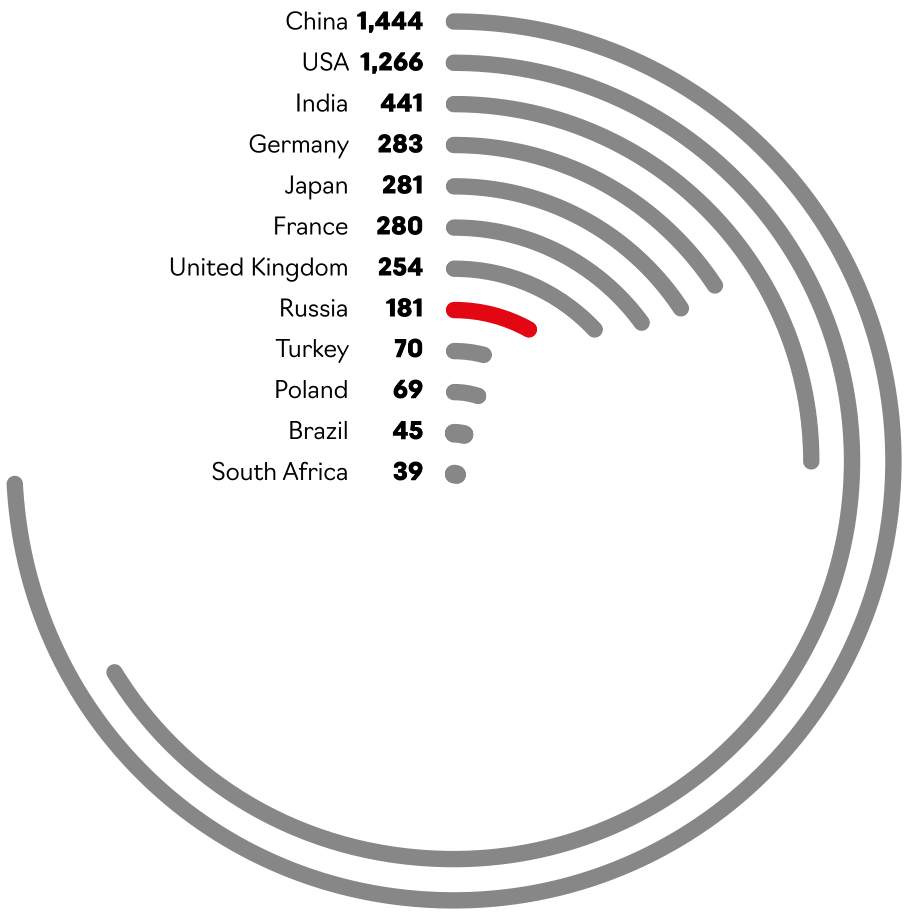
in Russia by number of stores and geographical footprint

Russian retail market

The easing of COVID-19 related restrictions in April 2021 saw an immediate and significant real growth in retail sales in Russia, and continued growth throughout the year to an average of 7.3%. This was reflected in real growth of food retail sales in Russia to an average of 2.2% demonstrating a strong recovery from the previous year.

Modern retailers such as Magnit continued to benefit, taking a 75% market share as operators resumed their store roll-out after the 2020 hiatus, adding 2.6 mln sq. m of new space during 2021. This was coupled with a continued strong performance from modern convenience stores. The recovery in real disposable income (RDI) and consumer confidence index (CCI) in 2021 resulted in customers continuing to concentrate their spend on food rather than on travel, entertainment and leisure. The statistics clearly reiterate that grocery retail is benefitting more from the post-pandemic recovery than other industries in Russia.

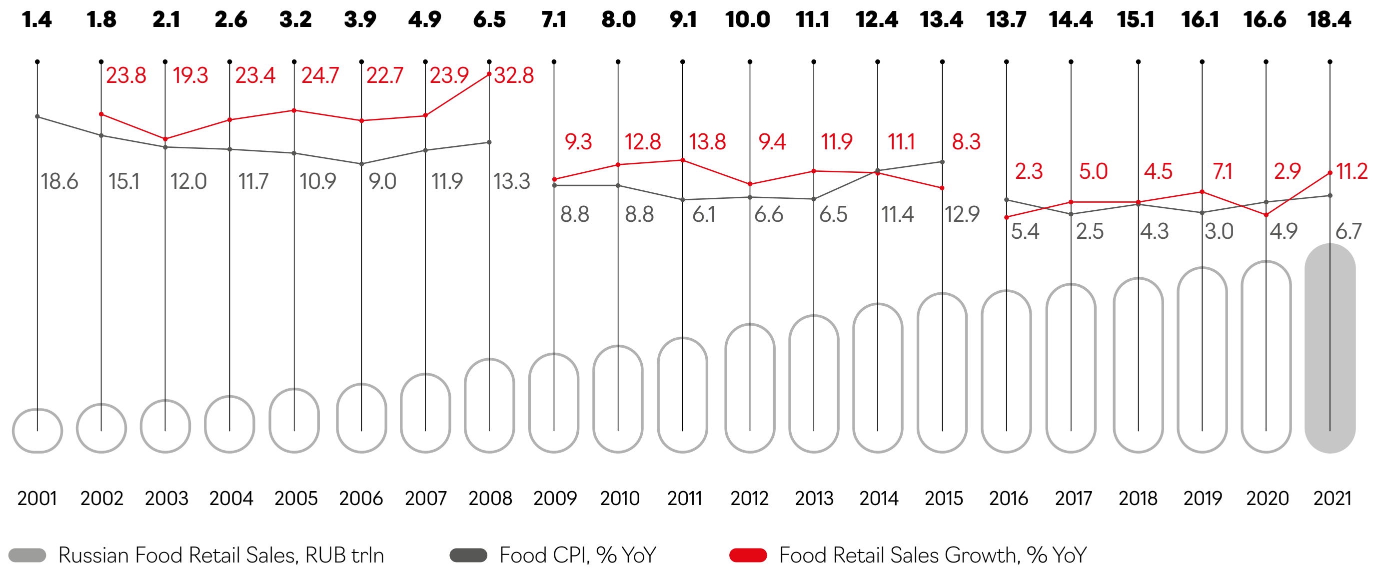
Grocery Retail Market in 2021, USD bln



Source: Euromonitor, 2021

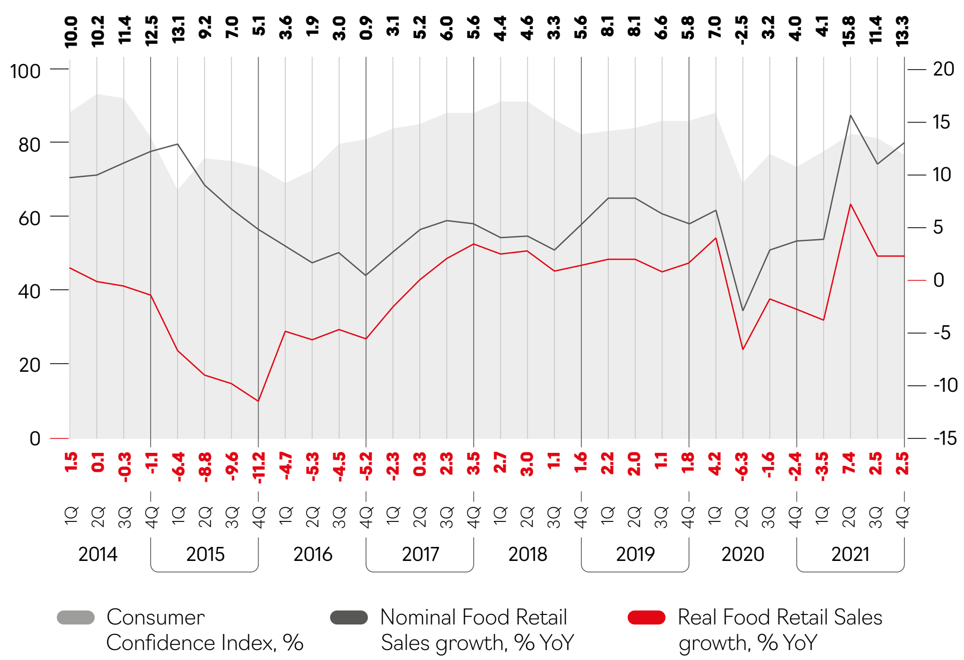
In 2021, the Russian food retail market remained the eighth largest in the world in terms of revenue, ahead of countries such as Italy, Turkey, Brazil and Poland. The modern Russian food retail market has solid potential for further growth with the top five players increasing the market share in revenue terms to 42%, up 2 p.p. from 2020.

Food Retail Sales in Russia in 2001–2021



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

CCI and Real Food Retail Sales growth, %



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

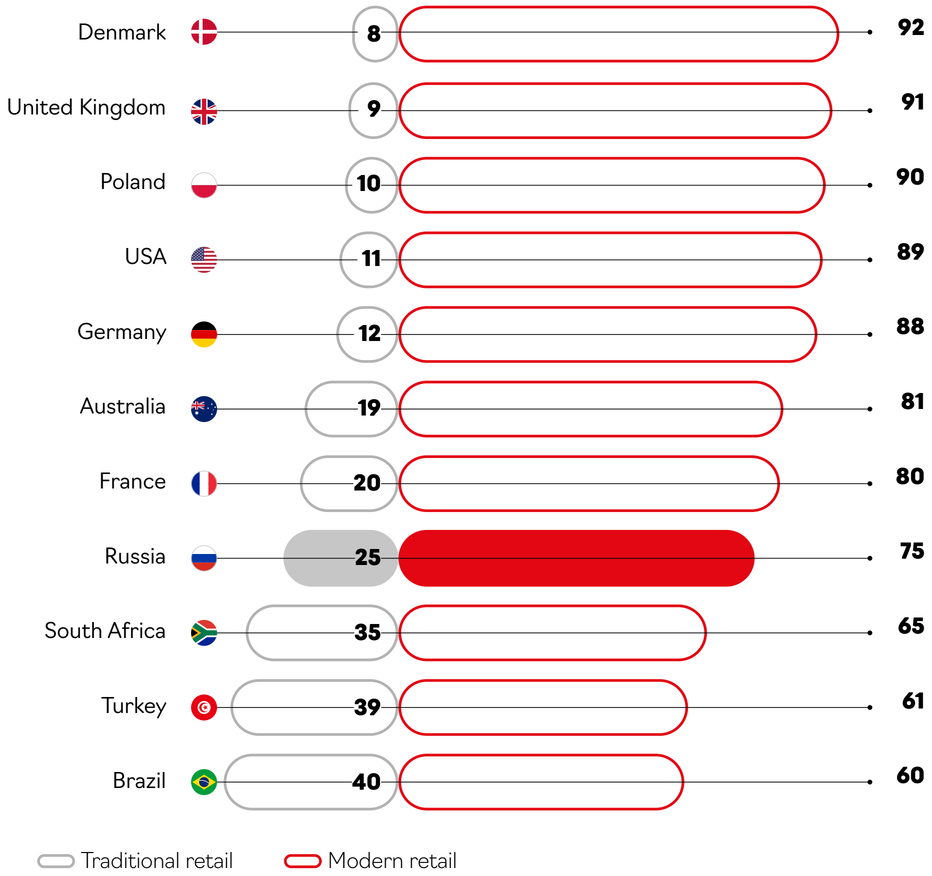
Market Overview
(continued)

#2
retail chain in Russia by revenue

There remains considerable scope for consolidation in a fragmented and underpenetrated market, particularly for companies like Magnit which are well funded and have clear M&A strategies. Russia remains behind developed countries, where the top 5 players account for 61% or more of the market. Over the past few years, leading Russian retailers have recorded a significant increase in their respective market shares, primarily due to the rapid growth of convenience stores and market consolidation. In 2021, the top 10 companies in Russian retail demonstrated sales growth of 11% year-on-year. Magnit's market share in 2021 increased by 0.6 p.p. to 11.5%, due to acceleration of organic expansion as well as acquisition of Dixy.

The trend to shop online has skyrocketed as a result of the pandemic, especially in large cities such as Moscow and St. Petersburg. The e-grocery market in Russia in 2021 grew by 247% and reached RUB 383 bln, which is 2.1% of the total food retail market volume, leaving considerable room for growth.

Share of Modern and Traditional Retail in 2021, %

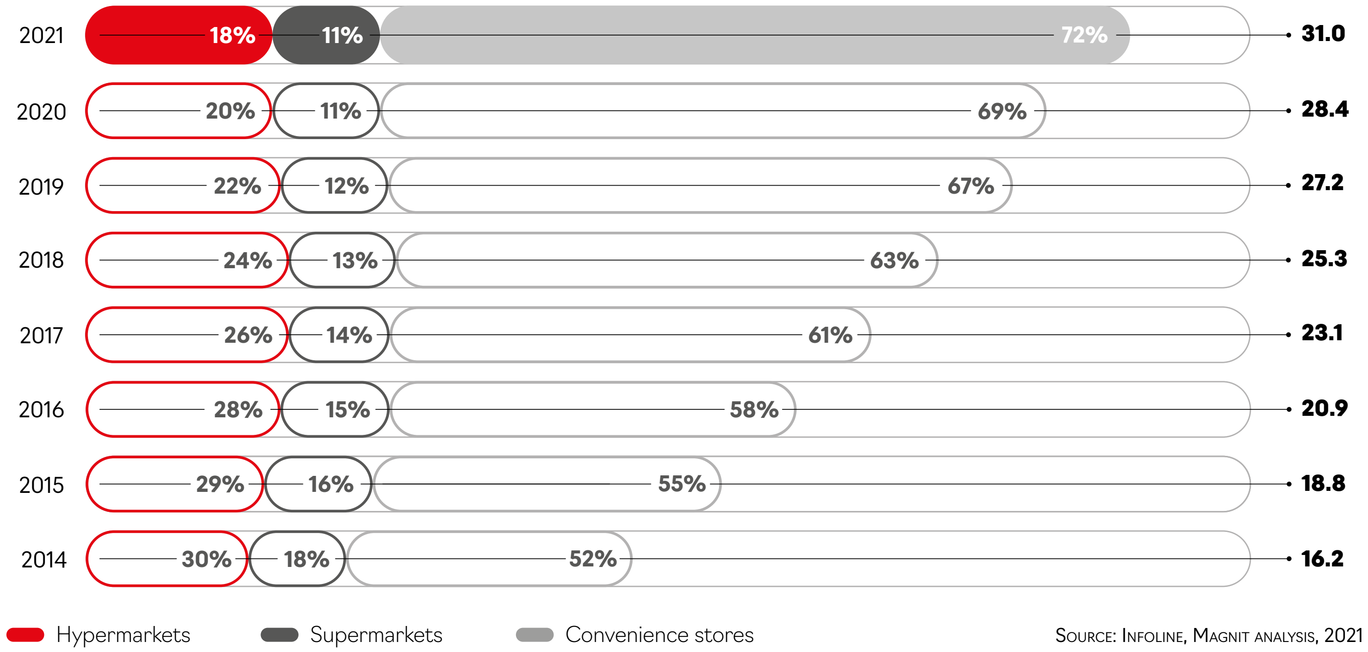


Source: Euromonitor, 2021

In 2022, we will continue our smart growth strategy focusing on improved sales density, new store openings, and enhanced CVP. In addition, the growth of e-commerce is fast accelerating, giving further opportunities. We will continue to closely monitor opportunities available in the market.

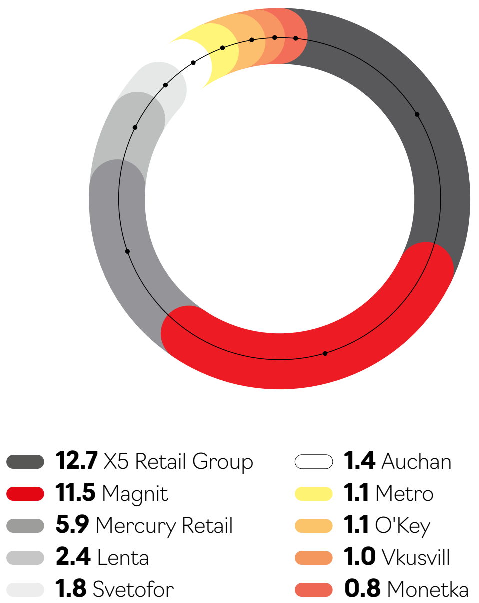
See more at Strategy and Operational Review

Total Selling Space in Russia for modern retail in 2014–2021, mln sq. m



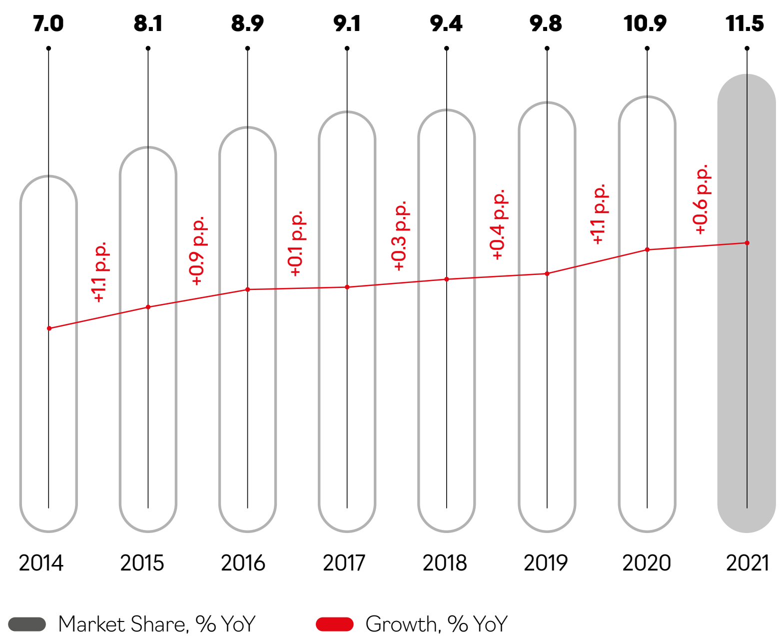
Source: Infoline, Magnit analysis, 2021

Magnit market share by revenue in Russia in 2021, %



Source: Infoline, Magnit analysis, 2021

Magnit Market Share by Revenue in Russia in 2014–2021, %



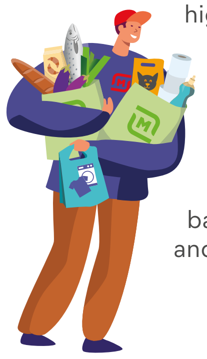
Source: Federal State Statistics Service, Magnit analysis, 2021

Market Overview
(continued)

Key trends in consumer behaviour and preferences in 2021

Spending still up, but showing slowing trend

Grocery buying behaviour adopted during the pandemic has remained, with consumer spending on average higher by 2.4% year-on-year, but showing a slowing trend as consumer concerns about the pandemic decrease and confidence index returns to pre-pandemic levels. This will lead to a greater balance between price, quality and usability.



Convenience continued to trump price

Continuing to favour convenience stores and retailers that can offer omni-channel capabilities, although price remains a top priority for store selection.

Consumers becoming more digital

Growing dependency on online content driving changes in consumer behaviour and interaction with retailers. Consumers expect relevant and personalised content and access to services and shopping at an any time and everywhere. Demand for immediate actions and service is increasing due to the accelerating pace of life, and consumers are checking prices and promo offers.

Focus on healthy living and conscious consumption

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

Key trends in Russian retail market

Growing inflation

Inflationary trends are expected to support food retail into 2022, but will put pressure on CAPEX.

Further consolidation

M&A activity of federal players is expected due to the withdrawal of smaller and regional operators.

eGrocery sales accelerating

eGrocery is expected to reach 5% penetration in food retail in 2024. Number of dark stores is increasing to serve the eGrocery market.

Rise of hard discounters

A growing number of hard discounter stores targeted at the price-sensitive consumer niche and penetration into locations, such as remote or regional, which are not suitable for regular formats. Availability of smaller retail units is helping to drive expansion.

Emerging digital systems

Technology enabling a more personalised experience through analytics.

State support

Additional and continued financial payments to support the elderly, young families and other low-income and vulnerable social groups, with much of this spending being directed towards food purchases.

Sustainable development becoming key

Stakeholders increasingly focused on sustainable development and responsible behaviour from large companies, with expectations of continuous environmental, social and governance improvement.

Market Overview
(continued)

Key changes in regulatory environment in 2021

Change	Regulatory Document	Effective Date
Indexation of the Platon heavy vehicle charge system tariff (increase by 14 kopecks compared to the previous tariff)	**Decision of the Ministry of Transport of the Russian Federation**	1 February 2021
Approval of 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. 3721-r dated 31 December 2020**	1 January 2021 to 1 January 2022
Approval of the procedure for conducting continuous monitoring of prices for consumer goods and services	**Regulation of the Government of the Russian Federation No. 497-r**	27 February 2021
Increase of minimum retail prices for spirits, including vodka and cognac	**Order of the Ministry of Finance of Russia No. 232n dated 7 October 2020**	1 January 2021
According to the law, the "Champagne" name can be used only in relation to Russian-made goods in the territory of the Russian Federation. Foreign wines should be renamed "sparkling wines". There are other changes in the classification of wine products, in retail it is necessary to organise a separate layout	**Federal Law No. 345-FZ on alcohol market regulation**	2 July 2021
Extension of agreements on fixation of prices for sugar until 1 June 2021, and for sunflower oil until 1 October 2021	**Agreements between market participants on stabilisation of sugar and sunflower oil prices**	30 March 2021
On 1 April 2021, the transitional period for labeling alcohol imported into the territory of Russia was completed. From 1 January 2021, all alcohol must be labeled with federal special marks. Prior to this, only products made in Russia were designated by special marks	**Federal Law No. 436-FZ dated 22 December 2020**	1 January 2021
20% increase in the excise tax rates on cigarettes and other tobacco products in Russia from 2021 came into force	**Federal Law No. 321-FZ**	1 January 2021
The minimum retail price for a pack of cigarettes has been set at RUB 107.78	**Federal Law No. 504-FZ dated 30 December 2020**	1 July 2021
Extension of the anti-tobacco law to all nicotine-containing products	**Federal Law No. 303-FZ dated 31 July 2020**	28 January 2021
Creation of a national system of traceability of goods (NSP) in Russia. From 1 July 2021, organisations are required to submit reports on transactions with goods subject to traceability, and documents containing traceability details	**Federal Law No. 371-FZ of 9 November 2020**	1 July 2021
New rules for the sale of goods at retail came into force	**Regulation of the Government of the Russian Federation No. 2463**	1 January 2021
Executive order on urgent measures to support small and medium-sized entrepreneurs in the retail sector. Regional authorities are recommended to facilitate the work of retail markets and fairs in crowded places	**Executive Order of the Government of the Russian Federation No. 208-r dated 30 January 2021**	30 January 2021

Change	Regulatory Document	Effective Date
Changes were introduced in the process of implementing the labeling of dairy products, including the postponement of the deadline for the mandatory display of the product code in retail sales	**Regulation of the Government of the Russian Federation No. 2100 dated 30 November 2021**	On the day of publication, as far as the provisions relating to retail trade are relevant
Extension of the food embargo until the end of 2022. 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 and Australia	**Decree of the President of Russian Federation**	30 September 2021
The President of the Russian Federation Vladimir Putin instructed the Federal Antimonopoly Service to monitor the formation of product prices in retail chains. On 13 August 2021, the FAS of the Russian Federation began unscheduled on-site inspections in relation to leading retail chains for an anti-competitive agreement, the consequence of which may be an increase and maintenance of prices	**Decree of the President of Russian Federation**	8 August 2021
A number of regions of the Russian Federation adopted regulations on mandatory vaccination of certain categories of citizens, including trade employees, and on pass control at the entrance to certain shopping facilities (admission of citizens only with a QR code on vaccination, QR code on the previous disease, QR code on a negative test for the coronavirus infection or a certificate of medical exemption)	**Resolutions of chief medical officers of regions on the basis of paragraph 6 part 1 article 51 of the Federal law No. 52-FZ "On sanitary and epidemiological well-being of population" dated 30 March 1999, article 10 of the Federal law No. 157-FZ "On immunoprophylaxis of infectious diseases" dated 17 September 1998, item 18.3 Sanitary Rules and Regulations 3.1/3.2.3 146-13 "General requirements for the prevention of infectious and parasitic diseases", order of the Ministry of Health of Russia No. 125n "On approval of the national calendar of preventive vaccinations and calendar of preventive vaccinations for epidemic indications" dated 21 March 2024**	

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 #1 for consumers, employees and investors.

Our strategy at a glance

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[1] and more customer gains than losses

Investors
Creating value for shareholders thanks to attractive returns

Employees
Constant improvement of eNPS[2]/ engagement, employee turnover and staffing level

Magnit recorded significant sales growth in 2021, driven by increased selling space, a trading environment that improved throughout the year, and continued sales uplift from mature stores, resulting in a sales density improvement of 4.7%. 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. 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.

+4.7%
sales density improvement in 2021

These efforts have created significant value for shareholders – Magnit's local share price has increased by 55% from January 2019 to December 2021, and a new approach to investments and redesigns drove impressive returns and uplifts.

[1] Net Promoter Score/ Consumer Satisfaction Index
[2] Employee engagement and satisfaction survey

Our goals are supported by four pillars:

Consumer first

- Consumer-centric decision-making with enhanced loyalty (as the key data source)/ 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 competencies and business continuity
- One team approach as the base for effective cross-functional cooperation
- Talent assessments and social lifts
- Agility and innovative thinking

Most efficient and promising ways to market

- Smart expansion in core formats to profitably catch up market share, including M&As
- Actively and structurally consider new sales lines, new niches / markets
- OMNI including online
- Agile sourcing including partnerships with suppliers, crystalised offering in own production / Private Label to enhance offering and secure positioning

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

Sustainability

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.

Strategy
(continued)

Strategic priorities

Priorities	Our strategic priorities for 2021	Our strategic guidance for 2025
Enhance CVPs	Keep improving CVP as a key driver for material improvements of sales density and profitability supported by processes and ways of working enhancement	Clear CVP initiatives to enhance consumer perception **and experience big time** Clear potential to **increase sales densities** by way of speeding up value accretive redesigns
Extract efficiency	Continuous focus on extracting efficiency to get higher profitability and cash generation	**Thought-out strategic plan** to capture tremendous business improvement
Smart expansion	Focus on smart expansion implying high profitability targets for new openings	**Accelerate smart organic expansion** (p.a. on gross basis) — ~1,000 convenience stores — 700–800 drogeries — 300–600 discounters — 5–10 supermarkets and superstores
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 (incl. partnerships, E-comm, new geographies and specialised formats in important adjacent consumer missions, etc.) to better satisfy consumer needs	Build a **leading e-commerce platform** capable of handling **5%+ of Magnit turnover** with seamless integration into an omni-channel consumer experience Continue to proactively consider adjacent **value accretive niches** Adherence to **sustaining high return requirements** for new projects

We believe that every strategic move should be supported by strong and robust financials:

- Benefits from lucrative EBITDA margin (IAS 17) steadily improving to **8.0% in 2021–2024 and 8%+ from 2025 despite expanding into e-commerce channel and discounters**
- Improvement of working capital with a focus on stock days optimisation **by 4–7 days, incl.:**
  - 3–5 days in grocery
  - 10–15 days in drogerie
- **Continue following strict return requirements for all projects. CAPEX to remain <4.0% as a % of sales**
- Comfortable leverage of ~1.5x (IAS 17) of Net Debt/EBITDA with a self-imposed ceiling of 2.0x and high potential to fall **to around 1.0x in the next years subject to M&A opportunities**
- **Focus on constant improvement of returns and value accretion for shareholders. Expect double-digit ROIC[1] growth in 2025 vs 2021**
- **Capacity for annual increase of dividend payments** depending on the financial position and subject to Board decision and shareholder approval

[1] ROIC = (EBIT - Income Tax) / (Average Net Debt + Average Equity)

Integrating Dixy

Our in-depth examination makes us confident that we can extract significant synergies from the acquisition of Dixy in the medium term, and allows us to maintain our ambitious long-term targets.

While Dixy and Magnit will continue to operate as separate brands, we have established an integration management office (IMO) as well as new joint committees at the senior level for strategy, investment, financial, remuneration and integration. New cross-functional mandates have been identified to align financial terminology and investment methodology as well as key decision-making processes such as investments, authorities and HR. Project management, audit and tracking will also be a joint effort, and we are in the process of combining our communications plans to align our corporate cultures.

Synergies identified :

Commercial
- Combined sourcing/procurement
- Private label production, direct import and seasonal and exclusive assortment
- Align pricing strategy

Operations
- New effective solutions for overlapping stores on a case-by-case basis
- Potential to transform / redeploy Dixy stores into a Magnit convenience, supermarket, drogerie, hard discounter or dark store

Cost savings
- Align business processes and IT
- Centralise back office and support functions where relevant
- Share and decrease costs in marketing, utilities and outsourced services
- Reduce tariffs for acquiring, cash collection and bank fees

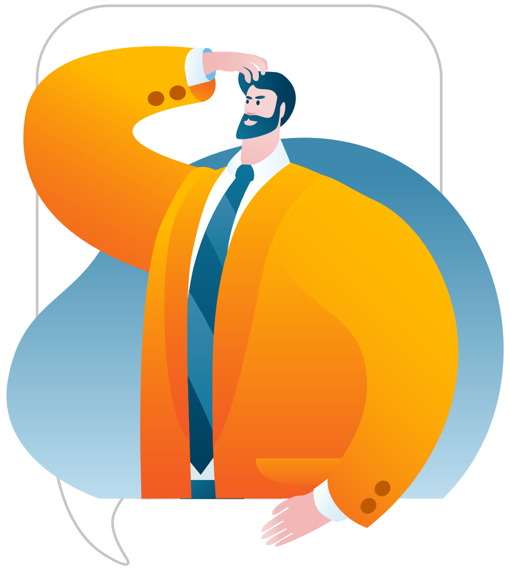
Cross-synergies
- Technology sharing
- Customer data analysis via loyalty programmes
- Re-usage of data centers

See more on how we are integrating Dixy on p. 42.

Investment Case

The acquisition of Dixy, the fifth largest grocery retailer in Russia, in 2021 is expected to strengthen Magnit's competitive position significantly in the Russian food retail sector.

The Dixy brand's strong exposure to the strategically important Moscow and St. Petersburg regions, which in 2020 accounted for approximately 29% of the total Russian food retail market[1], has led to a sharp increase in the Company's market positions in both capitals, including more than twofold market share growth in both Moscow and St. Petersburg. The integration of Dixy will provide synergies in procurement, category management, technology, as well as cost savings in various business processes. This, together with the significant gains in e-commerce and the development of Private Label products and CVP will benefit the Company's customers and provide value accretion for shareholders.



5 reasons to invest in Magnit

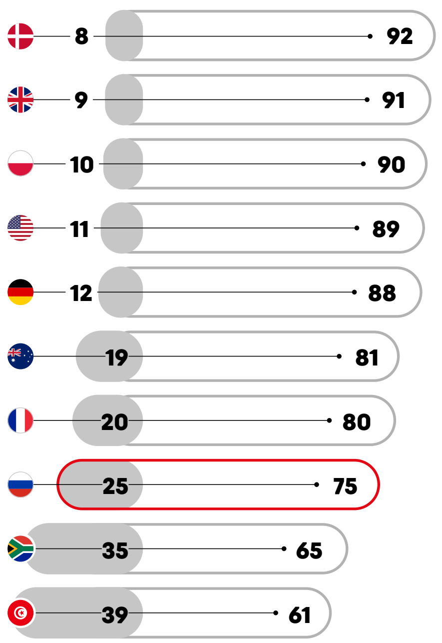
Market potential

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

- Sizeable market with growing modern food retail penetration which offers opportunities for organic expansion
- Fragmented market with high potential for further consolidation
- Large players are gaining market share
- New niches / ways to market actively emerging with constantly evolving e-grocery market

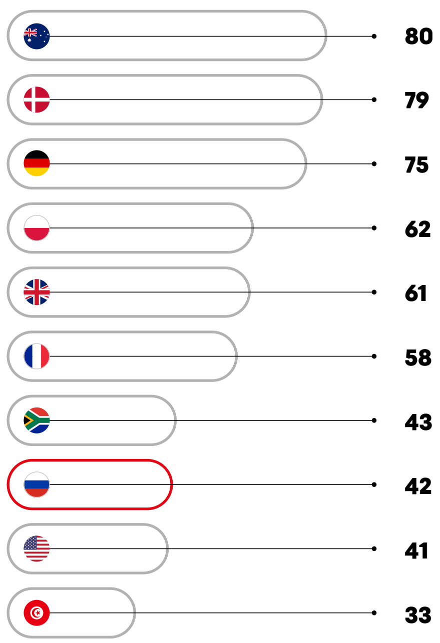
Russian market offers further growth potential

Share of Modern and Traditional Retail in 2021, %



The market has potential for further consolidation

Share of top-5 players in grocery retail in 2021, %



Source: Euromonitor, 2021

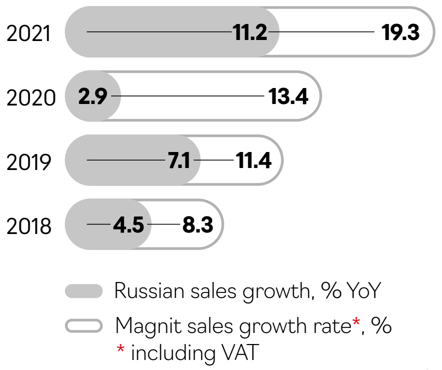
[1] Data combined for Moscow & Moscow region and St.Petersburg & Leningradsky region for 2020 according to Rosstat

Leading player

Magnit is one of the largest food retailers in Russia with well-developed infrastructure, strong customer base, well-known brand, and market share gain

- Multi-format offering with four core formats covering range of shopping missions in grocery, drogerie and pharma segments
- Wide geographical coverage with 26,077 stores in 3,898 cities in 7 federal districts
- 11.5% market share in food retail sales
- Serving customers in all highly populated Russian regions (67 regions, 58.7 mln loyalty cards)
- Well-developed country-wide supply chain with 45 distribution centres and one of the largest own truck fleets
- The only vertically integrated retailer in Russia with 17 own production facilities and agricultural complexes

Russian food retail and Magnit sales growth in 2018–2021, %



Growth ambitions

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

- Speed up value accretive organic expansion
- Smart expansion implying high profitability targets for new openings
- Consider small to mid-size value accretive M&A to strengthen market positions
- Adherence to sustaining high return requirements for new projects
- Store network redesign programme to improve sales density
- Build a leading e-grocery platform capable of handling 5%+ of turnover
- Proactively consider adjacent value accretive niches

+13 bps

EBITDA margin improvement in 2021 (IAS 17)

+4.7%

sales density improvement in 2021

Efficiency gains

We have tremendous business improvement potential to be materialised

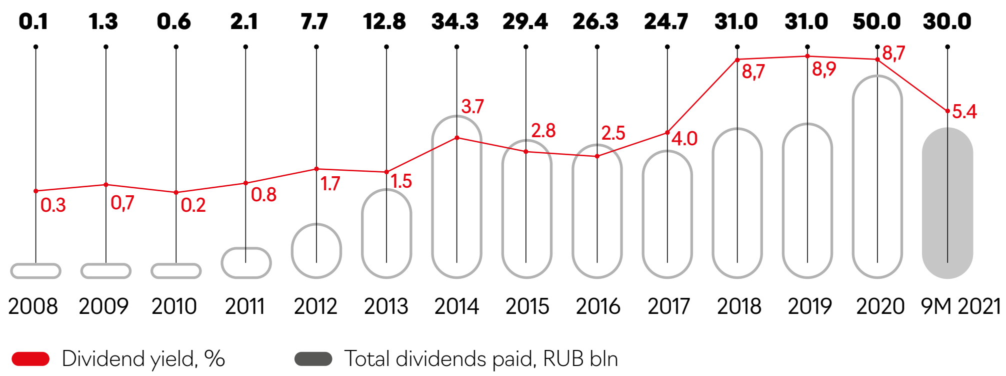
- Further CVP improvement to drive material improvements of sales density and profitability
- CVP initiatives to enhance consumers' perception and experience
- Increase in sales densities also by way of speeding up redesigns and processes improvement
- Extension of consumer offering complementary to core business
- Benefits from lucrative EBITDA margin steadily improving to 8.0% within 2021–2024 and 8%+ (IAS 17) from 2025 despite expansion of the e-commerce channel and discounters
- Continuous focus on efficiency to get higher returns

Dividends

Strong capital discipline with a focus on returns in all investment decisions providing substantial dividend payment

- Focus on quality of new store openings resulting in better payback
- Keeping a comfortable leverage of Net Debt/EBITDA leverage at ~1.5x (IAS 17)
- Clear plan to improve working capital with a focus on stock days optimisation
- Value accretion for shareholders leading to continuous strong dividend payment

Magnit dividend payment and dividend yield in 2008–2021



RUB 64.2* bln

strong free cash flow in 2021

* excluding Dixy

1.5x

Net Debt/EBITDA leverage (IAS17) as of December 2021

Business Model

We are everywhere for our customers

Inputs: resources and relationships

Our customers
15 mln
customers daily

Suppliers
>6 thous.

Government and regulators
Magnit has an efficient corporate governance framework

Employees
~360 thous.
one of the largest private employers in Russia

Shareholders
>150 thous.
According to EGM 2021

Environment and communities
Magnit's Sustainability Strategic Framework sets an ambitious goal for embedding sustainability in every aspect of the business

How our business is different

Quality and range
100 quality awards in 2021
12 quality control laboratories conducting
>2.8 thous. daily tests
>4 thous. private label SKUs = **16% share** of PL

Multi-format and omni-channel
>4,490 offline stores and 20 dark stores in 64 regions of Russia
8,997 thous. sq. m selling space
3,898 cities & townships

Largest supply chain network
45 distribution centres in seven federal districts
>5 thous. trucks
1.9 mln sq. m of warehouse space

Own production and private label
4 agricultural complexes in seven federal districts
13 industrial facilities
168 production lines

Outcomes for our stakeholders

- Everywhere for our customers
- Rewarding our employees
- Cooperating with our suppliers
- Delivering returns to our shareholders
- Economic contribution
- Protecting the environment and supporting communities

Business Model (continued)

We are everywhere for our customers.

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

Inputs: resources and relationships

Our customers

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

15 mln
customers daily

~59 mln
cross-format loyalty card holders

69%
penetration in sales

Employees

The scale of operations makes Magnit one of Russia's largest employers. Being an employer of choice is a key strategic focus to achieve our ambitions.

~360 thous.
employees – one of the largest private employers in Russia

Experienced
and talented management team

Suppliers

Magnit is committed to being a reliable and trusted partner to its suppliers. We differentiate our product offering through tailored procurement initiatives, which includes direct import and strategic partnerships with suppliers.

>6 thous.
suppliers

7%
direct import supplies (~750 contracts)

Shareholders

Strong capital discipline with a focus on returns in all investment decisions

Comfortable level of Net debt/EBITDA leverage

at 1.5x (IAS17)

RUB 64.2[1] bln
strong free cash flow

[1] Excluding Dixy acquisition

Government and regulators

Magnit has an efficient corporate governance framework that complies with Russian laws, the Rules of the Moscow Exchange and the London Stock Exchange rules. The Company continuously enhances its corporate governance, focusing on the best national and international practices and ensuring the protection of stakeholders rights.

Environment and communities

Magnit's Sustainability Strategic Framework sets an ambitious goal for embedding sustainability in every aspect of the business and its processes across five key areas:

- reducing environmental impact
- creating a responsible supply chain
- taking care of employees
- supporting local communities
- promoting healthy lifestyles

How our business is different

Recognised for supreme quality and breadth of range

We strive to be recognised as a "value" retailer that fulfils customer needs and provides the "best quality for an affordable price". To achieve this, we continue to adjust our customer value proposition (CVP), develop our own production facilities and expand our private label assortment.

100 quality awards
in 2021

12 quality control
"from field to plate" laboratories conducting

>2.8 thous. daily tests

>4 thous.
private label SKUs

16 %
share of private label (PL)

Multi-format and omni-channel

Magnit operates a multi-format model across 26,077 stores which includes convenience stores and supermarkets, drogeries and pharmacies. Both food and non-food segments of Magnit are present online.

8,997 thous. sq. m
selling space

3,898
cities & townships

Covers over
4,490 offline stores
and **20** dark stores
in **64** regions of Russia

Largest supply chain network in Russia

Our wide geographical coverage requires us to have advanced logistics and supply chain management to always bring fresh produce to our customers. We have a continuous long-term programme of truck fleet renewal replacing old vehicles with Euro-5 eco standard.

45
distribution centres in **seven** federal districts

>5 thous.
trucks

1.9 mln sq. m
of warehouse space

Own production capabilities and private label

Uniquely in Russia, Magnit operates a private label (PL) food production business, managing plants for growing vegetables and the production of dry food and confectionery as well as greenhouse and mushroom complexes, which are amongst the largest in Russia.

4
agricultural complexes

13
industrial complexes facilities

168
production lines

Outcomes for our stakeholders

Everywhere for our customers

- Customer satisfaction rates and NPS scoring
- Adapting / new format based on specific customer trends prevalent in different localities
- Launching new pilots including the rollout of CVM (Customer Value Management) tools
- Gaining new customers
- Online delivery / shopping

Rewarding our employees

200 thous.
employees enrolled in Magnit's Corporate Academy

83%
employee engagement rate

72%
employee satisfaction rate

Cooperating with our suppliers

52% of SKUs
supplied by 4.2 thous. local producers

Improving
availability of goods through technology, innovation and communication

Working
together to identify new trends and upcoming projects

Supplier
representatives working within Magnit offices

Delivering returns to our shareholders

Consistent
strong dividend payment

~RUB 48 bln
of dividends paid in 2021

New store openings payback with ROI[2] >40%

Economic contribution

RUB 94 bln
taxes paid in 2021

44 procurement
sessions in **38 regions**

[2] ROI = OCF for the year with ramp-up phase / CAPEX

'Retail with Purpose': delivering value through our sustainability strategic framework

Our ambitions

Leader
in environmental impact reduction in the industry

#1 Employer
in the industry

Best
in class corporate governance

100%
responsible supply chain

Positive impact
on the quality of life of all people in Russia

Protecting the environment and supporting communities

- Reduction targets for carbon emissions, energy and resource usage, pollution and food waste
- Responsible sourcing and production and 100% responsible sourcing for socially important categories
- Community programmes across Magnit's geographic footprint

Operational Review

RUB **1,808** bln
net retail revenue, up **19.7%** YoY

7.0%
LFL sales growth

8,997
thous. sq. m total selling space

26,077
convenience stores, supermarkets, superstores and drogeries

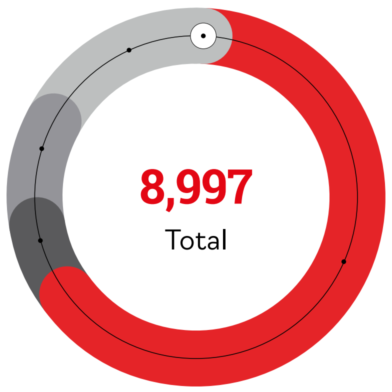
As restrictions related to the COVID-19 pandemic eased in 2021, Magnit was able to accelerate sales growth and resume new store openings at a large scale. Over the past year, our network expanded by a record number of 4,513 stores with almost half accounting for new openings and another half – for the strategically important acquisition of the Dixy chain that strengthened our positions in Moscow and St. Petersburg. While accelerating inflation has been putting pressure on consumer incomes, Magnit managed to increase operational efficiency.

We delivered market-leading LFL sales growth of 7.0% after having improved customer value proposition in our stores. This was driven by 7.1% average ticket growth, while LFL traffic declined by 0.1%. At the same time, we increased profitability with EBITDA margin (IAS 17) gaining 13 bps YoY and reaching 7.2%. These improvements became possible due to better purchasing terms with suppliers, reducing working capital cycle by more than a week and expanding private label and own production.

Net retail revenue by format, RUB mln

- **1,309,682** Convenience Magnit[1]
- **120,552** Convenience Dixy
- **214,988** Supermarkets[2]
- **152,215** Drogerie
- **10,314** Other formats[3]

Selling space by format, thous sq. m



- **5,635** Convenience Magnit
- **718** Convenience Dixy
- **1,012** Supermarkets
- **1,604** Drogerie
- **28** Other formats

[1] Convenience Stores include convenience stores and small pilots such as Magnit City and My Price discounters
[2] Including Megamart superstores
[3] Other formats include pharmacies and stores located at Russian Post offices

Our loyalty programme, which covers 59 mln participating customers, helped to increase synergy between our different store formats with 43% of consumers visiting at least two of these formats. Via different formats – convenience stores, supermarkets, superstores, drogeries and discounters – we are targeting different groups of customers and adjust our offering to their specific needs. Convenience stores have remained our core format, with the Dixy acquisition strengthening it further. We are also developing new trading formats to follow consumer preferences.

In 2021, our important achievements included the roll-out of My Price discounters to target frugal customers and development of the e-commerce channel that has grown almost from scratch to reach RUB 11.2 bln GMV last year. See more details on these in separate sections below.

See case studies about Discounters on p. 44 and about e-commerce on p. 52 for more information.

In 2021, Magnit almost doubled CAPEX YoY to RUB 66.9 bln and accelerated store network expansion, adding 2,295 new stores on the gross basis during the year (1,450 Magnit and 14 Dixy convenience stores, 825 drogeries and 6 supermarkets). Besides the Dixy acquisition (discussed in a separate section below) Magnit also conducted smaller regional deals, acquiring rights for 56 stores of the Edelweiss chain in Kazan and 58 stores of the Radezh chain in Volgograd. We also redesigned 703 Magnit stores during the year to improve the interior and customer value proposition. In mature stores, we increased revenue per square meter – sales density improved 4.7% YoY. We continued piloting ultra-small formats focused on ready-to-eat products – Magnit City and Magnit Go – for locations with high traffic.

In 2021, Magnit increased net retail revenue 19.7% to RUB 1,808 bln due to LFL sales growth and acceleration of selling space growth to 20.0%. Including the Dixy acquisition, our selling space increased to almost 9 mln sq. m.

Operational Review
(continued)

Magnit convenience stores

Magnit convenience is our primary format accounting for 72% of the Company's retail revenue and 63% of its selling space. These stores are aimed at everyday shopping and minor stock up and offer a product range of more than 5,000 SKUs, including the most popular food and non-food products at attractive prices. We are constantly developing this format to follow consumer demand. Last year, Magnit opened 1,450 new convenience stores (gross) and redesigned another 611. As of year-end, 78% of Magnit convenience stores were either new or redesigned.

At the same time, we continued to improve our customer value proposition. We expanded the ready-to-eat product range, unified dry food offering across stores, introduced new goods into important categories and reduced shrinkages by 0.4 p.p.

The share of private label goods, which usually cost consumers less than brand names, rose by 1.7 p.p. at convenience stores during the year. Net Promoter Score (NPS) – a metric that measures customers' loyalty – rose by 2.5 p.p. for Magnit convenience stores last year, showing the widest improvement among the Company's formats.

In the reporting year, Magnit convenience stores generated RUB 1,309,682 mln of net retail revenue, a 12.8% increase YoY. Total selling space of convenience stores expanded 10.7% during the year to 5,635 thous. sq. m due to new store openings.

In 2021, LFL sales in Magnit convenience stores increased by 8.2%. This was driven by 8% growth in the average ticket, while consumer traffic advanced 0.2%.

RUB 1,310 bln
net retail revenue,
up **12.8%** YoY

5,635 thous. sq. m
of selling space

8.2%
LFL sales growth

16,190 stores
+8.6% increase YoY

Magnit supermarkets

In 2021, the number of our supermarkets under the Magnit Family brand and superstores under the Magnit Extra brand remained unchanged and amounted to 470 stores. Magnit Family is a classic supermarket with average selling space of about 2 thous. sq. m. Its product range includes about 14.7 thous. items, almost triple the product range at a convenience store. Magnit Extra is an even larger format (superstore) with a more diverse range of products at competitive prices.

In the reporting year, we redesigned 74 Magnit supermarkets and superstores to improve the shopping experience. We added healthy food zones ("Health Island"), expanded the range of fresh and farm products.

RUB 208 bln
net retail revenue

937 thous. sq. m
of selling space

1.9%
LFL sales growth

470 stores

We strive to ensure that the offered goods cover a wide range of interests of buyers, providing them not only with food, but also with goods for the home and garden. We maintain the share of new products in the target assortment at the level of 30.5%. We are also expanding our private label offering, the share of which grew by 2.3% p.p. in 2021.

Despite the temporary introduction of QR codes to access shopping malls where a third of Magnit's supermarkets are located, the total net retail revenue of this format amounted to RUB 208,316 mln, and LFL sales grew by 1.9%. This result was driven by a 5.2% increase in the average ticket and a 3.1% decrease in traffic.

Magnit Cosmetic (drogerie)

Magnit Cosmetic stores ("drogerie") are our leading non-food format offering a wide range of cosmetics, perfumes, home goods and household cleaning products. In 2021, Magnit Cosmetic posted strong growth in LFL sales by 4.4%. The format's net retail revenue increased by 13.4% YoY to RUB 152,215 mln, while the sales density of the format improved by 2.3%.

In 2021, we opened 825 Magnit Cosmetic stores (gross), accelerating the pace of new openings YoY. As a result, our selling space reached 1,604 thous. sq. m, expanding 12.3%. This was the highest selling space growth across our formats. When opening new stores and redesigning the existing ones, we adhered to a neutral colour scheme that logically zoned the premises, and also fit out stores with digital equipment, such as E-Visage smart mirrors, which allow us to test a particular cosmetic product in a virtual format, price checkers, interactive displays and self-service cash desks. At the end of 2021, our drogerie format consisted of 6,966 Magnit Cosmetic stores.

Paying special attention to the marketing development of this format, in 2021 we launched three online "clubs", where members receive exclusive content and exclusive offers from Magnit Cosmetic. To promote the format among younger generations, we are actively collaborating with influencers, who helped us significantly increase our audience reach by 78% in 2021. In the reporting year, we also expanded delivery from Magnit Cosmetic stores to regions of presence, where we previously hadn't offered delivery.

RUB 152 bln
net retail revenue,

1,604 thous. sq. m
of selling space

4.4%
LFL sales growth

6,966 stores

Case Study:
Dixy – Acquisition update

2,477
stores

5 operating DCs
with 150 thous. sq. m total space and a fleet of 708 trucks acquired

The acquisition of Dixy, the fifth largest grocery retailer in Russia, was completed on 22 July 2021

Key highlights:
- Enhanced scale
- Significantly strengthened market positions in two capitals: Moscow region market share increased by 2.1x and St. Petersburg and Leningrad region market share increased by 1.7x
- Accelerating e-commerce roll-out in both capitals
- High-quality locations
- Well-known brand
- Strong customer base
- FY2020 Dixy total revenue of RUB 298.8 bln
- Dixy to operate as a separate business

Significant synergies:

— Commerce
- Procurement thanks to combined sourcing
- Private label production, direct import, seasonal and exclusive Magnit assortment
- Aligning pricing strategy

— Operations
- New effective solutions for overlapping stores on a case-by-case basis
- Potential transformation of some regional stores into Magnit convenience, supermarket, drogerie, hard discounter or dark stores

— Cost savings
- Aligning business processes and IT
- Centralising back-office & support functions where relevant
- Decreasing costs in marketing, utilities and outsourced services
- Reduction in tariffs for acquiring, cash collection, bank fees, etc.

— Cross-synergies
- Technology sharing
- Customer data analysis via loyalty programmes
- Re-usage of data centers

As of 31 December 2021

Convenience Stores	Supermarkets& Superstores	Disribution Centers
CENTRAL FEDERAL DISTRICT (ex. Moscow & Moscow region)		
437	–	–
Moscow & Moscow region		
1,315	–	3
NORTHWESTERN FEDERAL DISTRICT (ex. St. Petersburg & Leningrad region)		
144	–	–
St. Petersburg & Leningrad region		
444	–	1
URALS FEDERAL DISTRICT		
71[1]	39	1
VOLGA FEDERAL DISTRICT		
1	–	–
Total 2,412	Total 39	Total 5

>25% EBITDA
increase in 2022

Key achievements to date

- Smooth integration while maintaining growth and meeting key financial targets (revenue, sales density and EBITDA)
- All FAS requirements met on time in terms of store base optimisation
- 95 Dixy stores in Urals[1] are in the process of transferring to Magnit format
- >150 bps commercial margin uplift driven by joint procurement conditions
- Scale-driven SG&A benefits, including cash collection, banking services and marketing, etc.
- Decreased staff turnover, with TMMA[2] down by 39.3%

Next steps

- Continue roll-out of efficiency projects aimed at synergies extraction and profitability uplift
- Implementation of Magnit's Direct Import and Private Label categories
- Backward upside for Magnit – Dixy's category expertise in Moscow
- Extra synergies via joint marketing efforts
- Rent negotiation campaign for Dixy stores
- Megamart stores in Urals to be transferred to Magnit supermarkets and superstores
- Agile approach towards functional cooperation, organisational structure and SG&A optimisation

[1] 17 Dixy stores are already transferred to Magnit format
[2] Three Months Moving Average as of December 2021 vs June 2021

Case Study:
My Price Discounter Stores

- Underpenetrated market segment in Russia compared to developed markets
- Fast growing channel targeting price-sensitive consumers
- Rolling out discounter stores after success of pilot project
- Enabling expansion into new regional and remote locations
- Limited assortment in lower-price segments

Expanding Magnit's offering into formats that are complementary to the core business to better satisfy consumer needs is central to our corporate strategy. We regularly pilot new store formats to cover the maximum number of relevant shopping missions and attract customer segments.

Magnit started piloting discounter stores in July 2020 in response to the fast-changing economic environment. As at 31 December 2021 the Company had 190 operating My Price discounters compared to 15 stores a year ago. During 2021 Magnit opened 175 stores. Today we have over 200 discounters in operation delivering encouraging results.

The discounter concept is aimed at price-sensitive consumers who frequently make minor purchases of traditional goods or stock up on products.

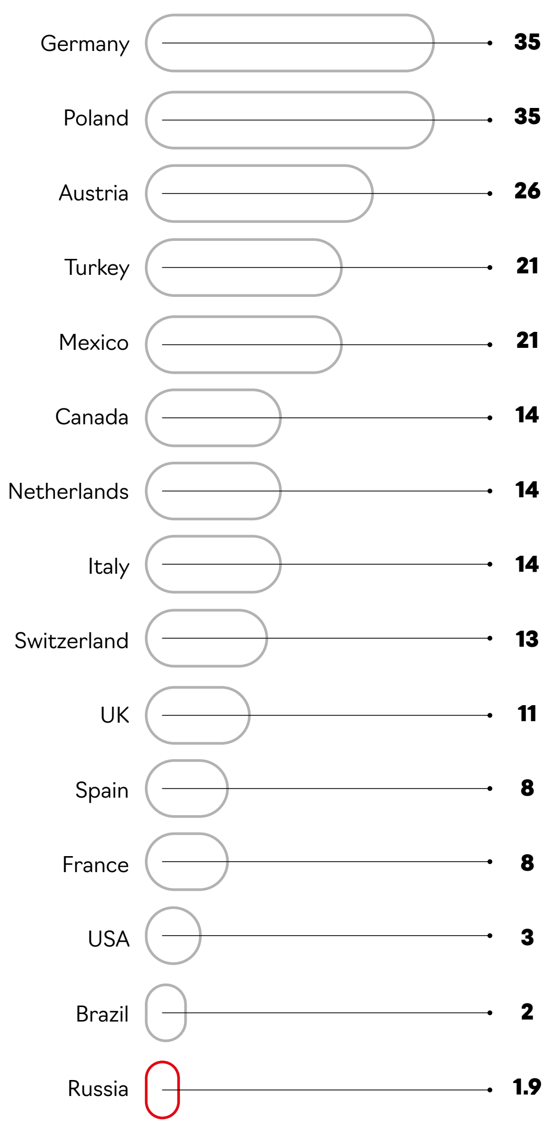
Market background

The hard discounter segment is underpenetrated in Russia compared to other developed markets where they are often seen as market disruptors, providing considerable room for growth.

The macro environment is also supportive for developing the discounter format, as real disposable income has been declining since 2012.

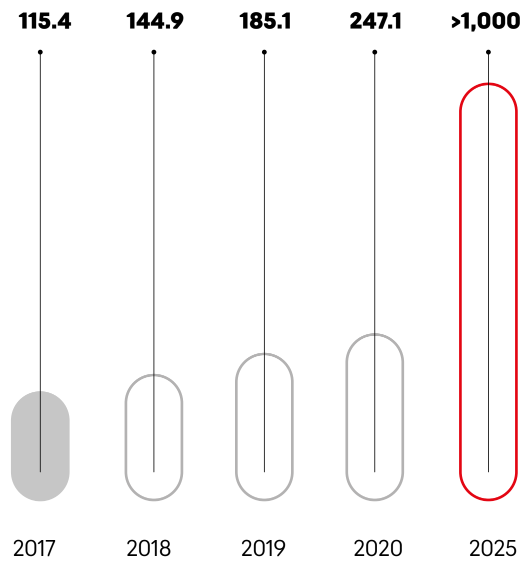
Hard discounters currently have 1.9% penetration in Russia, and this is expected to grow to around 5% by 2025.[1]

Discounters market shares in grocery retail , %



Source: Euromonitor

Russian discounter market size, RUB bln



Source: Euromonitor, Infoline

Store format

My Price discounters have selling space below 250 sq. m and offer a regular limited assortment of around 2,000 high-demand SKUs with a high rotation. 65% of total assortment is in lower-price segments, and the share of Private Label is currently around 23% of total sales.

Discounters offer a variety of value packs in the following categories: fruits, vegetables, dry foods, dairy, confections, baby food, drinks, pet food, household chemicals, and others. Most of the assortment is dry food with a limited share of fresh and ultra-fresh. Fruit and vegetable availability is designed to cover basic needs.

The format follows Magnit's EDLP (everyday low price) pricing policy where regular prices are already low without any promotions. The stores are designed to attract customers from other chains rather than from our own convenience stores. Pricing is set at 0.85 of the consumer price index, or 15% lower than prices elsewhere. The objective is to have the best customer attractiveness within a particular catchment area in terms of value for money.

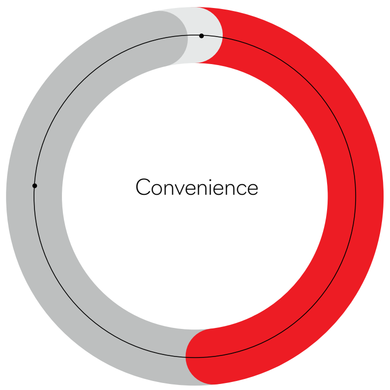
23% share of Private Label in total sales

65% of total assortment is in lower-price segments

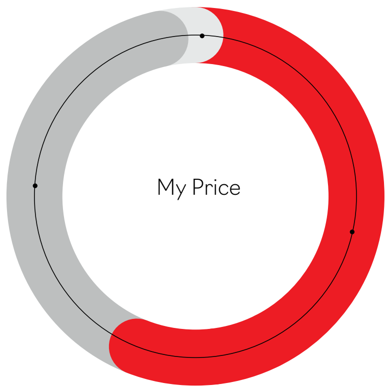
[1] Goldman Sachs, Russia Retail, December 2021

Case Study: My Price Discounter Stores (continued)

Product mix differences, %



- **48** Dry
- **49** Fresh
- **3** Non-food



- **55** Dry
- **44** Fresh
- **2** Non-food

The layout of the store is simple and aimed at maximum efficiency, e.g. fresh fruit and vegetables are located next to the open refrigerated displays to save on additional equipment; products are displayed in show boxes and less often on a pallet.

The concept implies an optimised staffing level compared to convenience stores – 5 FTE vs 11 in convenience stores on average — though customer service levels remain high. In discounters that generate sales comparable to a convenience store there are still 2 FTE less vs convenience format. Discounters require significantly less capital expenditure for opening, including investments in repairs and refurbishment.

In September 2021, we launched a new design that was created specifically for our discounter format. It emphasises the low-price concept while creating a positive ambiance and providing a comfortable shopping space. Previously, our discounters used visual elements of our convenience stores.

The results of these stores are encouraging, sometimes exceeding our expectations and fully prove the concept.

2021 Performance

The results from My Price stores in 2021 were encouraging, at times exceeding our expectations and fully prove the long-term potential of the concept:

- LFL sales growth of 30 % in reformatted stores mainly driven by footfall
- The lower average transaction value compared to a convenience store is due to a narrower assortment, shift to lower price segments and lower prices
- Optimised operating model resulting in higher sales productivity despite the limited number of grocery and general merchandise SKUs across a narrow range of categories with a focus on entry-level prices
- Higher share of Private Labels at lower prices vs convenience stores enables better merchandise margin
- Assortment mix, EDLP model and sharply priced commodity goods leading to lower gross profit margin despite improved shrinkage
- Limited fixturing, low rent, and labour costs help reduce SG&A expenses, with savings potentially reinvested back into price to help drive volume
- Discounters converted from convenience stores generate higher profitability vs their performance as convenience stores driven by higher sales density and lower SG&A
- Pilot stores operate with positive EBITDA and Net Income after the ramp-up phase
- The share of highly rotated items on the shelves leads to higher inventory turnover – by 30–40% – allowing for higher profitability
- CAPEX is about 40% lower than for the same size convenience store implying very attractive returns.

My Price potential

We see significant potential in this concept for a number of reasons:

Decline in real disposable income	Real disposable income has been declining since 2012 and price-conscious customers are sensitive to ongoing economic uncertainty and rising food prices.
High growth potential not limited by Moscow and St. Petersburg markets	The fastest-growing market segments now are specialist stores, hard discounters and online. However, hard discounters have much greater growth potential, have proven success in developed markets, and are not limited by geographies like Moscow and St. Petersburg. The niche can become sizeable when roll-out brings efficiencies.
Everyday low prices are part of Magnit's DNA	The EDLP model is part of Magnit's DNA. Our production capacities across Russia have increased substantially supporting the development of the Private Label offering.
High availability of locations < 250 sq. m	Since the COVID-19 pandemic an increasing number of locations below 250 sq. m have become available at attractive rental rates.
Fits certain locations which would not support a regular convenience store	Customers are willing to travel further to visit My Price due to the affordable price points, giving greater flexibility on where stores can be located.
Production growth in Russia supports Private Label expansion	Production capacities across Russia have increased substantially supporting the development of Private Label offering through hard discounters.
Lower CAPEX and strict OPEX control lead to attractive returns	Low CAPEX and strict OPEX control allow us to derive returns that fit our internal requirements and achieve better sales densities.
Magnit's purchasing power, own production and direct import operations	Magnit's own production facilities, direct import operations and high purchasing power make our offer attractive for customers in that we can offer a regular assortment of products, differentiating us from our competitors.

Future development

We see an opportunity to open 300–500 My Price discounters in 2022 including reformatting some convenience stores, potentially including Dixy stores, making Magnit the largest discounter operator amongst Russian retailers.

We see significant potential for expanding this format in specific regions and areas. Discounters fit well in locations such as small and remote locations, where opening a convenience store may be inefficient, and where consumer incomes are lower than average.

Meanwhile we are continuing to develop the concept, including giving discounters their own unique design to make the format uniquely recognisable. We are developing our product range to increase the proportion of Private Label and are expanding our product mix so that there are more non-food items and seasonal offers. We are also engaging with suppliers to develop shelf-ready packaging and layout.

To support our growth in this area, we have appointed a dedicated operational director for discounters and are building a dedicated team to manage Magnit's discounter infrastructure including analytics, operations, and expansion teams.

Given our competitive strengths, including own production capabilities, Magnit is exceptionally well positioned to take advantage of the growing customer demand for discounters and basic fast-moving consumer goods.

Case Study:
Private Label and Own Production

Magnit is the only food retailer in Russia with its own food production facilities. Its Private Label range is a key area of differentiation.

The development of Magnit's PL[1] is central to our customer value proposition. Since the start of the COVID-19 pandemic there has been an increase in demand for PL products, partly as consumers have become more price-sensitive.

We have also noticed a shift towards PL among those consumers who previously preferred mainstream and premium products. In addition to providing our customers with excellent value for money, our PL goods also generate higher margins compared to branded products.

PL products are available at a range of prices to suit varying customer needs, split across three core divisions:

Magnit's private label portfolio 2022–2025

	Good	Better	Best
	Price-driven	Value for money	Additional value
	Products at attractive prices, including everyday essentials	The core of our product range providing optimal value for money. The range includes both food and non-food products. Dairy products, beverages, groceries, delicatessen; fruit, vegetables and mushrooms; household goods	The best from across the world — the flagship in food products Snacks, nuts, preserves, cheeses, and healthy lifestyle products
Key umbrella brands	моя цена My Price	Magnit family brands	Premiere of Taste
Category brands (food)	Tafi	Lucky Days, Gusto di Roma, Solo-Nina, Eat Meat	Kensington
Category brands (non-food)	Каспер	la fresh, UNO, Wellfort, KuMiHo, WowPlay!, Sportour	NaNi
Format brands		Stellary, Zollider, Beauty Bomb	Gardenica
Loyalty campaigns		Скрепыши	Royal Küchen
Other exclusive brands		Including direct import	

food
non-food

2021 highlights:

23.8% growth in revenue of PL sales to **RUB 267.5 bln**

16% PL share in total sales

>4,000 SKUs PL portfolio, including **1,650 food SKUs**

In 2021 we continued to optimise our PL 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.

During the year, Magnit's PL portfolio increased by 750 SKUs, currently we have more than 4,000 PL SKUs in various categories: milk and dairy products, fish gastronomy, processed meat and sausages, fruits and vegetables, cheese, bread, grocery, confectionary, soft and hot drinks, snacks, canned and frozen food, cosmetics and household goods, non-food.

In response to increased demand for fresh products, our Magnit Freshness brand now incorporates over 150 SKUs in the fruit and vegetable category as well as several dairy lines.

In December 2021, we opened a second test studio based on one of own large-format stores in Izhevsk, providing more opportunities to test out our PL products with customers. Magnit's first test studio was opened in 2020 in Krasnodar.

In 2022 we will continue to develop our PL offering by refreshing our brands. We will be investing in and updating the design of our key Magnit brand, as well as a redesign of our Lucky Days confectionary brand.
As we continue to broaden our portfolio, next year we also plan to launch new non-food brands: Sportour – goods for sports and outdoor activities, Wellfort – goods for the home, Wowplay – games and toys.

Longer term, we have set out ambitious targets to grow our PL business. In 2025 we aim for PL to account for 25% of our total sales, and our goal is to reach 100% core PL SKUs availability in all Magnit stores.

[1] PL – Private Label

Case Study: Private Label and Own Production (continued)

Own production

Our state-of-the-art, in-house production facilities underpin the development of the PL range by allowing us to adapt easily and quickly to evolving consumer tastes. Today, Magnit operates 13 industrial production and four agricultural complexes which produce a vast range of goods including vegetables, spices, cereal and frozen fish.

In 2021, Magnit's facilities produced 362,000 tonnes of produce, a 17% increase year-on-year.

The total area of Magnit-owned greenhouses is 113 hectares and annual production of agricultural products is 90,000 tonnes.

During 2021 concepts for more than five new projects were approved, including two facilities for growing berries and green crops, facilities for oyster mushroom production, coffee production and a ready meal factory. In 2022 construction of Russia's largest berry production facility will begin at the Krasnodar greenhouse complex. It will open in 2023 and be able to produce 1,229 tonnes of strawberries and 95 tonnes of blueberries per year.

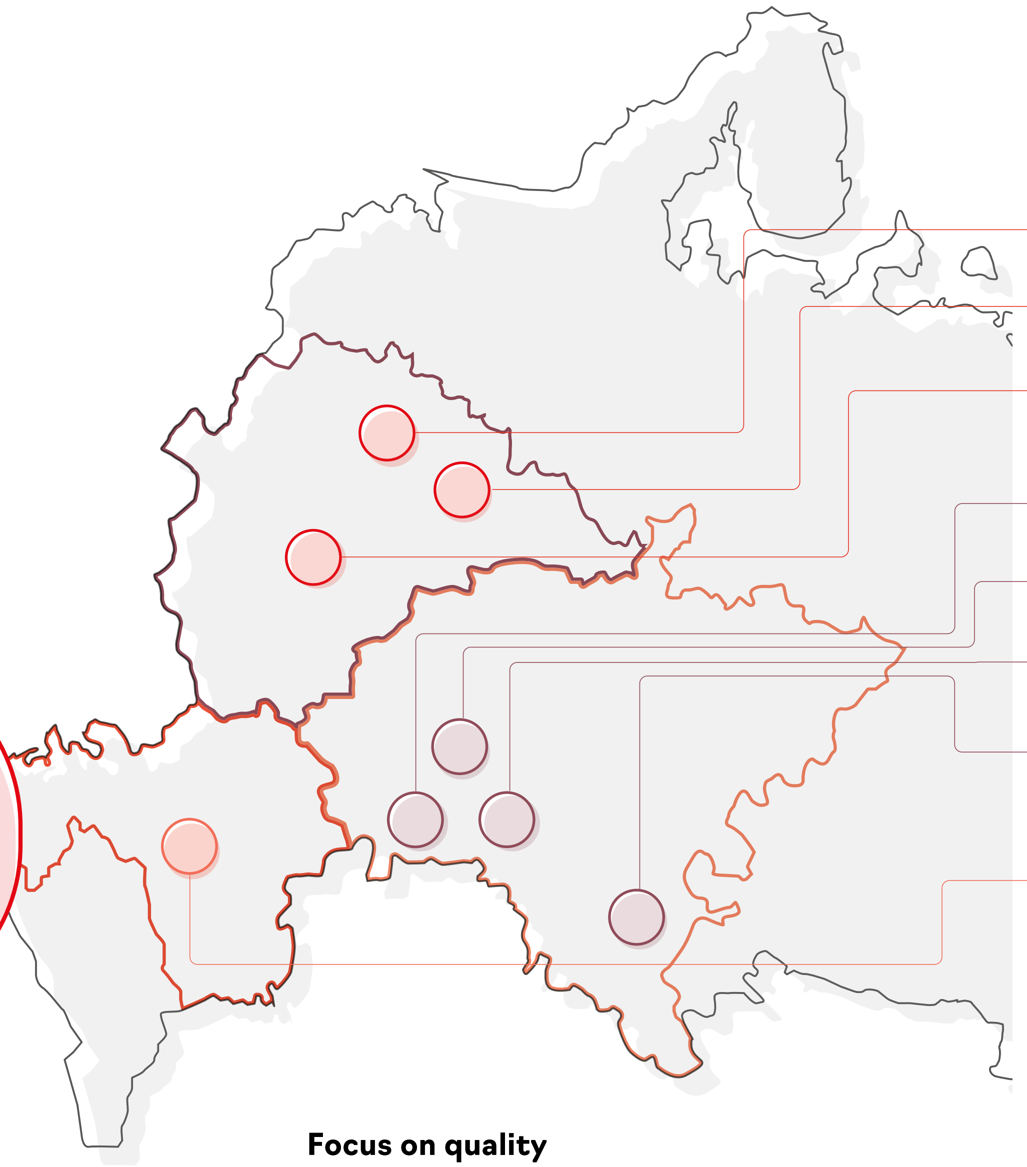
Fast facts

25% of cucumbers, tomatoes and lettuce sold in Magnit stores are produced in our own greenhouses

85% of the mushrooms sold in Magnit stores are own production

25% of sales of dried fruits and nuts in Magnit stores are Vostochny Guest PL brand

21% of pasta sales are Gusto Di Roma PL brand



CENTRAL FEDERAL DISTRICT

Tver region
- Tver separate division

Moscow region
- Cheese Slicing Facility Dmitrov JSC Tander

Lipetsk region
- Moskva na Donu LLC

VOLGA FEDERAL DISTRICT

Saratov region
- Saratov separate division

Penza region
- Cheese Slicing Facility Penza JSC Tander

Samara region
- Togliatti separate division

Republic of Bashkortostan
- Ufa separate division

SOUTHERN FEDERAL DISTRICT

Krasnodar region
- 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

Share of in-house production across different product types[1], %

Plum tomatoes	9
Cucumbers	15
Round tomatoes	22
Lettuce	29
Cherry tomatoes	55
Mushrooms	60

[1] Share in total sales in kg

Focus on quality

To maintain the high standards of our PL products, we carry out a range of quality assurance tests to ensure quality control throughout the production process, from raw materials to the finished product.

All production facilities are equipped with modern equipment with a high degree of automation. This allows us to ensure the production of quality products with minimum manual labour. All production facilities are constantly monitored online to maintain high quality levels throughout the production process. Our production complies with GOST R ISO 22000-2007 and the international Food Safety System Certification (FSSC) v.5.

In 2021, an innovative pilot scheme for vertical greenhouses was tested, implemented in cooperation with the Israeli company Vertical Field, a leading agri-tech company which develops urban farms. Magnit's first vertical greenhouse was opened next to the superstore in Krasnodar. Green crops such as lettuce, spinach and basil are successfully grown in the greenhouse – ensuring maximum freshness for customers.

Sustainability

As part of our commitment to sustainability, at least 50% of the packaging for PL and own production will be recyclable, reusable or compostable by 2025.

Case Study:
E-commerce

2021 highlights:

62,274
average number of orders per day*

RUB 11.2 bln
2021 online GMV

4,490
offline stores in 301 cities are covered by Magnit's e-commerce services

* in 4Q 2021

Developing strong omni-channel business to further enhance our CVP

Magnit has been piloting e-commerce services since the second half of 2020, with the online sales channel already demonstrating strong performance. The Company currently operates both its own delivery through the Magnit Dostavka (Magnit Delivery) app and delivery via partnerships with Yandex.Eda, Delivery Club, Sbermarket and Wildberries. Both food and non-food segments of Magnit are present online, covering all customer missions:

Grocery and drogerie
- Stock-up (2 hours+) — big ticket purchase
- Express (30 minutes) — everyday small purchases
- E-Pharma — current needs and regular purchases

Magnit's e-commerce services today cover 4,490 offline stores and 20 dark stores in 301 cities across 64 Russian regions, with 66% of the revenue generated outside Moscow and St. Petersburg.

The aim is to quickly capture opportunities in low-penetrated regional markets by converting Magnit's loyal customers into online, while getting new customer inflow in computerised Moscow & St. Petersburg markets. The Company plans to leverage existing infrastructure in the regions with strong physical presence. However, in Moscow and St. Petersburg, Magnit may continue opening dark stores to support brick-and-mortar presence to cover the cities with its delivery service.

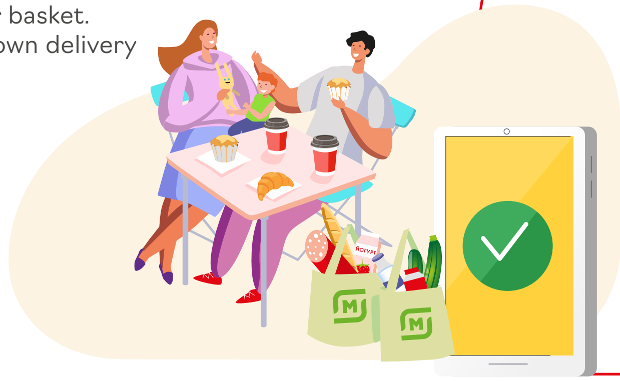
Performance

Our online sales channel is delivering strong results despite only recently launching in the second half of 2020.

In 2021, our e-commerce gross merchandise value (GMV) totalled RUB 11.2 bln. By the end of December 2021, GMV of Magnit's e-commerce services exceeded 1% of total revenue, while for the full year of 2021 it stood at 0.6% of total revenue.

Over the course of the year, the average number of orders per day continued to grow steadily, reaching 62,274 in 4Q 2021 vs 3,959 the year before (15.7x growth). On 30 December 2021, we reached a milestone of 100,000 orders per day, whilst in December 2020 the daily number of orders was only 7,000.

The average order value across all online services for 2021 was RUB 1,045 including VAT. This average order value is approximately 2.8x higher than the average ticket in the convenience stores (RUB 371). This is mostly due to a larger number of items per basket. The average ticket within Magnit's own delivery service was RUB 1,239.



Key developments

During the year we continued to develop our partnerships and began working with Sbermarket and Wildberries, the largest online retailer in Russia, as we rolled out the joint delivery offering across Russian cities. In December 2021, we launched 30-minute express grocery delivery through Delivery Club, building on our previous delivery projects with the company. We also launched a new partnership with Uteka and Megapteka, a pharmacy products marketplaces, which made Magnit Pharmacy assortment available on a partner platform, successfully complementing our own e-pharma offering.

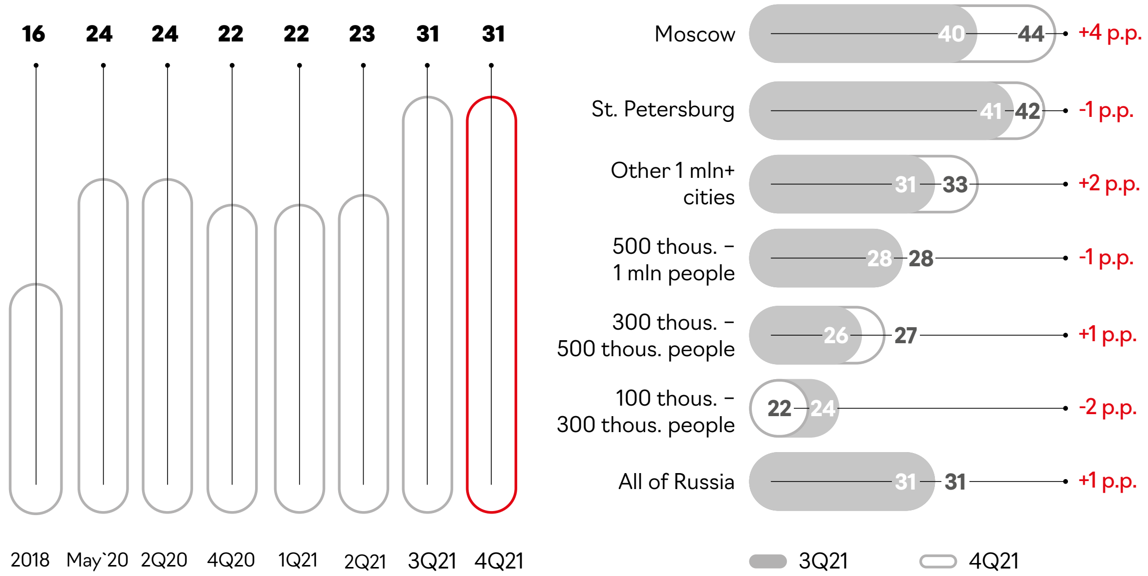
In 2021 we started opening dark stores throughout the country, which will further enhance our operational efficiency in e-commerce. These include our first pharmacy dark store, which operates as a click-and-collect pharmacy.

In July 2021, Magnit appointed Andrey Lukashevich as E-Commerce Director. He was responsible for shaping our e-commerce strategy and executing the roll-out of digital sales channels, establishing and developing the e-commerce infrastructure, and ensuring that the e-commerce business achieves its key financial targets. Andrey brought a wealth of experience in e-commerce, having previously held executive positions at Delivery Club, Mail.Ru Foodtech Ventures and Vezet taxi aggregator. On 12 April 2022 Andrey Lukashevich left the Company for family reasons.

Growing online grocery adoption in Russia, %

Ivanovs purchasing groceries online on a regular basis, % of all Ivanovs

Ivanovs purchasing groceries online on a regular basis, % of all Ivanovs, by regions



Note: May '20 refers to our special survey dedicated to the lockdown and spread of COVID-19

Source: Sber CIB Ivanov Consumer Confidence Tracker

Omni retail at the core of Magnit's future ecosystem

We aim to build an ecosystem of complementary services around the Magnit brand and our strong omni-channel core. The launch of our payment service Magnit Pay in December 2020 was an important step in this process, which represented the first stage in the development of an enhanced app centred around Magnit's loyalty programme.

Magnit Pay can be used to pay for purchases in any store – online and offline, within and beyond Magnit.

As at year-end 2021, the Company issued 7.5 million virtual payment cards. About 51% of holders use this service for purchases outside the Magnit ecosystem. Most often, virtual cards are used in grocery stores, as well as for payment for transport, subscription and delivery services.

Financial Review[1]

Dmitry Ivanov,
Chief Financial Officer

In 2021, Magnit maintained strong financial discipline across its operations. We upheld a return-based approach in opening new stores and refurbishing the existing ones. We've been rolling out e-commerce in a prudent way to avoid financial losses. We managed to increase both revenue and EBITDA margin boosting value for our shareholders.

I am delighted that having completed a relatively large deal – acquisition of Russia's fifth-largest food retailer Dixy – Magnit managed to keep leverage at a healthy level of 1.5x EBITDA with average cost of debt being low at 6.4%. Another big achievement for us has been the decrease of the working capital cycle by more than 7 days, which released RUB 18.3 bln of cash for the Company.

FY 2021 key financial highlights

Total revenue increased by

19.5%

YoY to RUB 1,856.1 bln. Total revenue adjusted for the Dixy acquisition increased by 10.8%

Cash SG&A[2] increased by

25bps

to 17.8% due to higher advertising and other costs

As of 31 December 2021

Net Debt was

RUB 197.0 bln

The Net Debt to EBITDA ratio was 1.5x

Net retail sales reached

RUB 1,808 bln

increasing 19.7% YoY. Net retail sales growth adjusted for the Dixy acquisition was 11.3%

EBITDA was

RUB 133.1 bln

with a 7.2% margin – an improvement of 13 bps YoY as a result of stronger gross margin but partially offset by Dixy consolidation

Gross profit increased by

20.1%

YoY to RUB 439.2 bln with a margin of 23.7% as a result of better promotional margin, lower shrinkage and favourable format mix

Net income increased by

36.8%

YoY to RUB 51.7 bln with a margin of 2.8% vs 2.4% a year ago

[1] The Company provides analysis of financial metrics using the IAS 17 approach in the current section of the report
[2] Selling, general and administrative expenses excluding depreciation and amortisation

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.

Total revenue in FY 2021 increased by 19.5%. This growth was underpinned by net retail sales growth of 19.7% and wholesale revenue growth of 10.6%. Wholesale operations accounted for 2.6% of total sales.

Gross Profit in FY 2021 increased by 20.1% YoY to RUB 439.2 bln with a margin of 23.7%. An improvement of 13 bps YoY was a result of better promotional margin, lower shrinkage and favourable format mix.

The latter positively impacted gross margin, with the share of wholesale operations decreasing to 2.6% from 2.8% a year ago. Promotional intensity was slightly higher YoY driven by the dynamics of the 1H.

Transportation expenses were flat YoY and stood at 2.5% as a percentage of sales despite continued increase of on-shelf availability. This was due to higher productivity and utilisation at distribution centres, which offset the negative impact of the increased container shipping tariffs.

Alongside the growing share of fresh products, overall improvement of on-shelf availability and consolidation of the Dixy business, shrinkage as a proportion of sales decreased further by 20 bps YoY. This was driven by ongoing optimisation of supply chain processes, renegotiation of quality standards with suppliers and other initiatives.

FY 2021 Key Financial Results

RUB mln	IAS 17 FY 2021	IAS 17 FY 2020	IAS 17 Change	IFRS 16 FY 2021	IFRS 16 FY 2020	IFRS 16 Change
Total Revenue	**1,856,079**	1,553,777	19.5%	**1,856,079**	1,553,777	19.5%
Retail	**1,807,752**	1,510,071	19.7%	**1,807,752**	1,510,071	19.7%
Wholesale	**48,327**	43,707	10.6%	**48,327**	43,707	10.6%
Gross Profit	**439,238**	365,729	20.1%	**439,264**	365,756	20.1%
Gross Margin, %	**23.7%**	23.5%	13 bps	**23.7%**	23.5%	13 bps
SG&A, % of Sales	**-20.6%**	-20.5%	-17 bps	**-19.2%**	-19.1%	-15 bps
EBITDA pre-LTI[3]	**134,054**	110,264	21.6%	**215,132**	179,043	20.2%
EBITDA Margin pre-TI, %	**7.2%**	7.1%	13 bps	**11.6%**	11.5%	7 bps
EBITDA	**133,143**	109,410	21.7%	**214,220**	178,189	20.2%
EBITDA Margin, %	**7.2%**	7.0%	13 bps	**11.5%**	11.5%	7 bps
EBIT	**79,744**	63,493	25.6%	**108,897**	88,424	23.2%
EBIT Margin, %	**4.3%**	4.1%	21 bps	**5.9%**	5.7%	18 bps
Net Finance Costs	**-12,966**	-13,497	-3.9%	**-46,578**	-44,268	5.2%
FX Gain/ (Loss)	**302**	-1,310	-123.1%	**281**	-1,453	-119.3%
Profit before Tax	**67,081**	48,686	37.8%	**62,600**	42,703	46.6%
Taxes	**-15,387**	-10,905	41.1%	**-14,494**	-9,709	49.3%
Net Income	**51,694**	37,781	36.8%	**48,106**	32,993	45.8%
Net Income Margin, %	**2.8%**	2.4%	35 bps	**2.6%**	2.1%	47 bps

[3] LTI – Long-Term Incentive Programme

Financial Review (continued)

Selling, General and Administrative Expenses (SG&A)

RUB mln	IAS 17 FY 2021	IAS 17 FY 2020	IAS 17 Change	IFRS 16 FY 2021	IFRS 16 FY 2020	IFRS 16 Change
Staff costs	**166,606**	139,886	19.1%	**166,606**	139,886	19.1%
as a % of sales	**9.0%**	9.0%	–3 bps	**9.0%**	9.0%	–3 bps
Rent	**80,834**	67,011	20.6%	**2,739**	1,429	91.7%
as a % of sales	**4.4%**	4.3%	4 bps	**0.1%**	0.1%	6 bps
Depreciation, amortisation & impairment	**53,399**	45,917	16.3%	**105,323**	89,765	17.3%
as a % of sales	**2.9%**	3.0%	–8 bps	**5.7%**	5.8%	–10 bps
Utilities & communication services	**34,252**	28,827	18.8%	**34,252**	28,827	18.8%
as a % of sales	**1.8%**	1.9%	–1 bps	**1.8%**	1.9%	–1 bps
Advertising	**11,475**	7,628	50.4%	**11,475**	7,628	50.4%
as a % of sales	**0.6%**	0.5%	13 bps	**0.6%**	0.5%	13 bps
Other expenses	**10,944**	7,265	50.6%	**10,907**	7,265	50.1%
as a % of sales	**0.6%**	0.5%	12 bps	**0.6%**	0.5%	12 bps
Bank Services	**9,022**	7,108	26.9%	**9,022**	7,108	26.9%
as a % of sales	**0.5%**	0.5%	3 bps	**0.5%**	0.5%	3 bps
Repair & maintenance	**8,216**	6,732	22.1%	**8,192**	6,732	21.7%
as a % of sales	**0.4%**	0.4%	1 bps	**0.4%**	0.4%	1 bps
Taxes, other than income tax	**2,944**	2,925	0.7%	**2,944**	2,925	0.7%
as a % of sales	**0.2%**	0.2%	–3 bps	**0.2%**	0.2%	–3 bps
Packaging & materials	**5,500**	4,861	13.1%	**5,500**	4,861	13.1%
as a % of sales	**0.3%**	0.3%	–2 bps	**0.3%**	0.3%	–2 bps
Total SG&A	**383,194**	318,159	20.4%	**356,962**	296,425	20.4%
as a % of sales	**20.6%**	20.5%	17 bps	**19.2%**	19.1%	15 bps
Cash SG&A (excl. D&A)	**329,795**	272,242	21.1%	**251,638**	206,660	21.8%
as a % of sales	**17.8%**	17.5%	25 bps	**13.6%**	13.3%	26 bps

NOTE: Please note that there may be small variations in calculation of totals, subtotals, and/or percentage change due to rounding of decimals.

SG&A costs increased by 17 bps YoY to 20.6% as a percentage of sales.

Cash SG&A expenses as a percentage of sales increased by 25 bps to 17.8% on higher advertising and other costs.

Advertising expenses increased by 13 bps YoY to 0.6% as a percentage of sales on higher marketing activities including digital marketing and loyalty campaigns.

Rental costs as a percentage of sales increased by 4 bps YoY to 4.4% driven by the consolidation of Dixy stores predominantly located in the Moscow and St. Petersburg regions with higher rent rates, acceleration of stores openings and, subsequently, a larger number of stores in the ramp-up period as well as a higher share of leased selling space. The share of leased selling space increased to 80.2% at the end of 2021 vs 78.0% a year ago. Despite the above-mentioned factors, rent expense of Magnit's standalone business decreased as a percentage of sales thanks to higher sales density, improved lease terms with landlords and the closure of inefficient stores.

Staff costs as a percentage of sales remained flat YoY at 9.0% (–3 bps YoY). Higher productivity of in-store personnel, ongoing automation of business processes partially offset additional pressure from new stores in the ramp-up phase and slightly higher staff rotation due to the pandemic last year.

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

Other costs increased by 12 bps YoY to 0.6% as a percentage of sales on higher advisory services, online order picking and delivery and software maintenance.

Other income and expense increased by 25 bps to 1.3% as a percentage of sales due to higher income from sales of packaging materials as well as advertising, rental and sublease income.

As a result, EBITDA was RUB 133.1 bln with a 7.2% margin – an improvement of 13 bps YoY. This was driven by gross margin dynamics partially offset by higher SG&A costs. LTI expenses in the reported period stood at 0.05% of sales – as a result, EBITDA margin pre-LTI was 7.2% (in line with the reported EBITDA).

Depreciation as a percentage of sales reduced by 8 bps YoY to 2.9% due to consolidation of the Dixy business with a lower share of depreciation as a percentage of sales as well as positive operating leverage effect.

As a result, operating profit in 2021 stood at RUB 79.7 bln with 4.3% EBIT margin.

Net finance costs in 2021 decreased by 3.9% and stood at RUB 13.0 bln. In the reporting period the Company increased its total debt by RUB 104.3 bln by obtaining long-term bank loans and bond issuance. These supported the Company's accelerated expansion and the acquisition of Dixy.

As a result, average cost of debt increased to 6.4% (33 bps YoY). 99.8% of the Company's debt profile is represented by long-term borrowings and bonds with an average maturity of 18 months.

Higher interest expense was offset by higher interest income compared to the previous year.

In 2021 the Company reported FX gain in the amount of RUB 0.3 bln related to direct import operations.

Income tax in 2021 was RUB 15.4 bln with effective tax rate of 22.9%.

As a result, net income in 2021 increased by 36.8% YoY and stood at RUB 51.7 bln. Net income margin increased by 35 bps YoY to 2.8%.

Financial Review (continued)

Balance Sheet and Cash Flows

Inventories increased by RUB 18.9 bln (9.2%) compared with 31 December 2020 and stood at RUB 225 bln on the back of total sales growth of 19.5%. Adjusted for the Dixy acquisition, inventories of Magnit's standalone business reduced substantially. This was driven by a number of ongoing projects, including the reduction of slow-moving items, assortment harmonisation and IT solutions that are aimed at better on-shelf availability and promotion forecasting.

Trade and other payables grew by RUB 56.4 bln compared with 31 December 2020 and stood at RUB 240.8 bln, driven by higher sales and increased payment days. Accounts receivable increased by RUB 3.2 bln vs 31 December 2020 and stood at RUB 11.7 bln due to higher sales and improved commercial terms with suppliers.

As a result, working capital as of 31 December 2021 turned negative with the cash release of RUB 18.3 bln. Negative working capital was achieved for both the standalone Magnit and Dixy businesses.

Debt Composition and Leverage

As at 31 December 2021 Gross Debt increased by RUB 104.3 bln or 62.8% compared to 31 December 2020 and stood at RUB 270.4 bln. The Company's cash position increased to RUB 73.4 bln as at 31 December 2021 from RUB 44.7 bln as at 31 December 2020. As a result, Net Debt increased by 62.3% YoY to RUB 197.0 bln as at 31 December 2021.

Financial Position Highlights (IFRS 16)

RUB mln	31 Dec 2021	31 Dec 2020
Non-current assets	**889,346**	**678,461**
Inventories	224,873	205,949
Trade and other receivables	11,727	8,564
Cash and cash equivalents	73,399	44,700
Other current assets	10,100	7,718
Assets	**1,209,444**	**945,392**
Equity	**178,985**	**182,889**
Long-term loans and borrowings	205,287	147,695
Other long-term liabilities	410,132	330,535
Trade and other payables	240,771	184,325
Short-term loans and borrowings	65,139	18,392
Other short-term liabilities	109,129	81,557
Equity and liabilities	**1,209,444**	**945,392**

Debt Composition and Leverage

	31 Dec 2021	30 June 2021	31 Dec 2020
IAS 17			
Total Debt, RUB bln	270.4	265.5	166.1
Long-Term Debt	205.3	222.9	147.7
Short-Term Debt	65.1	42.6	18.4
Net Debt, RUB bln	197.0	136.1	121.4
Net Debt/EBITDA	1.5x	1.2x	1.1x
IFRS 16			
Net Debt, RUB bln	653.3	498.9	479.0
Net Debt/EBITDA	3.0x	2.7x	2.7x

The Company's debt is fully RUB-denominated, matching its revenue structure. The Net Debt to EBITDA ratio was 1.5x as at 31 December 2021 vs 1.1x as at 31 December 2020.

Cash Flow Statement for 2021

	IAS 17			IFRS 16		
RUB mln	12M 2021	12M 2020	Change	12M 2021	12M 2020	Change
Operating cash flows before working capital changes	136,443	109,930	24.1%	215,359	175,540	22.7%
Changes in working capital	18,298	30,217	-39.4%	18,499	30,580	-39.5%
Net interest expense and income tax paid	-30,776	-25,738	19.6%	-64,388	-56,509	13.9%
Net cash from operating activities	123,965	114,409	8.4%	169,470	149,611	13.3%
Net cash used in investing activities	-127,903	-29,533	333.1%	-126,689	-29,020	336.6%
Net cash generated / (used) from/(in) financing activities	32,638	-49,077	-166.5%	-14,082	-84,793	-83.4%
Net cash increase / (decrease)	28,699	35,798	-19.8%	28,699	35,798	-19.8%

Cash Flow Statement for 2021

The Company's cash flows from operating activities before changes in working capital in 2021 equalled to RUB 136.4 bln, which was RUB 26.5 bln or 24.1% higher YoY. The change in working capital continued to improve and stood at RUB 18.3 bln compared to RUB 30.2 bln in 2020 as a result of higher YoY trade and other payables partially offset by higher inventories.

Net interest expense and income tax paid in 2021 increased by RUB 5.0 bln or 19.6% to RUB 30.8 bln. Net interest expenses decreased by 0.7% YoY to RUB 12.6 bln in 2021 due to higher average amount of cash on bank accounts during the reported period. Income tax paid for 2021 increased by 39.2% to RUB 18.2 bln.

With this net cash flow from operating activities in 2021 increased by 8.4% to RUB 124.0 bln as a result of higher EBITDA and positive movement of working capital.

Net cash used in investing activities predominantly composed of capital expenditures increased by 333.1% to RUB 127.9 bln in 2021 due to acceleration of expansion and redesign programmes as well as the Dixy acquisition.

Capital expenditure for the full year of 2021 almost doubled and stood at RUB 66.9 bln, compared with RUB 32.1 bln in 2020. This increase was driven by almost twofold acceleration of the Group's expansion and store redesign programme (2,295 store openings on gross basis including Dixy and 703 redesigns (Magnit only) in 2021 vs 1,292 and 385 respectively in 2020).

In 2021 net cash generated from financing activities was RUB 32.6 bln vs RUB 49.1 bln used in 2020. In 2021 the Company paid dividends in the total amount of RUB 48.1 bln[1].

As a result of the factors mentioned above net cash position in 2021 increased by RUB 28.7 bln to RUB 73.4 bln as of 31 December 2021.

[1] Excluding intercompany transactions between PJSC Magnit and JSC Tander

Key Performance
Indicators

LFL sales

Significance

Like-for-like sales is the best barometer of how well we adjust to consumer needs. If we continually innovate and improve our customer value proposition, people will ultimately choose to spend more at Magnit stores.

Measurement

LFL calculation base includes stores that have been operating for 12 months since the first day of sales. LFL sales growth is calculated based on sales turnover including VAT.

2021 results

LFL sales

+7.0% YoY

Earnings (EBITDA)

Significance

Our strategy implies not just growth at any cost, but rather profitable growth that creates long-term value for Magnit stakeholders.

Measurement

EBITDA (earnings before interest, taxes, depreciation and amortisation) is a basic metric for earnings that is neutral to the company's capital structure and methods of amortisation. EBITDA is a non-audited metric under IFRS, it is calculated by the Company.

2021 results

EBITDA

+21.7% YoY

EBITDA margin

+13 bps YoY

Return on invested capital

Significance

Return on invested capital (ROIC) measures how efficiently Magnit invests in projects such as opening new stores or production facilities. The Company is creating value if its ROIC exceeds its weighted average cost of capital, comprised of net debt and equity.

Measurement

We calculate ROIC as earnings before interest and taxes less income tax divided by the sum of average net debt and average equity.

2021 results

ROIC reached 16.5%

+265 bps YoY

Inventory turnover

Significance

Managing inventory turnover is the key element of retail business. We buy goods from suppliers and sell them to customers as soon as possible to operate efficiently. Having inventories that are either too high or too low can result in losses for the business.

Measurement

Working Capital Cycle shows the average number of days it takes to sell goods purchased from suppliers to Magnit customers.

2021 results

Decrease in the working capital cycle was

>7 days YoY

which released

RUB 18.3 bln

of cash for Magnit

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

Risk Management

PJSC Magnit has a comprehensive internal control and risk management system. Risk management is consistent with the Company's needs and generally accepted risk management standards.

The Board of Directors and the Management board of PJSC Magnit ensure the effective operation and development of the internal control and risk management system, which provides for the control over the Company's strategic and operational goal achievements, the reliability of information disclosure and compliance with external and internal requirements.

The internal control and risk management system goals are timely identification of all key risks, assessment of the possibility of occurrence, damage from the implementation and consequences of their occurrence, determination of measures to minimise negative consequences and creation of control mechanisms that ensure the stable functioning of business processes.

In the process of creating shareholder value, the Company makes management decisions taking into account multidirectional factors that can have both a positive and negative impact on goal achievements. One of the ways to reduce the uncertainty caused by such factors is to increase the awareness of shareholders, management and employees of factors that can influence the achievement of goals, and to assess their possible impact.

The Company's risk management system is a set of measures and interconnected processes aimed at developing risk management as an integral part of:
- corporate culture
- strategic management
- decision-making.

Key documents of risk management:

- Internal Control and Risk Management Policy[1]
- Regulation on process-oriented risk management
- Catalogue of risks.

Main risk management principles:

- **Continuity and integrity** Internal control and risk management are continuous processes covering all areas of the Company's business activities, at all management levels.
- **Integration into organisational processes** The internal control and risk management system is an integral part of the Company's business, management and corporate culture. It is integrated into every organisational process of Magnit, including policy development, strategic and business planning, and change management.
- **Methodological framework integrity** The internal control and risk management system ensures the methodological integrity and coherent functioning of Magnit's risk management processes. This includes the establishment of universal approaches and standards.
- **Segregation of decision-making levels** Risk management decisions are taken at different levels of the Company's management, depending on the importance of the risk and the impacted area of the Company's business activity.
- **Responsibility** All subjects of internal control and the risk management system are responsible for compliance with risk management standards and approaches, as well as for the proper implementation of controlling procedures in their respective areas of business activity.
- **Clear division of duties and responsibilities** The responsibilities and powers of the internal control and risk management bodies are distributed in order to eliminate or reduce the risk of error or fraud.
- **Risk orientation** The internal control and risk management system includes risk analysis and monitoring in each area of the Company's business activities, while taking into account the risk/profitability ratio. Significant effort is made to improve risk management standards and approaches, particularly regarding their importance and acceptable level of risk. For the sake of efficiency, control procedures are imposed upon areas of activity in the order of importance.
- **Balance** Controlling procedures and risk management functions are equipped with the necessary resources and authorisation for their successful execution. Spending on the implementation and realisation of controlling procedures are therefore adequate to help mitigate the assessed potential risk.
- **Constant development and adaptation** The internal control and risk management system is constantly being improved.
- **Reasonable certainty** Realisation of risk management procedures is considered efficient as long as it allows the risk to be reduced to an acceptable level.

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

[1] Approved by the decision of the Board of Directors on 12 December 2019 (Minutes w/o of 13 December 2019).

Key elements of risk management:

- Risk identification
- Risk assessment
- The development and implementation of risk management procedures
- Constant monitoring of risk status.

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

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

The internal control and risk management scheme, as well as more details on the risk management system, are provided in the Internal Control and Risk Management System on p. 100.

Key initiatives and results of internal control and risk management in 2021:

- A separate structural unit for risk management and the risk management team[2] was formed
- A comprehensive assessment of internal and external risks was carried out
- The risk classifier and risk assessment criteria were updated
- The analysis of strategic, financial, operational and regulatory risks of the Company was conducted
- Began implementing additional measures for risk prevention
- Began updating internal regulatory documents of internal control and risk management procedures
- Risk management training was conducted for certain units of the Company.

Key areas of activity for 2022 on the development of a risk management system:

- Formation of detailed risk management plans
- Online course development for Company employees on the risk management basics
- Complete updating of risk management regulatory documents
- Elaboration of automation issues of risk management processes.

[2] Within the organisational structure of JSC Tander – main operational company

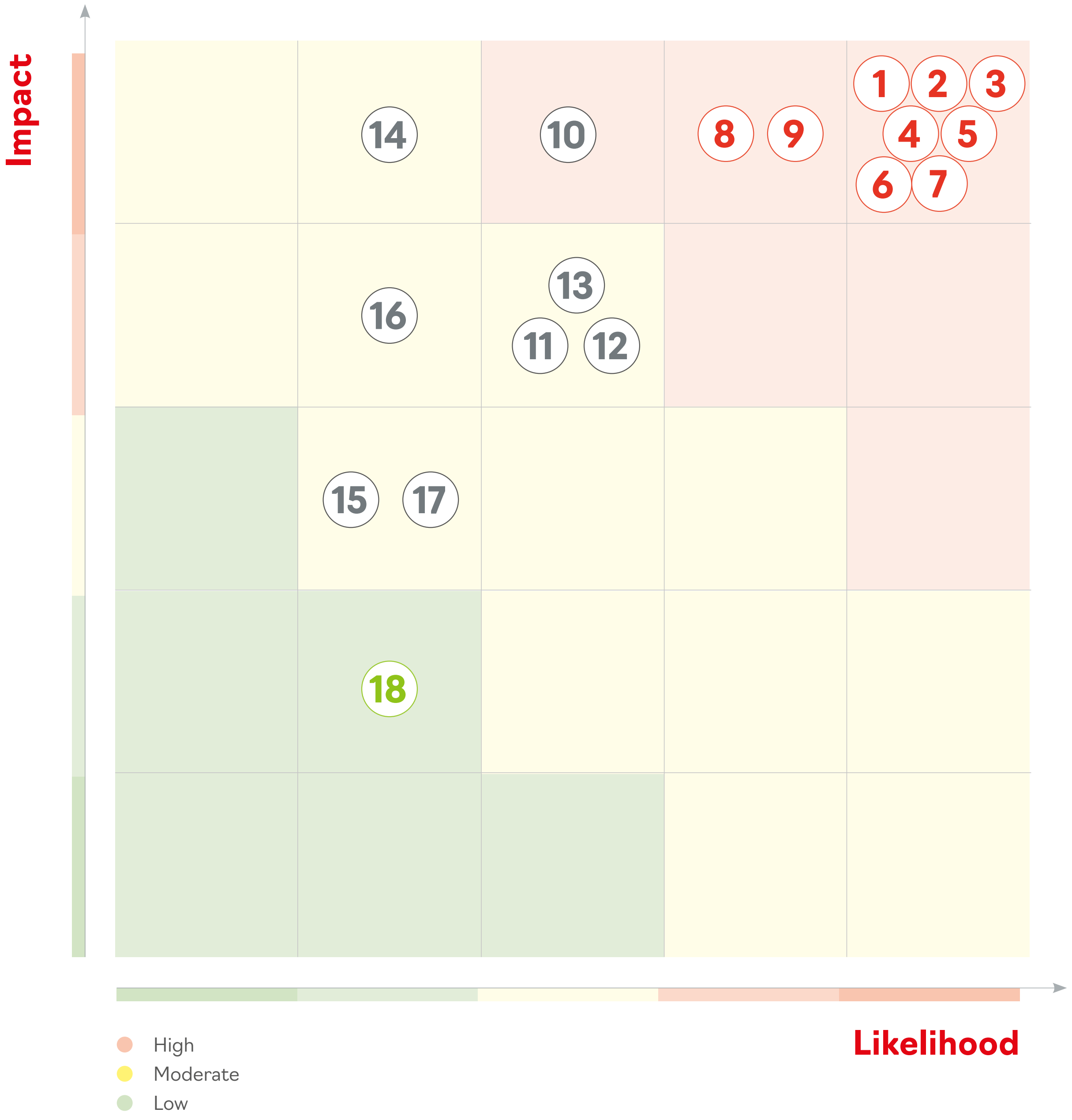
Risk Management

(continued)

Key risks

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

Risk map



Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
1	**Risk of deterioration of socio-economic and political conditions** — deterioration of macroeconomic factors (high level of inflation, high exchange rate volatility and rouble devaluation, key rate increase) — high level of sanction pressure — growing unemployment, decrease in general living standards, with a corresponding change in consumption behaviour — increasing wage and benefits gap with growing living costs. **Type of risk:** strategic **Source of risk:** external **Impact:** all parameters	— adjustment of the Company's strategy and financial model — revision of investment plans — updating the expansion programmes and plans by functional areas — CVP analysis of the business processes: adaptation and extension of the product range, increased attention to the quality of services and the provision of new services to retain current and attract new groups of customers.	5	5
2	**Risks related to the shortage / absence of imported goods – food products, specific equipment, spare parts, materials for the following reasons** — imposition of sanctions — disruption of logistics chains, including a reduction of the number of suppliers. **Type of risk:** operational **Source of risk:** internal and external **Impact:** all parameters	— search for alternative contractors from the countries not subject to sanctions — readjustment of logistics chains — search for and development of Russian suppliers.	5	5
3	**Risk of transformation** — change of transformation effects — margin reduction during the transformation of category management (incorrect pricing, promotion, assortment revision, high purchasing prices, sale of obsolete stock with a discount) — errors when transferring data from existing accounting systems to new ones. **Type of risk:** strategic **Source of risk:** internal and external **Impact:** strategy execution, revenue, EBITDA	— adjustment of the transformation project — collective decision-making — hiring external consultants to speed up and optimise the processes.	5	5

Risk Management
(continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
4	**Risks of adverse regulatory changes** — nationalisation of the Company — strengthening of the currency control — introduction of price regulation by the government — limiting of trade margins growth — EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations — increase in the cost of environmental charges — restriction on the use of packaging/packages, other types of packaging within own production and private label in the sales areas — government approval of distance selling of alcohol — additional regulation of shelves and layout — introduction of quotas on the supply of key consumer basket goods to retail chains — more complicated procedures for licensing and obtaining permits from external regulatory bodies — possible introduction of new licenses and permits. **Type of risk:** regulatory **Source of risk:** external **Impact:** market share, revenue, EBITDA	— monitoring changes in legislation by specialists — participation of experts in the discussion of legislative innovations — adaptation of business processes for obtaining the necessary licenses and permits, and technical documents — the government eases regulation in a number of areas, which is a supporting factor for business operation.	5	5
5	**Restriction / suspension of work of foreign software / services:** — suspension / termination of cooperation with some IT partners — difficulty of quick replacement of software and services. **Type of risk:** operational **Source of risk:** external **Impact:** all parameters	— search for alternative vendors.	5	5
6	**IT security risks:** — increased number of cyber-attacks on information systems around the world dictates the need to provide adequate protection of data and IT infrastructure against intrusions of any kind, including for the purpose of information theft or damage, unauthorised access, and propagation of virus software. **Type of risk:** operational **Source of risk:** internal and external **Impact:** all parameters	— 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.	5	5
7	**Risks associated with IT infrastructure support** — increased business requirements to IT systems, provision of the speed and quality of the relevant information — increased requirements to prompt search of defects and their liquidation in the information management systems providing an adverse impact on the operations — lack of IT staff with the necessary qualifications. **Type of risk:** operational **Source of risk:** internal **Impact:** revenue, EBITDA	— a detailed plan for IT investments has been developed — forecasting future capacity requirements and increased load for future periods — annual revision of configurations (capacities) — a functioning system in place for processing user requests — analysis of regular reporting based on user requests and incidents, conducting annual polls on user satisfaction with the operation of the Support Service.	5	5
8	**Risks of increased competition** — development of e-commerce / marketplace / ecosystems — introduction of new players specialising in a particular offer and closing needs (hard discounters, alcoholic beverage stores, etc.) — monopolisation of the market in a number of product categories by the largest manufacturers — increase in price pressure — traffic outflow. **Type of risk:** strategic **Source of risk:** external **Impact:** revenue	— development of own e-commerce — launch of price projects — launch of the new format of Moya Tsena stores and development of the Magnit Family format — introduction of affordable and quality private labels — monitoring competitors' actions — conducting a comprehensive analysis when choosing marketing tools, promotions — increasing the attractiveness of existing stores through redesign — evaluating the attractiveness and potential of proposed store openings using GIS analysis technologies — significant investments in attracting and retaining customers.	4	5
9	**Risks of excessive loss of the inventory** — inefficiency of logistics, goods acceptance, storage and inventory accounting processes — employee misconduct — robbery in stores (western regions of the Russian Federation) — increase in theft at stores due to the declining living standards. **Type of risk:** operational **Source of risk:** internal **Impact:** EBITDA	— modifying the Company's business processes through the redistribution of powers and responsibilities — involving internal security in the investigation of theft with the subsequent initiation of criminal cases — preventing fraudulent actions by employees through the mechanisms of the Code of Business Ethics — including costs for the modification of accounting systems in the budget.	4	5

Risk Management
(continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
10	**Risk of absence and recruitment of personnel** — significant increase of compensation payments and benefits in the labour market for high-demand professions — reduction of migration flows to the Russian Federation — abandonment of outsourcing and introduction of additional workload for employees — lack of IT specialists in the labour market — remote employment opportunity. **Type of risk:** operational **Source of risk:** internal and external **Impact:** revenue, EBITDA	— indexation of wages for individual branches and departments — development of dedicated internal training and adaptation programmes for employees — improving the culture of employee management — implementation of integrated systems for long-term motivation of personnel — development of social programmes for personnel — interaction with universities to attract the best graduates — development of the talent pool — strengthening of resources for hiring specialists.	3	5
11	**Risks of corruption and employee fraud** — the internal environment of the Company and the level of fraud committed is affected by the corporate values system, fair motivation of employees, adherence to internal rules and business processes. **Type of risk:** operational **Source of risk:** internal **Impact:** all parameters	— compliance with the rules of the Code of Business Ethics, compliance with the Anti-Bribery and Corruption Policy — functioning of the ethics hotline and analysis of its operation — joining the United Nations Global Compact — personnel training in corporate ethics and code of conduct — segregation of incompatible powers through the organisational structural measures, as well as through the access rights, implementation of the access rights matrix — transaction control by the Financial Directorate — inspection of potential candidates for vacant positions by the Security Directorate — comprehensive elaboration of the identified violations.	3	4
12	**Risks in the field of industrial safety, occupational health and environment** — fires, smoke, ignitions — occurrence of accidents, impact of natural factors — occupational injuries — violation of occupational and fire safety standards and regulations by the Company's employees and contractors — intensification of the negative epidemiological situation, spread of COVID-19. **Type of risk:** operational **Source of risk:** internal and external **Impact:** revenue, EBITDA	— corporate training programmes for environmental protection, industrial and occupational safety with subsequent control of knowledge quality by internal specialised training services — alignment with the United Nations Global Compact — regular efficiency monitoring of fire extinguishing systems — maintainance of the required level of personnel qualification, responsibility of managers to support the proficiency level of employees — assessment of working conditions — compliance with the Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group — insurance of facilities against force majeure factors — vaccination, revaccination, transfer of employees to remote work.	3	4
13	**Risks of making poor investment decisions** — return on investment of new stores and reconstructions is below the WACC — growth of the number of unprofitable stores — excess CAPEX per facility (excess requirements, excessive standards, low-quality construction and installation works). **Type of risk:** strategic **Source of risk:** internal and external **Impact:** CAPEX, EBITDA, ROIC	— collective decision-making on investment projects — standardisation of norms and financial models — use of GIS analysis technologies — introduction of tender procedures — budget control of expenses for the implementation of the investment programme — post-investment analysis.	3	4
14	**Risks associated with the quality of goods sold and produced** — inconsistency of quality of goods sold and produced with the established requirements and standards may result in reduced customer loyalty to the Magnit brand, followed by a reduction in market share and revenue. **Type of risk:** operational **Source of risk:** internal **Impact:** revenue, EBITDA, LFL	— functioning of the system selecting suppliers of goods and services, "green" procurement of products and raw materials — audit of suppliers — compliance with the Responsible Supply Chain Policy of Magnit — compliance with the Food and Non-Food Quality and Safety Policy of PJSC Magnit — implementation of programmes for the development of local suppliers and farmers — monitoring legislation for the prompt adjustment of internal quality control technologies of the goods sold and produced — audit of stores, own production facilities and distribution centers, including remote monitoring — processing and analysis of inquiries (customers, stores and distribution centres, regulatory authorities, media and nonprofit organisations).	2	5
15	**Risks of negative epidemiological situation impact on the Company's activities** — introduction of severe restrictive measures to prevent the spread of COVID-19 may have a negative impact on supply chains — in case of significant spread (occurrence) of new variants ("omicron") of COVID-19, the rate of infection among employees is likely to increase. **Type of risk:** operational **Source of risk:** external and internal **Impact:** all parameters	— real-time monitoring of the spread of COVID-19 — strict compliance with all recommendations made by the Federal Service for Surveillance on Consumer Rights Protection and Human Well-being, the Ministry of Health and WHO — vaccination and revaccination — disinfection of premises — performance of labour functions by employees working remotely.	2	3

Risk Management
(continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
16	**Reputation risk** — incidents causing significant damage to customers' health, various violations of laws and other regulations — risks of dissemination in the media of information discrediting the Company's image, disclosure of confidential business information, high-profile litigations — the ability to maintain the stated level of social responsibility. **Type of risk:** strategic **Source of risk:** internal and external **Impact:** all parameters	— availability and operation of a crisis centre — timely provision of full information about its activities by the Company — implementation of the Sustainability Strategy — implementation of the Code of Business Ethics (senior management demonstrates commitment to high standards of conduct) — training for the personnel in the field of ethics and sustainability requirements — constant interaction with stakeholders, holding seminars and forums to raise awareness about the Company's activities — monitoring information about the Company in mass media and social networks providing response to any incidents and expressing an official position on specific issues — signing a confidentiality agreement with the Company's employees and contractors	2	4
17	**Risks associated with changes in tax legislation** — making amendments to or supplementing the legislative acts on taxes and levies regarding an increase in tax rates, introduction of new types of taxes — changes in the Russian tax system providing a significant adverse impact on the attractiveness of investments in the Company's securities — possible challenges in the correct definition and implementation of the tax planning strategy, inconsistency of the tax planning goals with the Company's strategic objectives. **Type of risk:** regulatory **Source of risk:** external **Impact:** revenue	— monitoring changes in legislation by specialists of the financial unit and prompt introduction of changes to internal policies and procedures — consultations with the involvement of audit companies — development and coordination of the accounting policy with external auditors.	2	3

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
18	**Climate-related risks** — physical climate-related risks (natural phenomena occurring as a result of the climate change: urgent risks (hurricanes, floods, fires, etc.) and systematic risks associated with long-term changes of the climatic characteristics and conditions (e.g. global warming) — transitional climate-related risks (risks and their factors associated with the transition to a low-carbon economy). **Type of risk:** regulatory **Source of risk:** external **Impact:** all parameters	— 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-relarted 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.	2	2

Sustainable
Development

Jan Dunning,
Chairman of the Sustainability Steering Committee

Dear stakeholders,

As Russia's No. 1 retailer by the number of stores and geographic outreach, we feel not only obliged to retain and strengthen our market leadership, but also responsible for the Company's sustainable development and its contribution to sectoral and social sustainability. That is why our annual report focuses on the key results achieved by the Company as part of its ESG Strategy goals for 2025.

Striving to become a leading Russian retailer in sustainability, Magnit has set ambitious goals that include leadership in the environmental impact reduction in the retail sector, having positive impact on the quality of life of the Russian consumers, becoming a number one employer in the industry, as well as creating a 100% responsible supply chain and the "best in class" Corporate Governance.

As part of the ESG Strategy, we set out a variety of quantitative and qualitative targets in environmental stewardship, sustainable sourcing, employees, communities, and health and wellbeing.

Our commitment to sustainability goes far beyond the topics that are of material significance for Magnit and its immediate stakeholders. As part of our ESG Strategy, we strive to contribute to all UN Sustainable Development Goals (SDGs), while also placing a particular emphasis on the following: Zero Hunger (SDG 2), Decent Work and Economic Growth (SDG 8), Responsible Consumption and Production (SDG 12), and Climate Action (SDG 13).

There is no doubt that it will take us some time to deliver on our strategic goals in the selected areas, but we take pride in the progress made against the Strategy and are happy to present the interim results achieved by Magnit's sustainability team in 2021.

In the reporting year, we focused on programmes designed to promote healthy lifestyles, collection and processing of waste, and creation of a sustainable sourcing system. We also continued our efforts to reduce direct and indirect GHG emissions by buckling down to the renewal and gradual transformation of Magnit's car fleet and boosting energy efficiency across the Company.

Our sustainability pursuits in 2021 helped Magnit improve its positions in a variety of ESG ratings. The Company's ambition to become the best employer in the Russian retail sector was endorsed by the platinum award given by Forbes and KPMG to recognise Russia's top employers in terms of their ESG record.

The Russian National Rating Agency called Magnit the leader of ESG integration among Russian non-financial public companies in retail, thus acknowledging our progress in corporate governance, assurance of product quality and safety, carbon footprint reduction, and development of staff relations.

With the acquisition of Dixy in 2021, Magnit experienced a major change in its corporate structure. We seek to fully integrate Magnit's sustainability principles into the business processes of Dixy, while also fine-tuning the company's current business practices.

Our ESG achievements would have been impossible without the concerted efforts of Magnit's team, suppliers and partners. I would like to take this opportunity to thank each stakeholder for their significant contribution to Magnit's sustainability efforts.

Despite all the accomplishments so far, we still have a lot of ambitious goals ahead. They are mostly about integrating ESG principles into all our business processes and operations.

Overview

In 2020, focused on issues that matter most to its stakeholders, Magnit set its sustainability strategy goals for 2025. Now in its second year, the Company has made considerable progress across its five priorities, fine-tuning its work to drive even greater improvements across environmental and social goals.

Magnit changed gears in 2021, growing significantly through a major acquisition, launching numerous stores and new formats, and building the e-commerce business. This was achieved against a continued backdrop of uncertainty around the COVID-19 pandemic and supporting customers and employees to a 'return to normal'.

At the heart of this is a strong commitment to grow the business sustainably and continue to reduce the Company's impacts.

Key highlights for 2021

72%
employee satisfaction

8 thous.
volunteers/events[1]

16%
increase in purchases from local suppliers

27%
of private label sales falls on healthy lifestyle products

>99%
of the total volume of plastic generated in the distribution centres is sent for recycling

8%
decrease in specific electricity consumption (kWh/mln RUR) since 2019

19%
reduction of specific GHG emissions (t CO_2 eq/mln RUR) since 2019

RUB 641 mln
allocated for social and charity projects

[1] The indicator is calculated based on the number of volunteers divided by the number of events, since it is currently not possible to calculate the absolute number of volunteers

Interaction with stakeholders

While improving Magnit's sustainability management and reporting, we consider the views of all stakeholder groups. We determine the most important issues to enhance communication and develop engagement with our stakeholders on these issues.

Magnit engages in an open dialogue with all stakeholder groups, both internal, such as employees and shareholders, and external, such as suppliers and customers. The Company's interaction with stakeholders is built on the principles of respect for stakeholders, transparency, regularity, and compliance with obligations.

Read more about our stakeholder engagement on p. 112.

Sustainable Development (continued)

Sustainability Strategy

Magnit's sustainability strategy is based on the 10 principles of the UN Global Compact and the 17 UN Sustainable Development Goals, as well as stakeholder expectations. Magnit has outlined 5 key areas and sets quantitative and qualitative targets for 2025:

Our goals for 2020-2025
2021 Indicators

Environmental Stewardship

To be a **Leader** in environmental impact reduction in the industry

- CO_2 emissions
- Packaging waste
- Food waste
- Energy and water use

6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

50% Private labels and own production packaging be recyclable, reusable or compostable

100% Recyclable plastics in own operations are recovered and recycled

50% Food waste reduction

30% Greenhouse gas emissions reduction

25% Water and energy consumption reduction

Private label (24.5% of the total number of SKU was checked):
25% of packaging is recyclable,
36% – partially recyclable

Own production: 30% of packaging is recyclable,
44% – partially recyclable

>99% of plastic packaging generated during shipping activities was recycled in 2021

Reduction by 46% of specific food waste generation (167.66 kg/mln RUR) since 2019

Reduction by 8% in specific electricity consumption (1,825.6 kWh/mln RUR) since 2019

Reduction by 19% (2.37 t CO_2 eq/mln RUR) of specific greenhouse gas emissions (scope 1 and 2) since 2019

Sustainable Sourcing

To strive towards a **100%** responsible supply chain

- Products and raw materials from responsible sources
- Best local products
- Food and non-food safety
- Responsible own agriculture and production
- Private labels
- Green marketing

12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 17 PARTNERSHIPS FOR THE GOALS

100% Responsible sourcing for socially important categories

100% Responsible own production and agriculture

Partnership Programmes for local suppliers & farmers

Development of a pilot project for ESG certification of suppliers of socially important goods

The Company obtained certification for the compliance with the international food safety management system according to FSSC 22000-2018 standards

Launch of the initiative to switch private label goods to eco-friendly packaging

Opening of the first vertical ecological greenhouse

Magnit received more than 100 awards for the quality of its own production in various quality competitions in 2021

Increased by 16% the total volume of purchases from local suppliers

Employees

To be the **#1** employer in the industry

- Fair, safe and rewarding workplace
- Training and development

8 DECENT WORK AND ECONOMIC GROWTH

70% Rate of employee satisfaction — 2021: 72%

50% Injury rate reduction and zero fatalities — 2021: 0.91 Injury rate (per 1,000 employees)

40% Turnover rate — 2021: 53%

Communities

To make a **Positive** impact on the quality of life of all Russians

- Corporate volunteering
- Emergency help
- Charity

2 ZERO HUNGER | 8 DECENT WORK AND ECONOMIC GROWTH | 17 PARTNERSHIPS FOR THE GOALS

10% Employee volunteers — 2021: 2.5%

Community Programmes for all the regions of the Company's presence — In 2021, all 67 regions of the Company's presence regions were covered with social projects

Health & Wellbeing

To **Improve** the quality of life for consumers and local communities

- Promoting healthy lifestyle: nutrition and sports
- Availability of health-related services and products

2 ZERO HUNGER | 3 GOOD HEALTH AND WELL-BEING

Healthy lifestyle
Information about healthy lifestyle and nutrition is available to all of consumers

Healthy food
Related products are available to all of consumers

Implementation of new partnership projects aimed at promoting healthy lifestyles, as well as active development of own initiatives, led to the increase of consumers' coverage across the country

The number of Health Cubes in the supermarkets has reached 228, while the category's popularity has increased by 9%

Revenue of RUB 41,487 mln from Magnit's healthy lifestyle private label products, which accounts fo 27% of private label sales

Sustainable Development (continued)

Fuel consumption by the Group's enterprises in 2018–2021[1]

Fuel types	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Diesel fuel, l	199,843,095	-	215,820,780	-	191,462,410	-	150,276,040	-
Gasoline, l	12,645,506	-	13,168,980	-	13,123,330	-	15,519,030	-

Fuel consumption by the Group's enterprises in 2018–2021, RUB mln[1]

Fuel types	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Diesel fuel	6,825.0	-	7,713.4	-	6,649.1	-	5,781.9	-
Gasoline	433.3	-	472.7	-	460.3	-	557.5	-

Energy consumption by the Group's enterprises in 2018–2021[1]

Type of energy resource	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Thermal energy, Gcal	1,246,351	516	1,201,925	469	1,232,174	561	1,369,486	462
Electricity, KW per hour	,564,578,505	217,587	2,725,130,567	241,101	2,839,098,541	266,604	3,155,928,433	202,163
Natural gas, cbm	170,739,126	24,903	234,939,230	18,937	187,787,159	29,386	216,570,229	23,442

Energy expenditures by the Group's enterprises in 2018–2021, RUB mln[1]

Type of energy resource	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Thermal energy	1,944.9	0.8	2,083.3	0.8	2,201.4	1.0	2,537.8	0.8
Electricity	13,762.9	1.1	15,066.8	1.4	17,295.9	1.6	19,043.3	1.3
Natural gas	1,067.8	0.2	1,548.3	0.1	1,229.1	0.2	1,443.5	0.1

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

[1] Excluding Dixy.
Data for 2019 and 2020 differ from the data in the 2019 Annual Report due to improved data collection.