3 Environment

Environment

Magnit places a great emphasis on environmental protection. The Company is aware of its responsibility and is implementing a number of initiatives that contribute to achieving its sustainability goals.

In its Sustainability Strategy 2025 developed and adopted in 2020 with a particular focus on environmental protection, Magnit defines several priority areas and sets strategic goals up to 2025. The environmental initiatives will help Magnit not only achieve its sustainability goals but also implement the principles of the UN Global Compact that Magnit joined in 2020.

We are determined to achieve the following environmental protection goals by 2025*:

50%
recyclable, reusable or compostable packaging for private label products
BEGINNING THE JOURNEY

100%
recyclable plastics in own operations
SUBSTANCIAL PROGRESS

30%
reduction in GHG emissions
SUBSTANCIAL PROGRESS

25%
reduction in water and power consumption
BEGINNING THE JOURNEY

50%
reduction in food waste
SUBSTANCIAL PROGRESS

* All quantitative targets are indicated per square meter of total area

GHG emissions

Magnit keeps track of its direct GHG emissions (Scope 1) and indirect emissions associated with electricity and heat consumption (Scope 2).

Magnit is taking measures to reduce the GHG emissions of its logistics unit operating 4 355 motor vehicles. Since 2019, Magnit has been making an orderly transition to the use of medium-duty trucks for delivering products to its retail stores. The transition to medium-duty trucks will optimize fuel costs and logistics operations, resulting in reduced GHG emissions. Medium-duty trucks accounted for 4% of the Company's fleet in 2020. The proportion is forecast to reach 25–30% of the fleet by 2023.

Magnit mainly uses gasoline, diesel and compressed natural gas. Diesel fuel is used to power vehicles and generators in the event of disruptions in energy supply. Natural gas is used for power generation. In 2020, the Company operated 20 heat and power generation units. Part of the generated electricity is sold on the open market. An additional 11 heat and power generation units are to begin operation by 2025. Magnit has been using more motor vehicles propelled by cleaner fuel such as LNG and electricity.

In 2020, Magnit launched a pilot project to test the efficiency of trucks that run on biogas. The pilot project is part of a large-scale program to convert part of the fleet to eco-friendly fuels. Vehicles will be tested on long distances for a few months to assess their efficiency and emissions. At the end of 2020, Magnit had 254 biogas-powered trucks in its fleet. The Company estimates that biogas-powered trucks will enable it to reduce GHG emissions by 4.4 tons a year and cut spending on fuel by 14%. Magnit's vehicles are also equipped with special fairings that save up to 50% of fuel in long distance transportation through aerodynamic improvements, according to preliminary estimates.

In 2020, Magnit started to test the first Russian heavy-duty electric truck MOSKVA. The truck was designed and made by Drive Electro according to Magnit's specifications. The curb weight of the MOSKVA truck, around 10 tons, is similar to that of a diesel truck of the same class. Magnit's environmental experts estimate that one electric truck may reduce carbon dioxide emissions by almost 87 tons per year. The test electric truck to be piloted for 6-12 months will be used to deliver goods from the distribution center in Dmitrov to Magnit stores in Moscow. If the testing is successful, Magnit will consider using more electric trucks in the future.

Magnit is optimizing its fuel consumption to reduce fuel costs as well as GHG emissions and air pollution.

Magnit also monitors fuel consumption at its production facilities. It consumed 13.4 liters of hydrocarbon fuel per ton of agricultural produce in 2020.

Not only does Magnit implement various GHG emission reduction initiatives, but it also plants trees in a joint campaign with Henkel to lower its carbon footprint. See detailed information in the Green marketing section.

Magnit is steadily increasing the number of vehicles using the Euro-5 standard. Such trucks are additionally refueled with AdBlue liquid reagent, which significantly (up to 90%) reduces the content of harmful substances in the exhaust gases.

GHG emissions (scope 1 and 2), kg of CO_2 equivalent per square meter of total area[1]

2020	**245.23**
2019	263.30
2018	274.88

Direct GHG emissions (scope 1), kg of CO_2 equivalent per square meter of total area

2020	**69.12**
2019	83.40
2018	84.79

Indirect GHG emissions (scope 2), kg of CO_2 equivalent per square meter of total area

2020	**176.1**
2019	179.90
2018	190.1

Fuel consumed by Magnit in 2018–20[2]

Gasoline and diesel fuel consumption, liters per square meter of sales floor space

2020	**26.40**
2019	30.39
2018	33.07

Gas consumption, cubic meters per square meter of sales floor space

2020	**21.95**
2019	28.02
2018	26.57

Air pollutant emissions, 2018–20, tons[3]

Nitrogen oxides[4], sulfur oxides and other significant air emissions[5]

2020	**3,174**
2019	7,474
2018	5,449

Emissions of ozone-depleting substances (ODS)

2020	**3.28**
2019	4.47
2018	7.27

[1] GHG emissions (Scope 1) were calculated based on recommendations of the Intergovernmental Panel on Climate Change and using national factors (excluding emissions from land use for farming). GHG emissions (Scope 2) were calculated using the location-based method. The accounting boundaries and reporting requirements are set out in the GHG Protocol Corporate Standard. The Company has reviewed its GHG calculation methods and adjusted data for 2018 and 2019 disclosed in its 2019 Sustainability Report.
[2] Data for 2018 and 2019 differ from the data in the 2019 Sustainability Report due to improved data collection
[3] Emissions by Tander JSC, Selta OJSC, own production enterprises and Krasnodar Industrial Park MC LLC.
[4] In 2020, an inventory of emission sources was conducted using a new methodology.
[5] Other significant air emissions include CO, volatile organic compounds (VOCs), solid particles, other gaseous and liquid pollutants, and hydrocarbons without VOCs.

Waste

Sustainable waste management and waste reduction are a key item on Magnit's environmental protection agenda.

In 2020, Magnit sent more than **27,648** units of used consumer plastic packaging (bottles) for recycling. Customers can also buy reusable cloth bags

In 2020, Magnit announced that it had fully switched to bags made from **30%** recycled plastics

In 2019, Russia established regional solid consumer waste disposal operators. The operators signed waste collection contracts using waste limits approved by regional authorities that far exceeded actual waste generated by Magnit stores. That caused a considerable rise in waste reported in 2019 compared with 2018. In 2020, Magnit signed new contracts with waste management operators stating actual volumes of waste generated. As a result, it recorded a decrease in waste generation in 2020.

Magnit also collects recyclable materials at its sites. The Company is committed to reducing food waste landfilling in line with its sustainability strategy.

To measure progress toward the above-mentioned goals, the Company needs to determine the proportions of recyclable materials and food waste at its retail outlets. In 2021, Magnit plans to launch a pilot project in several regions where it has a presence to analyze the morphological composition of waste and calculate the share of recyclable materials and food waste in its total waste.

It will be able to see whether recyclable waste collection increased compared with basic indicators for 2021 and whether it managed to reduce food waste generation.

Packaging waste

The sustainable use and recycling of packaging are a top priority for Magnit and its stakeholders. The packaging management approach may vary depending on the packaging material. Corrugated board, polyethylene film and fruit & veg plastic crates compacted in Magnit's distribution centers are sent for recycling. Cardboard accounts for 90% of total packaging waste. Magnit's distribution centers also send wooden crates for recycling.

Magnit's distribution center in Kolpino has launched a pilot project to reduce waste sent to landfill sites. In December 2020, it installed equipment to shred wooden containers into chips. Wooden waste includes mainly fruit crates, non-standard pallets and pallet debris. Such waste from Magnit convenience stores and hypermarkets is estimated to amount to 1,000 tons per year. The resulting chips are sent to pulp and paper mills under respective contracts.

One of the goals of the Sustainability Strategy 2025 is to provide 50% recyclable, reusable or compostable packaging for private label products. In 2020, Magnit analyzed the packaging materials used for private label products and found that some counterparties were already supplying eco-friendly packaging. Eco-friendly packaging is made from almost 100% recycled materials. It is harmless to the environment and can be easily recycled after use.

Thus, eco-friendly packaging may include the following:

- Corrugated board containers. FSC-certified paper and cardboard packaging accounted for 30%.
- Recyclable individual cardboard boxes exceeded 50%.
- Shrink packaging. In 2020, the Company started using recycled materials to shrink-wrap products in multi-packs.
- Individual packaging. PET thermoplastic is used for packaging individual items. Magnit runs tests on biodegradable eco-friendly polyethylene that can be used in the confectionery industry.

Magnit cut overall packaging consumption by 9.5% in 2020 compared with 2019 through improvements in individual packaging and the use of mono laminates for packaging private label products.

Plastic waste

The Company is implementing a number of sustainable plastic waste management initiatives both independently and in partnership with other companies. For example, it has teamed up with Procter & Gamble to launch a social and environmental campaign called "Give Plastics a Second Life." Detailed information about this initiative is provided in the Green marketing section.

In 2020, Magnit announced that it had fully switched to bags made from 30% plastics. Each bag has a special label telling customers that it contains recycled plastics. In 2021, Magnit is planning transition to bags with a 40% recycled plastic content.

In 2020, Magnit sent more than 27,648 units of used consumer plastic packaging (bottles) for recycling. Customers can also buy reusable cloth bags.

Magnit tested T-shirt bags made of corn starch in Moscow but decided not to include them in its offering for now due to unsatisfactory test results.

Food waste

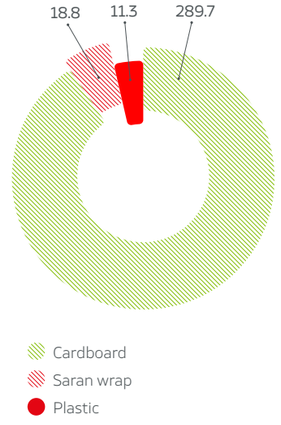
Magnit is working to reduce food waste and transfer food waste to specialized organizations, such as farms and biogas producers, for further use.

In 2020, Magnit launched a pilot project to test food waste processing equipment at the distribution centers in Kolomna and Kolpino.

Higher procurement efficiency and the maintenance of optimal stocks has helped Magnit reduce food waste.

Waste sent for recycling in 2018–20, '000 tons[3]

Materials recycled in 2020, '000 tons[3]



Total waste generated by Magnit in 2018–20, million tons[1]

Total food waste generated by Magnit in 2018-20, kilograms per square meter of sales floor space[2]

[1] Waste generated by Tander JSC, Selta OJSC, own production enterprises and Krasnodar Industrial Park MC LLC

[2] Data from Tander JSC, Selta OJSC, own production enterprises and Krasnodar Industrial Park MC LLC.

[3] Waste sent for recycling by Tander JSC, Selta OJSC, own production enterprises and Krasnodar Industrial Park MC LLC.

Energy
and water use

The Company has state-of-the-art automated equipment to measure hourly consumption of electricity at its sites.

In 2020, Magnit tested its lighting control system equipped with motion sensors in the Krasnodar logistics center. The main objective of the project was to assess the effectiveness of motion sensors in the busiest places of picking and storage areas that account for around 60% of the distribution center's floor space. As a result of the pilot project, electricity consumption in the picking and storage aisles fell by 41% in Krasnodar DC. The use of the technology at all logistics facilities is expected to save around 3.1 million kWh per year, which is enough to power a distribution center of a similar size during a year.

In addition, Magnit launched a project to conduct a thermal inspection of power plants at 14 production sites. If the identified deficiencies are eliminated, Magnit is estimated to save around 500 MWh.

Other energy saving initiatives include the installation of doors onto refrigerated display cabinets and full replacement of fluorescent lights with LED lights finalized in 2020.

A slight increase in electricity consumption in 2020 was caused by the commissioning of a large facility of its own production — a greenhouse complex in Tikhoretsk.

Heat is used for heating purposes and for supporting the operations of the Company's production facilities. Magnit seeks to reduce heat consumption by using energy saving technologies. For example, waste heat is turned into productive energy to heat premises and accommodate the Company's operating needs, while condensate is returned to boiler plants for reuse. This has been implemented at six production facilities.

Water is a critical resource for Magnit. It is used at all the Company's facilities, from its own production sites to retail stores.

Most Magnit stores are located in water-rich regions. However, Moskva na Donu LLC is based in Lipetsk Region, which is facing high water stress according to the World Resources Institute's water stress map. Moskva na Donu LLC modified its technological processes to reduce water consumption by 42% to 1.07 million cubic meters in 2020 from the previous year's level.

Depending of the quality of water, the Company uses mechanical water treatment systems, deferrization filters, ion-exchange resins, reverse osmosis or ultraviolet lamps.

Magnit seeks to optimize its water consumption, leveraging modern metering equipment and advanced technological solutions. For example, transportation companies launched two water reuse stations at the distribution centers in Pervouralsk and Yaroslavl in 2020. According to preliminary estimates, water consumption may potentially fall by 30–40 cubic meters per day. The Company also upgraded the desalination facilities at the distribution center in Pervouralsk in order to reduce water consumption for desalination needs (filter flushing) to 5 cubic meters per day.

Along with the effort to reduce water consumption, Magnit is focused on water reuse. All of its transportation companies have water reuse systems that save up to 70% of clean water required by car washes.

Magnit also uses rainwater for making compost at its button mushroom growing facility in the industrial park. Rainwater used to soak compost reduces reliance on water wells. This method saved 4,500 cubic meters of water in 2020.

Magnit's industrial park has a modern wastewater treatment system. It is located at a single site and consists of stormwater and sewage treatment facilities. Stormwater treatment facilities are designed to accumulate and treat stormwater containing various impurities, such as litter, suspended substances and oil products. Their current capacity is 740 cubic meters per day (maximum capacity: 1,200 cubic meters per day). Sewage treatment facilities are designed to treat industrial and domestic effluents in the industrial park. Their capacity is 600 cubic meters per day. Stormwater and sewage go through seven and eight main stages of treatment, respectively, from mechanical removal of various impurities to ultraviolet disinfection.

Magnit continuously monitors the quality of treated water in a modern laboratory. The industrial park's laboratory is equipped with state-of-the-art, high-tech equipment for express testing. Express tests with ready-to-use solutions quickly provide all the necessary information about the quality of wastewater at all stages of the production process. The short laboratory testing cycle helps fine-tune the operation of wastewater treatment equipment, if and when necessary, to ensure consistently high-quality, fully-compliant treatment of wastewater despite its constantly changing composition. Treated stormwater and sewage are collected in the reservoir of the summation-capable pumping station and then flow via the underground tunnel to the Kochety River.

Data on the electricity, water and heat energy consumption by own production facilities are presented in the section "Responsible production and agriculture".

Specific electricity consumption (excluding own power generated) by retail and logistics facilities in 2018–2020, kWh per square meter

Specific heat consumption by retail and logistics facilities in 2018–2020, 000 Kcal per square meter

Specific water consumption by retail and logistics facilities in 2018–2020, m^3 per square meter

Electricity consumption in the picking and storage aisles fell by

41%

in Krasnodar DC as a result of a pilot project installing motion sensors

Green Office

In 2020, Magnit remained committed to its comprehensive Green Office program at the Company's head office in Krasnodar.

Heated by its own heat and power plant, the head office is equipped with a modern weather-adaptable heating and air conditioning system and a centralized water filtration system. An automatic lighting system and the use of LED bulbs in more than half of lighting fixtures enabled the head office to cut power consumption by 30% in 2020. The Company also installed tap aerators to reduce water consumption in the office.

A special focus was placed on waste management. A total of 120 containers for plastic, glass, metal and paper, four reverse vending machines for plastic bottles and metal cans, and 13 three-section containers were added in the office and surrounding areas. The Company also increased the number of special boxes for collecting used batteries and launched Dobrye Kryshechki, a public environmental campaign (for details, see the Green marketing section).

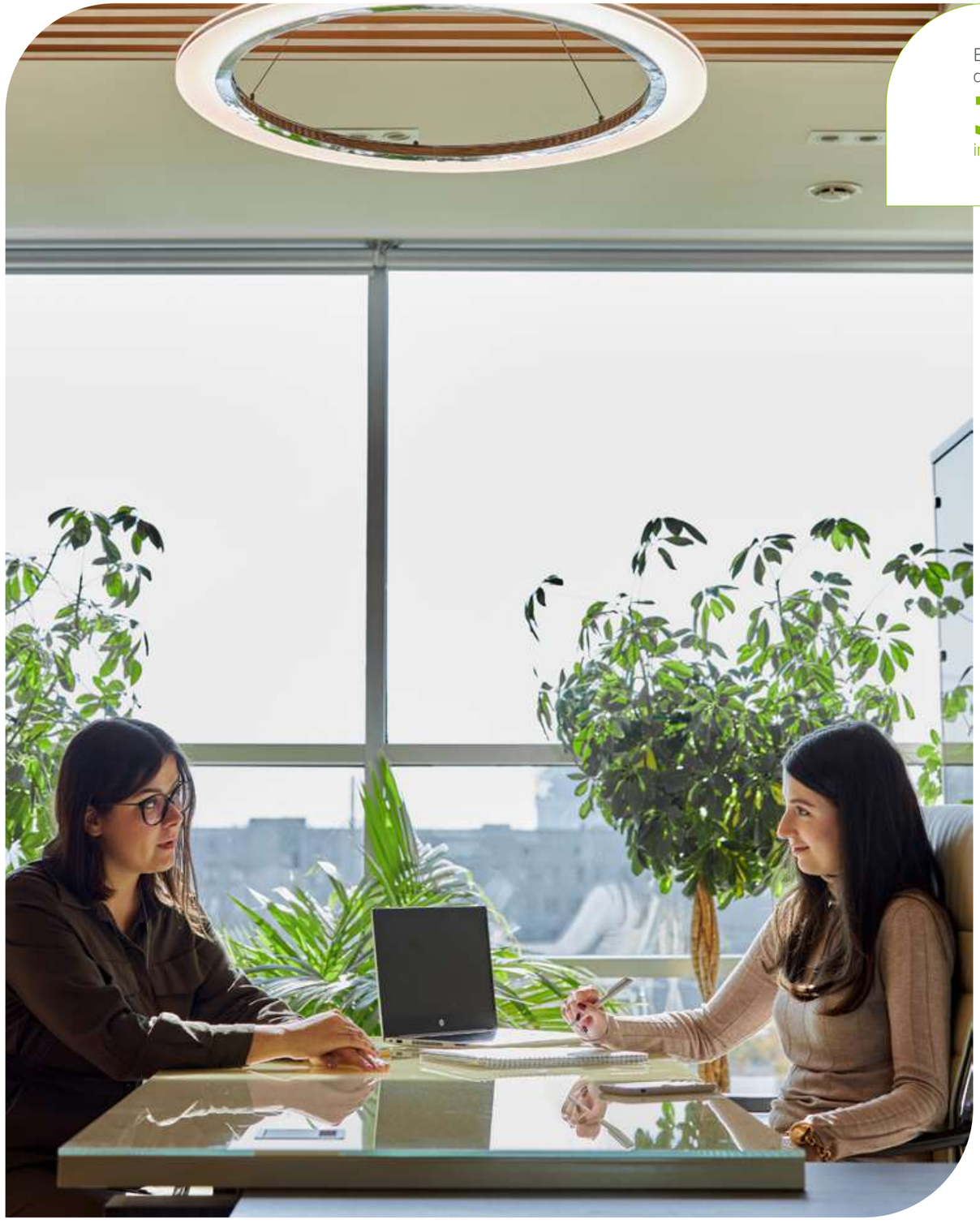
As part of the Green Office program, Magnit launched an awareness campaign in its main office to inform employees of its key initiatives, such as separate waste collection. In 2020, the Company held a webinar for head office employees, installed information boards displaying waste sorting rules, and marked floors with signage showing how to get to the nearest separate waste collection points.

In November 2020, Magnit launched an eco-quest at its office. Players complete tasks that help raise their awareness of recyclable materials and simple day-to-day actions to preserve the planet's health. On completing the quest, the players learn about the Company's eco-initiatives and discover that it is much easier than it seemed to be on the green wavelength.

Thanks to all of the above initiatives, Magnit's head office passed an independent audit as part of the EcoGreenOffice voluntary certification system in 2020.

by **30%**

decreased power consumption in the head office



Electronically exchanged documents doubled to

32.5 million

in 2020 compared with 2019

Since 2015, Magnit has been making a gradual transition to electronic document exchange. Electronically exchanged documents doubled to 32.5 million in 2020 compared with 2019. The Company continued to expand the use of electronic consignment notes whose number rose by 2,6 times year on year to 6.6 million in 2020. The number of electronic powers of attorney issued to drivers rose 3,2 times year on year. In addition, the Company's transition to digital contracts with suppliers saved more than 12,000 sheets of paper in 2020. The electronic document flow enabled Magnit to significantly reduce the number of documents transported using its own vehicles and via couriers.

Magnit managed to optimize paper consumption not only through electronic document exchange, but also by undertaking a number of additional initiatives, such as the installation of printers at retail facilities, the replacement of paper price tags with electronic ones (a pilot project at 14 facilities) and the use of audio and video equipment: customer displays, price checkers, sales area screens, light boxes and radio announcements.