AS ONE — FOR THE CUSTOMER
Vision
A trusted value-for-money retailer, providing high-quality products at affordable prices and catering to all key everyday needs of Russian families.

Goal
To become the store of choice for all Russian families.

Customer first
Our strategy is based on driving fundamental improvements in our value proposition for consumers and we have shifted to a customer-centric approach in our decision making.

Growth
Customer engagement via digital channels is accelerating every year on the back of new technologies penetration providing new opportunities in terms of identifying and communicating with the customers, as well as improving overall processes.

Convenience
We address the most important needs of Russian consumers with convenient and accessible solutions through our family of Magnit propositions.

The basics
We are investing in the optimization of our end-to-end business processes to improve our operating efficiency.

Note of gratitude and appreciation
In a challenging 2020, our employees have done a tremendous job, providing every store with food and serving millions of customers every day, despite the pandemic. This is the very essence of retail as an industry and as a service. Thank you for being able to cope with this difficult task while remaining effective, professional and committed.

We dedicate the pages of Magnit’s 2020 Annual Report to all our employees: cashiers, loaders, drivers and workers in factories.

Thank you for your invaluable work and for taking care of your customers!
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## Corporate Governance

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## Glossary

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Magnit operates a multi-format business model that aims to meet all major customer requirements and be the favorite retail chain for Russian customers in 2020.
Magnit is one of Russia’s leading food retail chains and number one by the number of stores and geographical coverage.

The Company operates in about 3,800 localities: almost 13 million customers visit our stores every day. Magnit utilises a multi-format model, which includes convenience and drogerie stores, supermarkets and pharmacies. As of December 31, 2020, the Company had a total of 21,564 stores in 66 regions of Russia. Magnit’s cross-format loyalty programme covers about 43 million people.

Magnit is unique in the Russian retail market. Aside from selling commodities, it operates a private label (PL) food production business. The Company manages several plants for growing vegetables and the production of dry food and confectionery. Magnit owns greenhouse and mushroom complexes, which are amongst the largest in Russia. The Company’s logistics infrastructure includes 38 distribution centres and around 4,400 trucks.

Magnit was founded in 1994 in Krasnodar, the Southern region of Russia, as a small regional company. Since then, it has evolved into one of the largest companies in Russia with headquarters still located in Krasnodar. In 2006, the Company had its IPO on the London Stock Exchange. Magnit’s local shares are traded on the Moscow Exchange (MOEX: MGNT) and its GDRs on the London Stock Exchange (LSE: MGNT). In accordance with the audited IFRS results for FY 2020, Magnit had revenues of RUB 1,554 bln and an EBITDA (IFRS 16) of RUB 178 bln.

Magnit has a credit rating issued by Standard & Poor’s of “BB”, Stable outlook.

Global 2000 by Forbes
Magnit is included in the list of the World’s Largest Public Companies (Global 2000 by Forbes) and is one of the Russian leading private employers. The Company currently employs a total of more than 316,000 employees.

Who We Are

### Revenue

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<th>RUB</th>
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<tr>
<td><strong>Revenue</strong></td>
<td>1,554 bln</td>
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### EBITDA (IFRS 16)

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<th></th>
<th>RUB</th>
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<tr>
<td><strong>EBITDA</strong> (IFRS 16)</td>
<td>178 bln</td>
</tr>
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</table>
Chairman’s Statement

Dear shareholders,

Magnit remains one of the country’s largest retail and food production businesses. Over the past year, we strengthened our market leadership by building on our competitive advantages, anticipating market trends and transforming our business accordingly.

2020 presented us with extraordinary challenges in terms of both economic trends and the global pandemic, which exposed every industry, including retail, to new risks. In addition to protecting the health and safety of our people, our primary goal was to ensure products remained available and were safely accessible to all our customers. To achieve this, we implemented heightened safety measures, created special programmes to monitor on-shelf stock levels and helped those who were hit the hardest. In April 2020, to support vulnerable citizens, the Company announced the launch of its #MagnitZabota (#MagnitCare) social programme. Since then, we have provided over 350 thousand food parcels in 24 regions of Russia.

We leveraged our unique business model featuring a large supply chain, own production and agricultural facilities and multi-format umbrella brand to overcome the challenges of 2020. As a result, Magnit reported robust financial and operational results, with improvements in net profit, sales volumes across all formats and working capital cycle. We continued to pursue our strategic goal of creating a value-for-money store of choice for Russian families, while focusing on existing competitive advantages and creating a base for Magnit’s future sustainable growth.

We can see that grocery retail was among the least affected industries by the pandemic, as our customers faced restrictions on their movement, they increased their spending on food. Magnit’s investment volumes declined compared to the previous year, as the pace of our expansion slowed and our focus on the redesign and relaunch of sales in existing stores increased.
Chairman’s Statement (continued)

Despite the current economic environment and high price-sensitivity, we see consumers seeking high quality, responsibly sourced and fresh produce as well as a convenient and high-tech service. In line with our strategy of putting customers at the heart of our decision-making process, we continued to evolve our business, developing our own production facilities and constantly improving consumer experience. This also led to the launch of several e-commerce projects, both independently and in cooperation with partners. We rolled out a unique cross-format loyalty programme, piloted new formats, and progressed in developing and improving operational efficiency by launching wide-scale digital transformation and enhancing category management.

We continued to pursue our ambitious task of developing a “best in class” corporate governance system, in line with best practice in Russia and internationally. In 2020 the Board of Directors engaged an independent consultant for an external assessment of the Board of Directors. In terms of the balance of independent, non-executive and executive directors, our Board of Directors complies with the best market practices. The consultant noted a high level of efficiency of the Board of Directors, as well as involvement of the members of the Board of Directors in the Company’s work.

The fact that our Board of Directors committees are led by independent non-executive directors and consist mostly of independent directors provided a strong foundation for us to build on.

To further enhance our transparency, in 2020 we adopted the new edition of Magnit’s Articles of Association, which helped us combine all the changes of the previous years.

As a leading Russian retailer serving millions of customers across 66 regions daily and employing over 300,000 people, Magnit has a significant impact on the communities in Russia and abroad. We acknowledge that this position comes with great responsibility and remain committed to best practice in business sustainability.

To focus our efforts, in 2020, we implemented our Sustainability Strategy, “Retail with Purpose”, with commitments up to 2025. We also created a Sustainability Steering Committee headed by our President and CEO Jan Dunning, which consists of 16 working groups with representatives from all key units. To oversee the implementation of our ESG strategy, we appointed Anna Meleshina to the newly created role of Director for Corporate Relations and Sustainability.

Furthermore, we joined the UN Global Compact, a UN-driven worldwide initiative with over 13,000 companies working on ESG topics.

I would like to express my sincere gratitude to Magnit employees, a family that brings together more than 300 thousand people across the country. It is their dedication, enthusiasm and mutual support that has enabled us to provide an uninterrupted service of the highest standard during the pandemic. I was particularly impressed by our employees’ flexibility and willingness to learn, both of which are necessary for the smooth transformation of our business.

I would also like to extend my gratitude to my fellow members of the Board whose expertise and diligent work strongly contributed to implementation of Magnit’s strategy throughout the year. The Management Board, whose members’ decisions played a pivotal role in the Company’s robust transformation process, also have my respect and deserve praise for managing the Company adeptly through a very difficult period.

Finally, I would like to thank our shareholders for the continued trust they place in Magnit. I am proud to say that, despite adverse conditions, we successfully maintained continuous and open dialogue with the investment community by participating in virtual conferences and meetings, and by providing regular updates to the market.

Given our strong track record and solid reputation, I am confident that Magnit is well placed to leverage future opportunities and deliver on its strategic objectives. Looking forward, we will remain focused on delivering value to our shareholders, working as one team to transform the Company into the most innovative and efficient player in Russian retail.

Charles Ryan
Chairman of the Board of Directors
President and CEO’s Statement

2020 was an extraordinary year for all of us, presenting both challenges and opportunities. The COVID-19 pandemic required swift action in response to the rapidly changing economic environment, consumer behaviour and regulation. I am delighted to report that Magnit successfully navigated this turbulent period to deliver robust results, demonstrating our ability to seize opportunities and create value.

During 2020, we focused on ensuring a continuous supply of products to meet increased demand, delivering a full range of products at affordable prices. Despite the pandemic, we launched a record number of new projects, in line with our strategic goals. Firstly, we improved our retail operations and processes, increasing both our efficiency and customer experience. We saw a continuous inflow of new customers, and significant progress in both customer satisfaction rates and NPS scores. Our organisational design continued to be enhanced and we commenced our digital transformation programme. We also made significant progress towards the commitments made as part of our sustainability strategy.

Performance

In delivering strong operating and financial results in 2020, we made steady progress against our three main strategic priorities.

We focused on the high operating efficiency of the existing store base and temporarily decelerated the expansion of our retail network. This was in line with our plans to review our expansion and capital allocation approach. In total, we opened 839 new stores in 2020, growing net retail space by 3.6%.

Our sales grew by 13.5%, to RUB 1,554 bln, mainly driven by the significant increase in like-for-like sales, and to a lesser extent by retail space growth. Our like-for-like sales grew by 7.4%, driven by increased spend per visit on a higher number of items per basket, a trading up effect, lower promotion intensity and on-shelf inflation. Meanwhile, 14.1% growth in the like-for-like average ticket outstripped the like-for-like traffic decline of 5.9%.

Improvement in profitability during the year is reflected in the 97 bps year-on-year growth in EBITDA margin (IAS 17) to 7.0%. We also successfully released RUB 30.5 bln of cash from our working capital.

Finally, in light of the pandemic, we took the decision to significantly reduce our leverage to 1.1x, which will position us well for future expansion. As a result, we nearly doubled ROIC for the business.

1 Number of opened stores net.
2 Net Debt/EBITDA (IAS 17).
COVID-19 pandemic
The health and safety of our customers and employees has been our highest priority. At the same time, it was crucial to maintain high service levels to retain the store of choice for our customers. In response to the pandemic, we immediately implemented rigorous health and safety measures in our stores and distribution centres, which included disinfection, daily medical examinations, and temperature checks for employees, intensified cleaning, installation of protective screens and sanitisers.

The pandemic has affected all parts of society and we saw it as our responsibility to support the most vulnerable. In response, we reached out to the communities we operate in, delivering over 350,000 free food parcels, giving out over 150,000 special cards with higher level of bonuses to frontline health workers, delivering coffee to hospitals and encouraging employees to volunteer to deliver groceries to elderly and vulnerable people.

Strategic priorities in action
As part of our journey to becoming a modern, innovative retailer, in 2020 we continued to optimise our key business processes while maintaining focus on capital allocation and expansion priorities.

In line with our strategy, we continued to put our customers at the centre of our decision-making process, leveraging existing competitive advantages and investing in the optimisation of our end-to-end business processes to create opportunities for future growth.

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 continued to adjust our customer value proposition (CVP), develop our own production facilities and our private label assortment.

An important driver of Magnit’s transformation remained the improvement of our category management function, which was introduced in 2019 and further developed in 2020, when we addressed several topics, such as developing a CVP strategy for each format, format-specific category management and assortment management.

We try to tailor our CVP to all existing formats by adapting the logistical, marketing and operational capacities of each format. In this context, we see store clustering as a unique opportunity to improve the whole management system of Magnit.

In 2020, we successfully rolled out our cross-format loyalty programme, which encompasses all Magnit stores and provides us with an opportunity to gain a deeper understanding of our customers. By the end of the year, more than half of all purchases were made using our loyalty card, and the penetration rate in sales reached 70%.

As part of our value proposition, we progressed our redesign programme and introduced several tools to improve customer experience, such as fresh and ultra-fresh zones in our stores, and the new position of a Quality Attendant supervising the quality of the products in-store.

We introduced smart sourcing based on changing consumer patterns, providing deeper differentiation versus competitors. Leveraging our private label portfolio, we expanded the assortment of our private label “Magnit Freshness”. As a result, the revenue from sales of private label products increased by 54%. We also continued to develop our own production capabilities; as of the end of 2020, Magnit operated 18 production plants and four agricultural facilities.

The focus on performance involves the creation of an omnichannel ecosystem through the use of cutting-edge digital technologies. In 2020 we commenced our digital transformation which will be powered by widespread use of big data and advanced analytics, SAP and e-commerce. The integration of these tools will impact almost every business process in Magnit and will be the key to elevating our operational performance. We expect the impact from the Enterprise Resource Planning (ERP) implementation to reach billions of rubles, and considering our size, this may become the largest digital transformation programme in the history of Russian retail. In 2020 we also completed the centralisation of the finance function in the Shared Service Centre (SSC) in Krasnodar.

Another priority in enhancing our operational efficiency was the development of our logistics system. In 2020 Magnit started to roll out its Forecasting & Replenishment system based on AI and machine learning technologies.

By implementing this project, we plan to significantly increase the transparency of our operations, and increase availability of assortment, particularly for fresh and ultra-fresh categories.

Outlook
Magnit is entering 2021 with a reinforced balance sheet, strong cash generation and improved working capital. All this serves as a robust foundation for faster and profitable expansion.

Our main purpose remains to provide safe, nutritious, affordable food and products to improve the lives of our customers. In the near future, we plan to continue our step-by-step improvements across all business areas and deliver further profitability gains aimed at creating additional value for our shareholders. We plan to resume our expansion and redesign programme by opening and renovating more stores in 2021. This will include developing new formats, such as Moya Tsena (My Price) discounters; the wide expansion of e-commerce projects and a delivery service. Meanwhile, we plan to continue refining our CVP, improving the product range and launching new customer experience tools in our stores.

In 2021 and beyond, we will focus on improving efficiencies and capitalising on our strengths. Throughout our logistics system, we will implement best practice concepts, including the Forecasting and Replenishment system and the renewal of vehicle fleet. We will also continue to advance our loyalty programme to offer deeper personalisation and emotional engagement with our customers.

Jan Dunning
President and Chief Executive Officer

Magnit will develop its business in line with the new sustainability strategy, seeing all our commitments as long-term priorities. This includes increased focus on healthy, living and waste recycling, areas close to our stakeholders’ hearts. We aim to position ourselves as an open and proactive partner for all our stakeholders, working with our partners, including industry associations. One of the main stakeholder groups is our suppliers, with whom we have several joint programmes to build upon.

I would like to thank the Board of Directors and the whole Magnit team for their consistent work and contribution to the process of value creation for our shareholders, employees, partners and customers.

I am truly looking forward to us continuing to lead the way forward in operational efficiency and sustainability in our industry in 2021 and the years ahead.
Our mission and values
Our values are a basis for our mission: to become the store of choice for every Russian family.

Our vision
A trusted value-for-money retailer, providing high-quality products at affordable prices and catering to key everyday needs of Russian families.

Magnit is:
— the leading food retailer in Russia by number of stores and geographical coverage
— the largest food importer in the Russian Federation
— a multi-format retail chain with a unique cross format loyalty programme
— the only vertically integrated retailer, which operates 17 agricultural and food production units across Russia
— a reliable and stable partner for national producers and foreign companies
— nationwide supply chain network and one of the largest fleet owners in Europe
— one of the largest private employers in Russia
— the store of choice for millions of customers.

Key Operational Figures

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<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Number of Stores</td>
<td>18,399</td>
<td>20,725</td>
<td>21,564</td>
</tr>
<tr>
<td>Cities &amp; Townships</td>
<td>2,976</td>
<td>3,742</td>
<td>3,752</td>
</tr>
<tr>
<td>Tickets, mln</td>
<td>4,570</td>
<td>4,690</td>
<td>4,641</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>205,812</td>
<td>205,942</td>
<td>316,001</td>
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<tr>
<td>Revenue, RUB, bln</td>
<td>1,237</td>
<td>1,693</td>
<td>1,954</td>
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<tr>
<td>Revenue Growth, %</td>
<td>8.2</td>
<td>10.6</td>
<td>13.5</td>
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<tr>
<td>Gross Margin, %</td>
<td>26.9</td>
<td>22.6</td>
<td>23.5</td>
</tr>
<tr>
<td>EBITDA Margin (IAS 17), %</td>
<td>72</td>
<td>61</td>
<td>7.0</td>
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<tr>
<td>Net Income Margin (IAS 17), %</td>
<td>27</td>
<td>12</td>
<td>2.4</td>
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<tr>
<td>CAPEX, RUB, bln</td>
<td>64</td>
<td>59</td>
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<td>Net Debt/EBITDA (IAS 17)</td>
<td>15</td>
<td>21</td>
<td>1.1</td>
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<tr>
<td>Total dividends for the respective year, RUB, bln</td>
<td>31</td>
<td>31</td>
<td>29</td>
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<tr>
<td>CO₂ Emissions1, mln tonnes</td>
<td>25</td>
<td>26</td>
<td>2.6</td>
</tr>
<tr>
<td>Total Amount of Waste, mln tonnes</td>
<td>11</td>
<td>17</td>
<td>1.2</td>
</tr>
<tr>
<td>Total Amount of Recycled Waste2, mln tonnes</td>
<td>442</td>
<td>482</td>
<td>481</td>
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1 IAS 17.
2 Dividends announced on PJSC Magnit shares following the results for the first 9 months of 2020, were paid in January 2021.
3 The Company has reviewed its GHG calculation methods and adjusted data for 2018 and 2019.
4 Waste generated by JSC Tander, OJSC Selta, own production enterprises and LLC MC Krasnodar Industrial Park.
5 Waste sent for recycling by JSC Tander, OJSC Selta and own production enterprises.
6 For a full list of Magnit Group companies please see Appendix 4 on p. 190.

Key Subsidiaries of the Company
The Magnit Group amongst others include PJSC Magnit and its subsidiaries: LLC Alcotrading, JSC Tander, LLC Tandem, LLC Retail Import.

Our History
1994
Company founded as a household cleaning products and cosmetics distributor.

1998
First grocery store opened in Krasnodar.

2001
Magnit holding company established.

2006
IPO on RTS and Moscow Exchange, raising approximately USD 370 mln.

2008
SPO on London Stock Exchange, raising almost USD 500 mln.

2010
First drogerie store launched.

2011
Expansion of operations to include the production of vegetables.

2013
Magnit becomes the largest retailer in Russia.

2018
New Board of Directors and new Management team introduced, following a change in the shareholder structure and a launch of the Company’s transformation.

2020
Magnit launched new large-scale Digital and Logistics transformation programmes. Approved Sustainability Strategy “Retail with Purpose”. Launched multiple e-commerce initiatives.
Highlights of the Year

2020 was a challenging yet rewarding year for Magnit. We remained focused on what we do the best, providing the best possible service to our customers and protecting their health and safety. We improved the efficiency of existing business operations, tested new formats and moved into online, accelerated our digital transformation and adopted our Sustainability Strategy. Our financial performance improved substantially on the back of industry leading LFL sales growth, improved margin and a strong financial position.

We saw positive NPS dynamics across all formats.

NPS’ dynamics

Convenience

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Supermarkets & Superstores

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Drogerie

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Improvement of LFL sales growth/sales densities

LFL sales growth of 7.4% in 2020 vs 0.4% in 2019

Margin Regain

97 bps year-on-year EBITDA margin (IAS 17) improvement on the back of gross margin gains and strict cost control

Improvements of the working capital cycle

RUB 30.5 bln of cash release from the working capital

Strong deleveraging and strengthening of financial position (Net Debt/EBITDA)

Net Debt/EBITDA of 1.1x as of the end of 2020 vs 2.1x as of the end of 2019 with FCF of RUB 85 bln vs RUB (2.2) bln in 2019 based on IAS17

ROIC improvement

14.1% in 2020 vs 7.9% in 2019.

-1.8x year-on-year ROIC improvement for the business

1 Consensus GFK and Romir panel analysis.
2 Net Promoter Score.
3 Return on invested capital (ROIC) is a calculation used to assess a company’s efficiency at allocating the capital under its control to profitable investments.
Highlights of the Year (continued)

Corporate Governance

- Florian Jansen steps down as a Member of the Board to become the Deputy CEO – Executive Director to head the Digital Transformation
- Magnit extended and strengthened the Management Board
- Adoption of the Sustainability Strategy and a number of specific policies

Securities

- Dividends paid for 9M 2019 and FY2019 totalling RUB 31.0 bln
- The placement of bonds by Magnit was recognised as the best placement by a retailer
- Credit Rating Agency ACRA affirmed the rating of Magnit and its exchange-traded bonds at AA (RU)
- S&P Global Ratings affirmed the rating of Magnit at ‘BB’, Stable outlook

Operations

- Launched digital transformation powered by SAP
- Magnit started and later expanded piloting discounters
- Magnit expanded testing of Magnit City format
- Twelve startups-finalists of the MGNTech Accelerator to launch pilots with Magnit
- Magnit launched multiple e-commerce initiatives covering all formats and customer missions
- Magnit launched virtual store tours
- Magnit started transition to a new Product Management System
- Magnit began large-scale supply chain transformation
- 1,292 stores opened (gross) and 385 redesigns completed in 2020

Sustainability

- Magnit presented Sustainability Strategy and affirmed “Retail with Purpose”
- Magnit joined the UN Global Compact, an UN driven worldwide initiative with 13,000+ companies working on ESG
- Procter & Gamble and Magnit partnered in sustainable development in Russia
- Magnit, Procter & Gamble, and Dima Bilan® rolled out largest non-state network of Reverse Vending Machines for Plastic Waste Collection
- Magnit launched programme to aid socially vulnerable citizens
- The first Russian electric heavy-duty truck, MOSKVA, was handed over to Magnit for trial operations
- Magnit’s comprehensive anti-COVID programme accounted for RUB 2.8 bln

1 Famous Russian pop singer.
We Are Everywhere for Our Customers

Magnit is the number one Russian retailer in terms of the number of stores, proximity to customers and geographical coverage. Our wide geographical coverage requires us to be one of the most advanced in the logistics and supply chain management to always bring fresh produce to our customers. 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 population of 3,000 people.

In 2020 we opened our new Distribution Centre in Novosibirsk, with the total area of 40 thous. sq. m adding to our logistical capabilities in Siberia. We also fully refurbished our Voronezh Distribution Centre. We introduced the first Russian electric heavy-duty truck, MOSKVA, for trial operation to make our operations more environmentally friendly.

One of the milestones of 2020 was the large-scale Supply Chain transformation we launched at Magnit. The Company will implement a unified automated forecasting and replenishment system for all store formats, product categories, and distribution centres with the help of Relex Solutions’ platform. This world-class AI-enabled software will encompass all functions of goods distribution, significantly increasing transparency of operations and helping flexibly adapt various processes in line with the Company’s development.

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21,564
Total stores

---

3,752
Cities & townships

21,564
Stores

38
Distribution centres

43 mln
Loyal customers (activated cards)

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1 Does not include pharmacies.

---

2 Convenience stores include Convenience stores, Magnit City, My Price.

3 Supermarkets include Magnit Family supermarkets, superstores.
Supply Chain

Efficient and On Time

38 distribution centres
1.7 mln sq. m of warehouse space
Digital Transformation

Satisfying our customers’ changing needs is the heart of everything we do.

Big Data analytics and innovative solutions we use allow us to continuously improve customer experience. We aim to build an ecosystem of complementary services around the Magnit brand and a strong omni-channel core.

We took our first steps in large-scale digital transformation earlier by rolling out our unique cross-format loyalty programme which proved extremely successful. In 2020 Magnit launched an unmatched 5-year ERP Transformation Programme based on SAP solutions which will be the largest project of its kind in the Russian retail sector. We will leverage not only our partners’ expertise, but also develop relevant internal expertise.

In the reporting year Magnit initiated development of its super app, which will use the existing loyalty programme to bring together online ordering, payment and credit solutions, lifestyle and other non-financial customer services, as well as privileges from its partners. The first step of implementing these solutions was the launch of Magnit Pay payment service which enables customers to pay for their purchases in any store, including online.

Magnit operates one of the largest supply chain networks in the country. The scale of operations makes Magnit one of Russia’s biggest employers. In 2020 Magnit initiated a number of supply chain projects aimed at fine-tuning our operations.

Headline Measures

- **43 mln** Loyal customers (activated cards)
- **4,355** Number of trucks
- **7,497** thous. sq. m Selling space
- **1,707** thous. sq. m Warehouse space
- **70%** Penetration in sales
- **17** Production units
- **>2,500** Private label SKUs

Magnit has launched a continuous long-term programme of truck fleet renewal. We sell old cars and procure low-tonnage trucks and semi-trailers complying with Euro-5 eco standard. The renewal of the fleet makes us more efficient and goes in line with the approved strategy for sustainable, environmentally friendly development.

We are also widely implementing a digitalisation programme across our supply chain. New services and technologies will significantly improve the efficiency of our logistics, thereby reducing our carbon footprint and increasing the freshness of our products on sale. Due to the centralised logistics system, we managed to effectively optimise our costs.

Components of digital transformation

- **ERP Transformation**
- **Big Data and Advanced Analytics**
- **E-commerce**

Ecosystem of complementary services and tools

For more information about Magnit Super App see next page.

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1. Loyalty programme was launched in 3Q 2019

2. A data management platform (DMP) is a software platform used for collecting and managing data. They allow businesses to identify audience segments, which can be used to target specific users and contexts in online advertising campaigns.
Digital Transformation (continued)

We also began testing e-commerce services in the second half of 2020. Magnit currently runs six online delivery projects, both independently and in cooperation with partners. During the first three months, the pilots’ growth dynamics exceeded original expectations and showcased the high potential of this market.

Magnit’s future ecosystem will be in every customer’s pocket within a single super app

Value for Magnit

- Increase of Gross Margin Per User
- Increase of Client Lifetime Value

Value for Client

- Promo
  - General promo
  - Marketing communication
- In-store experience
  - Product scanner
  - Mobile Check-out
- Loyalty
  - Digital card
  - Personal promo
  - Partnerships

Magnit Super App

- Complimented by selected single-purpose apps
- Content
  - Digital Magazine
  - Thematic clubs
- E-commerce
  - Express grocery
  - Regular grocery
  - Edrogerie
  - Epharma
- Ecosystem service
  - Magnit Pay
  - Magnit Mobile

Unique Own Production Capabilities

Magnit is the only Russian food retailer with its own food production capabilities.

The Company currently operates 4 agricultural and 13 food production sites located across different parts of the Company in Krasnodar, Moscow, Saratov, Tver, Samara, Lipetsk regions, and the Republic of Bashkortostan.

In-house production facilities allow Magnit to control the quality of food at all production cycle stages and ensure the best value for money on the shelf. Magnit’s in-house facilities produce goods under the Company’s private labels, including My Price, Magnit, and Magnit Freshness. Overall, the food production plants supply over 450 items to store shelves across the retail chain, including fresh vegetables and greens, mushrooms, confectionery, pasta, and flour products, ready-to-heat food, teas, dry breakfast cereals, and many others. In 2020 the Group’s own facilities set its new record, having produced ~310,000 tonnes of products, a 31% increase in sales year-on-year.

1. The run rate for Magnit’s online segment based on December sales turnover.
Unique own production capabilities

3,358 ha cultivated land
Unique own production capabilities

13 food production sites
Retail with purpose

The scale of our operations across the country presents us with great responsibility in how we conduct our business. During 2020, we launched Magnit’s Sustainability Strategic Framework and set ourselves an ambitious goal of embedding sustainability into every aspect of the business and its processes.

By motivating our employees, inspiring our customers and helping to develop the communities in which we operate, we intend to set an example for the industry as a whole. We look forward to building a comprehensive network of partners, drawing on the wide range of our stakeholders, in a belief that effective partnering is key to achieving the ambitious goals we have set for ourselves.

Magnit focuses its efforts on five key areas: reducing environmental impact, creating a responsible supply chain, taking care of employees, supporting local communities, and promoting healthy lifestyles.

Sustainability Strategic Framework

#1 Retailer with purpose in Russia

Our ambitions:

Leader
in environmental impact reduction in the industry

100% responsible supply chain

#1
Employer
in the industry

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

Best
in class corporate governance

Our focus areas:

Environment
Sustainable Sourcing

Employees
Strategic goals for working with employees by 2025

Communities
Strategic goals to support local communities by 2025

Health & Wellness
Strategic goals to support health and healthy lifestyle by 2025

Sustainable Sourcing
Strategic goals for a responsible supply chain by 2025

Employees
Strategic goals for working with employees by 2025

Communities
Strategic goals to support local communities by 2025

Health & Wellness
Strategic goals to support health and healthy lifestyle by 2025

Environment
Sustainable Sourcing

Employees
Strategic goals for working with employees by 2025

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Strategic goals to support local communities by 2025

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Strategic goals to support health and healthy lifestyle by 2025

1 All quantitative goals for reducing the indicators are calculated for 1 sq m of total space.
Retail with purpose (continued)

In 2020 Magnit adopted its Sustainability Strategy under the motto “Retail with purpose”. We have millions of daily touchpoints with our stakeholders: customers, employees, suppliers, authorities, and investors. It makes an enormous difference to how we operate and conduct our business. That is why sustainability in what we do every day is so important to us.

In 2019 the Board established the Sustainability Steering Committee which has responsibility for the day to day coordination of the sustainable development programme. The Committee is responsible for providing recommendations on embedding sustainable practices throughout the business and targeting social, environmental, resource and energy issues. Under the supervision of this Committee, there are 16 working groups responsible for creating sustainable business models for all areas of our operations: retail, production, sourcing, logistics and human resources management.

Since the beginning of the pandemic, we stood at the frontline, making sure we did our best to help all parties in battling the spread of the virus. The Company is committed to helping customers and employees and all those who are impacted by the pandemic. In difficult conditions, we continue to provide customers in 66 regions of Russia with all the necessary goods, maintain a high level of logistics, produce quality products, and implement a set of security measures.

Magnit has joined the UN Global Compact, the world’s largest corporate sustainability initiative, including over 13,000 participants from more than 160 countries. Magnit has committed to implementing and promoting its ten principles in support of human rights, labour rights, the environment and anti-corruption. Magnit has already begun taking meaningful strategic actions to advance societal goals and shape a more sustainable future with the launch earlier this year of its pioneering five-year Retail with Purpose sustainability strategy.
The market environment in the Russian retail sector remained challenging throughout 2020, for both retailers and consumers. However, despite the overall economic decline both globally and across Russia as a result of the COVID-19 pandemic, food retail was one of the least affected sectors. Moreover, the leading players in modern retail, especially focused on the formats of convenience stores, were able to significantly increase their sales and strengthen their position in the market.

### Macroeconomic Environment

In 2020, Russia’s real GDP fell by 3.1% due to the economic slowdown amid restrictions related to the COVID-19 pandemic. According to the Ministry of Economic Development forecasts for 2021, real GDP will grow by 3.3%. Similar to 2020, in 2021, the state plans to stimulate the recovery of economic growth through assistance for the most affected sectors and investments in a number of projects.

In 2020, large-scale measures were taken to support various demographics, including families with children, pensioners and the unemployed.

In particular, in the middle of the year, monthly payments were introduced (which is about half of the regional subsistence level, or average RUB 5.5 thous. per child per month) for low-income families with children aged 3-7 years.

At the same time, payments for children under 5 years of age (RUB 11 thous. per child per month) continue for low-income families from 2018. In addition, various single payments were made to all families with children aged 0-3 and 3-16 years, directly related to the period of the COVID-19 pandemic in April and July. In addition, in December 2020, the President of Russia signed a decree on a one-time payment to families with children in the amount of RUB 5 thous. per child under the age of 8.

The minimum wage in 2020 increased by 7.5% to RUB 12,130 per month. It is assumed that in 2021 the minimum wage will increase further by 5.5% to RUB 12,790 per month. There was also a temporary increase in the minimum and upper limits of unemployment benefits in 2020. At the same time, non-working individual entrepreneurs began to receive unemployment benefits at the upper limit.

In some regions (for example, in Moscow), special payments were introduced for people over 65 and for those with chronic diseases. Furthermore, separate payments, both at the federal and regional level, were made to veterans of the Great Patriotic War.

It is assumed that in 2021 the minimum wage will increase further by 5.5% to RUB 12,790 per month. There was also a temporary increase in the minimum and upper limits of unemployment benefits in 2020. At the same time, non-working individual entrepreneurs began to receive unemployment benefits at the upper limit.

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### Russian Food Market at a Glance

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**Year-over-year growth rate of real GDP in Russia, 2012-2021F, %**

- **2012:** 3.3%
- **2013:** 3.0%
- **2014:** 2.2%
- **2015:** 0.3%
- **2016:** 1.6%
- **2017:** 2.3%
- **2018:** 1.3%
- **2019:** -3.1%
- **2020:** -3.3%
- **2021:** 3.3%

Market overview (continued)

We note a moderate impact on the population of Russia’s incomes and unemployment level compared to developed countries. Russia has a small share of small and medium size enterprises in its economy (around 20% of Russian GDP versus 50–60% of GDP in advanced countries). The relatively high proportion of the Russian population working for the public sector (around 25% of the Russian workforce versus 15% in developed countries) provided further stability. Finally, about $6 million pensioners had their pension indexed by 6.6%, which is higher than the inflation rate (CPI growth). Looking ahead, in 2021, pensions are set to be increased by 6.5%.

The Ministry of Economic Development of Russia expects RDI growth of 3.0% in 2021, as planned by the Ministry of Economic Development of Russian Federation, CPI is expected to decline to 5.2% in 2021.

In 2020, the Consumer Price Index (CPI) grew by 3.4%, while Food CPI increased by 6.3%. According to the Ministry of Economic Development of Russian Federation, CPI is expected to grow by 3.7% in 2021, as planned fiscal consolidation will have a restrictive effect on the CPI growth, which will only be partially offset by the mitigation of monetary policy. In the future, the growth rate of CPI is expected to return to the target level of the Bank of Russia (4%).

The real growth of food retail sales in Russia in 2020 was negative (-2.6%). The decline was primarily due to a sharp drop in sales in traditional grocery retail and big box formats associated with restrictions and changing consumer behavior due to the COVID-19 pandemic. At the same time, sales in modern convenience stores have grown significantly. Despite both decreased RDI and consumer confidence index (CCI) having a negative impact on the whole industry, in some large retail chains, such as Magnit, customers tended not to decrease their spending.

On the contrary, customers spent more on food while cutting their spend on travel, entertainment, services, etc. The statistics clearly reiterate that grocery retail is among the least affected industries by the COVID-19 pandemic in Russia. In 2020, the Russian food retail market remains 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 and strong players are gaining market share. The share of modern retail in 2020 in Russia was 78%, behind the markets of North America (87%), Australia (82%) and Western Europe (82%). The Russian retail market remains underpenetrated.

The retail market in Russia remains fragmented with significant potential for further market share growth for the top players, especially Magnit, which recorded robust results. At the end of 2020, the share of revenue of the top 5 retail chains was 34.5%, up 3.5 p.p. versus 2019.

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**Table: Food Retail Sales Growth, Russian Federation, 2002-2020**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR 2002–2008</td>
<td>24.3%</td>
<td>11.2%</td>
<td>4.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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**Diagram: CCI and Real Food Retail Sales growth in 2014-2020, %**


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**Diagram: Grocery Retail Market in 2020, USD trln**


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**Diagram: Share of Modern and Traditional Retail in 2020, %**

Market overview (continued)

**Share of Top-5 Retail Chains by Countries in 2020, %**

- Germany: 74.3%
- Czech Republic: 73.6%
- United Kingdom: 60.6%
- France: 57.0%
- Poland: 52.3%
- USA: 47.5%
- Spain: 43.4%
- Italy: 36.9%
- Japan: 35.0%
- Russia: 34.5%
- Turkey: 28.7%
- China: 26.3%
- India: 21.1%

**Top-10 Retail Chains Market Share in Russia in 2020, %**

- Magnit: 27%
- O'Key: 15%
- Metro: 11.2%
- VkusVill: 11.2%
- Svetofor: 10.9%
- MEGA Retail: 9.8%
- Monetka: 9.6%
- Group Limited: 9.4%
- Metrou: 9.3%
- Auchan: 8.8%

**Total Selling Space in Russia for modern retail in 2014-2020, ml sq. m**

<table>
<thead>
<tr>
<th>Year</th>
<th>Hypermarkets</th>
<th>Supermarkets</th>
<th>Convenience stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>10.4%</td>
<td>60.8%</td>
<td>28.5%</td>
</tr>
<tr>
<td>2019</td>
<td>10.4%</td>
<td>60.8%</td>
<td>27.5%</td>
</tr>
<tr>
<td>2018</td>
<td>10.6%</td>
<td>60.8%</td>
<td>25.4%</td>
</tr>
<tr>
<td>2017</td>
<td>10.6%</td>
<td>60.8%</td>
<td>25.3%</td>
</tr>
<tr>
<td>2016</td>
<td>10.6%</td>
<td>60.8%</td>
<td>25.1%</td>
</tr>
<tr>
<td>2015</td>
<td>10.6%</td>
<td>60.8%</td>
<td>25.0%</td>
</tr>
<tr>
<td>2014</td>
<td>10.6%</td>
<td>60.8%</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

**Magnet Market Share by Revenue in Russia in 2014-2020, %**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>10.6%</td>
<td>10.6%</td>
<td>10.6%</td>
<td>10.6%</td>
<td>10.5%</td>
<td>10.3%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

**Key Trends in the Retail Market**

### Key trends in consumer behavior and preferences

<table>
<thead>
<tr>
<th>Trend</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer behavior</td>
<td>- The COVID-19 pandemic significantly increased the trend towards shopping in convenience stores.</td>
</tr>
<tr>
<td>- Customers began to visit stores less often, but at the same time they began to make larger purchases, which led to a simultaneous decrease in traffic and an increase in the average ticket.</td>
<td></td>
</tr>
<tr>
<td>- The trend to ship online has skyrocketed due to the COVID-19 pandemic, especially in large cities such as Moscow and Saint Petersburg.</td>
<td></td>
</tr>
<tr>
<td>- The grocery market in Russia in 2020 grew by 229% and reached RUB 148 bln, which is 0.9% of the total food retail market volume.</td>
<td></td>
</tr>
<tr>
<td>- From consumers leaving large hypermarkets, there is an increasing demand for more expensive products in convenience stores.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer preferences</th>
<th>Despite the COVID-19 pandemic restrictions and the economic environment, consumer preferences are still shifting towards:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Healthy and safe food</td>
<td></td>
</tr>
<tr>
<td>- Simple and convenient service</td>
<td></td>
</tr>
<tr>
<td>- Quality and fresh products, especially fruit and vegetables</td>
<td></td>
</tr>
<tr>
<td>- Unique and local products</td>
<td></td>
</tr>
<tr>
<td>- Responsible consumption</td>
<td></td>
</tr>
<tr>
<td>- Technologically friendly and omnichannel services</td>
<td></td>
</tr>
<tr>
<td>- Awareness about products and shops from the media</td>
<td></td>
</tr>
</tbody>
</table>

**Magnit is**

- **#1** in Russia by number of stores and geographical footprint.
- **#2** retail chain in Russia by revenue.

In this respect, Russia remains behind developed countries, where the top 5 players account for 50% 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. The COVID-19 pandemic has accelerated market consolidation, where traditional retail and inefficient players are leaving the market, which provides good opportunities for large effective players to occupy well-located vacant retail premises not only individually, but also in large quantities. In 2020, the top 10 companies in Russian retail demonstrated sales growth by 14% year-on-year. According to Infoline, the growth was primarily driven by inflow of customers to federal retail chains. Magnit’s market share in 2020 increased by 11 pp (the highest growth in the last 5 years) to 10.9%, primarily due to the changes in CVP leading to higher sales densities.

In recent years, one of the major trends has been an increase in the number of convenience stores while the average selling space has decreased. The COVID-19 pandemic has only accelerated this trend due to restriction of movement. Magnit has benefitted from the restrictions thanks to its multi-format business model and dominant share of local stores.

Magnit is focused on profitability of every project, while piloting new formats and adapting our value proposition to spearhead the market trends and changing customer preferences.

In 2021, we will continue our smart growth strategy. With improved sales density and attractive returns on new store openings, we will accelerate our organic expansion and continue to closely monitor the opportunities that the market provides.

See more at Strategic (p. 45) and Operational Review (p. 46)
Key trends in Russian retail market

<table>
<thead>
<tr>
<th>Trend</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated industry consolidation and growing availability of real estate</td>
<td>The pandemic has strengthened the trend towards consolidation of the industry by leading players due to the withdrawal from the market of some more traditional retailers, HORSECA, and small regional and ineffective players</td>
</tr>
<tr>
<td>Rapidly evolving technologies</td>
<td>Actively emerging digital ecosystems (e.g. Yandex, Mail.ru Group, Sber, Amazon, Wechat, Alibaba Group) erase the borders of traditional sector based thinking</td>
</tr>
<tr>
<td>Digital experience has become an essential part of today’s lives including shopping</td>
<td></td>
</tr>
<tr>
<td>Migration to big cities</td>
<td>Migration to big cities strengthened after COVID-19 pandemic, which drives changes in customer needs</td>
</tr>
<tr>
<td>Aging population</td>
<td>The population of Russia is in decline and the proportion of people receiving state support in various forms is increasing</td>
</tr>
<tr>
<td>Moderate inflation rate</td>
<td>Healthy inflation rate allows for more comprehensive planning of relationships with suppliers and supports retailers</td>
</tr>
<tr>
<td>Growing interest in sustainable development</td>
<td>Increased interest in sustainable development among stakeholders</td>
</tr>
<tr>
<td>Growing attention to responsible waste disposal</td>
<td>Increased focus on relationships with suppliers</td>
</tr>
<tr>
<td>Higher investor expectations</td>
<td>Regional protectionism</td>
</tr>
<tr>
<td>Political factors</td>
<td>Sanctions by the US and the EU</td>
</tr>
<tr>
<td>Counter-sanctions</td>
<td>Continuous support of local suppliers and manufacturers by government</td>
</tr>
<tr>
<td>Transition to piece accounting of alcoholic beverages</td>
<td>Orders of the Federal Service for Alcohol Market Regulation</td>
</tr>
<tr>
<td>Experiment in receiving consumer packaging in retail outlets (both at the federal and regional levels (provision of PPE, mandatory in accordance with the sanitary and epidemiological rules SP 3.1.1557-20, Prevention of the Novel Coronavirus Infection (COVID-19)) approved on 21 April 2020 – became mandatory in accordance with the sanitary and epidemiological rules SP 3.1.1557-20, Prevention of the Novel Coronavirus Infection (COVID-19))</td>
<td></td>
</tr>
</tbody>
</table>

Key Changes in the Regulatory Environment in 2020

<table>
<thead>
<tr>
<th>Change</th>
<th>Regulatory Document</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower VAT rate on import and sale of fruit and berries in Russia (including grapes), down from 20% to 10%.</td>
<td>Federal Law “On Amendments to Article 164 of Part Two of the Tax Code of the Russian Federation”.</td>
<td>4 January 2020</td>
</tr>
<tr>
<td>Increase in excise tax on the sale of alcohol</td>
<td>Federal Law of 29 September 2019 No. 126-FZ</td>
<td>1 January 2020</td>
</tr>
<tr>
<td>Monthly cash payment for a child aged 3 to 7 years</td>
<td>Federal Law of 20 March 2020 No. 199-FZ</td>
<td>1 January 2020</td>
</tr>
<tr>
<td>The official publication of the amended Constitution of the Russian Federation, in particular including a policy ruling that the minimum wage cannot be lower than the subsistence minimum.</td>
<td>Decrease of the President of the Russian Federation No. 445</td>
<td>4 July 2020</td>
</tr>
<tr>
<td>A ban on the production and import of unlabeled drugs</td>
<td>Federal Law of 27 December 2019 No. 462-FZ</td>
<td>1 July 2020</td>
</tr>
<tr>
<td>Organic products and their manufacturers are introduced, along with the norms for their production, storage, transportation, labeling, and regulated sales</td>
<td>Federal Law No. 280-FZ</td>
<td>1 January 2020</td>
</tr>
<tr>
<td>Increase of excise taxes on cigarettes and other tobacco products in Russia by 20% in 2021</td>
<td>Federal Law No. 303-FZ</td>
<td>30 January 2021</td>
</tr>
<tr>
<td>Extension of the anti-tobacco law to all nicotine-containing products.</td>
<td>Federal Law No. 303-FZ of July 31, 2020</td>
<td>28 January 2021</td>
</tr>
<tr>
<td>Increase in minimum retail prices for spirits, including vodka and cognac.</td>
<td>Order of the Ministry of Finance of Russia dated by 7 October 2020 No. 231n</td>
<td>1 January 2021</td>
</tr>
<tr>
<td>Establishing the size of the state duty for the provision or renewal of the license for the retail sale of alcoholic beverages.</td>
<td>Draft Law “On Amendments to Article 333.33 of Part Two of the Tax Code of the Russian Federation”</td>
<td>1 January 2021</td>
</tr>
<tr>
<td>An experiment on labeling beer and other low alcohol drinks, including mead and cider.</td>
<td>Draft Decree of the Government of the Russian Federation “On conducting an experiment on labeling beer (beer and low-alcohol drinks with identification means in the territory of the Russian Federation” dated by 6 November 2020</td>
<td>From 1 April 2021 to 28 February 2022</td>
</tr>
<tr>
<td>Transition to piece accounting of alcoholic beverages.</td>
<td>Orders of the Federal Service for Alcohol Market Regulation pursuant to Article 102. Federal Law of 22.11.1995 No. 171-FZ “On state regulation of the production and circulation of ethyl alcohol, alcoholic and alcohol-containing products and on limiting the consumption (drinking) of alcoholic products”</td>
<td>1 November 2020</td>
</tr>
<tr>
<td>A variety of changes that affected trade were linked to the coronavirus pandemic and approved by Rospotrebnadzor both at the federal and regional levels (provision of PPE, introduction of preventive measures, disinfection, etc.)</td>
<td>At the year end, Recommendation for the Prevention of the Novel Coronavirus Infection (COVID-19) in Trade (MR 3.32/35.03/09-20) approved on 21 April 2020 – became mandatory in accordance with the sanitary and epidemiological rules SP 3.1.1557-20, Prevention of the Novel Coronavirus Infection (COVID-19)</td>
<td>On 21 April 2020, it was decided to extend the term of the rules until 1 January 2022</td>
</tr>
</tbody>
</table>
Our Strategy

Overview

Magnit recorded double digit sales growth in 2020, mainly due to significant sales uplift in the mature stores resulting in sales density improvement of 6.5%. A number of initiatives are already showing good progress in line with the new strategic vision. Magnit accelerated updated CVP implementation, improved internal processes, embarked on transforming its digital capabilities, launched new pilot projects (e.g. Discounter, Kiosk) and set ambitious sustainability targets as part of its Sustainability Strategy. Customers’ response to these new initiatives has been overwhelmingly positive, as demonstrated by a positive NPS trend across all formats. Staff turnover is at a record low level with room for further improvement. All these efforts have created significant value for shareholders – Magnit’s share price has increased by 66% since 2019 and new approach to investments and redesigns drove impressive returns and uplifts.

The unprecedented events of 2020 also led to a re-evaluation of several areas to ensure we are well positioned to meet changing customer demands.

**Coronavirus**
National lockdowns negatively impacted economies and changed consumer behaviour

The significant increase in people working from home resulted in soaring demand for online services and home delivery, as well as lower in-store traffic.

**Good for Me and the World**
Transfer from demand on “fast & easy” to “don’t make me think”

Consumers’ increased focus on sustainability and responsible consumption raised their expectations of brands.

**Technology & Commodity**
Technology & data increasingly becoming vital for a successful business. Technology is accelerating the pace of change in how people entertain themselves and consume.

Increasing consumer expectations of the digital consumer journey.

These challenges create opportunities for retailers who can rapidly adapt to changing consumer behaviour and meet digital expectations. We understand that this ability to adapt will be key to achieving our strategic ambitions.

New store opening with attractive ROI ~40%

Redesign of Convenience and Large formats yield lucrative uplifts in LFL sales of +16%

Note: FY 2020, net of COVID effect.

Strategy at a glance

We decided to concentrate on a number of areas to overcome the challenging macro environment, and it is against this backdrop that Magnit defined its strategic priorities for 2021-2025.

**Strategic priorities for Magnit for 2021-2025**

- **Enhancing CVP** as a key driver for material improvements in sales density and profitability
- **Extracting efficiency** to get higher profitability and cash generation
- **Smart expansion** implying high profitability targets for new store openings
- **Selectively strengthen** our overall positioning (based on strategic and value accretive approach) with MSA deals
- **Extend consumer offering** complementary to our core business to better satisfy consumer needs

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

1 30 December 2020 compared to 30 December 2019
2 ROI = OCF of fully ramped up year / CAPEX
3 Net Promoter Score.
4 Employee Net Promoter Score.
These ambitious goals will support the evolution of Magnit and satisfy customers, employees and investors.

Our strategy is built around four major pillars:

- Consumer first
- Most efficient & promising ways to market
- Modern and efficient platform
- Employer of choice

We put our consumers first and have a customer centric philosophy...

Consumer first
- Consumer centric decision making to strengthen customer loyalty
- Enhanced CVP and clustering to better serve customer needs
- Improved brand positioning (incl. care, safety, ESG and value for money)
- Going beyond the traditional offering to build an E2E customer ecosystem

We are rationalising our product range to ensure consistency across stores and increase business efficiency, revising our category management structure, rethinking our approach to target categories, removing inefficiencies and rebalancing the price mix to capture all relevant consumer segments.

We aim to utilize additional capacity and efficiency throughout the system and boost efficiency in our stores. This is also supported by assortment harmonization meaning “matryoshka” principle revision with focus on proper proposition throughout units of needs and price tiers regardless of the store size.

Clustering is another way of better serving customers while tailoring the CVP to the core clusters (cities, towns and villages), and two supplementary ones (street retail and joint openings with cosmetics).

As the only truly national multi format retailer, Magnit offers a full range of products and services to meet customer needs, supported by its strong brand, loyalty programme and vertically integrated structure.

We are improving the CVP of our key formats and moving away from purely focusing on price, instead offering a new concept of a friendly, safe, and comfortable store where customers can find everything they need and get the best value for money.

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Clustering is another way of better serving customers while tailoring the CVP to the core clusters (cities, towns and villages), and two supplementary ones (street retail and joint openings with cosmetics).
Our Strategy (continued)

E-commerce is an essential part of the omni-channel customer experience. Therefore, we are investing in our delivery service to make it available to the majority of our customers by the end of 2021. We aim to build an ecosystem of complementary services around the Magnit brand and strong omni-channel core. Magnit will develop this ecosystem through strategic partnerships with leading providers in adjacent verticals. In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners. As of the end of 2020, Magnit had six online delivery projects, all of them in pilot stage. Magnit is searching for the optimal format of the delivery service to satisfy the needs of all customers.

...the respective ambitions require modern and efficient platforms built around clear functional strategies and processes initiatives, adaptive organisational structure and modern IT and operational systems ...

Modern and efficient platform

- Defined and straightforward functional strategies
- Flexible organisation structure, clear responsibility split combined with entrepreneurial culture
- Smooth and efficient processes
- Flexible, reliable and scalable IT, operational and data platform

Our goal is to build a modern and efficient platform around clear functional strategies and processes, adaptive organisational structure and modern IT and operational systems. This requires clear synchronization of all functional strategies supported by specific E2E processes improvement action plans, clear RACI and ownership culture, and migration into modern operational platforms supported by a review of our technological capabilities.

Next generation data capabilities to power digital transformation require a modern centralised data platform to enable data-driven decision-making. This technological advancement will be accompanied by the introduction of scalable, industrial solutions for key systems, including ERP, Forecasting & Replenishment, Warehouse Management, and Transportation Management Systems. In addition, e-commerce will be launched across all segments.

Employer of choice

- Intensive investment in people to support talent development and expertise
- Agility and innovative thinking
- One team approach: effective cross functional cooperation
- Performance assessments and promotion opportunities
- Employee engagement

Magnit is privileged to be one of the largest private employers in Russia and is committed to supporting its employees and their families, especially during these uncertain times. In November last year we launched the first company-wide employee engagement survey and it revealed an overall engagement score of 86%, one of the best results among food retailers.

Magnit – One of the Largest Private Employers in Russia

316,001

headcount of employees

3 A responsibility assignment matrix (RAM), also known as RACI matrix or linear responsibility chart (LRC), describes the participation by various roles in completing tasks or deliverables for a project or business process.

Longer term, we are constantly refining our organisational structure to maximise synergies. Magnit aims to be a change leader in labour market transformation by developing an attractive EVP for all employees and in particular to attract Tech and Digital specialists.

We are committed to building a strong employer brand and be recognised as a leading employer in all segments. We utilize digital channels to communicate with and recruit new employees.

Promoting an open and friendly culture is vital to ensuring alignment between strategic priorities and everyday activities.

Magnit believes in the education and professional development of its employees. We continue to run our Retail Academy, as well as establishing modern HR IT-solutions to automate HR processes and provide employees with all the relevant functionality through digital channels.
Our Strategy (continued)

Key Strategic Guidance 2021-2025

Our strategy in action envisions our future goals.

Clear CVP initiatives to enhance consumer perception and experience big time.

Accelarate smart organic expansion (annually on gross basis):  
- Convenience: 1,000-1,500 stores  
- Drogerie: 750-1,000 stores  
- Supermarkets & Superstores: 5-15 stores

Adherence to sustain high return requirements for new projects.

Thought through strategic plan to execute to capture tremendous business improvement potential.

Build a leading e-grocery platform capable of handling 5%+ of Magnit turnover with seamless integration into an omnichannel consumer experience.

Continue to proactively consider adjacent value accretive additional niches.

Clear potential to increase sales densities also by the way of speeding up value-accretive redesigns.

Proactive and opportunistic return-driven consolidation play (M&A)

Key Financial Guidance 2021-2025

- Benefit from lucrative EBITDA margin (IAS 17) steadily moving to the direction of 8% within 2021-2025 leading to very attractive cash generation.

- Improvement of working capital with a focus on stock days optimization by:
  - 3-5 days in grocery
  - 10-15 days in drogerie

- Comfortable leverage of ~ 1.5x of Net Debt/EBITDA (IAS 17) with a self-imposed ceiling of 2.0x.

Sustainability

We firmly believe that embedding sustainability in our strategy is key to continued growth of the Company. We plan to use every opportunity to make Magnit one of the leading companies in Russia in terms of the implementation of efficient and scalable technological and environmental solutions.

Sustainability 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 “Retail with Purpose”, which was announced last year, sets out our ambitions and strategic principles and formalizes our approach to sustainability. We are committed to reducing our environmental impact and having a positive impact on wider society, as well as ensuring our employees are satisfied and upholding the highest standards of the corporate governance.
**Investment Case**

**Magnit: Everything that matters is close to you**

**Market potential**

Magnit offers exposure to a sizeable market with potential for further organic expansion and consolidation

- Sizeable market with increasing penetration of modern food retail into the grocery market which offers opportunities for organic expansion
- Fragmented market with high potential for further consolidation
- Large players are gaining market share
- New niches and ways to market actively emerging with constantly evolving e-commerce offering

**Russian market offers further growth potential**

Modern retail share in grocery retail, 2020, %

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>90%</td>
</tr>
<tr>
<td>Germany</td>
<td>88%</td>
</tr>
<tr>
<td>France</td>
<td>84%</td>
</tr>
<tr>
<td>UK</td>
<td>79%</td>
</tr>
<tr>
<td>China</td>
<td>78%</td>
</tr>
<tr>
<td>Argentina</td>
<td>71%</td>
</tr>
<tr>
<td>Brazil</td>
<td>61%</td>
</tr>
</tbody>
</table>

The market has potential for further consolidation

Share of Top-5 players in grocery retail, 2020, %

<table>
<thead>
<tr>
<th>Top-5 Players</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magnit</td>
<td>74%</td>
</tr>
<tr>
<td>Lenta</td>
<td>61%</td>
</tr>
<tr>
<td>O'Keeffe</td>
<td>57%</td>
</tr>
<tr>
<td>Metro</td>
<td>50%</td>
</tr>
<tr>
<td>Sibur</td>
<td>46%</td>
</tr>
<tr>
<td>Others</td>
<td>43%</td>
</tr>
</tbody>
</table>

**Leading player**

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

- Multi-format offering with 4 core formats covering range of shopping missions in grocery, drogerie and pharma segments
- Wide geographical coverage with 21,564 stores in 3,752 cities in 7 federal districts
- 11% market share in food retail sales
- Serving customers in all highly populated Russian regions (69 regions, 43m loyalty cards)
- Well-developed country-wide supply chain with 38 distribution centers and one of the largest own truck fleets
- The only vertically integrated retailer in Russia with 27 own production facilities and agricultural complexes

**Russian food retail and Magnit sales growth in 2018-2020, %**

<table>
<thead>
<tr>
<th>Year</th>
<th>Russian Food Retail Sales Growth, % Y-o-Y</th>
<th>Magnit Sales Growth, % Y-o-Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>2019</td>
<td>11.4</td>
<td>6.7</td>
</tr>
<tr>
<td>2020</td>
<td>7.1</td>
<td>2.1</td>
</tr>
</tbody>
</table>

* Including VAT

**Growth ambitions**

On track to accelerate profitable return driven growth and increase market share

- Speed up value accretive organic expansion
- Smart expansion with high profitability targets for new openings
- Adherence to sustain high return requirements for new projects
- Store network redesign programme to improve sales density
- Development of leading e-commerce platform capable of handling 5% of total turnover
- Proactively consider adjacent value accretive additional niches

**Efficiency gains**

On track to accelerate profitable return driven growth and increase market share

- Further CVP development to drive material improvements in sales density and profitability
- CVP initiatives to enhance customer perception and experience
- Increase in sales density supported by accelerating store redevelopments and process improvement
- Continuous focus on efficiency to generate higher returns

**Dividends**

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

- Focus on quality of new store openings resulting in better payback
- Keeping comfortable level of net debt/EBITDA leverage at 1.5x (IAS17)
- Clear plan to improve working capital with a focus on stock days optimisation
- Value accretion for shareholders leading to consistent strong dividend payment

**Magnit dividend payment and dividend yield in 2008-2020**

<table>
<thead>
<tr>
<th>Year</th>
<th>Magnit Dividend payment, RUB bln</th>
<th>Magnit Total dividends paid, RUB bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.1</td>
<td>122.0</td>
</tr>
<tr>
<td>2009</td>
<td>1.3</td>
<td>259.0</td>
</tr>
<tr>
<td>2010</td>
<td>0.6</td>
<td>126.0</td>
</tr>
<tr>
<td>2011</td>
<td>2.1</td>
<td>376.0</td>
</tr>
<tr>
<td>2012</td>
<td>7.7</td>
<td>1,497.0</td>
</tr>
<tr>
<td>2013</td>
<td>12.8</td>
<td>2,664.0</td>
</tr>
<tr>
<td>2014</td>
<td>34.3</td>
<td>8,155.0</td>
</tr>
<tr>
<td>2015</td>
<td>29.4</td>
<td>7,085.0</td>
</tr>
<tr>
<td>2016</td>
<td>26.3</td>
<td>6,195.0</td>
</tr>
<tr>
<td>2017</td>
<td>24.7</td>
<td>5,775.0</td>
</tr>
<tr>
<td>2018</td>
<td>31.0</td>
<td>7,485.0</td>
</tr>
<tr>
<td>2019</td>
<td>1.1</td>
<td>2,695.0</td>
</tr>
</tbody>
</table>

**Dividend yield, % at the end of period**

- 2008: 0.2%
- 2009: 0.5%
- 2010: 0.8%
- 2011: 1.5%
- 2012: 2.8%
- 2013: 3.7%
- 2014: 5.5%
- 2015: 6.5%
- 2016: 7.6%
- 2017: 8.2%
- 2018: 8.4%
- 2019: 0.2%

**RUB 85 bln**

Strong free cash flow in 2020

**1.1x**

Net debt/EBITDA leverage (IAS17) as at 31 December 2020
**Business model**

**Strategic goal**

to secure Magnit’s leading positions in Russian retail by expanding its presence in the market and maintaining high business profitability

**We strive**
to become the store of choice for customers, employees, and investors

---

**Supreme Quality**

- 6 thous. suppliers
- Best local product range
- 52% local SKUs
- Vertical integration
- 17 own production facilities
- >310 thous. tonnes of products per year
- >2.5 thous. private label SKUs
- 10% share of PL
- 7% direct import supplies
- Quality control “from field to plate”
- 12 laboratories
- 3.5 thous. daily tests

**Multi-format & omni-channel under single brand**

- 14,911 convenience stores
- 470 supermarkets
- 6,183 drogeries
- 1,165 pharmacies
- 3,752 Cities & townships

Online across all segments and missions:
- regular delivery (stock-up)
- express
- E-pharma

Covers >1 thous. stores in 47 regions of Russia

---

**Best customer experience**

Unique cross-format brand
- Enhanced CVP & clustering
- New retail technologies
- Eco-Initiatives
- 13 mln customers daily
- 14,354 new concept stores

Cross-format loyalty programme
- >4.3 mln active users of loyalty cards
- 70% penetration in sales

---

**Value creation for...**

**Customers**

#1 Russian retailer in terms of proximity to customers and geographical coverage

21,564 stores in 3,752 cities and townships

Delivering fresh and high-quality products

**Employees**

>316 thous. employees – one of the largest private employers in Russia

200 thous. employees joined Magnit’s Corporate Academy

84% employee engagement rate

73% employee satisfaction rate

**Suppliers**

52% of SKUs supplied by 4.1 thous. local producers

7% direct import supplies (~700 contracts)

**Communities**

RUB 2.9 bln allocated for charity

**Government**

RUB 94 bln taxes paid in 2020

44 procurement sessions in 38 regions

**Investors**

RUB 578 bln capitalization (+66% in 2020)

RUB 31 bln dividends paid in 2020

x2 ROIC growth in 2020
Operational Review

In 2020, Magnit faced unprecedented challenges due to the Covid-19 pandemic and the Company reacted quickly to the rapidly changing environment and changing consumer behavior. Implementing rigorous health and safety measures, ensuring the availability of products, maintaining affordable pricing levels and continuing to deliver high levels of customer service were all crucial to attract new customers and remain the store of choice.

In 2020, Magnit focused on the operating efficiency of the existing store base and delivered solid LFL results and sales density growth. We achieved strong profitability improvements with EBITDA margin (IAS 17) up 1 p.p. year-on-year. Working capital improved significantly, with RUB 30.5 bln of cash released from working capital. Debt reduction became an area of focus due to the challenges brought by the pandemic and we reduced our leverage significantly. Achieving such strong results against this backdrop is an outstanding achievement.

Our business model once again demonstrated its resilience and ability to adapt. We saw a continuous inflow of new customers, and a significant improvement in both customer satisfaction rates and NPS scoring. Magnit continued to adapt its formats, forming clusters based on specific customer trends prevalent in different localities, and launching new pilots including Magnit Metropolitan, Moya localities, and launching new pilots in the previous year.

We also leveraged our private label brand and own production capabilities, tailoring our logistics and supply chain based on demand and the specific requirements of different formats. The roll-out of our loyalty programme has provided us with a unique opportunity to gain a better understanding of our customers and tailor our range accordingly to better suit their needs. Magnit continues to implement its redesign programme, improve its e-commerce segment and continue with its digital transformation to support all departments with the relevant data and technologies.

Our operational efficiency is extremely important, along with the improvement of business processes. We managed to improve service levels and on-shelf availability of the new product range for our customers even at the time of increased demand. The overall supply chain remained robust throughout the year. Shrinkage level was decreased thanks to the efforts of the team to streamline cross-functional processes aimed at improvement of inbound goods, faster delivery, accurate forecasting in collaboration with suppliers, etc. We also note substantial reduction in staff turnover, higher productivity of personnel and improvement in rent rates with landlords. As a result, costs remained under strict control, despite additional COVID-19 related expenses which totalled RUB 2.8 bln.

Due to the COVID-19 pandemic, CAPEX was lower than initially projected. This was mostly as a result of slower expansion and the delay of redesign projects during the lockdown period. In Q4 we resumed our expansion programme and opened 445 stores on a gross basis – more than in any quarter of 2020 and higher than in the previous year.

At the same time, we closed only 35 stores – the lowest number in any quarter of 2020. On the back of remarkable rise in returns per store, we go into 2021 with a solid foundation for growth, as we continue striving to deliver the best value for our shareholders.

Magnit continues to develop as an open and progressive business working for the benefit of all its stakeholders, including our employees, suppliers and communities. We made a significant step forward in formalising our approach to sustainability, with the announcement of our sustainability strategy setting out goals and commitments to be achieved by 2025.

Our success would have been impossible without the Magnit team and we strive to ensure Magnit remains an attractive and innovative employer. In 2020 we reviewed our incentive programme, improved our on-boarding procedure for new employees, and continued to develop our corporate academy.

Anti-COVID-19 measures and related costs:
- additional payments to frontline personnel
- purchases of sanitisers, thermometers, thermal imagers
- purchases of respirators, gloves and medical masks
- installation of screen protectors at the cash desks and special marking in the stores to ensure social distancing
- intensified cleaning
- zero mark up on several socially important product categories\(^1\)
- charity boxes, additional discounts to medical officers, elderly people and socially vulnerable citizens.

Operational review

RUB 1,510 bln
13.3% year-on-year increase in net retail revenue
7,497 thous. sq. m total selling space

7.4% LFL sales growth
3.6% year-on-year increase in total selling space

839 stores opened in 2020 (net)
6.5% year-on-year sales density increase

Performance

In 2020, Magnit’s net retail sales reached RUB 1,510 bln. Despite a slowdown in the pace of new openings and the difficult macroeconomic situation, the Company delivered double-digit sales growth of 13.3% driven by a strong uplift in LFL sales of 7.4% and also by selling space growth of 3.6%. As a result, overall sales densities increased by 6.5% year-on-year as we saw customers responding positively to our product offering, customer service levels and pricing.

We are actively gaining new customers and market share, reflected in our improved NPS scoring and LFL sales performance.

The lockdown measures imposed to control the pandemic distorted the structure of LFL sales – the frequency of visits fell, while the average ticket increased. Over time the frequency of visits started to recover, but LFL sales remained strong. We have closely monitored the effect of the pandemic on LFL sales and we calculate that it had a 2.8% positive impact in 2020. This indicates that most of the growth in LFL sales during 2020 was due to fundamental changes in the business unrelated to Covid-19 pandemic.

LFL sales growth in 2020 was well above CPI. Stores opened before 2018 were the main driver of the Company’s strong LFL performance. In Q4 2020 only 0.5% of Magnit’s selling space was in the ramp-up phase with 94.5% already matured.

As noted above, measures against COVID-19 resulted in mobility restrictions, forcing consumers to stay in their homes, with an associated impact on their shopping habits. This resulted in a reduction in the frequency of visits, with a LFL traffic decline of -5.3% in 2020. This decrease in the number of visits was more than compensated by 14.2% growth in LFL average net driven by increased spending per visit on a higher number of articles per basket, a trading up effect, lower promotional intensity and on-shelf inflation.

In 2020 Magnit signed the long-term lease agreements for 77 retail facilities previously occupied by stores operated by TD Itertorg under the Family and Spar brands, and acquiring long-term leasehold rights for 89 Evromar, Yablochko, and Troy stores in Murmansk and the Murmansk region in the Northwestern Federal District. As for macroeconomic factors, Magnit’s results were impacted by further consolidation in the private sector, growing competition and a decline in consumers’ purchasing power.

\(^1\) My Price.
\(^2\) For a number of months during challenging epidemiological situation.
Operational Review (continued)

Convenience stores

A convenience store with an average of 6,450 SKUs is aimed at everyday shopping with a large range of the most popular food and non-food products at attractive prices. This format accounts for 77% of Magnit’s net retail sales in 2020. Here customers can buy fresh dairy products, fruits and vegetables, bread and dry foods, flour and confectionery products, or household chemicals spending the minimum time. Stores are located in cities, towns and more rural locations, which makes Magnit the largest and the most accessible retail chain in Russia in terms of geographical coverage. The revenue for convenience stores in 2020 was RUB 1,161 bln, an increase of 13.8%. There were 14,911 Magnit convenience stores in Russia by the end of 2020. In 2020 Magnit focused on streamlining its portfolio of stores, disposing of 380 non-core stores and focusing on the most profitable locations. New store openings were slowed down due to the pandemic, but in Q4 Magnit opened 412 stores (net) – the highest number across all quarters of 2020 and higher than the previous year. In 2020, selling space grew by 2.8%. As a result, sales density of convenience food stores substantially improved by 6.2% year-on-year. 280 convenience stores were redesigned, bringing the share of convenience stores operating under the new concept up to 72%. LFL sales growth for 2020 reached 8.2%, an improvement of 1.3% compared to 2019.

Increased on-shelf inflation was a result of lower year-on-year promotional activity, overall food prices growth and local currency depreciation. LFL traffic went negative and stood at -6.1%; this decrease was an industry-wide trend due to the pandemic.

LFL average ticket growth for the year was 15.2%, driven by volume increase, pricing up effect and on-shelf inflation. The trading up effect was a result of less frequent but more expensive shopping changes in the product range, improved quality control.

Convenience stores

<table>
<thead>
<tr>
<th>Convenience stores</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.8% year-on-year sales growth</td>
<td>14,911 stores</td>
</tr>
<tr>
<td>77% of the net retail sales</td>
<td>5,090 thous. sq. m of selling space</td>
</tr>
<tr>
<td>8.2% LFL sales growth</td>
<td>289 net store openings</td>
</tr>
<tr>
<td>2.8% year-on-year increase in selling space</td>
<td>8.2% sales density increase year-on-year</td>
</tr>
</tbody>
</table>

Magnit piloted three additional formats in 2020, which showed positive results.

Magnit City

Pilot stores were opened in Moscow and Krasnodar. The concept is for small stores with a cozy interior and a café, where visitors can grab a bite, take away any of the ready-to-eat offerings, or make other small purchases, as well as charge their smartphone and connect to Wi-Fi. Magnit City stores are located in high traffic spots with the total space of 120-180 sq. m and the range of up to 2000 SKUs.

The first three pilot stores that were opened in Moscow and Krasnodar in summer 2019 received positive feedback from customers and were commercially viable, therefore the concept was rolled out further with six more store openings in 2020.

Magnit Metropolitan

Magnit opened the first metropolitan convenience store in October 2020. It reflects customer preferences in metropolitan areas and its design focuses on creating a pleasant ambience, providing useful services and digital solutions while maintaining attractive prices. The updated Magnit store boasts an assortment of around 6,000 SKUs, with particular focus on the Fresh and Ultra-Fresh categories, which occupy 35% of the sales area.

For improved customer convenience, a Magnit Pharmacy is located on the same site. The Company plans to use the elements of the metropolitan store concept in different combinations in other localities in the future.

Magnit Discounters (MoyaTsena)

These outlets have a comparatively limited product range of around 1,750 high-demand SKUs with a large proportion of the entry price products (around 65% of total assortment), private labels (around 18% of total assortment), and value packs; fruits, vegetables, dry foods, dairy, confections, etc. The concept also has a reduced staffing level compared to the convenience store and requires much less capital expenditures for opening.

The first three stores in this new format were opened in July 2020 in Samara, Volgograd and Ulyanovsk region. They replaced existing Magnit convenience stores that did not fully meet CVP requirements but were well suited for the discounter concept. These initial three stores showed promising results, so the format was rolled out to Krasnodar and Lipetsk region in September 2020. By the end of 2020, 16 Moya Tsena stores were opened, with more planned in 2021.
Operational Review  (continued)

Supermarkets include two sub-formats – Magnit Family supermarkets and Magnit Extra superstores. In 2020 Magnit supermarkets continued to grow, despite being impacted by changing consumer habits. The federal lockdown did not have any impact on standalone stores, but those located within closed shopping centres also had to close.

Magnit’s goal is to increase the sales density of the supermarkets. The larger formats now have an improved product range, café, extended in-store food offering, more seasonal and less non-food offers, as the overall consumer behavior has shifted towards bulk buying of seasonal, fresh and ultra-fresh categories.

New cross-docking stations will also enhance the product range and the new store layouts are designed to unify the layout approach across all the stores. Supermarkets account for 13% of Magnit’s net retail sales. Three stores were closed in 2020 (on a net basis) and 25 were redesigned.

Supermarkets

1.7% year-on-year sales growth
941 thou, sq. m of selling space
13% of the net retail sales
0.8% LFL sales growth
1.5% sales density increase year-on-year
470 stores
3 stores closed (net)

The supermarket segment was the most affected by the pandemic, but there was a positive growth in LFL sales of 0.8%, despite the country-wide trend for consumers to avoid visiting large stores and shopping centres. LFL traffic was negative and stood at -11.5%, however the lower frequency of visits was compensated by higher spending per visit resulting in solid LFL average ticket growth of 13.9%. In 2020 sales density in supermarkets improved by 1.5% year-on-year.

Magnt Family Supermarkets

The supermarkets have a larger product range than the Convenience stores and are located within walking distance of residential communities and business districts, as well as in shopping centres. This format is offering the full product range at attractive prices.

Magnt Extra Superstores

Magnit superstores are modern and high-tech stores for the whole family located within the city area. Such stores have broader range of all products, including Magnit’s private labels, with a focus on fresh and ultra-fresh products.

In 2020 Magnit launched its supermarket delivery service. The service allows customers to receive their orders within three hours or book a delivery for a certain time within the next two days. The cost of delivery ranges RUB 0-199 depending on the order amount. The online service offers a convenient way for customers to shop and over 25,000 products are available online.

Themed stores

Some Magnit superstores have a themed design. They are located in the cities that have hosted notable events or have famous local industries.

Adler, Sochi: the store is dedicated to the Winter Olympic Games.

Krasnodar: in October 2020 Magnit launched a new superstore in collaboration with suppliers designed as a candy factory.

Togliatti, Samara region (famous for the Avtovaz car-producing factory): the store design resembles city streets, walkways and car elements; traffic signs are installed as navigation tools and the store is decorated with a few real cars.

Samara (the heart of the Russian aerospace industry): aerospace-themed store with sky images and planets of the Solar system.
Operational Review (continued)

**Magnit Cosmetic**

- **22.4%** year-on-year sales growth
- **6,183** stores
- **10.3%** LFL sales growth
- **9%** of the net retail sales
- **1,428** thous. sq. m of selling space
- **553** net store openings
- **9.7%** year-on-year increase in selling space
- **7.2%** sales density increase year-on-year

The Magnit Cosmetic format was launched by the Company in 2010 and accounts for 9% of net retail sales, an increase of 0.7 pp compared to 2019. These stores stock non-food products such as mass-market household cleaning products, perfumes, hygiene products, and household items.

Magnit Cosmetic is the most dynamic and successful format of the Company, with double digit positive LFL sales growth of 10.3%. In 2020 it also benefited from the proximity to the customers and the closure of competitor stores. 553 new drogeries opened (on net basis) in 2020.

With 80 stores redesigned during the year the share of drogeries operating under the new concept reached 56%. By year end, there were 6,183 stores, an increase in selling space of 9.7%. As a result, revenue reached RUB 184 bln, a 22.4% increase year-on-year. Sales density improved by 72% year-on-year.

One of the most important changes of 2020 was the refinement of product ranges between different stores to meet the needs of different customer types in different locations, with certain locations stocking an increasing number of eco-friendly products to meet customer demand.

Magnit is targeting strong levels of growth for its cosmetics business. In 2020 Magnit started rolling out the mini format of Magnit Cosmetic to existing convenience stores in selected locations. The cosmetics store, which offers customers around 4,000 products, will improve the customer proposition of Magnit Convenience stores and enhance the sales density. In December 2020, delivery services from Magnit Cosmetic were launched in Krasnodar and Ekaterinburg and we plan to expand the delivery services in 2021.

**Magnit Pharmacy**

- **In 2020, Magnit began a click and collect service that allows customers to order products online and collect from over 100 pick-up locations in Magnit Pharmacies throughout Moscow and the Moscow region. Customers can choose between two types of click & collect service: 30 minutes’ pick-up of products in-stock at the nearest store or next-day pick-up of full product range held in the warehouse.**

**E-commerce**

- **In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners.**
- **At the end of 2020, Magnit operated six online delivery projects, all of them in pilot stage. Magnit is continually evolving the format of its delivery service to satisfy the needs of all customers.**
- **The Company started developing its food-tech business together with industry specialists, partnering with Delivery Club in August 2020, and with Yandex.Eda in September 2020. Both services provide express delivery within 1 hour.**

On the Magnit corporate website, 3D-tours of various store formats are available for all visitors. This online experience allows participants to visit all of the Magnit formats: convenience, drogeries and large-format stores and pharmacies, and discover more about how they operate.

In September, the Company introduced online ordering for its Magnit Pharmacy format; in early November, it launched its own Magnit Delivery app for express deliveries within Moscow; and later in November it also started a regular delivery service from Magnit Family stores in Krasnodar. In the beginning of December 2020, Magnit and Delivery Club launched deliveries from Magnit Cosmetic stores in Ekaterinburg and Krasnodar.

During the first three months, the pilot schemes’ growth dynamics exceeded original expectations and highlighted the potential of this market.

Magnit fulfills around 6,000 online orders every day. According to the Company’s analysis, most of the orders are placed by customers who did not shop at its brick-and-mortar stores before.

Customers can also place orders online for home delivery. The e-pharmacy was Magnit’s first e-commerce offerings for customers.

**The product range currently includes around 5,000 items, with plans to expand it significantly.**

The annualized run rate for Magnit’s online segment stands at RUB 2.0 bln based on December sales turnover. Among these segments, convenience store-based express delivery has the highest sales and shows the best growth dynamics.

Magnit’s e-commerce services today covers over 1,000 stores in 47 regions and 72 cities, with around 50% of the current revenue from these online projects generated outside Moscow and St Petersburg. During 2021, the Company plans to expand online delivery adding at least 1,500 convenience, drogeries and large-format stores in more than 50 regions across Russia.

E-commerce
Improving Customer Experience

Magnit always strives to deliver the best customer experience across all market segments. Several important milestones were achieved in 2020, with the introduction of new product ranges, updated navigation across all the formats, increased availability and quality of the product range, refreshed private labels and development of the customer loyalty programme. Another focus area and crucial task during the pandemic was safety of the customers and employees. Even during nationwide quarantine Magnit didn’t close a single store.

In March 2020, we formulated our social mission and introduced a role of an ‘on duty officer’. This approach was welcomed by our staff and helped to increase team morale.

Magnit aims to build an ecosystem of complementary services around its brand and strong omnichannel presence. Digitalisation will play an important role in improving customer experience, across all stages of the consumer journey.

During the year, Magnit actively hired workers from its partners to help them sustain their financial position and close the shortage of employees for the Company; overall we hired 2,500 people in 2020.

Magnit continued to work on the improved customer value proposition (CVP); we added the new fresh and ultra-fresh zones to our stores, improved on-shelf availability, piloted new formats within the dedicated areas and significantly revised our product range. We maintain continuous quality control and introduced the new position of Quality Attendant, who supervises the quality of the products in-store. In Magnit Cosmetic stores, we also have Beauty Experts assisting our customers to choose the best products to meet their needs.

Magnit staff are constantly trained to provide the best service and hospitality to the customers, while being efficient and using the best available technologies.

— We introduced clusterisation in different localities
— We improved layout, navigation and zoning within the stores
— We are open and friendly to our customers, employees and suppliers
— We use cutting-edge technologies to understand customer habits and behaviours to offer them the best possible experience
— We take care of our employees and offer them all opportunities for education and personal development.

Best Customer Experience

Pilot projects at different stages of development and implementation.

Digital tools

Store organisation

SelfieToPay: face-recognition-based payment technology

“Farmers’ Market” “Health Island” for balanced nutrition

Dual-mode checkouts (work both as self-service terminals and standard cashier-operated checkouts)

Local food products

MobiScan: app to scan and pay at self-service checkouts

Own bakeries with professional coffee machines

Interactive price checkers, mobile printers

Fresh Café with an open kitchen and TV screens

Bicolor electronic price tags, providing instant updates on product information

Kids’ department with a playground

Smart shelf: video analytics, RFID systems, weight and optical control

Consumer corners

Data Matrix labeling system for dairy products

Reverse vending machines collecting empty plastic bottles and aluminium cans

E-sommelier

In-store experience

— informative in-store navigation
— selection of goods with mobile scanner / app
— easier and faster check-out with mobile payment

Payment

— digital loyalty card
— Magnit payment solution

E-grocery experience

— express grocery
— regular grocery
— e-drogery
— e-pharma

Post-shopping

— feedback
— recipes
— digital content

Pre-shopping

— loyalty, general promo and CVM offers
— interest clubs
— partners privileges
— checking availability in nearest stores

Facilities and services

Quality Attendants on duty

Beauty Experts in Magnit Cosmetic

Convenient and intuitively understandable zoning, easy navigation

Store space arrangement based on customer’s purposes

Accent lighting

“Farmers’ Market” “Health Island” for balanced nutrition

Own bakeries with professional coffee machines

Fresh Café with an open kitchen and TV screens

Kids’ department with a playground

Consumer corners

Reverse vending machines collecting empty plastic bottles and aluminium cans

E-sommelier
Measures Against COVID-19: Taking Care of Everyone

Since the beginning of the pandemic, Magnit has introduced a number of measures to make shopping at our stores as comfortable and safe as possible.

The company is committed to helping customers and employees to reduce the spread of COVID-19 and support those who are struggling. In difficult conditions, we continue to provide customers of 66 regions across Russia with all their required products and services, maintain our supply chains and logistics, and introduce new safety and hygiene measures.

Magnit is attentive and responsible to the situation, therefore:

- **We’ve improved store safety**
  - Increased the number of activities for the disinfection of premises, tools and equipment
  - Restricted staff movement between premises and face-to-face meetings
  - Adjusted the work schedule to remove any contact between shifts
  - Transferred some of the administrative staff to remote working
  - We assess the quality of products remotely; product specialists are able to assess goods with video cameras
  - We carry out daily medical examinations and temperature checks for employees

- **We have improved safety measures at distribution centres**
  - Increased the number of activities for disinfection of premises, tools and equipment
  - Restriction staff movement between premises and face-to-face meetings
  - Installed protective screens at cash registers
  - Installed free sanitisers
  - Temporarily closed cafes in large stores
  - We increased the opening time and hired additional staff to reduce queues
  - We equipped the surfaces of supermarkets and hypermarkets with a special protective film with silver ions, which is in addition to mechanical disinfection

- **We are supporting the most vulnerable**
  - We were selling several socially important product categories with zero markup during the pandemic
  - With the support of the Ministry of Health of the Russian Federation, we issued a series of special bonus cards for medical workers with an increased accrual of bonuses of 20%
  - On weekdays until 11 am we provide a 10% discount to pensioners, volunteers and social workers for purchasing goods for the elderly
  - Launched the #MagnitZabota programme and, with the assistance of regional authorities, we provide food packages to socially vulnerable citizens
  - We supported personnel of other organisations who had to suspend their operations by temporarily engaging them in our stores and distribution centres

- **We have adapted the delivery of products**
  - We maintain a sufficient level of stocks in distribution centres
  - Increased shipments of goods from distribution centres to stores
  - Increased the level of stocks in retail outlets where appropriate

Organisational Structure

Magnit is upgrading its organisational structure by developing its multi-format approach to ensure the correct distribution of formats across the regions. Our new organisational design reflects the right balance of centralization and decentralization. We have introduced new format heads in commercial and operations functions to strengthen format focus and expertise. We have a new digital, tech and OMNI team to strengthen tech, Big Data and e-commerce capabilities. We have a separate procurement team in the commercial department, including Private Label, own production and direct import. We are rebalancing RACI between commercial and supply chain departments to ensure E2E ownership.

Headquarters

Head Office is responsible for strategy development, budget and methodology and serves as a centre of best practice to implement across the regions.

Head Office also performs a centralized support function via its Shared Service Centre.

In 2020 Magnit has completed its migration of its financial function to the Shared Service Centre (SSC), established in 2019 in Krasnodar. Now, Magnit’s SSC will keep centralised accounts of all transactions and perform payroll calculations for over 300,000 employees in 66 regions from all of branches, districts, distribution centres, and motor transport enterprises. Centralisation of the financial function (accounting and payroll calculations) in the SSC will enable Magnit to save around 29% of its cost before migration, or around RUB 470 mln annually.

Magnit’s SSC was awarded the winner of the “Best SSC rollout in Russia and CIS” award, beating peers across different industries. The criteria included the technological level and the overall achievements for the reporting period.

The Shared Service Centre will largely contribute to the Magnit’s automation and centralisation, utilizing robotics to carry out the routine tasks and standard requests which were previously handled by regional teams.

Regional Structure

There are eight regional heads managing their respective territories. Regional Heads are responsible for openings & redesigns, CVP execution and local category management. Regional Heads report to Head Office.

The primary focus is on operational efficiency, quality control, and development of customer satisfaction. The digital transformation of Magnit and aligning the ERP system into communication processes will allow for more effective communication between the branches and the Head Office.

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1. Responsibility assignment matrix (Responsible, Accountable, Consulted, Informed).

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Category Management

The concept of category management (CM) was introduced in Magnit in 2019. It has concentrated on the promotional transformation and new product management along with Consumer Decision Tree developments. Category management has become one of the drivers of Magnit’s transformation, and in 2020 there were several key topics which the Company addressed. They included working out the CVP strategy for each format, format-specific category management and extremely successful loyalty programme rollout. One of the milestones of the 2020 has become the product range management.

Magnit has four pillars of its category management which are at the heart of the business, ensuring the customer remains the focus for all business decisions and transformations. Magnit uses state-of-the-art analytics and Big Data tools to drive its transformation towards knowing the customer and understanding what the customer wants.

Category management has been taught in the Magnit Corporate Academy since 2019. The training programme covers all functional levels (line managers, category managers and category directors), and 250 people have already completed their curriculum.

Product range management

The Company is working towards the optimal balance between promotional activities and pricing strategies within its product range management. The eventual goal is to embed the category management principles across all the supply chain to ensure the best possible product range in all Magnit formats.

In 2020 Magnit has started its transition towards new Product Management System, which was adjusted to reflect the different regions and formats within the category management structure. It allows more flexibility and for individual approach to each particular store.

Other priorities for the future include more streamlined transition of the new items to the shelves and unification of the item codes. Magnit is working towards digitalising of all the producers with the help of the coding laboratories.

Transition to the new product management system

- Target matrix management
- “Matryoshka” – geographically dispersed product alignment
- Assortment matrix corrections according to the new releases
- Dates agreed with commodity experts to place items on sets
- Automated assortment update in accordance with the target category matrix
- Selection of rotating pairs to keep picking points between the displayed product range and new products
Cooperation
with Suppliers

Efficient cooperation with our suppliers allows us to make more accurate plans and forecasts, to optimise procurement volumes, to deliver the best products at minimum cost and to achieve better commercial terms.

There are still areas for potential improvement in cooperation with suppliers. Some of the main focus areas Magnit is currently working include the flow of key documents, improving forecasting techniques, on-shelf product availability and sharing information about the customer preferences between suppliers (as appropriate).

To benefit from the synergies of working with the suppliers, Magnit is committed to being a reliable and trusted partner. In 2020, the Company held a conference titled “On the same wavelength”, where the management of Magnit met with the suppliers, Magnit is committed to being a reliable and trusted partner.

At the end of last year, 13 suppliers’ representatives worked at Magnit. This year, the number of “implants” will increase by at least another 30. In 2020, the service level of suppliers participating in the “Implant” project increased by 4.9%, and completeness and timeliness of their deliveries by 74%.

In addition, the availability of goods on the shelf among some of Magnit’s partners increased by an average of 10.6%, the forecasting accuracy of purchases at the distribution centres (DCs) increased by 10.3%, and the level of service for shipments from the DC to retail outlets increased by another 6.7%.

“Implant” project

In 2019 we launched the unique “Implant” project. Magnit invites employees of our major suppliers to work in our offices in order to build cooperation and understanding, and also offer an external viewpoint of our processes and procedures with a view to improving efficiencies and best practice.

At the pilot stage, the project was encompassing 17 suppliers and 225 SKUs. Due to the use of advanced barcodes, the delivery of fresh products was optimized to reduce wastage and as a result, Magnit will drastically decrease the volume of wasted produce and save millions of rubles annually.

Advanced barcodes

Magnit started to implement advanced barcodes which include the expiry date. It enables the Company to better understand the volumes and expiry dates of goods in order to offer the best possible markdown method and to provide optimal discount. At the pilot stage, the project was encompassing 17 suppliers and 225 SKUs. Due to the use of advanced barcodes, the delivery of fresh products was optimized to reduce wastage and as a result, Magnit will drastically decrease the volume of wasted produce and save millions of rubles annually.

Vendor Managed Inventory

In 2020, Magnit, in cooperation with Balseva, piloted a vendor management inventory (VMI) system at Samara DC. The system is based on the SaaS solution GCR from Generix Group and allows suppliers to autonomously forecast and replenish stock at the retailer’s DC. It analyses the data provided by the retailer on daily basis and suggests the optimal delivery volume. The supplier immediately learns about sales trends and in case of any shortages may ship the necessary goods on the same day. The use of the VMI system helps to improve the freshness of products on the shelf due to more frequent restocking, allows to reduce costs for calculating needs and placing orders and to accelerate turnover.

The pilot showed a higher level of efficiency than expected, and the project will be extended to different DCs and different suppliers.

Goods availability assessment system

Magnit is currently working include the flow of key documents, improving forecasting techniques, on-shelf product availability and sharing information about the customer preferences between suppliers (as appropriate).

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SaaS GCR

The system allows suppliers to autonomously forecast and replenish stock at the retailer’s DC.

1.5-2.0% sales growth in 100 stores selected for testing

Startups to launch pilots with Magnit

In Magnit’s Digital Office in Skolkovo, several finalists of the MGNTech Accelerator were invited to showcase their ideas – the first project of this kind for the retailer. During the Demo Day, the Foundation’s specialists and Company executives selected 10 innovative projects with the most potential for further development.

The Company is expecting the increase in economic impact from scaling the innovations that succeed during the pilot phase to be at least RUB 1 bln in 2023. Startups include BesPlace – a geanalytics platform utilising consumer data for segmenting stores and managing the product range depending on the customer’s profile, and Bio Z Laboratory – a solution for increasing the freshness and shelf life of products using active packaging.

In 2019-2020 the Company launched a number of new projects for suppliers. The Magnit Service Portal now allows suppliers to familiarise themselves with shipments to distribution centres.

The system allows suppliers to autonomously forecast and replenish stock at the retailer’s DC. The automatic system identifies delivery-related failures along the entire chain, from the manufacturer to the shelf. With the help of big data and machine learning, the system analyses deviations using an extensive library containing data about sales and products. When the system was piloted, sales in the 100 stores chosen for testing increased by 1.5%–2%.

Sales of promotional products, which the Company is also working on in a separate stream, have increased by almost 17% in Magnit’s Cosmetic stores and by 5% in Convenience stores.

10 innovative projects with the most potential for further development
Private Label and Own Production

Magnit is the only food retailer in Russia with its own food production facilities. The development of Magnit’s Private Label (PL) range is central to our customer value proposition (CVP). Such products not only provide excellent value for money, but also higher margins compared to branded goods.

To date, Magnit stores stock over 2500 PL SKUs in various categories: milk and dairy products, flour, cereals, soft drinks, tea, coffee, meat and vegetable preservation, fruits and vegetables, confectionery and household goods.

In 2020 we continued to optimise our private label portfolio and expand the product range. We scaled up our private label portfolio and expanded our ‘My Price’ brand and the ‘Magnit family’ brands are available in the majority of Magnit stores.

Magnit has developed its Magnit Freshness brand incorporating over 100 SKUs in the fruit and vegetable category (including cucumbers, tomatoes, mushrooms, lettuce), with dairy and meat items added during 2020. We also made other notable improvements to the range, expanding our range of tomatoes, increasing production of eggplant and green lettuce, and exploring opportunities to invest in the production of oyster mushrooms.

Magnit is seeking to broaden its PL range by enhancing in-house production capabilities and by building long-term relationships with its partners and external suppliers of products for the PL. In particular, Magnit is looking into the possibility of directly importing exclusive products in order to develop its unique private label line.

Quality of PL products

To ensure high standards of PL products, we carry out a range of quality assurance tests such as vendor auditing and consumer testing. In 2021, we plan to audit all PL suppliers and more than double the number of laboratory tests carried out on products.

Awards received in 2020 by Magnit for its PL products:

- **44 Magnit’s PL products:**
  - Quality Assurance, a competition of food products quality (18 gold medals, 16 silver medals, 10 quality diplomas)
- **Gusto di Roma (pasta):**
  - Private Label Awards, Best Private Label for Food Products and Best Department of Private Label nominations
- **Premiere of Taste (Magnit’s premium PL):**
  - Dieline, Pentawards and White Square international design competitions (silver)
- **23 Magnit’s PL products awarded at the competition ‘100 Best Goods of Russia’**
- **59 Magnit’s PL products awarded with the ‘Made in Kuban’ mark of quality**
- **Zollider (a brand of care cosmetics for men, in cooperation with Gradient):**
  - listed by Forbes among the most successful new brands in Russia
- **Stellary (a brand of decorative cosmetics, mascara):**
  - Best of Beauty 2020 by Glamour magazine

PL products are available across each of Magnit’s price brackets:

<table>
<thead>
<tr>
<th>My Price</th>
<th>Magnit family brands (Magnit, Magnit Freshness, Magnit Necessities)</th>
<th>Premiere of Taste</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Good</td>
<td>• Better</td>
<td>• Best</td>
</tr>
<tr>
<td>Products at attractive prices, including everyday essentials</td>
<td>The core of our product range providing optimal value for money. The range includes both food and non-food products. Dairy products, beverages, groceries, delicatessens, fruit, vegetables and mushroom household goods</td>
<td>The best from across the world — the flagship in food products Snacks, nuts, preserves, cheeses, and healthy lifestyle products</td>
</tr>
</tbody>
</table>

Quality of products

Magnit focuses on continuous development and improvement of its own production facilities. We recruit the best specialists in the field, and special laboratories conduct tests of our new products to ensure quality control throughout the production process, from raw materials to the finished product. All production facilities are constantly monitored online to maintain a high quality throughout the cycle. Our production complies with GOST ISO 22000:2007 and the International Food Safety System Certification (FSSC) v5.

Development of own production

In 2020, Magnit opened a cheese slicing and packaging facility in the city of Penza and the same type of production in Dmitrov, Moscow area. A citrus packaging facility was commissioned in Novorossiysk, enabling the company to expand its offering of packaged fresh products, reduce the load on logistics and improve quality control of the products.

A number of initiatives were started throughout the year, including the development of different types of fillings for confectionary.

At Kuban Factory of Bakery Products LLC and chocolate paste production lines at Kuban Confectionery LLC, designing a new production facility for green crops, a production complex for growing oyster mushrooms and a facility for roasting, grinding and packaging coffee.

In addition, in April Magnit completed the first stage of construction of the second greenhouse complex in Tikhoretsk district of Krasnodar region. The greenhouses produce cucumbers, tomatoes, eggplants and lettuce.
In-house production

Underpinning Magnit's PL range are the Company's in-house production facilities. Magnit operates 13 industrial and four agricultural facilities, located in Krasnodar, Saratov, Ufa, Tver, Lipetsk and Togliatti regions.

In house production enables the Company to deliver local products to our stores, including in the fresh category products: among the produced goods are frozen semi-finished products, pasta, snacks, cereals, vegetables. The Company’s own facilities set a record in 2020, having produced 310,000 tonnes of products, a 31% increase in sales year-on-year.

Magnit is the only Russian food retailer with its own agricultural facilities producing fresh vegetables, three of which are located in Kuban, and one in the Lipetsk region. The total area of greenhouses is 113 hectares and annual production of agricultural products is 98,000 tonnes. Our greenhouse complex Zelenaya Liniya is the second largest in Russia (by greenhouse surface area and volume of vegetables produced).

Magnit’s production sites primarily produce products for the low-price segment; however, the sites will be further reoriented towards the production of food with higher added value going forward. Thus, the share of our own production in these categories is expected to increase.

When designing and developing our production facilities, we take into account structural changes in consumer taste, such as increased demand for products in the fresh and ultra-fresh categories.

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

- Pasta: 13%
- Tomatoes: 22%
- Cucumbers: 22%
- Lettuce: 43%
- Cupcakes: 51%
- Roulade: 74%
- Mushrooms: 85%
- Nuts and dried fruits: 89%

Shiitake mushroom production

Magnit piloted Russia’s first compact plant to produce exotic shiitake mushrooms. The plant is located in the Company’s mushroom complex in the Krasnodar region. It is unique due to its remote management of the growing process which utilizes artificial intelligence (AI). The AI system controls the environment to ensure optimal growing conditions: climate control, operation of sensors and controllers and energy recovery.

During this first stage, the plant produced almost 1.5 tonnes of mushrooms per month.

Sustainability of the PL range

In line with the Company’s Sustainability Strategy, 50% of packaging for PL and own production will be recyclable, reusable or compostable.
Marketing and Loyalty
Programme

Marketing

Our strategic goal is to become a love brand, which drives us to design customer experience around their personality rather than their wallet, give them something more than products at competitive prices, and provide enjoyment in their daily lives.

Magnit’s marketing function ensures superior customer communication and strives to provide personalised recommendations to all our customers. We seek to communicate each of our different offerings clearly, so our audience understands the different Magnit formats.

In order to ensure the effectiveness of our marketing campaigns, we develop a deep understanding of the target audience and their preferences. Our priority is to use the correct messaging in order to really resonate with our customers. Big data analysis and other modern technologies are widely used in marketing to support these efforts.

New marketing projects and technologies

— Digital marketing platform used to identify target groups on various websites, such as VK, Yandex and Odnoklassniki, Facebook (incl. Instagram) and Google (incl. YouTube), and to use targeted advertising to each of these groups based on the chosen criteria. The platform enables an increase in the accuracy of the marketing campaigns of between x2 – x5, while the increase in sales per contact may reach 5-15%.

— Combining the customer data processing technologies of the Chain’s Digital Marketing Platform and Remir Research Holding, which enables Magnit to increase the effectiveness of its own marketing campaigns and provide brands and advertising agencies with a tool to accurately set up the customer communications.

— ‘My Magnit’ magazine – the biggest Russian printed periodical of a retailer. The modern images attract customers (digital screens, price checkers, screens at cash desks, disfection terminals), bright and dynamic images attract customers’ attention, while entertaining content creates an emotional connection.

— Project of digital transformation, which encompasses all aspects of marketing. The changes will include content digitalisation (production catalogue, My Magnit magazine), display of goods and recipes on the screens, mobile application development, “digital sommelier” launch.

— Launch of theme clubs (health and beauty club, pet owners club, wine lovers club, kids’ club) with the purpose to develop communities within our customers base.

Key marketing campaigns of 2020

Collaboration with Gorod loyalty programme

In September 2020, we launched a promotion campaign in Magnit and Magnit Cosmetic stores in Moscow and the Moscow region: up to 50% of the purchase amount was returned as bonus cashback in the Gorod mobile app (linked to the Troika card).

The bonuses could be exchanged for a discount coupon, which gives the opportunity to defray up to 100% of the check amount minus RUB 1 e.g. in Magnit and Magnit Cosmetic stores. It might be used to pay for mobile, transportation, or exchanged for up to 99% discount with partners.

This type of marketing campaign is unique for Russian retail. It attracts customers, adds a level of interaction in stores, shows customers additional information about products, and suggests similar products with cashback options. We also estimate that in the future, such programme might potentially change customer experience in offline stores.

Skrepyshi 2

In 2020 (from September 30 to November 22) Magnit ran the “Skrepyshi 2” marketing campaign. Customers received one toy for every RUB 400 spent in our convenience stores and two toys for every RUB 800 in supermarkets and drogeries. “Skrepyshi” is a cartoon character, which can be used for different purposes, e.g. as a bracelet, bookmark, a keychain or another accessory.

A similar marketing campaign was run in Magnit in Q3 2019, which increased turnover by approximately 1.8%.

In 2020, the campaign was even more successful in the course of the campaign. Magnit handed out over 242 mln pcs. of Skrepyshi (52 mln pcs. more than a year before), and the Company’s total turnover increased by approximately 2.3% (compared to the approximate rise of 1.8% in 2019).

Pora otygrat’ya (Time to recoup)

In August-October 2020, Magnit ran a gamified promotion campaign Pora otygrat’ya (Time to recoup) for members of the loyalty programme. The loyalty card members were able to win Apple gadgets and other exciting prizes such as gift cards, discounts and coupons. To win a prize, customers had to shop in supermarkets, scan their receipts and be active in the Magnit official mobile app in VK – v.kmvagnitapp.

The campaign showed excellent results with 1.5 mln participants, 2 mln receipts registered and the number of Magnit’s social media subscribers increased by 700%.

Marketing data collection and analysis at Magnit

Marketing data collection and analysis

— Digital footprint (website and mobile application activities) – personalised data
— New marketing projects and technologies
— Cross-format loyalty programme – personalised data
— Data analysis tools
— Big data analysis also in collaboration withkey partners and suppliers
— Insight labs in collaboration with providers
— Joint consumer panels with marketing research firms (Nielsen, GfK)
— Smart customer segmentation (3500 identified attributes for dynamic segmentation)
— Targeted digital marketing
— Customer behaviour analysis
— Machine learning technologies used to forecast the efficiency of promotions
— Joint analytical tools with suppliers
— Stock level assessment
— Receipts – depersonalised data
— Digital footprint (website and mobile application activities) – personalised data
— Joint analytical tools

New marketing projects and technologies

— Digital marketing platform used to identify target groups on various websites, such as VK, Yandex and Odnoklassniki, Facebook (incl. Instagram) and Google (incl. YouTube), and to use targeted advertising to each of these groups based on the chosen criteria. The platform enables an increase in the accuracy of the marketing campaigns of between x2 – x5, while the increase in sales per contact may reach 5-15%.

— Combining the customer data processing technologies of the Chain’s Digital Marketing Platform and Remir Research Holding, which enables Magnit to increase the effectiveness of its own marketing campaigns and provide brands and advertising agencies with a tool to accurately set up the customer communications.

— ‘My Magnit’ magazine – the biggest Russian printed periodical of a retailer. The modern images attract customers (digital screens, price checkers, screens at cash desks, disfection terminals), bright and dynamic images attract customers’ attention, while entertaining content creates an emotional connection.

— Project of digital transformation, which encompasses all aspects of marketing. The changes will include content digitalisation (production catalogue, My Magnit magazine), display of goods and recipes on the screens, mobile application development, “digital sommelier” launch.

— Launch of theme clubs (health and beauty club, pet owners club, wine lovers club, kids’ club) with the purpose to develop communities within our customers base.

Key marketing campaigns of 2020

Collaboration with Gorod loyalty programme

In September 2020, we launched a promotion campaign in Magnit and Magnit Cosmetic stores in Moscow and the Moscow region: up to 50% of the purchase amount was returned as bonus cashback in the Gorod mobile app (linked to the Troika card).

The bonuses could be exchanged for a discount coupon, which gives the opportunity to defray up to 100% of the check amount minus RUB 1 e.g. in Magnit and Magnit Cosmetic stores. It might be used to pay for mobile, transportation, or exchanged for up to 99% discount with partners.

This type of marketing campaign is unique for Russian retail. It attracts customers, adds a level of interaction in stores, shows customers additional information about products, and suggests similar products with cashback options. We also estimate that in the future, such programme might potentially change customer experience in offline stores.

Skrepyshi 2

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**Marketing and Loyalty Programme (continued)**

**Loyalty programme and partnerships**

The cross-format loyalty programme is one of the key tools of Magnit’s communication with various customer bases. Data collected within the programme provides a deep understanding of the customer needs, which enables us to improve category management, merchandising, product range localisation and promotional offers, as well as to develop private labels. Furthermore, the data allows Magnit to shift towards personalised digital marketing and targeted offers for customers.

The key feature of the Magnit loyalty programme is the opportunity to collect and spend bonus points across all retail chain formats: convenience stores, supermarkets, drogieries and pharmacies.

43 mln customers enrolled in the loyalty programme

70% penetration of loyalty card in sales

55% share of tickets using the loyalty card

More than every second purchase in Magnit is performed with a loyalty card

Our award system is one of the most attractive on the market: a customer obtains a basic bonus of 0.3–2%, depending on the purchase amount. In addition, customers earn personal points for participation in different promotions (1 bonus point equals RUB 1, and can be used to cover up to 100% of the purchase price).

In 2020 we finished the roll-out of the loyalty programme. As of the end of 2020, the number of active users reached 43 mln. The share of the company’s revenue with the use of loyalty cards was 70%. The loyalty programme also delivers positive cross-format gains with sustainable growth of customers visiting two and more store formats at the end of 2020, the share of such customers was almost 64%.

Magnit continues to develop its loyalty programme. The updated programme will be characterised by increased levels of personalisation, and emotional engagement with participants. Among the features of the updated loyalty programme is an implementation of the principles of Customer Value Management, based on the customer life-circle, automated omni-channel system of requests processing, super app and personal accounts for users, clubs and additional services (Magnit Pay, Magnit Mobile).

Apart from that, we have created a long-term saving loyalty programme with a single currency “Magnitiki” and product rotation. We will launch digital stickers along with traditional ones, and will create our own recognisable brands as the extension of the Skrepyshi and Royal Kuchen programmes.

In 2020, Magnit loyalty programme received the prizes in Loyalty Awards Russia 2020 – the national award in the field of loyalty marketing and CRM:

- Best loyalty programme of a food retailer
- Start of the year – best new project in loyalty marketing

Co-branded bank cards and partnerships

As part of its loyalty programme, Magnit launches and develops co-branded products with banks, which helps to increase customer loyalty and retail turnover, as well as to expand the customer bases. Data collected within the programme provides a deep understanding of the customer needs.

In 2019, Magnit has co-branded bank cards with Pochta Bank and Tinkoff Bank, which allow their holders to gain extra bonus points in the Company’s loyalty programme.

Since 2019, Magnit has co-branded bank cards with Pochta Bank and Tinkoff Bank, which allow their holders to gain extra bonus points in the Company’s loyalty programme.

In 2020 Magnit continued to collaborate with the banking industry. Together with Modulbank, we issued the first co-branded card for entrepreneurs. The card is linked to an SME bank account, where the individual may gain and spend bonuses. It also provides additional benefits from selected partners.

In November 2020, the VTB-Magnit co-branded debit card was launched. Card holders benefit from bonuses of up to 5% of purchases in Magnit stores and additional bonuses from transactions in other retail chains.

To offer customers more value through the loyalty card and to monetise its database, Magnit has started partnerships with other brands. By the end of 2020, over 66 external partners accrued bonuses on the Magnit loyalty card, among them fashion retailers, HolReCa, educational services and other services.

**Magnit’s logistics system operates 36 distribution centres with 1.7 mln sq. m of warehouse space, a fleet of more than 4,400 trucks and almost 34 thous. employees. In 2020, Magnit continued to implement measures aimed at increasing the efficiency of its logistics and supply chain in line with “The chain of freshness” strategy introduced a year earlier. The strategy covers all areas of logistics including distribution, transit, international delivery, distribution centres, and management structure.**

Magnit’s retail network will enable its suppliers to independently forecast and replenish stocks at the retailer’s distribution centres (DC). In 2020, the vendor management inventory system was implemented in the Company on the basis of the GCR Saas solution developed by Generis Group, an international vendor of cloud solutions for automation and supply chain optimisation. The system reduces labour costs for calculating capacities and placing an order as it independently suggests the recommended volume of products for shipment for each DC.

43 mlrn customers enrolled in the loyalty programme

70% penetration of loyalty card in sales

55% share of tickets using the loyalty card

More than every second purchase in Magnit is performed with a loyalty card

Magnit has embarked on an ambitious long-term programme of truck fleet renewal. Within the programme, the company sells available trucks, purchases small duty vehicles and semi-trailers.

The new vehicles are suitable for big cities and can make several deliveries per day, which reduces delivery time of fresh produce to stores and contributes to Magnit’s “Freshness” strategy.

At the same time, the new mainline vehicles of increased cargo capacity will significantly reduce the Company’s delivery expenses.

In H1 2021 Magnit plans to purchase 750 vehicles. They will all comply with the Euro 5 emissions standard, contributing to the sustainability strategy and reducing the negative impact on the environment.

**Magnit approach to delivery by geographical zones**

<table>
<thead>
<tr>
<th>Geographical zone</th>
<th>Daily delivery of fresh category</th>
<th>Fresh and cross-docking platforms</th>
<th>Contactless goods acceptance at night</th>
<th>Use of leased transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 80 km</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
</tr>
<tr>
<td>&gt; 80 km</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
</tr>
<tr>
<td>High population density</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
</tr>
<tr>
<td>&lt; 80 km</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
</tr>
<tr>
<td>Low population density</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
<td>⚫</td>
</tr>
</tbody>
</table>

1. Delivered In Full, On Time (DIFOT) is a measurement of delivery performance in a supply chain and measures how often the customer gets what they want at the time they want it.
2. Cross-docking platform is a transshipment platform used to consolidate incoming products for outgoing destinations. Inland and outbound of items is carried out within one day.

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magnit.com
Logistics (continued)

Forecasting and replenishment
In late 2020, Magnit started to roll out the new Forecasting & Replenishment (F&R) system with the help of Relex solution platform. The project will become the largest in Russian logistics and one of the largest in the world, covering about 22,000 stores, 38 distribution centres, and will be adapted to the updated system and business architecture of the company. The new F&R system is based on AI and machine learning technologies and encompasses all functions of goods distribution, data analysis, accurate forecasting of sales volume for each product in each store and planning deliveries. Through its implementation, Magnit plans to significantly increase transparency of operations, increase availability of products, particularly for Fresh and Ultra-Fresh categories, optimise inventory, ensure a high level of service, and improve the quality and speed of interaction with suppliers. The pilot project will be launched in 2021 at one of the distribution centres in Krasnodar, which serves more than 1,250 stores.

Pooling
It has been two years since we launched pooling. Pooling entails the consolidated delivery of goods from different suppliers to distribution centres using a transport company. The system now encompasses 13 shipment regions and 10 transport companies. Pooling allows suppliers to reduce logistics costs by an average of 10-32%. In 2020, approximately 46,000 pallets per month (3% of the total turnover) were delivered through pooling. By the end of the year, 350 companies (~12% of suppliers) had joined the system.

Cross-docking platforms
Cross-docking platforms are the small warehouses located between the distribution centres and the stores used to consolidate incoming products for outgoing destinations. Thanks to cross-docking platforms, inbound and outbound shipment of items is carried out within one day.

Automation
Automation and digitalisation are key elements of Magnit’s modernisation of logistics.

– ReLexSWM is the analytical platform merged from the three existing platforms, which allows to forecast the orders based on the sales from every point of the supply chain.

– Time slot is a system that manages the loading and unloading and allows to minimise potential for corruption and increase efficiency. It has been introduced in 100% of Magnit warehouses.

– Picking carousel is a project piloted in two warehouses which allows for faster introduction of items to the product range. It will be rolled-out in the first quarter of 2021.

– New Warehouse Management System (WMS) is aimed at decreasing the amount of warehousing space and the increasing the handling capacity of the warehouse. It is being piloted in one distribution centre and will be launched in all DCs by 2023.

– Pick-by-voice provides voice instructions to employees via headset. This improves labour efficiency and reduces errors. In 2020, all Magnit DCs were equipped with the system. It allows the user to keep track of the movement of products online. Personal assistants are used when assembling an assortment that does not require special storage conditions.

Novosibirsk DC
One of the major achievements in logistical infrastructure was the opening of the new distribution centre in Novosibirsk which increased the warehousing capacity of the Company in Siberia.

Magnet also fully rebuilt Voronezh DC in October 2020, which caught fire in 2019. The restored warehouse has an area of 24,000 sq. meters for storage and distribution of goods.

Magnet seeks to not only improve logistical efficiency but also to cut the amount of harmful emissions. In 2020 Magit converted over 250 of its vehicles from diesel to environmentally friendly natural gas fuel (LNG). The gas-powered vehicles will be operated over long distances in the Central Volga, Urals and North-Western districts. This innovation will cut greenhouse gas emissions by 4,400 tons per year and will reduce the fuel costs by 14%.

We consider and test different solutions aimed at improving the efficiency and effectiveness of warehousing processes and operation of distribution centres. In July 2020 Magit launched a lighting control system based on motion sensors in its logistics centre in Krasnodar. The main aim of the project was to evaluate the operating efficiency of sensors. The launch of this technology at all company facilities will save about 3,120,000 kWhour per year.

Geographical coverage of distribution centres in 2020

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of DCs</th>
<th>Total warehouse space (thous. sq. m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Federal District</td>
<td>10</td>
<td>512</td>
</tr>
<tr>
<td>Volga Federal District</td>
<td>10</td>
<td>470</td>
</tr>
<tr>
<td>Southern Federal District</td>
<td>8</td>
<td>313</td>
</tr>
<tr>
<td>Ural's Federal District</td>
<td>3</td>
<td>143</td>
</tr>
<tr>
<td>Northwestern Federal District</td>
<td>3</td>
<td>119</td>
</tr>
<tr>
<td>Siberian Federal District</td>
<td>3</td>
<td>110</td>
</tr>
<tr>
<td>North Caucasian Federal District</td>
<td>1</td>
<td>40</td>
</tr>
</tbody>
</table>

Overview of the logistics chain

Logistics chain characteristics

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of stores served</td>
<td>21,564</td>
<td>20,725</td>
<td>18,948</td>
<td>16,298</td>
</tr>
<tr>
<td>Number of distribution centres</td>
<td>38</td>
<td>38</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Total warehouse space, thous. sq. m</td>
<td>1,707</td>
<td>1,686</td>
<td>1,645</td>
<td>1,640</td>
</tr>
<tr>
<td>Selling space per 1 sq. m of warehouse space, sq. m</td>
<td>4.39</td>
<td>4.29</td>
<td>3.91</td>
<td>3.51</td>
</tr>
<tr>
<td>Number of stores per 1 warehouse</td>
<td>567</td>
<td>545</td>
<td>496</td>
<td>440</td>
</tr>
<tr>
<td>Sales per 1 sq. m of warehouse space, RUB thous. sq. m</td>
<td>910</td>
<td>812</td>
<td>752</td>
<td>697</td>
</tr>
<tr>
<td>Centralisation ratio, %</td>
<td>91</td>
<td>91</td>
<td>89</td>
<td>88</td>
</tr>
<tr>
<td>Number of company-owned trucks</td>
<td>3,353</td>
<td>5,656</td>
<td>5,897</td>
<td>6,089</td>
</tr>
</tbody>
</table>

1. Excluding small pharma warehouses located in the other regions.
2. Excluding pharmacies.
3. Share of goods delivered to the stores via distribution centres.
4. The number of trucks decreased in 2020 due to our truck fleet renewal programme.

New electrical trucks “Moskva” are being tested by Magnit in DC Dmitrov. They were specifically designed for Magnit by the DRIVE ELECTRIC company and will deliver goods for Magnit stores for the next 6-12 months. These new trucks are more environmentally friendly, create less noise and are fully equipped for the Russian climate. If the pilot is successful, Magnit will purchase 200 trucks.

9 tonnes
Loading capacity

110 km/h
Maximum speed

New Warehouse Management System (WMS) is aimed at decreasing the amount of warehousing space and the increasing the handling capacity of the warehouse. It is being piloted in one distribution centre and will be launched in all DCs by 2023. Pick-by-voice provides voice instructions to employees via headset. This improves labour efficiency and reduces errors. In 2020, all Magnit DCs were equipped with the system. It allows the user to keep track of the movement of products online. Personal assistants are used when assembling an assortment that does not require special storage conditions.

Magnet plans to cover the local suppliers with the cross-docking platforms to decrease the costs of transportation and speed up the delivery process. In 2020 the new approach to cross-docking was introduced with the help of Nestle. It is also based on cross-docking model and reduces the time for delivery and the need for warehousing space.
Future Development

There is a pipeline of logistics projects to be launched and piloted in 2021, including scaling the WMS system and developing the cross-docking and pooling systems. Magnit will try to align the supply chain for the specific format, while ensuring timely and safe delivery.

Quality Control

Magnit devotes a lot of attention to the quality of its products and made several improvements in 2020. We constantly review and update internal regulatory documents on food and non-food safety, as well as standards and procedures for effective management of food and non-food safety risks. We support and enhance the quality management system and the system for supplier evaluation. The quality management system is being improved along the entire supply chain and monitored through internal audits and preparation for third-party certification audits.

Magnit has a quality control team, who oversee this function, comprised of qualified professionals with the required knowledge and experience.

In 2020, Magnit adopted a food and non-food product quality and safety policy. It states the Company’s commitment to compliance with Russian laws and regulations concerning the quality and safety of food and non-food products.

In March 2020, Magnit introduced the position of Quality Attendant, responsible for daily control of the quality of goods. The Quality Attendant monitors the cleanliness of the store throughout the day, the quality of food, including checking the fresh and ultra-fresh products, and the product display on the shelves.

Customers may recognise the Quality Attendant by a special pin on their uniform and address them with any concerns and questions. This focus on quality is a key part of our plan to be the first-choice grocery retailer for Russian customers.

Our ambition

is to further enhance our customer experience and provide complementary services beyond our core offering, and to ensure an effective modernisation of our internal processes and overall systems to drive cost efficiencies and ensure effective scalability in the long-run.

Digital transformation

Our ambition - to further enhance our customer experience and provide complementary services beyond our core offering, and to ensure an effective modernisation of our internal processes and overall systems to drive cost efficiencies and ensure effective scalability in the long-run.

Magnit is on track with its digital transformation which will enable a better shopping experience and improve staff productivity. Moreover, it has the potential to improve returns to our shareholders and benefits all the stakeholders, including Magnit’s customers, employees, suppliers and investors.

Magnit has made significant progress towards process automation, with the rollout of the loyalty programme, implementation of e-commerce development, initiation of the electronic document flow and kick-off of the ERP SAP introduction. We also introduced the Supplier Relationship Management system for our production facilities.

A lot of work has already taken place to improve internal levels of automation and efficiency, and Magnit has now brought all these projects under one umbrella strategy, the large-scale Digital Transformation Programme. For 2021, the Company has defined 7 major goals for its digital transformation.

Fix & Re-Build Tech

Fix (short-term) ways of working in IT and Data and minimise tech barriers and re-build (mid- and long-term) IT and Data architecture, overall tech Employee Value Proposition (EVP), and ensure the correct approach to systems and resource management to improve the quality and speed up time to market for tech initiatives.

Support retail core via Tech & Data

Support implementation of game-changing core systems and enable retail and service functions to operate smoothly and efficiently using appropriate tech and data infrastructure and tools.

Establish strong (Digital) consumer brand

Build strong brand fundamentals with a data-driven approach to all aspects of marketing and personalisation.

Build foundations for a modern omnichannel customer experience in Magnit-centered ecosystem

Rebuild digital product landscape, successfully scale e-commerce and realize transformational partnership opportunities.

Drive Change

Drive, track and communicate change, focusing on digital transformation and ensure track and trace of functional and E2E transformation initiatives

Fund the journey & run effective budget management for impact

Implement a sustainable, effective and transparent financial process with a systematic and balanced approach across all financial procedures.

Build a strong team & effective HR management for digital team

Focus on development of strong and motivated digital transformation team by building an attractive Magnit Tech Brand, proper talent acquisition and development processes controlled by effective HR KPI reporting.
Future Development (continued)

ERP Transformation

ERP (Enterprise Resource Planning) is aimed at facilitating the management of business processes in the Company. The ERP system builds the strong foundation for the further initiatives across all business areas. The entire ERP Transformation Programme will take up to five years. By end of 2022, Magnit will complete the pilot phases for each solution, it will then take 3 years to roll them out across the company.

As a result of the ERP integration Magnit expects the major economic benefits will come in the area of Goods Movement and Logistics through the reduction of inventory and write-offs, etc.

The ERP-driven Supply Chain effects are expected to be amplified by successful delivery of other core modernisation projects such as Forecasting & Replenishment or WMS relaunch. Magnit also expects increased efficiencies in finance, non-commercial procurement and human resource processes.

Magnit launched a large-scale Digital Transformation Programme to integrate all the existing projects and new initiatives under one umbrella strategy. The Company has identified 27 initiatives within 4 major goals for its digital transformation.

There are four underlying projects included into the ERP Transformation Programme:

1. Goods movement and Logistics
2. Finance, Non-commercial procurement and Real Estate
3. HR project
4. Middleware, Internal SAP Centre of Excellence

Build a strong brand and product

This focuses on ensuring effective and engaging interaction with customers, given the unprecedented size of Magnit's loyalty base.

— E-commerce. In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners. Magnit piloted six online delivery projects in 2020 and is refining the format to meet customer needs. By the end of the year, Magnit's e-commerce services encompassed over 1,000 stores in 47 regions and 72 cities. During 2021, the Company plans to expand online delivery, adding at least 1,500 convenience, Magnit Cosmetic and large-format stores in more than 50 regions across Russia.

For more information about our e-commerce projects, please see p. 86.

— Magnit App. Magnit is working on developing its app, featuring all the advantages of the loyalty card, delivery services and multi-format offerings.

— Adjacent Projects
  • MPay is a new tool which allows customers to pay for their purchases in any store, including online orders. The virtual card can be topped up for free or added to various pay services and allows customers to transfer money to any Russian card. The tool is especially beneficial for loyalty programme members, as by using Magnit Pay they get an additional 0.5% of their purchase amount accrued as bonus points. For 30 days after the first purchase, customers will receive double point rewards. The launch of Magnit Pay represents an important milestone in the establishment of Magnit’s superapp.

Magnit’s ERP Transformation Programme consists of the following SAP solutions:

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAP S/4Hana for Retail</td>
<td>The powerful tool to utilise all financial and commercial functions and unify all the business processes within the Company.</td>
</tr>
<tr>
<td>SAP Central Finance</td>
<td>The system unifies the financials of all Magnit’s enterprises</td>
</tr>
<tr>
<td>SAP CAR</td>
<td>The modern check storage to be created within Magnit</td>
</tr>
<tr>
<td>SAP Track and Trace</td>
<td>The programme will trace the operations to comply with all the regulations</td>
</tr>
<tr>
<td>SAP Business Objects and SAP Analytics Cloud</td>
<td>The tools will be used to construct corporate analytics and unification of the reporting</td>
</tr>
</tbody>
</table>

Implementation in partnership with leading integrators delivering SAP solutions

Since the payment service was brought online, about 100,000 Magnit customers have become active users, of which 60 thous. users have added a Magnit Pay card to contactless payment services for offline usage. Every day, about 30 thous. virtual payment cards are issued via Magnit’s app, with their total number already standing at about 2 million.

— MMobile (Magnit Mobile) is an MVNO service that Magnit is developing to allow customers to benefit from both the mobile and retail: the loyal customers will be able to get mobile traffic almost for free, just making the regular purchases in Magnit.

— Mobiscan is a self-scanning device that will be installed in the shops and digitalise the store experience for the customer.
Financial Review

FY 2020 Key Financial Highlights

- Total revenue increased by 13.5% year-on-year to RUB 1,553.8 bln.
- Net retail sales reached RUB 1,368.7 bln representing 12.2% year-on-year growth.
- Gross profit margin stood at 23.5% - an increase of 74 bps year-on-year driven by improvements in on-shelf availability and improvement of service level, transportation expenses as a percentage of sales improved by 6 bps year-on-year on route optimisation, higher utilization of trucks and other efficiency gains leading to a reduction of cost per kilometre by 7.9% year-on-year.

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.

FY 2020 Key Financial Results

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>1,553,777</td>
<td>1,368,705</td>
<td>13.5%</td>
<td>1,553,777</td>
<td>1,368,705</td>
<td>13.5%</td>
</tr>
<tr>
<td>Retail</td>
<td>1,510,071</td>
<td>1,332,929</td>
<td>13.3%</td>
<td>1,510,071</td>
<td>1,332,929</td>
<td>13.3%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>43,707</td>
<td>35,777</td>
<td>22.2%</td>
<td>43,707</td>
<td>35,777</td>
<td>22.2%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>365,729</td>
<td>311,999</td>
<td>17.2%</td>
<td>365,756</td>
<td>311,999</td>
<td>17.2%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>23.5%</td>
<td>22.8%</td>
<td>74 bps</td>
<td>23.5%</td>
<td>22.8%</td>
<td>74 bps</td>
</tr>
<tr>
<td>SG&amp;A % of sales</td>
<td>-20.5%</td>
<td>-21.5%</td>
<td>82 bps</td>
<td>-19.1%</td>
<td>-19.8%</td>
<td>70 bps</td>
</tr>
<tr>
<td>EBITDA pre LTI</td>
<td>110,264</td>
<td>85,111</td>
<td>31.6%</td>
<td>179,043</td>
<td>149,309</td>
<td>19.3%</td>
</tr>
<tr>
<td>EBITDA Margin pre LTI, %</td>
<td>7.1%</td>
<td>6.2%</td>
<td>11.5%</td>
<td>10.9%</td>
<td>6.1%</td>
<td>64.0%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>109,410</td>
<td>83,112</td>
<td>31.6%</td>
<td>178,189</td>
<td>147,310</td>
<td>20.0%</td>
</tr>
<tr>
<td>EBITDA Margin, %</td>
<td>7.0%</td>
<td>6.4%</td>
<td>11.5%</td>
<td>10.8%</td>
<td>7.1%</td>
<td>50.0%</td>
</tr>
<tr>
<td>EBIT</td>
<td>63,493</td>
<td>36,324</td>
<td>74.8%</td>
<td>88,424</td>
<td>59,266</td>
<td>49.3%</td>
</tr>
<tr>
<td>EBIT Margin, %</td>
<td>4.1%</td>
<td>2.7%</td>
<td>143 bps</td>
<td>5.7%</td>
<td>4.3%</td>
<td>136 bps</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>-13,497</td>
<td>-15,095</td>
<td>12.6%</td>
<td>-44,268</td>
<td>-47,509</td>
<td>6.8%</td>
</tr>
<tr>
<td>FX gain / (loss)</td>
<td>-1,310</td>
<td>781</td>
<td>-2678%</td>
<td>-1,453</td>
<td>873</td>
<td>-2665%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>48,886</td>
<td>22,010</td>
<td>121.2%</td>
<td>62,703</td>
<td>12,579</td>
<td>293.5%</td>
</tr>
<tr>
<td>Taxes</td>
<td>-10,905</td>
<td>-13,091</td>
<td>22.5%</td>
<td>-9,709</td>
<td>-3,015</td>
<td>222.0%</td>
</tr>
<tr>
<td>Net Income</td>
<td>37,781</td>
<td>17,108</td>
<td>120.8%</td>
<td>53,293</td>
<td>9,564</td>
<td>462.0%</td>
</tr>
<tr>
<td>Net Income Margin, %</td>
<td>2.4%</td>
<td>1.2%</td>
<td>118 bps</td>
<td>2.1%</td>
<td>0.7%</td>
<td>142 bps</td>
</tr>
</tbody>
</table>

The numbers may be small variations in calculation of totals, subtotals and/ or percentage change due to rounding of decimals.

1 The Company provides analysis of financial metrics using IAS 17 approach in the current section of the report. Respective financial data according to IFRS 16 is also provided further.
2 EBITDA, EBITDA pre LTI and LFL metrics are calculated by the Company and are not audited.
3 Selling, general and administrative expenses excluding depreciation and amortization.
4 Long-Term Incentive Programme.
Financial Review (continued)

Selling, General and Administrative Expenses (SG&A)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll and related taxes</td>
<td>138,640</td>
<td>120,677</td>
<td>13.9%</td>
<td>138,640</td>
<td>120,677</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>8.9%</td>
<td>8.9%</td>
<td>3 bps</td>
<td>8.9%</td>
<td>8.9%</td>
<td>3 bps</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>67,011</td>
<td>63,195</td>
<td>6.0%</td>
<td>1,429</td>
<td>982</td>
<td>45.5%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>4.3%</td>
<td>4.6%</td>
<td>-30 bps</td>
<td>0.1%</td>
<td>0.1%</td>
<td>2 bps</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>45,917</td>
<td>46,788</td>
<td>-1.9%</td>
<td>89,765</td>
<td>88,094</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>3.0%</td>
<td>3.4%</td>
<td>-66 bps</td>
<td>5.8%</td>
<td>6.4%</td>
<td>-66 bps</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>28,287</td>
<td>24,737</td>
<td>14.3%</td>
<td>24,737</td>
<td>24,737</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1 bps</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1 bps</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>7,628</td>
<td>7,715</td>
<td>-1.1%</td>
<td>7,628</td>
<td>7,715</td>
<td>-1.1%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.5%</td>
<td>0.6%</td>
<td>-7 bps</td>
<td>0.5%</td>
<td>0.6%</td>
<td>-7 bps</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>9,051</td>
<td>8,273</td>
<td>3.8%</td>
<td>9,051</td>
<td>8,273</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.6%</td>
<td>0.6%</td>
<td>-5 bps</td>
<td>0.6%</td>
<td>0.6%</td>
<td>-5 bps</td>
<td></td>
</tr>
<tr>
<td>Bank services</td>
<td>7,108</td>
<td>6,516</td>
<td>9.1%</td>
<td>7,108</td>
<td>6,516</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.5%</td>
<td>0.5%</td>
<td>-2 bps</td>
<td>0.5%</td>
<td>0.5%</td>
<td>-2 bps</td>
<td></td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>6,732</td>
<td>5,748</td>
<td>17.1%</td>
<td>6,732</td>
<td>5,748</td>
<td>17.1%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.4%</td>
<td>0.4%</td>
<td>1 bps</td>
<td>0.4%</td>
<td>0.4%</td>
<td>1 bps</td>
<td></td>
</tr>
<tr>
<td>Taxes, other than income tax</td>
<td>2,925</td>
<td>3,240</td>
<td>-9.7%</td>
<td>2,925</td>
<td>3,240</td>
<td>-9.7%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.2%</td>
<td>0.2%</td>
<td>-5 bps</td>
<td>0.2%</td>
<td>0.2%</td>
<td>-5 bps</td>
<td></td>
</tr>
<tr>
<td>Packaging and raw materials</td>
<td>4,861</td>
<td>3,215</td>
<td>51.2%</td>
<td>4,861</td>
<td>3,215</td>
<td>51.2%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>0.3%</td>
<td>0.2%</td>
<td>8 bps</td>
<td>0.3%</td>
<td>0.2%</td>
<td>8 bps</td>
<td></td>
</tr>
<tr>
<td>Total SG&amp;A</td>
<td>318,159</td>
<td>298,555</td>
<td>91%</td>
<td>296,425</td>
<td>270,648</td>
<td>9.5%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>20.5%</td>
<td>21.3%</td>
<td>-82 bps</td>
<td>19.1%</td>
<td>19.8%</td>
<td>-70 bps</td>
<td></td>
</tr>
<tr>
<td>Cash SG&amp;A (excl D&amp;A)</td>
<td>272,242</td>
<td>244,767</td>
<td>11.2%</td>
<td>206,660</td>
<td>180,554</td>
<td>13.2%</td>
<td></td>
</tr>
<tr>
<td>as a % of Sales</td>
<td>17.5%</td>
<td>17.9%</td>
<td>-56 bps</td>
<td>13.3%</td>
<td>13.5%</td>
<td>-4 bps</td>
<td></td>
</tr>
</tbody>
</table>

SG&A costs demonstrated solid improvement of 82 bps to 20.5% as a percent of sales.

Cash SG&A expenses as a percentage of sales improved by 36 bps to 17.5% primarily as a result of lower rent costs as well as positive operating leverage effect partially offset by higher packaging and raw materials costs.

Personnel costs as a percent of sales remained flat at 8.9% - one-off COVID-related expenses incurred in March and April 2020 were offset by efficiency improvements. The Company made increased payments to its frontline personnel related to extra working hours and additional hiring to cover high demand in March partially compensated by increased productivity and lower staff turnover. Staff turnover continued to improve during the period driven by on-going automation of business processes and improved working conditions in the Company’s stores including a selective increase in compensation for frontline employees as well as higher retention rate.

Rent costs as a percent of sales decreased by 30 bps year-on-year to 4.5% driven by higher sales density, improved lease terms with landlords and closing of inefficient stores. This was achieved despite the increased share of leased selling space to 78.0% in 2020 vs. 77.2% a year ago.

Depreciation as a percent of sales – as a result EBITDA margin reported period stood at 0.05% of sales – as a result EBITDA margin pre-LTI was 7.1%.

As a result, EBITDA was RUB 109.4 bln with a 7.0% margin reflecting 97 bps year-on-year expansion due to strong gross margin dynamics and lower SG&A expenses. LTI expenses in the period stood at RUB 0.3 bln, an 8.9% reduction to 6.1% year-on-year (or 23 bps). As a result, net income in 2020 more than doubled year-on-year and stood at RUB 37.8 bln. Net income margin increased to 2.4%.

Packaging and raw materials expenses increased by 7 bps year-on-year to 0.5% thanks to more efficient tactics and tools of promo campaigns.

As a result of continued focus on financial efficiencies, the cost of debt reduced to 6.1% (102 bps year-on-year).

In 2020 the Company reported FX loss in the amount of RUB 1.3 bln related to direct import operations.

Income tax in 2020 was RUB 10.9 bln with effective tax rate of 22.4%.

As a result, net income in 2020 more than doubled year-on-year and stood at RUB 37.8 bln. Net income margin increased to 2.4%.

Strategic Report  Corporate Governance Appendices
Financial Review (continued)

Balance Sheet and Cash Flows

Despite ongoing improvement to on-shelf availability, the increased share of drogerie format by 66 bps as a percent of net retail sales, supplier inflation and total sales growth of 13.5%, inventories decreased by RUB 12.9 bln vs December 31, 2019 and stood at RUB 205.9 bln. This was driven by a number of projects launched in 2020 including a reduction of slow-moving items, assortment harmonization and IT solutions aimed at better on-shelf availability and promo forecasting.

Trade and other payables remained flat year-on-year and stood at RUB 161.1 bln. The Company’s cash flows from operating activities before changes in working capital and stood at RUB 166.1 bln as of December 31, 2020 with cash position of RUB 44.7 bln.

As a result of repayment activities gross debt decreased by RUB 18.1 bln or 9.8% compared to December 31, 2019 and stood at RUB 181.1 bln as of December 31, 2020 with cash position of RUB 44.7 bln.

The Company’s cash flows from operating activities before changes in working capital in 2020 equaled to RUB 109.9 bln, which was RUB 23.6 bln or 27.4% higher year-on-year. The change in working capital improved to RUB 30.3 bln from RUB -13.4 bln in 2019 as a result of a decrease in inventory, receivables, higher accrued expenses and taxes payable.

Cash Flow Statement for FY 2020

With this net cash flow from operating activities in 2020 increased by 104.9% to RUB 184.2 bln as a result of positive movement of working capital and lower interest paid.

Net cash used in investing activities predominantly comprised of capital expenditures decreased by 48.3% to RUB 29.5 bln in 2020. The dynamic was attributable to a slowdown of expansion programme (2,841 store openings on gross basis in 2020 vs 2,841 in 2019) and decelerated redesign programme (385 stores in 2020 vs 2,344 stores in 2019). Capex in 2020 came below the Company’s guidance on lower than expected expansion given pandemic restrictions and management’s intention to expand selectively following strict return requirements.

As a result, net debt reduced by RUB 3.9 bln compared to December 31, 2019 and stood at RUB 121.4 bln. The Company’s debt is fully RUB denominated matching revenue structure, 99% of debt portfolio was long-term with 22 months maturity. The net debt to EBITDA ratio was 11x as at 31 December 2020 vs 2.1x as at 31 December 2019.

Debt Composition and Leverage as of 31.12.2020

<table>
<thead>
<tr>
<th>RUB, bln</th>
<th>2020</th>
<th>Share, %</th>
<th>1H 2020</th>
<th>Share, %</th>
<th>2019</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross debt</td>
<td>166.1</td>
<td>88.9%</td>
<td>208.6</td>
<td>84.2%</td>
<td>117.4</td>
<td>56.3%</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>147.7</td>
<td>88.9%</td>
<td>192.5</td>
<td>89.8%</td>
<td>117.4</td>
<td>56.3%</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>18.4</td>
<td>11.1%</td>
<td>91.2</td>
<td>43.7%</td>
<td>91.2</td>
<td>43.7%</td>
</tr>
<tr>
<td>Net debt</td>
<td>121.4</td>
<td>73.4%</td>
<td>187.4</td>
<td>77.8%</td>
<td>117.4</td>
<td>56.3%</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>1.1x</td>
<td>2.0x</td>
<td>2.1x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IAS 16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>479.0</td>
<td>33.8%</td>
<td>538.8</td>
<td>35.8%</td>
<td>532.5</td>
<td>34.0%</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>2.7x</td>
<td>3.3x</td>
<td>3.6x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As a result, net debt reduced by RUB 3.9 bln compared to December 31, 2019 and stood at RUB 121.4 bln. The Company’s debt is fully RUB denominated matching revenue structure.

Financial Position Highlights as of 31 December 2020 (IFRS 16)

<table>
<thead>
<tr>
<th>RUB, bln</th>
<th>2020</th>
<th>Share, %</th>
<th>1H 2020</th>
<th>Share, %</th>
<th>2019</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>161.4</td>
<td>86.1%</td>
<td>208.6</td>
<td>84.2%</td>
<td>117.4</td>
<td>56.3%</td>
</tr>
<tr>
<td>Inventories</td>
<td>205.9</td>
<td>11.6%</td>
<td>192.5</td>
<td>89.8%</td>
<td>117.4</td>
<td>56.3%</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>81.6</td>
<td>4.3%</td>
<td>91.2</td>
<td>43.7%</td>
<td>91.2</td>
<td>43.7%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>44.70</td>
<td>2.4%</td>
<td>538.8</td>
<td>35.8%</td>
<td>532.5</td>
<td>34.0%</td>
</tr>
<tr>
<td>Other current assets</td>
<td>771.8</td>
<td>4.3%</td>
<td>2.1x</td>
<td>3.6x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>945,392</strong></td>
<td><strong>538.8%</strong></td>
<td><strong>109.798</strong></td>
<td><strong>61.4%</strong></td>
<td><strong>948,689</strong></td>
<td><strong>52.4%</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td><strong>182,889</strong></td>
<td><strong>9.7%</strong></td>
<td><strong>188,533</strong></td>
<td><strong>10.1%</strong></td>
<td><strong>188,533</strong></td>
<td><strong>10.1%</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>762,503</strong></td>
<td><strong>40.4%</strong></td>
<td><strong>860,156</strong></td>
<td><strong>51.9%</strong></td>
<td><strong>760,156</strong></td>
<td><strong>51.9%</strong></td>
</tr>
</tbody>
</table>

As a results of repayment activities gross debt decreased by RUB 18.1 bln or 9.8% compared to December 31, 2019 and stood at RUB 181.1 bln as of December 31, 2020 with cash position of RUB 44.7 bln.

The Company’s cash flows from operating activities before changes in working capital and stood at RUB 166.1 bln as of December 31, 2020.

The Company paid dividends in the amount of RUB 29.9 bln. The rest was driven by dynamics of proceeds from borrowings and repayment of loans.

In 2020 net cash used from financing activities was RUB 491.8 bln vs RUB 165.5 bln used in 2019. In 2020, the Company paid dividends in the amount of RUB 29.9 bln. The rest was driven by dynamics of proceeds from borrowings and repayment of loans.

As a result of factors mentioned above net cash position in 2020 increased by RUB 35.8 bln to RUB 44.7 bln as of December 31, 2020.

The Company’s cash flows from operating activities before changes in working capital in 2020 equaled to RUB 109.9 bln, which was RUB 23.6 bln or 27.4% higher year-on-year. The change in working capital improved to RUB 30.3 bln from RUB -13.4 bln in 2019 as a result of a decrease in inventory, receivables, higher accrued expenses and taxes payable.

With this net cash flow from operating activities in 2020 increased by 104.9% to RUB 184.2 bln as a result of positive movement of working capital and lower interest paid.

Net cash used in investing activities predominantly comprised of capital expenditures decreased by 48.3% to RUB 29.5 bln in 2020. The dynamic was attributable to a slowdown of expansion programme (2,841 store openings on gross basis in 2020 vs 2,841 in 2019) and decelerated redesign programme (385 stores in 2020 vs 2,344 stores in 2019). Capex in 2020 came below the Company’s guidance on lower than expected expansion given pandemic restrictions and management’s intention to expand selectively following strict return requirements.
Risk Management

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

Key documents of risk management:
- Internal Control and Risk Management Policy
- 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 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 order of importance.
- Balance. Controlling procedures and risk management functions must be equipped with the necessary resources and authorisation for their successful execution. Spending on the implementation and realisation of controlling procedures must therefore be 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.

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 of 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 the risk management system at a minimum of 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. 94.

Risk management training:
The responsibility for risk management at Magnit PJSC is with the Internal Audit Department. The Company develops the proficiency level of its accountable employees.

In 2020, representatives of the Department took online courses in Risk Management and Internal Control at the Deloitte Academy, as well as participated in the Risk Management Week 2020, an online event held by the Institute for Strategic Risk Analysis (ISAR).
Risk Management (continuation)

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.

**Key risks**

The Company defines and ranks the most important risks impacting its business activity.

**Risk map**

- **High**
- **Moderate**
- **Low**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
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<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate</td>
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</tr>
</tbody>
</table>

**Risks**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Type</th>
<th>Source</th>
<th>Impact</th>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Risk of deterioration of socio-economic and political conditions</td>
<td>strategic</td>
<td>external</td>
<td>revenue, LFL</td>
<td>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.</td>
</tr>
<tr>
<td>2 Risk of transformation</td>
<td>strategic</td>
<td>internal and external</td>
<td>strategy execution, revenue, EBITDA</td>
<td>collective decision making; hiring external consultants to speed up and optimise the processes.</td>
</tr>
<tr>
<td>3 Risks of adverse regulatory changes</td>
<td>regulatory</td>
<td>external</td>
<td>market share, revenue, EBITDA</td>
<td>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; technical documents.</td>
</tr>
<tr>
<td>4 Risks of excessive loss of the inventory for the following reasons</td>
<td>operational</td>
<td>internal</td>
<td>EBITDA</td>
<td>modifying the Company’s business processes through the redistribution of powers and responsibilities; involving internal security in the investigation of thefts 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.</td>
</tr>
</tbody>
</table>
### Risk Management (continuation)

#### Risks (continuation)

<table>
<thead>
<tr>
<th>Risks</th>
<th>Type</th>
<th>Source</th>
<th>Impact</th>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5. Risks of increased competition</strong></td>
<td>strategic</td>
<td>external</td>
<td>revenue</td>
<td>monitoring competitors' actions</td>
</tr>
<tr>
<td>— increase in price pressure</td>
<td></td>
<td></td>
<td></td>
<td>— utilising marketing tools, conducting promotions</td>
</tr>
<tr>
<td>— traffic outflow</td>
<td></td>
<td></td>
<td></td>
<td>— increasing the attractiveness of existing stores through reconstruction</td>
</tr>
<tr>
<td>— decrease in sales per sq.m. of the selling space.</td>
<td></td>
<td></td>
<td></td>
<td>— evaluating the attractiveness and potential of the proposed store openings using GIS-analysis technologies.</td>
</tr>
</tbody>
</table>

| **6. Risks of making poor investment decisions** | operational | internal | EBITDA | collective decision-making on investment projects |
| — return on investment of new stores and reconstructions is below the WACC | | | | — standardisation of norms and financial models |
| — the growth of the number of unprofitable stores | | | | — use of GIS-analysis technologies |
| — excess CAPEX per object (excess requirements, excessive standards, low-quality construction and installation works) | | | | — introduction of tender procedures |
| — budget control of expenses for the implementation of the investment programme | | | | — budget control of expenses for the implementation of the investment programme |
| — post-investment analysis. | | | | — post-investment analysis. |

| **7. Risks associated with IT infrastructure support** | operational | internal | EBITDA | development of a detailed plan for priority IT investments, collective decision-making on investments in the IT infrastructure. |
| — increased business requirements to IT systems may face the inconsistency with the existing capacities of the IT infrastructure necessary to support business processes, both existing ones and ones planned for introduction (IT, contractors, personnel, logistics) | | | | — increased requirements to prompt search of defects and their liquidation in the information management systems providing an adverse impact on the operations. |

| **8. Risks of corruption and employee fraud** | operational | internal | all parameters | introduction of 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, access to the United Nations Global Compact |
| — 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. | | | | — personal training in corporate ethics and code of conduct |
| — segregation of incompatible powers through improved organisational structure, as well as distribution of access rights and implementation of the access rights matrix | | | | — transaction control by the Financial Directorate |
| — transaction control by the Financial Directorate | | | | — inspection of potential candidates for vacant positions by the Security Directorate |

| **9. IT security risks** | operational | internal | all parameters | monitoring of access control procedures and mechanisms, approved access matrices |
| — increased number of cyber-attacks on information systems around the world | | | | — establishment of a software and infrastructure change management system |
| — violation of occupational and fire safety standards and regulations may lead to the termination of business at the Company’s facilities | | | | — data backup, duplication of key information systems |
| — changes in the Russian tax system affecting the Company’s financial performance | | | | — functioning of a centralised monitoring system for information security events. |

| **10. Risks associated with changes in tax legislation** | operational | internal | EBITDA | development and coordination of the accounting policy with external auditors. |
| — making amendments or supplements to the legislative acts on taxes and levies regarding an increase in tax rates, introduction of new types of taxes | | | | — consultation with the involvement of audit companies |
| — changes in the Russian tax system providing a significant adverse impact on the attractiveness of investments in the Company’s securities | | | | — development and coordination of the accounting policy with external auditors. |
| — changes in the tax planning strategy, inconsistency of the tax planning goals with the Company’s strategic objectives. | | | | — monitoring changes in legislation by specialists of the financial unit and prompt introduction of changes to internal policies and procedures |

| **11. Risks in the field of industrial safety, occupational health and environment** | operational | internal | EBITDA | corporate training programmes for environmental protection, industrial and occupational safety with subsequent control of knowledge-quality by internal specialised training services |
| — violation of occupational and fire safety standards and regulations may lead to the termination of business at the Company’s facilities | | | | — alignment with the United Nations Global Compact |
| — failure to comply with safety standards in the performance of services by contractors may also have a negative impact on the Company’s operations. | | | | — regular efficiency monitoring of fire extinguishing systems |
| — the proficiency level of employees qualification, responsibility of managers to support the proficiency level of employees | | | | — maintenance of the required level of the personal qualification, responsibility of managers to support the proficiency level of employees |
| — assessment of working conditions | | | | — assessment of working conditions |
| — compliance with Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group | | | | — compliance with Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group |
| — insurance of facilities against force majeure factors. | | | | — Magnit Group insurance of facilities against force majeure factors |
### Risk Management (continuation)

#### Risks (continuation)

<table>
<thead>
<tr>
<th>Risks (continuation)</th>
<th>Type</th>
<th>Source</th>
<th>Impact</th>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Risks of availability and continuity of IT</td>
<td>operational</td>
<td>internal</td>
<td>increased requirements for the provision speed and quality of the</td>
<td>EBITDA</td>
</tr>
<tr>
<td></td>
<td>and systems, lack of</td>
<td>operational</td>
<td>relevant business information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>access to information</td>
<td>internal</td>
<td>increased load for future periods</td>
<td></td>
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<td></td>
<td>resources in case of</td>
<td>operational</td>
<td>annual revision (IT monitoring) of the personal counter Qualcom</td>
<td></td>
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<td></td>
<td>remote operation</td>
<td>internal</td>
<td>configurations (capacities) of the users</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>a functioning system in place for processing user requests</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>analysis of regular reporting based on user requests and incidents</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>conducting annual polls on user satisfaction with the operation</td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>of the Support Service.</td>
<td></td>
</tr>
<tr>
<td>13 Risks of negative epidemiological situation impact on the Company’s activities</td>
<td>operational</td>
<td>internal</td>
<td>introduction of severe restrictive measures to prevent the spread of</td>
<td>all parameters</td>
</tr>
<tr>
<td></td>
<td>and external</td>
<td>all parameters</td>
<td>COVID-19 may have a negative impact on supply chains</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>in case of significant spread of COVID-19 the rate of infection among</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>employees is likely to increase</td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>the performance of functional duties by key employees infected with</td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>COVID-19 will be in question depending on the severity of the</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>disease</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>failure to comply with the recommendations of the regulatory authorities</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>to prevent the spread of infection at the Company's facilities may lead</td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>to restriction of their activities and imposition of fines</td>
<td></td>
</tr>
<tr>
<td>14 Risks associated with the quality of goods sold and produced</td>
<td>operational</td>
<td>internal</td>
<td>inconsistency of quality of goods sold and produced with the</td>
<td>EBITDA, LFL</td>
</tr>
<tr>
<td></td>
<td>and produced</td>
<td>all parameters</td>
<td>established requirements and standards may result in reduced</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>customer loyalty to the Magnit brand, followed by a reduction in</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>market share and revenue</td>
<td></td>
</tr>
<tr>
<td>15 Risk of absence and recruitment of qualified personnel</td>
<td>operational</td>
<td>internal</td>
<td>the Company may face difficulties related to retention, search</td>
<td>revenue, EBITDA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>external</td>
<td>and recruitment of qualified employees. Increasing personnel turnover</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>may have a negative impact on operational business processes.</td>
<td></td>
</tr>
<tr>
<td>16 Reputation risk</td>
<td>strategic</td>
<td>internal</td>
<td>risks of dissemination in the media of information</td>
<td>all parameters</td>
</tr>
<tr>
<td></td>
<td></td>
<td>internal and external</td>
<td>disclosing the Company's image, disclosure of confidential business</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>information, high-profile litigations</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>the ability to maintain the stated level of social responsibility</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>timely provision of full information about its activities by the</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>Company</td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>approval of the Sustainability Strategy</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>implementation of the Code of Business Ethics (senior management</td>
<td></td>
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<td></td>
<td></td>
<td>all parameters</td>
<td>demonstrates commitment to high standards of conduct)</td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>training for the personnel in the field of ethics and sustainability</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>requirements</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>constant interaction with stakeholders, holding seminars and</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>forums to raise awareness about the Company’s activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>monitoring information about the Company in mass media and social</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>networks providing response to any incidents and expressing an official</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>position on specific issues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>signing a confidentiality agreement with the Company’s employees and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>all parameters</td>
<td>contractors</td>
<td></td>
</tr>
</tbody>
</table>
Sustainable Development

Overview

Magnit is one of Russia's leading retailers with over 21,000 stores in over 3,000 cities and towns across the country. Magnit’s activities cover three key areas: we are a retail business, one of the largest logistics operators, as well as a food producer running our own agricultural facilities.

Magnit has millions of daily touchpoints with its stakeholders: customers, employees, shareholders and suppliers.

The customer is always the centre of our focus; all our activities are built around them, thus strengthening our competitive advantages and exploring new areas of development.

At the heart of Magnit’s sustainable development is a commitment to the principles of responsible business aimed at creating value for all stakeholders. We create economic opportunities for our partners and suppliers, a collegiate and safe work environment for our employees, support our local communities, and provide our customers with high-quality products and services.

Magnit’s sustainability commitments for 2025

Environment

50% packaging for PL and own production will become recyclable, reusable and compostable

100% collection and processing of recyclable plastic in Magnit’s own operations

50% waste reduction

30% GHG emissions reduction

25% reduction in water and energy consumption

Sustainable Sourcing

100% responsible sources of socially significant goods

100% responsible approach in own production and agriculture

Increase in the share of eco-friendly packaging on shelves

Responsibility

Ensuring sustainable sourcing of services and suppliers

Development

Programmes for the development of local suppliers and farmers

Employees

70% employee engagement

50% reduction of lost time incidents with zero fatalities

40% maximum turnover rate

Local communities

10% Company employees participating in volunteer programmes

Communities

Programmes for the development of local communities in all regions where the Company operates

Health and wellness

Healthy lifestyle

Healthy lifestyle and nutrition information is available to all customers

Healthy food

Healthy food is available to all customers

In 2020, with a view to channelling our sustainable development activities effectively, Magnit developed and implemented the Sustainability Strategy 2025.

Sustainability Strategy

This 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 set 5 ambitious goals in the field of sustainable development:

— we want to be the leader in environmental impact reduction in the Russian retail industry
— we want to make a positive impact on the quality of life of all Russian people
— we want to be the number one employer in the Russian retail industry
— we strive towards a 150% responsible supply chain
— we want to have best in class Corporate Governance in the Russian retail industry.

Our sustainable development focus areas are as follows:

— environment
— sustainable sourcing
— employees
— local communities
— health and wellness of all stakeholders

In 2020, 82% of the world's largest companies published their commitments to achieve the SDGs in annual reports.

79% of the world's largest companies conducted an analysis of the relevance of their activities to SDGs.

1 All quantitative goals for reducing the indicators are calculated for 1 sq. m of total space.

2 Sustainability development goals.
Sustainable development (continued)

Management of sustainable development issues

Corporate initiatives

Overall responsibility for sustainable development lies with the Company’s Board of Directors. In 2020 the Board established the Sustainability Steering Committee which has responsibility for the day to day coordination of the sustainable development programme. The Committee is responsible for providing recommendations on embedding sustainable practices throughout the business and targeting social, environmental, resource and energy issues. Under the supervision of this Committee, there are 16 working groups responsible for creating sustainable business models for all areas of our operations: retail, production, sourcing, logistics and human resources management. The Committee reports to the Board of Directors.

To drive the sustainability agenda forward, the Committee made a number of recommendations during 2020. These included a proposal for a more structured and formal programme for sustainability initiatives, inclusion of the sustainability agenda in the operational and strategic processes of each business unit and the launch of an internal communication campaign on sustainability for Company employees.

Communication within Company is carried out through weekly and monthly digest mailings, posts on social media, workshops and events organised for employees.

Magnit has adopted policies regulating the Company’s sustainability operations and formally announced its Human Rights Policy, which defines the Company’s key values in terms of respect for human rights. Magnit opposes child and forced labour in any form as well as discrimination on any ground and builds an inclusive and diverse working environment. Magnit also launched an Anti-corruption Policy which is based on a zero-tolerance approach to corruption in any form. One of the measures to prevent corruption risk is compulsory anti-corruption training for employees. 1,227 employees were trained in anti-corruption in 2020.


Sustainability management system

Sustainability management system

Strategy Committee of the Board of Directors

Sustainability Steering Committee

Director of Corporate Relations and Sustainability Department

Senior Advisor on Sustainability

Sustainability Department

Responsible within business functions: sustainability champions within each business unit with responsibility for achieving sustainability goals

16 sustainability working groups

External initiatives

In 2020, Magnit joined the UN Global Compact. The initiative aims to encourage social responsibility amongst businesses and brings together more than 13,000 participants from 160 countries to promote sustainable business practices. Magnit will adopt the 10 principles of the Global Compact across its business, with particular focus on human and labour rights, environmental protection and anti-corruption.

Magnit seeks to contribute to achieving the UN’s Sustainable Development Goals. The Company has chosen seven sustainable development goals as a priority based on the most relevant topics and focus areas identified under the Sustainability Strategy.

Interaction with stakeholders

Magnit has several stakeholder groups and engages in an open dialogue with each of them on a regular basis. The Company’s interaction with stakeholders is built on the principles of respect for stakeholders, transparency, regularity, and compliance with obligations.

The Company has identified a number of key stakeholder groups whose interests are most closely related to its activities:

customers
suppliers
public authorities
employees
public organisations
society and local community
mass media
investors

Each group has its own needs and interests. Therefore, Magnit uses various communication channels to effectively interact with them.

The UN’s priority sustainable development goals of Magnit Group

For more information on achieving the UN’s Sustainable Development Goals, see Magnit’s Sustainability Report.

1 See the full list of Sustainability documents: https://www.magnit.com/en/sustainable-development/policy-and-documents/#accordion-policy

2 For more information on achieving the UN’s Sustainable Development Goals, see Magnit’s Sustainability Report.
Sustainable development (continued)

Fuel consumption by the Group’s enterprises in 2018–2020

<table>
<thead>
<tr>
<th>Fuel types</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All companies</td>
<td>Magnit PJSC</td>
<td>All companies</td>
</tr>
<tr>
<td>Diesel fuel, l</td>
<td>199,843,095</td>
<td>-</td>
<td>207,407,521</td>
</tr>
<tr>
<td>Gasoline, l</td>
<td>12,645,506</td>
<td>-</td>
<td>12,576,782</td>
</tr>
</tbody>
</table>

Fuel consumption by the Group’s enterprises in 2018–2020, RUB mln

<table>
<thead>
<tr>
<th>Fuel types</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All companies</td>
<td>Magnit PJSC</td>
<td>All companies</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>6,825.0</td>
<td>-</td>
<td>7,407.1</td>
</tr>
<tr>
<td>Gasoline</td>
<td>433.3</td>
<td>-</td>
<td>456.8</td>
</tr>
</tbody>
</table>

Energy consumption by the Group’s enterprises in 2018–2020

<table>
<thead>
<tr>
<th>Type of energy resource</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All companies</td>
<td>Magnit PJSC</td>
<td>All companies</td>
</tr>
<tr>
<td>Thermal energy, Gcal</td>
<td>1,246,351</td>
<td>516</td>
<td>1,356,426</td>
</tr>
<tr>
<td>Electricity, KW per hour</td>
<td>2,564,578,505</td>
<td>217,587</td>
<td>2,710,091,104</td>
</tr>
<tr>
<td>Natural gas, cbm</td>
<td>170,739,126</td>
<td>24,903</td>
<td>202,823,871</td>
</tr>
</tbody>
</table>

Energy expenditures by the Group’s enterprises in 2018–2020, RUB mln

<table>
<thead>
<tr>
<th>Type of energy resource</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All companies</td>
<td>Magnit PJSC</td>
<td>All companies</td>
</tr>
<tr>
<td>Thermal energy</td>
<td>1944.9</td>
<td>0.8</td>
<td>2221.1</td>
</tr>
<tr>
<td>Electricity</td>
<td>13,762.9</td>
<td>1.1</td>
<td>15,696.3</td>
</tr>
<tr>
<td>Natural gas</td>
<td>1,067.8</td>
<td>0.2</td>
<td>1,356.0</td>
</tr>
</tbody>
</table>

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

Fuel consumption for transportation was reduced as a result of improved fuel efficiency and the optimisation of fuel consumption rates. The decline in thermal energy consumption has been achieved through the implementation of various energy-efficiency measures.

Sustainability Report 2020

Magnit’s second Sustainability Report was published in 2021 in addition to standard Annual Report. It contains all relevant non-financial results for 2020, the baseline for all relevant KPIs, as well as setting out the measures we intend to take to achieve the commitments stated in our Sustainability Strategy.

We present below the sustainability data required by Russian legislation. The full data set are presented in our Sustainability Report.


Data for 2018 and 2019 differ from the data in the 2019 Annual Report due to improved data collection.
We’ve built a stable system of corporate governance and internal control
Corporate Governance
Chairman’s review

Dear Shareholders,

2020 highlighted the importance of a robust corporate governance system and of continuous and open dialogue with the investment community.

In 2020, we decided to focus on building the successful foundation that had been created a year before: we added the necessary expertise to our management team, maintained the optimal balance of independent directors on our Board and implemented essential policies and regulatory documents, which govern the framework of Magnit’s day-to-day operations.

In 2020, the Corporate governance system was further strengthened. We still have nine members on our Board, with Gregor Mowat re-joining the team this year and replacing Florian Jansen, who joined management team.

The Committees of the Board of Directors are headed as usual by independent non-executive directors only and consist mostly of independent directors in order to comply with our and Magnit’s Articles of Association and internal policies.

We have also engaged an independent consultant for an external assessment of the Board of Directors as well as conducted self-assessment in the reporting period.

In terms of the balance of independent, non-executive and executive directors, the Company’s Board of Directors complies with the best market practices.

According to the results of the assessment by an independent consultant, the Board of Directors was considered to operate with a high level of efficiency as well as involvement of the members of the Board of Directors in the course of their work.

The management team has been enriched by the experience of Florian Jansen, who stepped in from the Board to lead Company's digital initiatives, Maxim Shchegolev, the prominent retail professional and Anna Meleshina who now holds a position of a Director for Corporate Relations and Sustainability.

We consider these moves to be highly beneficial for the further development of Magnit and keeping up with the recent developments in digitalisation and integration in global retail.

In 2020, we rolled out our Sustainability Strategy and created the Sustainability Steering Committee headed by our President and CEO Jan Dunning which consists of the 16 working groups with the representatives from every key unit of the Company. This move corresponds with the long-term aspirations of Magnit in terms of tackling ESG issues and its aspirations to install fully transparent and effective corporate governance.

One of the noteworthy updates is the adoption of the new edition of Magnit’s Articles of Association, which helped us combine all the changes of the previous years and generally enhance the level of the corporate governance within the Company.

We continued to develop our long-term and short-term incentive programmes to ensure an optimal and fair method of motivation and compensation for top management.

Despite the fact that it was impossible to be in touch with the investors face-to-face this year due to the Covid-19 pandemic, we remained actively involved participating in virtual conferences and meetings. We also wanted to keep stakeholders regularly informed in regard to Company’s performance and developments and so issued more press-releases and updates compared to the previous year and launched a new corporate website with a more user-friendly interface.

We set ourselves the ambitious task of further strengthening our corporate governance practices in accordance with Russian standards. We endeavour to also comply with the UK Corporate Governance Code. Despite the general market uncertainty and the challenges of the pandemic, in 2020 Magnit continued to implement best corporate governance practices. We plan to continue to work for the benefit of all our shareholders, developing a sustainable and successful business.

Charles Ryan
Chairman of the Board of Directors

PBC 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 ensures the protection of shareholders and other stakeholders rights.

Governance, management and control at the Company are divided between the shareholders (via General Meeting of Shareholders), the Board of Directors, the Collective Executive Body (the Management Board) and the Sole Executive Bodies (the President and the Chief Executive Officer) pursuant to applicable Russian and UK corporate law, Magnit’s Articles of Association and internal policies.

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Composition of the Board of Directors

Changes in the composition of the Board of Directors in 2020

The Annual General Meeting of shareholders of PJSC Magnit on 4 June 2020 (minutes w/o number dated 05 June 2020) made a decision to elect the Board of Directors in a new composition. Gregor William Mowat, who previously served in the Board of Directors in 2018-2019, was re-elected to the Board of Directors. Florian Jansen, who took over as member of the Management Board and Deputy CEO – Executive Director, did not join the new Board of Directors.

Competences of the Board of Directors

With the exception of Jan Dunning, members of the Board of Directors had not participated in the authorised capital of PJSC Magnit, had not owned ordinary shares of PJSC Magnit, and had not made transactions with ordinary shares of PJSC Magnit for the reporting year 2020.

Charles Ryan
Chairman of the Board of Directors

Experience

Charles Ryan’s distinguished financial career combines top level expertise and deep knowledge of both Russian and international markets. Mr. Ryan began his professional career in 1989 with CS First Boston, where he was a Financial Analyst. From 1991 to 1994, Mr. Ryan was an Associate and Principal Banker with the European Bank for Reconstruction and Development in London, where he played a crucial role in the city of St. Petersburg’s privatization programme for industry and real estate. In 1994, Mr. Ryan co-founded the United Financial Group, an independent investment bank in Moscow. United Financial Group was a founding member of such key market institutions as RTS (now part of the Moscow Exchange) and Investor Protection Association. UFG Asset Management was founded as part of the United Financial Group in 1996. In 2005, when Deutsche Bank acquired 100% of UFG’s investment banking business, Charles Ryan was appointed as the Chief Country Officer and CEO of the Deutsche Bank Group in Russia. He stepped down as the CEO of Deutsche Bank in Russia in September 2008 and in October 2008 became the Chairman of UFG Asset Management. In addition to his role as the Chairman, Mr. Ryan is also responsible for the overall management of UFG’s private equity business.
James Simmons

Deputy Chairman

Age
42

Citizenship
USA

Education
2000 – Princeton University (Bachelor of Science in Engineering);
2007 – Harvard Business School (MBA)

Current Employment
2015-present – Managing Partner, Mazovia Capital

Current membership in the Board of Directors
2015-present – Member of the Board of Directors, ClearCheck Global Holdings
2015-present – Member of the Board of Directors, Mazovia Capital
2017-present – Chairman of the Board of Directors, Digital Care
2018-present – Deputy Chairman of the Board of Directors, PJSC Magnit

Experience
Mr. Simmons is a managing partner at Mazovia Capital, a private investment group active in financial services, software, real estate and venture capital. Mr. Simmons serves as Chairman of Digital Care, a leading European provider of value-added services for consumer electronics devices. He also serves on the Board of ClearCheck Global Holdings, an automotive software business present in Latin America and Europe.

Prior to joining Mazovia Capital, Mr. Simmons worked for 15 years in private equity and investment banking in Russia, Europe and the U.S. Mr. Simmons holds a B.S.E. from Princeton University, where he graduated magna cum laude, and earned an MBA from Harvard Business School, where he was a Baker Scholar.

Tim Demchenko

Member of the Board of Directors

Age
47

Citizenship
UK

Education
1999 – London Business School (Master of Finance)
2016 – Harvard Business School (Executive Education)

Current Employment
2008 – present - Global Head of Private Equity and Special Situations, VTB Capital Plc.

Current membership in the Board of Directors
2018 - present – Member of the Board of Directors, PJSC Magnit

Experience
Mr. Simmons is a managing partner at Mazovia Capital, a private investment group active in financial services, software, real estate and venture capital. Mr. Simmons serves as Chairman of Digital Care, a leading European provider of value-added services for consumer electronics devices. He also serves on the Board of ClearCheck Global Holdings, an automotive software business present in Latin America and Europe.

Prior to joining Mazovia Capital, Mr. Simmons worked for 15 years in private equity and investment banking in Russia, Europe and the U.S. Mr. Simmons holds a B.S.E. from Princeton University, where he graduated magna cum laude, and earned an MBA from Harvard Business School, where he was a Baker Scholar.

Tim has lead VTB Capital private equity’s investment in the Russian hypermarket chain Lenta and served as the member of the Board from the initial investment until 2010 and as a member of the Board until Lenta’s IPO on the LSE in 2014.

Prior to joining VTB Capital, Tim was responsible for the launch of Deutsche Bank’s Private Equity business in Russia and CIS. Previously Mr. Demchenko worked for global multinational corporations (IBM and Siemens) as a senior executive based in London where he managed multiple large scale corporate investment projects. Prior to that, Tim served as an investment officer at TD Capital private equity based in London and focused on investments in the TMT sector across Europe and the US.
Board of Directors (continued)

Jan Dunning
Member of the Board of Directors, Chairman of the Management Board, President and CEO

Age
61

Citizenship
Netherlands

Education
1983 – University of Groningen (Bachelor’s Degree)
1989 – University of Amsterdam (Bachelor of History)
2007 – London Business School (Executive Programme)
2008 – INSEAD (Marketing Programme)

Current Employment
2019 – present – Chairman of the Management Board, President and Chief Executive Officer, PJSC Magnit

Current membership in the Board of Directors
2019 – present – Member of the Board of Directors, PJSC Magnit

Experience
Jan Dunning was Operations Director of Metro Cash & Carry Russia and then General Manager of Metro Cash & Carry Ukraine. Jan’s previous experience also includes three years as General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North. Over the last 25 years, he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

In 2011-2018, Jan worked as a Chief Executive Officer of Lenta.

In January 2019 Jan Dunning was appointed the President of Magnit and joined Magnit Management Board. In May 2019 Mr. Dunning was elected a Member of Magnit Board of Directors. In June 2019 Jan Dunning assumed the role of the Chief Executive Officer of Magnit.

Walter Koch
Member of the Board of Directors

Age
58

Citizenship
Germany

Education
1988 - University for applied Sciences, Aalen, Germany (Precision engineering)
2000 – INSEAD (Management education)

Current Employment
2010 – present - Owner, Senior Advisor, Twinsuccess – Restructuring & Change Management
2012 – present - Chief Executive Officer, Master-tees GmbH

Current membership in the Board of Directors
2019 – present – Member of the Board of Directors, PJSC Magnit

Participatory interest in the Company’s charter capital
Share in the authorized capital: 0.176217% (including 46,226 Global Depositary Receipts (GDRs), which certify the rights in relation to ordinary shares of PJSC Magnit in the ratio of 5 GDRs per ordinary share). The percentage of owned PJSC Magnit ordinary shares is 0.167145%.

Information about transactions to acquire/dispose the Company’s shares concluded over the reporting period:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction type</th>
<th>Transaction volume, (pc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.03.2020</td>
<td>Acquisition</td>
<td>41,177</td>
</tr>
<tr>
<td>14.05.2020</td>
<td>Acquisition</td>
<td>23,404</td>
</tr>
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Information on transactions to acquire/dispose of global depositary receipts (GDRs), which certify the rights in relation to ordinary shares of PJSC Magnit, for the reporting period:

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</tr>
<tr>
<td>24.11.2020</td>
<td>Acquisition</td>
<td>12,191</td>
</tr>
</tbody>
</table>

Experience
Starting from 1999, Walter Koch obtained senior positions with the largest European home appliances manufacturers such as AEG and Electrolux, being in charge of Logistics, SCM and After Sales Service.

During 2007 to 2010 Mr. Koch served as Executive Vice-President and COO of Sanitec Corporation (Helsinki, Finland). From 2011 till 2016 he held the position of an Independent Director on the Board of PJSC Mvideo in Russia.

Presently Mr. Koch owns and operates an independent consulting firm and in May 2019 he got elected as an independent Director of PJSC Magnit.

1 Hereinafter, information on the participation in the charter capital (share of owned ordinary share) is given as of 31 December 2020.
Evgeny Kuznetsov

Member of the Board of Directors

Age
51

Citizenship
Russia

Education
1991 – Barnaul Pedagogical Institute (Foreign Languages)
1996 – University of Oregon (MBA in Finance)

Current membership in the Board of Directors
2019 – present – Member of the Board of Directors, PJSC Magnit

Experience
For 20 years Evgeny Kuznetsov served as a Partner and Portfolio Manager at Genesis Investment Management, LLP, a London-based institutional fund manager specializing in Emerging Markets. Evgeny joined Genesis in 1996 as an investment analyst and over the following twenty years conducted research and made portfolio investments in various countries and regions, including Russia, Eastern Europe, Asia and Latin America.

Alexey Makhnev

Member of the Board of Directors

Age
44

Citizenship
Russia

Education
1998 – Saint Petersburg State University of Economics and Finance (Economics)
2001 – Saint Petersburg State University of Economics and Finance (Ph.D.)

Current Employment
2009 – present – Vice Chairman, VTB Capital
2018 – present - Advisor to the First Deputy President and Chairman of the Management Board, Senior Vice President, VTB Bank PJSC

Current membership in the Board of Directors
2015 – present – Member of the Board of Directors, LSR Group PJSC
2017 – present – Member of the Board of Directors, M.video PJSC
2018 – present – Member of the Board of Directors, VTB Real Estate LLC
2018 – present – Member of the Board of Directors, PJSC Magnit
2021 – present – Member of the Board of Directors, Fix Price Group Limited

Experience
Mr. Makhnev has almost two decades of expertise and experience with the Russian consumer and retail sector. In 2006, Mr. Makhnev was a lead member of the Deutsche Bank investment banking team that conducted Magnit IPO. For six years from 2009 to 2015 Mr. Makhnev served on Magnit’s Board of Directors as an independent director.

Over the past 18 years, Mr. Makhnev has worked on a large number of consumer and retail transactions in Russia and the CIS. Almost all Russian listed companies are among Mr. Makhnev’s clients including but not limited to Magnit, Lenta, Okey, Dixy, M.video, LSR, Etaion, PIK, and Rusagro.
Gregor Mowat  
Member of the Board of Directors  

Age  
48

Citizenship  
UK

Education  
1994 – Durham University (Bachelor of English Language and Literature)  
1998 – Institute of Chartered Accountants of Scotland (Member of the Institute of Chartered Accountants of Scotland)

Current Employment  
2016 – present – Director, Nooli UK Ltd  
2016-present – Co-Founder, Member of the Board of Directors, Nooli UK Ltd  
2016-present – Member of the Board of Directors, LOQBOX Savings Limited  
2016-present – Member of the Board of Directors, DDC Financial Solutions Limited  
2016-present – Member of the Board of Directors, CreditImprove Ltd  
2017-present – Member of the Board of Directors, Nord Gold SE  
2018-present – Member of the Board of Directors, AK BARS BANK PJSC  
2019-present – Member of the Board of Directors, LOQBOX US INC  
2019-present – Member of the Board of Directors, LOQBOX Savings LLC  
2019-present – Member of the Board of Directors, LOQBOX Finance LLC  
2020-present – Member of the Board of Directors, PIK Group PJSC  
2020-present – Member of the Board of Directors, Fix Price Group Limited  

Experience  
Mr. Mowat spent more than 20 years working in the audit and accounting profession, mainly with KPMG. With a principal focus on banking and financial services clients, he also covered other sectors including oil and gas and natural resources.

In 2011, Mr. Mowat was appointed CFO of KPMG in Russia and CIS, a role he held until 2016 and which required him to take responsibility for all the support functions in a multijurisdictional professional services firm with 4,000 staff. In 2013, in addition to his CFO responsibilities, Mr. Mowat was appointed Managing Partner of KPMG in Kazakhstan, growing the business significantly in a challenging economic environment.

After being part of the team that set up and implemented the corporate governance for KPMG in Russia and CIS, including being a founding member of the Board of Partners, in 2016, Mr. Mowat joined his family in the UK where he co-founded LOQBOX, a FinTech that provides everyone with a completely free way to build a credit payment history and learn responsible financial management while they save. LOQBOX fixes financial exclusion for the large group of people globally who are locked out of the financial system either through no fault of their own or because they have made mistakes in the past.

Alexander Vinokurov  
Member of the Board of Directors  

Age  
38

Citizenship  
Russia

Education  
2004 – University of Cambridge (Bachelor and Master of Economics)

Current Employment  
2017 – present – President, Marathon Group LLC  
2019 – present – Member of the Board of Directors, PJSC Magnit  
2020 – present – Member of the Board of Directors, LLC Binnopharm Group  

Experience  
In 2004, Alexander graduated with honors from the Faculty of Economics of the University of Cambridge. He received a BA and a MA in economics.

Later that year he began his career with the investment banking division of Morgan Stanley (London). In 2006, Alexander returned to Russia as Vice-President of TPG Capital, co-founding the company’s Russian office.

In 2011, Alexander assumed the post of President of Summa Group, which has significant investments in port and rail logistics, engineering, construction, telecommunications, oil and gas, oil trading and agriculture.

In 2014, Alexander Vinokurov became CEO of A1, Alfa Group’s investment arm specialising in the acquisition of the assets that are undervalued due to challenging economic situations.

On 15 May 2017, Alexander left his post as President of A1 to join Marathon Group.
Composition of the Management Board

Jan Dunning  
Member of the Board of Directors, Chairman of the Management Board, President and CEO

Age 61

Education
1983 – University of Groningen (Bachelor’s Degree)  
1989 – University of Amsterdam (Bachelor of History)  
2007 – London Business School (Executive Programme)  
2008 – INSEAD (Marketing Programme)

Current Employment
2019 – present – Chairman of the Management Board, President and Chief Executive Officer, PJSC Magnit  
Current membership in the Board of Directors  
2019 – present – Member of the Board of Directors, PJSC Magnit

Experience
Jan Dunning was Operations Director of Metro Cash & Carry Russia and then General Manager of Metro Cash & Carry Ukraine. Jan’s previous experience also includes three years as General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North. Over the last 25 years, he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.  
In 2011-2018, Jan worked as a Chief Executive Officer of Lenta. In January 2019, Jan Dunning was appointed the President of Magnit and joined Magnit Management Board. In May 2019, Mr. Dunning was elected a Member of Magnit Board of Directors. In June 2019, Jan Dunning assumed the role of the Chief Executive Officer of Magnit.

Participatory interest in the Company’s charter capital
Share in the authorized capital: 0.176227% (including 46,226 Global Depositary Receipts (GDRs), which certify the rights in relation to ordinary shares of PJSC Magnit in the ratio of 5 GDRs per ordinary share). The percentage of owned PJSC Magnit ordinary shares is 0.157145%.

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Anna Bobrova  
Member of the Management Board, HR Director

Age 45

Education
2000 – Lomonosov Moscow State University (Psychology).

Experience
Anna has almost 20 years of experience in HR and has successfully implemented projects aimed at development and performance enhancement of line staff and management, increase of service level in stores, as well as built and managed modern IT systems in employee management of the retail sector.  
Prior to Magnit, in 2003 – 2009 Ms. Bobrova worked in HR department of Metro, from 2011 to 2013 was the Director of HR and Organizational Development in X5 Retail Group N.V.  
From August 2019 occupies a position of the HR Director of PJSC Magnit. Anna was appointed a member of the Management Board of PJSC Magnit on 10 September 2019.

Shareholding information
Does not own any interest in PJSC Magnit’s charter capital. Does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

Andrey Bodrov  
Member of the Management Board, Chief Investment and Strategy Officer

Age 38

Education
2003 – MGIMO University of Moscow (Bachelor of International Relations)  
2005 – MGIMO University of Moscow (Master of Law)

Experience
Andrey Bodrov worked for many leading International and Russian financial institutions including Morgan Stanley, Deutsche Bank, VTB Capital and Renaissance Capital with a primary focus on the Retail & Consumer sectors. During his over ten years investment banking career Andrey was involved in many landmark transactions in the Russian market (including M&A, capital markets, advisory, structured finance etc.).  
Prior to joining Magnit, Andrey worked as Mergers & Acquisitions Director in Lenta since February, 2016.  
From September 2019 until present Mr. Bodrov occupies a position of the Chief Investment and Strategy Officer of PJSC Magnit. Andrey Bodrov is responsible for Magnit’s investments, strategy, capital allocation and M&A. Andrey Bodrov was elected as a Member of the Management Board of PJSC Magnit on 15 December 2019.

Shareholding information
Does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

1 Hereinafter, information on the participation in the charter capital (share of owned ordinary shares) is given as of 31 December 2020.
Composition of the Management Board (continued)

Maria Dei  
Member of the Management Board, Supply Chain Director  
Age 57

Ruslan Ismailov  
Member of the Management Board, Deputy CEO – Retail Chain Director  
Age 43

Florian Jansen  
Member of the Management Board, Deputy CEO – Executive Director  
Age 39

Anna Meleshina  
Member of the Management Board, Corporate Relations & Sustainability Director  
Age 43

Education 2005 – All-Russian State Tax Academy of the Ministry of Taxation and Fees of the Russian Federation (Economics)

Experience  
From 2008 to 2016 Ms. Dei occupied different managerial positions of supply and sales planning departments in such companies as Unilever Rus LLC, CAMPARI RUS LLC, Bacardi Rus LLC.  
From 2017 to 2018 Ms. Dei served as Operational Planning Director in Central Office of Pyaterochka store network (XS Retail Group NV).  
Maria Dei joined Magnit in June 2018 and currently occupies a position of a Supply Chain Director and a Member of the Management Board of PJSC Magnit.

Shareholding information  
Participatory interest in the Company’s charter capital (percentage of the Company’s ordinary shares): 0.003234%.

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</thead>
<tbody>
<tr>
<td>13/05/2020</td>
<td>Acquisition</td>
<td>1,648</td>
</tr>
</tbody>
</table>

Education 1998 – Moscow University of Consumer Cooperation (International Economics)

Experience  
Ruslan Ismailov joined Magnit as the Retail Chain Director on 27 May 2019. On June 4, 2019 he was appointed a Member of the Management Board.  
Mr. Ismailov has over 15 years of experience in managing consumer companies. He started his career in 2003 in Metro Cash&Carry retail chain, worked his way from a department manager to a hypermarket director. In 2009, Ruslan Ismailov held the position of the Deputy Chief Executive Officer of Mosmart multi-format retail chain. Prior to joining our Company, Ruslan worked as a divisional director and headed the Supermarket format for 4 years in Lenta.

Shareholding information  
Does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

Education 2006 – University of Witten/Herdecke, Witten, Germany (Business & Economics, Diploma (Master equivalent))  
2010 – London School of Economics, London (Dual MPA, Economic and Public Policy)  
2010 – Columbia University, New York City (Dual MPA, Economic and Public Policy)

Experience  
Florian Jansen is the co-founder and the ex-CEO of Lamoda Group, which is a part of a public company Global Fashion Group. Prior to taking the lead in Lamoda Group, Florian Jansen worked at McKinsey & Company for several years. Florian holds Master’s degrees from the German University of Witten / Herdecke, the London School of Economics and Columbia University, New York. He has been investing as an angel in several startups across fashion, e-commerce, food delivery, and technology and continues to serve as an independent technology investor.  
Florian Jansen was a member of Magnit Board of Directors as an independent director from June 2019 to May 12, 2020 when he joined Magnit as the Deputy CEO – Executive Director.  
On July 6, 2020 Florian Jansen was appointed as Member of the Management Board.

Shareholding information  
Does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

Education 1999 – St. Petersburg State University (philology)  
2007 - Henley Management College (UK), MBA degree

Experience  
Anna Meleshina joined Magnit in May 2019 as a Director for Government & Public Relations and in August, 2019 was appointed Director for Corporate Relations & Sustainability. On November 20, 2020 Anna Meleshina was appointed a Member of the Management Board. Prior to Magnit, Anna served as a Public Affairs & Communications Director for Coca-Cola in Russia and Belarus from 2017 till 2019. From 2013 till 2017 Anna held a position of a Public Relations & Government Affairs Director and was a member of the Management Board in Lenta. From 2002 till 2013 Ms. Meleshina took different roles in HEINEKEN having become Corporate Relations Director for the company in Russia and a member of the HEINEKEN global corporate relations leadership team. Next to that, Anna held senior positions in non-commercial organizations, including an advisory role at the Honorary Consul of Iceland in St. Petersburg, and a board member and Deputy Chairman of the Russian Brewers’ Association.

Anna is responsible for government relations, external communications in Russia and internationally, as well as sustainability.

Shareholding information  
Does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

Education 2007 – Henley Management College (UK), MBA degree

Experience  
On November 20, 2020 Anna Meleshina was appointed Director for Corporate Relations & Sustainability.

Anna Meleshina joined Magnit in May 2019 as a Director for Government & Public Relations and in August, 2019 was appointed Director for Corporate Relations & Sustainability. On November 20, 2020 Anna Meleshina was appointed a Member of the Management Board. Prior to Magnit, Anna served as a Public Affairs & Communications Director for Coca-Cola in Russia and Belarus from 2017 till 2019. From 2013 till 2017 Anna held a position of a Public Relations & Government Affairs Director and was a member of the Management Board in Lenta. From 2002 till 2013 Ms. Meleshina took different roles in HEINEKEN having become Corporate Relations Director for the company in Russia and a member of the HEINEKEN global corporate relations leadership team. Next to that, Anna held senior positions in non-commercial organizations, including an advisory role at the Honorary Consul of Iceland in St. Petersburg, and a board member and Deputy Chairman of the Russian Brewers’ Association.

Anna is responsible for government relations, external communications in Russia and internationally, as well as sustainability.

Shareholding information  
Does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.
Composition of the Management Board (continued)

Maxim Shchegolev  
Member of the Management Board, Director for Chain Development, Real Estate and Maintenance  
Age 54

Education  
1993 – St. Petersburg University of Economics and Finance (Economics)

Experience  
Maxim Shchegolev has over 20 years of experience in retail. Before joining Magnit, he served as the Director for Format Development and Integration at Lenta since 2012, and prior to that, he worked in management positions for eight years in OKEY Group, where, for the most part, he was responsible for store chain development. At earlier stages of his career, Mr. Shchegolev occupied various management positions in companies dealing in electronics and household appliances, including Megatekhnik and Partiya.

From April 2020 Maxim occupies a position of the Director for Chain Development, Real Estate and Maintenance of PJSC Magnit. Maxim was appointed a member of the Management Board of PJSC Magnit on April 14, 2020.

Shareholding information  
Currently, Maxim does not own any interest in PJSC Magnit’s charter capital, does not own PJSC Magnit’s ordinary shares and did not conclude any transactions with PJSC Magnit’s ordinary shares during the reporting period.

Elena Zhavoronkova  
Member of the Management Board, Chief Legal Officer  
Age 50

Education  
2002 – Moscow State Law Academy (Law)

Experience  
Elena Zhavoronkova joined Magnit in June 2018 as a Director for Legal Affairs and Corporate Governance. On 22 June 2018, she was appointed a Member of the Management Board. Previously, she served as a Vice President for Legal Affairs in PJSC Polyus. In 2010-2014, Elena Zhavoronkova held a similar position in Evraz. From 2008 to 2010 Ms. Zhavoronkova headed the legal department in United Industrial Corporation. In 2006-2008, she worked her way from legal consultant to the Head of Legal Department in TMK.

Shareholding information  
Participatory interest in the Company’s charter capital (percentage of the Company’s ordinary shares): 0.004706%.

Information about transactions to acquire/dispose the Company’s shares concluded over the reporting period:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction type</th>
<th>Transaction volume, (pcs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.05.2020</td>
<td>Acquisition</td>
<td>1,648</td>
</tr>
</tbody>
</table>

Dmitry Ivanov  
Controlling Director, Acting Chief Financial Officer of JSC Tander  
Age 44

Education  
1999 – St.Petersburg State University of Economics and Finance (FINEC) (faculty of Finance, Credit and International relationship)

Experience  
Dmitry Ivanov has 20 years of experience in corporate finances in retail sector. Prior to joining Magnit, Dmitry spent 10 years in leading positions in corporate finance and controlling at Lenta and for 9 years in a similar position at Laverna. From October 2019 until present Dmitry occupies a position of the Controlling Director. From July 15, 2020 Dmitry Ivanov is appointed acting Chief Financial Officer of JSC Tander.

Shareholding information  
Participatory interest in the Company’s charter capital (percentage of the Company’s ordinary shares): 0.004706%.

Information about transactions to acquire/dispose the Company’s shares concluded over the reporting period:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction type</th>
<th>Transaction volume, (pcs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.05.2020</td>
<td>Acquisition</td>
<td>1,648</td>
</tr>
</tbody>
</table>

Elena Zhavoronkova is not a member of the Management Board of PJSC Magnit.
Composition of the Management Board (continued)

Changes in the composition of the Management Board

In 2020 the composition of the Management Board underwent a number of changes that affected financial block, commercial block and strategic communications.

Elena Milinova who held the position of the Chief Financial Officer made a decision to leave the Company. Dmitry Ivanov is appointed acting Chief Financial Officer of JSC Tander.

Vladimir Sorokin, who held the office of Deputy Chief Executive Officer – Commercial Director, made a decision to resign. Jan Dunning temporarily undertook an acting role of Commercial Director. Subsequently the Company’s commercial department will be restructured, including launch of a dedicated commercial procurement unit. The aim of restructuring is to further strengthen category management, pricing, promo planning and private labels to ensure customer offering and margin improvement going forward.

The powers of Jyrki Talvitie as a member of the Management Board were early terminated. He held the position of Director for Strategic Communications. Jyrki Talvitie remains engaged with the Company as a Senior Advisor on Sustainability. Anna Meleshina heads Corporate Relations & Sustainability holding the position of the Department Director. Anna also became a member of the Management Board of Magnit.

Besides that, during the re-election of the Management Board, Anton Zavalkovsky, who previously held the position of Real Estate Director, was not included in its composition. He now heads the Procurement and Process Safety Directorate created after merger of the respective departments. Evgeny Melnikov resigned and continued to serve as a temporary advisor.

In 2020, Mr. Jansen joined the Management Board of the Company to accelerate Magnit’s digital transformation. Florian Jansen’s responsibilities as Deputy CEO – Executive Director include such functions as managing the digital transformation office, project office, developing IT, technology, advanced analytics, and Big Data, as well as marketing, loyalty and CRM implementation, and omnichannel services.

Comparing to the previous composition the Board was joined by:

— Maxim Shchegolev, Director for Chain Development, Real Estate and Maintenance
— Florian Jansen, Deputy CEO – Executive Director
— Anna Meleshina, Director for Corporate Relations & Sustainability.

PJSC Magnit has built robust systems of corporate governance and internal controls on its financial and economic activities.

The Company’s highest decision-making body is the General Meeting.

The Board of Directors is elected by shareholders at the General Meeting and is accountable to them. It provides strategic oversight and monitors the activities of the executive bodies: the CEO (Chairman of the Management Board), President and the Management Board.

The executive bodies handle the day-to-day management of the Company and perform tasks assigned by the shareholders and the Board of Directors.

There are four committees under the Board of Directors:

— the Audit Committee
— the HR and Remuneration Committee
— the Strategy Committee
— the Capital Markets Committee.

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

The Corporate Governance Department performs the functions of the Corporate Secretary and ensures effective day-to-day interaction with shareholders, coordination of the Company’s actions to protect the rights and interests of shareholders, as well as provide support for the effective work of the Board of Directors.

Structure of corporate governance bodies
Regulations

Magnit maintains its corporate governance framework in line with the following regulations:

- Russian laws
- relevant United Kingdom laws
- relevant European Union laws
- Moscow Exchange listing rules
- Corporate Governance Code recommended by the Bank of Russia

Magnit is consistently improving the level of its compliance with the Corporate Governance Code and systematically benchmarks its compliance against other public companies.

The Company’s activities are governed by its Articles of Association approved in a new edition by the extraordinary General Meeting of Shareholders of PJSC Magnit held on 24 December 2020 and internal regulations, including:

<table>
<thead>
<tr>
<th>Document</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations on the Committees of the Board of Directors</td>
<td>17.07.2019</td>
</tr>
<tr>
<td>Code of PJSC Magnit On Terms and Conditions of Transactions with Financial Instruments</td>
<td>25.06.2019</td>
</tr>
<tr>
<td>Regulations on the Board of Directors</td>
<td>05.12.2018 (with amendments as of 30.05.2019)</td>
</tr>
<tr>
<td>Regulations on the Sole Executive Bodies (President and CEO)</td>
<td>30.05.2019</td>
</tr>
<tr>
<td>Regulations on the Collective Executive Body (Management Board)</td>
<td>25.12.2020</td>
</tr>
<tr>
<td>Code of Business Ethics</td>
<td>21.03.2019</td>
</tr>
<tr>
<td>Regulations on Internal Audit</td>
<td>31.10.2018</td>
</tr>
<tr>
<td>Regulations on the General Shareholders Meeting</td>
<td>21.06.2018</td>
</tr>
<tr>
<td>List of Insider Information</td>
<td>26.02.2018</td>
</tr>
<tr>
<td>Regulations on the Corporate Governance Department</td>
<td>27.05.2016</td>
</tr>
<tr>
<td>Regulations on the Dividend Policy</td>
<td>27.05.2016</td>
</tr>
<tr>
<td>Internal Control and Risk Management Policy</td>
<td>12.12.2019</td>
</tr>
<tr>
<td>Anti-Bribery and Corruption Policy</td>
<td>25.02.2014</td>
</tr>
<tr>
<td>Regulations on the Information Policy</td>
<td>06.09.2012</td>
</tr>
<tr>
<td>Anti-alcohol and Anti-drug Policy</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Safe Use of Vehicles Policy</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Fire Safety Policy</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Occupational Safety Policy</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Environmental protection and occupational health and safety policy</td>
<td>01.01.2020</td>
</tr>
</tbody>
</table>

Compliance with the principles and recommendations of the Corporate Governance Code

<table>
<thead>
<tr>
<th>Corporate governance principles</th>
<th>Number of principles recommended by the Code</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder rights and equal conditions for shareholders to exercise their rights</td>
<td>13</td>
<td>9</td>
<td>2</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>36</td>
<td>31</td>
<td>3</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Corporate Secretary</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Remuneration system for members of the Board of Directors and senior Company executives</td>
<td>10</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Risk Management and Internal Control System</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Corporate disclosure</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Significant corporate actions</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL GRADE</td>
<td>79</td>
<td>62</td>
<td>12</td>
<td>5</td>
<td>64</td>
</tr>
</tbody>
</table>

For a detailed Report on complying with the principles and recommendations of the Corporate Governance Code see Appendix 1 (p. 167).

Statutes provided are based on a report on compliance with the principles and recommendations of the CGC, prepared on the basis of Recommendation Letter No. IN-06-52/8 from the Bank of Russia, dated 17 February 2016.
Corporate Governance
Framework Development

PJSC Magnit continues to steadily develop its corporate governance system accordingly with the best practices. By improving its corporate governance system PJSC Magnit aims to reassure its shareholders and investors that the company scrupulously implements its strategy and management decisions.

In 2020, the Company further improved its corporate governance system. The main changes and innovations are listed below.

— The Annual General Meeting of Shareholders in June 2020 made adjustments to the Articles of Association to update it in relation to the amended legislation on joint stock companies and securities market. An extraordinary general meeting of shareholders made a decision to approve the Articles of Association in a new edition, taking into account all previously adopted amendments.
— Development of information policy and interaction with investors and shareholders continued.
— The composition of the Management Board and the Board of Directors has been strengthened.
— The first Magnit Sustainability Report was released.
— Procedures have been standardised in relation to identifying transactions carried out by companies of the Magnit Group, which require consent to their execution in accordance with the requirements of the law and/or the constituent documents of such companies.
— The practice of liability insurance of members of the Board of Directors was continued.
— A number of policies developed earlier have been approved.

For more information about policies, please see Regulations on page 133.

In 2021, the Company plans to:

— continue to work on bringing the Company’s Information Policy in line with the recommendations of the Corporate Governance Code (CGC) of the Russian Federation.
— continue to increase the number of implemented recommendations of the CGC.
— consider the possibility and take the necessary measures to implement the recommendations of the UK CGC.

General Meeting
of Shareholders

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

The key capabilities of the General Meeting of Shareholders include:

— the approval of internal documents regulating the activities of the Company’s bodies.
— the election of the Board of Directors.
— the distribution of profits, including dividend payments.
— approval of major and related party transactions.
— the approval of the Annual Report and accounting statements.

The procedure for the General Meeting aims to ensure the observance of the shareholder rights and meets all the relevant laws and regulations of the Russian Federation and the applicable legislation of the United Kingdom of Great Britain and Northern Ireland and the European Union.

Shareholders of PJSC Magnit held two General Meetings in 2020: one annual General Meeting (AGM) and one extraordinary General Meeting (EGM).

General Meeting resolutions

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Quorum, %</th>
<th>Key resolutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGM, 04 June 2020</td>
<td>75.03</td>
<td>— Approval of annual report and annual financial report for year 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Approval of the distribution of profit (including the payment (declaration) of dividends) based on the 2019 results</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Payment of remuneration and compensation of expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Election of members of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Amendments to the Articles of Association of PJSC Magnit.</td>
</tr>
<tr>
<td>EGM, 24 December 2020</td>
<td>69.47</td>
<td>— Payment of dividends on PJSC Magnit shares following the results for the first 9 months of 2020</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Approval of the restated Articles of Association of PJSC Magnit.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Approval of the restated Regulations on collegial executive body (Management Board) of PJSC Magnit.</td>
</tr>
</tbody>
</table>
Board of Directors

Board of Directors Responsibilities

The Board of Directors of PJSC Magnit manages the activities of the Company, defines strategic goals and implements effective management practices and also elects the Management Board, CEO and President. The main objective of the Board of Directors is to increase the value of the business. When making decisions, the Board of Directors takes into account the interests of all shareholders and other stakeholders.

Introduction and training of members of the Board of Directors

When newly elected, members of the Magnit Board of Directors undergo an introduction programme, which includes:

— meetings with members of the Management Board and the Company’s senior executives
— an introduction to the Company’s history, strategy, corporate governance system, risk management and internal control systems, the distribution of responsibilities between the Company’s executive bodies, and the work of the Board of Directors
— familiarisation with the Company’s documents; the latest annual reports, the minutes of annual and extraordinary General Meetings of Shareholders, the minutes of meetings of the Board of Directors, and other relevant information about the Company’s activities.

Composition of the Board of Directors

The Board of Directors includes nine members, of whom five are independent.

The current composition of the Board of Directors is based on the principle of diversity and inclusiveness and has all the necessary competencies for the effective management of the Company. Members of the Board of Directors all have impeccable professional and personal reputations.

The current Board of Directors is balanced in terms of the status of directors, their age, nationality, nomination by shareholders, and skillset. Its composition corresponds well with the specifics and scale of Magnit’s business operations and objectives.

The Board of Directors’ activities in 2020

In the reporting year, the Board of Directors held 14 meetings and considered 88 issues. The average attendance at meetings of the Board of Directors was 100%. The key issues related to changes in the corporate governance system, the convoking and holding of the General Meeting of Shareholders, the approval of the OGAP exchange-traded bonds programme and the securities prospectus and the implementation of the long-term incentive programme.

Performance evaluation of the Board of Directors

The Company adheres to the principle of constant improvement of the Board of Directors’ work. One of the key tools for implementing this principle is to regularly assess the activities of the Board of Directors.

The HR and Remuneration Committee of the Board of Directors conducts a performance evaluation of the Board of Directors on an annual basis since 2016. In accordance with the recommendations of the Corporate Governance Code of the Bank of Russia and best foreign practices, the Company also conducts an independent assessment of the activities of the Board of Directors.

In 2020 it was decided to hire an independent consultant to conduct an external assessment of the work of the Board of Directors.

External assessment of the Board of Directors

As part of the external assessment, the following components of the activities of the Board of Directors were analyzed:

— the structure, composition and independence of the Board of Directors and its committees
— the organization of work of the Board of Directors and its committees
— the effectiveness of the Board of Directors and its committees
— the role and performance of the Board Chairman
— the overall performance, involvement and contribution as well as skills and competencies of each director.

An independent assessment of the activities of the Board of Directors included analysis of the internal documents, survey and individual interviews with the Board of Directors members. Also, interviews with the Company’s top management were conducted. The activities of the Board of Directors were also analyzed for compliance with the provisions of the following key methodological documents and standards, including the Corporate Governance Code of the Bank of Russia, the UK Corporate Governance Code and the OECD Guidelines of corporate governance.

According to the results of the assessment by an independent consultant, a high level of efficiency and thoroughness of the Board of Directors of the Company was noted, as well as very high level of involvement, commitment and openness of the Board of Directors and its committees.

In 2020 it was decided to hire an independent consultant to conduct an external assessment of the work of the Board of Directors.

In order to further improve the work processes of the Board of Directors of the Company, based on the internal assessment results, a list of key areas for development was formed. The identified areas for development will form the basis of the plan to improve the efficiency of the Board of Directors for 2021.

Internal assessment of the Board of Directors

In 2020 the HR and Remuneration Committee of the Board of Directors conducted a performance evaluation of the current Board of Directors.

The Committee evaluated:

— the work of the Board of Directors, including:
  • the suitability of the structure of the Board of Directors for the function it performs
  • the qualitative composition of the Board of Directors
  • the internal dynamics (working process) of the Board of Directors
  • the performance of the Company’s Secretary
  • the performance of the Board of Directors in executing its key responsibilities

— The performance of the Chairman of the Board of Directors, including:
  • the overall management of the Board of Directors
  • the development the Board of Directors as the governance body of the Company
  • the management of the meetings of the Board of Directors
  • interacting with the Company’s Management Board
  • engaging with the Company’s shareholders and investors

The external assessment has shown a high level of efficiency, thoroughness, involvement, commitment and openness of the members of the Board of Directors and its committees. The balance of the composition of the Board of Directors in terms of independence, relevant experience and complementary skills, as well as the ability to make informed decisions for the benefit of the Company, was noted.

1 The Organisation for Economic Co-operation and Development is an intergovernmental economic organization with 37 member countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices and coordinate domestic and international policies of its members.
Committees of the Board of Directors

In 2020, four Committees of the Board of Directors were in operation:
— the Audit Committee
— the HR and Remuneration Committee
— the Strategy Committee
— the Capital Markets Committee.

The Committees are formed from among the members of the Board of Directors, who are elected based on their relevant professional experience and knowledge. When electing members of the Committees (including the Chairmen of the Committees), the following aspects must be taken into consideration: the education and professional training of the candidates, their work experience within the Committee’s area of activity, their document handling skills, as well as other necessary proficiencies and experience. All Committees are chaired by Independent Non-Executive Directors.

The Regulations on the Committees of the Board of Directors of PJSC Magnit regulates the composition and activities of the Committees.

In 2020, committees held 15 in-person meetings. Attendance at meetings by committee members was 100%.

The work of the committees goes beyond formal meetings, due to the fact that the Company is at the stage of large-scale transformation. The Committees constantly interact with management in order to increase the efficiency of cooperation between the executive bodies of the Company and the Board of Directors.

Audit Committee

Key functions:
— verification and monitoring of financial statements’ integrity
— verification of the internal control and risk management systems
— monitoring the effectiveness of internal audits
— monitoring relations with the external auditor.

In 2020, Audit Committee held 4 formal meetings. All members of the Committee attended 100% of the meetings.

Key results:
In the reporting year, the Audit Committee reviewed the results of evaluating the effectiveness of the internal control and risk management system of PJSC Magnit and its subsidiaries and the results of the work of the structural unit conducting the internal audit for the reporting year (including reviewing and recommending to the Board of Directors for approval an action plan of such structural unit for 2021).

Strategy Committee

Key functions:
— strategic and investment planning
— identification of priority focus areas
— endorsement and verification of the business plan and budget.

In 2020, the Strategy Committee of the Board of Directors held 5 formal meetings. All Committee members attended 100% of the meetings.

Key results:
In the reporting year, the Strategy Committee reviewed the plan for opening new stores and the budget for 2020, actively interacted with management team in the development of the Corporate Strategy of the Company for 2021-2025.

HR and Remuneration Committee

Key functions:
— development and monitoring of the remuneration policy (including long- and short-term incentives)
— endorsement and monitoring of senior management appointments (CEO-1/CEO-2 levels)
— development of the talent management strategy
— annual evaluation of the Board of Directors and management performance.

In 2020, HR and Remuneration Committee held 5 formal meetings. All members of the Committee attended 100% of the meetings.

Key results:
In the reporting year, the HR and Remuneration Committee assessed the compliance of the members of the Board of Directors in terms of the availability of the necessary experience, knowledge, compliance with the independence criteria, as well as the assessment of candidates for the Management Board of the Company, examined issues related to short-term and long-term remuneration programmes for management and key employees of the Company.

Capital Markets Committee

Key functions:
— development and strengthening of corporate governance systems
— preparation, development and introduction of IR strategies
— evaluation of the dividend policy and recommendations for the Board of Directors.

In 2020, Capital Markets Committee held 3 formal meetings. All members of the Committee attended 100% of the meetings.

Key results:
In the reporting year, the Capital Markets Committee reviewed issues related to corporate governance practices, including external assessment of the activities of the Board of Directors, compliance with the UK Corporate Governance Code; addressed issues on communication strategies and ESG initiatives.

Committee members (as of 31.12.2020)

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Audit Committee</th>
<th>Strategy Committee</th>
<th>HR and Remuneration Committee</th>
<th>Capital Markets Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gregor Mowat</td>
<td>Independent Non-Executive Director</td>
<td>Chairman</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Walter Koch</td>
<td>Independent Non-Executive Director</td>
<td></td>
<td>Chairman</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evgeny Kuznetsov</td>
<td>Independent Non-Executive Director</td>
<td></td>
<td></td>
<td></td>
<td>Chairman</td>
</tr>
<tr>
<td>James Simmons</td>
<td>Independent Non-Executive Director</td>
<td></td>
<td></td>
<td></td>
<td>Chairman</td>
</tr>
<tr>
<td>Charles Ryan</td>
<td>Independent Non-Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Participation in committees
Corporate secretary

The Corporate Secretary function and responsibilities are performed by the Corporate Governance Department.

The main objective of the Department is to maintain effective communication with the shareholders, coordinate the company’s actions to protect rights and interests of the shareholders and ensure the effective operation of the Board of Directors as well as the compliance by the Company of the current legislation that guarantees the implementation of the rights and legitimate interests of shareholders.

This approach is consistent with the recommendations of the Russian Corporate Governance Code and the Moscow Exchange Listing Rules.

The Department is headed by the Corporate Governance Director, who is an officer of the Company.

The main functions of the Corporate Governance Department are:

- to participate in improving the Company’s corporate governance system and practices
- to participate in preparing for, and conducting, General Meetings of Shareholders
- to support the work of the Board of Directors and its committees
- to participate in implementing the Company’s disclosure policy and ensure safekeeping of the Company’s documents
- to ensure interaction between the Company and its shareholders and participate in preventing corporate conflicts
- to ensure interaction between the Company and regulatory authorities, registrars, and other professional participants of the securities market within the remit of the Corporate Governance Department.
- to ensure that the procedures established by laws and the Company’s by-laws to protect the shareholders’ rights and legitimate interests are put into practice and oversee their implementation.
- to immediately inform the Board of Directors of any breaches of laws and the Company’s by-laws, where ensuring compliance with such laws and by-laws is the responsibility of the Corporate Governance Department.
- to ensure that the procedures established by laws and the Company’s by-laws to protect the shareholders’ rights and legitimate interests are put into practice and oversee their implementation.

Ekaterina Kister
Corporate Governance Director

Born: 18 April 1978

Education:
2000 – Kuban State University (Faculty of Law).

Experience
Joined PJSC Magnit in 2016, from JSC Tander where she worked for 11 years.

Participatory interest in the Company’s charter capital (percentage of the Company’s ordinary shares): 0.000981%.

Executive Bodies

Management Board

The Management Board is the collective executive body of PJSC Magnit which, along with sole executive bodies, manages its day-to-day activities. The Management Board reports to the General Meeting of Shareholders and the Board of Directors.

The Management Board acts in accordance with the Russian legislation, the Articles of Association, and the Management Board Regulations.

The Management Board is headed by the Chairman of the Management Board, who is also the CEO of the Company.

The President of the Company is a member of the Management Board by virtue of his position and, in case of absence of the Chief Executive Officer, shall hold the position of Chairman of the Management Board.

The Board of Directors determines and annually reviews the composition of the Management Board. Board members can be elected an unlimited number of times.

As of the end of 2020, the Management Board comprised of 9 people.

Further details regarding the powers of the Management Board can be found in the Company’s Articles of Association and Management Board Regulations.

For biography of Jan Dunning, see Composition of the Management Board on p. 122.

Sole Executive Bodies: President and CEO

The current activities of the Company are managed by two sole executive bodies of the Company: the President and the CEO, acting independently of each other.

If only the President or only the CEO remains in the Company, then all the functions of the sole executive bodies are transferred to him.

There is a high degree of overlap between the roles of President and CEO. The President is responsible for the development and implementation of the Company’s strategy.

Sole executive bodies are elected separately by the Board of Directors for a three-year term and can be elected an unlimited number of times.

On 31 May 2019, the Board of Directors appointed Jan Dunning as the President of the Company, and on 26 June 2019 also as the CEO.

For biographies of Board members, see Composition of the Management Board on p. 122.
Internal control and risk management system

The internal control and risk management system of Magnit is responsible for:
- ensuring the efficiency and productivity of the Company's activities and the safeguarding of its assets,
- complying with the requirements of all applicable legislation and in-house policies and procedures, including when engaging in business operations and maintaining accounting records.

The key regulating document is the Regulations on internal control and risk management, updated in 2019 (decision of the Board of Directors as of 12 December 2019, minutes of 1312.2019).

The internal control and risk management system consists of three levels, each playing its part in the process of elaborating, approving and applying corresponding measures and evaluating the system.

The internal control and risk management system is based on the principles of the COSO concept recommended by the Corporate Governance Code. According to the COSO model, the Company creates a controlled environment including the risk assessment system, implements control procedures and assesses their efficiency and monitors changes in the organisational structure and business processes.

Structure of the Company's internal control bodies:

- **Strategic level**
  - Audit Committee of the Board of Directors
  - Board of Directors
  - President and executive bodies
  - Organisation of the operation and continuous monitoring of the effectiveness of the internal control and risk management system.
  - Approving the strategic framework for the establishment and operation of the internal control and risk management system.
  - Integration of the internal control and risk management system into the Company's organisational processes.
  - Identifying perceptions of the internal control and risk management system among employees.

- **Operational level**
  - Internal Audit Department
  - Heads of units, employees
  - Implementation of control procedures and risk management measures, monitoring of their effectiveness.

- **Control level**
  - Providing consultations and drafting audits, analyses and evaluations, providing support for the Board of Directors and the internal control and risk management system among business units and employees.
  - Preparing and conducting training on internal control to maintain the qualifications of department employees.
  - Providing support for the development of the internal control and risk management system.
  - Providing a monitoring system to implement the recommendations of the internal control and risk management system.
  - Assisting in the selection of external auditors and consultants as well as preparing and presenting the results for review by the Company's management and Audit Committee.
  - Interacting with external auditors and consultants on matters concerning internal audit, the provision of audit-related services, and consulting services.
  - Preparing monthly, quarterly and annual reports on the results of the Department's work and regularly submitting them to the Company's management, Board of Directors, and Audit Committee to discuss results and recommendations. Timely notifying the Audit Committee and Board of Directors about any disputes or difficulties that arise in the process of implementing the internal audit plan.

**Internal Audit Department**

The Internal Audit Department is designed to support the Board of Directors and the executive bodies in enhancing management efficiency and improving financial and operational performance.

The main tasks of the Department include conducting systematic and consistent analyses, assessing risk management and internal control systems, as well as the corporate governance system.

The Internal Audit Department is administratively subordinate to the CEO and functionally subordinate to the Board of Directors.

The key document regulating the activity of the Internal Audit Department is the Regulations on Internal Audit at PJSC Magnit where the main responsibilities of the department are defined as:
- Supporting the Company's business units and employees, management, the Audit Committee of the Board of Directors and the Board of Directors by conducting audits, analyses and evaluations, providing consultations and drafting recommendations to improve the Company's internal control and risk management system and its business processes.
- Assistance in the timely identification and analysis of risks that affect the reliability of financial and management information, the safeguarding of assets, compliance with legislation and in-house policies and procedures, the execution of financial and business plans and the efficient use of resources.

Responsibilities of the Internal Audit Department include:
- Preparing the annual internal audit plan based on defined risk appetite and conducting corresponding internal audits.
- Tracking major changes within the Company in order to update the audit plan, identify risk areas and inform management.
- Preparing and conducting training on internal control to maintain the qualifications of department employees.
- Providing support for the development of the internal control and risk management system.
- Providing a monitoring system to implement the recommendations of the Internal Control and Risk Management system.
- Assisting in the selection of external auditors and consultants as well as preparing and presenting the results for review by the Company's management and Audit Committee.
- Interacting with external auditors and consultants on matters concerning internal audit, the provision of audit-related services, and consulting services.
- Preparing monthly, quarterly and annual reports on the results of the Department's work and regularly submitting them to the Company's management, Board of Directors, and Audit Committee to discuss results and recommendations. Timely notifying the Audit Committee and Board of Directors about any disputes or difficulties that arise in the process of implementing the internal audit plan.

1. The Committee of Sponsoring Organizations of the Treadway Commission COSO is a voluntary private organization established in the United States and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.
Internal control and risk management system (continued)

— preparing information for the Company’s management, Audit Committee, or Board of Directors based on special requests (including unscheduled performance evaluations and recommendations on ways to improve individual components of the internal control and risk management system).

The Director of the Internal Audit Department regularly reports to the Chairman of the Audit Committee and takes part in meetings of the Audit Committee. At the Committee meetings, results of internal audits are presented and the efficiency of internal audits is discussed.

In 2020, 19 internal audits were conducted, resulted in 142 measures. Of these, 25 measures were executed in 2020, the rest will be implemented from the beginning of 2021.

In 2020, training sessions were organized for employees of the Internal Audit Department to improve their qualifications up to the modern requirements in internal audit. In 2021, it is planned to expand the employee training programme through the opportunity to study online.

Efficiency assessment

In 2020, an efficiency assessment of the internal audit and risk management system of PJSC Magnit and its affiliates was conducted by the Internal Audit Department.

The assessment was completed through an analysis of all aspects of internal control and risk management processes, the internal (control) environment, objective setting, event identification, risk assessment, risk response, means of control, information, communications, and monitoring.

The assessment highlighted the parameters of internal control and risk management process and identified the current state of the parameters, describing the effectiveness of organisation and functioning of the internal control and risk management system.

According to the assessment, the current level of organisation and functioning of the internal control and risk management system was deemed well-established and in line with the Company’s needs.

External audit

To verify and confirm the reliability of its annual financial statements, each year the Company hires a professional audit organisation that has no connection to the Company or its shareholders through ownership interests, chosen from among the major international audit companies.

The Company’s auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. The Audit Committee conducts a preliminary assessment of the audit firm candidates.

IFRS Auditor

Ernst & Young Limited Liability Company (TIN 7709885532), legal address: Russian Federation, Moscow, 77 Sadovnicheskaya Embankment, building 1, a member of Self-Regulatory Organization of Auditors Association “the Commonwealth” (AAC SRO) (Ernst & Young LLC) is included in the central register of the register of auditors and audit organizations with the registration number ORNЗ 12006202027) and one of the global leaders in the provision of professional services, was approved at the AGM held on 4 June 2020 as the auditor of the Company’s consolidated financial statements prepared in accordance with International Financial Reporting Standards.

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

To select an auditor for the consolidated financial statements of the Issuer and its subsidiaries prepared in accordance with international financial reporting standards, we requested for proposals in 2019. Four audit firms of the Big Four participated in the request: Deloitte, PWC, KPMG, E&Y.

Based on the evaluation of the proposals, it was recommended to approve E&Y (Ernst & Young LLC) as the auditor of the consolidated statements of PJSC Magnit and its subsidiaries prepared in accordance with international financial reporting standards.

The auditor audited the 2020 consolidated financial statements of PJSC Magnit and its subsidiaries in accordance with IFRS in the reporting year.

Based on the results of the audit, the auditor expressed an opinion on the accuracy of the consolidated financial statements for 2020, prepared in accordance with IFRS.

The auditor’s remuneration paid by the Company in 2020 amounted to RUB 165.0 million (excluding VAT).

In addition, in the reported year the auditor provided non-audit services to the Group, including consulting on the development of a shared service center, consulting on the development of a Logistics development strategy and other services. The auditor’s remuneration paid in 2020 for non-audit services was RUB 85.2 mln (excluding VAT).

RAS Audit

The audit firm Faber Lex Limited Liability Company (TIN 7709885532), location: Krasnodar, 1442/1 Krasnaya Partizan Street, was approved at the AGM held on 4 June 2020 as the auditor of the Company’s accounting (financial) statements for 2020 prepared in accordance with Russian Accounting Standards.

AF Faber Lex LLC is a member of the Self-Regulatory Organisation of Auditors Association SDRU2HESTVO (SRO AAS) №441 dated 20 March 2020 with the main registration number entry (ORNЗ) 1200614232.

In order to select an auditor for the audit of the accounting (financial) statements of the Issuer prepared in accordance with Russian accounting and reporting standards, we requested for proposals in 2019.

Eight audit companies participated in the request: Deloitte, PWC, KPMG, E&Y, Faber Lex LLC, Gorkislaytsev, FinExpertiza, Intersom.

Based on the evaluation of the proposals, it was recommended to approve Faber Lex LLC as the auditor of the Issuer’s accounting (financial) statements prepared in accordance with Russian accounting and reporting standards.
Ethics and Anti-corruption

PJSC Magnit adheres to the principle of zero tolerance of corruption.

The anti-corruption system regulates the management of regulatory and reputation risks, protects the Company from corruption, and develops corporate culture and corporate governance practices.

The Company has an Anti-Corruption Policy, and Code of Conduct. All Company employees are required to comply with ethical standards of conduct and corporate standards, including:
— to not give or extort bribes
— maintain a positive reputation of the Company
— avoid conflicts of interest.

The Company monitors compliance with anti-corruption procedures. All violations of employees are analysed and result in disciplinary measures up to and including dismissal.

In 2020, corporate anti-corruption measures were updated to completely integrate into the remote work process of employees:
— The procedure for the annual declaration by managers of all levels of information on the presence of a conflict of interest has been converted into electronic form.
— Training courses on anti-corruption and compliance with business ethics have been updated; a number of video materials have been introduced for employees who are training remotely. The quality of teaching is monitored.

The Company has an Anti-Corruption corporate culture and corporate from corruption, and develops anti-corruption risks, protects the Company of regulatory and reputation regulates the management of the Company.

The anti-corruption system of corruption.

PJSC Magnit adheres to the principle of zero tolerance of corruption.

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In 2020, 3156 appeals were received through this communication channel, of which 10% (or 311) are targeted. Of these, 29% (or 89) contained information about significant violations. Each case is checked by the Department of Economic Security. Based on the audit results, management decisions are made while reporting on the results of inspections is provided to the management of the Company.

The work of the ethics and anti-corruption hotline is regularly reviewed by the Audit Committee and the Board of Directors.

Confidential Hotline for Employees, Buyers, Contractors and Partners:
— phone number: 8 (800) 600-04-77
— email: ethics@magnit.ru

The following documents are published on the official website of the Company:
— Articles of Association and internal documents
— information on the structure of equity
— information on governing bodies
— information about the auditor and registrar
— other required information.

The Company maintains an IR website with a regularly updated investor calendar, dividend history for the past five years, key performance indicators, contact details, and other useful information.

In addition, the Company discloses information via the Interfax disclosure server: https://www.e-disclosure.ru/portal/.

PJSC Magnit regularly holds presentations and meetings between members of the executive bodies and other key managers of the Company and investors and analysts. The traditional practice of visiting stores, enterprises and agricultural complexes in 2020 was suspended due to the safety reasons during the COVID-19 pandemic.

Information disclosure

PJSC Magnit believes that information transparency is the basis for interaction with stakeholders.

The Company has adopted an Information Policy. The main principles of disclosure are regularity, efficiency, reliability and balance.


The following documents are published on the official website of the Company:
— Articles of Association and internal documents
— information on the structure of equity
— information on governing bodies
— information about the auditor and registrar
— other required information.

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Types of messages disclosed in 2020

<table>
<thead>
<tr>
<th>Type of disclosure</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related to the bond issue / circulation</td>
<td>33</td>
</tr>
<tr>
<td>On agendas and resolutions by the issuer’s governance bodies</td>
<td>36</td>
</tr>
<tr>
<td>On reporting disclosures of various types (quarterly reports, lists of affiliated persons, annual reports, consolidated financial statements, annual accounting statements)</td>
<td>16</td>
</tr>
<tr>
<td>Disposal of the issuer’s own shares by its subordinate organisation</td>
<td>4</td>
</tr>
<tr>
<td>On the change in the share of members of management bodies and other persons in the issuer’s authorized capital</td>
<td>26</td>
</tr>
<tr>
<td>On yields accrued and paid on issue-grade securities</td>
<td>20</td>
</tr>
<tr>
<td>Performance</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>30</td>
</tr>
<tr>
<td>TOTAL</td>
<td>172</td>
</tr>
</tbody>
</table>
Remuneration

Director’s Remuneration

In 2020, the directors’ remuneration policy was regulated by the Regulations on the Board of Directors of PJSC Magnit.¹ According to these Regulations, Directors are entitled to the following types of compensation:

- travel to and from the venue of the meeting of the Board of Directors, as well as being at the venue of the meeting;
- participation in the meeting of the Board of Directors by telephone, use of a teleconference system, sending a written opinion, absentee voting;
- execution of the functions of a member of the Board of Directors;
- recruitment of consultants and experts and obtaining opinions on the activities of the Board of Directors.

The structure of the annual remuneration of members of the Board of Directors

<table>
<thead>
<tr>
<th>Position</th>
<th>Basic</th>
<th>Additional</th>
<th>Compensation of expenses related to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board Directors</td>
<td>150,000 €</td>
<td>200,000 €</td>
<td>— travel to and from the venue of the meeting of the Board of Directors, as well as being at the venue of the meeting;</td>
</tr>
<tr>
<td>Chairman of the Audit Committee</td>
<td>150,000 €</td>
<td></td>
<td>— participation in the meeting of the Board of Directors by telephone, use of a teleconference system, sending a written opinion, absentee voting;</td>
</tr>
<tr>
<td>Chairman of the Strategy Committee</td>
<td>150,000 €</td>
<td>100,000 €</td>
<td>— execution of the functions of a member of the Board of Directors;</td>
</tr>
<tr>
<td>Chairman of the Capital Markets Committee</td>
<td>150,000 €</td>
<td></td>
<td>— recruitment of consultants and experts and obtaining opinions on the activities of the Board of Directors;</td>
</tr>
<tr>
<td>Chairman of the HR and Remuneration Committee</td>
<td>150,000 €</td>
<td>75,000 €</td>
<td>Up to EUR 50,000² per year</td>
</tr>
</tbody>
</table>

Remuneration paid to members of the Board of Directors in 2020, %

- Remuneration: Basic: RUB 116.8 mln
- Additional: RUB 50.4 mln
- Compensation of expenses: RUB 16.7 mln

Remuneration of members of the Management Board

In 2020, the policy of remuneration and compensation of expenses to members of the Management Board was regulated by two regulations:

- Regulations on the collective executive body (Management Board), approved by the AGM on 30 May 2019 (minutes of 31 May 2019);
- Regulations on the collective executive body (Management Board), approved by the EGM on 24 December 2020 (minutes of 25 December 2020).

The structure of the annual remuneration of the CEO and the President

In 2020, the policy of remuneration and compensation of expenses of the CEO and the President was regulated by the Regulations on Sole Executive Bodies (the President and the Chief Executive Officer).²

According to these Regulations, the amount of remuneration of the CEO and the President is set in their employment contracts.

In accordance with employment contract, Jan Dunning received signing bonus and the fixed rights for 164,710 of ordinary shares to be transferred to him within the period of three years, subject to continued work in the Company. Share-based payment is deferred. The first transfer of 82,355 shares happened on 21 May 2019. The second transfer of 41,177 shares happened on 23 March 2020. The third and last transfer of 41,178 shares happened on 21 May 2020. The first and last transfer of 41,178 shares happened on 21 May 2020. The third and last transfer of 41,178 shares happened on 8 February 2021.

Remuneration of the sole executive bodies (CEO and President)

The motivation programme sets the targeted value of the bonus equal to the annual salary. The actual amount of the bonus depends on the fulfilment of the Corporate KPIs and bonus conditions approved by the Board of Directors for the reporting year.

The remuneration amount depends on the Group’s financial results, time worked during the programme, as well as the responsibility of the employee for achieving the result.

The structure of the annual remuneration of members of the Management Board

<table>
<thead>
<tr>
<th>PJSC Magnit</th>
<th>JSC Tander</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>Bonus</td>
</tr>
<tr>
<td>RUB mln</td>
<td>RUB mln</td>
</tr>
</tbody>
</table>

Remuneration of members of the Management Board, total, RUB mln

Remuneration paid to members of the collective executive body in 2020: RUB 606.3 mln.

¹ Regulations were approved at EGM on 5 December 2018 (minutes of 6 December 2018), with amendments approved at the AGM 30 May 2019 (minutes of 31 May 2019).

² The issue of compensation for expenses more than EUR 50,000 is considered at the General Meeting of Shareholders.

³ Does not include remuneration for the performance of the functions of the sole executive body paid to a person that performed the function of the sole executive body in the specified period and at the same time was a member of the Board of Directors.

⁴ Regulations were approved at the AGM on 30.05.2019 (minutes of 31.05.2019).

⁵ Does not include remuneration for the performance of the functions of the sole executive body paid to a person that performed the function of the sole executive body in the specified period and at the same time was a member of the Management Board.
Programme structure

<table>
<thead>
<tr>
<th>Share-based part</th>
<th>Option-based part</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Order</strong></td>
<td>Shares are provided in annual tranches based on the results of the year, each representing 20% of the total shareholder part. Shares are delivered in three stages within the period of 7 years: 1/3 at the end of the first year + 1/3 the following year + 1/3 in two years.</td>
</tr>
<tr>
<td><strong>Conditions</strong></td>
<td>Growth of the share price of the Company on the option price exercise date.</td>
</tr>
<tr>
<td>The Group’s consolidated EBITDA growth of 10% CAGR compared with the EBITDA for the year ended 31.12.2018. The programme participant continues to work in the Group on the exercise date of the option.</td>
<td></td>
</tr>
</tbody>
</table>

LTI remuneration in 2020

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Board</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan Dunning</td>
<td>Chairman of the Management Board, President, CEO</td>
<td>23,404</td>
</tr>
<tr>
<td>Maria Dei</td>
<td>Supply Chain Director</td>
<td>1,648</td>
</tr>
<tr>
<td>Elena Zhavoronkova</td>
<td>Chief Legal Officer</td>
<td>1,648</td>
</tr>
<tr>
<td><strong>Other employees of the Company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>19,655</td>
</tr>
<tr>
<td><strong>Employees who left the Company in 2020</strong></td>
<td></td>
<td>27,242</td>
</tr>
</tbody>
</table>

Remuneration Report (continued)

KPI

In addition to the short-term incentive scheme, the Group has a long-term remuneration programme. Programme objectives are:

- LFL sales growth (%)
- EBITDA (RUB bin)
- Working capital (RUB bin).

In case of failure to meet at least one of the three triggers, the bonuses are not paid.

If the trigger indicators are met, the following corporate indicators are set for all members of the Management Board in the company:

- growth in LFL sales (%)
- EBITDA (RUB bin).

For members of the Management Board who are responsible for key business functions, annual bonuses are entirely dependent on the achievement of corporate KPIs. Individual KPIs have also been set for a number of Management Board members, and corporate KPIs are applied as a multiplier to the individual portion of the bonus.

The Board of Directors approves the list of corporate and individual KPIs as well as their influence on bonus payments for CEO -1 level.

LTI

In addition to the short-term incentive scheme, the Group has a long-term remuneration programme. Programme objectives are:

- motivation of participants to increase the share price of the Company
- motivation of participants for the cumulative growth of the consolidated EBITDA of the Group in the amount of at least 10% CAGR relative to 2018
- retention of highly skilled employees
- increasing the attractiveness of the Company for new employees.

The programme started in 2018 and will last 7 years. The first allocation of shares occurred in 2019 according to the results of 2018, the last allocation will occur in 2025 according to the results of 2022.

In 2020, the Board of Directors changed the total number of programme participants.

In total, the programme will use no more than 3,510,638 shares of the Company.

An agreement is concluded with each programme participant, under the conditions of which the maximum number of shares that a participant can receive is indicated.

Participants have right to receive shares of the option-based part if the market share price exceeds RUB 4,700 per share. Payments are made if the target EBITDA is reached and the terms of the contract are met.

The amount of payments to programme participants depends on the period worked during the execution of programme.

In 2020, the Company transferred 73,597 shares to 23 employees as part of the long-term remuneration programme, including 27,242 shares transferred to 6 employees who left the Company in 2020.

In 2020, the Company transferred 23,404 shares to Jan Dunning, Chairman of the Management Board, President, CEO, 1,648 shares to Maria Dei, Supply Chain Director, and 1,648 shares to Elena Zhavoronkova, Chief Legal Officer.

In 2020, 7 employees were transferred 27,242 shares, including 6 employees who left the Company in 2020.

<table>
<thead>
<tr>
<th>2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees who received shares</td>
<td>23</td>
</tr>
<tr>
<td>including employees who left the Company</td>
<td>6</td>
</tr>
<tr>
<td>Shares transferred</td>
<td>73,597</td>
</tr>
<tr>
<td>including to employees who left the Company</td>
<td>27,242</td>
</tr>
</tbody>
</table>
Shareholder and investor engagement

Authorised and issued share capital

As of 31 December 2020, the authorised capital of Public Joint-Stock Company Magnit amounted to RUB1,019,113.55 and consisted of 101,911,355 ordinary shares with a par value of RUB0.01 each.

In addition to its outstanding shares, the Company had the right to place 98,938,645 ordinary registered shares with a par value of RUB0.01 each (declared shares).

As of 31 December 2020, 34 entities were registered in the share register, including 30 individuals, one nominal holder (National Settlement Depository) and three other legal entities.

As of 31 December 2020, PJSC Magnit does not hold any treasury shares. As of 31 December 2020, JSC Tander, owned by the Company owned 4,246,498 voting shares in PJSC Magnit, which amounts to 4.166815% of the total number of ordinary registered shares, which were acquired in 2019-2019 in order to implement its LTIF programme.

As at the end of 2020, Magnit’s market capitalisation was RUB 578.3 bln6 on MOEX and USD8,584.4 mln4 on the LSE.

Structure of share capital as at the end of 2020

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of registered entities</th>
<th>Share of authorised capital, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal entities</td>
<td>5</td>
<td>97.50</td>
</tr>
<tr>
<td>Including nominal holders</td>
<td>1</td>
<td>97.50</td>
</tr>
<tr>
<td>Individuals</td>
<td>30</td>
<td>2.50</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Significant changes in the share capital structure in 2020

<table>
<thead>
<tr>
<th>Date of change</th>
<th>Title</th>
<th>After the date of the change</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19.08.2020</td>
<td>Dodge &amp; Cox, Indirect</td>
<td>Number of shares: 5,144,652</td>
<td>5,094,652</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of shares: 4.9991%</td>
<td>4.9991%</td>
</tr>
</tbody>
</table>

Authorised and issued share capital history

<table>
<thead>
<tr>
<th>Date</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 April 2006</td>
<td>The Company completed the process of an initial public offering in the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX)</td>
</tr>
<tr>
<td>13 February 2008</td>
<td>PJSC Magnit announced a secondary share placement. 11,900,000 shares were offered for additional issuance, including shares placed with pre-emptive rights for existing shareholders as well as previously placed shares owned by the selling shareholder.</td>
</tr>
<tr>
<td>22 April 2008</td>
<td>Global Depositary Receipts (GDR) commenced conditional trading on the London Stock Exchange (LSE). Later in April Magnit’s GDRs were included in the official list of the UK Listing Authority.</td>
</tr>
<tr>
<td>2 September 2009</td>
<td>PJSC Magnit announced another public offering of 11,154,918 ordinary shares. The offering price was USD 65 per ordinary share and USD 13 per GDR.</td>
</tr>
<tr>
<td>6 October 2011</td>
<td>The Board of Directors of PJSC Magnit decided to increase the authorised capital by issuing 10,813,516 additional shares. The public placement was completed on 25 December 2011.</td>
</tr>
<tr>
<td>15 November 2017</td>
<td>The Board of Directors of PJSC Magnit decided to increase the authorised capital by issuing 7,350,000 additional shares. The public placement was completed on 15 January 2018.</td>
</tr>
<tr>
<td>21 August 2018</td>
<td>The Board of Directors of PJSC Magnit approved the share buyback programme (buying into account the changes approved by the Board on the 4th of October, 2018). The programme was launched on 5 September 2018 and completed on 1 March 2019. Total number of shares bought out under buyback programme was 5,897,776, including: — 5,310,638 shares were allotted to LTIF programme — Since the start of the LTIF programme 278,855 shares were distributed to participants.</td>
</tr>
<tr>
<td>28 November 2018</td>
<td>JSC Tander concluded an agreement with Serenge Advisors Limited under which the latter received 1,532,601 shares, which amounted to 1,485,219% of the total number of shares of PJSC Magnit, as payment for the transaction related to the acquisition of SIA Group.</td>
</tr>
</tbody>
</table>

Breakdown by geography of free-float, %

End 2019, %

- Russian Federation: 6.83%
- United States of America and Canada: 18.0%
- United Kingdom: 20.3%
- European union: 28.7%
- Asia: 29.7%
- Rest of the World: 6.83%

End 2020, %

- Russian Federation: 5.89%
- United States of America and Canada: 24.2%
- United Kingdom: 22.3%
- European union: 27.5%
- Asia: 11.8%
- Rest of the World: 18.0%

Source: Shareholder Identification Report

2. The share of the free-float is determined based on an analysis of the share capital ownership structure, and by deducting the number of shares which are not in the free-float from the total number of the Issuer’s shares.
3. Capitalisation in RUB is calculated using the following formula: number of shares outstanding * share price as at the end of 2020.
4. Capitalisation in USD is calculated using the following formula: number of shares outstanding * GDR price as at the end of 2020.
5. Shareholding structure is provided in accordance with the list of shareholders registered in the register of PJSC Magnit shareholders as of 31.12.2020.
6. Information is provided based on notifications received by PJSC Magnit from the indicated entities in accordance with the article 30 of the Federal Law No. 59-FZ “On the securities market” as of 22.04.1996.
Shareholder and investor engagement (continued)

### Listing of shares on the Moscow Exchange

The Company’s shares have been traded on the Moscow Exchange (MOEX) since 24 April 2008 (ticker MGN) and are included in the first quotation list.

Magnet shares are included in the following indices:
- Moscow Exchange: Stock Subindex, MOEX Index, MOEX Index 10, Blue Chip Index, Broad Market Index, Consumer Sector Index / Consumer Sector Index, RTS Consumer Sector Index, RTS Index, and Broad Market RTS Index.

### GDR listing

The Company’s global depositary receipts (GDR) have traded on the main market of the London Stock Exchange (MGNT) since 22 April 2008. One share represents five depositary receipts. As of 31 December 2019, 18% of the Company’s total shares were listed on the London Stock Exchange in the form of GDRs.

### GDR quotes on London Stock Exchange in 2020

- **GDR price and trading volume on LSE**
  
<table>
<thead>
<tr>
<th>Period</th>
<th>GDR price, USD</th>
<th>Volume, USD mln</th>
<th>Market cap. of period, USD mln</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min.</td>
<td>Max.</td>
<td>As at end of period</td>
</tr>
<tr>
<td>Q1</td>
<td>6.47</td>
<td>14.26</td>
<td>8.96</td>
</tr>
<tr>
<td>Q2</td>
<td>8.71</td>
<td>13.56</td>
<td>12.99</td>
</tr>
<tr>
<td>Q3</td>
<td>12.97</td>
<td>15.71</td>
<td>14.92</td>
</tr>
<tr>
<td>Q4</td>
<td>13.75</td>
<td>18.24</td>
<td>17.60</td>
</tr>
</tbody>
</table>

### GDR quotes on London Stock Exchange in 2020

- **Share price and trading volume on the Moscow Exchange in Q1-Q4 2020**

<table>
<thead>
<tr>
<th>Period</th>
<th>Share price, RUB</th>
<th>Volume, RUB mln</th>
<th>Market cap. of period, RUB bln</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min.</td>
<td>Max.</td>
<td>As at end of period</td>
</tr>
<tr>
<td>Q1</td>
<td>2.33</td>
<td>3.86</td>
<td>3.19</td>
</tr>
<tr>
<td>Q2</td>
<td>3.14</td>
<td>4.18</td>
<td>4.08</td>
</tr>
<tr>
<td>Q3</td>
<td>4.20</td>
<td>5.08</td>
<td>4.37</td>
</tr>
<tr>
<td>Q4</td>
<td>4.65</td>
<td>5.69</td>
<td>5.67</td>
</tr>
</tbody>
</table>

### Indices

Magnet is included in a broad number of different indices. More information is provided by the following key ETFs:

- namely Morgan Stanley and VTB Capital.

### Analyst coverage and consensus forecast

As of the 31 December 2020, 18 investment banks produced equity research on Magnit compared to 16 in 2019. New banks initiated coverage, namely Morgan Stanley and VTB Capital.
Shareholder and investor engagement (continued)

Share trading on the Moscow Exchange in 2020

1 Magnit defines “pre-New Year sales” as sales made across all the Chain’s formats from December 17 to December 31.
Shareholder and investor engagement (continued)

Consensus for key financial indicators for 2020, RUB bln (IAS 17)

<table>
<thead>
<tr>
<th>Sales and growth</th>
<th>Gross profit and margin</th>
<th>EBITDA and margin</th>
<th>Net Income and margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus average</td>
<td>1553.5</td>
<td>366.2</td>
<td>179.9</td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
<td>23.6%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Reported</td>
<td>1553.8</td>
<td>365.8</td>
<td>178.2</td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
<td>23.5%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source: Company collected recommendations and consensus for 2020 based on open sources

Bonds

The Company uses bonded loans as a form of debt financing for its business, which are primarily raised by issuing exchange bonds.

In 2019, PJSC Magnit had five outstanding issues of exchange bonds (BO-003R-01, BO-003R-02, BO-003R-03, BO-003R-04, BO-003R-05, BO-002R-01, BO-002R-02, BO-002R-03) with a total nominal volume of RUB 90 bln (the volume in circulation at the end of the reporting year was RUB 80 bln, bond issue BO-003R-03 was repaid on 24.12.2020).

Within the framework of the XVII Russian Bond Congress in St. Petersburg, the placement of bonds of the Magnit retail chain, series BO-002R-01 for RUB10 bln was recognised as the best public offering by a retailer.

Parameters of the BO-003R-01, BO-003R-02, BO-003R-03, BO-003R-04, BO-003R-05, BO-002R-01, BO-002R-02, BO-002R-03 series bonded loans of PJSC Magnit

<table>
<thead>
<tr>
<th>Issue identification number and assignment date</th>
<th>Volume of issue, RUB</th>
<th>Number of securities</th>
<th>Nominal value of each security, RUB</th>
<th>Placement price</th>
</tr>
</thead>
<tbody>
<tr>
<td>4802-01-60255-0-003R-01, 02.02.2019</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-02-60255-0-003R-02, 02.02.2019</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4820-03-60255-0-003R-03, 20.06.2019</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-04-60255-0-003R-04, 20.06.2019</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-05-60255-0-003R-05, 25.12.2019</td>
<td>15,000,000</td>
<td>15,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-01-60255-0-002R-01, 27.04.2020</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-02-60255-0-002R-02, 27.04.2020</td>
<td>15,000,000</td>
<td>15,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
<tr>
<td>4802-03-60255-0-002R-03, 27.04.2020</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>1,000 (one thousand)</td>
<td>100% of nominal value</td>
</tr>
</tbody>
</table>

Source: Company collected recommendations and consensus for 2020 based on open sources

Analyst recommendations and average target price local shares

Analyst recommendations and average target price GDRs

Consensus for key financial indicators for 2020, RUB bln (IFRS 16)

<table>
<thead>
<tr>
<th>Sales and growth</th>
<th>Gross profit and margin</th>
<th>EBITDA and margin</th>
<th>Net Income and margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus average</td>
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<td>366.2</td>
<td>179.9</td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
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<td>11.6%</td>
</tr>
<tr>
<td>Reported</td>
<td>1,553.8</td>
<td>365.8</td>
<td>178.2</td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
<td>23.5%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source: Company collected recommendations and consensus for 2020 based on open sources

The Company uses bonded loans as a form of debt financing for its business, which are primarily raised by issuing exchange bonds.

Within the framework of the XVII Russian Bond Congress in St. Petersburg, the placement of bonds of the Magnit retail chain, series BO-002R-01 for RUB10 bln was recognised as the best public offering by a retailer.
Shareholder and investor engagement (continued)

Parameters of the BO-003R-01, BO-003R-02, BO-003R-03, BO-003R-04, BO-003R-05, BO-002R-01, BO-002R-02, BO-002R-03 series bonded loans of PJSC Magnit (continued)

<table>
<thead>
<tr>
<th>Issue identification number</th>
<th>Placement date</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
<th>Public placement</th>
</tr>
</thead>
<tbody>
<tr>
<td>BO-002R-01</td>
<td>1092nd day from the placement date</td>
<td>728th day from the placement date</td>
<td>546th day from the placement date</td>
<td>500th day from the placement date</td>
<td>1002nd day from the placement date</td>
<td>1002nd day from the placement date</td>
<td>1002nd day from the placement date</td>
<td>1002nd day from the placement date</td>
<td></td>
</tr>
<tr>
<td>BO-003R-01</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td></td>
</tr>
<tr>
<td>BO-003R-02</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td></td>
</tr>
<tr>
<td>BO-003R-03</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td></td>
</tr>
<tr>
<td>BO-003R-04</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td></td>
</tr>
<tr>
<td>BO-003R-05</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td>19.05.2020</td>
<td></td>
</tr>
<tr>
<td>BO-002R-01</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td></td>
</tr>
<tr>
<td>BO-002R-03</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td>15.08.2019</td>
<td></td>
</tr>
<tr>
<td>BO-002R-05</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td>27.02.2020</td>
<td></td>
</tr>
<tr>
<td>BO-002R-06</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td>25.06.2019</td>
<td></td>
</tr>
</tbody>
</table>

Credit ratings
In 2020, leading rating agencies assigned credit ratings to the Company. S&P affirmed its rating of the Company’s credit ratings to the Company. S&P in 2020, leading rating agencies assigned

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

- **Transparency:** identifying and disclosing information about the duties and responsibilities of the parties involved in carrying out the dividend policy, including the procedure and conditions for deciding on the payment and amount of dividends.
- **Timeliness:** establishing time limits for dividend payments.
- **Justifiability:** the decision on the payment and the amount of dividends may only be made if the Company achieves a positive financial result taking into account development plans and investment programmes.

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Shareholders and investor engagement (continued)

Magnit pays due attention to the attractiveness of its investment proposition and constantly seeks to increase the level of openness and transparency of its activities. The Company is interested in attracting new and retaining existing investors and maintains a constant dialogue with the investment community, while treating all the investment categories with special attention.

The Company uses various formats of interaction, including distributing press releases announcing operational and financial results; organising conference calls, face-to-face meetings; conducting road shows and site visits; and participating in investment conferences and other events.

4 conference calls and 6 publications regarding the financial and operational results were conducted by senior management in 2019. In 2020 the IR-team has also participated in the number of virtual conferences, including with the retail investors.

Magnit has won a silver medal for the Best Corporate Website (International) category at the Corporate and Financial Awards 2020.

First
Albert Avetikov
Chief Investor Relations Officer of Magnit, was ranked first in TOP Investor Relations Professionals by Association of Managers and Kommersant.

— LFL indicators and their dynamics
— Sales density indicators
— The impact of the pandemic on the consumer, industry, Company
— Macro-economic environment, inflation and promo activity
— CVP implementation including assortment, redesign programme, loyalty programme, organisational model, etc.
— Status of business transformation
— Changes in strategy
— Digital transformation, including ERP implementation and e-commerce initiatives
— Innovations and efficiency gains
— Magnit actions in online sales
— Expansion plans and M&A opportunities
— Sustainability of margins
— Working capital improvements
— Management KPIs and incentive schemes
— Management team changes.

During the reporting year, the Company continued to improve its investor relations approach:
— the Company launched a new corporate website for investors, expanded the content, improved the structure and systematized the information presented, including tours to the convenience store, superstore and Magnit Cosmetic
— created a corporate video about the activities of the Company and its achievements
— the practice of holding conferences with investors and analysts in a virtual mode was introduced
— 5 conferences with individual investors were held
— 6 ESG-dedicated events conducted
— expanded content and improved structure of press releases, presentations and documents with reference information
— the practice of maintaining an up-to-date consensus forecast of key financial indicators based on analysts’ forecasts has been introduced.

Number of institutional investor events where Magnit participated
114

Number of institutional investors covered
218

Financial and operational results releases
7

Number of virtual store tours
6

Number of ESG events
7

Conference calls
4

Roadshows
9

1 Please, see https://www.magnit.com/en/about-company/store-formats/.
Investor
calendar 2020-2021

**2020**

- **12-13 May 2020**
  - Morgan Stanley Virtual EEMEA Conference 2020
  - Virtual

- **23-24 June 2020**
  - RenCap Virtual Moscow Conference
  - Virtual

- **20 August 2020**
  - 3Q / 9M 2020 Trading Update and Financial Highlights and Conference Call
  - Krasnodar

- **18-19 November 2020**
  - VTB Capital "Russia Calling" Conference
  - Virtual

- **6 February 2020**
  - 4Q / 12M 2019 Trading Update and Financial Highlights and Conference Call
  - Krasnodar

- **13 May 2020**
  - BAML Retail and Consumer Virtual Trip
  - Virtual

- **30 June 2020**
  - Virtual Investor Group Meeting ‘Retail with Purpose. Magnit Sustainability Strategy’
  - Virtual

- **2-3 September 2020**
  - Raiffeisen Virtual Emerging Europe Days
  - Virtual

- **16 March 2020**
  - FY 2019 Audited Financial Results
  - Krasnodar

- **27 May 2020**
  - Atori Consumer Day
  - Virtual

- **8-9 July 2020**
  - J.P. Morgan Virtual CEEMEA & LATAM Asia Forum
  - Virtual

- **3 September 2020**
  - HSBC Investor Trip to Russia
  - Virtual

- **21 April 2020**
  - Wood's EM Consumer Conference
  - Virtual

- **28 May 2020**
  - HSBC Virtual EEMEA Food Retail Conference
  - Virtual

- **14 July 2020**
  - UBS CEEMEA Virtual Retail Trip
  - Virtual

- **10-17 September 2020**
  - Cit’s Virtual GEMS Conference
  - Virtual

- **29 April 2020**
  - 1Q 2020 Trading Update and Financial Highlights and Conference Call
  - Krasnodar

- **2-3 June 2020**
  - BAML Emerging Markets Debt & Equity Conference 2020
  - Virtual

- **30 July 2020**
  - 2Q / 6M 2020 Trading Update and Financial Highlights and Conference Call
  - Krasnodar

- **11 November 2020**
  - RenCap 25th EMi6FM Conference
  - Virtual

**2021**

- **29 October 2020**
  - 3Q / 9M 2020 Trading Update and Financial Highlights and Conference Call
  - Krasnodar

- **18-19 November 2020**
  - VTB Capital "Russia Calling" Conference
  - Virtual

- **30 October 2020**
  - Auerbach Grayson-SOVA Capital Emerging and Frontier Markets Conference
  - Virtual

- **1-3 December 2020**
  - UBS Global Emerging Markets One-on-One Virtual Conference
  - Virtual

- **2-3 November 2020**
  - Moscow Virtual Exchange Forum
  - Virtual

- **2 December 2020**
  - Wood’s EM Consumer Conference
  - Virtual

- **15 March 2021**
  - FY 2019 Audited Financial Results
  - Krasnodar

- **29 April 2021**
  - 1Q 2020 Trading Update and Financial Highlights and Conference Call
  - Krasnodar
Magnit Reports 7.4% LFL Sales Growth and 7.0% EBITDA margin (IAS 17) in 2020

Appendices to the Annual Report
Appendices to the Annual Report

Report on complying with the principles and recommendations of the Corporate Governance Code

Appendix 1
Report on Complying with the Principles and Recommendations of the Corporate Governance Code

Appendix 2
Major Transactions

Appendix 3
Related Party Transactions

Appendix 4
Financial Statements

Appendix 5
Management Statement of Responsibility

The Board of Directors confirms that the data provided in this report contains complete and reliable information on PJSC Magnit’s (hereinafter referred to as the “Company”) compliance with the principles and recommendations of the Corporate Governance Code, recommended by the Bank of Russia (Letter No. 06-52 / 2463 dated 10 April 2014) for use by joint-stock companies whose securities are admitted to organized trading (hereinafter referred to as the “Code”), for 2020.

<table>
<thead>
<tr>
<th>Corporate governance principles</th>
<th>Compliance criteria</th>
<th>Compliance status</th>
<th>Reasons for non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 The company shall ensure fair and equitable treatment of all shareholders in exercising their corporate governance rights.</td>
<td>1. The company’s internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, e-mail, or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.</td>
<td>Full</td>
<td></td>
</tr>
<tr>
<td>1.1.1 The company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.</td>
<td>1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominations to the company’s board of directors and the revision committee.</td>
<td>Full</td>
<td></td>
</tr>
</tbody>
</table>

Compliance status
- Full
- Partial
- None
### Corporate governance principles

<table>
<thead>
<tr>
<th>#</th>
<th>Corporate governance principles</th>
<th>Compliance criteria</th>
<th>Compliance status</th>
<th>Reasons for non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.3</td>
<td>In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company’s executive bodies and the board of directors, and to communicate with each other.</td>
<td>1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of, and during the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders. 3. The company gave duly authorised shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company for all general meetings within the reporting period.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 1.1.4 | There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company’s governing bodies, and to make proposals for the agenda of the general meeting. | 1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company’s governing bodies due to misprints or other insignificant flaws in the shareholder’s proposal. | | |

| 1.1.5 | Each shareholder was able to freely use the voting right in the simplest and most convenient way. | 1. An internal document (internal policy) of the company contains a procedure stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commissioner. 2. The registrar JSC Novy Registrator performs the functions of the ballot committee for PJSC Magnit based on the agreement, the terms of which do not prevent any of the Company’s shareholders from requesting a copy of the completed ballot from the Registrar’s representatives before the termination of the meeting. The Company registrar and the Company in practice do not require such a request when holding general meetings of shareholders in the form of joint presence. The Company is working to improve internal documents, taking into account the recommendations of the Code and development plans. It is planned that the alignment of internal documents in accordance with this recommendation of the Code will be completed during 2021. | | |

| 1.1.6 | The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions. | 1. During general meetings of shareholders held in the reporting period, the board of directors held in person (joint presence of shareholders), sufficient time was allocated for reports on, and discussion of, the agenda items. 2. Candidates to the company’s governing and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote. 3. When passing resolutions on preparing and holding general meetings of shareholders, the board of directors considered any telecommunication means for remote access of shareholders to general meetings in the reporting period. | | |

| 1.2 | Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends. | 1. The company has developed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure. 2. The company’s dividend policy uses reporting figures to determine the dividend amount, and may lead to a false impression of full compliance with law. 3. The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified. The company’s dividend policy clearly identifies financial/economic circumstances under which the company shall not pay out dividends. | | |

| 1.2.1 | The company has developed a dividend policy approved by the board of directors. | | | |

| 1.2.2 | The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified. | | | |

| 1.2.3 | The company does not allow for dividend rights of its existing shareholders to be impaired. | 1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders. | | |
Report on complying with the principles and recommendations of the Corporate Governance Code (continued)

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<tr>
<td>1.2.4</td>
<td>The company makes every effort to prevent its shareholders profiting from the company through any means other than dividends and liquidation value.</td>
<td>1. To prevent its shareholders profiting from the company through any means other than dividends and liquidation value, the company’s internal documents provide for controls to systemically identify and approve deals with affiliated (associated) members of the company’s substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not provide for such requirement. A similar approach is used in the Company’s subsidiaries.</td>
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<td>The Company’s Articles of Association specifies a number of transactions that require consent (approval) from the Board of Directors (or the Company’s Management Board) in cases where the law does not provide for such requirement. A similar approach is used in the Company’s subsidiaries.</td>
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<td>This measure reduces possible additional risks associated with the failure to comply with this recommendation of the Code.</td>
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<td>At the annual general shareholders’ meetings held for 2018 and 2019, at the proposal of the shareholders, the matter of amending the Articles of Association was considered in terms of establishing additional requirements for the approval of transactions of the Company or controlled entities with the affiliates of significant shareholders.</td>
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<td>The shareholders twice did not support such amendments to the Company Articles of Association.</td>
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<td>In the event that the relevant proposal is received from shareholders, the matter of establishing such control mechanisms in the internal documents of the Company will be reviewed again.</td>
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<tr>
<td>1.3</td>
<td>The corporate governance system and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.</td>
<td>1. In the reporting period procedures for managing potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.</td>
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<td>The current legislation provides for the right of shareholders to participate in the management of a joint-stock company by participating in general shareholders’ meetings with the right to vote on all matters within its competence. The Company shareholders, including those controlled by the Company, are not restricted in the exercise of their rights established by securities. Moreover, the actual share of quasi-treasury shares is extremely small and is consistently decreasing. The participation of these shares in voting at general shareholders' meetings does not result in the artificial redistribution of corporate control.</td>
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<td>1.4</td>
<td>Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrances.</td>
<td>1. The company’s registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.</td>
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<td>The company’s Articles of Association are responsible for appointing and dismissing executive bodies, including due to improper performance of their duties. The board of directors also ensures that the company’s executive bodies act in accordance with the company’s approved development strategy and core lines of business.</td>
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<td>The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategic business plans for the company’s core lines of business.</td>
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<td>The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.</td>
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<td>The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company’s strategy.</td>
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<td>1.11</td>
<td>The board of directors and internal control system, oversees the activities of the company’s executive bodies, and performs other key functions.</td>
<td>1. At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company’s financial and business plan (budget), as well as criteria and performance (including interim) of the company’s strategy and business plans.</td>
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<td>The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategic business plans for the company’s core lines of business.</td>
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<td>The board of directors defined the company’s principles of, and approved to, setting up a risk management and internal control system.</td>
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<td>At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company’s financial and business plan (budget), as well as criteria and performance (including interim) of the company’s strategy and business plans.</td>
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<td>1.12</td>
<td>The board of directors defined the company’s principles of, and approved to, setting up a risk management and internal control system.</td>
<td>1. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).</td>
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<td>The board of directors defined the company’s principles of, and approved to, setting up a risk management and internal control system.</td>
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<td>The board of directors assessed the company’s risk management and internal control system in the reporting period.</td>
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### Corporate governance principles

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<td>2.1.6</td>
<td>The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company’s documents.</td>
<td>1. The board of directors approved the company’s regulations on the information policy. 2. The company identified persons responsible for implementing the information policy.</td>
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<td>2.2</td>
<td>The board of directors is accountable to the company’s shareholders.</td>
<td>1. The company’s annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.</td>
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<td>2.3.1</td>
<td>Only persons of impeccable personal and professional reputation who have the knowledge, expertise, and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.</td>
<td>1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of directors’ professional qualifications. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, and qualifications.</td>
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<td>2.3.2</td>
<td>The company’s directors are capable of making fair and independent judgements in good faith, free of influence by the company’s executive bodies, individual groups of shareholders, or other stakeholders. It should be noted that a nominee (selected director) who is a member of the company’s substantial shareholder, or is an executive officer or a director (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, and qualifications.</td>
<td>1. The board of directors has a balanced membership, including in terms of directors’ qualifications, experience, expertise, and business skills, and it has the trust of shareholders.</td>
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<td>2.3.3</td>
<td>The board of directors has a sufficient number of independent directors.</td>
<td>1. As part of assessment of the board of directors’ performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience, and business skills.</td>
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<td>2.3.4</td>
<td>The company has a sufficient number of independent directors to organise the board of directors’ activities in the most efficient way, including the ability to set up committees of the board of directors and enable the company’s substantial minority shareholders to elect a nominee to the board of directors for whom they vote.</td>
<td>1. As part of assessment of the board of directors’ performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience, and business skills.</td>
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<td>2.3.5</td>
<td>The company assesses compliance of nominees to the board of directors and ensures compliance of independent directors with independence criteria set forth in Recommendations 102-107 of the Code, as well as the nominees’ written consent to be elected to the board of directors.</td>
<td>1. In the reporting period, all independent directors met all independence criteria set out in recommendations 102-107 of the Code, or were deemed independent by resolution of the board of directors.</td>
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<tr>
<td>2.4</td>
<td>The board of directors includes a sufficient number of independent directors.</td>
<td>2. In the reporting period, the board of directors reviewed the company’s needs and adopted resolutions in the best interests of the company and its shareholders.</td>
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<td>2.4.1</td>
<td>An independent director is a person who is sufficiently independent and able to develop his own position, and capable of making unbiased judgements in good faith, free of influence by the company’s executive bodies, individual groups of shareholders, or other stakeholders. It should be noted that a nominee (selected director) who is a member of the company’s substantial shareholder, or is an executive officer or a director (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, and qualifications.</td>
<td>1. In the reporting period, all independent directors met all independence criteria set out in recommendations 102-107 of the Code, or were deemed independent by resolution of the board of directors.</td>
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<td>24.3</td>
<td>Independent directors make up at least one third of elected directors.</td>
<td>1. Independent directors make up at least one third of directors.</td>
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<td>24.4</td>
<td>Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.</td>
<td>1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.</td>
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### 2.5 The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.

1. The chairman of the board of directors (i.e., the chairman of the board of directors) are duly set out in the company’s internal documents.

2. The role, rights, and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are clearly stated and published an internal document that clearly defines the rights and duties of directors.

3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.

### 2.6 Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis, and with due care and diligence.

2.6.1 Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company’s shareholders, and assuming normal business risks.

1. The company’s internal documents stipulate that a director should notify the board of directors of any existing conflict of interest as to any agenda item of a meeting of the board of directors or its committee, prior to discussing the relevant agenda item.

2. The company’s internal documents stipulate that a director should abstain from voting on any item in connection with which they have a conflict of interest.

3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.

### 2.7 Directors perform their duties in a constructive environment at meetings, enable free discussion of agenda items, and supervise the execution of resolutions passed by the board of directors.

2.7.1 Performance of the chairman of the board of directors is assessed as part of the assessment of the board of directors’ performance in the reporting period.

1. The company has adopted and published an internal document that clearly defines the rights and duties of directors.

2. Members of the Board of Directors regularly fill out a questionnaire prepared by the Company and update the information provided if it changes as soon as possible. The information obtained makes it possible to monitor situations with a potential conflict of interest.

3. In addition, the Chairman of the Board of Directors requests information about the existence of any conflicts of interest and reports them to the Board of Directors prior to the discussion of the relevant agenda item.

The Company is working to improve internal documents, taking into account the recommendations of the Code and development plans. It is planned that the alignment of internal documents in accordance with this recommendation of the Code will be completed during 2021.
2.7 Meetings of the board of directors, preparation for such meetings, and participation of directors ensure efficient performance by the board of directors.

2.7.1 Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.

1. The board of directors held at least six meetings in the reporting year.

2.7.2 The company’s internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at meetings of the board of directors held in person.

1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and stipulates, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.

2.7.3 The format of the meeting of the board of directors is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.

1. The company’s Articles of Association or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at meetings of the board of directors held in person.

2. The company’s internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.

3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing, and auditing accounting (financial) statements.

4. In the reporting period, meetings of the audit committee were held at least once a quarter.

2.7.4 The format of the meeting of the board of directors determines how the importance of its agenda items is accounted for. Important matters are dealt with at meetings of the board of directors.

1. The company’s Articles of Association or internal document provides for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

2. The company’s Articles of Association provides for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

3. The company’s Articles of Association provide for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

4. The company’s Articles of Association provide for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

5. The company’s Articles of Association provide for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

6. The company’s Articles of Association provide for resolutions on the most important matters set out in Recommendation 168 of the Code to be passed at meetings of the board of directors held in person.

2.8 Resolutions on most important matters relating to the company’s operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.

2.8.1 An audit committee comprised of independent directors is set up to preview matters related to controlling the company’s financial and business activities.

1. The board of directors set up an audit committee comprised solely of independent directors.

2. The company’s internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.

3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing, and auditing accounting (financial) statements.

4. In the reporting period, meetings of the audit committee were held at least once a quarter.

2.8.2 To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.

1. The board of directors set up a remuneration committee comprised solely of independent directors.

2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.

3. The company’s internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.

4. The company’s internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.

2.8.3 To preview matters related to talent management (succession planning), professional composition, and efficiency of the board of directors, a nomination committee comprised of independent directors.

1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee).

2. The nomination committee was set up, predominantly comprised of independent directors.

3. The company’s internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.
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<td>284</td>
<td>Taking into account the company’s scope of business and level of risks, the company’s board of directors made sure that the composition of its committees is in line with the company’s business goals. Additional committees were either set up or deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committees, etc.).</td>
<td>1. In the reporting period, the company’s board of directors considered whether the composition of its committees was in line with the board’s tasks and the company’s business goals. Additional committees were either set up or deemed necessary.</td>
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<td>285</td>
<td>Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions. Additional committees were established in line with the company’s internal documents.</td>
<td>1. Committees of the board of directors are headed by independent directors. 2. The company’s internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.</td>
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<td>286</td>
<td>Committee chairmen inform the board of directors and its committees chairman on the performance of their committees on a regular basis.</td>
<td>1. In the reporting period, committee chairmen reported to the board of directors on the performance of committees on a regular basis.</td>
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The board of directors ensures performance assessment of the board of directors, its committees, and members of the board of directors.

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<td>3.1</td>
<td>The company’s corporate secretary ensures efficient ongoing interaction with shareholders, coordinate the company’s efforts to protect shareholder rights and interests and support efficient performance of the board of directors.</td>
<td>1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company’s annual report with the same level of detail as for members of the board of directors and the company’s executive bodies.</td>
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<td>3.1.1</td>
<td>The corporate secretary has the expertise, experience, and qualifications sufficient to perform higher duties, as well as an impeccable reputation and the trust of shareholders.</td>
<td>1. The company has adopted and published an internal document – regulations on the corporate secretary.</td>
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<td>3.1.2</td>
<td>The corporate secretary is sufficiently independent of the company’s executive bodies and has the powers and resources required to perform his/her duties.</td>
<td>1. The board of directors approves the appointment, dismissal, and additional remuneration of the corporate secretary.</td>
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4.1 Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies, and other key executives of the company is in compliance with the approved remuneration policy of the company.

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<td>4.1.1</td>
<td>The amount of remuneration paid by the company to directors, executive bodies, and other key executives creates sufficient incentives for them to work efficiently while enabling the company to retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as an unjustly wide gap between remunerations of the above persons and the company’s employees.</td>
<td>1. The company has in place an internal document (internal document – the policy (policies) on remuneration of members of the board of directors, executive bodies, and other key executives, which clearly defines the approaches to remuneration of the above persons.</td>
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<td>4.1.2</td>
<td>The company’s remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the remuneration policy, monitoring and amending it as required.</td>
<td>1. In the reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.</td>
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4.1.3 The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates all types of expenses, benefits, and privileges provided to such persons.

4.1.4 The company defines on complying with the principles and recommendations of the Corporate Governance Code concerning the existence of a procedure to ensure that bonus payments wrongfully received by members of executive bodies and other key officers of the Company are not yet been reflected in the Company's internal documents.

Moreover, the system of key performance indicators and practice of setting targets established in the Company are designed to eliminate the possibility of excessive amounts of variable remuneration being wrongfully charged.

When members of executive bodies and other key officers of the Company wrongfully receive bonus payments, the situation will be settled on a case by case basis. At the end of the reporting year, there were no cases of members of executive bodies or other key officers of the Company wrongfully receiving bonus payments.

However, the matter of whether these Code provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting held in accordance with performance in 2020.

4.2 Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of shareholders.

4.2.1 The company pays fixed annual remuneration to its directors.

The company does not pay remuneration for attending particular meetings of the board of directors or its committees.

The company does not apply any form of short-term motivation or additional financial incentive for its directors.

4.2.2 Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans.

4.2.3 The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure resulting from the change of control or any other reasons.

4.3 The company considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of executive bodies and other key executives of the company.

4.3.1 Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.

1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company.

2. During the latest assessment of the remuneration system for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration.

3. The company has in place a procedure that guarantees return to the company for bonus payments illegally received by members of executive bodies and other key executives of the company.

4.3.2 The company has in place a procedure for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.

1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates (regulate) all types of expenses, benefits, and privileges provided to such persons.

1. The company has in place a procedure for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.

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1. The company has in place a procedure for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.
5.1 The company has in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company’s goals.

5.1.1 The company’s board of directors determined the principles of, and approaches to, setting up a risk management and internal control system at the company.

5.1.2 The company’s executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system at the company.

5.1.3 The company’s risk management and internal control system is consistent with the principles of, and approaches to, its setup and efficient functioning determined by the board of directors.

5.2 The company performs internal audits for regular independent assessment of the reliability and efficiency of its risk management and internal control system, as well as corporate governance practice.

6.1 The company and its operations are transparent for its shareholders, investors, and other stakeholders.

6.1.1 The company has developed and implemented an information policy ensuring efficient exchange of information by the company, its shareholders, investors, and other stakeholders.

6.1.2 The company discloses information on its corporate governance system and practice, including detailed information on compliance with the principles and recommendations of the Code.

---

### Table: Compliance with the Principles of Corporate Governance

<table>
<thead>
<tr>
<th>#</th>
<th>Corporate governance principles</th>
<th>Compliance criteria</th>
<th>Compliance status</th>
<th>Reasons for non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>The company has in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company’s goals.</td>
<td>1. Functions of different management bodies and business units of the company in the risk management and internal control system are clearly defined in the company’s internal documents / relevant policy approved by the board of directors.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.1.1</td>
<td>The company’s board of directors determined the principles of, and approaches to, setting up a risk management and internal control system at the company.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1.2</td>
<td>The company’s executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system at the company.</td>
<td>1. The company’s executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of business units and departments accountable to them.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.1.3</td>
<td>The company’s risk management and internal control system is consistent with the principles of, and approaches to, its setup and efficient functioning determined by the board of directors.</td>
<td>1. The company’s risk management and internal control system is consistent with the principles of, and approaches to, its setup and efficient functioning determined by the board of directors.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.2</td>
<td>The company performs internal audits for regular independent assessment of the reliability and efficiency of its risk management and internal control system, as well as corporate governance practice.</td>
<td>1. In the reporting period, the board of directors or the board’s audit committee assessed the performance of the company’s risk management and internal control system. Key results of this assessment are included in the company’s annual report.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.2.1</td>
<td>The company has set up a separate business unit engaged in an independent external organisation to carry out internal audits. Functional and administrative reporting lines of the internal audit unit are delineated. The internal audit unit functionally reports to the board of directors.</td>
<td>1. To perform internal audits, the company has set up a separate business unit – internal audit division, functionally reporting to the board of directors or the audit committee, or engaged an independent external organisation with the same line of reporting.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.2.2</td>
<td>The company’s internal audit division assessed the performance of the internal control, risk management system, and corporate governance systems. The company applies generally accepted standards of internal audit.</td>
<td>1. In the reporting period, the performance of the internal controls and risk management system was assessed as part of the internal audit procedures. 2. The company applies generally accepted approaches to internal control and risk management.</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
6.2 The company makes timely disclosures of complete, updated, and reliable information to allow shareholders and investors to make informed decisions.

6.2.1 The company discloses information on the principles of regularity, consistency, and promptness, as well as availability, reliability, completeness, and comparability of disclosed data.

1. The company’s information policy sets out an approach to, and criteria for, identifying information that can have a material impact on the company’s evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information.

2. If the company’s securities are traded on foreign organized markets, the company ensured complete and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year.

3. If foreign shareholders hold a material portion of the company’s shares, the relevant information was disclosed in the reporting period both in the Russian language and one of the most widely used foreign languages.

6.3 The company provides information and documents requested by its shareholders in accordance with the principles of fairness and ease of access.

6.3.1 The company provides information and documents requested by its shareholders in accordance with the principles of fairness and ease of access.

1. The company’s annual report contains information on the key aspects of its operational and financial performance.

2. The company’s annual report contains information on the environmental and social aspects of the company’s operations.

6.3.2 When providing information to shareholders, the company ensures a reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitive edge.

1. In the reporting period, the company did not refuse shareholders’ requests for information, or such refusal were justified.

2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.
7.1 Actions that materially affect or may affect the company’s share capital structure and its financial position, and accordingly the position of its shareholders (‘material corporate actions’) are taken on fair terms ensuring that the rights and interests of shareholders and other stakeholders are observed.

7.1.1 Material corporate actions include restructuring of the company, acquisition of 50% or more of the company’s voting shares (takeover), execution by the company of major transactions, increase or decrease of the company’s charter capital, listing or delisting of the company’s shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests.

The company’s Articles of Association provides for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company’s board of directors. The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company’s independent directors.

7.1.2 The board of directors is guided on complying with the principles set forth in the Code, and internal documents of the Company, but are not combined terminologically.

The company’s Articles of Association include a list of transactions or other actions classified as material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders.

According to the company’s Articles of Association, material corporate actions include at least company reorganisation, acquisition of 70% or more of the company’s voting shares (in case of takeover), entering into major transactions, increase or decrease of the company’s charter capital, listing or delisting of the company’s shares.

Criterion 1 is only partially complied with. Criterion 2 is not complied with.

The list of material corporate actions and criteria for their determination have not been formally incorporated in the Company’s internal documents.

However, transactions and actions that the Code recommends to be attributed to significant corporate actions are reflected in the Articles of Association and internal documents of the Company, but are not combined terminologically.

The company is consistently working to improve internal documents, taking into account the recommendations of the Code and development plans. It is planned that the alignment of internal documents in accordance with this Recommendation of the Code will be completed during 2021.

7.1.3 When taking material corporate actions, the company discloses information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.

1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.

2. All material corporate actions in the company are set out in the company’s internal documents.

3. The company’s internal documents provide for an expanded list of grounds on which the company’s directors and other persons as per the applicable law are deemed to be interested parties to the company’s transactions.

7.2 The company takes material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when taking such actions.

7.2.1 Information about material corporate actions is disclosed with explanations of the grounds, circumstances, and consequences.

1. The company’s internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or an interested party transaction.

2. The company’s internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company.

3. The company’s internal documents provide for an expanded list of grounds on which the company’s directors and other persons as per the applicable law are deemed to be interested parties to the company’s transactions.

4. Criteria 1 and 2 are only partially complied with.

The company’s internal documents provide for the procedure of engaging experts to obtain professional advice on matters considered at meetings of the Board of Directors without specifying the purpose of engaging such experts.

Current law stipulates cases of the mandatory engagement of an independent appraiser. Moreover, applicable law does not rule out the option of engaging an appraiser in any of the specified cases (determining the value of property that is disposed of or acquired in a major transaction or a related party transaction, or assessment of the cost of acquisition and redemption of company shares).

Criterion 3 is not complied with.

The recommendations of the Corporate Governance Code concerning the expansion of the list of grounds on which the company’s internal documents are recognised as related parties to Company transactions have not been reflected in the Company’s internal documents.

However, after the Code came into effect, significant changes were made to the legislation on joint-stock companies regarding related party transactions. For example, the scope of related parties was reduced, the procedure for concluding related party transactions was simplified, and the list of transactions to which the rules on the conclusion of related party transactions do not apply, despite the formal existence of a vested interest, was expanded.

The annual general shareholders meetings for 2018 and 2019 considered the matter of introducing additional controls over transactions with shareholders holding more than 10% of voting rights in the authorised capital of the Company; however, on both occasions this proposal was not supported by the shareholders.

Nevertheless, if the relevant proposal is reviewed from the shareholders, the matter will be submitted for review again within the statutory time period.
Major transactions

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

Related party transactions

During the reporting year, there were no transactions that are recognised as related party transactions in accordance with the Federal Law “On Joint Stock Companies”.
Independent auditor’s report

To the Shareholders and Board of Directors of PJSC Magnit

Opinion
We have audited the consolidated financial statements of PJSC Magnit and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for 2020 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.
### Independent auditor’s report (continued)

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recognition of vendors allowances</strong></td>
<td>We compared a sample of accruals of volume rebates and other rebates, recorded based on management assumptions, to supporting documents from vendors and vendor agreements. We also compared the outstanding allowances receivable to the direct confirmations from vendors on a sample basis. We tested cut-off of vendor allowances recorded during a period shortly before and after yearend to supporting documents from vendors.</td>
</tr>
<tr>
<td><strong>Valuation of goods for resale</strong></td>
<td>We assessed the assumptions used by the Group’s management in the valuation of goods for resale. We assessed the Group’s methodology in respect of valuation of net realizable value, analysed the dynamics of goods for resale turnover ratios taking into consideration seasonality and other applicable factors. We compared carrying values of goods for resale with subsequent sales proceeds by certain types of goods. We verified the mathematical accuracy of goods for resale net realisable value calculation. We assessed the process of allocation of handling costs to the carrying amount of goods for resale. We analysed the structure of costs included in the value of goods for resale. We compared the amount of costs with supporting documents received from suppliers and the Group’s internal documents.</td>
</tr>
<tr>
<td><strong>Impairment testing of property, plant and equipment and right-of-use assets</strong></td>
<td>Our audit procedures included an assessment of key management assumptions used by the Group, including those in respect of forecasted revenue and operating expenses. We also analyzed discount rates used by management of the Group. We engaged our internal valuation experts in performing these procedures. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumption and assessed the Group’s disclosures of these assumptions to which impairment testing is most sensitive, i.e., those that have the most significant impact on the recoverable amount of property, plant and equipment and right-of-use assets.</td>
</tr>
</tbody>
</table>

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### Impairment testing of goodwill from acquisition of the SIA Group

As at 31 December 2020, the balance of goodwill is 26,879,317 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC. As a result of this transaction, the Group obtained control over the SIA Group. Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of goodwill includes numerous assumptions made by the Group’s management, including the estimated effect of synergies, determination of a cash-generating unit for impairment testing purposes, forecasted revenue and gross margin, long-term growth rates and discount rates. Information about goodwill is disclosed in Note 10 to the consolidated financial statements.

Our audit procedures included an assessment of assumptions used by the Group and reasonableness of forecasted data. We assessed the judgment used by management in testing goodwill for impairment with respect to goodwill allocated to the relevant cash-generating unit. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumptions and assessed the Group’s disclosures of those assumptions that have the most significant impact on the recoverable amount of cash generating unit to which goodwill is allocated.

### Application of IFRS 16 Leases

The application of IFRS 16 was one of the key audit matters because the effect of the standard is significant to the consolidated financial statements, as the Group has large number of lease contracts and significant judgments were made by the management in assessing initial value of right-to-use assets and related liabilities with respect to ability to extend these lease contracts and, thus, determine a lease term.

Information about the application of IFRS 16 Leases is disclosed in Notes 3 and 8 to the consolidated financial statements.

We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with the Group’s accounting records. We analyzed management’s judgments made to determine the lease term in agreements with extension options and to calculate the discount rates. We analyzed information on IFRS 16 application disclosed in the consolidated financial statements.
Independent auditor’s report (continued)

Other information included in the Annual report of PJSC Magnit for 2020
Other information consists of the information included in the Annual report of PJSC Magnit for 2020 other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information. The Annual report of PJSC Magnit for 2020 is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Board of Directors for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error.

We also:
— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Board of Directors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor’s report is I.Y. Ananyev.

I.Y. Ananyev
Partner Ernst & Young LLC
12 March 2021

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027785072025.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association “Sodruzhestvo”. Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 22006020327.
Statement of management’s responsibilities for the preparation and approval of the consolidated financial statements
for the year ended 31 December 2020

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of PJSC Magnit and its subsidiaries (“the Group”).

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of the Group as at 31 December 2020 and the results of its operations, cash flows and changes in shareholders’ equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

— Selecting and applying accounting policies;
— Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
— Providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
— Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

— Designing, implementing and maintaining an effective and sound system of internal controls;
— Maintaining appropriate accounting records to ensure compliance of the consolidated financial statements of the Group with IFRS, local legislation and local GAAP;
— Preventing and detecting material misstatements due to fraud or error.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by management on 12 March 2021.

On behalf of the management as authorised by the Board of Directors.

The Chief Executive Officer of PJSC Magnit

J.G. Dunning

12 March 2021

Consolidated statement of financial position
as at 31 December 2020 (In thousands of Russian rubles)

<table>
<thead>
<tr>
<th>Notes</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>7</td>
<td>335,113,944</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>8</td>
<td>308,444,695</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9</td>
<td>5,506,252</td>
</tr>
<tr>
<td>Goodwill</td>
<td>10</td>
<td>26,879,317</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td></td>
<td>1,117,551</td>
</tr>
<tr>
<td></td>
<td></td>
<td>678,461,159</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>11</td>
<td>205,949,194</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>12</td>
<td>8,563,822</td>
</tr>
<tr>
<td>Advances paid</td>
<td>13</td>
<td>5,593,856</td>
</tr>
<tr>
<td>Taxes receivable, excluding income tax</td>
<td></td>
<td>75,650</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>19</td>
<td>1,061,971</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>20</td>
<td>317,672</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>21</td>
<td>661,791</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>22</td>
<td>44,699,581</td>
</tr>
<tr>
<td></td>
<td></td>
<td>266,931,047</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>945,392,206</td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity attributable to the shareholders of the parent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-capital</td>
<td>15</td>
<td>1,020</td>
</tr>
<tr>
<td>Share premium</td>
<td>15</td>
<td>87,550,923</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>15</td>
<td>(56,021,596)</td>
</tr>
<tr>
<td>Share-based payments reserve</td>
<td>31</td>
<td>2,055,322</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>109,463,257</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>182,888,924</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.
Consolidated statement of financial position (In thousands of Russian rubles) (continued)

<table>
<thead>
<tr>
<th>Notes</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td>20</td>
<td>149,343,526</td>
</tr>
<tr>
<td>Long-term lease liabilities</td>
<td>6</td>
<td>536,148,835</td>
</tr>
<tr>
<td>Long-term advances received</td>
<td></td>
<td>244,623</td>
</tr>
<tr>
<td>Long-term government grants</td>
<td>21</td>
<td>3,260,706</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>29</td>
<td>459,757,093</td>
</tr>
<tr>
<td></td>
<td></td>
<td>476,230,012</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>17</td>
<td>161,072,294</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>18</td>
<td>23,252,598</td>
</tr>
<tr>
<td>Taxes payable, excluding income tax</td>
<td>19</td>
<td>11,854,351</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>25</td>
<td>11,394,207</td>
</tr>
<tr>
<td>Short-term advances received</td>
<td>8</td>
<td>24,074,329</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>22</td>
<td>2,592,558</td>
</tr>
<tr>
<td>Short-term government grants</td>
<td>21</td>
<td>627,304</td>
</tr>
<tr>
<td>Short-term loans and borrowings</td>
<td>20</td>
<td>18,391,601</td>
</tr>
<tr>
<td>Short-term lease liabilities</td>
<td>8</td>
<td>4,167,103</td>
</tr>
<tr>
<td></td>
<td></td>
<td>284,273,270</td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td>945,392,206</td>
</tr>
</tbody>
</table>

Consolidated statement of comprehensive income for the year ended 31 December 2020 (In thousands of Russian rubles)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>23</td>
<td>1,368,705,394</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>24</td>
<td>(1,368,705,394)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>29</td>
<td>365,755,663</td>
</tr>
<tr>
<td>Rental and sublease income</td>
<td></td>
<td>3,445,597</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>25</td>
<td>(16,689,124)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>26</td>
<td>(254,961,673)</td>
</tr>
<tr>
<td>Interest income</td>
<td>27</td>
<td>504,476</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(44,772,274)</td>
</tr>
<tr>
<td>Other income</td>
<td>28</td>
<td>16,394,222</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td>(1,676,061)</td>
</tr>
<tr>
<td>Foreign exchange (loss)/gain</td>
<td></td>
<td>(872,834)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td>42,702,515</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>29</td>
<td>(9,709,223)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>30</td>
<td>32,993,292</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax</td>
<td></td>
<td>32,993,292</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders of the parent</td>
<td></td>
<td>32,993,292</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax</td>
<td></td>
<td>32,993,292</td>
</tr>
<tr>
<td>Earnings per share (in RUB per share)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— basic profit for the year attributable to the shareholders of the parent</td>
<td>30</td>
<td>337,95</td>
</tr>
<tr>
<td>— diluted profit for the year attributable to the shareholders of the parent</td>
<td>30</td>
<td>336,07</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.
Consolidated statement of cash flows
for the year ended 31 December 2020
(In thousands of Russian rubles)

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>Note 2020</th>
<th>Restated (Note 4.2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income tax</td>
<td>42,702,515</td>
<td>12,579,472</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and impairment of property, plant and equipment and right-of-use assets</td>
<td>7, 8</td>
<td>88,063,185</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>9</td>
<td>1,703,793</td>
</tr>
<tr>
<td>(Gain)/loss from disposal of property, plant and equipment</td>
<td>28</td>
<td>(1,165,190)</td>
</tr>
<tr>
<td>Loss from disposal of intangible assets</td>
<td>9</td>
<td>(45,065)</td>
</tr>
<tr>
<td>Gain from sales of investments</td>
<td></td>
<td>(47,531)</td>
</tr>
<tr>
<td>Provision for expected credit losses on trade and other receivables</td>
<td>26</td>
<td>453,920</td>
</tr>
<tr>
<td>Provision for expected credit losses on financial assets</td>
<td></td>
<td>247,436</td>
</tr>
<tr>
<td>Expense for inventories carried at net realizable value</td>
<td>31</td>
<td>5,973,551</td>
</tr>
<tr>
<td>Gain from cancellation of lease contracts</td>
<td>8</td>
<td>(1,687,659)</td>
</tr>
<tr>
<td>Gain from Covid-19-related rent concessions</td>
<td>8</td>
<td>(1,481,068)</td>
</tr>
<tr>
<td>Income from government grants</td>
<td>21</td>
<td>(664,257)</td>
</tr>
<tr>
<td>Foreign exchange loss/(gain)</td>
<td></td>
<td>1,433,331</td>
</tr>
<tr>
<td>Finance costs</td>
<td>27</td>
<td>44,772,274</td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td>(504,476)</td>
</tr>
<tr>
<td>Operating cash flows before working capital changes</td>
<td></td>
<td>175,407,996</td>
</tr>
<tr>
<td>Decrease/(increase) in trade and other receivables</td>
<td>4</td>
<td>(1,021,057)</td>
</tr>
<tr>
<td>Decrease/(increase) in advances paid</td>
<td>18</td>
<td>(1,188,392)</td>
</tr>
<tr>
<td>Increase/(decrease) in advances received</td>
<td></td>
<td>14,585</td>
</tr>
<tr>
<td>Decrease/(increase) in inventories</td>
<td>12</td>
<td>12,357,041</td>
</tr>
<tr>
<td>(Decrease)/increase in trade and other payables</td>
<td>21</td>
<td>(2,133,888)</td>
</tr>
<tr>
<td>Increase in accrued expenses</td>
<td>18</td>
<td>6,532,433</td>
</tr>
<tr>
<td>Increase/(decrease) in trade and other payables</td>
<td>22</td>
<td>7,563,544</td>
</tr>
<tr>
<td>Increase/(decrease) in contract liabilities</td>
<td>22</td>
<td>1,535,847</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td></td>
<td>206,119,845</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.
Consolidated statement of changes in equity for the year ended 31 December 2020
(In thousands of Russian rubles)

<table>
<thead>
<tr>
<th>Attributable to shareholders of the parent</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Treasury shares</th>
<th>Provision for share-based payments</th>
<th>Retained earnings</th>
<th>Equity attributable to shareholders of the parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2019</td>
<td>1,020</td>
<td>87,257,340</td>
<td>(12,051,463)</td>
<td>–</td>
<td>137,235,129</td>
<td>212,442,026</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,564,222</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,564,222</td>
</tr>
<tr>
<td>Dividends declared (Note 16)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(30,816,128)</td>
<td>(30,816,128)</td>
</tr>
<tr>
<td>Purchase of treasury shares (Note 15)</td>
<td>–</td>
<td>–</td>
<td>(5,109,648)</td>
<td>–</td>
<td>–</td>
<td>(5,109,648)</td>
</tr>
<tr>
<td>Share-based payments (Notes 15, 31)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,452,342</td>
<td>–</td>
<td>2,452,342</td>
</tr>
<tr>
<td>Transfer of rights to equity instruments for share based payments (Notes 15, 31)</td>
<td>–</td>
<td>122,073</td>
<td>707,001</td>
<td>(829,074)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance at 31 December 2019</td>
<td>1,020</td>
<td>87,379,413</td>
<td>(16,454,110)</td>
<td>1,623,268</td>
<td>115,983,223</td>
<td>188,532,814</td>
</tr>
<tr>
<td>Balance at 1 January 2020</td>
<td>1,020</td>
<td>87,379,413</td>
<td>(16,454,110)</td>
<td>1,623,268</td>
<td>115,983,223</td>
<td>188,532,814</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>32,993,292</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>32,993,292</td>
</tr>
<tr>
<td>Dividends declared (Note 16)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(39,513,258)</td>
<td>(39,513,258)</td>
</tr>
<tr>
<td>Share-based payments (Notes 15, 31)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>876,076</td>
<td>–</td>
<td>876,076</td>
</tr>
<tr>
<td>Transfer of rights to equity instruments for share based payments (Notes 15, 31)</td>
<td>–</td>
<td>11,308</td>
<td>432,534</td>
<td>(444,022)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance at 31 December 2020</td>
<td>1,020</td>
<td>87,390,921</td>
<td>(16,021,596)</td>
<td>2,055,322</td>
<td>109,463,257</td>
<td>182,888,924</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.
Notes to the consolidated financial statements
for the year ended 31 December 2020
(In thousands of Russian rubles)

1. Corporate Information

Closed Joint Stock Company Magnit (Magnit) was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company Magnit. There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal name to Public Joint Stock Company (the Company or PJSC Magnit) in accordance with changes in legislation.

PJSC Magnit and its subsidiaries (the “Group”) operate in the retail and distribution of consumer goods under the Magnit name. The Group’s retail operations are operated through convenience stores, cosmetic stores, supermarkets and other.

All of the Group’s operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya Str., 350072, Krasnodar, the Russian Federation.

The principal activities of the Group’s subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name | Principal activity | Ownership interest as at 31 December 2020 | Ownership interest as at 31 December 2019
--- | --- | --- | ---
JSC Tander | Food retail and wholesale | 100% | 100%
LLC Retail Import | Import operations | 100% | 100%
LLC BestForm | Food retail in Moscow and the Moscow region | 100% | 100%
LLC MPK | Other activities | 100% | 100%
LLC Satsa | Transportation services for the Group | 100% | 100%
LLC TK Zelenaya Linia | Greenhouse complexes | 100% | 100%
LLC Tandem | Rent operations | 100% | 100%
LLC Allstore Trading | Other operations | 100% | 100%
LLC ITM | IT operations | 100% | 100%
LLC Logistiki Alternativa | Import operations | 100% | 100%
LLC Zvezda | Assets holder, vehicles maintenance services for the Group | 100% | 100%
LLC TS-holding | Production and processing of food for the Group | 100% | 100%
LLC MagnitEnergo | Buyer of electric power for the Group | 100% | 100%
LLC Management Company Industrial Park Krasnodar | Management of production assets | 100% | 100%
LLC Kuban Confectionery | Production of food for the Group | 100% | 100%
LLC Kuban Factory of Bakery Products | Production of food for the Group | 100% | 100%
LLC Volzhskaya Savest | Production of household chemicals for the Group | 100% | 100%
LLC Moroznye pripasy | Production of food for the Group | 100% | 100%
LLC Moskovna Donu | Production of agricultural products for the Group | 100% | 100%
LLC Magnit Pharma | Pharmaceutical license holder | 100% | 100%
LLC Magnit IT Lab | Innovative software product development | 100% | 100%
LLC TH SIA Group | Pharmaceutical wholesale | 100% | 100%
LLC MF-SIA | Management activities | 100% | 100%
JSC SIA International Ltd | Pharmaceutical wholesale | 100% | 100%
JSC RINN* | Production of medical devices | 100% | 100%
LLC MC SIA Group | Management activities | 100% | 100%
JSC SIA International – Krasnodar* | Commission trade of medicines and medical products | 80% | 100%
JSC SIA International – Arkhangelsk* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Vladivostok* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Tarnovo* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Voronezh* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Bludenzburg* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Irkutsk* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Kazan* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Krasnoyarsk* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Novosibirsk* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Samara* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Yaroslavl* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Nizhniy Novgorod* | Commission trade of medicines and medical products | 100% | 100%
JSC SIA International – Khabarovsk | Commission trade of medicines and medical products | 100% | 100%
Stellary Cosmetic GmBH* | Holder of intangible assets | 100% | –

1 In 2020, the management of the Group decided to liquidate a number of the SIA group companies engaged in pharmaceutical wholesale and commission trade of medicines and medical products, production of medical devices and management activities. Liquidation of these companies did not have a significant impact on the consolidated financial statements of the Group and its operations.
2 During the 2020 year, the Group acquired 100% of Stellary Cosmetic GmBH equity shares. This change did not have any material effect on the Group’s consolidated financial statements and its operations.

2020 204 205
Notes to the consolidated financial statements for the year ended 31 December 2020 (In thousands of Russian rubles) (continued)

2. Basis of preparation

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of accounting
The Group’s entities maintain their accounting records in Russian rubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand, except where otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS.

Functional currency
The Russian rouble is the functional currency of all the companies within the Group and the currency in which these consolidated financial statements are presented.

Going concern
In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2022, taking into account Russia’s current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones.

Management considers that operating cash flows and the available sources of credit are sufficient to meet the Group’s liabilities during the next year. Thus, these consolidated financial statements have been prepared on a going concern basis.

3. Summary of significant accounting policies

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is entitled to, or is exposed to a variable return from its involvement with the investee; and the Group’s voting rights and potential voting rights.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation if the Group loses control over a subsidiary.

It derecognizes the respective assets (including goodwill), liabilities, non-controlling interests, and other components of equity, and recognizes any resultant gain or loss in profit or loss. Any investment retained is recognized at fair value.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs are expensed and included in administrative expenses as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts held by the acquiree.

If the business combination is achieved in stages the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with changes in fair value recognized in the statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Current versus non-current classification of assets and liabilities

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

— expected to be realised or intended to be sold or consumed in normal operating cycle;
— held primarily for the purpose of trading;
— expected to be realised within twelve months after the reporting period or
— cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

— it is expected to be settled in normal operating cycle;
— it is held primarily for the purpose of trading;
— it is due to be settled within twelve months after the reporting period or
— there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

— in the principal market for the asset or liability; or
— in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair-value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

— Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
— Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
— Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Revenue from contracts with customers

The Group is engaged in both retail and wholesale activities; goods are sold through a network of own stores and distribution centers. Revenue is recognized when control of the goods passes to the customer, i.e., sales to retail customers are recognized at the point of sale in stores and to wholesale customers — at the point of sale in distribution centers or stores, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is reduced by the expected amount of returns to which customers are entitled under Russian law within 14 days of the purchase except for certain categories of goods. The Group uses historical data on the term and frequency of returns from customers to estimate and recognize provisions for such returns at the time of sale. Because the level of returns has been steady for several years, it is highly probable that no significant changes in cumulative revenue recognized will occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Customer loyalty program

For the purpose of promoting sales and building customer loyalty, the Group establishes promotion programs to allow customers to accumulate loyalty points and exchange them for a discount on goods of the main assortment or for goods specially purchased for promotions.

The loyalty program gives rise to a separate performance obligation because it provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty points awarded to the customer based on their relative stand-alone selling price and recognizes that portion as a contract liability until the points are redeemed by the customer. Revenue is recognized when the customer redeems their loyalty points against goods. The relative stand-alone selling price of the loyalty points is estimated based on the probability that the customer will redeem their points. The Group updates its estimate of the number of loyalty points that will be redeemed regularly, and the adjusted balance of contract liabilities is charged against revenue.

Expenses related to loyalty programs in respect for goods purchased for the purpose of promotion and not sold in the retail chain, are recognized in selling expenses and classified as advertising expenses.

Revenue from advertising services and packaging materials

Revenue from advertising services and packaging materials is recognized in the reporting period when the services are provided.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

The Group classifies such revenue within other income and recognizes it over the period, during which a customer receives the services and obtains benefit from them at the same point of time. The Group recognizes revenue in proportion to the services received out of total services per contract.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing major parts or components of the property, plant and equipment and borrowing costs for long-term construction projects given the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at certain intervals, the Group depreciates them separately based on their specific useful lives.

Historical cost information was not available in relation to buildings purchased prior to transition to IFRS (1 January 2004). Therefore, management used valuations performed by independent professional appraisers to establish the fair value as at the date of transition to IFRS and used that value as the deemed cost at that date.

Cost includes major expenditure for improvements which extend the useful lives of the assets or increase their revenue-generating capacity. Repairs and maintenance are charged to the consolidated statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern on a prospective basis.

The estimated useful economic lives of the related assets are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful life in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>10-50</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1-10</td>
</tr>
<tr>
<td>Other fixed assets</td>
<td>1-30</td>
</tr>
</tbody>
</table>

Other fixed assets consist of vehicles and other miscellaneous groups of fixed assets. Depreciation of vehicles is included in selling expenses.

Construction in progress comprises costs directly related to the construction of property, plant and equipment, including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income.

3. Summary of significant accounting policies (continued)

Government grants

A government grant is recognized when there is reasonable assurance that the entity will comply with the conditions attached to it, and that the grant will be received.

Government grants provided to finance specific expenses are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Grants provided to finance an asset are recognized in profit or loss on a straight-line basis over the expected useful life of that asset.

The benefit of a government loan at a below-market interest rate is treated as a government grant. The loan is recognized at fair value. The benefit of a below-market interest rate is measured as the difference between the fair value of the loan and cash received.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized software development costs, as well as websites and electronic applications that meet the criteria for recognition, are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The following useful lives are used in the calculation of amortization:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful life in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenses</td>
<td>1-25</td>
</tr>
<tr>
<td>Software</td>
<td>1-25</td>
</tr>
<tr>
<td>Trademarks</td>
<td>1-10</td>
</tr>
<tr>
<td>Other</td>
<td>1-7</td>
</tr>
</tbody>
</table>

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

Leases
Group as a lessee
The Group’s leases mainly include lease agreements for land and retail store premises.

The Group has applied a uniform recognition and measurement approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities in relation to its obligation to make lease payments and right-of-use assets representing the right to use the underlying assets.

Belows is a summary of the Group’s accounting policies for lease:

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group uses the following useful lives:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful Life (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>3-4</td>
</tr>
<tr>
<td>Land</td>
<td>1-65</td>
</tr>
</tbody>
</table>

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-of-use assets capitalized to the carrying value of assets under construction during the construction and redesign period necessary to bring the property into a condition suitable for use in accordance with the objectives of the Group. Right-of-use assets are tested for impairment.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accrual of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue from lease or sub-lease in the consolidated statement of comprehensive income.

Impairment of non-current assets
At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

The following asset has specific characteristics for impairment testing:

Goodwill
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventory
Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation, handling costs and is decreased by the amount of rebates and promotional bonuses received from suppliers, related to these goods. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.
Notes to the consolidated financial statements
for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Vendor allowances
The Group receives various types of allowances from vendors in the form of volume discounts (rebates) and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold.

Income taxes
Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian tax legislation.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in the consolidated statement of comprehensive income, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

Retirement benefit costs
The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

At the reporting date the Group did not have any pension plans accounted for in accordance with IAS 19 Employee Benefits.

Segment reporting
The Group’s business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group’s chief operating decision maker reviews the Group’s operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, supermarkets and others, and determined that the stores have similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Seasonality
The Group’s business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of that asset, other borrowing costs are recognized in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset (until the qualifying asset is put into operation).
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

Contract balances with customers

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade and other receivables
A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees receive equity instruments as consideration for rendered services (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service conditions and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions.

Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided that the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity, any remaining element of the fair value of the award is expensed immediately through profit or loss.

For the measurement of the fair value of equity-settled transactions with employees, the Group uses a Monte-Carlo simulation model for the Share Option Plan.

Financial assets

Initial measurement
At initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVPL).

With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair-value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

The Group only measures loans given and receivables at amortised cost if both of the following conditions are met:
— the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment
At the first stage the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
— how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
— the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
— how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
— the expected frequency, value and timing of sales are also important aspects of the Group’s assessment.
3. Summary of significant accounting policies (continued)

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group’s original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The solely payment of principal and interest test (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For all financial instruments measured at amortised cost and debt financial assets, interest income is recorded using the effective interest rate method. Interest income is recognized in the consolidated statement of comprehensive income.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an original effective interest rate or approximation value. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For financial exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a lifetime ECLs).

The expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the expected cash flows that the Group expects to receive, discounted at an original effective interest rate or approximation value. The expected cash flows are calculated using the following formula:

\[ \text{Expected Credit Loss} = \left( \frac{\text{Contractual Cash Flows}}{\text{Discount Rate}} - \frac{\text{Expected Cash Flows}}{\text{Discount Rate}} \right) \times \text{Probability of Default} \]

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group no longer calculates forward-looking factors specific to the debtors and the economic environment.

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group no longer calculates forward-looking factors specific to the debtors and the economic environment.

The Group’s cash and cash equivalents have been assigned low credit risk based on the external credit ratings of major banks and financial institutions.

Derecognition of financial assets and liabilities

A financial asset is removed from the consolidated statement of financial position when:

– contractual rights to cash flows from this financial asset expire;
– the Group transfers the financial asset (substantially all the risks and rewards of ownership of the financial asset); or
– (a) transfers contractual rights to receive cash flows from the financial asset or (b) reserves contractual rights to receive cash flows from the financial asset while assuming contractual obligations to repay these cash flows to one or several beneficiaries under the contract.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. When substantially all the risks and rewards are transferred, the Group derecognizes the financial asset.

When the Group has not transferred all the risks and rewards and retained control over such financial asset, the financial asset continues to be recognized to the extent of the Group’s continuing involvement in such asset.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments (treasury shares) are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. On disposal the cost of treasury shares is written off using weighted average method. Treasury shares may be purchased and held by the Company or other subsidiaries of the Group. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

The Group may use treasury shares to settle share-based payments during the period.

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Share premium also includes a difference between the carrying amount of treasury shares and fair value of consideration transferred in business combination.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group’s shares outstanding during the 12 months ended 31 December 2020 and 2019.

Diluted earnings per share have been determined using the weighted average number of the Group’s shares outstanding during the 12 months ended 31 December 2020 and 2019 increased by the expected number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

Derecognition of financial liabilities
The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Offsetting of financial instruments
Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. The right to offset should not be caused by a future event and should be legally enforceable in all the following cases:
— operating activity;
— default;
— insolvency or bankruptcy of the Group or any of counterparties.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

4. Summary of changes in accounting policies and disclosures

4.1 Changes in accounting policies and disclosures
During the preparation of the consolidated financial statements for 2020, the Group decided to change its accounting policies as regards accounting for the effect from Covid-19 related rent concessions.

In its consolidated financial statements for 2020, the Group applied an exemption from the requirements of IFRS 16 concerning lease modification accounting for rent concessions arising as a direct consequence of Covid-19. The Group applied the practical expedient and did not analyze whether its rent concessions were lease modifications. The approach to amendments to IFRS 16 Covid-19 Related Rent Concessions disclosed in Note 4.3. The amendment was applied retrospectively.

During the preparation of the interim condensed consolidated financial statements for the six months of 2020, the Group did not apply the practical expedient and accounted for changes in lease payments as lease modifications.

The table below shows the effect of applying the new approach on information included in the Group’s interim condensed consolidated financial statements for the six months ended 30 June 2020.

Impact on the interim condensed consolidated statement of financial position as at 30 June 2020 (increase/(decrease) per line item):

<table>
<thead>
<tr>
<th>30 June 2020</th>
<th>Effect of restatement</th>
<th>30 June 2020 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>306,122,243</td>
<td>(1,004,158)</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>680,089,706</td>
<td>(1,004,158)</td>
</tr>
<tr>
<td>Total assets</td>
<td>936,276,458</td>
<td>(1,004,158)</td>
</tr>
<tr>
<td>Equity and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>114,334,304</td>
<td>728,562</td>
</tr>
<tr>
<td>Total equity</td>
<td>187,301,865</td>
<td>728,562</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term lease liabilities</td>
<td>315,005,878</td>
<td>(1,515,608)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>14,109,880</td>
<td>182,141</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>449,589,875</td>
<td>(1,333,467)</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term lease liabilities</td>
<td>38,301,842</td>
<td>(399,253)</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>299,384,718</td>
<td>(399,253)</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>936,276,458</td>
<td>(1,004,158)</td>
</tr>
</tbody>
</table>

Impact on the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 (increase/(decrease) in income and decrease/(increase) in expenses):

<table>
<thead>
<tr>
<th>For the six months ended 30 June 2020 as previously reported</th>
<th>Effect of restatement</th>
<th>For the six months ended 30 June 2020 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and administrative expenses</td>
<td>(319,032,804)</td>
<td>15,825</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(23,665,342)</td>
<td>(58,918)</td>
</tr>
<tr>
<td>Other income</td>
<td>6,767,975</td>
<td>953,796</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>17,947,775</td>
<td>900,703</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(4,176,629)</td>
<td>(182,141)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>13,771,146</td>
<td>728,562</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax</td>
<td>13,771,146</td>
<td>728,562</td>
</tr>
</tbody>
</table>

Basic and diluted earnings per share for the year attributable to the shareholders of the parent: 141.11 7.47 148.58
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

Impact on the interim condensed consolidated statement of cash flows for the six months ended 30 June 2020:

The Group changed the presentation of certain items of the consolidated statement of cash flows for the year ended 31 December 2020. The comparative amounts for the year ended 31 December 2019 have been aligned with the newly adopted format. The Group made the following changes with respect to comparative data:

- Depreciation and impairment of property, plant and equipment and right-of-use assets
- Gain from Covid-19 related concessions
- Finance costs
- Adjustments for: Gain on Covid-19 related concessions
- Net cash used in operating activities
- Net cash used in investing activities
- Net cash used in financing activities

The table below shows the effect of changes on the consolidated statement of cash flows for the year ended 31 December 2019:

<table>
<thead>
<tr>
<th>Payment/Reclassification</th>
<th>2019 as previously reported</th>
<th>Effect of reclassification</th>
<th>2019 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>88,228,480</td>
<td>(614,318)</td>
<td>87,614,162</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(56,322,981)</td>
<td>614,318</td>
<td>55,708,663</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(56,322,981)</td>
<td>614,318</td>
<td>55,708,663</td>
</tr>
</tbody>
</table>

4.3 New and amended standards and interpretations

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clariﬁes that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, signiﬁcantly contribute to the ability to create output. Furthermore, it clariﬁes that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 7, IFRS 9 and IAS 39: Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 2 and IAS 8: Definition of Material

The amendments provide a new deﬁnition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose ﬁnancial statements make on the basis of those ﬁnancial statements, which provide ﬁnancial information about a speciﬁc reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group, nor is there expected to be any future impact.

4.2 Reclassification in the consolidated statement of cash flows

The Group changed the presentation of certain items of the consolidated statement of cash flows for the year ended 31 December 2020. The comparative amounts for the year ended 31 December 2019 have been aligned with the newly adopted format of presenting the information. The Group made the following changes with respect to comparative data:

- provision for inventory in the amount of RUB 358,375 thousand was reclassified to line “Expenses on inventories recorded at net realizable value” from “Increase in inventories”.
- government grants received to purchase property, plant and equipment in the amount of RUB 614,318 thousand were reclassified from cash flows from operating activities to cash flows from investing activities.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards to help preparers develop consistent accounting policies where there is no applicable standard in place, and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework.

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions
On 28 May 2020, the IASB issued Covid-19 Related Rent Concessions – amendment to IFRS 16. Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Group has used the right to the exemption from the requirements of IFRS 16 in accounting for lease modifications. The decrease in lease payments resulting from Covid-19 related rent concessions was recorded as a decrease in the lease liability in the consolidated statement of financial position and as an increase in other income in the consolidated statement of comprehensive income. The decrease in the lease liability was determined as the difference between its carrying amount immediately prior to the rent concessions and the present value of future lease payments, with concessions included, discounted using the original discount rate.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

— A specific adaptation for contracts with direct participation features (the variable fee approach);
— A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 2 – Classification of Liabilities as Current or Non-current
In January 2021, the IASB issued amendments to paragraphs 69 to 76 of IAS 2 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

— what is meant by a right to defer settlement;
— that a right to defer must exist at the end of the reporting period;
— that classification is unaffected by the likelihood that an entity will exercise its deferral right;
— that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact which the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before intended Use
In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS.

This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the 10 per cent test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have any impact on the consolidated financial statements of the Group.

IAS 41 Agriculture – Taxation in fair value measurements
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
In February 2021 the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
In February 2021 the IASB issued amendments to IAS 8. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

5. Significant accounting judgements and estimates

In the application of the Group’s accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

Lease term contracts with a renewal option
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Under some of its leases, the Group has the option to lease the assets for an additional term, generally of one to ten years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Valuation of inventory
Management reviews inventory balances to determine if the inventories can be sold at a price equal to or greater than their carrying amount plus costs to sell. The review also identifies slow-moving inventories that are written-off if obsolete or during physical inventory counts.

Impairment of non-current assets
The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Management necessarily applies judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use, future cash flows are estimated for each store based on cash flow projections using the latest forecast information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and future return on sales. Due to their subjective nature, these estimates will likely differ from actual future results of operations and cash flows and, it is possible that these differences could be material.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

5. Significant accounting judgements and estimates (continued)

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair-value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Useful lives of property, plant and equipment and intangible assets
The Group’s property, plant and equipment and intangible assets are depreciated using the straight-line method over their estimated useful lives, which are determined based on the Group’s management’s business plans and estimates related to those assets.

The Group’s leasehold improvements in convenience stores used under leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of lease agreements assuming leases will be renewed.

The Group’s management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefits to the Group, historical information on similar assets and industry tendencies and changes in the Group’s development strategy.

Taxation
The Group is subject to income tax and other taxes. Significant judgement is required in determining the liability for income tax and other taxes due to the complexity of the Russian tax legislation. There are many transactions and calculations for which the ultimate tax position determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

Expected credit losses (hereinafter “ECLs”) for trade and other receivables and contract assets
The Group uses a provision matrix to calculate ECLs for long-term, trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the food manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Assessment of the correlation between historical observable default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Group’s credit loss experience and forecast economic conditions are not necessarily indicative of the customer’s actual default in the future.

Incremental borrowing rate
The Group determines lease liabilities by discounting lease payments and applying interest rate implicit in lease contracts. If the rate cannot be readily determined, the Group applies its incremental borrowing rate, adjusted to take into account the specific terms and conditions of a lease and to reflect the interest rate that the Group would pay to borrow:

— over a similar term to the lease term;
— the amount needed to obtain an asset of a similar value to the right-of-use asset; and
— in a similar economic environment.

6. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business.

The Group purchases materials from related parties, receives loans, places deposits, receives rental income.

Related parties of the Group are represented by the shareholders that have significant influence over the Group, and companies, which are the members of the same Group with shareholders (other related parties).

Bank VTB PJSC and VTB Capital ISC represent the related parties being shareholders of the Group and having significant influence over the Group.

Transactions with related parties can be carried out on terms different to transactions with third parties.

Related parties’ balances as at 31 December 2020 and 31 December 2019 are presented as follows:

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Other related parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2020</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>Loans received (Note 20)</td>
<td>33,200,000</td>
</tr>
<tr>
<td>Tax and utilities income</td>
<td>23,998</td>
</tr>
<tr>
<td>Other receivables (Note 12)</td>
<td>3,114</td>
</tr>
<tr>
<td>Advances received</td>
<td>3,585</td>
</tr>
<tr>
<td>Other payables (Note 17)</td>
<td>19,502</td>
</tr>
<tr>
<td>—</td>
<td>165,670</td>
</tr>
<tr>
<td>—</td>
<td>58</td>
</tr>
<tr>
<td>—</td>
<td>33,200,000</td>
</tr>
<tr>
<td>—</td>
<td>19,502</td>
</tr>
<tr>
<td>—</td>
<td>165,670</td>
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<td>58</td>
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<td>—</td>
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<td>165,670</td>
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<td>165,670</td>
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<td>58</td>
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<tr>
<td>—</td>
<td>19,502</td>
</tr>
<tr>
<td>—</td>
<td>165,670</td>
</tr>
<tr>
<td>—</td>
<td>58</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

6. Balances and transactions with related parties (continued)

No significant expense has been recognized in the period for expected credit losses on amounts due from related parties.

Short-term remuneration of the key management and members of the Board of Directors of the Group for 2020 amounted to RUB 1,733,030 thousand (2019: RUB 2,067,900 thousand). Payments to the Group’s management include remuneration under employment contracts, social contributions and payments to members of the Board of Directors of the Group. The Group also accrued share-based payments to its key management personnel for 2020, information on these accruals is disclosed in the Note 31.

In 2020, the Group also accrued remuneration for expected performance under share-based payment agreements amounting to RUB 1,733,030 thousand (2019: RUB 2,067,900 thousand). Information on these accruals is disclosed in Note 31.

7. Property, plant and equipment

Property, plant and equipment as at 31 December 2020 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings</th>
<th>Machinery and equipment</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2020</td>
<td>14,013,576</td>
<td>327,078,060</td>
<td>131,244,831</td>
<td>17,798,499</td>
<td>12,064,892</td>
<td>352,985,987</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>12,840,781</td>
<td>1,434,948</td>
<td>13,962,898</td>
<td>28,266,537</td>
<td>–</td>
</tr>
<tr>
<td>Transfers</td>
<td>14,065,156</td>
<td>–</td>
<td>–</td>
<td>(24,965,356)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>(1,592)</td>
<td>(3,817,351)</td>
<td>(1,579,170)</td>
<td>(7,227,977)</td>
<td>(151,982)</td>
<td>(15,192,054)</td>
</tr>
<tr>
<td>At 31 December 2020</td>
<td>14,004,986</td>
<td>338,225,881</td>
<td>140,107,452</td>
<td>13,893,127</td>
<td>10,222,866</td>
<td>336,513,344</td>
</tr>
</tbody>
</table>

Impairment of non-current assets, except for goodwill

Based on observed external evidence of impairment of non-current assets, except for goodwill, as at 31 December 2020, the Group made a conclusion on the unfavourable market and economic conditions in the market where the Group operated.

The Group performed the impairment test of non-current assets, including property, plant and equipment, right-of-use assets and intangible assets, to assess whether there are indicators of possible impairment. Based on the impairment testing, the Group recognized impairment losses in the consolidated statement of comprehensive income of RUB 2,160,293 thousand for the tested assets, including impairment of property, plant and equipment in the amount of RUB 1,328,814 thousand, and right-of-use assets in the amount of RUB 831,479 thousand the amount of reversals of impairment losses of property, plant and equipment amounted to RUB 300,218 thousand right-of-use assets – RUB 303,769 thousand (as for 2019 year the Group recognized impairment losses RUB 1,458,360 thousand, including impairment of property, plant and equipment in the amount of RUB 1,038,962 thousand, right-of-use assets – RUB 419,399 thousand).

In addition, the Group recognized losses from impairment of property, plant and equipment in the consolidated statement of comprehensive income in the amount of RUB 812,743 thousand for items of property, plant and equipment for which completion of construction is not expected (In addition for 2019 year the Group recognized losses from impairment of property, plant and equipment resulting from a fire at the Group’s distribution center in Voronezh and agricultural assets in the amount of RUB 1,318,134 thousand).
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

7. Property, plant and equipment (continued)

Group approach for impairment testing
The evaluation was performed at the lowest level of aggregation of assets that is able to generate independent cash inflows (CGU), which is generally at the individual store level.

In determining units that generate substantially independent cash inflows management of the Group considered a number of factors, including how it controls performance of CGUs, how it makes decisions about liquidation of assets or continuance of CGUs operations.

The Group compared recoverable amount of an individual CGU with its carrying amount for the purpose of impairment test. The recoverable amount is measured as higher of its fair value less costs of disposal and its value in use. From practical point of view, the Group does not disclose impairment by individual CGU due to significant volume of information.

Main assumptions
Future cash flows are based on the current budgets and forecasts for 5 years period approved by the management along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period. One the main assumption applied in the model of expected cash flows is increase of revenue by 4.2% (mainly driven by CPI) (2019: 3.7%).

Cash flow forecasts for capital expenditure are based on past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position.

Pre-tax discount rate represents the Group’s pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets and is equal to 12.81%.

The Group’s management believes that all of its estimates are reasonable and consistent with how the Group manages its assets and operations and reflect management’s best knowledge.

Sensitivity analysis
The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% higher than management’s estimates, the impairment of non-current assets would increase by RUB 195,633 thousand. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% lower than management’s estimates, the impairment of non-current assets would increase by RUB 319,240 thousand.

8. Lease

Group as a lessee
Right-of-use assets and lease liabilities
As at 31 December 2020, right-of-use assets consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Buildings</th>
<th>Land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>481,831,850</td>
<td>5,872,964</td>
<td>487,704,814</td>
</tr>
<tr>
<td>Additions</td>
<td>36,623,382</td>
<td>100,272</td>
<td>36,723,654</td>
</tr>
<tr>
<td>Modification</td>
<td>10,554,431</td>
<td>(148,910)</td>
<td>10,405,521</td>
</tr>
<tr>
<td>Indexation</td>
<td>1,373,791</td>
<td>17,664</td>
<td>1,391,455</td>
</tr>
<tr>
<td>Derecognition</td>
<td>(14,220,097)</td>
<td>(970,024)</td>
<td>(15,190,361)</td>
</tr>
<tr>
<td>As at 31 December 2020</td>
<td>516,163,117</td>
<td>4,871,966</td>
<td>521,035,083</td>
</tr>
</tbody>
</table>

Accumulated depreciation and impairment

<table>
<thead>
<tr>
<th></th>
<th>Buildings</th>
<th>Land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2020</td>
<td>(173,221,062)</td>
<td>(916,620)</td>
<td>(174,138,602)</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>(44,312,848)</td>
<td></td>
<td>(44,951,888)</td>
</tr>
<tr>
<td>Impairment for the year (Note 7)</td>
<td>(831,479)</td>
<td></td>
<td>(831,479)</td>
</tr>
<tr>
<td>Reversal of impairment losses (Note 7)</td>
<td>303,769</td>
<td></td>
<td>303,769</td>
</tr>
<tr>
<td>Derecognition</td>
<td>5,844,218</td>
<td>195,494</td>
<td>6,039,712</td>
</tr>
<tr>
<td>As at 31 December 2020</td>
<td>(211,716,722)</td>
<td>(873,666)</td>
<td>(212,590,388)</td>
</tr>
</tbody>
</table>

Net book value

<table>
<thead>
<tr>
<th></th>
<th>As at 1 January 2020</th>
<th>308,609,868</th>
<th>4,956,344</th>
<th>313,566,212</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As at 31 December 2020</td>
<td>304,446,395</td>
<td>3,998,300</td>
<td>308,444,695</td>
</tr>
</tbody>
</table>

In 2020 depreciation of a right-of-use assets in the amount of RUB 264,355 thousand was capitalized to the value of property, plant and equipment.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

B. Lease (continued)

As at 31 December 2019, right-of-use assets consisted of the following:

<table>
<thead>
<tr>
<th>Buildings</th>
<th>Land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2019</td>
<td>481,831,850</td>
<td>5,872,964</td>
</tr>
<tr>
<td>Additions</td>
<td>54,440,799</td>
<td>67,007</td>
</tr>
<tr>
<td>Modification</td>
<td>20,204,993</td>
<td>385,156</td>
</tr>
<tr>
<td>Indexation</td>
<td>2,570,743</td>
<td>19,765</td>
</tr>
<tr>
<td>Derecognition</td>
<td>(13,776,530)</td>
<td>(318,844)</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>481,831,850</td>
<td>5,872,964</td>
</tr>
</tbody>
</table>

Accumulated depreciation and impairment

<table>
<thead>
<tr>
<th>Buildings</th>
<th>Land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2019</td>
<td>(137,065,442)</td>
<td>(763,586)</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>(41,740,978)</td>
<td>(224,692)</td>
</tr>
<tr>
<td>Impairment for the year (Note 7)</td>
<td>(439,399)</td>
<td>–</td>
</tr>
<tr>
<td>Derecognition</td>
<td>6,038,387</td>
<td>71,467</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>(173,221,982)</td>
<td>(916,620)</td>
</tr>
</tbody>
</table>

Net book value

<table>
<thead>
<tr>
<th>Buildings</th>
<th>Land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2019</td>
<td>281,326,403</td>
<td>4,851,289</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>308,609,868</td>
<td>4,956,344</td>
</tr>
</tbody>
</table>

In 2019 depreciation of a right-of-use assets in the amount of RUB 724,932 thousand were capitalized to the value of property, plant and equipment.

Lease liabilities

Set out below are the carrying amounts of Group’s lease liabilities and their movements during the period:

<table>
<thead>
<tr>
<th>Year of maturity</th>
<th>Weighted average effective interest rate, %</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term liabilities</td>
<td>2021</td>
<td>8.47</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2022-2069</td>
<td>8.37</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lease liabilities related to short-term lease (including in “General and administrative expenses”)

<table>
<thead>
<tr>
<th>Year of maturity</th>
<th>Weighted average effective interest rate, %</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term liabilities</td>
<td>2020</td>
<td>9.08</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2021-2069</td>
<td>8.94</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lease liabilities related to short-term lease were capitalized to the value of property, plant and equipment.

Set out below are the amounts recognized in the consolidated statement of comprehensive income ((income)/expenses):

<table>
<thead>
<tr>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and impairment of right-of-use assets</td>
<td>44,277,343</td>
</tr>
<tr>
<td>Interest expenses on the lease</td>
<td>50,771,302</td>
</tr>
<tr>
<td>Foreign exchange loss/(gain)</td>
<td>145,289</td>
</tr>
<tr>
<td>Gain from cancellation of lease contracts</td>
<td>(1,697,459)</td>
</tr>
<tr>
<td>Gain from Covid-19 related rent concessions</td>
<td>(1,481,968)</td>
</tr>
<tr>
<td>Lease expenses related to short-term lease (including in “General and administrative expenses”)</td>
<td>267,715</td>
</tr>
<tr>
<td>Lease expenses related to lease of low-value assets (including in “General and administrative expenses”)</td>
<td>(1,687,459)</td>
</tr>
<tr>
<td>Lease expenses related to lease of low-value assets (including in “General and administrative expenses”)</td>
<td>(1,687,459)</td>
</tr>
<tr>
<td>Lease expenses related to lease of low-value assets (including in “General and administrative expenses”)</td>
<td>(1,687,459)</td>
</tr>
<tr>
<td>Variable lease payments (including in “General and administrative expenses”)</td>
<td>6,038,387</td>
</tr>
<tr>
<td>At 31 December 2020</td>
<td>357,573,958</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

9. Intangible assets

As at 31 December 2020, intangible assets consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Licenses</th>
<th>Software</th>
<th>Trademarks</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2020</td>
<td>503,881</td>
<td>4,622,012</td>
<td>32,592</td>
<td>99,373</td>
<td>5,257,858</td>
</tr>
<tr>
<td>Additions</td>
<td>301,620</td>
<td>3,681,127</td>
<td>34,180</td>
<td>99,345</td>
<td>7,296,272</td>
</tr>
<tr>
<td>Accumulated amortisation and impairment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2020</td>
<td>(160,946)</td>
<td>(1,125,834)</td>
<td>(9,190)</td>
<td>(47,211)</td>
<td>(1,343,181)</td>
</tr>
<tr>
<td>Amortisation for the year</td>
<td>(235,281)</td>
<td>(1,427,274)</td>
<td>(3,587)</td>
<td>(93,851)</td>
<td>(1,793,087)</td>
</tr>
<tr>
<td>Disposals</td>
<td>268,921</td>
<td>952,487</td>
<td>18</td>
<td>35,528</td>
<td>1,256,954</td>
</tr>
<tr>
<td>Net book value</td>
<td>342,935</td>
<td>3,496,178</td>
<td>23,402</td>
<td>52,162</td>
<td>3,914,677</td>
</tr>
</tbody>
</table>

As at 31 December 2019, intangible assets consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Licenses</th>
<th>Software</th>
<th>Trademarks</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2019</td>
<td>282,546</td>
<td>2,635,596</td>
<td>31,721</td>
<td>122,017</td>
<td>3,072,880</td>
</tr>
<tr>
<td>Additions</td>
<td>300,305</td>
<td>2,890,995</td>
<td>871</td>
<td>45,110</td>
<td>3,237,281</td>
</tr>
<tr>
<td>Accumulated amortisation and impairment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2019</td>
<td>(138,561)</td>
<td>(1,197,228)</td>
<td>(5,938)</td>
<td>(54,004)</td>
<td>(1,395,731)</td>
</tr>
<tr>
<td>Amortisation for the year</td>
<td>(88,854)</td>
<td>(925,120)</td>
<td>(3,252)</td>
<td>(59,363)</td>
<td>(1,095,797)</td>
</tr>
<tr>
<td>Disposals</td>
<td>66,469</td>
<td>896,514</td>
<td>–</td>
<td>66,156</td>
<td>999,209</td>
</tr>
<tr>
<td>Net book value</td>
<td>143,985</td>
<td>1,439,368</td>
<td>25,783</td>
<td>68,013</td>
<td>1,677,449</td>
</tr>
</tbody>
</table>

Amortization expense is included in general and administrative expenses (Note 26). The information about impairment test performed is disclosed in Note 7.

10. Goodwill

Goodwill as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill as at 1 January</td>
<td>26,879,317</td>
<td>26,879,317</td>
</tr>
<tr>
<td>Goodwill as at 31 December</td>
<td>26,879,317</td>
<td>26,879,317</td>
</tr>
</tbody>
</table>

Carrying amount of goodwill allocated to each of the cash generated units:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2020</th>
<th>As at 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores Magnit Cosmetic and Magnit Pharmacy formats</td>
<td>25,131,245</td>
<td>25,131,245</td>
</tr>
<tr>
<td>Manufacturing company TD Holding LLC</td>
<td>1,747,072</td>
<td>1,747,072</td>
</tr>
<tr>
<td>Total</td>
<td>26,879,317</td>
<td>26,879,317</td>
</tr>
</tbody>
</table>

Stores Magnit Cosmetic and Magnit Pharmacy formats CGU

At the year end the Group performed an annual impairment test of goodwill related to the acquisition of SIA Group. In assessing whether the goodwill has been impaired, the carrying value of CGU, comprising Magnit Cosmetic and Magnit Pharmacy formats, to which the goodwill had been allocated in full was compared with its estimated value in use.

Future cash flows were determined based on the forecast of free cash flows for five years subject to the effect of their terminal value.

The pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 12.81%.

As a result of the analysis no impairment was identified for this CGU.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of the value in use is most sensitive to the following assumptions:

- gross margin;
- discount rate;
- revenue growth.

Gross margin

The gross margin included in the forecast of Group’s activities in the Magnit Cosmetic and Magnit Pharmacy formats is in accordance with the approved strategic development plan and expected increased volume of sales. A decrease in consumer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected operating cash flows but would not cause an impairment loss.

Discount rate

An increase in the pre-tax discount rate by i.e. + 0.5%, to 13.31%, would reduce the expected discounted cash flows but would not cause an impairment loss.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

10. Goodwill (continued)

Revenue growth
Revenue growth for the forecast period being in the range from 2.2% to 10.7% (2019 – 11.1% to 28%). The forecast is based on Group’s activities in the Magnit Cosmetic and Magnit Pharmacy formats. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 4% (2019: 2.8-3.2%). The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management’s best knowledge.

A decrease in customer demand may lead to decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

Manufactory company TD-holding LLC
The Group performed its annual impairment test of goodwill related to the acquisition of TD-holding LLC as of 31 December 2020. In assessing whether the goodwill has been impaired, the carrying value of cash generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for five years plus terminal value, approved by the management of the Group, taking into account inflation 4% (2019: 3.3%), demand for goods produced by TDholding LLC, as well as other macroeconomic assumptions. Pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 12.81%.

The impairment test did not reveal any impairment of goodwill.

The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management’s best knowledge.

11. Inventory

Inventory as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods for resale</td>
<td>124,944,876</td>
<td>208,653,823</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>11,004,518</td>
<td>10,229,763</td>
</tr>
<tr>
<td></td>
<td><strong>205,949,194</strong></td>
<td><strong>218,873,586</strong></td>
</tr>
</tbody>
</table>

Materials and supplies are represented by spare parts, packaging materials and other materials used in supermarkets, stores and warehouses, as well as semi-finished goods of own production.

During 2020 year the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within “Cost of goods sold” in the consolidated statement of comprehensive income in the amount of RUB 587,352 thousand (2019: RUB 556,875 thousand).

12. Trade and other receivables

Trade and other receivables as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other receivables – third parties</td>
<td>5,224,120</td>
<td>6,272,129</td>
</tr>
<tr>
<td>Trade receivables – third parties</td>
<td>4,848,309</td>
<td>8,782,045</td>
</tr>
<tr>
<td>Other receivables – related parties (Note 6)</td>
<td>5,661</td>
<td>1,834</td>
</tr>
<tr>
<td>Expected credit losses</td>
<td>(1,514,488)</td>
<td>(1,062,568)</td>
</tr>
<tr>
<td></td>
<td><strong>8,563,822</strong></td>
<td><strong>13,993,440</strong></td>
</tr>
</tbody>
</table>

Other receivables mainly relate to vendor allowances.

Trade receivables are non-interest bearing and are generally repaid on a short-term basis within 90 days.

Trade receivables are mainly represented by accounts receivables from customers of the SIA Group.

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The ECLs calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

As at 31 December 2020 the Group made an analysis of pandemic Covid-19 influence on the ECLs and did not identify significant deterioration of credit quality of the Group’s main customers, so there was no need for the revision of the provision matrix for ECLs.

Set out below is the information about the expected credit losses on the Group’s trade and other receivables as at 31 December 2020:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Overdue &lt;90 days</th>
<th>Overdue 90-180 days</th>
<th>Overdue 180-360 days</th>
<th>Overdue &gt;360 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECL rate</td>
<td>0.3%</td>
<td>3.5%</td>
<td>10.20%</td>
<td>50%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Carrying amount before ECLs</td>
<td>3,910,007</td>
<td>4,488,359</td>
<td>255,166</td>
<td>1,640,015</td>
<td>1,078,013</td>
<td>10,078,330</td>
</tr>
<tr>
<td>ECLs</td>
<td>89,077</td>
<td>125,668</td>
<td>51,023</td>
<td>177,007</td>
<td>1,078,013</td>
<td>1,534,488</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

12. Trade and other receivables (continued)

Set out below is the information about the expected credit losses on the Group’s trade and other receivables as at 31 December 2019:

<table>
<thead>
<tr>
<th></th>
<th>Current &lt;90 days</th>
<th>Overdue 90-180 days</th>
<th>Overdue 180-360 days</th>
<th>Overdue &gt;360 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 ECL rate</td>
<td>0.1-1.5%</td>
<td>5.9%</td>
<td>10.20%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Carrying amount before ECLs</td>
<td>12,482,031</td>
<td>1,231,290</td>
<td>388,121</td>
<td>7,765,777</td>
<td>776,099</td>
</tr>
<tr>
<td>ECLs</td>
<td>25,024</td>
<td>37,136</td>
<td>33,620</td>
<td>161,289</td>
<td>776,099</td>
</tr>
</tbody>
</table>

Set out below is the movement in the allowance for expected credit losses:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January</td>
<td>(1,062,568)</td>
<td>(836,795)</td>
</tr>
<tr>
<td>Accrual of provision for expected credit losses</td>
<td>(668,262)</td>
<td>(505,958)</td>
</tr>
<tr>
<td>Release</td>
<td>288,142</td>
<td>100,038</td>
</tr>
<tr>
<td>As at 31 December</td>
<td>(1,344,848)</td>
<td>(1,062,568)</td>
</tr>
</tbody>
</table>

13. Advances paid

Advances paid as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances to third party suppliers</td>
<td>4,901,088</td>
<td>4,904,086</td>
</tr>
<tr>
<td>Advances for customs duties</td>
<td>627,703</td>
<td>751,666</td>
</tr>
<tr>
<td>Other advances</td>
<td>613,526</td>
<td>114,204</td>
</tr>
<tr>
<td>Total</td>
<td>5,581,366</td>
<td>5,769,958</td>
</tr>
</tbody>
</table>

14. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand, in RUB</td>
<td>2,080,093</td>
<td>2,262,150</td>
</tr>
<tr>
<td>Cash in banks, in RUB</td>
<td>9,348,609</td>
<td>452,565</td>
</tr>
<tr>
<td>Cash in banks, in foreign currency</td>
<td>935</td>
<td>5,456</td>
</tr>
<tr>
<td>Cash in transit, in RUB</td>
<td>1,599,303</td>
<td>4,981,127</td>
</tr>
<tr>
<td>Cash on accounts with minimum account balance, in RUB</td>
<td>22,510,641</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>44,699,581</td>
<td>8,901,298</td>
</tr>
</tbody>
</table>

Cash in transit represents cash collected by banks from the Group’s stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2020 and 2019.

As at 31 December 2020, cash of RUB 22,510,641 thousand was placed in rubles deposits, and cash of RUB 9,160,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2021. Interest accrued as at 31 December 2020 was immaterial.

As at 31 December 2019, cash of RUB 1,200,000 thousand was placed on accounts with minimum account balance maturing in January 2020. Interest accrued as at 31 December 2019 was immaterial.

15. Share capital, share premium and treasury shares

<table>
<thead>
<tr>
<th></th>
<th>2020 No. (‘000)</th>
<th>2019 No. (‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized share capital (ordinary shares with a par value of RUB 0.01)</td>
<td>200,850</td>
<td>200,850</td>
</tr>
<tr>
<td>Issued and fully paid share capital (par value of RUB 0.01 each)</td>
<td>101,911</td>
<td>101,911</td>
</tr>
<tr>
<td>Share premium at 1 January</td>
<td>87,379,413</td>
<td>87,257,340</td>
</tr>
<tr>
<td>Transfer of rights to equity instruments under share-based payments program (Note 32)</td>
<td>11,508</td>
<td>122,073</td>
</tr>
<tr>
<td>Share premium at 31 December</td>
<td>87,390,921</td>
<td>87,379,413</td>
</tr>
</tbody>
</table>
In 2020, the Group paid dividends of RUB 29,871,472 thousand (2019: RUB 29,993,007 thousand). Dividends payable as at 31 December 2020 were paid in January 2021.

17. Trade and other payables

Trade and other payables as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables to third parties</td>
<td>145,281,458</td>
<td>140,630,829</td>
</tr>
<tr>
<td>Other payables to third parties</td>
<td>15,604,583</td>
<td>20,905,617</td>
</tr>
<tr>
<td>Other payables to related parties (Note 6)</td>
<td>186,253</td>
<td>94,560</td>
</tr>
<tr>
<td></td>
<td>23,252,598</td>
<td>17,020,105</td>
</tr>
</tbody>
</table>

Average trade payables turnover was 43 days in 2020 and 45 days in 2019. Interest may be charged on the outstanding balance based on market rates in accordance with individual agreements with vendors, however no significant amounts of interest were charged to the Group during the reported year. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

Trade and other payables denominated in foreign currencies (mainly US dollars and euros) as of 31 December 2020 totaled RUB 10,398,919 thousand, including RUB 8,488,173 thousand in USD dollars and RUB 1,910,746 thousand in euros (31 December 2019: RUB 7,258,346 thousand, including RUB 5,785,691 thousand in USD dollars and RUB 1,472,655 thousand in euros).

18. Accrued expenses

Accrued expenses as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued salaries and wages</td>
<td>12,278,431</td>
<td>8,124,514</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>11,074,417</td>
<td>8,895,191</td>
</tr>
<tr>
<td></td>
<td>23,352,848</td>
<td>17,020,105</td>
</tr>
</tbody>
</table>

Other accrued expenses are represented by salary surcharges, employee bonuses and other accural.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

19. Taxes payable, other than income tax
Taxes payables as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax</td>
<td>18,351,095</td>
<td>15,509,065</td>
</tr>
<tr>
<td>Social insurance contributions</td>
<td>1,790,088</td>
<td>2,376,411</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>1,926,450</td>
<td>1,711,880</td>
</tr>
<tr>
<td>Property tax</td>
<td>520,401</td>
<td>631,752</td>
</tr>
<tr>
<td>Other taxes</td>
<td>65,447</td>
<td>109,484</td>
</tr>
<tr>
<td></td>
<td>11,854,351</td>
<td>4,291,007</td>
</tr>
</tbody>
</table>

20. Loans and borrowings
Long-term and short-term loans and borrowings as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th>Year of maturity</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans and borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsecured bonds</td>
<td>2022-2023</td>
<td>70,897,128</td>
</tr>
<tr>
<td>Unsecured bank loans</td>
<td>2022-2027</td>
<td>79,614,330</td>
</tr>
<tr>
<td>Unsecured bank loans from related parties</td>
<td>–</td>
<td>53,000,000</td>
</tr>
<tr>
<td>Less: current portion of long-term borrowings and loans</td>
<td>(2,916,512)</td>
<td>(2,916,512)</td>
</tr>
<tr>
<td>Total long-term borrowings and loans</td>
<td>147,694,926</td>
<td>119,632,362</td>
</tr>
</tbody>
</table>

Short-term loans and borrowings

<table>
<thead>
<tr>
<th>Year of maturity</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bonds</td>
<td>2021</td>
<td>10,001,047</td>
</tr>
<tr>
<td>Unsecured bank loans</td>
<td>2021</td>
<td>5,384,420</td>
</tr>
<tr>
<td>Current portion of long-term borrowings and loans</td>
<td>2,223,898</td>
<td>2,223,898</td>
</tr>
<tr>
<td>Total short-term loans and borrowings</td>
<td>18,391,601</td>
<td>64,578,456</td>
</tr>
</tbody>
</table>

The Group’s loans and borrowings as at 31 December 2020 and 31 December 2019 bear market interest rates. All loans, borrowings and bonds are denominated in Russian rubles. Loans and borrowings were received at fixed rates.

The Group has complied with all covenants set out in the loan agreements as of 31 December 2020 and 31 December 2019.

21. Government grants

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>3,268,933</td>
<td>3,077,701</td>
</tr>
<tr>
<td>Received during the year</td>
<td>190,269</td>
<td>614,318</td>
</tr>
<tr>
<td>Recognized in profit or loss</td>
<td>(664,257)</td>
<td>(383,086)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>2,794,945</td>
<td>3,268,933</td>
</tr>
<tr>
<td>Short-term</td>
<td>627,304</td>
<td>62,857</td>
</tr>
<tr>
<td>Long-term</td>
<td>2,167,641</td>
<td>3,206,076</td>
</tr>
</tbody>
</table>

The government grants were received to reimburse a part of the direct costs incurred for the construction and modernization of property, plant and equipment. The government grants were received as benefit from obtaining loans at a below-market interest rate.

22. Contract liabilities

Contract liabilities as at 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term liabilities to the customer loyalty program</td>
<td>2,592,558</td>
<td>1,056,711</td>
</tr>
<tr>
<td>Short-term advances received from wholesale customers</td>
<td>443,917</td>
<td>246,497</td>
</tr>
</tbody>
</table>

Changes to the short-term liabilities to the customer loyalty program include the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>810,214</td>
<td>1,178,273</td>
</tr>
<tr>
<td>Deferred during the year</td>
<td>12,235,191</td>
<td>5,479,317</td>
</tr>
<tr>
<td>Recognized as revenue during the year</td>
<td>(2,916,512)</td>
<td>(1,843,786)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>2,148,681</td>
<td>810,214</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

23. Revenue from contracts with customers

Revenue for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>1,510,070,771</td>
<td>1,532,920,244</td>
</tr>
<tr>
<td>Wholesale</td>
<td>43,705,510</td>
<td>35,778,570</td>
</tr>
<tr>
<td></td>
<td>1,553,777,351</td>
<td>1,568,705,394</td>
</tr>
</tbody>
</table>

Revenue from contracts with customers is represented by the amounts disclosed in the table above and advertising income and income from sales of packing materials (Note 28) for the 2020 amount to RUB 1,562,953,358 thousand (2019: RUB 1,574,925,154 thousand).

24. Cost of sales

Cost of sales for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>1,141,791,218</td>
<td>1,022,098,438</td>
</tr>
<tr>
<td>Transportation expenses</td>
<td>38,281,560</td>
<td>34,607,615</td>
</tr>
<tr>
<td></td>
<td>1,180,021,878</td>
<td>1,056,706,053</td>
</tr>
</tbody>
</table>

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold includes losses due to inventory shortages.

In 2020, payroll expenses of RUB 22,419,764 thousand (2019: RUB 22,108,828 thousand) were included in cost of sales.

25. Selling expenses

Selling expenses for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>762,791,612</td>
<td>771,920,200</td>
</tr>
<tr>
<td>Packaging and raw materials</td>
<td>4,861,331</td>
<td>3,215,294</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>4,498,081</td>
<td>4,755,885</td>
</tr>
<tr>
<td></td>
<td>16,887,124</td>
<td>15,688,379</td>
</tr>
</tbody>
</table>

26. General and administrative expenses

General and administrative expenses for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>1,086,558,879</td>
<td>953,372,366</td>
</tr>
<tr>
<td>Depreciation and impairment of right-of-use assets (Note 8)</td>
<td>44,223,348</td>
<td>40,660,137</td>
</tr>
<tr>
<td>Depreciation and impairment of property, plant and equipment (Note 7)</td>
<td>33,488,161</td>
<td>40,701,825</td>
</tr>
<tr>
<td>Payroll-related taxes</td>
<td>31,094,070</td>
<td>26,159,360</td>
</tr>
<tr>
<td>Utilities and rent</td>
<td>29,715,812</td>
<td>25,719,454</td>
</tr>
<tr>
<td>Bank charges</td>
<td>7,198,573</td>
<td>6,516,095</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>6,831,558</td>
<td>5,747,572</td>
</tr>
<tr>
<td>Taxes, other than income tax</td>
<td>2,924,906</td>
<td>3,240,165</td>
</tr>
<tr>
<td>Security</td>
<td>1,792,229</td>
<td>1,797,235</td>
</tr>
<tr>
<td>Amortisation of intangible assets (Note 9)</td>
<td>1,703,798</td>
<td>976,589</td>
</tr>
<tr>
<td>Provision for unused vacation</td>
<td>542,696</td>
<td>681,038</td>
</tr>
<tr>
<td>Accrual of expected credit losses (Note 12)</td>
<td>451,920</td>
<td>400,437</td>
</tr>
<tr>
<td>Other expenses</td>
<td>6,265,675</td>
<td>5,848,860</td>
</tr>
<tr>
<td></td>
<td>279,538,315</td>
<td>254,961,673</td>
</tr>
</tbody>
</table>

27. Finance costs

Finance costs for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on loans and borrowings</td>
<td>8,462,099</td>
<td>13,358,504</td>
</tr>
<tr>
<td>Interest on bonds</td>
<td>5,669,015</td>
<td>2,037,062</td>
</tr>
<tr>
<td>Interest on lease liabilities (Note 8)</td>
<td>30,771,302</td>
<td>32,414,202</td>
</tr>
<tr>
<td>Total interest expense for financial liabilities</td>
<td>44,902,414</td>
<td>47,810,768</td>
</tr>
<tr>
<td>Less amounts included in the cost of qualifying assets</td>
<td>(1,301,124)</td>
<td>(291,119)</td>
</tr>
<tr>
<td></td>
<td>44,771,274</td>
<td>47,781,649</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

28. Other income

Other income for the years ended 31 December 2020 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising income</td>
<td>5,372,680</td>
<td>6,370,628</td>
</tr>
<tr>
<td>Sales of packing materials</td>
<td>3,790,027</td>
<td>3,840,142</td>
</tr>
<tr>
<td>Prices and penalties</td>
<td>2,626,326</td>
<td>3,541,220</td>
</tr>
<tr>
<td>Gain from cancellation of lease contracts (Note 8)</td>
<td>1,687,669</td>
<td>1,985,180</td>
</tr>
<tr>
<td>Gain from Covid-19 related rent concessions (Note 8)</td>
<td>1,491,748</td>
<td>–</td>
</tr>
<tr>
<td>Gain from the sale of property, plant and equipment</td>
<td>1,665,130</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>945,646</td>
<td>850,307</td>
</tr>
<tr>
<td></td>
<td><strong>17,069,195</strong></td>
<td><strong>16,396,467</strong></td>
</tr>
</tbody>
</table>

29. Income tax

The Group’s income tax expense for the years ended 31 December 2020 and 2019 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of packing materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prices and penalties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain from cancellation of lease contracts (Note 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain from Covid-19 related rent concessions (Note 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain from the sale of property, plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>15,292,458</strong></td>
<td><strong>16,073,590</strong></td>
</tr>
</tbody>
</table>

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2019 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>At 1 January 2020</th>
<th>Recorded in the consolidated statement of comprehensive income, 2020</th>
<th>At 31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>26,509,651</td>
<td>(722,582)</td>
<td>27,885,579</td>
</tr>
<tr>
<td>Prepaid expenses and intangible assets</td>
<td>119,555</td>
<td>70,845</td>
<td>190,401</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>178,278</td>
<td>(124,336)</td>
<td>164,942</td>
</tr>
<tr>
<td>Other</td>
<td>75,610</td>
<td>(75,610)</td>
<td>–</td>
</tr>
<tr>
<td>Total deferred tax liability</td>
<td>29,377,105</td>
<td>(758,083)</td>
<td>28,619,022</td>
</tr>
<tr>
<td>Including offset with deferred tax asset (13,205,426)</td>
<td>(3,100,006)</td>
<td>(16,213,432)</td>
<td>16,213,432</td>
</tr>
</tbody>
</table>

Net deferred tax liability | 16,073,679 | (3,848,089) | 12,225,590 |

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2020 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>At 1 January 2020</th>
<th>Recorded in the consolidated statement of comprehensive income, 2020</th>
<th>At 31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right-of-use assets / lease liabilities</td>
<td>(10,915,536)</td>
<td>(1,190,334)</td>
<td>(12,105,870)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(834,430)</td>
<td>(1,045,028)</td>
<td>(1,879,458)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(962,899)</td>
<td>(512,512)</td>
<td>(1,475,411)</td>
</tr>
<tr>
<td>Advances paid</td>
<td>(131,884)</td>
<td>(163,988)</td>
<td>(258,737)</td>
</tr>
<tr>
<td>Other</td>
<td>(258,737)</td>
<td>(903,461)</td>
<td>(564,183)</td>
</tr>
<tr>
<td>Total deferred tax asset</td>
<td>(13,103,426)</td>
<td>(3,100,006)</td>
<td>(16,213,432)</td>
</tr>
<tr>
<td>Including offset with deferred tax liability</td>
<td>13,103,426</td>
<td>3,100,006</td>
<td>16,213,432</td>
</tr>
</tbody>
</table>

Net deferred tax asset | – | – | – |
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

29. Income tax (continued)
The income tax expense for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group’s consolidated statement of comprehensive income:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>42,702,935</td>
<td>12,579,472</td>
</tr>
<tr>
<td>Theoretical income tax expense at 20%</td>
<td>(8,540,503)</td>
<td>(2,515,894)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-taxable income</td>
<td>(1,141,221)</td>
<td>(663,576)</td>
</tr>
<tr>
<td>Unrecognized deferred tax assets related to losses carried forward of Group companies</td>
<td>(198,580)</td>
<td>(904,210)</td>
</tr>
<tr>
<td>Reversal of income tax liability as a result of filing amended tax returns</td>
<td>171,061</td>
<td>1,068,227</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(9,709,223)</td>
<td>(3,015,250)</td>
</tr>
<tr>
<td>Effective income tax rate</td>
<td>22.74%</td>
<td>23.97%</td>
</tr>
</tbody>
</table>

As at 31 December 2020 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 3,825,876 thousand (as of 31 December 2019: RUB 3,627,296 thousand).

The Group did not reflect the deferred tax liability as of 31 December 2020 and 31 December 2019 in relation to the temporary taxable differences associated with investments in subsidiaries, since it subject to 0% tax rate to applicable dividend income in accordance with Russian Tax Code, since participation in the capital of subsidiaries is more than 50% and they are owned by the Group for more than one year.

30. Earnings per share
Earnings per share for the years ended 31 December 2020 and 2019 have been calculated on the basis of the net profit attributable to shareholders for the year and the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year attributable to shareholders of the parent</td>
<td>32,993,292</td>
<td>9,564,222</td>
</tr>
<tr>
<td>Weighted average number of shares (in thousands of shares)</td>
<td>97,629</td>
<td>97,625</td>
</tr>
<tr>
<td>Basic earnings per share (in RUB)</td>
<td>337.95</td>
<td>97.98</td>
</tr>
<tr>
<td>Effects of dilution from share options (in thousands)</td>
<td>546</td>
<td>207</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares adjusted for the effect of dilution (in thousands)</td>
<td>98,174</td>
<td>97,932</td>
</tr>
<tr>
<td>Diluted earnings per share (in RUB)</td>
<td>336.07</td>
<td>97.68</td>
</tr>
</tbody>
</table>

31. Share-based payments
Long-term incentive program for key management personnel
The Group has a long-term incentive program for its key management. In accordance with the program regulations, the Group grants key management personnel the right to receive equity instruments based on the results of their work for 2018, 2019, 2020, 2021, and 2022, if the program conditions are met.

The long-term incentive program for key management personnel of the Group consists of a share options (share component) and share value appreciation rights (option component).

Each tranche provides for deferred execution (transfer of shares) for three years, provided that the employees continue to provide services. Each employee under this plan receives 15 options, each of which entitles them to an estimated number of shares over three years in five tranches.

Share value appreciation rights
Options provide transfer of a variable number of shares depending on the excess of the market value of the Group’s shares over the strike price.

The date of granting the options corresponds to the date of conclusion of the contract with the program participant. The maximum number of shares that can be purchased by all participants of the program under the option part is 1,755,319.

The program participant receives the right to exercise options when all of the following conditions are met:
- excess of the market value of the Group’s shares at the date of calculation over the strike price;
- growth of the Group’s consolidated EBITDA (Profit before interest, taxes, depreciation and amortization) of 10% CAGR (total comprehensive annual growth rate for calculating interest using the compound interest formula) compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- program participant continues to work in the Group on the exercise date of the option.

Share options
Share-based payment to the participant of the program of a fixed number of shares depending on the fulfillment of the conditions for achieving the goals of the program.

The date of granting the right corresponds to the date of conclusion of the contract with the program participant. The maximum number of shares that can be purchased by all participants of the program within the joint-stock part cannot exceed 1,755,319 shares.

The procedure for settlements with the participant when obtaining rights to equity instruments is similar to the procedure under the option part.

The program participant receives the right to shares if all of the following conditions are met:
- Group’s consolidated EBITDA growth of 10% CAGR compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- a program participant continues to work in the Group on the exercise date of the option.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

31. Share-based payments (continued)

To assess the fair value of share-based payments to employees, the Group uses Monte Carlo simulation. In determining fair value, the Group has used the following assumptions:

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend (%)</th>
<th>Expected average volatility (%)</th>
<th>Average risk-free interest rate for the period (%)</th>
<th>Estimated time for exercise of options (years)</th>
<th>Weighted average share price (RUB)</th>
<th>Applicable model</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>6</td>
<td>30.27</td>
<td>4.42</td>
<td>5</td>
<td>4.58</td>
<td>Monte Carlo</td>
</tr>
<tr>
<td>2019</td>
<td>6</td>
<td>28.78</td>
<td>7.84</td>
<td>6</td>
<td>3.20</td>
<td>Monte Carlo</td>
</tr>
</tbody>
</table>

Movement for the period

For the year ended 31 December 2020, the Group recognized an expense in respect of share-based payments in the amount of RUB 197,719 thousand (2019: RUB 199,685 thousand) in the consolidated statement of comprehensive income.

In 2020, under the decision of the Board of Directors based on the analysis of the fulfillment of non-market terms of the Program in 2019, the rights to the payment of the 1/3 of the 2019 tranche were transferred to the Participants of the Program. Following the decision, service expenses of RUB 202,323 thousand recognized earlier with respect to the 1/3 of the 2019 tranche were reversed in the consolidated financial statements for the year ended 31 December 2020.

As at the reporting date, the management of the Group expects that with respect to all tranches the program targets will be achieved.

During 2020, the Group transferred 73,597 treasury shares (2019: 105,258 treasury shares) repurchased from shareholders as a compensation to key management personnel under the Long-term remuneration program for the Group. The fair value of the treasury shares and the fair value of the consideration transferred under the program in the amount of RUB 5,770 thousand reflected as a decrease in share premium (2019: RUB 35,979 thousand recorded as an increase in share premium).

The weighted average fair value per share at the execution was RUB 3,690 for the year ended 31 December 2020 (2019: RUB 4,110).

Share-based payments under the employment contract with the President of the Group

According to the terms of the employment contract concluded with the Group’s President, the President is entitled to the Group’s equity instruments provided that he continues to work in the Group on the exercise date of the option. The number of shares of the Group to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Group.

Share-based payments under the employment contract with the President of the Group (continued)

Share-based payment is deferred and involves the transfer of shares during 3 years, including 50% of fixed number of equity instruments no later than 31 May 2019, 25% no later than 31 March 2020, 25% no later than 31 March 2021, subject to continued work in the Group.

In 2020, the Group recognized an expense in respect of share-based payments in the amount of RUB 106,681 thousand in the consolidated statement of comprehensive income (2019: RUB 559,509 thousand).

During 2020, the Group transferred 44,177 treasury shares (2019: 82,355 shares) repurchased from shareholders under the terms of the employment agreement entered into with the Group’s President. The fair value of equity instruments provided during the period was RUB 172,451 thousand (2019: RUB 396,440 thousand). The difference between the carrying amount of the treasury shares and the fair value of the consideration given to the President in the amount of RUB 172,451 thousand (2019: RUB 86,094 thousand) was recorded as an increase in share premium. The weighted average price per share at the execution date was RUB 4,188 in 2020 (2019: RUB 4,134).

32. Contingencies, commitments and operating risks

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions-imposed consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing behavior.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The combination of the above resulted in reduced access to capital, a higher-cost of capital, increased uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

As the Covid-19 outbreak continues there remains uncertainty about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future. Government continues to take various measures, the future stability of the Russian economy is also largely dependent upon the impact and span of the Covid-19, the measures taken to contain the spread of the virus and further government reforms.

The Group’s management continuously assesses the risks, as well as the consequences of the pandemic and the measures taken by the government.

Restrictive measures implemented in Russia to cope with the pandemic Covid-19 are resulted to less frequent customer visits to stores but larger purchases. From the beginning of Covid-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees, customers and uninterrupted business processes.

To date, the Group’s management has not identified a significant negative impact of the pandemic, either on the supply chain or on the activities of the Group’s chain of stores.
32. Contingencies, commitments and operating risks (continued)

Tax legislation
The Group’s main subsidiaries, from which the Group’s income is derived, operate in Russia. Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

A number of the relevant Russian tax, currency and customs legislations are vaguely and contradictory formulated, which may lead to different interpretations (which, in particular, may apply to legal relations in the past), selective and inconsistent application, as well as frequent and in some cases unpredictable changes. In practice the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be imposed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome.

Management believes that at 31 December 2020, it had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high.

As at 31 December 2020 and 2019, the Group accrued no provisions for tax positions.

Litigation
The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, neither of which, individually or in aggregate, had a material adverse effect on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group’s financial position, operating results and cash flows.

Capital commitments
As at 31 December 2020 and 2019, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>2,536,645</td>
<td>3,703,562</td>
</tr>
<tr>
<td>2 to 5 years inclusive</td>
<td></td>
<td>0,968</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,536,645</td>
<td>3,800,530</td>
</tr>
</tbody>
</table>

33. Financial risk management objectives and policies

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt to equity ratio.

The capital structure of the Group consists of loans and borrowings disclosed in Note 20, cash and cash equivalents disclosed in Note 14 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 15.

Debt-to-equity ratio
Management reviews the Group’s capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target debt-to-equity ratio in 2020 of 2.62 (2019: 2.82).

The debt-to-equity ratio as at 31 December 2020 and 2019 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and borrowings (Note 20)</td>
<td>166,096,527</td>
<td>184,210,818</td>
</tr>
<tr>
<td>Long-term and short-term lease liabilities (Note 8)</td>
<td>357,573,958</td>
<td>357,210,159</td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 14)</td>
<td>44,699,581</td>
<td>8,901,298</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>478,960,904</td>
<td>532,519,679</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>182,888,924</td>
<td>188,532,813</td>
</tr>
<tr>
<td><strong>Net debt-to-equity ratio</strong></td>
<td>2.62</td>
<td>2.82</td>
</tr>
</tbody>
</table>

Debt is defined as long-term and short-term loans and borrowings and also long-term and short-term lease obligations. Equity includes all capital and reserves of the Group.

The change in the target net debt-to-equity ratio is due to the changes in the capital structure in 2020.

Fair values
Set-out below is a comparison by class carrying amount and fair value of the Group’s financial instruments that are recorded in the consolidated financial statements.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

33. Financial risk management objectives and policies (continued)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
</tr>
<tr>
<td>Long-term loans</td>
<td>77,755,399</td>
</tr>
<tr>
<td>Bonds</td>
<td>69,000,281</td>
</tr>
</tbody>
</table>

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term loans and borrowings are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

As at 31 December 2020 and 2019, the fair value of the Group’s financial instruments, except as described above, approximates their carrying value.

Set out below are changes in liabilities arising from financing activities:

<table>
<thead>
<tr>
<th>1 January</th>
<th>Proceeds from loans and borrowings</th>
<th>Repayment of loans and borrowings</th>
<th>Finance costs</th>
<th>Interest paid</th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>184,210,828</td>
<td>452,555,765</td>
<td>14,013,112</td>
<td>13,049,549</td>
<td>184,210,818</td>
</tr>
<tr>
<td>2019</td>
<td>164,573,514</td>
<td>425,761,934</td>
<td>14,318,365</td>
<td>15,502,852</td>
<td>164,573,541</td>
</tr>
</tbody>
</table>

Information about changes in lease liability are presented in Note 8.

Dividends payable 13,629,822 30,816,128 (29,993,007) 14,452,943

As at 31 December 2020 and 2019 the foreign currency balances were presented by trade and other payables disclosed in Note 17.

Foreign currency risk
The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The Group’s exposure to foreign currency changes for all other currencies is not material.

<table>
<thead>
<tr>
<th>Change in USD exchange rate</th>
<th>Effect on profit before tax</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>-16.00%</td>
<td>(1,381,542)</td>
<td>+16.00%</td>
</tr>
<tr>
<td>-11.00%</td>
<td>663,036</td>
<td>-16.00%</td>
</tr>
<tr>
<td>+15.00%</td>
<td>793,588</td>
<td>+16.00%</td>
</tr>
<tr>
<td>+13.00%</td>
<td>220,463</td>
<td>+15.00%</td>
</tr>
<tr>
<td>+16.00%</td>
<td>339,500</td>
<td>+13.00%</td>
</tr>
</tbody>
</table>

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership of goods to the Group.

Interest rate risk management
The Group is exposed to insignificant interest rate risk as the Group’s entities borrow funds at the fixed rates.

Credit risk management
Credit risk is the risk that a counterparty will not meet its contract obligations on time, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and investing activities (cash, short-term loans).

In determining the recoverability of trade and other receivables and contract assets the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Trade and other receivables
Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long-term credit history. The Group’s exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Cash and cash equivalents
Credit risk from investing activities is managed by the Group’s treasury department in accordance with the Group’s policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the consolidated statement of financial position.
Notes to the consolidated financial statements for the year ended 31 December 2020
(In thousands of Russian rubles) (continued)

33. Financial risk management objectives and policies (continued)

Offsetting of financial assets and financial liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of the offsetting as at 31 December 2020:

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Gross amount of recognized financial assets and liabilities</th>
<th>Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position</th>
<th>Net amount of financial assets and liabilities presented in the consolidated statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>19,765,158 (11,201,336)</td>
<td>8,563,822</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19,765,158 (11,201,336)</td>
<td>8,563,822</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
<th>Gross amount of recognized financial assets and liabilities</th>
<th>Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position</th>
<th>Net amount of financial assets and liabilities presented in the consolidated statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>(172,273,630)</td>
<td>11,201,336</td>
<td>(161,072,294)</td>
</tr>
<tr>
<td>Total</td>
<td>(172,273,630)</td>
<td>11,201,336</td>
<td>(161,072,294)</td>
</tr>
</tbody>
</table>

The effect of the offsetting as at 31 December 2019:

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Gross amount of recognized financial assets and liabilities</th>
<th>Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position</th>
<th>Net amount of financial assets and liabilities presented in the consolidated statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>28,340,288 (14,346,848)</td>
<td>13,993,440</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>28,340,288 (14,346,848)</td>
<td>13,993,440</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities</th>
<th>Gross amount of recognized financial assets and liabilities</th>
<th>Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position</th>
<th>Net amount of financial assets and liabilities presented in the consolidated statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>175,977,854</td>
<td>14,946,848 (161,631,006)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>175,977,854</td>
<td>14,946,848 (161,631,006)</td>
<td></td>
</tr>
</tbody>
</table>

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables summarise the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

<table>
<thead>
<tr>
<th>Period</th>
<th>Less than 1 month</th>
<th>1-3 month</th>
<th>3 month to 1 year</th>
<th>1-5 years</th>
<th>More than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>128,236,830</td>
<td>32,835,464</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>161,072,294</td>
</tr>
<tr>
<td></td>
<td>24,094,729</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24,094,729</td>
</tr>
<tr>
<td></td>
<td>5,753,427</td>
<td>11,512,811</td>
<td>52,770,481</td>
<td>257,214,471</td>
<td>165,920,031</td>
<td>493,171,221</td>
</tr>
<tr>
<td></td>
<td>386,931</td>
<td>17,229,596</td>
<td>9,146,323</td>
<td>158,419,180</td>
<td>430,394</td>
<td>185,612,424</td>
</tr>
<tr>
<td></td>
<td>158,471,917</td>
<td>61,577,871</td>
<td>61,916,804</td>
<td>415,633,651</td>
<td>166,350,425</td>
<td>863,950,668</td>
</tr>
<tr>
<td>2019</td>
<td>127,097,996</td>
<td>34,533,010</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>161,631,006</td>
</tr>
<tr>
<td></td>
<td>14,452,943</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14,452,943</td>
</tr>
<tr>
<td></td>
<td>5,558,534</td>
<td>11,065,328</td>
<td>50,541,221</td>
<td>254,023,784</td>
<td>195,440,197</td>
<td>516,629,064</td>
</tr>
<tr>
<td></td>
<td>9,376,666</td>
<td>2,474,305</td>
<td>65,637,393</td>
<td>129,767,356</td>
<td>1,186,754</td>
<td>206,442,474</td>
</tr>
<tr>
<td></td>
<td>156,486,139</td>
<td>48,072,643</td>
<td>114,178,614</td>
<td>383,791,140</td>
<td>196,626,951</td>
<td>899,155,487</td>
</tr>
</tbody>
</table>

Additionally to the current loans the Group has access to financing facilities of RUB 280,612,664 thousand remained unused at 31 December 2020 (2019: RUB 263,940,663 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

34. Subsequent events

There are no significant events after the reporting date.
Management Statement of Responsibility

I hereby confirm that:
— the financial statements prepared in accordance with International Financial Reporting Standards represent an accurate and fair reflection of the Company’s assets, liabilities, financial position, profits, and losses as well as those of its consolidated subsidiaries as a whole; and
— the management report includes a fair description of the development and performance of business operations and the Company’s position as well as that of its consolidated subsidiaries as a whole along with a description of the main risks and uncertainties they face.

Chairman of the Management Board,
President and CEO
Jan Gezinus Dunning

The Annual Report was preliminary approved by the Board of Directors on April 21, 2021 (minutes w/o No. as of April 24, 2021) and approved by the annual General shareholders meeting of PJSC «Magnit» held on June 10, 2021 (minutes w/o No. as of June 11, 2021).

Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average ticket</td>
<td>a figure calculated by dividing total sales at all stores during the relevant year by the number of tickets in that year</td>
</tr>
<tr>
<td>CAPEX</td>
<td>the money an organisation or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land</td>
</tr>
<tr>
<td>Consumer Confidence Index (CCI)</td>
<td>a survey, administered by The Conference Board, which measures how optimistic or pessimistic consumers are regarding their expected financial situation</td>
</tr>
<tr>
<td>Customer Decision Tree (CDT)</td>
<td>a graphical representation of a customer’s buying decision process expressed in a tree format</td>
</tr>
<tr>
<td>CPI (Consumer Price Index)</td>
<td>a price index that measures changes in the price level of a weighted average market basket of consumer goods and services for a certain period of time</td>
</tr>
<tr>
<td>Cross-docking</td>
<td>is a transhipment platform used to consolidate incoming products for outgoing destinations</td>
</tr>
<tr>
<td>CSR (Corporate Social Responsibility)</td>
<td>a responsible attitude in managing a company's impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment</td>
</tr>
<tr>
<td>CVP</td>
<td>Customer Value Proposition</td>
</tr>
<tr>
<td>Drogerie</td>
<td>a retail store selling beauty, hygiene and household related products as well as certain non-prescription medications</td>
</tr>
<tr>
<td>End-to-end process (E2E process)</td>
<td>a process which takes a method or service from its beginning to its end, delivering a complete functional solution</td>
</tr>
<tr>
<td>EGAIS</td>
<td>national automated information system for the control of alcohol production and distribution</td>
</tr>
<tr>
<td>ERP (Enterprise Resource Planning)</td>
<td>integrated management of main business processes, often in real time and mediated by specialised software and technology</td>
</tr>
<tr>
<td>EVP</td>
<td>Employer Value Proposition</td>
</tr>
<tr>
<td>Federal state informational system “Mercury”</td>
<td>automated system for electronic certification of goods subject to state veterinary control in Russian Federation</td>
</tr>
<tr>
<td>LFL (like-for-like)</td>
<td>the method of comparing current year sales figures to prior year’s sales figures excluding the expansion effect</td>
</tr>
<tr>
<td>Net debt</td>
<td>a liquidity metric used to determine how well a company can pay all of its debts if they were due immediately</td>
</tr>
<tr>
<td>Platon Electronic Toll Collection (ETC) system</td>
<td>a Russian electronic toll collection system which collects tolls from trucks over 12 tonnes, with the proceedings going to a federal fund for road maintenance</td>
</tr>
<tr>
<td>Private label (PL)</td>
<td>brand owned not by a manufacturer or producer, but by a retailer or supplier, who gets its goods made by a contract manufacturer under its own label</td>
</tr>
</tbody>
</table>
### Glossary (continued)

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACRA</td>
<td>Accounting and Corporate Regulatory Authority</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>Basis points</td>
<td>Basis points</td>
</tr>
<tr>
<td>Compound annual growth rate</td>
<td>Computed annual rate of growth over a specified period of time, adjusted for effects of compounding</td>
</tr>
<tr>
<td>CRM</td>
<td>Client Relationship Management</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation and amortization</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social, Governmental</td>
</tr>
<tr>
<td>Financial Year</td>
<td>The period during which a company is measured for performance, typically a year</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse gases</td>
</tr>
<tr>
<td>Half of the year</td>
<td>Half of the year</td>
</tr>
<tr>
<td>Human resources</td>
<td>Human resources</td>
</tr>
<tr>
<td>Initial Public Offering</td>
<td>The process by which a company first sells shares to the public</td>
</tr>
<tr>
<td>Investor relations</td>
<td>Investor relations</td>
</tr>
<tr>
<td>Information Technologies</td>
<td>Information Technologies</td>
</tr>
<tr>
<td>Joint Stock Company</td>
<td>Joint Stock Company</td>
</tr>
<tr>
<td>Key Performance Indicators</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>Limited Liability Company</td>
</tr>
<tr>
<td>London Stock Exchange</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>Long-term incentive</td>
<td>Long-term incentive</td>
</tr>
<tr>
<td>Month of the year</td>
<td>Month of the year</td>
</tr>
<tr>
<td>Mergers &amp; Acquisitions</td>
<td>Mergers &amp; Acquisitions</td>
</tr>
<tr>
<td>Moscow Interbank Currency Exchange</td>
<td>Moscow Interbank Currency Exchange</td>
</tr>
<tr>
<td>Moscow Exchange</td>
<td>Moscow Exchange</td>
</tr>
<tr>
<td>Non-governmental organization</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>Public Joint Stock Company</td>
<td>Public Joint Stock Company</td>
</tr>
<tr>
<td>Percentage point</td>
<td>Percentage point</td>
</tr>
<tr>
<td>Quarter of the year</td>
<td>Quarter of the year</td>
</tr>
<tr>
<td>Russian Trading System</td>
<td>Russian Trading System</td>
</tr>
<tr>
<td>Russian rouble</td>
<td>Russian rouble</td>
</tr>
<tr>
<td>Secondary public offering</td>
<td>Secondary public offering</td>
</tr>
<tr>
<td>Square metre</td>
<td>Square metre</td>
</tr>
<tr>
<td>Short-term incentive</td>
<td>Short-term incentive</td>
</tr>
<tr>
<td>Value-added tax</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>Warehouse management system</td>
<td>Warehouse management system</td>
</tr>
<tr>
<td>Year Over Year</td>
<td>Year Over Year</td>
</tr>
</tbody>
</table>

### Abbreviations

**Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
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<td>Basis points</td>
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<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CRM</td>
<td>Client Relationship Management</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation and amortization</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social, Governmental</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GDR</td>
<td>Global depositary receipts</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse gases</td>
</tr>
<tr>
<td>Half of the year</td>
<td>Half of the year</td>
</tr>
<tr>
<td>HR</td>
<td>Human resources</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
</tr>
<tr>
<td>IR</td>
<td>Investor Relations</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technologies</td>
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<td>JSC</td>
<td>Joint Stock Company</td>
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<td>KPI</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>LLC</td>
<td>Limited Liability Company</td>
</tr>
<tr>
<td>LSE</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>LTI</td>
<td>Long-term incentive</td>
</tr>
<tr>
<td>M</td>
<td>Month of the year</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers &amp; Acquisitions</td>
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<td>MICEX</td>
<td>Moscow Interbank Currency Exchange</td>
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<tr>
<td>MOEX</td>
<td>Moscow Exchange</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>PJSC</td>
<td>Public Joint Stock Company</td>
</tr>
<tr>
<td>p.p.</td>
<td>Percentage point</td>
</tr>
<tr>
<td>Q</td>
<td>Quarter of the year</td>
</tr>
<tr>
<td>RTS</td>
<td>Russian Trading System</td>
</tr>
<tr>
<td>RUB</td>
<td>Russian rouble</td>
</tr>
<tr>
<td>SPO</td>
<td>Secondary public offering</td>
</tr>
<tr>
<td>Sq.m</td>
<td>Square metre</td>
</tr>
<tr>
<td>STI</td>
<td>Short-term incentive</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>WMS</td>
<td>Warehouse management system</td>
</tr>
<tr>
<td>Y-o-Y</td>
<td>Year Over Year</td>
</tr>
</tbody>
</table>
About the Report

The Annual Report of Magnit PJSC for 2020 (hereinafter also referred to as Magnit or the Company) was prepared based on the information available to Magnit PJSC and its subsidiaries (hereinafter together referred to as the Group) as of 31 December 2020, unless otherwise implied by the meaning or content of the information provided.

This Annual Report is addressed to a wide range of stakeholders and reflects the key performance results of Magnit for 2020 in such matters as strategic and corporate governance as well as financial and operating results.

The Annual Report was prepared in accordance with the requirements of the applicable laws.

Disclaimer

This Annual Report contains forward-looking statements that reflect the expectations of the Company’s management.

Forward-looking statements are not based on actual circumstances and include all statements concerning the Company’s intentions, opinions, or current expectations regarding its performance, financial position, liquidity, growth prospects, strategy, and the industry in which Magnit PJSC operates. By their nature, such forward-looking statements are characterised by risks and uncertainties since they relate to events and depend on circumstances that may not occur in the future.

Such terms as “assume,” “believe,” “expect,” “predict,” “intend,” “plan,” “project,” “consider” and “could” along with other similar expressions as well as those used in the negative usually indicate the predictive nature of the statement. These assumptions contain risks and uncertainties that are foreseen or not foreseen by the Company. Thus, future performance may differ from current expectations, therefore the recipients of the information presented in the Annual Report should not base their assumptions solely on it.

In addition to official information on the activities of Magnit PJSC, this Annual Report contains information obtained from third parties and from sources which Magnit PJSC finds to be reliable. However, the Company does not guarantee the accuracy of this information, as it may be abridged or incomplete. Magnit PJSC offers no guarantees that the actual results, scope, or indicators of its performance or the industry in which the Company operates will correspond to the results, scope, or performance indicators clearly expressed or implied in any forward-looking statements contained in this Annual Report or elsewhere. Magnit PJSC is not liable for any losses that any person may incur due to the fact that the above person relied on forward-looking statements. Except as expressly envisaged by applicable law, the Company assumes no obligation to distribute or publish any updates or changes to forward-looking statements reflecting any changes in expectations or new information as well as subsequent events, conditions, or circumstances.

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