MAGNIT

AS ONE – FOR THE CUSTOMER

Annual Report 2020

Vision

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

Goal

To become the store of choice for all Russian families.

The basics

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

Convenience

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

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.

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!

QUALITY
VALUE
growth
Reliability
SAFETY
CONVENIENCE
FAMILY
LOYALTY
TEAM
FRESHNESS

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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

1 Strategic Report

Who We Are

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[1].

Magnit is a unique company 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.

Revenue RUB **1,554** bln

EBITDA (IFRS 16) RUB **178** bln

[1] Active loyalty cardholders.

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[1] 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[2], 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).

President and CEO's Statement (continued)

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 remain 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 front line 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 13 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.

The significant scale of our business and its impact on society make sustainability a vital part of our long-term business strategy. In 2020 Magnit implemented its sustainability strategy, "Retail with Purpose", identifying five priority areas and, for the first time in Russian retail, set quantitative and qualitative targets and criteria for their implementation by 2025. Moreover, we joined the UN Global Compact (UNGC), the world's largest corporate sustainability initiative. During the previous year we launched several pilots, such as testing LNG and electric trucks for deliveries and Green Office project.

Magnit recognises that its employees make a huge contribution to the Company's progress. We ensure our employees are well compensated, provide a comprehensive benefits package and numerous development opportunities. In 2020 we launched the Corporate Academy for training employees of all levels and conducted the first company-wide employee engagement survey. The survey had over 43,000 responses and revealed overall engagement levels of 84%, one of the best results among food retailers. I personally would like to thank everyone for their dedication during this challenging year.

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.

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.

Jan Dunning

President and Chief Executive Officer

Magnit at a Glance

Our key differentiation points:

- Multi-format model
- Strong regional coverage and "Best in local" offering
- Own production and private label
- ESG

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

	2018	2019	2020
Number of Stores	18,399	20,725	**21,564**
Cities & Townships with Stores	2,976	3,742	**3,752**
Tickets, mln	4,370	4,690	**4,641**
Number of Employees	295,882	308,432	**316,001**
Revenue, RUB, bln	1,237	1,369	**1,554**
Revenue Growth, %	8.2	10.6	**13.5**
Gross Margin, %	23.9	22.8	**23.5**
EBITDA Margin (IAS 17), %	7.2	6.1	**7.0**
Net Income Margin (IAS 17), %	2.7	1.2	**2.4**
CAPEX[1], RUB, bln	54	59	**32**
Net Debt/EBITDA (IAS 17)	1.5	2.1	**1.1**
Total dividends for the respective year, RUB, bln	31	31	**25**[2]
CO_2 Emissions[3], mln tonnes	2.5	2.6	**2.6**
Total Amount[4] **of Waste**, mln tonnes	1.1	1.7	**1.2**
Total Amount of Recycled Waste[5], thous. tonnes	442	432	**451**

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.
6 Waste sent for recycling by JSC Tander, OJSC Selta and own production enterprises.

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

It differentiates us as one of the leading retail chains in Russia. We pay particular attention to developing the format expertise that will enable us to implement a format specific CVP under a single family brand. Magnit still adheres to a decentralised approach where needed and is dictated by key business drivers whilst maintaining an optimal balance with the centralised approach.

In 2020 Magnit continued to cluster its formats, adjusting them for different areas and improving management expertise. The Company built a strong team of category managers, who will continue to further expand and improve Magnit's commercial activities, with a broader set of functions and greater accountability.

Key Subsidiaries of the Company

The Magnit Group amonth others include PJSC Magnit and its subsidiaries: LLC Alcotrading, JSC Tander, LLC Tandem, LLC Retail Import.

PJSC MAGNIT

100%

LLC Alkotrading | JSC TANDER | LLC Tandem | LLC Retail Import

For a full list of Magnit Group companies please see Appendix 4 on p. 190.

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.

85% of Russian households make purchases in Magnit stores[1]

NPS[2] dynamics

Format	4Q20	4Q 19
Convenience	26	23
Supermarkets & Superstores	44	41
Drogerie	51	45

2020 Strategic **Priorities** –
We deliver what we promise

Achievement
in 2020 vs 2019

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 **1.1**x 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[3]

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
- Magnit launched a new corporate website https://www.magnit.com/en/

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[1] 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.

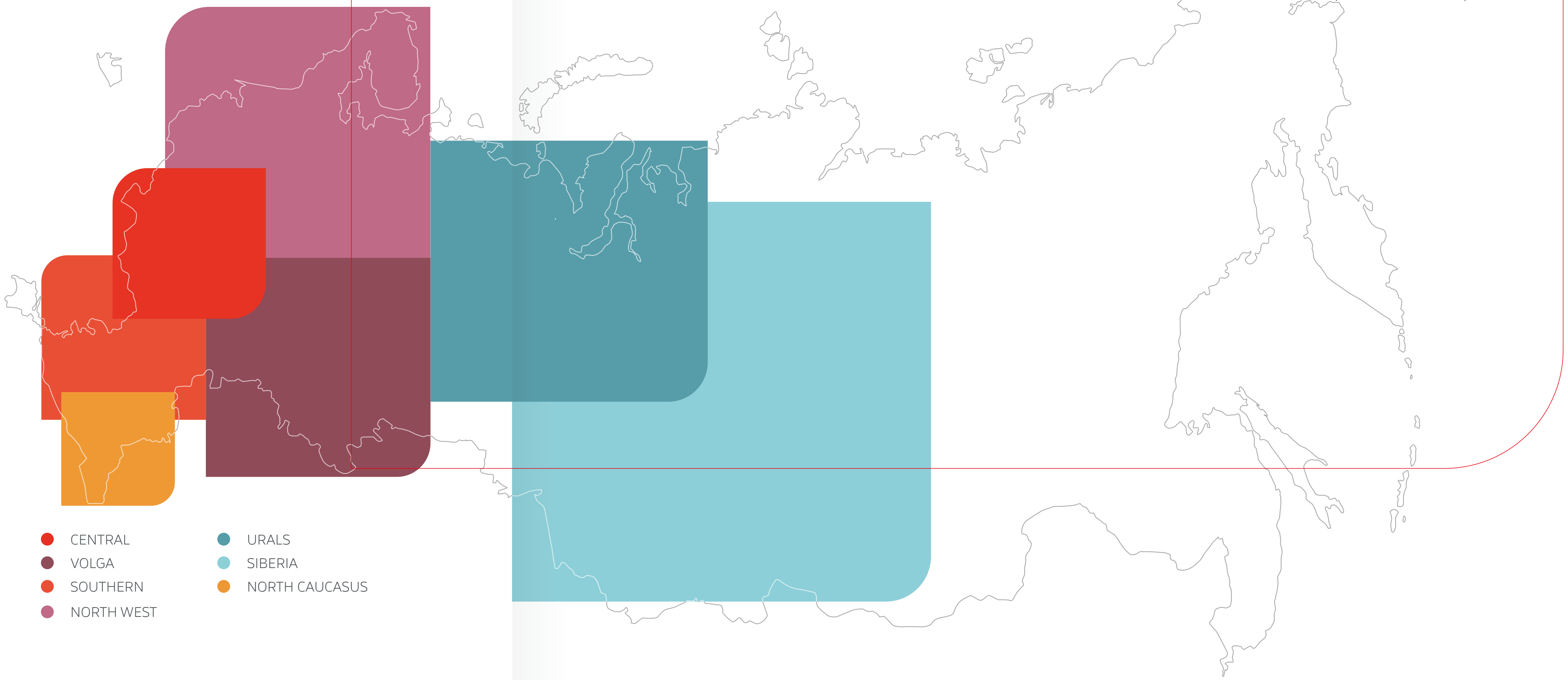
One of the milestones of 2020 was the large-scale Supply Chain transformation we launched at Magnit. The Company will implement a unified automated forecasting and replenishment system for all store formats, product categories, and distribution centres with the help of Relex Solutions' platform. This 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.

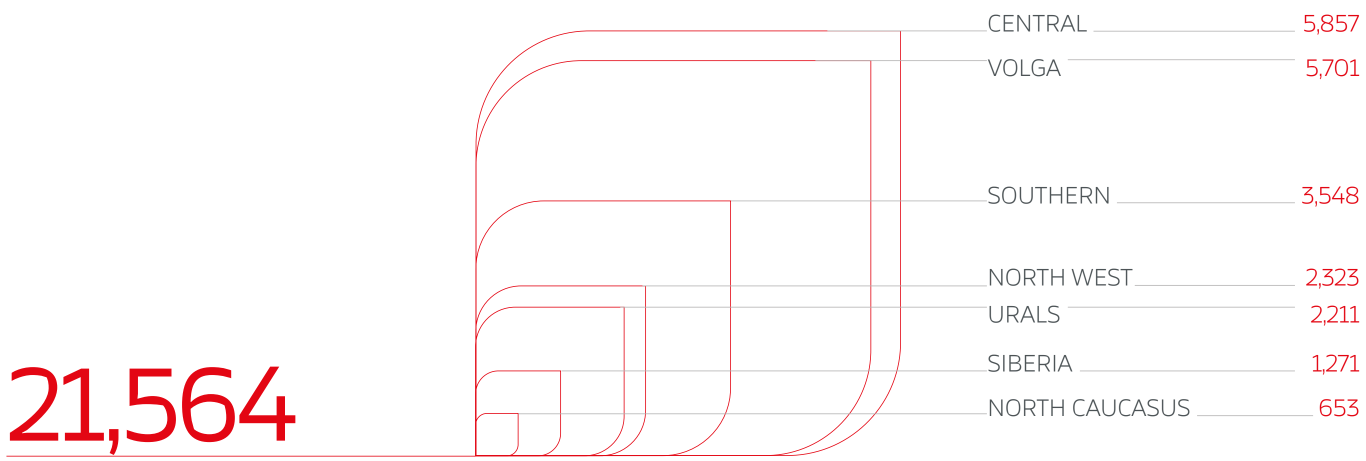
3,752 Cities & townships

21,564 Stores[1]

38 Distribution centres

43 mln Loyal customers (activated cards)





21,564

Total stores[1]

	CENTRAL	VOLGA	SOUTHERN	NORTH WEST	URALS	SIBERIA	NORTH CAUCASUS	
Convenience Stores	4,182	3,996	2,243	1,703	1,465	901	421	14,911[2]
Supermarkets	87	125	125	37	54	23	19	470[3]
Drogerie Stores	1,588	1,580	1,180	583	692	347	213	6,183
Distribution Centres	10	10	8	3	3	3	1	38

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

We Are Everywhere for Our Customers (continued)

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.

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 produce on sale. Due to the centralised logistics system, we managed to effectively optimise our costs.

Headline Measures

43 mln
Loyal customers (activated cards[1])

70%
Penetration in sales

17
Production units

4,355
Number of trucks

38
Number of distribution centres

>2,500
Private label SKUs

7,497 thous. sq. m
Selling space

1,707 thous. sq. m
Warehouse space

[1] Loyalty programme was launched in 1Q 2019.

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.

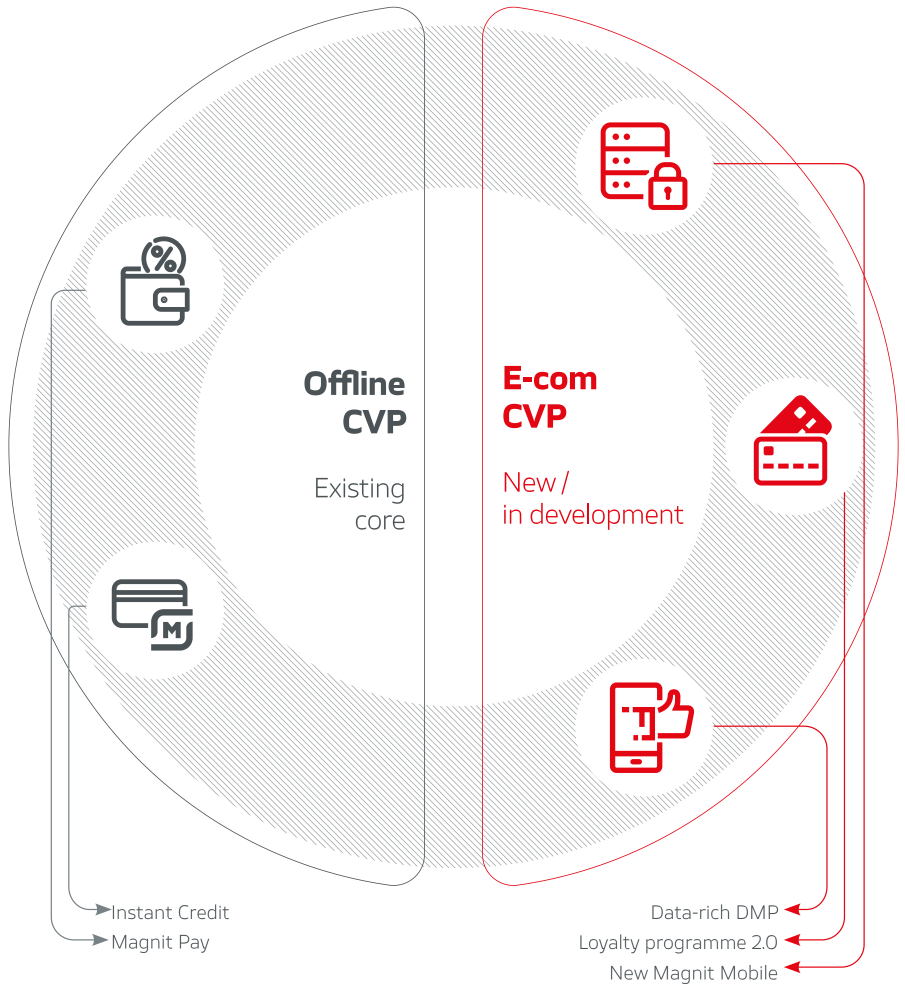
We took our first steps in large-scale digital transformation earlier by rolling out our unique cross-format loyalty programme which proved extremely successful. In 2020 Magnit launched an unmatched 5-year ERP Transformation Programme based on SAP solutions which will be the largest project of its kind 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.

For more information about Magnit Super App see next page.

Components of digital transformation

Ecosystem of complementary services and tools[1]

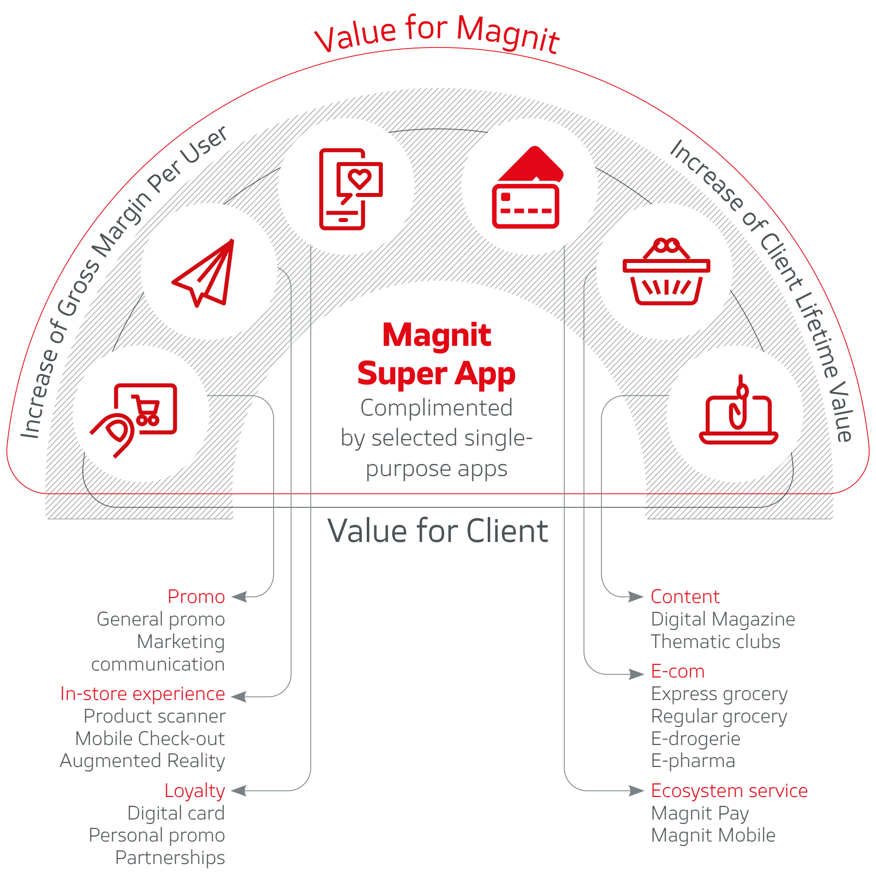


[1] A data management platform (DMP) is a software platform used for collecting and managing data. They allow businesses to identify audience segments, which can be used to target specific users and contexts in online advertising campaigns.

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



~6,000
Average number of orders per day

>40,000
SKUs available across all services

43 mln
Active loyalty cardholders

>1,000
Stores in 47 regions and 72 cities

RUB 2.0 bln
Annualised run-rate

70 %
Penetration in sales

[1] The run rate for Magnit's online segment based on December sales turnover.

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.

4
Agricultural complexes

166
Production lines

~310 thous. t
Own production

13
Production facilities produce sweets, cereal, pasta, instant food, nuts, spices and fish

31%
Growth of revenue from the own production sales in 2020 compared to 2019

82
Quality awards in 2020

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.

Environment[1]

Strategic goals for reducing environmental impact by 2025

50%
private labels and own production packaging are recyclable, reusable or compostable

100%
recyclable plastics in own operations are recovered and recycled

50%
food waste reduction

30%
reduction in greenhouse gas emissions

25%
reduction in water and energy consumption

Sustainable Sourcing

Strategic goals for a responsible supply chain by 2025

100%
responsible sourcing for socially important categories

100%
responsible own production and agriculture

+
increase in green packaging

Responsibility
Responsible sourcing for commercial and non-commercial purchases

Partnership
Development of partnership programmes with local suppliers and farmers

Employees

Strategic goals for working with employees by 2025

70%
rate of employee satisfaction

50%
lost time incidents rate reduction and zero fatalities

40%
maximum turnover rate

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

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
Communities
Health & Wellness

Fair business | Environmental stewardship | Diversity & inclusion | Responsible marketing | Partnership

Communities

Strategic goals to support local communities by 2025

10%
employee volunteers

Community
programmes across Magnit's geographic footprint

Health & Wellness

Strategic goals to support health and healthy lifestyle by 2025

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

Healthy food
Health related products are available to all our consumers

Retail with purpose (continued)

Sustainability

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.

For more information, please see Sustainable Development on page. 102.

Sustainability Steering Committee

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.

For more information, please see Strategic report on page. 104.

Response to Covid-19

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.

For more information, please see Measures Against COVID-19 on page. 68.

The UN Global Compact

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.

For more information, please see Strategic report on page. 105.

Market
Overview

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 convenience stores formats, were able to significantly increase their sales and strengthen their position in the market.

3.3%
Forecasted real GDP growth in Russia for 2021

3.0%
Forecasted RDI growth in Russia for 2021

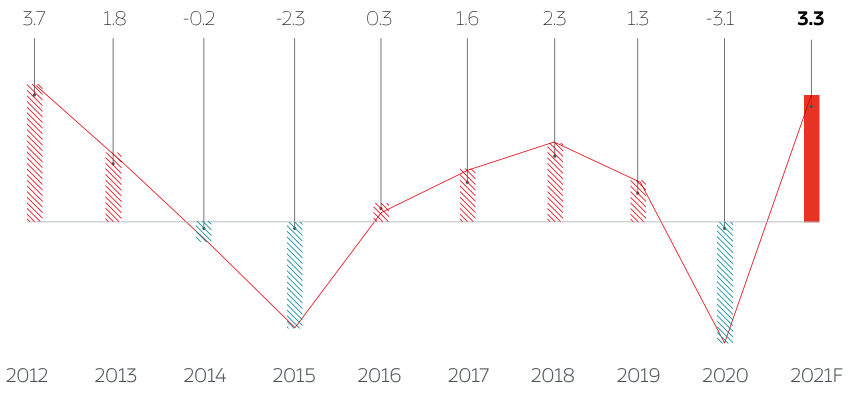
Macroeconomic Environment

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.

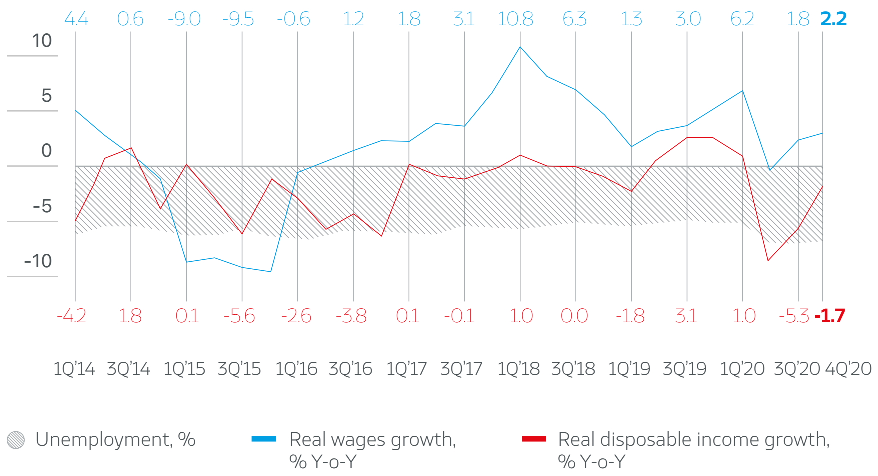
In particular, in the middle of the year, monthly payments were introduced (which is about half of the regional subsistence level, or average RUB 5.5 thous. per child per month) for low-income families with children aged 3-7 years.

Real GDP Change in Russia in 2012-2021F, YoY, %



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

Real Wages, Real Disposable Income change and Unemployment Rate in Russia in 2014-2020, %



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

Russian Food Market at a Glance

14%
sales growth of Top-10 in 2020

22%
share of traditional retail in Russia

34%
share of top-5 Retail Chains

8th
largest in the world

At the same time, payments for children under 3 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 12,792 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.

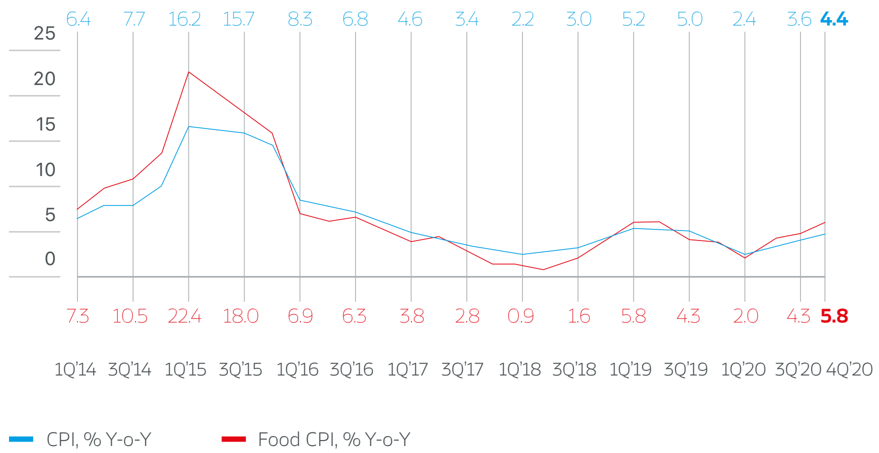
In some regions (for example, in Moscow), special payments were introduced for people over 65 and for those with chronic diseases. Furthermore, separate payments, both at the federal and regional level, were made to veterans of the Great Patriotic War.

Assistance was also rendered to small and medium-sized businesses. For companies in the most affected sectors, partial tax breaks were provided in Q2 2020, including income tax, employee national insurance contributions and others. Moreover, starting from the Q2 2020, the employee national insurance contributions rate for all small and medium-sized businesses was reduced from 30% to 15%.

The Central Bank of Russia played an important role in supporting the economy with a further reduction of the key rate from 6.25% in early 2020 to 4.25% by year-end. The government also launched various preferential programmes for loans, mortgage loans in particular. Opportunities were introduced to provide repayment holidays for individuals and individual entrepreneurs for a period of up to 6 months in the event of a decrease in monthly revenue by 30% year-on-year or more.

In 2020, average real wages remained almost unchanged (+2.5% year-on-year), while real disposable income (RDI), amid restrictions due to the COVID-19 pandemic, showed the most rapid decline in the last years (-3.5% year-on-year). The average unemployment rate grew to 5.8%.

CPI and Food CPI in Russia in 2014-2020, %



Source: Federal State Statistics Service

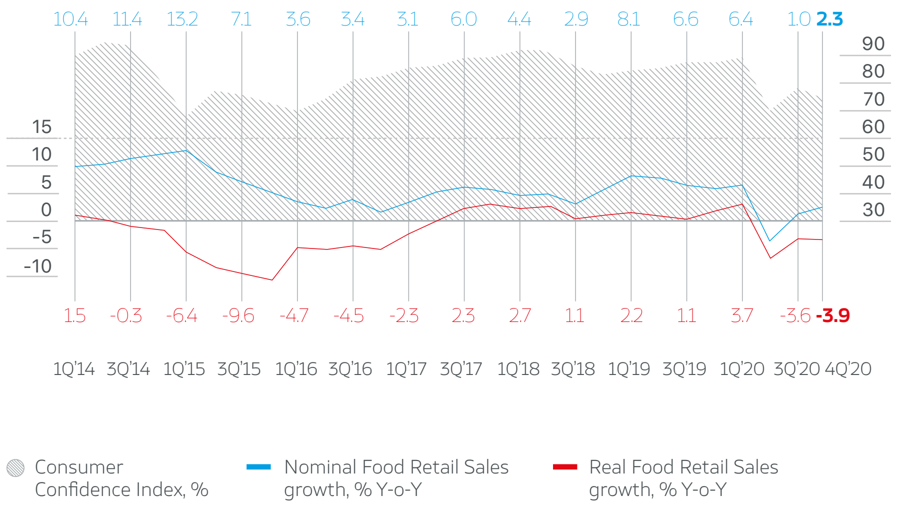
Market overview (continued)

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 36 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 6.3%.

The Ministry of Economic Development of Russia expects RDI growth of 3.0% in 2021 driven by the rebound in incomes from property and business after a significant decline this year. The unemployment rate is forecast to decline to 5.2% in 2021.

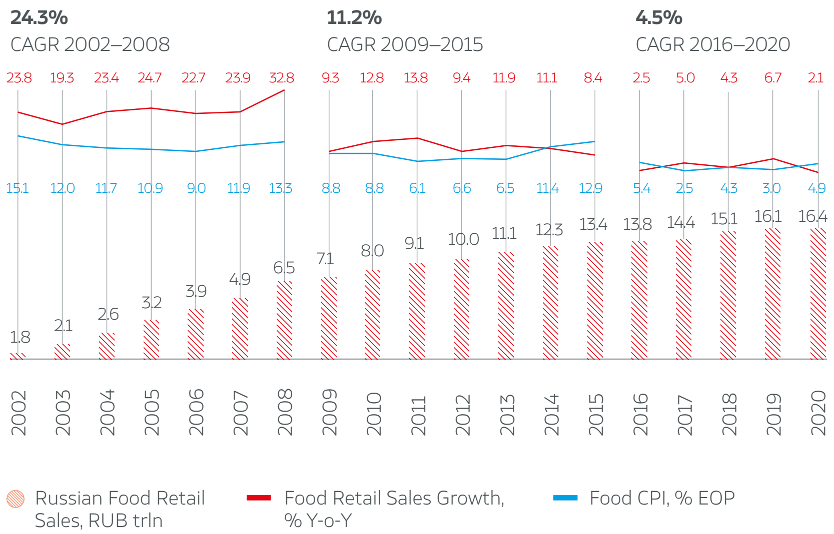
In 2020, the Consumer Price Index (CPI) grew by 3.4%, while Food CPI increased by 3.9%[1]. According to the Ministry of Economic Development of Russian Federation, CPI is expected to grow by 3.7% in 2021, as planned fiscal consolidation will have a restrictive effect on the CPI growth, which will only 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%).

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



Source: Federal State Statistics Service

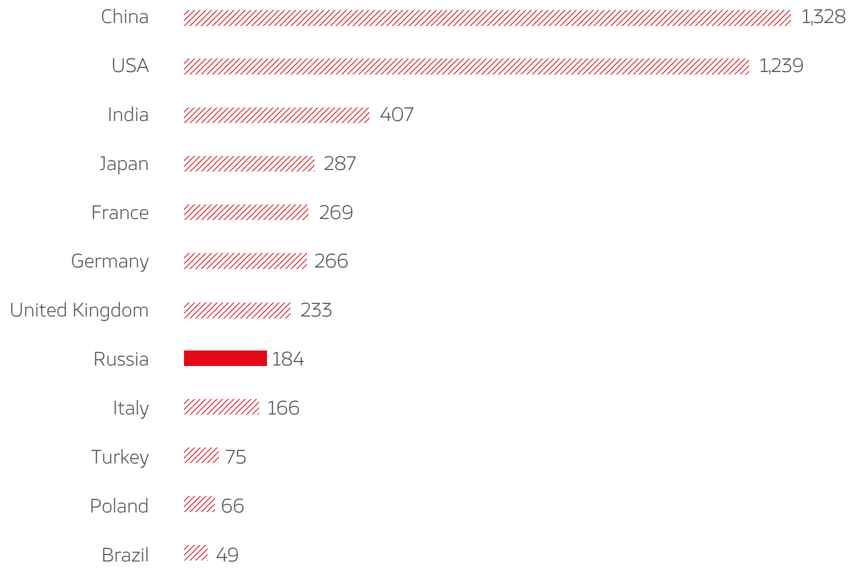
Food Retail Sales in Russia in 2002-2020



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

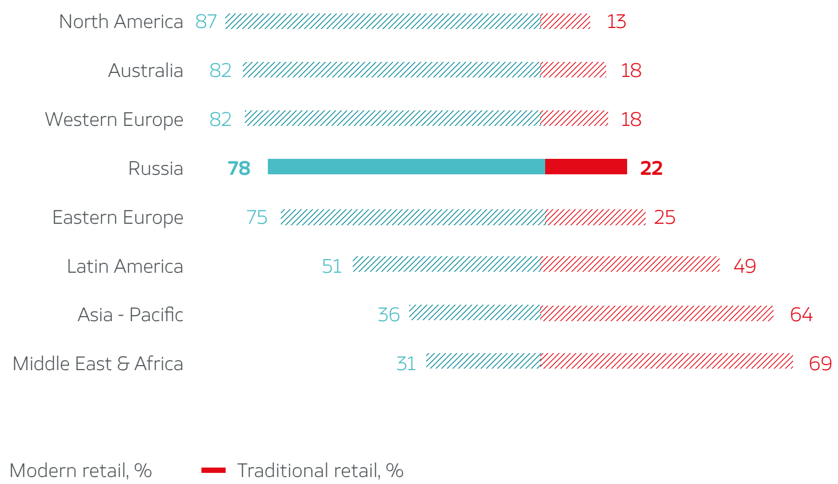
[1] Average annual inflation rate is given based on the average quarterly CPI changes year-on-year. Inflation rate at the end of December 2020 since December 2019 was 4.9%.

Grocery Retail Market in 2020, USD bln



Source: Euromonitor, 2020

Share of Modern and Traditional Retail in 2020, %



Source: Euromonitor, Infoline, 2020

The Russian Retail Market

The real growth of food retail sales in Russia in 2020 was negative (-2.6%)[2]. 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.

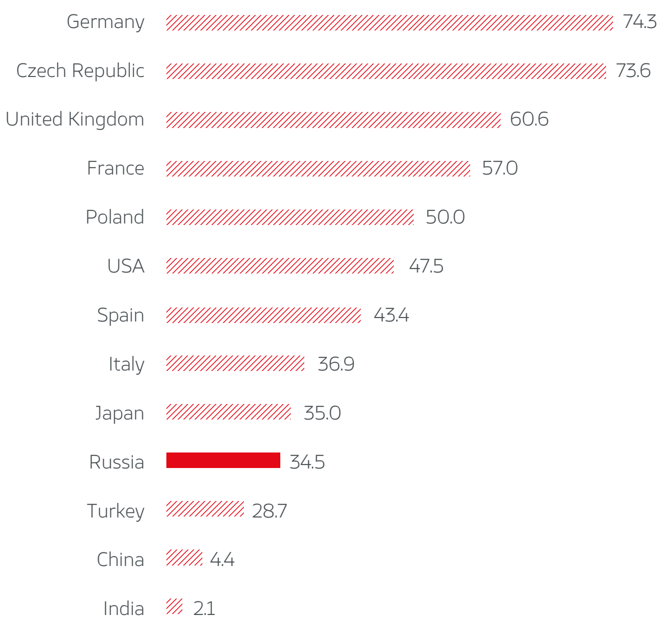
The modern Russian food retail market has solid potential for further growth and strong players are gaining market share. The share of modern retail in 2020 in Russia was 78%, behind the markets of North America (87%), Australia (82%) and Western Europe (82%). The Russian retail market remains underpenetrated.

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 pp versus 2019.

[2] According to Federal State Statistics Service.

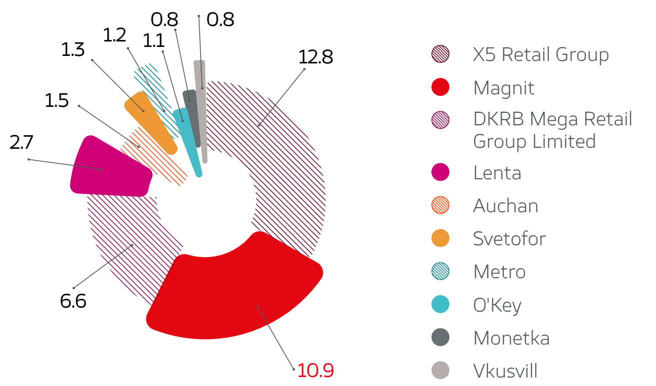
Market overview (continued)

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



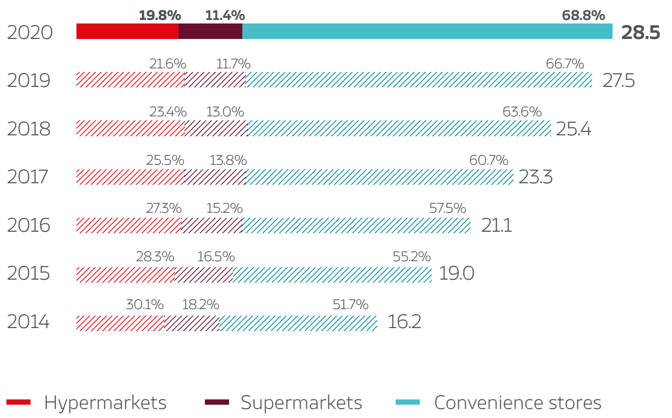
Source: Euromonitor, Infoline, Magnit analysis 2020

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



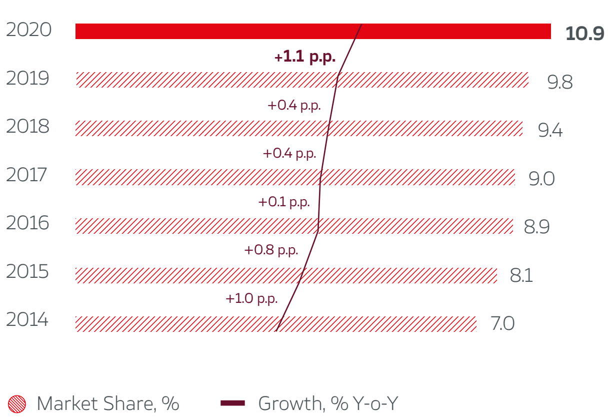
Source: Infoline, Magnit analysis 2020

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



Source: Infoline, Magnit analysis, 2020

Magnit Market Share by Revenue in Russia in 2014-2020, %



Source: Federal State Statistics Service, Magnit analysis 2020

Magnit is

#1 in Russia by number of stores and geographical footprint[1]

#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 continued market consolidation by industry leaders due to the weak performance of traditional retail and inefficient players. Both small players and ineffective retail chains 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 1.1 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.

Our CVP is continuously evolving. We are building our offering in each format depending on the preferences of customers in different areas to become a store of choice. For instance, this year Magnit launched Metropolitan Convenience store tailored for customer preferences in larger cities as well as started piloting discounter "My Price". We are developing our online expertise and plan to undergo a full digital transformation to be even more transparent and accountable for our stakeholders and shareholders.

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 Strategy (p. 46.) and Operational Review (p. 58.)

Key Trends in the Retail Market

Key trends in consumer behavior and preferences

Trend	Description
Consumer behavior	— The COVID-19 pandemic significantly increased the trend towards shopping in convenience stores — 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 — The trend to shop online has skyrocketed due to the COVID-19 pandemic, especially in large cities such as Moscow and Saint Petersburg. The e-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 — From consumers leaving large hypermarkets, there is an increasing demand for more expensive products in convenience stores
Consumer preferences	Despite the COVID-19 pandemic restrictions and the economic environment, consumer preferences are still shifting towards: — Healthy and safe food — Simple and convenient service — Quality and fresh products, especially fruit and vegetables — Unique and local products — Responsible consumption — Technologically friendly and omnichannel services — Awareness about products and shops from the media

[1] Federal State Statistics Service, public disclosures, Magnit analysis 2020.

Market overview (continued)

Key trends in Russian retail market

Trend	Description
Accelerated industry consolidation and growing availability of real estate	— 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, HORECA, and small regional and ineffective players
Rapidly evolving technologies	— Actively emerging digital ecosystems (e.g. Yandex, Mail.ru Group, Sber, Amazon, Wechat, Alibaba Group) erase the borders of traditional sector based thinking — Digital experience has become an essential part of today's lives including shopping
Migration to big cities	— Migration to big cities strengthened after COVID-19 pandemic, which drives changes in customer needs
Aging population	— The population of Russia is in decline and the proportion of people receiving state support in various forms is increasing
Moderate inflation rate	— Healthy inflation rate allows for more comprehensive planning of relationships with suppliers and supports retailers
Growing interest in sustainable development	— Increased interest in sustainable development among stakeholders — Growing attention to responsible waste disposal — Increased focus on relationships with suppliers — Higher investor expectations
Political factors	— Sanctions by the US and the EU — Counter-sanctions — Continuous support of local suppliers and manufacturers by government — Regional protectionism

Key Changes in the Regulatory Environment in 2020

Change	Regulatory Document	Effective Date
Lower VAT rate on import and sale of fruit and berries in Russia (including grapes), down from 20% to 10%.	Federal Law "On Amendments to Article 164 of Part Two of the Tax Code of the Russian Federation".	4 January 2020
Increase in excise tax on the sale of alcohol	Federal Law of 29 September 2019 No. 326-FZ	1 January 2020
New legal regulation of domestic viticulture and winemaking	Federal Law of 27 December 2019 No. 468-FZ	26 June 2020
Monthly cash payment for a child aged 3 to 7 years	Federal Law of 20 March 2020 No. 199-FZ	1 January 2020
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.	Decree of the President of the Russian Federation No. 443	4 July 2020
A ban on the production and import of unlabeled drugs	Federal Law of 27 December 2019 No. 462-FZ	1 July 2020
Organic products and their manufacturers are introduced, along with the norms for their production, storage, transportation, labeling, and regulated sales	Federal Law No. 280-FZ	1 January 2020

Key Changes in the Regulatory Environment in 2020 (continued)

Change	Regulatory Document	Effective Date
Experiment in receiving consumer packaging in retail outlets.	Instruction of the Deputy Prime Minister of Russia dated by 20 July 2020	Q4 2020 - Q3 2021
Resolution on the approval of the Rules for the provision of catering services, according to which restaurants and cafes from 2021 will not be able to include any payments that do not relate to the cost of ordered dishes and selected services.	Resolution of the Government of the Russian Federation dated by 21 September 2020 No. 1515 "On approval of the Rules for the provision of public catering services"	1 January 2021
Decree for manufacturers, suppliers and retailers on setting price caps for sugar and sunflower oil	An agreement between market participants.	14 December 2020
Increase in minimum retail prices for spirits, including vodka and cognac.	Order of the Ministry of Finance of Russia dated by 7 October 2020 No. 232n	1 January 2021
Establishing the size of the state duty for the provision or renewal of the license for the retail sale of alcoholic beverages.	Draft Law "On Amendments to Article 333.33 of Part Two of the Tax Code of the Russian Federation	1 January 2021
An experiment on labeling beer and other low alcohol drinks, including mead and cider.	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	From 1 April 2021 to 28 February 2022
Transition to piece accounting of alcoholic beverages.	Orders of the Federal Service for Alcohol Market Regulation pursuant to Article 10.2. 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"	1 November 2020
Extension of the anti-tobacco law to all nicotine-containing products.	Federal Law No. 303-FZ of July 31, 2020	28 January 2021
Increase of excise taxes on cigarettes and other tobacco products in Russia by 20% in 2021	Federal Law of 15 October 2020 No. 321-FZ	1 January 2021
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.)	At the year end, Recommendation for the Prevention of the Novel Coronavirus Infection (COVID-19) in Trade (MR 3.1/2.3.5.0191-20) approved on 21 April 2020 – became mandatory in accordance with the sanitary and epidemiological rules SP 3.1.3597-20, Prevention of the Novel Coronavirus Infection (COVID-19)	On 21 April 2020, it was decided to extend the term of the rules until 1 January 2022

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[1] and new approach to investments and redesigns drove impressive returns and uplifts.

New store opening with attractive

ROI[2] ~40%

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

+16%

Note: FY 2020. Net of COVID effect.

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.

Our Strategic Goal

1

Cement current leading federal retail positions growing market share significantly and profitably

Our Strategic Ambition

#1

Become #1 for consumers, employees and investors

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 M&A 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

Consumers
Growing LFL, best in NPS[3] and net consumer gains

Employees
Constant improvement in eNPS[4] and staff turnover

Investors
Creating value for shareholders through attractive returns

[1] 30 December 2020 compared to 30 December 2019.
[2] ROI = OCF of fully ramped up year / CAPEX.

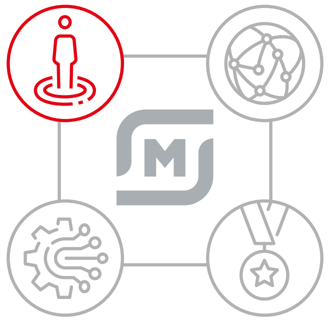
[3] Net Promoter Score.
[4] Employee Net Promoter Score.

Our Strategy (continued)

These ambitious goals will support the evolution of Magnit and satisfy customers, employees and investors.

Our strategy is built around four major pillars:

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

Everything that matters to our customers is provided under the Magnit Umbrella Brand.

Key differentiating pillars

- Multi-format model
- One loyalty programme
- Own production facilities
- One brand
- Emotional touch.

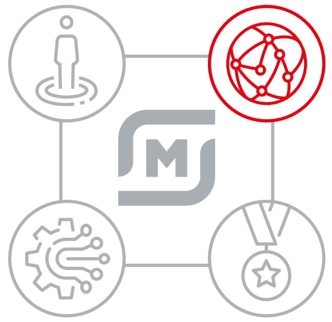
As the only truly national multi format retailer, Magnit offers a full range of products and services to meet customer needs, supported by its strong brand, loyalty programme and vertically integrated structure.

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.

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).

... in order to serve our customers in the best possible way, we consider the most efficient & promising ways to market ...



Most efficient & promising ways to market

- Smart expansion in core formats to increase market share, including M&A
- Actively consider new sales lines, new niches and markets
- Omnichannel development including e-commerce
- Agile sourcing including partnerships with suppliers, crystalized offering in own production and private labels to enhance proposition and secure positioning

CVP enhancement and customer centricity remain our key priorities. We plan to expand smartly with high profitability targets for new openings as well as developing through M&A, which will become increasingly important as the Russian market consolidates.

We will extend our customer proposition by offering services that are complementary to our core business, including partnerships, e-commerce and new specialised formats to better satisfy customer needs. Our approach is to pilot relevant customer offerings and operating models. We then selectively scale the pilot projects that show attractive performance and ultimately deliver the best proposition to our customers and high returns.

We have big ambitions to differentiate our product offering through tailored procurement initiatives in private label, own production, direct import and strategic partnerships with suppliers.

We believe we are very well positioned to expand our Private Label (PL) efforts – we expect the PL offering to account for 25% of sales by 2025, while extending the range and rationalizing the brand portfolio with specific focus on the cross-category brands and value for money. Our own production facilities and expertise are well placed to deliver this and we will continue to invest in strengthening our high-quality proposition.

Direct import is another hugely important area and we have a specially dedicated procurement team focused on securing the best deals and products for our stores. Our procurement strategy goes beyond the traditional approach to buying – we want to create long-term mutually beneficial E2E strategic partnerships with our suppliers (including data, innovations, capacity utilization, tailored offerings, merchandising supported by aligned promotional and marketing initiatives).

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 ...

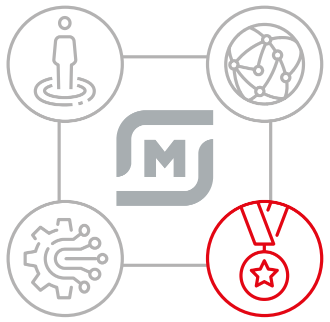
Modern and efficient platform

- 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 organizational 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[1] 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.

... we would not to be able to achieve our strategic ambitions without our people – we are aiming to become the employer of choice in Russia



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 84%, one of the best results among food retailers.

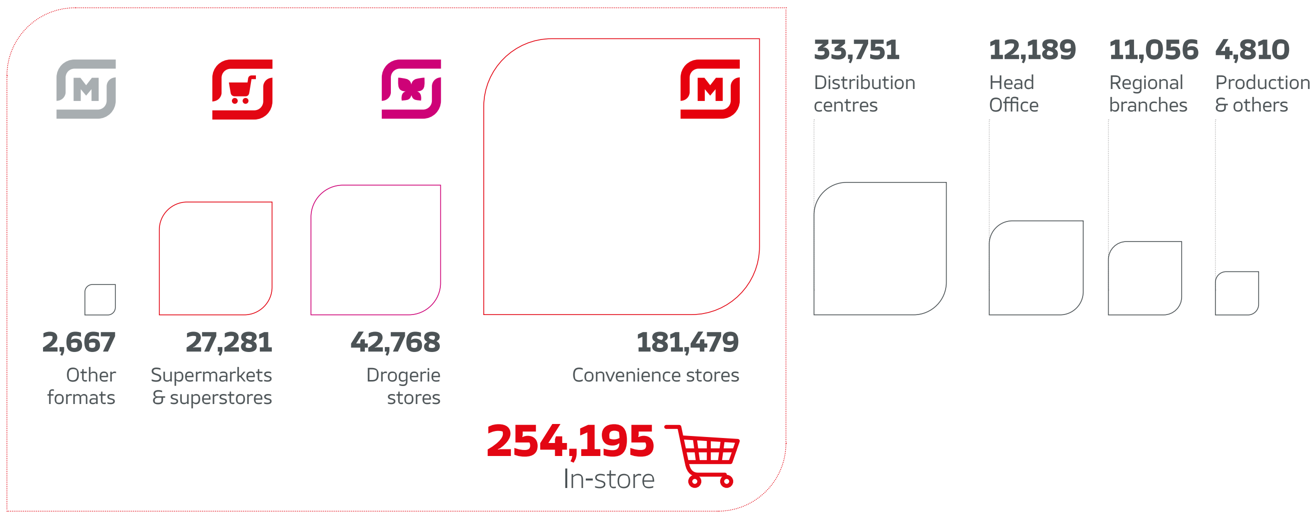
Longer term, we are constantly refining our organisational structure to maximise synergies. Magnit aims to be a change leader in labour market transformation by developing an attractive EVP for all employees and in particular to attract Tech and Digital specialists.

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.

Magnit – One of the Largest Private Employers in Russia

316,001
headcount of employees



[1] 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.

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

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

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

Accelerate
smart organic expansion
(annually on gross basis):

- Convenience: 1,000-1,500 stores
- Drogerie: 750-1,000 stores
- Supermarkets & Superstores: 5-15 stores

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

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

Adherence
to sustain high return requirements
for new projects

Continue to proactively consider adjacent value
accretive additional niches

Key Financial Guidance 2021-2025[1]

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

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

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

Improvement of working capital
with a focus on stock days optimization by:

- 3-5 days in grocery
- 10-15 days in drogerie

Focus on high returns and value accretion for shareholders leading to
continuous strong dividend payment

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"[2], 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.

1 Based on IAS17.
2 Please, see Sustainable Development, p. 102.

Investment Case

Magnit: Everything that matters is close to you

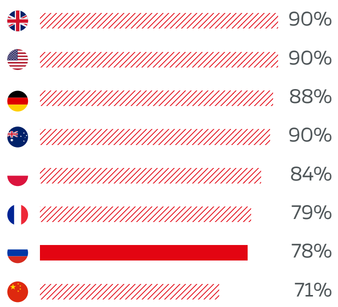
Market potential

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

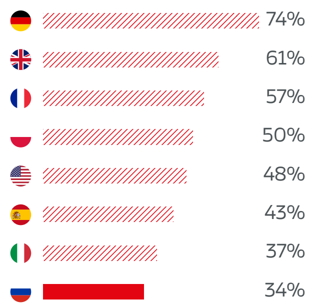
Russian market offers further growth potential

Modern retail share in grocery retail, 2020, %



The market has potential for further consolidation

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

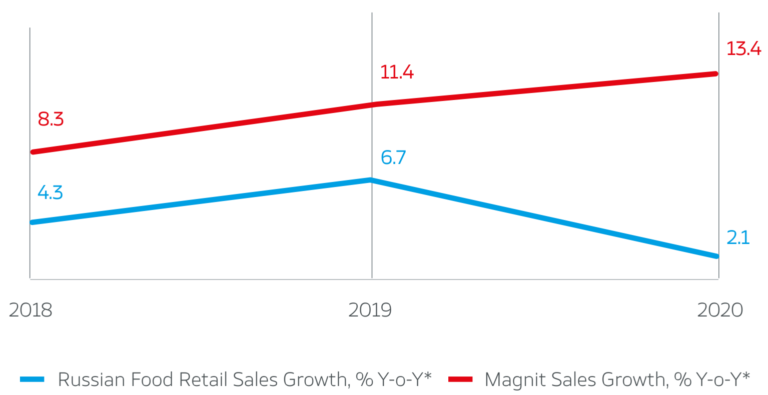


Leading player

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 (66 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 17 own production facilities and agricultural complexes

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



* 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
- Extension of customer offerings that are complementary to the core business
- Benefits from lucrative EBITDA margin (IAS 17) steadily moving to the direction of 8% within 2021-2025 leading to very attractive cash generation
- Continuous focus on efficiency to generate higher returns

+97 bps
EBITDA margin improvement in 2020 (IAS17)

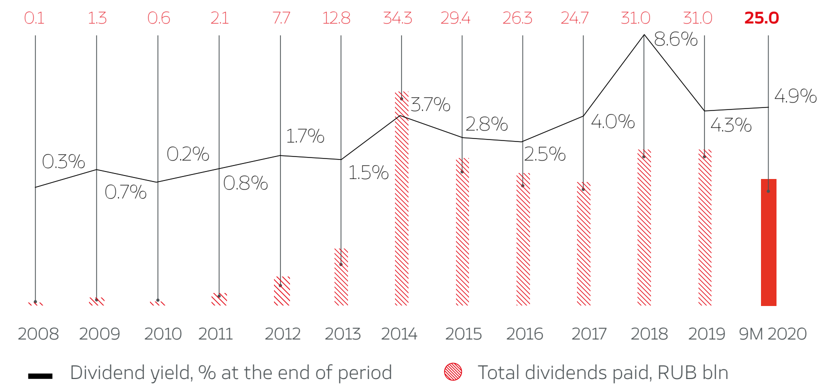
+6.5%
sales density growth in 2020

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



RUB 85 bln
strong free cash flow in 2020

1.1x
net debt/EBITDA leverage (IAS17) as at 31 December 2020

Business model

Environment
Responsible supply chain
Employees
Community involvement
Health and wellbeing
Scalable & Reliable IT solutions
Big Data & Advanced Analytics
Effective E2E processes & Cross-functional cooperation

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

Largest supply chain network in Russia

38 distribution centres in **7** federal districts

>**4.3 thous.** trucks

91% centralisation ratio

Logistics transformation

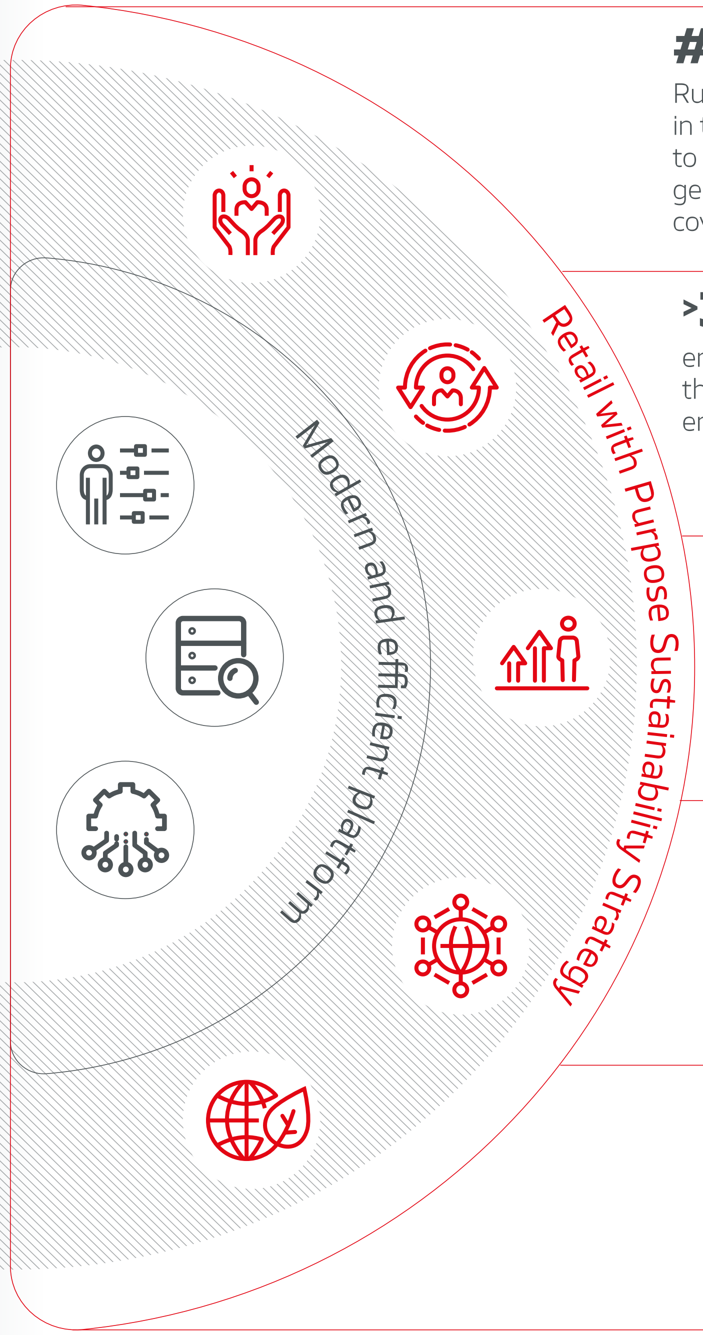
Best customer experience

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

>**43 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 210 mln allocated for charity

RUB 2.9 bln responsible approach towards environment

Goverment

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 Tsena[1] discounters, Mini Cosmetics stores and online offering. Progress was made in developing and improving operational structure and range, while enhancing category management.

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.

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[2]
- charity boxes, additional discounts to medical officers, elderly people and socially vulnerable citizens.

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.

[1] My Price.

[2] For a number of months during challenging epidemiological situation.

Operational review

RUB 1,510 bln
13.3% year-on-year increase in net retail revenue

7.4%
LFL sales growth

839
stores opened in 2020 (net)

7,497 thous.
sq. m total selling space

3.6%
year-on-year increase in total selling space

6.5%
year-on-year sales density increase

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.

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 in 2020 improved 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 5.5% 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 -5.9% in 2020. This decrease in the number of visits was more than compensated by 14.1% growth in LFL average ticket, 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 Intertorg under the Family and Spar brands, and acquiring long-term leasehold rights for 89 Evroros, Yablochko, and Tvoy 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.

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 212 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 8.2% 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.

LFL average ticket growth for the year was 15.2%, driven by volume increase, trading 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.

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.

Convenience stores

13.8% year-on-year sales growth

14,911 stores

8.2% LFL sales growth

2.8% year-on-year increase in selling space

77% of the net retail sales

5,090 thous. sq. m of selling space

289 net store openings

8.2% sales density increase year-on-year

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 3,200 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 (Moya Tsena)

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

1.7%
year-on-year sales growth

941
thous. sq. m of selling space

-0.8%
year-on-year increase in 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)

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.

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.

Magnit 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.

Magnit 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

9.7% year-on-year increase in selling space

9% of the net retail sales

1,428 thous. sq. m of selling space

553 net store openings

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 revenue, an increase of 0.7 p.p compared to 2019. These stores stock non-food products such as mass-market make-up products and personal care items (including private label products), 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 134 bln, a 22.4% increase year-on-year. Sales density improved by 7.2% 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

This modern pharmacy format was launched by the Company in 2017 and is characterized by its affordable prices, easy navigation, convenient open display and friendly and professional staff.

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.

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

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

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 stores, supermarkets, Magnit Cosmetic stores and pharmacies, and discover more about how they operate.

During the tour, participants can see how the Company's stores are evolving in terms of customer offering, product range and service, and what new technologies and solutions are being introduced to make shopping as enjoyable and convenient as possible.

See more at:
https://www.magnit.com/en/about-company/store-formats/

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.

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 late 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 fulfils 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.

The annualised 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.

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.

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.

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:

Pre-shopping
- loyalty, general promo and CVM offers
- interest clubs
- partners' privileges
- checking availability in nearest stores

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

E-grocery experience
- express grocery
- regular grocery
- e-drogerie
- e-pharma

Payment
- digital loyalty card
- Magnit payment solution

Post-shopping
- feedback
- recipes
- digital content

Best
Customer Experience

Pilot projects at different stages of development and implementation.

Digital tools

SelfieToPay: face-recognition-based payment technology

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

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

Interactive price checkers, mobile printers

Bicolor electronic price tags, providing instant updates on product information

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

Data Matrix labeling system for dairy products

LED screens with useful content

E-sommelier

Store organisation

"Farmers' Market"

"Health Island" for balanced nutrition

Local food products

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 aluminum cans

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

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, door handles, carts, cash registers and other equipment
- Allocated special schedule for disinfection from 2.00 to 2.30 pm in convenience stores and Magnit Cosmetic stores
- Applied special markings near the tills to maintain social distancing
- 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
- Removed cosmetic samples from Magnit Cosmetic stores
- We carry out daily medical examination and measurement of the body temperature of employees
- We inform customers about compliance with security measures and urge them to use self-service checkouts.

— We have improved safety measures at distribution centres
- Increased the number of activities for 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 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.

— 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.

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[1] 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 27% of its cost before migration, or around RUB 470 mln annually.

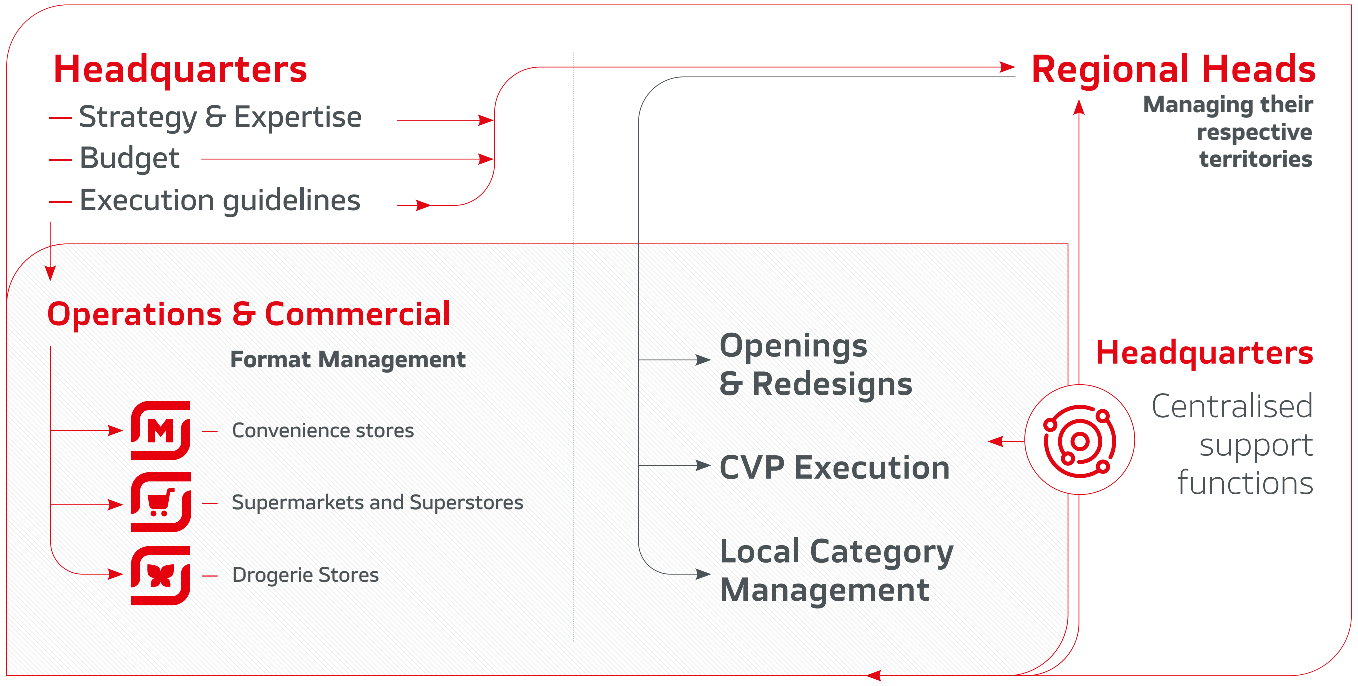
Magnit's SSC was awarded the winner of the "Best SSC rollout in Russia and CIS" award, beating peers across different industries. The criteria included the technological level and the overall achievements for the reporting period.

The Shared Service Centre will largely contribute to the Magnit's automatisation 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.



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

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 230 people have already completed their curriculum.

Fresh and Promo	Operational and Format Management of CM	Dry/Nonfood items/Selling Space	Commercial/ Procurement block
Fresh Food Products	Big Formats	Grocery	Own Production
Ultra-Fresh	Magnit Cosmetic	Beverages	Private Label
Fruits and Vegetables	Small Formats	Beauty and Cleaning Products	
Meat, Fish and Poultry	Wholesale	Nonfood products	
Promo Planning	Commercial Districts	CM Pricing and Sales Support	

Pillars of Category Management

Customer comes **First**

All generations approach

Understanding the customer **insights**

Being **close** to the customer

Magnit's Corporate Academy is a programme of training and development for Company's employees at all levels (employees, line managers and middle managers).

The Academy has combined and modified the existing training programmes, becoming a single platform for continuous professional development for employees. It encompasses three faculties – Logistics, Retail and Category Management. The emphasis is placed on improving the qualifications of line personnel, building a talent pool in each function and preparing employees for the new challenges of a rapidly changing business environment.

Educational programmes are based on internal knowledge and experience accumulated in the Company.

In the reporting year, about 200 thous. people were enrolled in the Corporate Academy.

Magnit revised existing programmes for employees and developed new ones in order to contribute to the all-round development of personnel and, consequently, of the Company.

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.

This approach led to the opening of Magnit Metropolitan and Discounters format, where the product range is carefully matched with the needs of the customers within the target area. Even during the pandemic, customers were still trading up in their product choice, therefore we aim to expand the product matrix in order to give customer the widest possible choice of products.

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 management of Magnit met with suppliers to discuss the major trends and upcoming projects.

"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 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 7.4%.

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%.

10.3%
increase in the accuracy of procurement forecasts in distribution centers (DC)

6.7%
increase in the level of service for shipments from DC to retail outlets

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.

17
suppliers

225
SKUs at the pilot stage

Vendor Managed Inventory

In 2020, Magnit, in cooperation with Baltika, 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.

SaaS GCR
the system allows suppliers to autonomously forecast and replenish stock at the retailer's DC

Goods availability assessment system

The Company has developed a digital solution to assess and monitor availability of products in stores. The automatic system identifies and performs detailed analysis of 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 Cosmetic stores and by 5% in Convenience stores.

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 2021-2022. Startups include BestPlace – a geoanalytics 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 the exchange of logistics data and can track the speed and quality of product shipments to distribution centres. Suppliers can familiarise themselves with any deviations in logistics and adjust tasks to respond quickly.

In addition, Magnit introduced digital contracts with suppliers, significantly reducing the time needed for document verification.

10
innovative projects with the most potential for further development

RUB 1.0 bln
economic impact from scaling the innovations

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 2,500 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 'My Price' brand and the 'Magnit family' brands, and continued the roll-out of the portfolio of cross-category PL. Since the beginning of 2020, the 'My Price' and '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

2020 Results:

19% growth in revenue from PL sales

10% share of PL in sales structure

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

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

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 R ISO 22000-2007 and the international Food Safety System Certification (FSSC) v.5.

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 offer 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 Confectioner 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.

Private Label and Own Production (continued)

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.

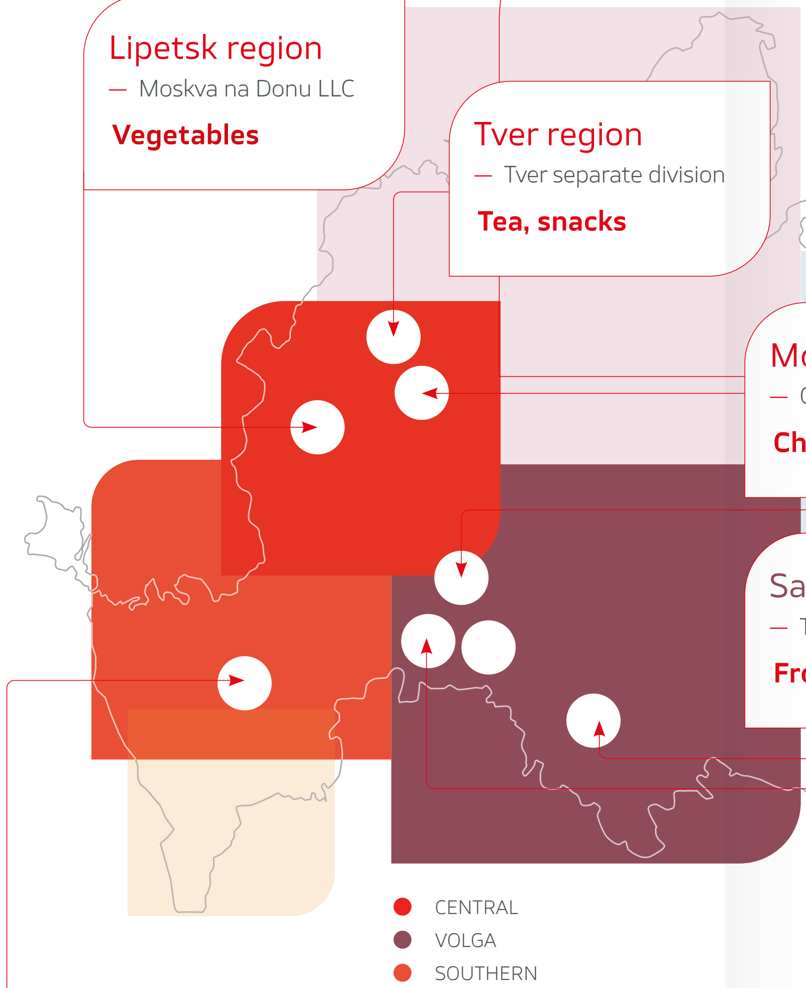
In house production enables the Company to deliver local products to our stores, including in the fresh category products: among the produced goods are frozen semi-finished products, pasta, snacks, cereals, vegetables. The Company's own facilities set a record in 2020, having produced 310,000 tonnes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

Product type	%
Pasta	13%
Tomatoes	22%
Cucumbers	22%
Lettuce	43%
Cupcakes	51%
Roulade	74%
Mushrooms	85%
Nuts and dried fruits	88%



Lipetsk region
— Moskva na Donu LLC
Vegetables

Tver region
— Tver separate division
Tea, snacks

Moscow region
— Cheese Slicing Facility Dmitrov JSC Tander
Cheese slicing and packaging

Penza region
— Cheese Slicing Facility Penza JSC Tander
Cheese slicing and packaging

Samara region
— Togliatti separate division
Frozen food

Republic of Bashkortostan
— Ufa separate division
Grocery, snacks

Saratov region
— Saratov separate division
Grocery, snacks

Krasnodar region
— Kuban Factory of Bakery Products LLC
— Kuban Confectioner LLC
— Plastunovskaya separate division
— Tikhoretsk separate division
— Novotitarovskaya separate division
— Cheese Slicing Facility Krasnodar JSC Tander
— Cheese Slicing Facility Novorossiysk JSC Tander
— Zelenaya Liniya LLC – Tikhoretsk separate division
— Zelenaya Liniya LLC – Plastunovskaya separate division
— Zelenaya Liniya LLC – Mushroom complex

13 production plants
+4 agricultural facilities

82 awards for quality in 2020

~310 thous. tonnes of production

166 manufacturing lines

484 SKUs (**+81** SKUs in 2020)

31% sales growth

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

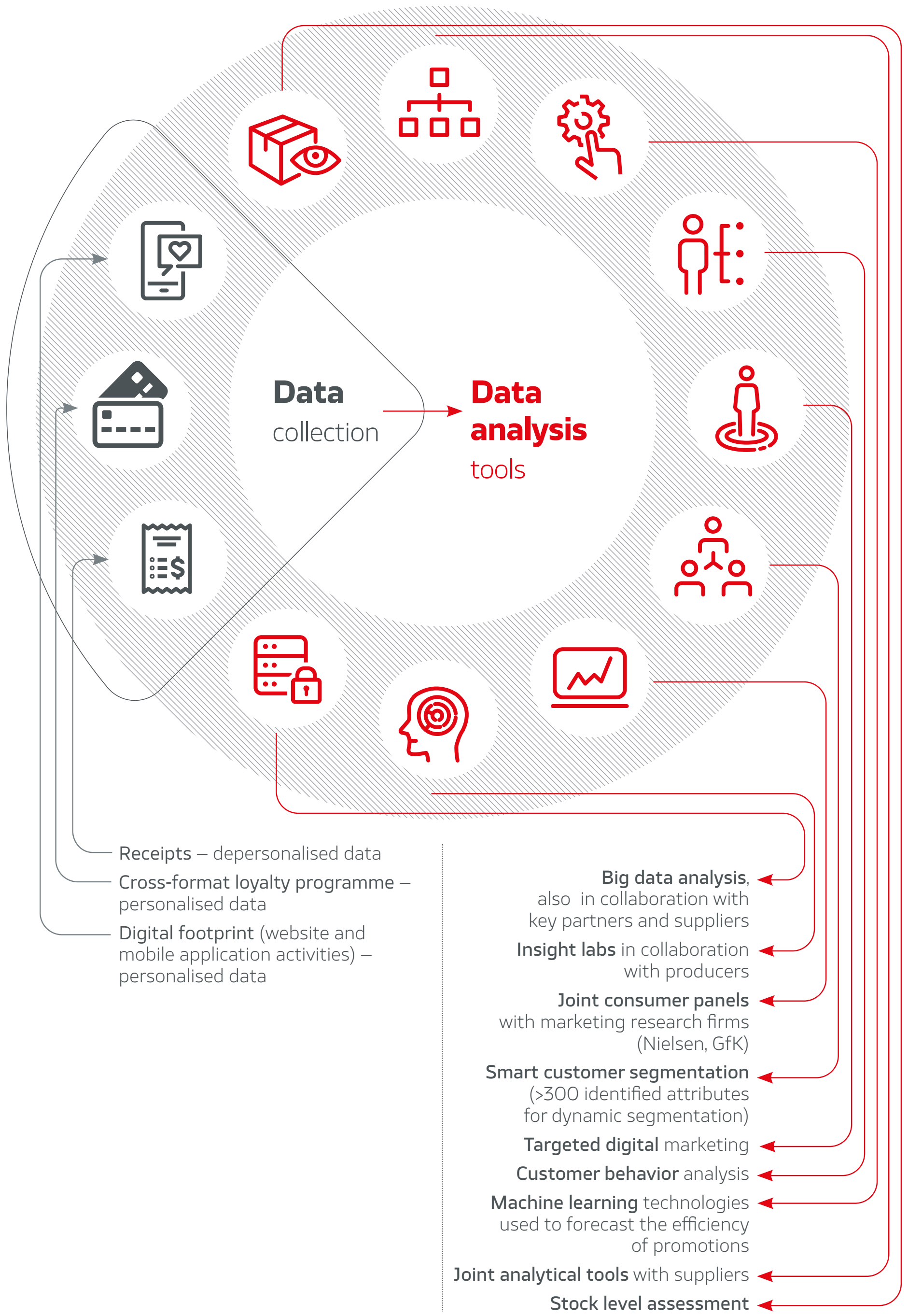
Marketing

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.

Marketing data collection and analysis at Magnit



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 Romir 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 magazine contains information about trends, new products and lifehacks, advice and recipes.
- Innovative contact points with customers (digital screens, price checkers, screens at cash desks, disinfection 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 RUB1 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. "Skrepysh" 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%.

Collaboration with Gorod loyalty programme

>35,000
goods

>1,700
stores

up to 50 %
cashback in bonuses

In 2020, the campaign was even more successful: in the course of the campaign, Magnit handed out over 242 mln pcs. of Skrepyshi (32 mln pcs. more than a year before), and the Company's total turnover increased by approximately 2.1% (compared to the approximate rise of 1.8% in 2019).

Pora otygrat'sya (Time to recoup)

In August-October 2020, Magnit ran a gamified promotion campaign Pora otygrat'sya (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 – vk.cc/magnitapp.

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 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, drogeries 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 0.5–2%, 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 44%.

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 2.0' are: implementing the principles of Customer value Management, based on the customer life-circle, automated omnichannel 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 commission from partnering banks.

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, HoReCa, educational services and other services.

Logistics

Magnit's logistics system operates 38 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 Generix 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.

It was initially tested together with Baltika in Samara and showed positive results in terms of store satisfaction and freshness of delivered goods. It is expected that the system will be implemented throughout the Magnit chain.

The Company equipped all 38 of its distribution centres with a remote temperature monitoring system and implemented sensors to keep track of the conditions during delivery to the store. Currently, the level of compliance with the temperature requirements is at 96% for the logistics centres, and 95% for the vehicle fleet. In the future, Magnit plans to bring these figures up to 100%.

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

Geographical zone	Daily delivery of fresh category	Fresh and cross-docking platforms[1,2]	Contactless goods acceptance at night	Use of leased transport
< 80 km	🟢	🔴	🟢	🟢
> 80 km High population density	🟢	🟢	🟢	🟢
< 80 km Low population density		🔴	🟢	🔴

🟢 maximum potential 🔴 minimum potential

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. Inbound and outbound of items is carried out within one day.

Logistics (continued)

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.

>40,000
sq. m

>400
supplied stores

100
local suppliers work for

>700
new jobs created

Magnit 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.

Magnit seeks to not only improve logistical efficiency but also to cut the amount of harmful emissions. In 2020 Magnit 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, Ural 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 Magnit 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 kW/hour per year.

Geographical coverage of distribution centres in 2020

Region	Number of DCs	Total warehouse space (thous. sq. m)[1]
Central Federal District	10	512
Volga Federal District	10	470
Southern Federal District	8	313
Urals Federal District	3	143
Northwestern Federal District	3	119
Siberian Federal District	3	110
North Caucasian Federal District	1	40

Overview of the logistics chain

Logistics chain characteristics	2020	2019	2018	2017
Number of stores served	21,564	20,725	18,348	16,298
Number of distribution centres	38	38	37	37
Total warehouse space, thous. sq. m[1]	1,707	1,686	1,645	1,640
Selling space per 1 sq. m of warehouse space, sq. m.	4.39	4.29	3.91	3.51
Number of stores per 1 warehouse[2]	567	545	496	440
Sales per 1 sq. m of warehouse space, RUB thous. sq. m	910	812	752	697
Centralisation ratio[3], %	91	91	89	88
Number of company-owned trucks	4,355[4]	5,656	5,897	6,089

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.

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 11 shipment regions and 10 transport companies. Pooling allows suppliers to reduce logistics costs by an average of 10-30%. 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.

Magnit 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.

New electrical trucks "Moskva" are being tested by Magnit in DC Dmitrov. They were specifically designed for Magnit by the 'DRIVE ELECTRO' 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

Automation

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

- RS+OSA+MS 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.

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.

1

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

Implementation in partnership with leading integrators delivering SAP solutions

4 Middleware, Internal SAP Centre of Excellence

Magnit's internal team

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

Name	Description
SAP S/4Hana for Retail	The powerful tool to utilise all financial and commercial functions and unify all the business processes within the Company
SAP Central Finance	The system unifies the financials of all Magnit's enterprises
SAP CAR	The modern check storage to be created within Magnit
SAP Track and Trace	The programme will trace the operations to comply with all the regulations
SAP Business Objects and SAP Analytics Cloud	The tools will be used to construct corporate analytics and unifi-cation of the reporting

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. 65.

— 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.

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[1]

FY 2020 key financial highlights[2]

- Total revenue increased by 13.5% year-on-year to RUB 1,553.8 bln.
- Net retail sales reached RUB 1,510.1 bln representing 13.3% year-on-year growth.
- Gross profit margin stood at 23.5% - an increase of 74 bps year-on-year on improved commercial terms, lower promo activity in a combination with better promo coverage and higher promo margin, lower shrinkage and supply chain costs partially offset by ongoing cost of the loyalty programme.
- Cash SG&A expenses[3] as percentage of sales improved by 36 bps to 17.5% primarily as a result of lower rent as well as positive operating leverage effect partially offset by higher packaging and raw materials costs.
- EBITDA was RUB 109.4 bln with a 7.0% margin – an increase of 97 bps year-on-year driven by strong gross margin dynamics and lower SG&A expenses.
- Net income increased by 120.8% year-on-year and stood at RUB 37.8 bln. Net income margin increased from 1.2% in 2019 to 2.4% in 2020.
- As of December 31, 2020 Net debt was RUB 121.4 bln. The Net Debt to EBITDA ratio was 1.1x vs 2.1x as at 31 December 2019.

Implications of IFRS 16

IFRS 16 balances the presentation of leased assets with owned assets. With this, rent expenses are replaced with depreciation and interest payments.
The lease capitalised is reduced on straight line basis but interest is charged on outstanding lease liabilities, thus interest is higher in the earlier years and decreases over time.
As a result, the impact on net income is highly dependent on average lease maturity – the higher the maturity, the lower the interest charges.

Total revenue in 2020 increased by 13.5% to RUB 1,553.8 bln.

Net retail sales in 2020 grew by 13.3% year-on-year to RUB 1,510.1 bln driven by a combination of 3.6% selling space growth and 7.4% LFL sales growth. Every quarter of the reported year net retail sales growth outpaced selling space growth as strong LFL results have led to a continuous improvement of sales densities across all formats since January 2020.

Wholesale revenue in 2020 increased by 22.2% year-on-year to RUB 43.7 bln primarily driven by improvements of wholesale operations. Share of wholesale segment increased from 2.6% in 2019 to 2.8% in 2020.

Gross Profit in 2020 increased by 17.2% to RUB 365.7 bln with a margin increase of 74 bps year-on-year to 23.5%. This came as a result of improved commercial terms, lower promo activity in combination with better promo coverage and higher promo margin, lower shrinkage and reduced supply chain costs as well as increased share of high-margin drogerie business. This was partially offset by the ongoing investments into Magnit's loyalty programme with higher penetration and growing share of low-margin wholesale business.

Alongside with the growing share of fresh products and overall improvement of on-shelf availability shrinkage as a proportion of sales decreased by 56 bps year-on-year driven by ongoing optimization of supply chain processes, renegotiation of quality standards with suppliers and other initiatives.

Despite continuous increase of 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.

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

FY 2020 Key Financial Results

	IAS 17			IFRS 16		
RUB, mln	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Total revenue	**1,553,777**	1,368,705	13.5%	**1,553,777**	1,368,705	13.5%
Retail	**1,510,071**	1,332,929	13.3%	**1,510,071**	1,332,929	13.3%
Wholesale	**43,707**	35,777	22.2%	**43,707**	35,777	22.2%
Gross Profit	**365,729**	311,999	17.2%	**365,756**	311,999	17.2%
Gross Margin, %	**23.5%**	22.8%	74 bps	**23.5%**	22.8%	74 bps
SG&A, % of sales	**-20.5%**	-21.3%	82 bps	**-19.1%**	-19.8%	70 bps
EBITDA pre LTI[3]	**110,264**	85,111	29.6%	**179,043**	149,309	19.9%
EBITDA Margin pre LTI, %	**7.1%**	6.2%	88 bps	**11.5%**	10.9%	61 bps
EBITDA	**109,410**	83,112	31.6%	**178,189**	147,310	21.0%
EBITDA Margin, %	**7.0%**	6.1%	97 bps	**11.5%**	10.8%	71 bps
EBIT	**63,493**	36,324	74.8%	**88,424**	59,216	49.3%
EBIT Margin, %	**4.1%**	2.7%	143 bps	**5.7%**	4.3%	136 bps
Net finance costs	**-13,497**	-15,095	-10.6%	**-44,268**	-47,509	-6.8%
FX gain / (loss)	**-1,310**	781	-267.8%	**-1,453**	873	-266.5%
Profit before tax	**48,686**	22,010	121.2%	**42,703**	12,579	239.5%
Taxes	**-10,905**	-4,901	122.5%	**-9,709**	-3,015	222.0%
Net Income	**37,781**	17,108	120.8%	**32,993**	9,564	245.0%
Net Income Margin, %	**2.4%**	1.2%	118 bps	**2.1%**	0.7%	142 bps

[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)

	IAS 17			IFRS 16		
RUB, mln	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Payroll and related taxes	**138,640**	121,677	13.9%	**138,640**	121,677	13.9%
as a % of Sales	**8.9%**	8.9%	3 bps	**8.9%**	8.9%	3 bps
Rent	**67,011**	63,195	6.0%	**1,429**	982	45.5%
as a % of Sales	**4.3%**	4.6%	-30 bps	**0.1%**	0.1%	2 bps
Depreciation & amortization	**45,917**	46,788	-1.9%	**89,765**	88,094	1.9%
as a % of Sales	**3.0%**	3.4%	-46 bps	**5.8%**	6.4%	-66 bps
Utilities	**28,287**	24,737	14.3%	**28,287**	24,737	14.3%
as a % of Sales	**1.8%**	1.8%	1 bps	**1.8%**	1.8%	1 bps
Advertising	**7,628**	7,715	-1.1%	**7,628**	7,715	-1.1%
as a % of Sales	**0.5%**	0.6%	-7 bps	**0.5%**	0.6%	-7 bps
Other expenses	**9,051**	8,723	3.8%	**9,051**	8,723	3.8%
as a % of Sales	**0.6%**	0.6%	-5 bps	**0.6%**	0.6%	-5 bps
Bank services	**7,108**	6,516	9.1%	**7,108**	6,516	9.1%
as a % of Sales	**0.5%**	0.5%	-2 bps	**0.5%**	0.5%	-2 bps
Repair and maintenance	**6,732**	5,748	17.1%	**6,732**	5,748	17.1%
as a % of Sales	**0.4%**	0.4%	1 bps	**0.4%**	0.4%	1 bps
Taxes, other than income tax	**2,925**	3,240	-9.7%	**2,925**	3,240	-9.7%
as a % of Sales	**0.2%**	0.2%	-5 bps	**0.2%**	0.2%	-5 bps
Packaging and raw materials	**4,861**	3,215	51.2%	**4,861**	3,215	51.2%
as a % of Sales	**0.3%**	0.2%	8 bps	**0.3%**	0.2%	8 bps
Total SG&A	**318,159**	291,555	9.1%	**296,425**	270,648	9.5%
as a % of Sales	**20.5%**	21.3%	-82 bps	**19.1%**	19.8%	-70 bps
Cash SG&A (excl. D&A)	**272,242**	244,767	11.2%	**206,660**	182,554	13.2%
as a % of Sales	**17.5%**	17.9%	-36 bps	**13.3%**	13.3%	-4 bps

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.

Rental costs as a percent of sales decreased by 30 bps year-on-year to 4.3% 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.

Despite growing costs related to the loyalty programme, advertising expenses as a percentage of sales decreased by 7 bps year-on-year to 0.5% thanks to more efficient tactics and tools of promo campaigns.

Packaging and raw materials expenses increased by 8 bps year-on-year to 0.3% reflecting the ongoing provision of means of sanitary protection to customers and employees during the COVID-19 pandemic.

Other costs including utilities, bank and tax expenses improved on positive operating leverage effect.

Total costs incurred as a result of the Company's response to COVID-19 in 2020 reached RUB 2.8 bln. This included additional payments to frontline personnel (reflected in staff costs) and safety procedures (reflected in other operating expenses).

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

Depreciation as a percent of sales reduced by 46 bps year-on-year to 3.0% driven by operating leverage, slower expansion (839 net openings in 2020 vs 2,377 stores opened last year) and redesign programme (385 refurbishments in 2020 vs 2,341 redesigns made last year).

As a result, operating profit in 2020 stood at RUB 63.5 bln or 74.8% higher than a year ago.

Net finance costs in 2020 decreased by 10.6% year-on-year (or 23 bps) to RUB 13.5 bln due to the lower cost of debt and total amount of borrowings.

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%.

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. RUB 4.7 bln increase in trade payables driven by improvement of payment days was offset by RUB 5.2 bln decrease of other payables related to high pace of expansion in 2019. Accounts receivables decreased by RUB 5.4 bln or 38.8% to RUB 8.6 bln as a results of ongoing optimisation initiatives including weekly tracking of overdue debts and clearing activities as well as launch of electronic document flow with suppliers.

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

RUB, mln	31.12.2020	31.12.2019
Non-current assets	678,461	697,347
Inventories	205,949	218,874
Trade and other receivables	8,564	13,993
Cash and cash equivalents	44,700	8,901
Other current assets	7,718	9,574
Assets	**945,392**	**948,689**
Equity	**182,889**	**188,533**
Long-term borrowings	147,695	119,632
Other long-term liabilities	330,535	340,125
Trade and other payables	161,072	161,631
Short-term borrowings and short-term portion of long-term borrowings	18,392	64,578
Other short-term liabilities	104,809	74,189
Equity and liabilities	**945,392**	**948,689**

Debt Composition and Leverage as of 31.12.2020

RUB, bln	2020	Share, %	1H 2020	Share, %	2019	Share, %
IAS 17						
Gross debt	**166.1**		208.6		184.2	
Long term debt	**147.7**	88.9%	117.4	56.3%	119.6	64.9%
Short term debt	**18.4**	11.1%	91.2	43.7%	64.6	35.1%
Net debt	**121.4**		187.4		175.3	
Net debt / EBITDA	**1.1x**		2.0x		2.1x	
IAS 16						
Net debt	**479.0**		538.8		532.5	
Net debt / EBITDA	**2.7x**		3.3x		3.6x	

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 166.1 bln as of December 31, 2020 with cash position of RUB 44.7 bln.

As a result, net debt reduced by RUB 53.9 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 1.1x as at 31 December 2020 vs 2.1x as at 31 December 2019.

Cash Flow Statement for FY 2020

	IAS 17			IFRS 16		
RUB, mln	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Operating cash flows before working capital changes	**109,798**	86,183	27.4%	**175,408**	148,492	18.1%
Changes in working capital	**30,349**	-13,385	-326.7%	**30,712**	-11,501	-367.0%
Net Interest and income tax paid	**-25,738**	-16,968	51.7%	**-56,509**	-49,377	14.4%
Net cash from operating activities	**114,409**	55,830	104.9%	**149,611**	87,614	70.8%
Net cash used in investing activities	**-29,533**	-57,167	-48.3%	**-29,020**	-55,709	-47.9%
Net cash generated / (used) from/(in) financ-ing activities	**-49,077**	-16,510	197.3%	**-84,793**	-49,752	70.4%
Net cash increase / (decrease)	**35,798**	-17,846	-300.6%	**35,798**	-17,846	-300.6%

The Company's cash flows from operating activities before changes in working capital for 2020 equalled to RUB 109.8 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.

Net interest and income tax paid in 2020 increased by RUB 8.8 bln or 51.7% to RUB 25.7 bln. Net interest expenses decreased by 10.1% year-on-year to RUB 12.6 bln in 2020 due to lower cost of debt and lower amount of borrowings. Income tax paid for 2020 increased to RUB 13.1 bln.

With this net cash flow from operating activities in 2020 increased by 104.9% to RUB 114.4 bln as a result of positive movement of working capital and lower interest paid.

Net cash used in investing activities predominantly composed of capital expenditures decreased by 48.3% to RUB 29.5 bln in 2020. The dynamic was attributable to a slowdown of expansion programme (1,292 store openings on gross basis in 2020 vs 2,841 in 2019) and decelerated redesign programme (385 stores in 2020 vs 2,341 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.

In 2020 net cash used from financing activities was RUB 49.1 bln vs RUB 16.5 bln used in 2019. In 2020 the Company paid dividends in the amount of RUB 29.9 bln[1]. 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.

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

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 financial and non-financial risks, determines risk appetite, develops a risk management-oriented corporate culture and evaluates internal controls and the risk management system at 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. 140.

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).

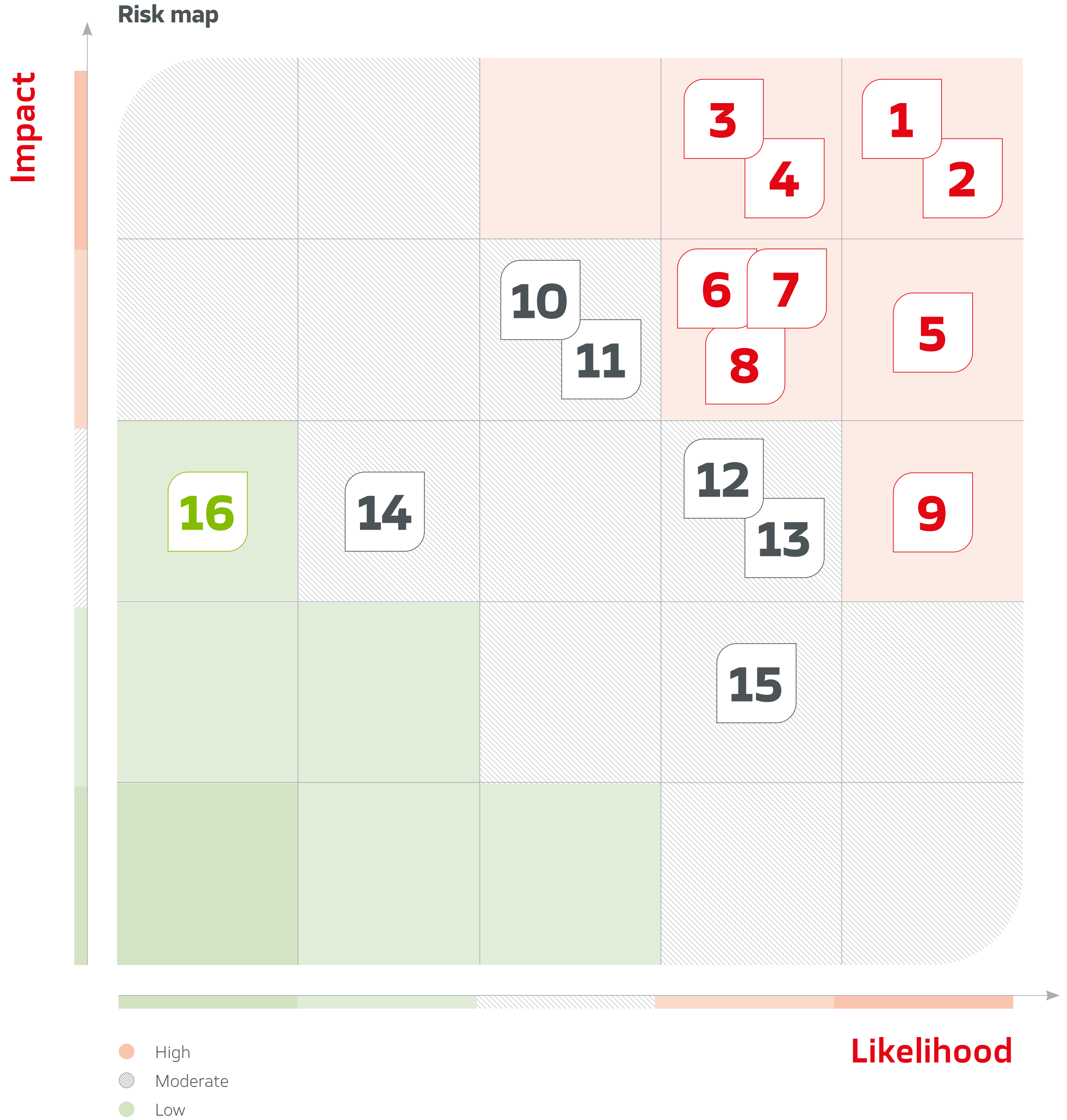
Risk Management (continuation)

Key risks

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

The Company regularly assesses these risks, develops procedures aimed at the mitigation or prevention of negative impacts, and monitors the implementation and effectiveness of risk impact procedures.

Risk map



Risks

Risks	Type	Source	Impact	Risk management
1 Risk of deterioration of socio-economic and political conditions				
— increased isolation of Russia and the deterioration of macroeconomic factors (deflation, Ruble devaluation) — deepening sanctions — growing unemployment — decrease in general living standards, with a corresponding change in consumption behaviour — increase in tax and non-tax deductions for households — failure to pay wages in full and within the established period by the state and numerous private companies — increasing wage and benefits gap with quickly growing living costs — reduced public funding of the social sector.	strategic	external	revenue, LFL	— 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.
2 Risk of transformation				
— margin reduction during the transformation of category management (incorrect pricing, promotion, assortment revision, high purchasing prices, sale of obsolete stock with a discount).	strategic	internal and external	strategy execution, revenue, EBITDA	— collective decision making; — hiring external consultants to speed up and optimise the processes.
3 Risks of adverse regulatory changes				
— increased requirements for limiting trade margins — restrictions on the maximum market share — EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations — more complicated procedures for licensing and obtaining permits from external regulatory bodies — possible introduction of new licenses and permits.	regulatory	external	market share, revenue, EBITDA	— monitoring changes in legislation by specialists — participation of experts in the discussion of legislative innovations — adaptation of business processes for obtaining the necessary licenses and permits, technical documents.
4 Risks of excessive loss of the inventory for the following reasons				
— inefficiency of logistics, goods acceptance, storage and inventory accounting processes ; — employee misconduct.	operational	internal	EBITDA	— 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.

Risk Management (continuation)

Risks (continuation)

Risks	Type	Source	Impact	Risk management
5 Risks of increased competition				
— increase in price pressure — traffic outflow — decrease in sales per sq.m. of the selling space.	strategic	external	**revenue**	— monitoring competitors' actions — utilising marketing tools, conducting promotions — increasing the attractiveness of existing stores through reconstruction — evaluating the attractiveness and potential of the proposed store openings using GIS-analysis technologies.
6 Risks of making poor investment decisions				
— return on investment of new stores and reconstructions is below the WACC — the growth of the number of unprofitable stores — excess CAPEX per object (excess requirements, excessive standards, low-quality construction and installation works).	strategic	internal and external	**CAPEX, EBITDA, ROIC**	— collective decision-making on investment projects — standardisation of norms and financial models — use of GIS-analysis technologies — introduction of tender procedures — budget control of expenses for the implementation of the investment programme — post-investment analysis.
7 Risks associated with IT infrastructure support				
— 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.	operational	internal	**EBITDA**	— development of a detailed plan for priority IT investments, collective decision-making on investments in the IT infrastructure.
8 Risks of corruption and employee fraud				
— the internal environment of the Company and the level of fraud committed is affected by the corporate values system, fair motivation of employees, adherence to internal rules and business processes.	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, accession to the United Nations Global Compact — personnel 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 — inspection of potential candidates for vacant positions by the Security Directorate.

Risks	Type	Source	Impact	Risk management
9 IT security risks				
— increased number of cyber-attacks on information systems around the world dictates the need to provide adequate protection of data and IT infrastructure against intrusions of any kind, including for the purpose of information theft or damage, unauthorised access, propagation of virus software.	operational	internal and external	**all parameters**	— functioning of access control procedures and mechanisms, approved access matrices — establishment of a software and infrastructure change management system — data backup, duplication of key information systems — functioning of a centralised monitoring system for information security events.
10 Risks associated with changes in tax legislation				
— making amendments or supplements to the legislative acts on taxes and levies regarding an increase in tax rates, introduction of new types of taxes — changes in the Russian tax system providing a significant adverse impact on the attractiveness of investments in the Company's securities — possible challenges in the correct definition and implementation of the tax planning strategy, inconsistency of the tax planning goals with the Company's strategic objectives.	regulatory	external	**revenue**	— monitoring changes in legislation by specialists of the financial unit and prompt introduction of changes to internal policies and procedures — consultations with the involvement of audit companies — development and coordination of the accounting policy with external auditors.
11 Risks in the field of industrial safety, occupational health and environment				
— violation of occupational and fire safety standards and regulations may lead to the termination of business at the Company's facilities — failure to comply with safety standards in the performance of services by contractors may also have a negative impact on the Company's operations.	operational	internal	**revenue, EBITDA**	— corporate training programmes for environmental protection, industrial and occupational safety with subsequent control of knowledge quality by internal specialised training services — alignment with the United Nations Global Compact — regular efficiency monitoring of fire extinguishing systems — maintenance of the required level of the personnel qualification, responsibility of managers to support the proficiency level of employees — assessment of working conditions — compliance with Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group — insurance of facilities against force majeure factors.

Risk Management (continuation)

Risks (continuation)

Risks	Type	Source	Impact	Risk management
12 Risks of availability and continuity of IT				
— increased requirements for the provision speed and quality of the relevant business information — possible inaccessibility of networks and systems, lack of access to information resources in case of remote operation — dependence on manual data entry and uploads from external sources, such as Excel sheets, may affect the quality of information exchange between systems.	operational	internal	**EBITDA**	— forecasting future capacity requirements and increased load for future periods — annual revision (IT monitoring) of the personal computer configurations (capacities) of the users — a functioning system in place for processing user requests — analysis of regular reporting based on user requests and incidents, conducting annual polls on user satisfaction with the operation of the Support Service.
13 Risks of negative epidemiological situation impact on the Company's activities				
— introduction of severe restrictive measures to prevent the spread of COVID-19 may have a negative impact on supply chains — in case of significant spread of COVID-19, the rate of infection among employees is likely to increase — the performance of functional duties by key employees infected with COVID-19 will be in question, depending on the severity of the disease — failure to comply with the recommendations of the regulatory authorities to prevent the spread of infection at the Company's facilities may lead to restriction of their activities and imposition of fines.	operational	internal and external	**all parameters**	— real-time monitoring of the spread of COVID-19 — strict compliance with all recommendations made by the Federal Service for Surveillance on Consumer Rights Protection and Human Well-being, the Ministry of Health and WHO — disinfection of premises — transfer of employees to remote working.
14 Risks associated with the quality of goods sold and produced				
— inconsistency of quality of goods sold and produced with the established requirements and standards may result in reduced customer loyalty to the Magnit brand, followed by a reduction in market share and revenue.	operational	internal	**EBITDA, LFL**	— functioning of the system selecting suppliers of goods and services, "green" procurements of products and raw materials — audit of suppliers — a dialogue with suppliers to achieve a uniform understanding of the food safety regulations — compliance with the Responsible Supply Chain Policy of Magnit PJSC — compliance with the Food and Non-Food Quality and Safety Policy of Magnit PJSC — implementation of programmes for the development of local suppliers and farmers — monitoring legislation for the prompt adjustment of internal quality control technologies of the goods sold and produced.
15 Risk of absence and recruitment of qualified personnel				
— the Company may face difficulties related to retention, search and recruitment of qualified employees. Increasing personnel turnover can have a negative impact on operational business processes.	operational	internal	**revenue, EBITDA**	— implementation of integrated systems for long-term motivation of personnel — development of unique internal training and adaptation programmes for employees — development of social programmes for personnel — interaction with universities to attract the best graduates — development of the talent pool.
16 Reputation risk				
— risks of dissemination in the media of information discrediting the Company's image, disclosure of confidential business information, high-profile litigations — the ability to maintain the stated level of social responsibility.	strategic	internal and external	**all parameters**	— timely provision of full information about its activities by the Company — approval of the Sustainability Strategy — implementation of the Code of Business Ethics (senior management demonstrates commitment to high standards of conduct) — training for the personnel in the field of ethics and sustainability requirements — constant interaction with stakeholders, holding seminars and forums to raise awareness about the Company's activities — monitoring information about the Company in mass media and social networks providing response to any incidents and expressing an official position on specific issues — signing a confidentiality agreement with the Company's employees and contractors.

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.

82%
of the world's largest companies published their commitments to achieve the SDGs[2] in annual reports

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

Magnit's sustainability commitments for 2025

Environment[1]

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

[1] All quantitative goals for reducing the indicators are calculated for 1 sq. m of total space.
[2] Sustainability development goals.

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 100% 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.**

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

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 practises 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.

Sustainability management system

Magnit has adopted policies regulating the Company's sustainability operations[1] 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

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.

The UN's priority sustainable development goals of Magnit Group[2]

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
- employees
- society and local community
- investors
- shareholders
- public authorities
- public organisations
- mass media

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

[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[1]

Fuel types	2018		2019		2020	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Diesel fuel, l	199,843,095	-	207,407,521	-	**185,530,188**	**-**
Gasoline, l	12,645,506	-	12,576,782	-	**12,392,891**	**-**

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

Fuel types	2018		2019		2020	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Diesel fuel	6,825.0	-	7,407.1	-	**6,435.9**	**-**
Gasoline	433.3	-	456.8	-	**433.4**	**-**

Energy consumption by the Group's enterprises in 2018–2020[1]

Type of energy resource	2018		2019		2020	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Thermal energy, Gcal	1,246,351	516	1,356,426	494	**1,288,317**	**568**
Electricity, KW per hour	2,564,578,505	217,587	2,710,091,104	256,016	**2,811,828,550**	**266,685**
Natural gas, cbm	170,739,126	24,903	202,823,871	16,309	**164,558,615**	**27,110**

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

Type of energy resource	2018		2019		2020	
	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC	All companies of the Group	Magnit PJSC
Thermal energy	1,944.9	0.8	2,221.1	0.8	**2,258.7**	**1.0**
Electricity	13,762.9	1.1	15,696.3	1.4	**17,543.6**	**1.6**
Natural gas	1,067.8	0.2	1,395.0	0.1	**1,086.1**	**0.2**

PJSC 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.

[1] Data for 2018 and 2019 differ from the data in the 2019 Annual Report due to improved data collection.

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.

Sustainable Development Report please see on our website https://www.magnit.com/en/sustainable-development/non-financial-performance-indicators/

We`ve built a stable system of corporate governance and internal control

2

Corporate Governance

Corporate Governance

Chairman's review

Corporate Governance Framework

PJSC 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.

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 ambition to obtain a clear and productive decision-making process.

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

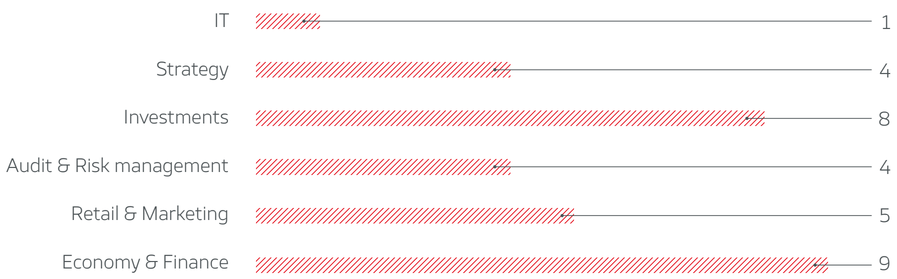
Composition
of the Board of Directors

	Diversity	
	Nationality	Tenure, years
Charles Ryan	USA	3
James Simmons	USA	3
Alexander Vinokurov	Russia	2
Tim Demchenko	UK	3
Jan Dunning	Netherlands	2
Walter Koch	Germany	2
Evgeny Kuznetsov	Russia	2
Alexey Makhnev	Russia	3[1]
Gregor Mowat	UK	1[2]

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.

[1] Prior to that, he was a member of the Board of Directors from 25 June 2009 to 5 June 2015.
[2] Prior to that, he was a member of the Board of Directors from 19 April 2018 to 30 May 2019.

Board of Directors

Charles Ryan

Chairman of the Board of Directors

Age
53[3]

Citizenship
USA

Education
1989 - Harvard University (Bachelor of Arts, Faculty of Arts and Sciences, Public Administration)

Current Employment
2008 - Present – Chairman of the Board of Directors, UFG Asset Management

Current membership in the Board of Directors
2005 - present – Member of the Board of Directors, PGI Plc
2006 - present – Member of the Advisory Council, U.S. – Russia Business Council
2007 - present – Co-Founder and Principal Partner, Almaz Capital Partners
2008 - present – Member of the Advisory Council, Capital Group International
2009 - present – Member of the Board of Directors, Trans-Siberian Gold plc
2011 - present – Member of the Board of Directors, World Affairs Council Philadelphia
2011 - present – Member of the Board of Directors and Chairman of the Audit Committee, Yandex N.V.
2012 - present – Member of the Advisory Board, Harvard University Global Advisory Council
2013 - present – Co-Founder and Member of the Board of Directors, Liberty Energy Trust
2014 - present – Member of the Board of Directors, Jensen Management I Limited
2016 - present – Member of the Management Board, ODIN EPC. (Northstar Industries, LLC)
2018 - present – Member of the Board of Directors, Ozon Holding LLC
2018 - present – Chairman of the Board of Directors, PJSC Magnit
2020 - present – Member of the Board of Directors, Member of the Audit Committee and Member of the Nominating Committee, Ozon Holdings PLC

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.

[3] As of 31.12.2020

Board of Directors (continued)

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[1]

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.

[1] Since 17 July 2019. Prior to that a Member of the Board of Directors.

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
Tim has over 20 years of private equity and corporate investment experience across multiple European markets and Russia. In 2008, Tim founded VTB Capital's Private Equity and Special Situations business. As the Head and Managing Director of the business Tim has developed investment strategy and built an international investment team based both in London and Moscow. The business has invested over USD 2 billion of capital jointly with international co-investors, and achieved successful portfolio exits, including sales to strategic investors and IPO on the LSE and NYSE, with an average internal rate of return exceeding 40%.

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.

Participatory interest in the Company's charter capital[1]
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:

Date	Transaction type	Transaction volume, (pc.)
23.03.2020	Acquisition	41,177
14.05.2020	Acquisition	23,404

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:

Date	Transaction type	Transaction volume, (GDRs, pc.)
23.11.2020	Acquisition	34,035
24.11.2020	Acquisition	12,191

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

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 chartet capital (share of owned ordinary shares) is given as of 31 December 2020.

Board of Directors (continued)

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.

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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, Mvideo, LSR, Etalon, PIK, and Rusagro.

Board of Directors (continued)

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

Current membership in the Board of Directors
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, Credit Improver Limited
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, PJSC Magnit
2020-present – Member of the Board of Directors, PIK Group PJSC
2021 – 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

Current membership in the Board of Directors
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[1]
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:

Date	Transaction type	Transaction volume, (pc.)
23.03.2020	Acquisition	41,177
14.05.2020	Acquisition	23,404

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:

Date	Transaction type	Transaction volume, (GDRs, pc.)
23.11.2020	Acquisition	34,035
24.11.2020	Acquisition	12,191

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.
Anna Bobrova held managerial positions in HR in JSC SIA International Ltd (2015 – 2019), Rimera Group (2013 – 2015) and Rosatom (2009 - 2011).
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 13 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 chartet 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
37

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 (X5 Retail Group N.V.).
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%.

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

Date	Transaction type	Transaction volume, (pc)
13.05.2020	Acquisition	1,648

Ruslan Ismailov

Member of the Management Board, Deputy CEO – Retail Chain Director

Age
43

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.

Florian Jansen

Member of the Management Board, Deputy CEO – Executive Director

Age
39

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, ecommerce, 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 3, 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.

Anna Meleshina

Member of the Management Board, Corporate Relations & Sustainability Director

Age
43

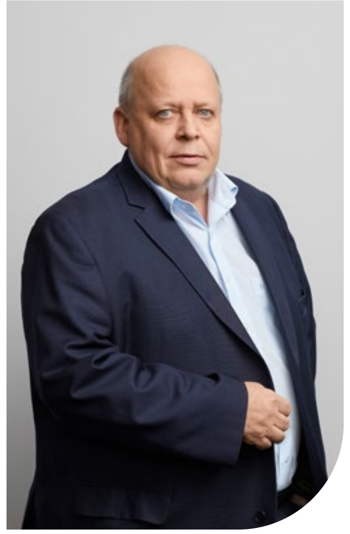
Education
1999 – St. Petersburg State University (philology)
2007 - Henley Management College (UK), MBA degree

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 hold 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 Breweries' 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 O'KEY 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 Megatekhnika 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
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 2000-2008, 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:

Date	Transaction type	Transaction volume, (pc.)
13.05.2020	Acquisition	1,648

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[1].

[1] 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[1].

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.

[1] Is not a member of the Management Board of PJSC Magnit.

Structure
of corporate governance bodies

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.

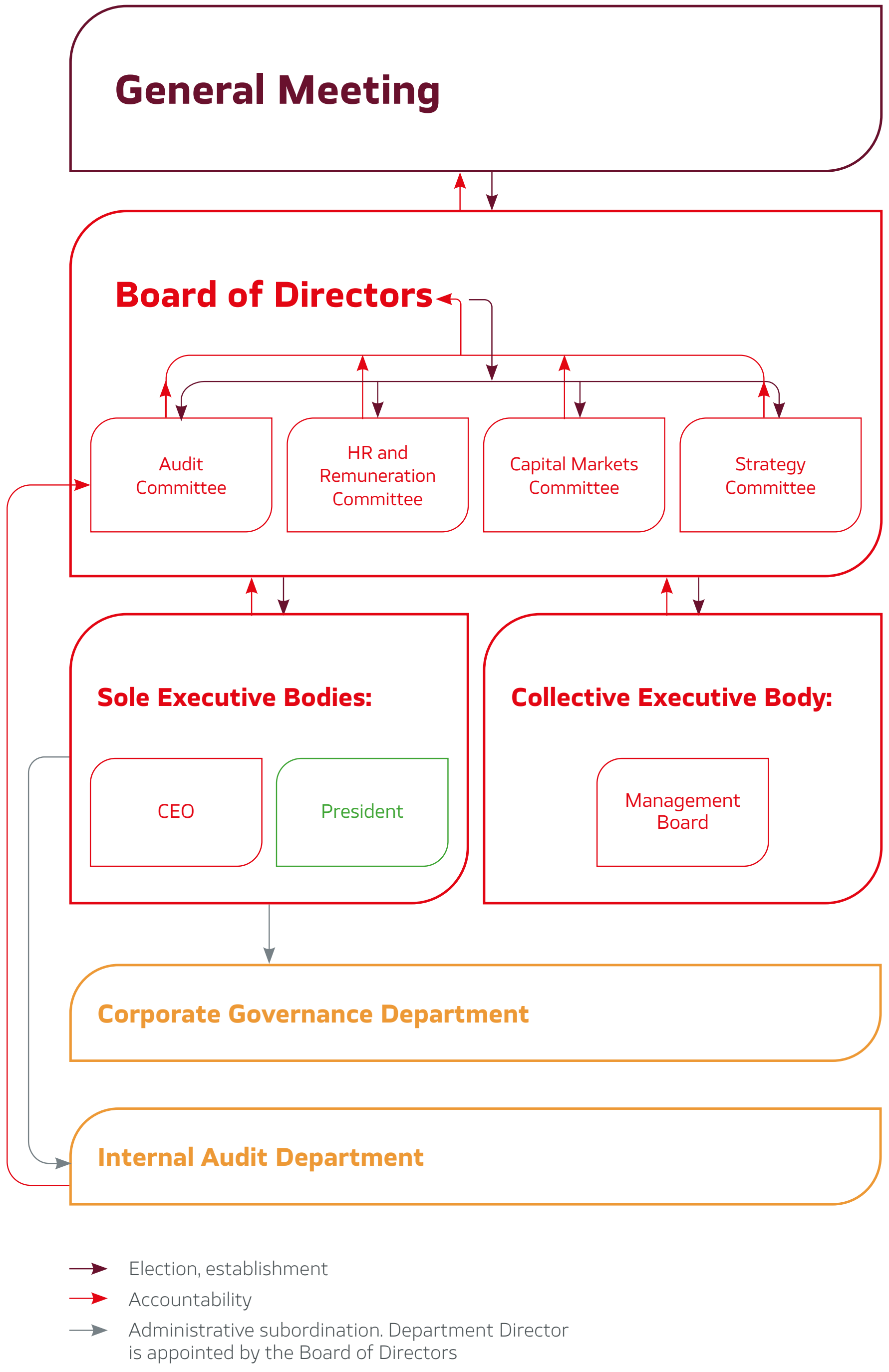
The Board of Directors is elected by shareholders at the General Meeting and is accountable to them. It provides strategic oversight and monitors the activities of the executive bodies: the CEO (Chairman of the Management Board), President and the Management Board.

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.



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
- London Stock Exchange listing rules
- Corporate Governance Code recommended by the Bank of Russia[1].

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

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

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[2], including:

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

Compliance with the principles and recommendations of the Corporate Governance Code[3]

Corporate governance principles	Number of principles recommended by the Code	2017			2018			2019			2020		
		● Complied	● Partially	● Not	● Complied	● Partially	● Not	● Complied	● Partially	● Not	● Complied	● Partially	● Not
Shareholder rights and equal conditions for shareholders to exercise their rights	13	9	2	2	9	2	2	8	2	3	8	2	3
Board of Directors	36	31	3	2	33	1	2	33	1	2	33	1	2
Corporate Secretary	2	2	0	0	2	0	0	2	0	0	2	0	0
Remuneration system for members of the Board of Directors and senior Company executives	10	7	2	1	7	3	0	8	2	0	8	2	0
Risk Management and Internal Control System	6	6	0	0	6	0	0	6	0	0	6	0	0
Corporate disclosure	7	4	3	0	4	3	0	4	3	0	4	3	0
Significant corporate actions	5	3	2	0	3	2	0	3	2	0	3	2	0
TOTAL GRADE	79	62	12	5	64	11	4	64	10	5	64	10	5
	–	78%			81%			81%			81%		

● Complied with
● Partially complied with
● Not complied with

[1] For Report on complying with the principles and recommendations of the Corporate Governance Code see Appendix 1 (p. 167).
[2] For more details, see the website of the Company https://www.magnit.com/en/corporate-governance/corporate-documents/.

[3] Statistics 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.

- An independent consultant was hired to conduct an external assessment of the work of the Board of Directors
- The Sustainable Development Strategy was adopted, which outlined the goals of sustainable development, as well as a number of other provisions in the field of sustainable development
- Sustainability Steering Committee headed by the President and CEO of PJSC Magnit has been established. It prepares recommendations on strategic improvements the long-term sustainability of the business. The committee's recommendations serve as the basis for updating the Sustainable Development Strategy
- 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
- A new website https://www.magnit.com/en/ with a user-friendly interface and navigation was launched
- 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 130.

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

GM[1]	Quorum, %	Key resolutions
AGM, 04 June 2020	75.03	— Approval of annual report and annual financial report for year 2019 — Approval of the distribution of profit (including the payment (declaration) of dividends) based on the 2019 results — Payment of remuneration and compensation of expenses — Election of members of the Board of Directors — Amendments to the Articles of Association of PJSC Magnit.
EGM, 24 December 2020	69.47	— Payment of dividends on PJSC Magnit shares following the results for the first 9 months of 2020 — Approval of the restated Articles of Association of PJSC Magnit — Approval of the restated Regulations on collegial executive body (Management Board) of PJSC Magnit.

[1] https://www.magnit.com/en/shareholders-and-investors/shareholders-meeting/.

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.

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.

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 convening and holding of the General Meeting of Shareholders, the approval of the 004P 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 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 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[1] Principles 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.

The balance of the composition of the Board of Directors in terms of independence, the availability of the necessary competencies, experience and skills was separately noted. In terms of independence and representation of foreign directors, the Company is well ahead of most Russian large companies and is in line with international corporate governance standards. The current composition of the Board of Directors fully meets the needs of the Company and contributes to making informed decisions.

The degree of implementation of key functions of the Board of Directors was assessed by an independent consultant as high. The Board of Directors of the Company considers a wide range of issues and ensures effective strategic management of the Company.

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 functions 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
  - their personal qualities
  - their management skills
  - their communication skills
  - their quality of execution in the role of the Chairman of the Board of Directors
  - their quality of execution in the role of a member of the Board of Directors
  - their professional skills.
- The work of the Committees of the Board of Directors, including:
  - the suitability of the structure of the Committees to the functions they perform
  - the qualitative composition of the Committee
  - the internal dynamics (processes) of the Committee
  - the performance of the Committee in its main functions
  - holding of meetings of the Committee.
- The conformity of independent members of the Board of Directors, to the independent director criteria as defined by the Regulations on the PJSC Magnit Board of Directors, the Corporate Governance Code, and the Listing Rules of PJSC Moscow Exchange.

Motivation system of the Board of Directors members was analysed.

Results of the self-assessment confirmed that the performance of the Board of Directors is at a level corresponding to the specifics and scope of the Company, the needs of the Company and the interests of shareholders.

[1] The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation 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.

Committee members (as of 31.12.2020)

Name	Status	Audit Committee	Strategy Committee	HR and Remuneration Committee	Capital Markets Committee
Gregor Mowat	Independent Non-Executive Director	Chairman			●
Walter Koch	Independent Non-Executive Director		Chairman	●	
Evgeny Kuznetsov	Independent Non-Executive Director	●		●	Chairman
James Simmons	Independent Non-Executive Director	●	●	Chairman	
Charles Ryan	Independent Non-Executive Director		●		●

● Participation in committees

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 3 formal meetings. All Committee members attended 100% of the meetings.

Key results:

In the reporting year, the Strategy Committee reviewed the plan for opening 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.

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 complience 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, organisers of trading activity, the registrar and other professional participants of the securities market within the remit of the Corporate Governance Department
- to immediately inform the Board of Directors of any breaches of laws and the Company's by-laws, where ensuring compliance with such laws and by-laws is the responsibility of the Corporate Governance Department
- to ensure that the procedures established by laws and the Company's by-laws to protect the shareholders' rights and legitimate interests are put into practice and oversee their implementation.

On 27 May 2016 (minutes of 30.05.2016), PJSC Magnit's Board of Directors approved a resolution related to internal rules governing its Corporate Governance Department and appointed Ekaterina Kister to the position of Corporate Governance Director.

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

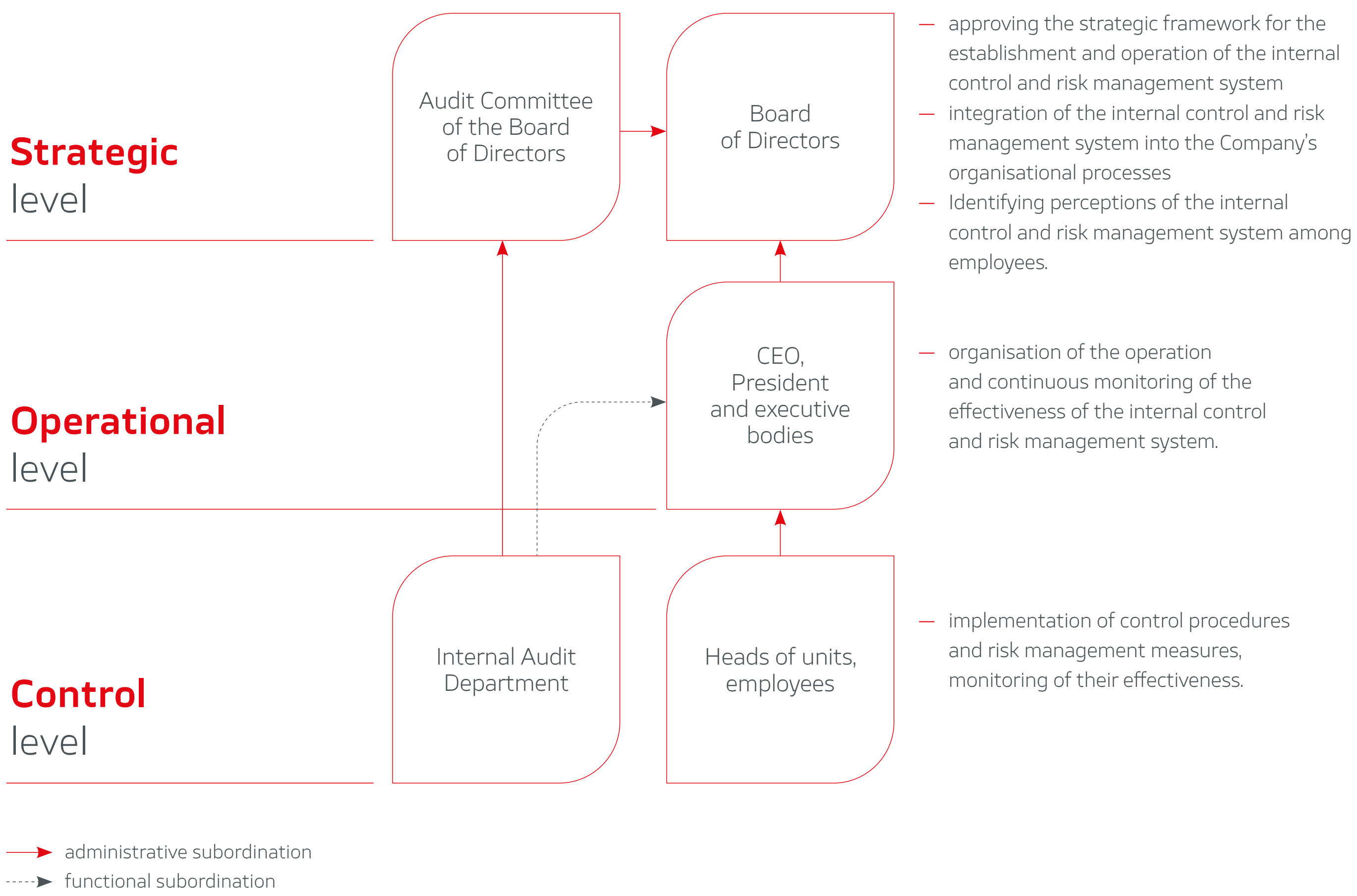
Internal control
and risk management system

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
- ensuring the reliability and timeliness of financial and other reporting.

The key regulating document is the Regulations on internal control and risk management, updated in 2019 (decision of the Board of Directors as of 12 December 2019, minutes of 13.12.2019).

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.

Structure of the Company's internal control bodies:



The internal control system is based on the principles of the COSO concept recommended by the Corporate Governance Code. According to the COSO[1] 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.

The communication between the participants in the internal control and risk management system, as well as the decision making in corresponding areas, is implemented via the Company's information systems. The relevant information is defined, recorded and transmitted in such form to enable employees to perform their functional duties. Meanwhile, the Company adheres to the principle of the separation of duties.

The internal control and risk management system adapts to changes in the Company's goals and internal and external factors, as well as business processes. The risk management process is carried out on an ongoing basis and is cyclical due to the continuous nature of risk management decision making.

For further detail on risk management and principal risks, see Risk management on p. 94.

Internal Audit Department

The Internal Audit Department is designed to support the Board of Directors and the executive bodies in enhancing management efficiency and improving financial and operational performance.
The main tasks of the Department include conducting systematic and consistent analyses, assessing risk management and internal control systems, as well as the corporate governance system.
The Internal Audit Department is administratively subordinate to the CEO and functionally subordinate to the Board of Directors.
The key document regulating the activity of the Internal Audit Department is the Regulations on Internal Audit at PJSC Magnit where the main responsibilities of the department are defined as:
- supporting the Company's business units and employees, management, the Audit Committee of the Board of Directors and the Board of Directors by conducting audits, analyses and evaluations, providing consultations and drafting recommendations to improve the Company's internal control and risk management system and its business processes;
- assistance in the timely identification and analysis of risks that affect the reliability of financial and management information, the safeguarding of assets, compliance with legislation and in-house policies and procedures, the execution of financial and business plans and the efficient use of resources.

Responsibilities of the Internal Audit Department include:
- preparing the annual internal audit plan based on defined risk appetite and conducting corresponding internal audits
- tracking major changes within the Company in order to update the audit plan, identify risk areas and inform management
- preparing and conducting training on internal control to maintain the qualifications of department employees
- providing support for the development of the internal control and risk management system
- providing a monitoring system to implement the recommendations of the Internal Audit Department and monitor their execution
- assisting in the selection of external auditors and consultants as well as preparing and presenting the results for review by the Company's management and Audit Committee
- interacting with external auditors and consultants on matters concerning internal audit, the provision of audit-related services, and consulting services
- 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 7709383532), 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 control copy of the register of auditors and audit organizations with the registration number ORNZ 12006020327) and one of the global leaders in the provision of professional services, was approved at the AGM held on 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 66.0 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 7709383532), location: Krasnodar, 144/2 Krasnykh 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 SODRUZHESTVO (SRO AAS) №441 dated 20 March 2020 with the main registration number entry (ORNZ) 12006114232.

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, Gorislavtsev, FinExpertiza, Intercom.

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.

Based on the results of the PJSC Magnit audit, the auditor expressed an opinion on the true and fair reflection of the Company's financial position in the accounting (financial) statements in all its material aspects.

The auditor's remuneration paid by the Group in the reported period amounted to RUB 7.7 mln (excluding VAT), including the payments directly from PJSC Magnit in the amount of RUB 301.6 thousand (excluding VAT).

AF Faber Lex LLC did not provide non-audit services to the Group during the reporting year.

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[1], and Code of Conduct[2]. 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 process of receiving and responding to complaints about violations in the Company has been expanded and adapted to the remote work mode.

During 2020, the topic of inadmissibility of violations in the field of combating corruption was actively covered in internal communications.

The high level of transparency of PJSC Magnit is recognised by external experts. Accordingly, to the latest available research by Transparency International[3], the Company achieved the first place in transparency ranking of the largest Russian companies by revenue.

The Company has created a safe environment that allows internal and external parties to report any corruption or ethical violations, as well as to propose measures to improve control mechanisms. The Company has a hotline on ethics and anti-corruption. All messages, including anonymous, are considered. Information on utilising this hotline is located in the "Ethics and Anti-Corruption" section on the Company's website[4].

The Company guarantees that persons who provide information via the indicated communication channels shall be provided anonymity and protection against any form of pressure (including dismissal, prosecution or other types of discrimination).

In 2020, 3,156 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 form for submitting appeals via the corporate website https://magnit.com/en/anti-corruption/.

[1] Approved by the Board of Directors 25.02.2014 (notes of 25.02.2014), http://ir.magnit.com/en/information-disclosure/charter-and-internal-documents/.
[2] Approved by the Board of Directors 21.03.2019 (notes of 24.03.2019), http://ir.magnit.com/en/information-disclosure/charter-and-internal-documents/.
[3] transparency.org.ru/special/trac2018russia/docs/report-ru.pdf.
[4] https://www.magnit.com/en/anti-corruption/.

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 Company's information policy is implemented by executive bodies. The Capital Market Committee of the Board of Directors gives recommendations on improving disclosure. In 2020, the Company launched a renewed corporate website https://www.magnit.com/en/.

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/company.aspx?id=7671.

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.

Magnit prepared virtual tours across all its store formats and organized virtual events for the investment community where Company's COO Ruslan Ismailov and members of IR team discussed recent developments. The number of virtual events has been significantly expanded.

Representatives of the Company participated in numerous investor conferences held virtually due to travel restrictions and held conference and video calls with analysts and investors.

Another important disclosure channel is the annual report. In 2020 the Company significantly increased the level of disclosure in the Annual Report and released first Sustainability Report in accordance with GRI Standards.

Types of messages disclosed in 2020

Type of disclosure	Quantity
Related to the bond issue / circulation	33
On agendas and resolutions by the issuer's governance bodies	36
On reporting disclosures of various types (quarterly reports, lists of affiliated persons, annual reports, consolidated financial statements, annual accounting statements)	16
Disposal of the issuer's own shares by its subordinate organisation	4
On the change in the share of members of management bodies and other persons in the issuer's authorized capital	26
On yields accrued and paid on issue-grade securities	20
Performance	7
Other	30
TOTAL	**172**

Remuneration
Report

Director's Remuneration

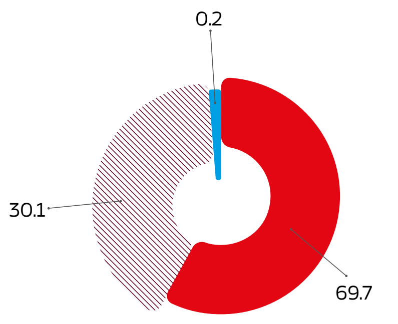
In 2020, the directors' remuneration policy was regulated by the Regulations on the Board of Directors of PJSC Magnit[1].

According to these Regulations, Directors are entitled to the following types of remuneration for the membership in the Board of Directors within the reported period:
- base remuneration
- additional remuneration.

The structure of the annual remuneration of members of the Board of Directors

Position	Basic	Additional	Compensation of expenses related to
Chairman of the Board of Directors	150,000 Euro	200,000 Euro	— 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.
Chairman of the Audit Committee	150,000 Euro	100,000 Euro	
Chairman of the Strategy Committee	150,000 Euro		
Chairman of the Capital Markets Committee	150,000 Euro		
Chairman of the HR and Remuneration Committee	150,000 Euro	75,000 Euro	Up to EUR 50,000[2] per year

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 0.4 mln

Total[3]: RUB 167.6 mln

Remuneration of the sole executive bodies (CEO and 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)[4].

In accordance with 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 23 March 2020. The third and last transfer of 41,178 shares happened 8 February 2021.

The structure of the annual remuneration of the CEO and the President

Base salary	Bonus	LTI	Compensation of expenses
According to the terms of the employment contract	The motivation programme sets the targeted value of the bonus equal to the annual salary. The actual amount of the bonus depends on the fulfillment 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.	— VHI policy for an employee and family members (partner and children) — accident insurance — business trips — communication — transport — rental housing.

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 members of the Management Board

PJSC Magnit	JSC Tander		
Base salary	Bonus	LTI	Compensation of expenses
According to the terms of the employment contract	The motivation programme sets the targeted value of the bonus equal to the annual salary. The actual amount of the bonus depends on the fulfillment 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.	— VHI policy for an employee and family members (partner and children) — accident insurance — business trips — communication — transport — rental housing.

Remuneration of members of the Management Board, total, RUB mln

Remuneration	All companies of the Group	PJSC Magnit
Base Salary	317.3	12.4
Bonus	276.6	22.8
Compensation of expences	12.4	–
Total[5]	**606.3**	**35.2**

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.

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 bln)
- Working capital (RUB bln).

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 bln).

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.

	2020
Number of employees who received shares	23
including employees who left the Company	6
Shares transferred	73,597
including to employees who left the Company	27,242

Programme structure

	Share-based part	Option-based part
Order	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.	Shares provided within the option-based part are based on the results of each year and takes place in three stages within the period of 7 years: 1/3 based on the results of the first year + 1/3 the following year + 1/3 in two years.
Conditions	–	Growth of the share price of the Company on the option price exercise date.
	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.	

LTI remuneration in 2020

Name	Position	Shares
Management Board		
Jan Dunning	Chairman of the Management Board, President, CEO	23,404
Maria Dei	Supply Chain Director	1,648
Elena Zhavoronkova	Chief Legal Officer	1,648
Other employees of the Company		19,655
Employees who left the Company in 2020		27,242

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 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 Depositary) 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 4.166855 % of the total number of ordinary registered shares, which were acquired in 2018-2019 in order to implement its LTI programme.

As at the 31 December 2020, no other organisations controlled by the Company owned voting shares in PJSC Magnit.

The Company has both an ordinary share listing on the Moscow Exchange (MOEX) and a GDR listing on the London Stock Exchange (LSE). In accordance with the listing rules of PJSC Moscow Exchange as of 31 December 2020, the share of the free-float in the Company's shares was 71,00%[2]. As at the end of 2020, Magnit's market capitalisation was RUB 578.3 bln[3] on MOEX and USD8,584.4 mln[4] on the LSE.

Structure of share capital as at the end of 2020[5]

Title	Number of registered entities	Share of authorised capital, %
Legal entities	5	97.50
Including nominal holders	1	97.50
Individuals	30	2.50
Total	**35**	**100**

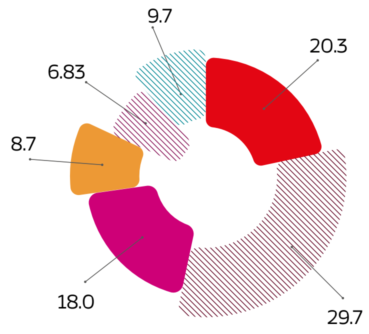
Significant changes in the share capital structure in 2020[6]

			Before the date of the change the share		After the date of the change the share	
Date of change	Title	Ownership type	Number of shares	Share of authorized capital, %	Number of shares	Share of authorised capital, %
19.08.2020	Dodge & Cox	Indirect	5,144,652	5.048 %	5,094,652	4.9991 %

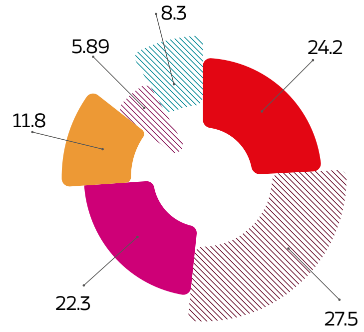
1 State registration number: 1-01-60525-P of 4.03.2004.
2 The share of the free-float is determined based on an analysis of the share capital ownership structure, and by deducting the number of shares which are not in the free-float from the total number of the Issuer's shares.
3 Capitalisation in RUB 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: 5* 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. 39-FZ "On the securities market" as of 22.04.1996.

Breakdown by geography of free-float, %

End 2019, %



End 2020, %



- Russian Federation
- United States of America and Canada
- United Kingdom
- European union
- Asia
- Rest of the World

Source: Shareholder Identification report

Authorised and issued share capital history

Date	Changes
24 April 2006	The Company completed the process of an initial public offering in the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX).
13 February 2008	PJSC Magnit announced a secondary share placement. 11,300,000 shares were offered for additional issuance, including shares placed with pre-emptive rights for existing shareholders as well as previously placed shares owned by the selling shareholder.
22 April 2008	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.
2 September 2009.	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.
6 October 2011	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 15 December 2011.
15 November 2017	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.
21 August 2018	The Board of Directors of PJSC Magnit approved the share buyback programme (taking 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: — 3,510,638 shares were allotted to LTI programme — Since the start of the LTI programme 178,855 shares were distributed to participants.
28 November 2018	JSC Tander concluded an agreement with Serengate Advisors Limited under which the latter received 1,513,601 shares, which amounted to 1.485213% of the total number of shares of PJSC Magnit, as payment for the transaction related to the acquisition of SIA Group.

Shareholder and investor engagement (continued)

Listing of shares on the Moscow Exchange

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

Magnit shares are included in the following indices on 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.

Share price and trading volume on the Moscow Exchange in Q1-Q4 2020

Period	Share price, RUB			Volume, RUB mln[1]			Market cap. of period, RUB bln
	Min.	Max.	As at end of period	Period total	Daily average	Daily median	
Q1	2,337.0	3,855.0	3,191.0	172,083.5	2,868.1	2,466.9	325.2
Q2	3,140.0	4,180.5	4,084.5	120,198.7	1,970.5	1,895.5	416.3
Q3	4,202.0	5,080.0	4,937.5	132,595.7	2,039.9	2,034.3	503.2
Q4	4,659.0	5,685.5	5,674.5	125,060.5	1,954.1	1,739.8	578.3

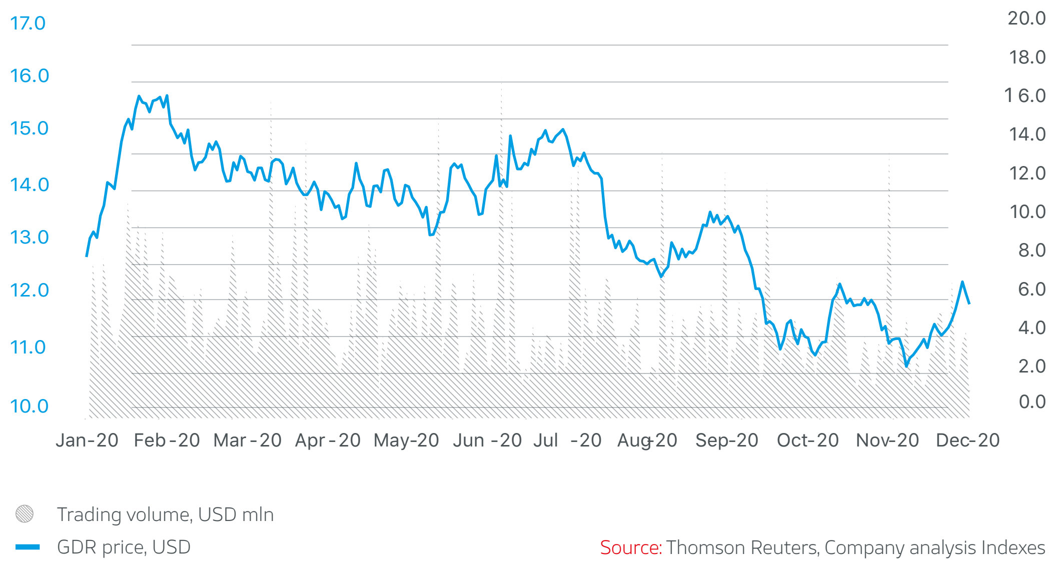
GDR listing

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, 27.78% of the Company's total shares were listed on the London Stock Exchange in the form of GDRs.

GDR price and trading volume on LSE

Period	GDR price, USD[2]			Volume, USD mln[3]			Market cap. of period, USD mln
	Min.	Max.	As at end of period	Period total	Daily average	Daily median	
Q1	6.47	14.26	8.96	391.51	6.12	5.58	4,373.06
Q2	8.71	13.56	12.99	282.22	4.63	4.11	6,335.87
Q3	12.97	15.71	14.92	352.05	5.42	4.46	7,277.23
Q4	13.75	18.24	17.60	321.40	5.02	4.52	8,584.40

GDR quotes on London Stock Exchange in 2020



Source: Thomson Reuters, Company analysis Indexes

Indices

Magnit is included in a broad number of different indices. More information is provided by the following key ETFs; groups:

Index name	Site addresses of key groups of ETF funds
VanEck	https://www.vaneck.com/
SPDR	https://www.ssgafunds.com/
Vanguard	https://investor.vanguard.com/
MSCI	https://www.msci.com/
iShares	https://www.ishares.com/
Columbia Threadneedle Investments	https://www.columbiathreadneedleus.com/
MOEX and RTS	https://www.moex.com/ru/index/IMOEX

Analyst coverage and consensus forecast

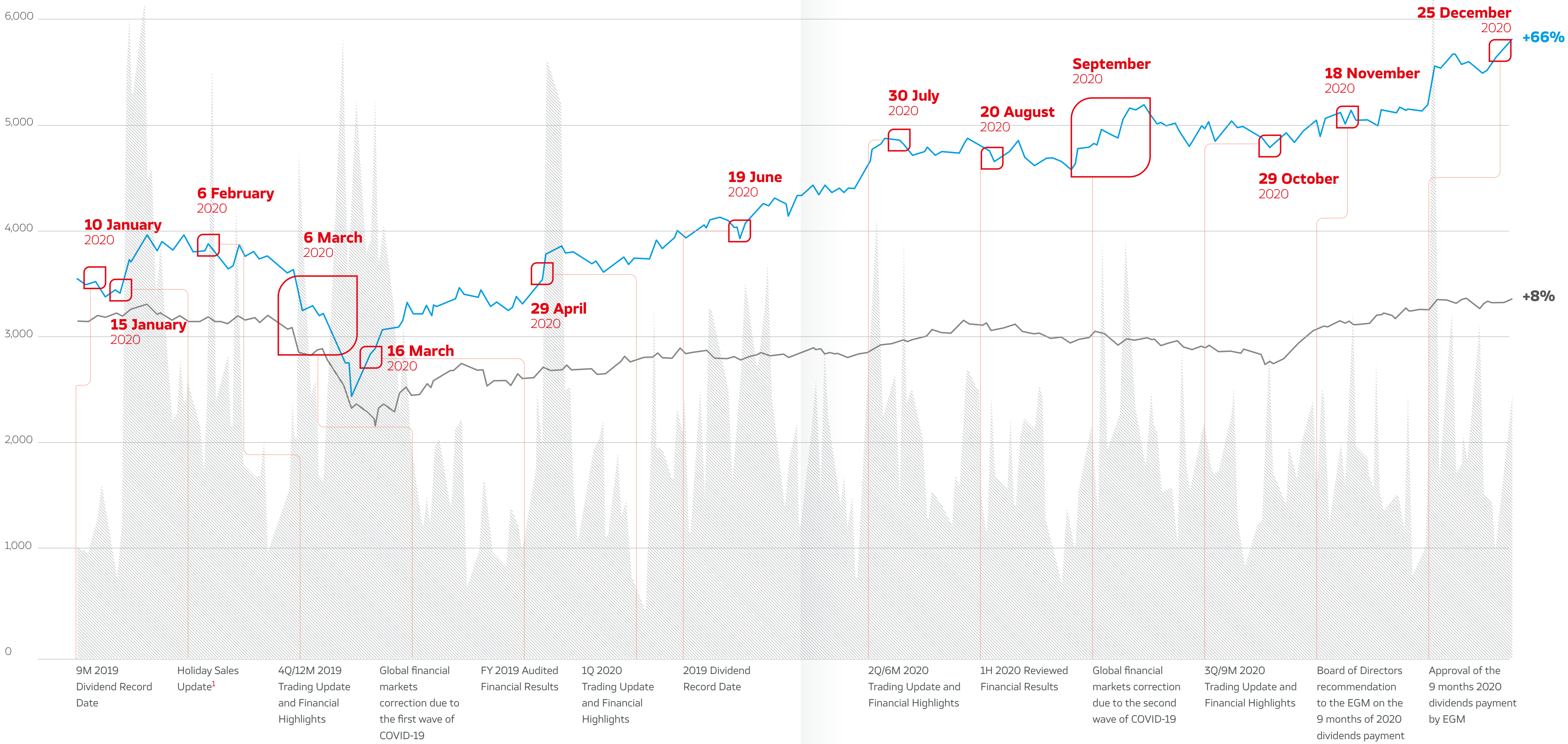
As of the 31 December 2020, 18 investment banks produced equity research on Magnit compared to 16 in 2019. New banks initiated coverage, namely Morgan Stanley and VTB Capital.

Bank	Analyst	Phone	E-mail
Alfa Bank	Evgeniy Kipnis	+7 495 795 37 13	ekipnis@alfabank.ru
Aton	Victor Dima	+7 495 213 03 44	victor.dima@aton.ru
Bank of America Merrill Lynch	Ilya Ogorodnikov	+7 495 662 60 73	ilya.ogorodnikov@bofa.com
BCS	Dmitry Skryabin	+7 495 213 15 09	dskryabin@bcsgm.com
Citi	Alastair Birkby	+44 20 7986 51 80	alastair.birkby@citi.com
Gazprombank	Marat Ibragimov	+7 495 980 41 87	marat.ibragimov@gazprombank.ru
Goldman Sachs	Yulia Gerasimova	+7 495 645 40 13	maxim.nekrasov@gs.com
HSBC	Bulent Yurdagul	+90 212 376 46 12	bulentyurdagul@hsbc.com.tr
JP Morgan	Elena Jouronova	+7 495 967 38 88	elena.jouronova@jpmorgan.com
Morgan Stanley	Henrik Herbst	+44 20 76 77 1309	henrik.herbst@morganstanley.com
Raiffeisen	Egor Makeev	+7 495 221 98 51	egor.makeev@raiffeisen.ru
Renaissance Capital	Kirill Panarin	+7 499 956 42 16	kpanarin@rencap.com
Sberbank CIB	Mikhail Krasnoperov	+7 495 933 98 38	mikhail_krasnoperov@sberbank-cib.ru
SOVA Capital	Artur Galimov	+7 495 223 23 23	artur.galimov@sovacapital.com
UBS	Ulyana Lenvalskaya	+7 495 648 20 93	ulyana.lenvalskaya@ubs.com
VTB Capital	Maria Kolbina	+7 495 663 46 48	maria.kolbina@vtbcapital.com
Wood & Company	Lukasz Wachelko	+48 22 222 15 60	lukasz.wachelko@wood.com

[1] Calculations are based on daily trading volumes in currency, which are calculated as the daily trading volume in securities multiplied by the closing price.
[2] Maximum and minimum are calculated based on quotes at the end of the trading session.
[3] Calculations are based on daily trading volumes in currency, which are calculated as the daily trading volume in securities multiplied by the closing price.

Shareholder and investor engagement (continued)

Share trading on the Moscow Exchange in 2020

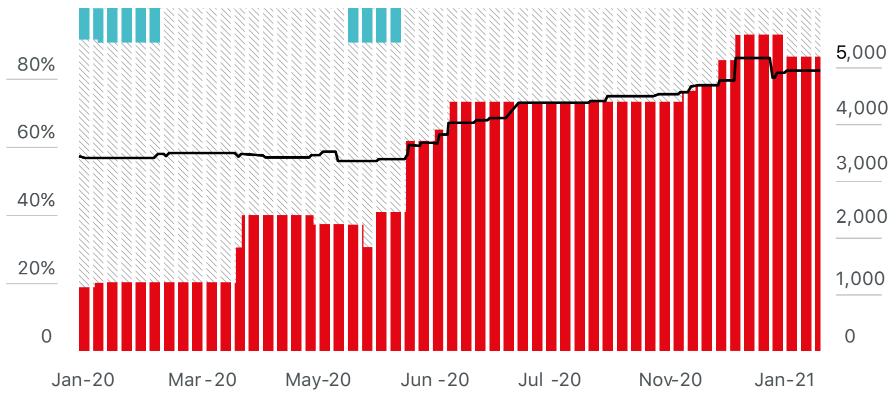


Source: Thomson Reuters

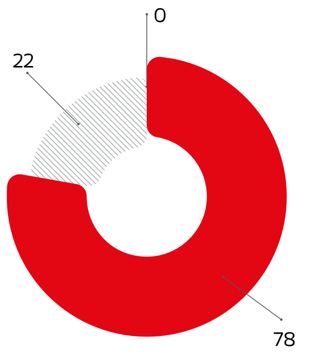
[1] Magnit defines "pre-New Year sales" as sales made across all the Chain's formats from December 17 to December 31.

Shareholder and investor engagement (continued)

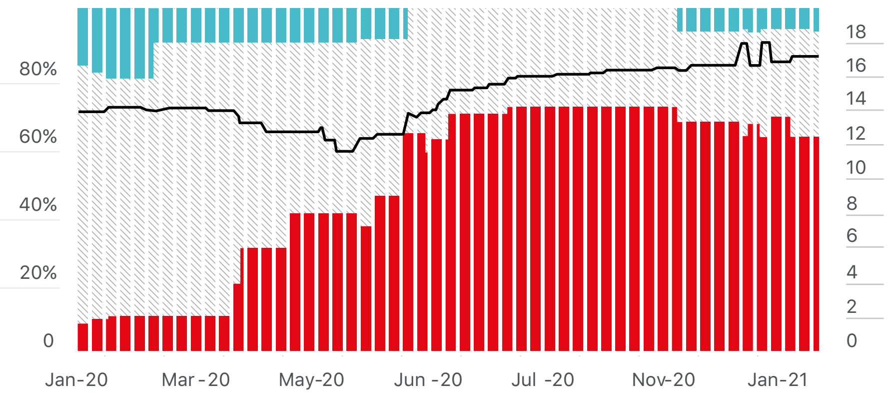
Analyst recommendations and average target price local shares



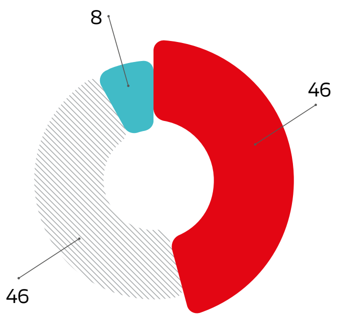
Company collected recommendations and consensus on local shares for 2020, %



Analyst recommendations and average target price GDRs



Company collected recommendations and consensus on GDRs for 2020, %



Buy   Hold   Sell   Average target price, USD

Source: Thomson Reuters, Company collected recommendations and consensus for 2020

Consensus for key financial indicators for 2020, RUB bln (IAS 17)

	Sales and growth	Gross profit and margin	EBITDA and margin	Net Income and margin
Consensus average	1,553.5	366.2	109.7	37.1
	13.5%	23.6%	7.1%	2.4%
Reported	1,553.8	365.7	109.4	37.8
	13.5%	23.5%	7.0%	2.4%

Source: Company collected recommendations and consensus for 2020 based on open sources

Consensus for key financial indicators for 2020, RUB bln (IFRS 16)

	Sales and growth	Gross profit and margin	EBITDA and margin	Net Income and margin
Consensus average	1,553.5	366.2	179.9	29.7
	13.5%	23.6%	11.6%	1.9%
Reported	1,553.8	365.8	178.2	33.0
	13.5%	23.5%	11.5%	2.1%

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 XVIII 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

Issue identification number and assignment date	4B02-01-60525-P-003P, 1.02.2019	4B02-02-60525-P-003P, 21.02.2019	4B02-03-60525-P-003P, 25.06.2019	4B02-04-60525-P-003P, 29.10.2019	4B02-05-60525-P-003P, 23.12.2019	4B02-01-60525-P-002P, 04.03.2020	4B02-02-60525-P-002P, 27.04.2020	4B02-03-60525-P-002P, 19.05.2020
Volume of issue, RUB	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	15,000,000,000 (fifteen bln)	10,000,000,000 (ten bln)	15,000,000,000 (fifteen bln)
Number of securities	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)	15,000,000 (fifteen mln)	10,000,000 (ten mln)	15,000,000 (fifteen mln)
Nominal value of each security, RUB	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)
Placement price	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
Placement date	05.02.2019	26.02.2019	27.06.2019	05.11.2019	26.12.2019	05.03.2020	29.04.2020	22.05.2020

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)

Issue identification number and assignment date	4B02-01-60525-P-003P, 1.02.2019	4B02-02-60525-P-003P, 21.02.2019	4B02-03-60525-P-003P, 25.06.2019	4B02-04-60525-P-003P, 29.10.2019	4B02-05-60525-P-003P, 23.12.2019	4B02-01-60525-P-002P, 04.03.2020	4B02-02-60525-P-002P, 27.04.2020	4B02-03-60525-P-002P, 19.05.2020
Placement method	public placement	public placement	public placement	public placement	public placement	public placement	public placement	public placement
Maturity date	1092nd day from the placement date	728th day from the placement date	546th day from the placement date	910th day from the placement date	1092th day from the placement date	1092th day from the placement date	1092th day from the placement date	1092th day from the placement date
Number of coupons	6	4	3	5	6	6	6	6
ISIN code	RU000A1002U4	RU000A1004G9	RU000A100H02	RU000A100ZS3	RU000A1018X4	RU000A101HJ8	RU000A101MC3	RU000A101PJ1
Coupon rate	8.70%	8.50 %	7.85%	6.90%	6.60%	6.20%	6.70%	5.90%

Credit ratings

In 2020, leading rating agencies assigned credit ratings to the Company. S&P affirmed its rating of the Company and ACRA assigned a new rating.

As of 31.12.2020

Rating agency	Rating recipient	Rating	Forecast	Date of rating (issued / reaffirmed)
Standard&Poors	Issuer at international scale	BB	Stable	15.12.2020
ACRA	Issuer at national scale	AA (RU)	Stable	22.09.2020
	Bonds BO-003R-03, BO-003R-02 National scale	AA (RU)	–	22.09.2020
	BO-003R-04	AA (RU)	–	22.09.2020
	BO-003R-05	AA (RU)	–	22.09.2020
	BO-002R-01	AA (RU)	–	22.09.2020
	BO-002R-02	AA (RU)	–	22.09.2020
	BO-002R-03	AA (RU)	–	22.09.2020

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
- Fairness: equal rights for shareholders in acquiring information about the decisions on payment, size and procedures for payment of dividends
- Consistency: strict implementation of the procedures and principles of the dividend policy
- Progression: continuous improvement of the dividend policy in line with the evolution of the Company's strategic goals
- Sustainability: commitment to ensuring a stable level of dividend payments.

Regulations on the dividend policy of PJSC Magnit (new edition) of 27.05.2016: https://www.magnit.com/en/shareholders-and-investors/dividends/.

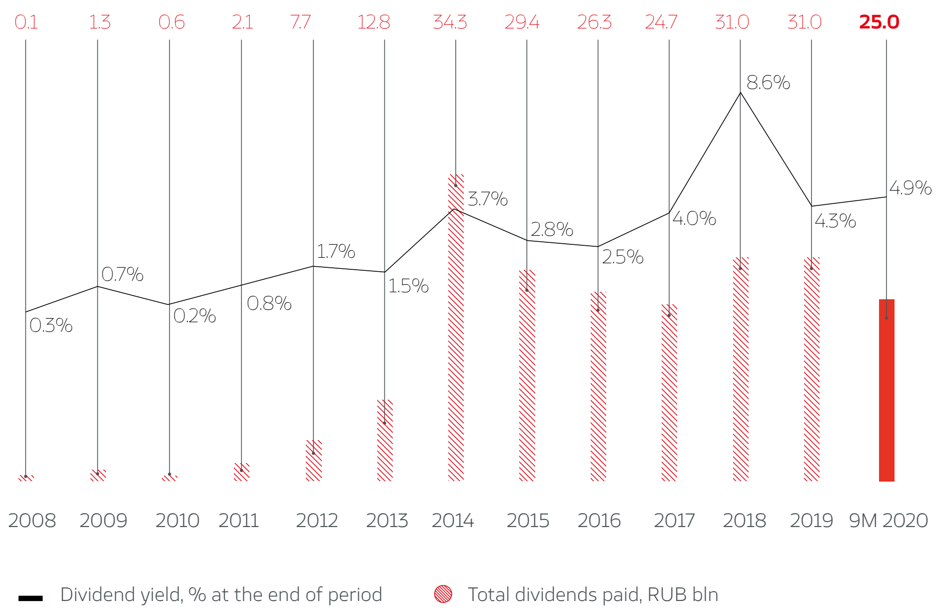
A dividend payment in the amount of RUB 157.00 on the ordinary registered shares of PJSC Magnit in relation to the 2019 financial results was approved by the Annual General Meeting of Shareholders on 4 June 2020 (minutes dated 5 June 2020). Earlier, on 24 December 2019, the Extraordinary General Meeting of Shareholders approved a decision to pay dividends based on the results of 9 months 2019 in the amount of RUB 147.19 on the ordinary registered shares (minutes dated 25 December 2019). Thus, the total payment of dividends for 2019 amounted to RUB 31 bln or RUB 304.19 per ordinary share, which corresponds to the amount paid for 2018.

The Extraordinary General Meeting of Shareholders on 24 December 2020 (minutes dated 25 December 2020) approved the payment of an interim dividend in the amount of RUB 245.31 on the ordinary registered shares of PJSC Magnit which corresponds to the total payment of RUB 25 bln, based on the results of the first nine months of 2020.

Report on announced and paid dividends for 2008-2020

Reported period	Total dividends announced, RUB bln	Total dividends paid, RUB	Dividend per share, RUB
2008	0.1	0.1	1.46
2009	1.3	1.3	14.82
2010	0.6	0.6	6.57
2011	2.1	2.1	22.93
2012	7.7	7.7	81.35
2013	12.8	12.8	135.21
2014	34.3	34.3	362.94
2015	29.4	29.4	310.47
2016	26.3	26.3	278.13
2017	24.7	24.7	251.01
2018	31.0	31.0	304.16
2019	31.0	31.0	304.19
9M 2020	25.0	25.0	245.31

Paid dividends for 2008-2020



Shareholder and investor engagement (continued)

Shareholders and investor engagement

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 was the first in the industry to introduce a new way to showcase chain stores in a virtual format. Virtual 3D tours, accompanied by Ruslan Ismailov, Deputy CEO - Retail Chain Director, allowed investors from all over the world to appreciate the qualitative changes in convenience stores, superstores and drogeries[1].

The Company's management held 9 roadshows and together with the IR team participated in 120 different investors' events covering 218 institutional investors in 2020. Five conferences for individual investors were also held.

The list of the most frequently asked questions by investors and analysts is presented below:
- 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

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.

[1] Please, see https://www.magnit.com/en/about-company/store-formats/.

Investor relations activities

114 Number of institutional investor events where Magnit participated

218 Number of institutional investors covered

7 Financial and operational results releases

6 Number of virtual store tours

5 Number of individual investor events

6 Number of ESG events

4 Conference calls

9 Roadshows

- 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
- due to pandemic restrictions, the Company found a way to conduct virtual stores visits with management presentations. In 2020, six virtual store tours for institutional investors and analysts were successfully completed, 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.

Investor

calendar 2020-2021

2020

6 February 2020
4Q / 12M 2019 Trading Update and Financial Highlights and Conference Call
Krasnodar

16 March 2020
FY 2019 Audited Financial Results
Krasnodar

21 April 2020
Wood`s EM Consumer Conference
Virtual

29 April 2020
1Q 2020 Trading Update and Financial Highlights and Conference Call
Krasnodar

12-13 May 2020
Morgan Stanley Virtual EEMEA Conference 2020
Virtual

13 May 2020
BAML Retail and Consumer Virtual Trip
Virtual

27 May 2020
Aton Consumer Day
Virtual

28 May 2020
HSBC Virtual EEMEA Food Retail Conference
Virtual

2-3 June 2020
BAML Emerging Markets Debt & Equity Conference 2020
Virtual

23-24 June 2020
RenCap Virtual Moscow Conference
Virtual

30 June 2020
Virtual Investor Group Meeting 'Retail with Purpose. Magnit Sustainability Strategy
Virtual

8-9 July 2020
J.P. Morgan Virtual CEEMEA & LATAM Asia Forum
Virtual

14 July 2020
UBS CEEMEA Virtual Retail Trip
Virtual

30 July 2020
2Q / 6M 2020 Trading Update and Financial Highlights and Conference Call
Krasnodar

20 August 2020
1H 2020 Reviewed Financial Results
Krasnodar

2-3 September 2020
Raiffeisen Virtual Emerging Europe Days
Virtual

3 September 2020
HSBC Investor Trip to Russia
Virtual

10-17 September 2020
Citi's Virtual GEMS Conference
Virtual

13-14 October 2020
HSBC Virtual Global EM Forum
Virtual

29 October 2020
3Q / 9M 2020 Trading Update and Financial Highlights and Conference Call
Krasnodar

30 October 2020
Auerbach Grayson-SOVA Capital Emerging and Frontier Markets Conference
Virtual

2-3 November 2020
Moscow Virtual Exchange Forum
Virtual

9-10 November 2020
GS 12th Annual CEEMEA 1-1 Conference
Virtual

11 November 2020
RenCap 25th EM&FM Conference
Virtual

18-19 November 2020
VTB Capital "Russia Calling" Conference
Virtual

1-3 December 2020
UBS Global Emerging Markets One-on-One Virtual Conference
Virtual

2 December 2020
Wood`s EM Consumer Conference
Virtual

3 December 2020
Gazprombank Russian Retail Day
Virtual

2021

4 February 2021
4Q / 12M 2019 Trading Update and Financial Highlights and Conference Call
Krasnodar

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

3 Appendices to the Annual Report

Appendices to the Annual Report

Report

on complying with the principles and recommendations of the Corporate Governance Code

Compliance status

- Full
- Partial
- None

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.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	**The company shall ensure fair and equitable treatment of all shareholders in exercising their corporate governance rights.**			
1.1.1	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company'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.	Full	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. 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 nominees to the company's board of directors and the revision committee.	Full	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in 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 held in the reporting period.		
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.		Criterion 1 is not complied with. The annual general shareholders meeting for 2018 considered the issue of increasing the deadline to submit proposals to the agenda of the annual general meeting (hereinafter referred to as the "Proposals") up to 60 and 45 days in accordance with proposals from shareholders and the Board of Directors. The shareholders decided to increase this period to 45 days, considering it sufficient to make the Proposals. During the reporting period, there were no instances in which shareholders would not have had enough time to submit the Proposals within this period. At the same time, 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.
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the company contains provisions 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 commission.		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 refuse 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.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.	1. During general meetings of shareholders held in the reporting period in the form of a meeting (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 using telecommunication means for remote access of shareholders to general meetings in the reporting period.		Criterion 2 is only partially not complied with. Criterion 3 is not complied with. Company's internal documents set out the possibility for candidates to the management and supervision bodies of the Company to participate at the meeting in person. However, in the reporting year, due to the epidemiological situation and in accordance with Federal Law No. 50-FZ dated 18 March 2020, the general shareholder meetings were held in the form of absentee. The Board of Directors did not consider the issue of providing shareholders with remote access to take part in general meetings during the reporting period because the majority of Company shareholders (over 97%) are clients of nominal holders and participate in the meeting by sending electronic documents to the registrar containing their expression of will on the agenda items of the general meeting. The possibility and necessity of such a practice is planned to be considered before the annual general meeting of shareholders, which will be held for 2021.
1.2	**Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.**			
1.2.1	The company has developed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.		
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.	1. The company's dividend policy clearly identifies financial/ economic circumstances under which the company shall not pay out dividends.		
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)

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.2.4	The company makes every effort to prevent its shareholders profiting from the company through any means other than dividends and liquidation value.	1. 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 timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognise such deals as interested party transactions.	🔴	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. This measure reduces possible additional risks associated with the failure to comply with this recommendation of the Code. 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. The shareholders twice did not support such amendments to the Company Articles of Association. 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.
1.3	**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.**			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, 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.	🟢	
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	🔴	The current legislation provides for the right of shareholders to participate in the management of a joint-stock company by participating in general shareholder 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 in the Company. At the annual general meetings held for 2018 and 2019, at the suggestion of shareholders, the proposal of changing the Company's Articles of Association in terms of the obligation of the Company to take measures aimed at limiting voting rights of shares owned by legal entities controlled by the Company was considered. On both occasions, the shareholders did not support such amendments to the Company Articles of Association. The possibility and necessity of such a practice is planned to be considered before the annual general meeting of shareholders, which will be held at the end of 2021.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.4	**Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.**			
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	🟢	
2.1	**The board of directors provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control system, oversees the activities of the company's executive bodies, and performs other key functions.**			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including due to improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. 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.	🟢	
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	1. At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), as well as criteria and performance (including interim) of the company's strategy and business plans.	🟢	
2.1.3	The board of directors defines the company's principles of, and approaches to, setting up a risk management and internal control system.	1. The board of directors defined the company's principles of, and approaches to, setting up a risk management and internal control system. 2. The board of directors assessed the company's risk management and internal control system in the reporting period.	🟢	
2.1.4	The board of directors defines the company's policy on remuneration payable to, and/or reimbursement (compensation) of costs incurred by, members of the board of directors, executive bodies, and other key executives of the company.	1. The company has developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	🟢	
2.1.5	The board of directors plays a key role in preventing, identifying, and resolving internal conflicts between the company's bodies, shareholders, and employees.	1. The board of directors plays a key role in preventing, identifying, and resolving internal conflicts. 2. The company has set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	🟢	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's regulations on the information policy. 2. The company identified persons responsible for implementing the information policy.		
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.		
2.2	**The board of directors is accountable to the company's shareholders.**			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on 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.		
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling its shareholders to forward questions and express their position on such questions to the chairman of the board of directors.		
2.3	**The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.**			
2.3.1	Only persons of impeccable business and personal reputation who have the knowledge, expertise, and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. 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, business reputation, absence of conflicts of interest, etc.		
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102 - 107 of the Code, as well as the nominees' written consent to be elected to the board of directors.		

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise, and business skills, and it has the trust of shareholders.	1. 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.		
2.3.4	The company has a sufficient number of directors to organise the board of directors' activities in the most efficient way, including the ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.		
2.4	**The board of directors includes a sufficient number of independent directors.**			
2.4.1	An independent director is a person who is sufficiently professional, experienced, and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders, or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty, or competitor of the company, or is related to the government, may not be considered as independent under normal circumstances.	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102-107 of the Code, or were deemed independent by resolution of the board of directors.		
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on the independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of each incumbent director listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.		

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.3	Independent directors make up at least one third of elected directors.	1. Independent directors make up at least one third of directors.	●	
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.	●	
2.5	**The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.**			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights, and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	●	
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	●	
2.5.3	The chairman of the board of directors takes all steps necessary or the timely provision to directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials for the agenda of a board meeting.	●	

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	○	Criterion 1 is not complied with. The fact that the obligation of the members of the Board of Directors to provide notification about conflicts of interest before discussion of the relevant agenda item begins is not formally documented and does not result in such information being concealed. 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 possible conflict of interest. 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.
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	1. The company has adopted and published an internal document that clearly defines the rights and duties of directors.	●	
2.6.3	Directors have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies of other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.	●	
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents. 2. The company has in place a formalised induction programme for newly elected members of the board of directors.	●	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 regulations formalize a procedure for arranging and holding meetings of the board of directors, enabling members of the board of directors to properly prepare for such meetings.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and stipulates, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.	●	
2.7.3	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.	●	In the opinion of the Company, the development of modern telecommunications technologies practically eliminates the differences in the effectiveness of in person and absentee formats of meetings of the Board of Directors. The most important issues included in the agenda of meetings of the Board of Directors are preliminarily considered by the relevant committees of the Board of Directors and are comprehensively discussed by members of the Board of Directors before voting, including absentee form of voting. The Company believes that transferring a large number of meetings of the Board of Directors to in person format is not economically feasible. Taking into account the epidemiological situation that developed during the reporting year and the related limitations, in person meetings for the Company were not possible. In the future, the Company plans to maintain this approach to holding meetings and to develop the use of modern telecommunication technologies when planning meetings and making decisions.
2.7.4	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. 1. The company's Articles of Association provides for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors.	●	

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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, analysing, 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.	●	
2.8.3	To preview matters related to talent management (succession planning), professional composition, and efficiency of the board of directors, a nomination (appointments and HR) committee was set up, predominantly comprised of independent directors.	1. 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 *(5)) predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	●	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is in line with the company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the company's board of directors considered whether the 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 not deemed necessary.		
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	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.		
2.8.6	Committee chairmen inform the board of directors and its chairman on the performance of their committees on a regular basis.	1. In the reporting period, committee chairmen reported to the board of directors on the performance of committees on a regular basis.		
2.9	**The board of directors ensures performance assessment of the board of directors, its committees, and members of the board of directors.**			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as at bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the meeting of the board of directors held in person.		
2.9.2	Performance of the board of directors, its committees and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.		During the reporting period, the Board of Directors conducted a self-assessment of its operations, which showed that the operational effectiveness of the Board of Directors fully complies with the Company's objectives. Also in 2020, the Company made a decision to engage an independent consultant to conduct an independent assessment of the work of the Board of Directors. The report on the results of such an independent assessment was presented after the end of the reporting year and considered at a meeting of the Board of Directors. The main results of the independent assessment are reflected in the Annual Report.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
3.1	**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.**			
3.1.1	The corporate secretary has the expertise, experience, and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The 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		
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, dismissal, and additional remuneration of the corporate secretary.		
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.**			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies, and other key executives creates sufficient incentives for them to work efficiently while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – 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.		
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. In the reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.		

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates all types of expenses, benefits, and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates (regulate) all types of expenses, benefits, and privileges provided to such persons.		
4.1.4	The company defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies, and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by directors, executive bodies, and other key executives of the company.		
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.	1. Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.		
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.	1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.		
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure resulting from the change of control or any other reasons.	1. The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure resulting from the change of control or any other reasons.		
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 of bonus payments illegally received by members of executive bodies and other key executives of the company.		Criterion 3 is not complied with. The 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 are returned to the Company have 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. As of 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 2021.
4.3.2	The company has in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this programme takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.		Criterion 2 is not complied with. The Board of Directors approved the Long-Term Incentive Plan. The plan is designed to motivate management to increase the market capitalisation of the Company supported by EBITDA growth. The plan includes remuneration in the form of shares and options in annual tranches. Remuneration will depend on the share price. The plan is designed for five years. There are no restrictions on the disposal of shares received under the plan. However, the matter of whether these Code provisions can and need to be reflected in the Long-Term Incentive Plan is expected to be considered before the annual general shareholders meeting for 2021.
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.		

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	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.	●	
5.1.2	The company's executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system at the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of business units and departments accountable to them.	●	
5.1.3	The company's risk management and internal control system ensures an objective, fair, and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures and code of ethics.	●	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its setup and efficient functioning determined by the board of directors.	1. In the reporting period, the board of directors 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.	●	
5.2	**The company performs internal audits for regular independent assessment of the reliability and efficiency of its risk management and internal control system, as well as corporate governance practice.**			
5.2.1	The company has set up a separate business unit or engaged an independent external organisation to carry out internal audits. Functional and administrative reporting lines of the internal audit unit are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company has set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organisation with the same line of reporting.	●	
5.2.2	The internal audit division assesses the performance of the internal control, risk management system, and corporate governance systems. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal control and risk management.	●	

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered the matters related to the company's compliance with its information policy at least once in the reporting period.	●	Criterion 1 is not complied with. The Company's information policy was approved prior to the implementation of the Code, but many of the Code's recommendations were reflected in the information policy. The Company ensures the timely disclosure of complete and reliable information, including its financial standings, economic indicators, and ownership structure, to help the Company's shareholders and investors make informed decisions. Information is disclosed in accordance with the requirements of Russian legislation as well as the applicable laws of the United Kingdom of Great Britain and Northern Ireland and the European Union. The Company is developing a document defining the information policy of the Company, 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.
6.1.2	The company discloses information on its corporate governance system and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance system and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of directors and their membership in the board of directors' committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	●	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 based 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 approaches 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 organised markets, the company ensured concerted 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.	●	
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website.	●	Criterion 2 is not complied with. The obligation to disclose information, including in the form of the issuer's quarterly reports, applies to the Company since 2006, while the Company, within the framework of compliance with the legislation on disclosure of information, discloses the information received on the number of shareholders of the Company, information on the number of voting shares broken down by categories (types) of shares, as well as the number of shares at the disposal of the company and legal entities controlled by it, information on persons who directly or indirectly own shares and (or) dispose of votes on shares constituting five or more percent of the authorized capital or ordinary shares of the company and other information required by applicable law, in the form of statements of material facts and as part of annual, quarterly reports and lists of affiliates, which are disclosed on the website on the Internet. At the same time, the Company has not determined the procedure for disclosing specific additional information about the Company's capital structure, as specified by Recommendation 290 of the Code, namely: statements of the Company's executive bodies indicating that the Company has no information about the existence of shareholdings exceeding five percent, other than those already disclosed by the Company, or information about the acquisition or potential acquisition by certain shareholders of a degree of control that is disproportionate to their participation in the Company's authorised capital, including pursuant to shareholder agreements. The matter of whether these provisions can and need to be included in the Company's internal documents and corporate governance practice is expected to be considered before the annual general shareholders meeting for 2022. Even though information about the absence of such knowledge on the part of the Company is not disclosed as a statement of the executive bodies, this does not result in any information being concealed with regard to the Company's capital structure in accordance with Clause 290 of the Code. The Company avoids a formalistic approach in the disclosure of material information about its activities.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	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	**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 information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	●	The Company's information policy was approved prior to the implementation of the Code, but many of the Code's recommendations were reflected in the information policy. However, the recommendations of the Code regarding the determination of the procedure for providing shareholders with information on legal entities controlled by the Company are absent in the information policy of the Company. The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting for 2020. However, the Company discloses at its own initiative a large amount of information about JSC Tander, a significant legal entity it controls, in addition to information required to be disclosed by applicable laws. In practice, such information is easily available. The Company is developing a document defining the information policy of the Company, 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.
6.3.2	When providing information to shareholders, the company ensures 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 refusals 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.	●	

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

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's charter capital, listing or de-listing 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.	1. 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. 2. According to the company's Articles of Association, material corporate actions include at least: company reorganisation, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or delisting of the company's shares.	Partially complied	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.
7.1.2	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.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Complied	
7.1.3	When taking material corporate actions affecting the rights and legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to the specifics of the company's operations, the company's Articles of Association contains less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	Complied	

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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. 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.	Complied	
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	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.	Partially complied	Criteria 1 and 2 are only partially not 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 the basis of which members of the Company's Board of Directors and other persons in accordance with the law are recognised as related parties in 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 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 received from 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".

Consolidated Financial Statements of PJSC Magnit and its subsidiaries

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.

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Independent auditor's report (continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of vendors allowances	
The Group receives various types of allowances from vendors in the form of volume rebates and other forms of payments that effectively reduce the cost of goods purchased from the vendor. We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group's obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories. Information about accounting policy for vendor allowances is disclosed in Note 3 to the consolidated financial statements.	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 year-end to supporting documents from vendors.
Valuation of goods for resale	
The Group has significant balance of goods for resale. In accordance with IAS 2 Inventories, inventories are recorded at the lower of cost and net realizable value. In estimating the carrying amount of goods for resale, the Group's management uses judgments to estimate the net realizable value of goods for resale and the amount of handling costs to be included in the carrying amount of goods for resale. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Note 11 to the consolidated financial statements.	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 type 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.
Impairment testing of property, plant and equipment and right-of-use assets	
Impairment testing for property, plant and equipment and right-to-use assets was one of the key audit matters because the balance of property, plant and equipment and right-to-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate. Information about property, plant and equipment, right-to-use assets and results of impairment testing is disclosed in Notes 7 and 8 to the consolidated financial statements.	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.

Key audit matter	How our audit addressed the key audit matter
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 allocation 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, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 audited entity
Name: PJSC Magnit
Record made in the State Register of Legal Entities on November 12, 2003, State Registration Number 1032304945947.
Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5.

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
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 12006020327.

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)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	7	336,513,344	352,985,987
Right-of-use assets	8	308,444,695	313,566,212
Intangible assets	9	5,506,252	3,914,677
Goodwill	10	26,879,317	26,879,317
Long-term financial assets		1,117,551	314
		678,461,159	697,346,507
Current assets			
Inventories	11	205,949,194	218,873,586
Trade and other receivables	12	8,563,822	13,993,440
Advances paid	13	5,581,366	5,769,958
Taxes receivable, excluding income tax		75,650	1,464,207
Prepaid expenses		1,081,971	656,210
Short-term financial assets		317,672	553,697
Income tax receivable		661,791	1,130,420
Cash and cash equivalents	14	44,699,581	8,901,298
		266,931,047	251,342,816
Total assets		**945,392,206**	**948,689,323**
Equity and liabilities			
Equity attributable to the shareholders of the parent			
Share capital	15	1,020	1,020
Share premium	15	87,390,921	87,379,413
Treasury shares	15	(16,021,596)	(16,454,110)
Share-based payments reserve	31	2,055,322	1,623,268
Retained earnings		109,463,257	115,983,222
Total equity		**182,888,924**	**188,532,813**

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)

	Notes	31 December 2020	31 December 2019
Non-current liabilities			
Long-term loans and borrowings	20	147,694,926	119,632,362
Long-term lease liabilities	8	316,141,855	320,600,953
Long-term advances received		–	244,623
Long-term government grants	21	2,167,641	3,206,076
Deferred tax liabilities	29	12,225,590	16,073,679
		478,230,012	459,757,693
Current liabilities			
Trade and other payables	17	161,072,294	161,631,006
Accrued expenses	18	23,252,598	17,020,105
Taxes payable, excluding income tax	19	11,854,351	4,291,007
Dividends payable	16	24,094,729	14,452,943
Short-term advances received		955,732	696,526
Contract liabilities	22	2,592,558	1,056,711
Short-term government grants	21	627,304	62,857
Short-term loans and borrowings	20	18,391,601	64,578,456
Short-term lease liabilities	8	41,432,103	36,609,206
		284,273,270	300,398,817
Total liabilities		762,503,282	760,156,510
Total equity and liabilities		**945,392,206**	**948,689,323**

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

(In thousands of Russian rubles)

	Note	2020	2019
Revenue	23	1,553,777,351	1,368,705,394
Cost of sales	24	(1,188,021,688)	(1,056,706,053)
Gross profit		365,755,663	311,999,341
Rental and sublease income		3,153,243	3,143,997
Selling expenses	25	(16,887,124)	(15,686,379)
General and administrative expenses	26	(279,538,315)	(254,961,673)
Interest income		504,476	272,595
Finance costs	27	(44,772,274)	(47,781,649)
Other income	28	17,069,195	16,396,467
Other expenses		(1,129,018)	(1,676,061)
Foreign exchange (loss)/gain		(1,453,331)	872,834
Profit before tax		42,702,515	12,579,472
Income tax expense	29	(9,709,223)	(3,015,250)
Profit for the year	30	32,993,292	9,564,222
Total comprehensive income for the year, net of tax		**32,993,292**	**9,564,222**
Profit for the year			
Attributable to:			
Shareholders of the parent		32,993,292	9,564,222
		32,993,292	9,564,222
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		32,993,292	9,564,222
		32,993,292	**9,564,222**
Earnings per share (in RUB per share)			
— basic profit for the year attributable to the shareholders of the parent	30	337.95	97.98
— diluted profit for the year attributable to the shareholders of the parent	30	336.07	97.68

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)

	Note	2020	2019 Restated (Note 4.2)
Cash flows from operating activities			
Profit before income tax		42,702,515	12,579,472
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	7, 8	88,061,585	87,117,847
Amortization of intangible assets	9	1,703,793	976,589
(Gain)/loss from disposal of property, plant and equipment	28	(1,165,190)	358,190
Loss from disposal of intangible assets	9	45,065	23,164
Gain from sales of investments		–	(47,511)
Provision for expected credit losses on trade and other receivables	26	451,920	405,773
Provision for expected credit losses on financial assets		247,436	–
Expense for inventories carried at net realizable value		597,351	358,375
Share-based payments reserve	31	876,076	2,452,342
Gain from cancellation of lease contracts	8	(1,687,459)	(1,985,180)
Gain from Covid-19 related rent concessions	8	(1,481,968)	–
Income from government grants	21	(664,257)	(383,086)
Foreign exchange loss/(gain)		1,453,331	(872,834)
Finance costs	27	44,772,274	47,781,649
Investment income		(504,476)	(272,595)
Operating cash flows before working capital changes		175,407,996	148,492,195
Decrease/(increase) in trade and other receivables		4,021,037	(6,787,427)
Decrease/(increase) in advances paid		188,592	(322,155)
Increase/(decrease) in advances received		14,583	(132,870)
Decrease/(increase) in taxes receivable other than income tax		1,388,557	(1,397,460)
Increase in prepaid expenses		(425,761)	(134,189)
Decrease/(increase) in inventories		12,327,041	(37,091,458)
(Decrease)/increase in trade and other payables		(2,133,884)	31,320,853
Increase in accrued expenses	18	6,232,493	3,935,220
Increase/(decrease) in taxes payable other than income tax		7,563,344	(500,829)
Increase/(decrease) in contract liabilities	22	1,535,847	(390,341)
Cash generated from operations		206,119,845	136,991,539

	Note	2020	2019 Restated (Note 4.2)
Income tax paid		(13,088,683)	(2,896,680)
Interest paid	8, 33	(43,820,851)	(46,732,567)
Interest received		400,901	251,870
Net cash from operating activities		149,611,212	87,614,162
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(28,136,397)	(53,911,476)
Purchase of intangible assets	9	(3,340,433)	(3,237,281)
Proceeds from sale of property, plant and equipment		2,069,928	672,002
Loans provided		–	(539,032)
Loans repaid		196,832	692,806
Proceeds from government grants	21	190,269	614,318
Net cash used in investing activities		(29,019,801)	(55,708,663)
Cash flows from financing activities			
Proceeds from loans and borrowings	33	452,555,765	695,756,324
Repayment of loans and borrowings	33	(471,761,619)	(677,163,335)
Dividends paid	16, 33	(29,871,472)	(29,993,007)
Repayment of lease liabilities	8	(35,715,802)	(33,242,289)
Purchase of treasury shares		–	(5,109,648)
Net cash used in financing activities		(84,793,128)	(49,751,955)
Net increase/(decrease) in cash and cash equivalents		35,798,283	(17,846,456)
Cash and cash equivalents at the beginning of the year	14	8,901,298	26,747,754
Cash and cash equivalents at the end of the year	**14**	**44,699,581**	**8,901,298**

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)

	Attributable to shareholders of the parent					
	Share capital	Share premium	Treasury shares	Provision for share-based payments	Retained earnings	Equity attributable to shareholders of the parent
Balance at 1 January 2019	1,020	87,257,340	(12,051,463)	–	137,235,129	212,442,026
Profit for the year	–	–	–	–	9,564,222	9,564,222
Total comprehensive income for the year	–	–	–	–	9,564,222	9,564,222
Dividends declared (Note 16)	–	–	–	–	(30,816,128)	(30,816,128)
Purchase of treasury shares (Note 15)	–	–	(5,109,648)	–	–	(5,109,648)
Share-based payments (Notes 15, 31)	–	–	–	2,452,342	–	2,452,342
Transfer of rights to equity instruments for share based payments (Notes 15, 31)	–	122,073	707,001	(829,074)	–	–
Balance at 31 December 2019	**1,020**	**87,379,413**	**(16,454,110)**	**1,623,268**	**115,983,223**	**188,532,814**
Balance at 1 January 2020	1,020	87,379,413	(16,454,110)	1,623,268	115,983,223	188,532,814
Profit for the year	–	–	–	–	32,993,292	32,993,292
Total comprehensive income for the year	–	–	–	–	32,993,292	32,993,292
Dividends declared (Note 16)	–	–	–	–	(39,513,258)	(39,513,258)
Share-based payments (Notes 15, 31)	–	–	–	876,076	–	876,076
Transfer of rights to equity instruments for share based payments (Notes 15, 31)	–	11,508	432,514	(444,022)	–	–
Balance at 31 December 2020	**1,020**	**87,390,921**	**(16,021,596)**	**2,055,322**	**109,463,257**	**182,888,924**

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 BestTorg	Food retail in Moscow and the Moscow region	100%	100%
LLC MFK	Other activities	100%	100%
LLC Selta	Transportation services for the Group	100%	100%
LLC TK Zelenaya Liniya	Greenhouse complex	100%	100%
LLC Tandem	Rent operations	100%	100%
LLC Alkotrading	Other operations	100%	100%
LLC ITM	IT operations	100%	100%
LLC Logistika Alternativa	Import operations	100%	100%
LLC Zvezda	Assets holder, vehicles maintenance services for the Group	100%	100%
LLC TD–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 Confectioner	Production of food for the Group	100%	100%
LLC Kuban Factory of Bakery Products	Production of food for the Group	100%	100%
LLC Volshebnaya svezhest	Production of household chemicals for the Group	100%	100%
LLC Moroznye pripasy	Production of food for the Group	100%	100%
LLC Moskva na 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%
LLC MF-SIA	Management activities	100%	100%
JSC SIA International Ltd*	Pharmaceutical wholesale	–	100%
JSC RINK*	Production of medical devices	–	100%
LLC MC SIA Group*	Management activities	–	100%
JSC SIA International – Krasnodar*	Commission trade of medicines and medical products	–	80%
LLC SIA International – Arkhangelsk*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Vladivostok	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Tambov*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Volgograd*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Voronezh*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Ekaterinburg*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Irkutsk*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Kazan*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Krasnoyarsk*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Nizhniy Novgorod	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Novosibirsk*	Commission trade of medicines and medical products	–	100%
LLC MFS – Samara*	Commission trade of medicines and medical products	–	100%
LLC MFS – Yaroslavl*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Saint Petersburg*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Khabarovsk	Commission trade of medicines and medical products	100%	100%
Stellary Cosmetic GmBH**	Holder of intangible assets	100%	–

* 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.

** 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.

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 when 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 ruble 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 2021, 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 on the investment or is exposed to the risk of its change and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure to risk, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

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 re-assesses 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 the 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/ noncurrent 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 a 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 centres 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 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 perspective basis as a change in an accounting estimate.

The estimated useful economic lives of the related assets are as follows:

	Useful life in years
Buildings	10-50
Machinery and equipment	1-14
Other fixed assets	1-10

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.

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:

Description	Useful life in years
Licenses	1-25
Software	1-25
Trademarks	1-10
Other	1-7

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.

Below 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:

	Useful life, years
Buildings	1-34
Land	1-65

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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If 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 immediately 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. (equitysettled 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 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);
- the expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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 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, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for 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; or
- 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.

Treasury shares are used 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 realise 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):

	30 June 2020 as previously reported	Effect of restatement	30 June 2020 as restated
Non-current assets			
Right-of-use assets	306,122,243	(1,004,158)	305,118,085
Total non-current assets	680,089,706	(1,004,158)	679,085,548
Total assets	936,276,458	(1,004,158)	935,272,300
Equity and liabilities			
Retained earnings	114,334,304	728,562	115,062,866
Total equity	187,301,865	728,562	188,030,427
Non-current liabilities			
Long-term lease liabilities	315,005,878	(1,515,608)	313,490,270
Deferred tax liabilities	14,109,880	182,141	14,292,021
Total non-current liabilities	449,589,875	(1,333,467)	448,256,408
Current liabilities			
Short-term lease liabilities	38,301,842	(399,253)	37,902,589
Total current liabilities	299,384,718	(399,253)	298,985,465
Total equity and liabilities	**936,276,458**	**(1,004,158)**	**935,272,300**

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):

	For the six months ended 30 June 2020 as previously reported	Effect of restatement	For the six months ended 30 June 2020 as restated
General and administrative expenses	(139,032,804)	15,825	(139,016,979)
Finance costs	(23,265,342)	(58,918)	(23,324,260)
Other income	6,767,975	953,796	7,721,771
Profit before tax	17,947,775	910,703	18,858,478
Income tax expense	(4,176,629)	(182,141)	(4,358,770)
Profit for the year	13,771,146	728,562	14,499,708
Total comprehensive income for the year, net of tax	13,771,146	728,562	14,499,708
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	**13,771,146**	**728,562**	**14,499,708**
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:

	For the six months ended 30 June 2020 as previously reported	Effect of restatement	For the six months ended 30 June2020 as restated
Cash flows from operating activities			
Profit before income tax	17,947,775	910,703	18,858,478
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	44,371,294	(15,825)	44,355,469
Gain from Covid-19 related rent concessions	–	(953,796)	(953,796)
Finance costs	23,265,342	58,918	23,324,260
Cash flows from operating activities before changes in working capital	87,006,937	–	87,006,937
Cash generated from operations	**58,845,657**	**–**	**58,845,657**
Cash generated from operations			
Interest paid	(22,462,135)	(58,918)	(22,521,053)
Net cash from operating activities	**32,403,518**	**(58,918)**	**32,344,600**
Cash flows from financing activities			
Repayment of lease liabilities	(17,761,266)	58,918	(17,702,348)
Net cash used in financing activities	(8,635,012)	58,918	(8,576,094)

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.

The table below shows the effect of changes on the consolidated statement of cash flows for the year ended 31 December 2019:

	2019 as previously reported	Effect of reclassification	2019 as restated
Cash flows from operating activities			
Expenses on inventories recorded at net realizable value	–	358,375	358,375
Income from government grants	–	(383,086)	(383,086)
Operating cash flows before working capital changes	148,516,906	(24,711)	148,492,195
Increase in inventory	(36,733,083)	(358,375)	(37,091,458)
Increase in government grants	231,232	(231,232)	–
Cash generated from operations	**88,228,480**	**(614,318)**	**87,614,162**
Cash flows from investing activities			
Proceeds from government grants	–	614,318	614,318
Net cash used in investing activities	**(56,322,981)**	**614,318**	**(55,708,663)**

4.3 New and amended standards and interpretations

Except for the changes mentioned above and the adoption of new standards and interpretations effective as of 1 January 2020, the accounting policies adopted in the preparation of the annual consolidated financial statements for 2020 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

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 1 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.

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: 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 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 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 that elects 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 judgments, 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 for 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 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 judgment 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 recognizes 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 JSC 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:

	Shareholders		Other related parties	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Other payables (Note 17)	20,583	94,502	165,670	58
Advances received	11,890	3,585	492	–
Other receivables (Note 12)	2,567	1,834	3,114	–
Loans received (Note 20)	–	33,200,000	–	–
Short-term loans receivable	–	–	–	247,761

The Group's transactions with related parties for the years ended at 31 December 2020 and 31 December 2019 are presented as follows:

	Shareholders		Other related parties	
	2020	2019	2020	2019
Repayment of loans received, incl. finance costs	33,509,193	2,784,279	–	–
Finance costs	309,193	2,565,727	–	–
Other expenses	91,134	42,995	52,946	–
Interest income	49,429	14,611	–	30,228
Rent and utilities income	28,839	26,632	2,041	73
Other income	61	19,809	23,998	–
Loans receivable repayment	–	15,202	–	278,721
Loans received	–	5,218,552	–	–
Purchases of inventory	–	–	564,472	911,273
Loans issued	–	–	–	236,780
Purchase of property, plant and equipment	–	–	–	171,232
Purchase of intangible assets	–	–	–	45,248
Rent expenses	–	27,368	26,282	2,683

No guarantees have been given or received.

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 an 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.

7. Property, plant and equipment

Property, plant and equipment as at 31 December 2020 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2020	14,013,576	327,078,060	131,244,831	42,265,508	12,329,092	526,931,067
Additions	–	–	12,840,791	1,432,848	13,992,898	28,266,537
Transfers	–	14,965,156	–	–	(14,965,156)	–
Disposals	(8,590)	(3,817,335)	(3,978,170)	(7,227,977)	(159,982)	(15,192,054)
At 31 December 2020	14,004,986	338,225,881	140,107,452	36,470,379	11,196,852	540,005,550
Accumulated depreciation and impairment						
At 1 January 2020	–	(65,460,025)	(83,753,846)	(24,467,009)	(264,200)	(173,945,080)
Depreciation for the year	–	(18,795,931)	(18,131,764)	(5,065,408)	–	(41,993,103)
Impairment for the year	–	(1,315,750)	(13,064)	–	(812,743)	(2,141,557)
Reversal of impairment losses	–	288,314	11,904	–	–	300,218
Disposals	–	3,764,278	3,464,916	6,955,165	102,957	14,287,316
At 31 December 2020	–	(81,519,114)	(98,421,854)	(22,577,252)	(973,986)	(203,492,206)
Net book value						
At 1 January 2020	**14,013,576**	**261,618,035**	**47,490,985**	**17,798,499**	**12,064,892**	**352,985,987**
At 31 December 2020	**14,004,986**	**256,706,767**	**41,685,598**	**13,893,127**	**10,222,866**	**336,513,344**

Property, plant and equipment as at 31 December 2019 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2019	14,004,240	294,355,010	114,262,265	43,165,668	23,156,927	488,944,110
Additions	19,019	–	22,869,304	1,723,433	30,024,652	54,636,408
Transfers	–	40,690,438	–	–	(40,690,438)	–
Disposals	(9,683)	(7,967,388)	(5,886,738)	(2,623,593)	(162,049)	(16,649,451)
At 31 December 2019	14,013,576	327,078,060	131,244,831	42,265,508	12,329,092	526,931,067
Accumulated depreciation and impairment						
At 1 January 2019	–	(50,803,350)	(71,203,070)	(22,100,208)	–	(144,106,628)
Depreciation for the year	–	(21,212,009)	(17,760,147)	(4,934,458)	–	(43,906,614)
Impairment for the year	–	(1,264,805)	(21,144)	(947)	(264,200)	(1,551,096)
Disposals	–	7,820,139	5,230,515	2,568,604	–	15,619,258
At 31 December 2019	–	(65,460,025)	(83,753,846)	(24,467,009)	(264,200)	(173,945,080)
Net book value						
At 1 January 2019	**14,004,240**	**243,551,660**	**43,059,195**	**21,065,460**	**23,156,927**	**344,837,482**
At 31 December 2019	**14,013,576**	**261,618,035**	**47,490,985**	**17,798,499**	**12,064,892**	**352,985,987**

In 2020, the weighted average capitalization rate on borrowed funds was 7.01% per annum (2019: 8.10%). The information on interest expenses included in the cost of qualifying assets is disclosed in Note 27.

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 in the amount of 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 512,134 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 make 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 160,367 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 decrease by RUB 195,633 thousand. If the revenue rate of growth 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:

	Buildings	Land	Total
Cost			
As at 1 January 2020	481,831,850	5,872,964	487,704,814
Additions	36,623,382	100,272	36,723,654
Modification	10,554,431	(148,910)	10,405,521
Indexation	1,373,791	17,664	1,391,455
Derecognition	(14,220,337)	(970,024)	(15,190,361)
As at 31 December 2020	516,163,117	4,871,966	521,035,083
Accumulated depreciation and impairment			
As at 1 January 2020	(173,221,982)	(916,620)	(174,138,602)
Depreciation for the year	(43,811,248)	(152,540)	(43,963,788)
Impairment for the year (Note 7)	(831,479)	–	(831,479)
Reversal of impairment losses (Note 7)	303,769	–	303,769
Derecognition	5,844,218	195,494	6,039,712
As at 31 December 2020	(211,716,722)	(873,666)	(212,590,388)
Net book value			
As at 1 January 2020	**308,609,868**	**4,956,344**	**313,566,212**
As at 31 December 2020	**304,446,395**	**3,998,300**	**308,444,695**

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)

8. Lease (continued)

As at 31 December 2019, right-of-use assets consisted of the following:

	Buildings	Land	Total
Cost			
As at 1 January 2019	418,391,845	5,614,674	424,006,519
Additions	54,440,799	67,007	54,507,806
Modification	20,204,993	385,366	20,590,359
Indexation	2,570,743	19,765	2,590,508
Derecognition	(13,776,530)	(213,848)	(13,990,378)
As at 31 December 2019	481,831,850	5,872,964	487,704,814
Accumulated depreciation and impairment			
As at 1 January 2019	(137,065,442)	(763,385)	(137,828,827)
Depreciation for the year	(41,740,978)	(224,692)	(41,965,670)
Impairment for the year (Note 7)	(419,399)	–	(419,399)
Derecognition	6,003,837	71,457	6,075,294
As at 31 December 2019	(173,221,982)	(916,620)	(174,138,602)
Net book value			
As at 1 January 2019	**281,326,403**	**4,851,289**	**286,177,692**
As at 31 December 2019	**308,609,868**	**4,956,344**	**313,566,212**

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:

	2020	2019
At 1 January	357,210,159	322,741,246
Additions and other increase	36,459,462	54,522,871
Modification	10,405,521	20,590,359
Indexation	1,391,455	2,590,508
Payments	(35,715,802)	(33,242,289)
Interest accrued (Note 27)	30,771,302	32,414,202
Interest paid	(30,771,302)	(32,414,202)
Derecognition	(10,838,108)	(9,900,264)
Rent concessions due to Covid-19 pandemic	(1,481,968)	–
Foreign exchange loss/(gain)	143,239	(92,272)
At 31 December	**357,573,958**	**357,210,159**

	Year of maturity	Weighted average effective interest rate, %	31 December 2020
Short-term liabilities	2021	8.47	41,432,103
Long-term liabilities	2022-2069	8.37	316,141,855
Total			**357,573,958**

	Year of maturity	Weighted average effective interest rate, %	31 December 2019
Short-term liabilities	2020	9.08	36,609,206
Long-term liabilities	2021-2069	8.94	320,600,953
Total			**357,210,159**

Set out below are the are the amounts recognized in the consolidated statement of comprehensive income ((income)/expenses):

	31 December 2020	31 December 2019
Depreciation and impairment of right-of-use assets	44,227,143	41,660,137
Interest expenses on the lease	30,771,302	32,414,202
Foreign exchange loss/(gain)	143,239	(92,271)
Gain from cancelation of lease contracts	(1,687,459)	(1,985,180)
Gain from Covid-19 related rent concessions	(1,481,968)	–
Lease expenses related to short-term lease (included in "General and administrative expenses")	267,715	249,969
Lease expenses related to lease of low-value assets (included in "General and administrative expenses")	79,410	103,472
Variable lease payments (included in "General and administrative expenses")	1,081,701	628,765
	73,401,083	**72,979,094**

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:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2020	503,881	4,622,012	32,592	99,373	5,257,858
Additions	81,115	3,220,423	1,606	37,289	3,340,433
Disposals	(283,376)	(981,308)	(18)	(37,317)	(1,302,019)
At 31 December 2020	301,620	6,861,127	34,180	99,345	7,296,272
Accumulated amortisation and impairment					
At 1 January 2020	(160,946)	(1,125,834)	(9,190)	(47,211)	(1,343,181)
Amortisation for the year	(233,281)	(1,427,274)	(3,387)	(39,851)	(1,703,793)
Disposals	268,921	952,487	18	35,528	1,256,954
At 31 December 2020	(125,306)	(1,600,621)	(12,559)	(51,534)	(1,790,020)
Net book value					
At 1 January 2020	**342,935**	**3,496,178**	**23,402**	**52,162**	**3,914,677**
At 31 December 2020	**176,314**	**5,260,506**	**21,621**	**47,811**	**5,506,252**

As at 31 December 2019, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2019	282,546	2,636,596	31,721	122,017	3,072,880
Additions	300,305	2,890,995	871	45,110	3,237,281
Disposals	(78,970)	(905,579)	–	(67,754)	(1,052,303)
At 31 December 2019	503,881	4,622,012	32,592	99,373	5,257,858
Accumulated amortisation and impairment					
At 1 January 2019	(138,561)	(1,197,228)	(5,938)	(54,004)	(1,395,731)
Amortisation for the year	(88,854)	(825,120)	(3,252)	(59,363)	(976,589)
Disposals	66,469	896,514	–	66,156	1,029,139
At 31 December 2019	(160,946)	(1,125,834)	(9,190)	(47,211)	(1,343,181)
Net book value					
At 1 January 2019	143,985	1,439,368	25,783	68,013	1,677,149
At 31 December 2019	342,935	3,496,178	23,402	52,162	3,914,677

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:

	2020	2019
Goodwill as at 1 January	26,879,317	26,879,317
Goodwill as at 31 December	**26,879,317**	**26,879,317**

Carrying amount of goodwill allocated to each of the cash generated units:

	As at 31 December 2020	As at 31 December 2019
Stores Magnit Cosmetic and Magnit Pharmacy formats	25,511,824	25,511,824
Manufactury company TD Holding LLC	1,367,493	1,367,493
Total	**26,879,317**	**26,879,317**

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 December2020. 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:

	2020	2019
Goods for resale (at lower of cost and net realisable value)	194,944,876	208,653,823
Materials and supplies (at cost price)	11,004,318	10,219,763
	205,949,194	**218,873,586**

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 releasable value, which resulted in recognition of expenses within "Cost of goods sold" in the consolidated statement of comprehensive income in the amount of RUB 597,351 thousand (2019: RUB 358,375 thousand).

12. Trade and other receivables

Trade and other receivables as at 31 December 2020 and 2019 consisted of the following:

	2020	2019
Other receivables – third parties	5,224,320	6,272,129
Trade receivables – third parties	4,848,309	8,782,045
Other receivables – related parties (Note 6)	5,681	1,834
Expected credit losses	(1,514,488)	(1,062,568)
	8,563,822	**13,993,440**

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:

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2020						
ECL rate	0.1-3%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	3,910,007	4,485,359	255,116	354,015	1,073,813	10,078,310
ECLs	89,077	123,568	51,023	177,007	1,073,813	1,514,488

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:

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2019						
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	12,482,031	1,251,200	168,101	376,577	778,099	15,056,008
ECLs	25,024	37,536	33,620	188,289	778,099	1,062,568

Set out below is the movement in the allowance for expected credit losses:

	2020	2019
As at 1 January	(1,062,568)	(656,795)
Accrual of provision for expected credit losses	(668,262)	(505,958)
Release	216,342	100,185
As at 31 December	**(1,514,488)**	**(1,062,568)**

13. Advances paid

Advances paid as at 31 December 2020 and 2019 consisted of the following:

	2020	2019
Advances to third party suppliers	4,901,938	4,904,086
Advances for customs duties	617,903	751,668
Other advances	61,525	114,204
	5,581,366	**5,769,958**

14. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2020 and 2019 consisted of the following:

	2020	2019
Cash on hand, in RUB	2,080,093	2,262,150
Cash in banks, in RUB	9,348,609	452,565
Cash in banks, in foreign currency	935	5,456
Cash in transit, in RUB	1,599,303	4,981,127
Cash placed on accounts with minimum account balance, in RUB	9,160,000	1,200,000
Deposits, in RUB	22,510,641	–
	44,699,581	**8,901,298**

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

	2020 No. ('000)	2019 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid share capital (par value of RUB 0.01 each)	**101,911**	**101,911**

	2020	2019
Share premium at 1 January	87,379,413	87,257,340
Transfer of rights to equity instruments under share-based payments program (Note 31)	11,508	122,073
Share premium at 31 December	**87,390,921**	**87,379,413**

Notes to the consolidated financial statements for the year ended 31 December 2020

(In thousands of Russian rubles) (continued)

15. Share capital, share premium and treasury shares (continued)

	2020 No. ('000)	2019 No. ('000)
Balance of shares outstanding at beginning of financial year	97,550	98,665
Purchase of treasury shares	–	(1,302)
Transfer of treasury shares under share-based payments program (Note 31)	74	105
Transfer of treasury shares under employment contract with the President (Note 31)	41	82
Balance of shares outstanding at the end of financial year	**97,665**	**97,550**

In 2020, the Group did not acquire any treasury shares on the open market.

In 2020, the Group transferred 73,597 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 271,571 thousand. The difference of RUB 5,770 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as a reduction of share premium.

In 2020, the Group transferred 41,177 treasury shares to the Group's President under his employment contract (Note 31). The fair value of the consideration transferred was RUB 172,451 thousand. The difference of RUB 17,278 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as an increase of share premium.

In 2019, the Group purchased 1,302,397 treasury shares on the open market, the acquisition cost of the shares amounted to 5,109,648 thousand rubles.

In 2019, the Group transferred 105,258 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 432,634 thousand. The difference of RUB 35,979 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as share premium.

In 2019, the Group transferred 82,355 treasury shares to the Group's President under his employment contract (Note 31). The fair value of the consideration transferred was RUB 396,440 thousand. The difference of RUB 86,094 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as share premium.

16. Dividends declared

In 2020, the Group declared dividends to shareholders relating to 2019 and the 9 months of 2020.

	2020
Dividends declared for 2019 and for 9 months 2020 (RUB 157 and RUB 245.31 per share)	39,513,258

In 2019, the Group declared dividends to shareholders relating to 2018 and the 9 months of 2019.

	2019
Dividends declared for 2018 and for 9 months 2019 (RUB 166.78 and RUB 147.19 per share)	30,816,128

In 2020, the Group paid dividends of RUB 29,871,472 thousand (2019: RUB 29,993,007 thousand).

As at 31 December 2020, dividends payable were RUB 24,094,729 thousand (31 December 2019: RUB 14,452,943 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:

	31 December 2020	31 December 2019
Trade payables to third parties	145,281,458	140,630,829
Other payables to third parties	15,604,583	20,905,617
Other payables to related parties (Note 6)	186,253	94,560
	161,072,294	**161,631,006**

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:

	31 December 2020	31 December 2019
Accrued salaries and wages	11,278,431	8,124,514
Other accrued expenses	11,974,167	8,895,591
	23,252,598	**17,020,105**

Other accrued expenses are represented by salary surcharges, employee bonuses and other accruals.

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:

	31 December 2020	31 December 2019
Value added tax	8,251,995	–
Social insurance contributions	1,790,088	2,378,411
Personal income tax	1,226,450	1,171,380
Property tax	520,401	631,732
Other taxes	65,417	109,484
	11,854,351	**4,291,007**

20. Loans and borrowings

Long-term and short-term loans and borrowings as at 31 December 2020 and 2019 consisted of the following:

	Year of maturity 2020	31 December 2020	Year of maturity 2019	31 December 2019
Long-term loans and borrowings				
Unsecured bonds	2022-2023	70,897,128	2021-2022	40,737,574
Unsecured bank loans	2022-2027	79,614,330	2021-2027	47,817,777
Unsecured bank loans from related parties		–	2021-2022	33,200,000
Less: current portion of long-term borrowings and loans		(2,816,532)		(2,122,989)
Total long-term borrowings and loans		**147,694,926**		**119,632,362**
Short-term loans and borrowings				
Unsecured bonds	2021	10,296,260	2020	10,001,047
Unsecured bank loans	2021	5,278,809	2020	52,454,420
Current portion of long-term borrowings and loans		2,816,532		2,122,989
Total short-term loans and borrowings		**18,391,601**		**64,578,456**

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

	2020	2019
At 1 January	3,268,933	3,037,701
Received during the year	190,269	614,318
Recognized in profit or loss	(664,257)	(383,086)
At 31 December	**2,794,945**	**3,268,933**
Short-term	627,304	62,857
Long-term	2,167,641	3,206,076

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:

	31 December 2020	31 December 2019
Short-term liabilities to the customer loyalty program	2,148,681	810,214
Short-term advances received from wholesale customers	443,877	246,497
	2,592,558	**1,056,711**

Changes to the short-term liabilities to the customer loyalty program include the following:

	2020	2019
At 1 January	810,214	1,178,273
Deferred during the year	12,235,191	5,479,317
Recognized as revenue during the year	(10,896,724)	(5,847,376)
At 31 December	**2,148,681**	**810,214**

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:

	2020	2019
Retail	1,510,070,771	1,332,928,824
Wholesale	43,706,580	35,776,570
	1,553,777,351	**1,368,705,394**

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 amounted to RUB 1,562,939,358 thousand (2019: RUB 1,378,925,154 thousand).

24. Cost of sales

Cost of sales for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Cost of goods sold	1,149,730,128	1,022,098,438
Transportation expenses	38,291,560	34,607,615
	1,188,021,688	**1,056,706,053**

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:

	2020	2019
Advertising	7,627,912	7,715,200
Packaging and raw materials	4,861,131	3,215,294
Depreciation of property, plant and equipment	4,398,081	4,755,885
	16,887,124	**15,686,379**

26. General and administrative expenses

General and administrative expenses for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Payroll	108,535,879	95,517,926
Depreciation and impairment of right-of-use assets (Note 8)	44,227,143	41,660,137
Depreciation and impairment of property, plant and equipment (Note 7)	39,436,361	40,701,825
Payroll-related taxes	30,104,070	26,159,360
Utilities and rent	29,715,812	25,719,454
Bank charges	7,108,373	6,516,095
Repair and maintenance	6,731,558	5,747,572
Taxes, other than income tax	2,924,806	3,240,165
Security	1,790,229	1,797,235
Amortisation of intangible assets (Note 9)	1,703,793	976,589
Provision for unused vacation	542,696	681,018
Accrual of expected credit losses (Note 12)	451,920	400,437
Other expenses	6,265,675	5,843,860
	279,538,315	**254,961,673**

27. Finance costs

Finance costs for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Interest on loans and borrowings	8,462,099	13,359,504
Interest on bonds	5,669,013	2,037,062
Interest on lease liabilities (Note 8)	30,771,302	32,414,202
Total interest expense for financial liabilities	44,902,414	47,810,768
Less amounts included in the cost of qualifying assets	(130,140)	(29,119)
	44,772,274	**47,781,649**

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:

	2020	2019
Advertising income	5,371,680	6,379,618
Sales of packing materials	3,790,327	3,840,142
Fines and penalties	2,626,926	3,341,220
Gain from cancellation of lease contracts (Note 8)	1,687,459	1,985,180
Gain from Covid-19 related rent concessions (Note 8)	1,481,968	–
Gain from the sale of property, plant and equipment	1,165,190	–
Other	945,645	850,307
	17,069,195	**16,396,467**

29. Income tax

The Group's income tax expense for the years ended 31 December 2020 and 2019 was as follows:

	2020	2019
Consolidated statement of comprehensive income		
Current tax	13,728,393	3,302,256
Adjustments in respect of current income tax of previous year	(171,081)	(1,068,227)
Deferred tax	(3,848,089)	781,221
Income tax expense reported in the consolidated statement of comprehensive income	**9,709,223**	**3,015,250**

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2020 is as follows:

	At 1 January 2020	Recorded in the consolidated statement of comprehensive income, 2020	At 31 December 2020
Deferred tax assets			
Right-of-use assets / lease liabilities	(10,915,536)	(1,190,334)	(12,105,870)
Accrued expenses	(834,430)	(1,045,028)	(1,879,458)
Inventory	(962,839)	(512,512)	(1,475,351)
Advances paid	(131,884)	(56,686),	(188,570)
Other	(258,737)	(305,446),	(564,183)
Total deferred tax asset	(13,103,426)	(3,110,006)	(16,213,432)
Including offset with deferred tax liability	13,103,426	3,110,006	16,213,432
Net deferred tax asset	**–**	**–**	**–**
Deferred tax liabilities			
Property, plant and equipment	28,608,661	(722,682)	27,885,979
Prepaid expenses and intangible assets	319,556	70,845	390,401
Trade and other receivables	173,278	(10,636)	162,642
Other	75,610	(75,610)	–
Total deferred tax liability	29,177,105	(738,083)	28,439,022
Including offset with deferred tax asset	(13,103,426)	(3,110,006)	(16,213,432)
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 2019 is as follows:

	At 1 January 2019	Recorded in the consolidated statement of comprehensive income, 2019	At 31 December 2019
Deferred tax assets			
Right-of-use assets / lease liabilities	(9,041,780)	(1,873,756)	(10,915,536)
Accrued expenses	(338,284)	(496,146)	(834,430)
Inventory	(831,505)	(131,334)	(962,839)
Trade and other receivables	(128,665)	128,665	–
Advances paid	(254,167)	122,283	(131,884)
Prepaid expenses and intangible assets	(163,988)	163,988	–
Other	(544,185)	285,448	(258,737)
Total deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Including offset with deferred tax liability	11,302,574	1,800,852	13,103,426
Net deferred tax asset	**–**	**–**	**–**
Deferred tax liabilities			
Property, plant and equipment	25,701,441	2,907,220	28,608,661
Prepaid expenses and intangible assets	–	319,556	319,556
Trade and other receivables	–	173,278	173,278
Other	893,591	(817,981)	75,610
Total deferred tax liability	26,595,032	2,582,073	29,177,105
Including offset with deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Net deferred tax liability	**15,292,458**	**781,221**	**16,073,679**

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:

	2020	2019
Profit before tax	42,702,515	12,579,472
Theoretical income tax expense at 20%	(8,540,503)	(2,515,894)
Adjustments for:		
Non-taxable income	(1,141,221)	(663,373)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(198,580)	(904,210)
Reversal of income tax liability as a result of filing amended tax returns	171,081	1,068,227
Income tax expense	**(9,709,223)**	**(3,015,250)**
Effective income tax rate	**22.74%**	**23.97%**

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:

	2020	2019
Profit for the year attributable to shareholders of the parent	32,993,292	9,564,222
Weighted average number of shares (in thousands of shares)	97,629	97,615
Basic earnings per share (in RUB)	**337.95**	**97.98**
Effects of dilution from share options (in thousands)	545	297
Weighted average number of ordinary shares adjusted for the effect of dilution (in thousands)	98,174	97,912
Diluted earnings per share (in RUB)	**336.07**	**97.68**

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:

	2020	2019
Dividend income (%)	6	6
The expected average volatility for the period (%)	30.27	28.78
Average risk-free interest rate for the period (%)	4.42	7.84
Estimated time for exercise of options (years)	5	6
Weighted average share price (RUB)	4,637	3,920
Applicable model	Monte Carlo	Monte Carlo

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 971,718 thousand (2019: RUB 1,892,833 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 not 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 of key employees of the Group. The fair value of the consideration transferred was RUB 271,571 thousand (2019: RUB 432,634 thousand). The difference between the carrying amount 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 41,177 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 17,278 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.

Notes to the consolidated financial statements for the year ended 31 December 2020

(In thousands of Russian rubles) (continued)

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:

	2020	2019
Within 1 year	2,536,645	3,793,382
2 to 5 years inclusive	–	6,968
	2,536,645	**3,800,350**

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:

	2020	2019
Loans and borrowings (Note 20)	166,086,527	184,210,818
Long-term and short-term lease liabilities (Note 8)	357,573,958	357,210,159
Cash and cash equivalents (Note 14)	(44,699,581)	(8,901,298)
Net debt	**478,960,904**	**532,519,679**
Equity	**182,888,924**	**188,532,813**
Net debt-to-equity ratio	**2.62**	**2.82**

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.

	Carrying amount		Fair value	
	2020	2019	2020	2019
Long-term loans	77,795,398	79,653,488	79,179,985	81,873,746
Bonds	69,899,528	39,978,874	70,373,951	40,094,910

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:

	1 January	Proceeds from loans and borrowings	Repayment of loans and borrowings	Finance costs	Interest paid	31 December
2020						
Short-term and long-term loans and borrowings	184,210,818	452,555,765	(471,761,619)	14,131,112	(13,049,549)	166,086,527
2019						
Short-term and long-term loans and borrowings	164,573,341	695,756,324	(677,163,335)	15,362,852	(14,318,365)	184,210,818

Information about changes in lease liability are presented in Note 8.

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
2020				
Dividends payable	14,452,943	39,513,258	(29,871,472)	24,094,729
2019				
Dividends payable	13,629,822	30,816,128	(29,993,007)	14,452,943

Foreign currency risk management
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchases are denominated in a different currency from the Group's functional currency).

As at 31 December 2020 and 2019 the foreign currency balances were presented by trade and other payables disclosed in Note 17.

Foreign currency sensitivity
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.

	Change in USD exchange rate	Effect on profit before tax	Change in euro exchange rate	Effect on profit before tax
	+16.00%	(1,381,542)	+16.00%	(339,500)
2020	-16.00%	1,381,542	-16.00%	339,500
	+13.00%	(783,588)	+13.00%	(220,460)
2019	-11.00%	663,036	-11.00%	186,543

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:

As at 31 December 2020	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
Financial assets			
Trade and other receivables	19,765,158	(11,201,336)	8,563,822
Total	**19,765,158**	**(11,201,336)**	**8,563,822**
Financial liabilities			
Trade and other payables	(172,273,630)	11,201,336	(161,072,294)
Total	**(172,273,630)**	**11,201,336**	**(161,072,294)**

The effect of the offsetting as at 31 December 2019:

As at 31 December 2019	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
Financial assets			
Trade and other receivables	28,340,288	(14,346,848)	13,993,440
Total	**28,340,288**	**(14,346,848)**	**13,993,440**
Financial liabilities			
Trade and other payables	(175,977,854)	14,346,848	(161,631,006)
Total	**(175,977,854)**	**14,346,848**	**(161,631,006)**

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.

	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	More than 5 years	Total
2020						
Trade and other payables	128,236,830	32,835,464	–	–	–	161,072,294
Dividends payable	24,094,729	–	–	–	–	24,094,729
Long-term and short-term lease liabilities	5,753,427	11,512,811	52,770,481	257,214,471	165,920,031	493,171,221
Long-term and short-term loans and borrowings	386,931	17,229,596	9,146,323	158,419,180	430,394	185,612,424
	158,471,917	**61,577,871**	**61,916,804**	**415,633,651**	**166,350,425**	**863,950,668**
2019						
Trade and other payables	127,097,996	34,533,010	–	–	–	161,631,006
Dividends payable	14,452,943	–	–	–	–	14,452,943
Long-term and short-term lease liabilities	5,558,534	11,065,328	50,541,221	254,023,784	195,440,197	516,629,064
Long-term and short-term loans and borrowings	9,376,666	2,474,305	63,637,393	129,767,356	1,186,754	206,442,474
	156,486,139	**48,072,643**	**114,178,614**	**383,791,140**	**196,626,951**	**899,155,487**

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

Average ticket	a figure calculated by dividing total sales at all stores during the relevant year by the number of tickets in that year
CAPEX	the money an organisation or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land
Consumer Confidence Index (CCI)	a survey, administered by The Conference Board, which measures how optimistic or pessimistic consumers are regarding their expected financial situation
Customer Decision Tree (CDT)	a graphical representation of a customer's buying decision process expressed in a tree format
CPI (Consumer Price Index)	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
Cross-docking	is a transshipment platform used to consolidate incoming products for outgoing destinations.
CSR (Corporate Social Responsibility)	a responsible attitude in managing a company's impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment
CVP	Customer Value Proposition
Drogerie	a retail store selling beauty, hygiene and household related products as well as certain non-prescription medications
End-to-end process (E2E process)	a process which takes a method or service from its beginning to its end, delivering a complete functional solution
EGAIS	national automated information system for the control of alcohol production and distribution
ERP (Enterprise Resource Planning)	integrated management of main business processes, often in real time and mediated by specialised software and technology
EVP	Employer Value Proposition
Federal state informational system "Mercury"	automated system for electronic certification of goods subject to state veterinary control in Russian Federation
LFL (like–for–like)	the method of comparing current year sales figures to prior year's sales figures excluding the expansion effect
Net debt	a liquidity metric used to determine how well a company can pay all of its debts if they were due immediately
Platon Electronic Toll Collection (ETC) system	a Russian electronic toll collection system which collects tolls from trucks over 12 tonnes, with the proceedings going to a federal fund for road maintenance
Private label (PL)	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

Glossary (continued)

RACI	RACI matrix, or linear responsibility chart (LRC), describes the participation by various roles in completing tasks or deliverables for a project or business process
Real GDP	an inflation-adjusted measure that reflects the value of all goods and services produced by an economy
Real disposal income (RDI)	the post-tax and benefit income available to households after an adjustment has been made for price changes
Return on Investment Capital (ROIC)	a profitability or performance ratio measuring the percentage return that investors in a company are earning from their invested capital
SaaS (Software as a Service)	is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted
Sales density	the revenue generated for a given area of sales space, presented as a monetary value per square metre
Selling space	the area inside stores used to sell products, excluding areas rented out to third parties, own–production areas, storage areas and the space between store entry and the cash desk line
SKU (stock keeping unit)	a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise
Sustainable development	development that meets the needs of the present without compromising the ability of future generations to meet their own needs
Traffic	the number of tickets issued for the period under review
WACC (weighted average cost of capital)	the rate that a company is expected to pay on average to all its security holders to finance its assets

Abbreviations

ACRA	Accounting and Corporate Regulatory Authority
AGM	Annual General Meeting
BPs	Basis points
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CRM	Client Relationship Management
EBITDA	Earnings before interest, taxes, depreciation and amortization
ESG	Environmental, Social, Governmental
FY	Financial Year
GDP	Gross domestic product
GDR	Global depositary receipts
GHG	Greenhouse gases
H	Half of the year
HR	Human resources
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IR	Investor relations
IT	Information Technologies
JSC	Joint Stock Company
KPI	Key Performance Indicators
LLC	Limited Liability Company
LSE	London Stock Exchange
LTI	Long-term incentive
M	Month of the year
M&A	Mergers & Acquisitions
MICEX	Moscow Interbank Currency Exchange
MOEX	Moscow Exchange
NGO	Non-governmental organization
PJSC	Public Joint Stock Company
p.p.	Percentage point
Q	Quarter of the year
RTS	Russian Trading System
RUB	Russian rouble
SPO	Secondary public offering
Sq.m	Square metre
STI	Short-term incentive
VAT	Value-added tax
WMS	Warehouse management system
Y-o-Y	Year Over Year

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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