

# 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.

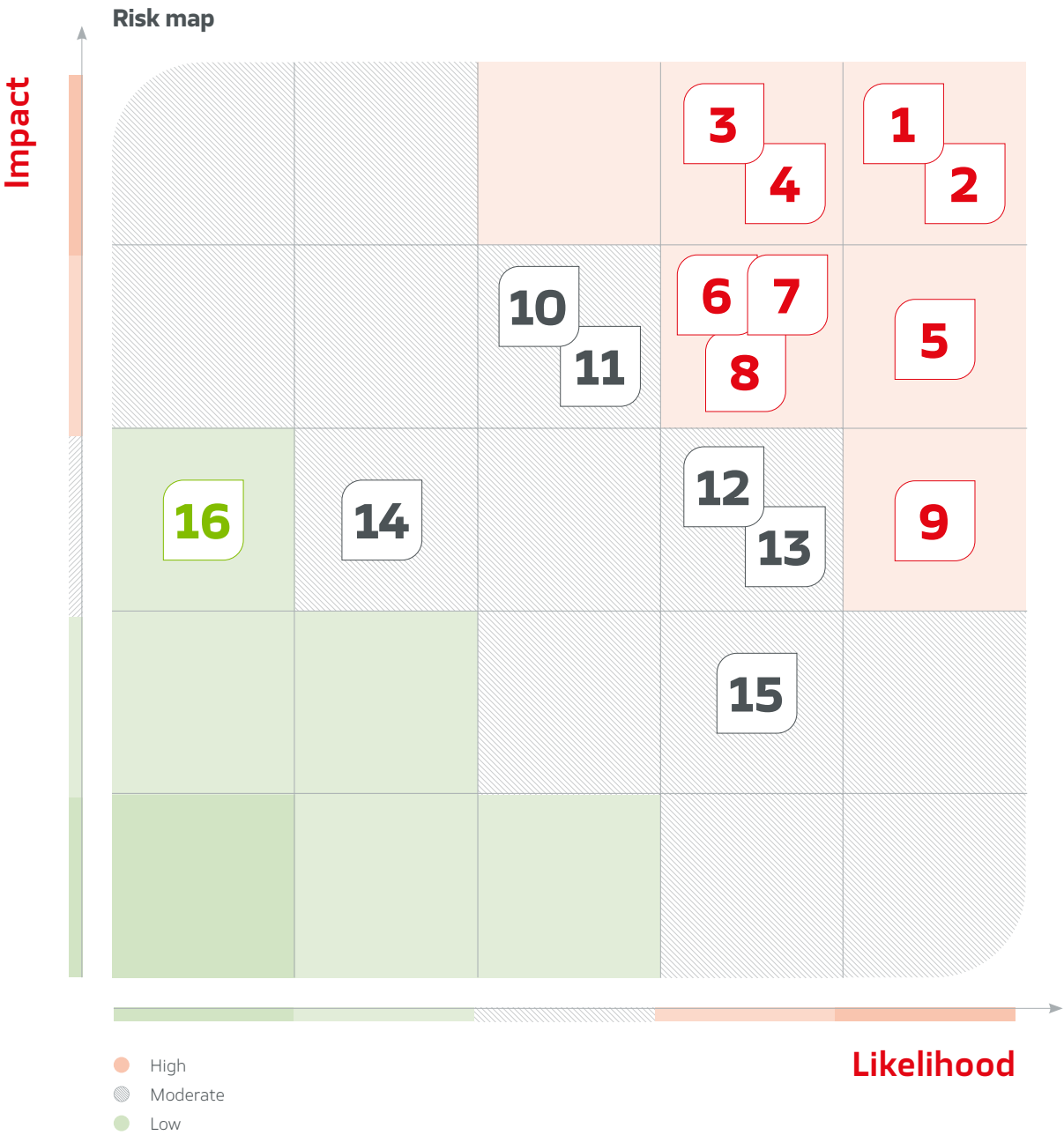
In 2020, representatives of the Department took online courses in Risk Management and Internal Control at the Deloitte Academy, as well as participated in the Risk Management Week 2020, an online event held by the Institute for Strategic Risk Analysis (ISAR).

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.



Risks

Risks	Type	Source	Impact	Risk management
<b>1 Risk of deterioration of socio-economic and political conditions</b>				
<ul style="list-style-type: none"><li>— increased isolation of Russia and the deterioration of macroeconomic factors (deflation, Ruble devaluation)</li><li>— deepening sanctions</li><li>— growing unemployment</li><li>— decrease in general living standards, with a corresponding change in consumption behaviour</li><li>— increase in tax and non-tax deductions for households</li><li>— failure to pay wages in full and within the established period by the state and numerous private companies</li><li>— increasing wage and benefits gap with quickly growing living costs</li><li>— reduced public funding of the social sector.</li></ul>	strategic	external	revenue, LFL	<ul style="list-style-type: none"><li>— 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.</li></ul>
<b>2 Risk of transformation</b>				
<ul style="list-style-type: none"><li>— margin reduction during the transformation of category management (incorrect pricing, promotion, assortment revision, high purchasing prices, sale of obsolete stock with a discount).</li></ul>	strategic	internal and external	strategy execution, revenue, EBITDA	<ul style="list-style-type: none"><li>— collective decision making;</li><li>— hiring external consultants to speed up and optimise the processes.</li></ul>
<b>3 Risks of adverse regulatory changes</b>				
<ul style="list-style-type: none"><li>— increased requirements for limiting trade margins</li><li>— restrictions on the maximum market share</li><li>— EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations</li><li>— more complicated procedures for licensing and obtaining permits from external regulatory bodies</li><li>— possible introduction of new licenses and permits.</li></ul>	regulatory	external	market share, revenue, EBITDA	<ul style="list-style-type: none"><li>— monitoring changes in legislation by specialists</li><li>— participation of experts in the discussion of legislative innovations</li><li>— adaptation of business processes for obtaining the necessary licenses and permits, technical documents.</li></ul>
<b>4 Risks of excessive loss of the inventory for the following reasons</b>				
<ul style="list-style-type: none"><li>— inefficiency of logistics, goods acceptance, storage and inventory accounting processes ;</li><li>— employee misconduct.</li></ul>	operational	internal	EBITDA	<ul style="list-style-type: none"><li>— modifying the Company's business processes through the redistribution of powers and responsibilities</li><li>— involving internal security in the investigation of thefts with the subsequent initiation of criminal cases</li><li>— preventing fraudulent actions by employees through the mechanisms of the Code of Business Ethics</li><li>— including costs for the modification of accounting systems in the budget.</li></ul>

Risk Management (continuation)

Risks (continuation)

Risks	Type	Source	Impact	Risk management
<b>5 Risks of increased competition</b>				
<ul style="list-style-type: none"><li>— increase in price pressure</li><li>— traffic outflow</li><li>— decrease in sales per sq.m. of the selling space.</li></ul>	strategic	external	<b>revenue</b>	<ul style="list-style-type: none"><li>— monitoring competitors' actions</li><li>— utilising marketing tools, conducting promotions</li><li>— increasing the attractiveness of existing stores through reconstruction</li><li>— evaluating the attractiveness and potential of the proposed store openings using GIS-analysis technologies.</li></ul>
<b>6 Risks of making poor investment decisions</b>				
<ul style="list-style-type: none"><li>— return on investment of new stores and reconstructions is below the WACC</li><li>— the growth of the number of unprofitable stores</li><li>— excess CAPEX per object (excess requirements, excessive standards, low-quality construction and installation works).</li></ul>	strategic	internal and external	<b>CAPEX, EBITDA, ROIC</b>	<ul style="list-style-type: none"><li>— collective decision-making on investment projects</li><li>— standardisation of norms and financial models</li><li>— use of GIS-analysis technologies</li><li>— introduction of tender procedures</li><li>— budget control of expenses for the implementation of the investment programme</li><li>— post-investment analysis.</li></ul>
<b>7 Risks associated with IT infrastructure support</b>				
<ul style="list-style-type: none"><li>— 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)</li><li>— increased requirements to prompt search of defects and their liquidation in the information management systems providing an adverse impact on the operations.</li></ul>	operational	internal	<b>EBITDA</b>	<ul style="list-style-type: none"><li>— development of a detailed plan for priority IT investments, collective decision-making on investments in the IT infrastructure.</li></ul>
<b>8 Risks of corruption and employee fraud</b>				
<ul style="list-style-type: none"><li>— 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.</li></ul>	operational	internal	<b>all parameters</b>	<ul style="list-style-type: none"><li>— 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</li><li>— personnel training in corporate ethics and code of conduct</li><li>— segregation of incompatible powers through improved organisational structure, as well as distribution of access rights and implementation of the access rights matrix</li><li>— transaction control by the Financial Directorate</li><li>— inspection of potential candidates for vacant positions by the Security Directorate.</li></ul>

Risks	Type	Source	Impact	Risk management
<b>9 IT security risks</b>				
<ul style="list-style-type: none"><li>— 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.</li></ul>	operational	internal and external	<b>all parameters</b>	<ul style="list-style-type: none"><li>— functioning of access control procedures and mechanisms, approved access matrices</li><li>— establishment of a software and infrastructure change management system</li><li>— data backup, duplication of key information systems</li><li>— functioning of a centralised monitoring system for information security events.</li></ul>
<b>10 Risks associated with changes in tax legislation</b>				
<ul style="list-style-type: none"><li>— making amendments or supplements to the legislative acts on taxes and levies regarding an increase in tax rates, introduction of new types of taxes</li><li>— changes in the Russian tax system providing a significant adverse impact on the attractiveness of investments in the Company's securities</li><li>— 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.</li></ul>	regulatory	external	<b>revenue</b>	<ul style="list-style-type: none"><li>— monitoring changes in legislation by specialists of the financial unit and prompt introduction of changes to internal policies and procedures</li><li>— consultations with the involvement of audit companies</li><li>— development and coordination of the accounting policy with external auditors.</li></ul>
<b>11 Risks in the field of industrial safety, occupational health and environment</b>				
<ul style="list-style-type: none"><li>— violation of occupational and fire safety standards and regulations may lead to the termination of business at the Company's facilities</li><li>— failure to comply with safety standards in the performance of services by contractors may also have a negative impact on the Company's operations.</li></ul>	operational	internal	<b>revenue, EBITDA</b>	<ul style="list-style-type: none"><li>— corporate training programmes for environmental protection, industrial and occupational safety with subsequent control of knowledge quality by internal specialised training services</li><li>— alignment with the United Nations Global Compact</li><li>— regular efficiency monitoring of fire extinguishing systems</li><li>— maintenance of the required level of the personnel qualification, responsibility of managers to support the proficiency level of employees</li><li>— assessment of working conditions</li><li>— compliance with Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group</li><li>— insurance of facilities against force majeure factors.</li></ul>

Risk Management (continuation)

Risks (continuation)

Risks	Type	Source	Impact	Risk management
<b>12 Risks of availability and continuity of IT</b>				
<div><div>— increased requirements for the provision speed and quality of the relevant business information</div><div>— possible inaccessibility of networks and systems, lack of access to information resources in case of remote operation</div><div>— dependence on manual data entry and uploads from external sources, such as Excel sheets, may affect the quality of information exchange between systems.</div></div>	operational	internal	<b>EBITDA</b>	<div><div>— forecasting future capacity requirements and increased load for future periods</div><div>— annual revision (IT monitoring) of the personal computer configurations (capacities) of the users</div><div>— a functioning system in place for processing user requests</div><div>— analysis of regular reporting based on user requests and incidents, conducting annual polls on user satisfaction with the operation of the Support Service.</div></div>
<b>13 Risks of negative epidemiological situation impact on the Company's activities</b>				
<div><div>— introduction of severe restrictive measures to prevent the spread of COVID-19 may have a negative impact on supply chains</div><div>— in case of significant spread of COVID-19, the rate of infection among employees is likely to increase</div><div>— the performance of functional duties by key employees infected with COVID-19 will be in question, depending on the severity of the disease</div><div>— 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.</div></div>	operational	internal and external	<b>all parameters</b>	<div><div>— real-time monitoring of the spread of COVID-19</div><div>— 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</div><div>— disinfection of premises</div><div>— transfer of employees to remote working.</div></div>

Risks	Type	Source	Impact	Risk management
<b>14 Risks associated with the quality of goods sold and produced</b>				
<div><div>— 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.</div></div>	operational	internal	<b>EBITDA, LFL</b>	<div><div>— functioning of the system selecting suppliers of goods and services, "green" procurements of products and raw materials</div><div>— audit of suppliers</div><div>— a dialogue with suppliers to achieve a uniform understanding of the food safety regulations</div><div>— compliance with the Responsible Supply Chain Policy of Magnit PJSC</div><div>— compliance with the Food and Non-Food Quality and Safety Policy of Magnit PJSC</div><div>— implementation of programmes for the development of local suppliers and farmers</div><div>— monitoring legislation for the prompt adjustment of internal quality control technologies of the goods sold and produced.</div></div>
<b>15 Risk of absence and recruitment of qualified personnel</b>				
<div><div>— 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.</div></div>	operational	internal	<b>revenue, EBITDA</b>	<div><div>— implementation of integrated systems for long-term motivation of personnel</div><div>— development of unique internal training and adaptation programmes for employees</div><div>— development of social programmes for personnel</div><div>— interaction with universities to attract the best graduates</div><div>— development of the talent pool.</div></div>
<b>16 Reputation risk</b>				
<div><div>— risks of dissemination in the media of information discrediting the Company's image, disclosure of confidential business information, high-profile litigations</div><div>— the ability to maintain the stated level of social responsibility.</div></div>	strategic	internal and external	<b>all parameters</b>	<div><div>— timely provision of full information about its activities by the Company</div><div>— approval of the Sustainability Strategy</div><div>— implementation of the Code of Business Ethics (senior management demonstrates commitment to high standards of conduct)</div><div>— training for the personnel in the field of ethics and sustainability requirements</div><div>— constant interaction with stakeholders, holding seminars and forums to raise awareness about the Company's activities</div><div>— monitoring information about the Company in mass media and social networks providing response to any incidents and expressing an official position on specific issues</div><div>— signing a confidentiality agreement with the Company's employees and contractors.</div></div>