Risk Management

The Company’s risk management system is a set of measures and interconnected processes aimed at developing risk management as an integral part of:

- corporate culture
- strategic management
- decision-making.

Key documents of risk management:

- Internal Control and Risk Management Policy
- 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 coherence functioning of Magnit’s risk management processes. This includes the establishment of universal approaches and standards.
- Segregation of decision-making levels Risk management decisions are taken at different levels of the Company’s management, depending on the importance of the risk and the impacted area of the Company’s business activity.
- Responsibility All subjects of internal control and the risk management system are responsible for compliance with risk management standards and approaches, as well as for the proper implementation of controlling procedures in their respective areas of business activity.
- Clear division of duties and responsibilities The responsibilities and powers of the internal control and risk management bodies are distributed in order to eliminate or reduce the risk of error or fraud.
- Risk orientation The internal control and risk management system includes risk analysis and monitoring in each area of the Company’s business activities, while taking into account the risk/profitability ratio. Significant efforts are made to improve risk management standards and approaches, particularly regarding their importance and acceptable level of risk. For the sake of efficiency, control procedures are imposed upon areas of activity in the order of importance.
- Balance Controlling procedures and risk management functions are equipped with the necessary resources and authorisation for their successful execution. Spending on the implementation and realisation of controlling procedures are therefore adequate to help mitigate the assessed potential risk.
- Constant development and adaptation The internal control and risk management system is constantly being improved.
- Reasonable certainty Realisation of risk management procedures is considered efficient as long as it allows the risk to be reduced to an acceptable level.

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

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

At the control level, the Internal Audit Department together with the heads of functional units maintain the proficiency level of accountable employees. They monitor their knowledge and keep track of trends in international risk management practices. The Board of Directors evaluates financial and operational level. The Board of Directors evaluates financial and non-financial risks, determines risk appetite, develops a risk management-oriented corporate culture and evaluates internal controls and the risk management system at least once per year.

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

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

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

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

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

Risks description

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

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<tr>
<td>4</td>
<td>Risks of adverse regulatory changes</td>
<td>monitoring changes in legislation by specialists; participation of experts in the discussion of legislative innovations; adaptation of business processes for obtaining the necessary licenses and permits; and technical documents</td>
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<td></td>
<td>- nationalisation of the Company</td>
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<td>- strengthening of the currency control</td>
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<td>- introduction of price regulation by the government</td>
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<td>- limiting of trade margins growth</td>
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<td></td>
<td>- EGAIS (alcohol registration system); PLATON (road transportation payments), technical regulations</td>
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<td></td>
<td>- increase in the cost of environmental charges</td>
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<td></td>
<td>- restriction on the use of packaging/packages, other types of packaging within own production and private label in the sales areas</td>
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<td></td>
<td>- government approval of distance selling of alcohol</td>
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<td>- additional regulation of shelves and layout</td>
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<td>- introduction of quotas on the supply of key consumer basket goods to retail chains</td>
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<td>- more complicated procedures for licensing and obtaining permits from external regulatory bodies</td>
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<td></td>
<td>- possible introduction of new licenses and permits.</td>
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<tr>
<td>Type of risk: regulatory</td>
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<tr>
<td>Source of risk: external</td>
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<tr>
<td>Impact: market share, revenue, EBITDA</td>
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<td>5</td>
<td>Restriction / suspension of work of foreign software / services:</td>
<td>search for alternative vendors.</td>
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<td>- suspension / termination of cooperation with some IT partners</td>
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<td>- difficulty of quick replacement of software and services.</td>
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<tr>
<td>Type of risk: operational</td>
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<tr>
<td>Source of risk: external</td>
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<tr>
<td>Impact: all parameters</td>
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<td>IT security risks:</td>
<td>functioning of access control procedures and mechanisms, approved access matrices; establishment of a software and infrastructure change management system; data backup, duplication of key information systems; functioning of a centralised monitoring system for information security events; additional investments in the development of information technologies.</td>
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<td></td>
<td>- increased number of cyber-attacks on information systems around the world dictates the need to provide adequate protection of data and IT infrastructure against intrusions of any kind, including for the purpose of information theft or damage, unauthorised access, and propagation of virus software.</td>
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<tr>
<td>Type of risk: operational</td>
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<tr>
<td>Source of risk: internal and external</td>
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### Risks of excessive loss of the inventory

- inefficiency of logistics, goods acceptance, storage and inventory accounting processes
- employee misconduct
- robbery in stores (western regions of the Russian Federation)
- increase in theft at stores due to the declining living standards.

**Type of risk:** operational

**Source of risk:** internal

**Impact:** EBITDA

### Risks of increased competition

- development of own e-commerce
- launch of price projects
- launch of the new format of Moya Tsveta stores and development of the Magnit Family format
- introduction of affordable and quality private labels
- monitoring competitors’ actions
- conducting a comprehensive analysis when choosing marketing tools, promotions
- increasing the attractiveness of existing stores through redesign
- evaluating the attractiveness and potential of proposed store openings using GIS analysis technologies
- significant investments in attracting and retaining customers.

**Type of risk:** strategic

**Source of risk:** external

**Impact:** revenue

### Risks associated with IT infrastructure support

- a detailed plan for IT investments has been developed
- forecasting future capacity requirements and increased load for future periods
- annual revision of configurations (capacities)
- a functioning system in place for processing user requests
- analysis of regular reporting based on user requests and incidents, conducting annual polls on user satisfaction with the operation of the Support Service.

**Type of risk:** operational

**Source of risk:** internal

**Impact:** revenue, EBITDA

### Risks of excessive loss of the inventory

- modifying the Company’s business processes through the redistribution of powers and responsibilities
- involving internal security in the investigation of theft with the subsequent initiation of criminal cases
- preventing fraudulent actions by employees through the mechanisms of the Code of Business Ethics
- including costs for the modification of accounting systems in the budget.

**Type of risk:** operational

**Source of risk:** internal

**Impact:** EBITDA
## Risk Management (continued)

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</table>
| 10 | **Risk of absence and recruitment of personnel** | - indexation of wages for individual branches and departments  
- development of dedicated internal training and adaptation programmes for employees  
- improving the culture of employee management  
- implementation of integrated systems for long-term motivation of personnel  
- development of social programmes for personnel  
- interaction with universities to attract the best graduates  
- development of the talent pool  
- strengthening of resources for hiring specialists. | 3 | 5 |

### Risks of corruption and employee fraud

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</thead>
</table>
| 11 | **Risks of corruption and employee fraud** | - compliance with the rules of the Code of Business Ethics, compliance with the Anti-Bribery and Corruption Policy  
- functioning of the ethics hotline and analysis of its operation  
- joining the United Nations Global Compact  
- personnel training in corporate ethics and code of conduct  
- segregation of incompatible powers through the organisational structural measures, as well as through the access rights, implementation of the access rights matrix  
- transaction control by the Financial Directorate  
- inspection of potential candidates for vacant positions by the Security Directorate  
- comprehensive elaboration of the identified violations. | 3 | 4 |

### Risks in the field of industrial safety, occupational health and environment

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</table>
| 12 | **Risks in the field of industrial safety, occupational health and environment** | - 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 personnel qualification, responsibility of managers to support the proficiency level of employees  
- assessment of working conditions  
- compliance with the Environmental Protection and Industrial Safety Policy of the Magnit Group  
- insurance of facilities against force majeure factors  
- vaccination, revaccination, transfer of employees to remote work. | 3 | 4 |

### Risks associated with the quality of goods sold and produced

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</table>
| 13 | **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.  
- functioning of the system selecting suppliers of goods and services, “green” procurement of products and raw materials  
- audit of suppliers  
- compliance with the Responsible Supply Chain Policy of Magnit  
- compliance with the Food and Non-Food Quality and Safety Policy of PJSC Magnit  
- implementation of programmes for the development of local suppliers and farmers  
- monitoring legislative for the prompt adjustment of internal quality control technologies of the goods sold and produced  
- audit of stores, own production facilities and distribution centres, including remote monitoring  
- processing and analysis of inquiries (customers, stores and distribution centres, regulatory authorities, media and nonprofit organisations). | 3 | 4 |

### Risks of negative epidemiological situation impact on the Company’s activities

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</thead>
</table>
| 14 | **Risks of negative epidemiological situation impact on the Company’s activities** | - real-time monitoring of the spread of COVID-19, strict compliance with all recommendations made by the Federal Service for Surveillance on Consumer Rights Protection and Human Well-being, the Ministry of Health and WHO  
- vaccination and revaccination  
- disinfection of premises  
- performance of labour functions by employees working remotely. | 2 | 3 |
### Risks description

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</table>
| 16 | Reputation risk | - availability and operation of a crisis centre  
- timely provision of full information about its activities by the Company  
- implementation of the Sustainability Strategy  
- implementation of the Code of Business Ethics (senior management demonstrates commitment to high standards of conduct)  
- training for the personnel in the field of ethics and sustainability requirements  
- constant interaction with stakeholders, holding seminars and forums to raise awareness about the Company’s activities  
- monitoring information about the Company in mass media and social networks providing response to any incidents and expressing an official position on specific issues  
- signing a confidentiality agreement with the Company’s employees and contractors | 2 | 4 |
| 17 | Risks associated with changes in tax legislation | - monitoring changes in legislation by specialists of the financial unit and prompt introduction of changes to internal policies and procedures  
- consultations with the involvement of audit companies  
- development and coordination of the accounting policy with external auditors. | 2 | 3 |

Type of risk: strategic  
Source of risk: internal and external  
Impact: all parameters

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</table>
| 18 | Climate-related risks | - elaboration of a plan of measures for the implementation and development of a system for identification, assessment, management and monitoring of climate-related risks  
- analysis and amendment (if necessary) of the Company’s regulations with regard to climate-related risk management  
- analysis of the potential application of the results of the climate-related risk assessment and business opportunities  
- establishment of a team to assess climate-related risks and opportunities, hiring consultants  
- hiring an external auditor to assess the quality and effectiveness of the Company’s climate-related risk management activities. | 2 | 2 |

Type of risk: regulatory  
Source of risk: external  
Impact: all parameters