

# Risk Management

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

The Board of Directors and the Management board of PJSC Magnit ensure the effective operation and development of the internal control and risk management system, which provides for the control over the Company's strategic and operational goal achievements, the reliability of information disclosure and compliance with external and internal requirements.

The internal control and risk management system goals are timely identification of all key risks, assessment of the possibility of occurrence, damage from the implementation and consequences of their occurrence, determination of measures to minimise negative consequences and creation of control mechanisms that ensure the stable functioning of business processes.

In the process of creating shareholder value, the Company makes management decisions taking into account multidirectional factors that can have both a positive and negative impact on goal achievements. One of the ways to reduce the uncertainty caused by such factors is to increase the awareness of shareholders, management and employees of factors that can influence the achievement of goals, and to assess their possible impact.

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<sup>1</sup>
- 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 the 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 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 control. 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. 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. 100.

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

- A separate structural unit for risk management and the risk management team<sup>2</sup> 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.

<sup>1</sup> APPROVED BY THE DECISION OF THE BOARD OF DIRECTORS ON 12 DECEMBER 2019 (MINUTES W/O OF 13 DECEMBER 2019).

<sup>2</sup> WITHIN THE ORGANISATIONAL STRUCTURE OF JSC TANDER – MAIN OPERATIONAL COMPANY

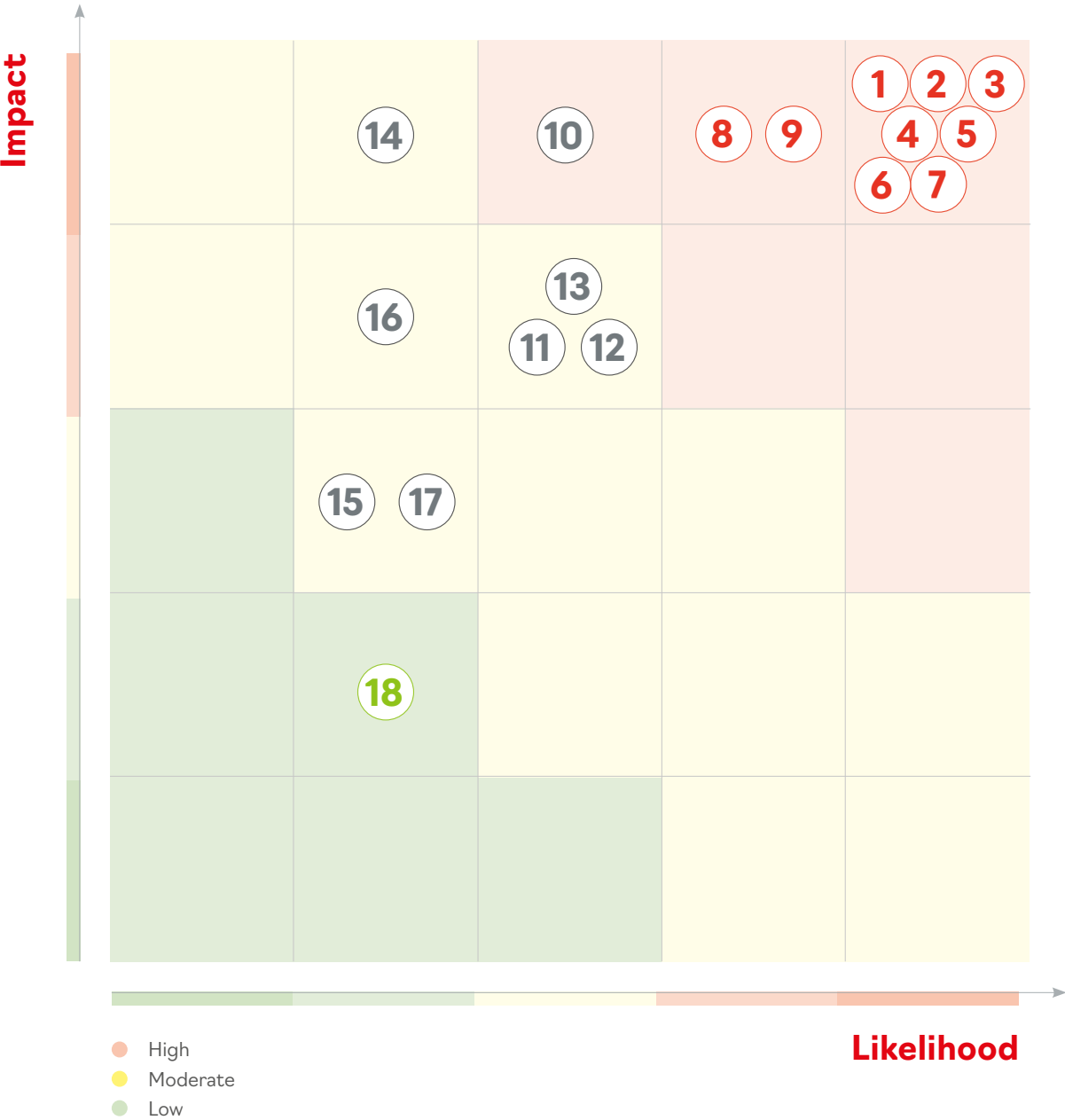
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**Key risks**

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 description

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
1	<b>Risk of deterioration of socio-economic and political conditions</b> <ul style="list-style-type: none"><li>— deterioration of macroeconomic factors (high level of inflation, high exchange rate volatility and rouble devaluation, key rate increase)</li><li>— high level of sanction pressure</li><li>— growing unemployment, decrease in general living standards, with a corresponding change in consumption behaviour</li><li>— increasing wage and benefits gap with growing living costs.</li></ul> <b>Type of risk:</b> strategic <b>Source of risk:</b> external <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>— adjustment of the Company's strategy and financial model</li><li>— revision of investment plans</li><li>— updating the expansion programmes and plans by functional areas</li><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>	5	5
2	<b>Risks related to the shortage / absence of imported goods – food products, specific equipment, spare parts, materials for the following reasons</b> <ul style="list-style-type: none"><li>— imposition of sanctions</li><li>— disruption of logistics chains, including a reduction of the number of suppliers.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal and external <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>— search for alternative contractors from the countries not subject to sanctions</li><li>— readjustment of logistics chains</li><li>— search for and development of Russian suppliers.</li></ul>	5	5
3	<b>Risk of transformation</b> <ul style="list-style-type: none"><li>— change of transformation effects</li><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><li>— errors when transferring data from existing accounting systems to new ones.</li></ul> <b>Type of risk:</b> strategic <b>Source of risk:</b> internal and external <b>Impact:</b> strategy execution, revenue, EBITDA	<ul style="list-style-type: none"><li>— adjustment of the transformation project</li><li>— collective decision-making</li><li>— hiring external consultants to speed up and optimise the processes.</li></ul>	5	5

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(continued)

Risks description

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
4	<b>Risks of adverse regulatory changes</b> <ul style="list-style-type: none"><li>— nationalisation of the Company</li><li>— strengthening of the currency control</li><li>— introduction of price regulation by the government</li><li>— limiting of trade margins growth</li><li>— EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations</li><li>— increase in the cost of environmental charges</li><li>— restriction on the use of packaging/packages, other types of packaging within own production and private label in the sales areas</li><li>— government approval of distance selling of alcohol</li><li>— additional regulation of shelves and layout</li><li>— introduction of quotas on the supply of key consumer basket goods to retail chains</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> <b>Type of risk:</b> regulatory <b>Source of risk:</b> external <b>Impact:</b> 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, and technical documents</li><li>— the government eases regulation in a number of areas, which is a supporting factor for business operation.</li></ul>	5	5
5	<b>Restriction / suspension of work of foreign software / services:</b> <ul style="list-style-type: none"><li>— suspension / termination of cooperation with some IT partners</li><li>— difficulty of quick replacement of software and services.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> external <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>— search for alternative vendors.</li></ul>	5	5
6	<b>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, and propagation of virus software.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal and external <b>Impact:</b> all parameters	<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><li>— additional investments in the development of information technologies.</li></ul>	5	5

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
7	<b>Risks associated with IT infrastructure support</b> <ul style="list-style-type: none"><li>— increased business requirements to IT systems, provision of the speed and quality of the relevant information</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><li>— lack of IT staff with the necessary qualifications.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal <b>Impact:</b> revenue, EBITDA	<ul style="list-style-type: none"><li>— a detailed plan for IT investments has been developed</li><li>— forecasting future capacity requirements and increased load for future periods</li><li>— annual revision of configurations (capacities)</li><li>— a functioning system in place for processing user requests</li><li>— analysis of regular reporting based on user requests and incidents, conducting annual polls on user satisfaction with the operation of the Support Service.</li></ul>	5	5
8	<b>Risks of increased competition</b> <ul style="list-style-type: none"><li>— development of e-commerce / marketplace / ecosystems</li><li>— introduction of new players specialising in a particular offer and closing needs (hard discounters, alcoholic beverage stores, etc.)</li><li>— monopolisation of the market in a number of product categories by the largest manufacturers</li><li>— increase in price pressure</li><li>— traffic outflow.</li></ul> <b>Type of risk:</b> strategic <b>Source of risk:</b> external <b>Impact:</b> revenue	<ul style="list-style-type: none"><li>— development of own e-commerce</li><li>— launch of price projects</li><li>— launch of the new format of Moya Tsena stores and development of the Magnit Family format</li><li>— introduction of affordable and quality private labels</li><li>— monitoring competitors' actions</li><li>— conducting a comprehensive analysis when choosing marketing tools, promotions</li><li>— increasing the attractiveness of existing stores through redesign</li><li>— evaluating the attractiveness and potential of proposed store openings using GIS analysis technologies</li><li>— significant investments in attracting and retaining customers.</li></ul>	4	5
9	<b>Risks of excessive loss of the inventory</b> <ul style="list-style-type: none"><li>— inefficiency of logistics, goods acceptance, storage and inventory accounting processes</li><li>— employee misconduct</li><li>— robbery in stores (western regions of the Russian Federation)</li><li>— increase in theft at stores due to the declining living standards.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal <b>Impact:</b> 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 theft 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>	4	5

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(continued)

Risks description

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
10	<b>Risk of absence and recruitment of personnel</b> <ul style="list-style-type: none"><li>significant increase of compensation payments and benefits in the labour market for high-demand professions</li><li>reduction of migration flows to the Russian Federation</li><li>abandonment of outsourcing and introduction of additional workload for employees</li><li>lack of IT specialists in the labour market</li><li>remote employment opportunity.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal and external <b>Impact:</b> revenue, EBITDA	<ul style="list-style-type: none"><li>indexation of wages for individual branches and departments</li><li>development of dedicated internal training and adaptation programmes for employees</li><li>improving the culture of employee management</li><li>implementation of integrated systems for long-term motivation of personnel</li><li>development of social programmes for personnel</li><li>interaction with universities to attract the best graduates</li><li>development of the talent pool</li><li>strengthening of resources for hiring specialists.</li></ul>	3	5
11	<b>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> <b>Type of risk:</b> operational <b>Source of risk:</b> internal <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>compliance with the rules of the Code of Business Ethics, compliance with the Anti-Bribery and Corruption Policy</li><li>functioning of the ethics hotline and analysis of its operation</li><li>joining the United Nations Global Compact</li><li>personnel training in corporate ethics and code of conduct</li><li>segregation of incompatible powers through the organisational structural measures, as well as through the access rights, 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><li>comprehensive elaboration of the identified violations.</li></ul>	3	4
12	<b>Risks in the field of industrial safety, occupational health and environment</b> <ul style="list-style-type: none"><li>fires, smoke, ignitions</li><li>occurrence of accidents, impact of natural factors</li><li>occupational injuries</li><li>violation of occupational and fire safety standards and regulations by the Company's employees and contractors</li><li>intensification of the negative epidemiological situation, spread of COVID-19.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal and external <b>Impact:</b> revenue, EBITDA	<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 personnel qualification, responsibility of managers to support the proficiency level of employees</li><li>assessment of working conditions</li><li>compliance with the Environmental Protection and Industrial Safety Policy, Fire Safety Policy of the Magnit Group</li><li>insurance of facilities against force majeure factors</li><li>vaccination, revaccination, transfer of employees to remote work.</li></ul>	3	4

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
13	<b>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>growth of the number of unprofitable stores</li><li>excess CAPEX per facility (excess requirements, excessive standards, low-quality construction and installation works).</li></ul> <b>Type of risk:</b> strategic <b>Source of risk:</b> internal and external <b>Impact:</b> CAPEX, EBITDA, ROIC	<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>	3	4
14	<b>Risks associated with the quality of goods sold and produced</b> <ul style="list-style-type: none"><li>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.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> internal <b>Impact:</b> revenue, EBITDA, LFL	<ul style="list-style-type: none"><li>functioning of the system selecting suppliers of goods and services, "green" procurement of products and raw materials</li><li>audit of suppliers</li><li>compliance with the Responsible Supply Chain Policy of Magnit</li><li>compliance with the Food and Non-Food Quality and Safety Policy of PJSC Magnit</li><li>implementation of programmes for the development of local suppliers and farmers</li><li>monitoring legislation for the prompt adjustment of internal quality control technologies of the goods sold and produced</li><li>audit of stores, own production facilities and distribution centers, including remote monitoring</li><li>processing and analysis of inquiries (customers, stores and distribution centres, regulatory authorities, media and nonprofit organisations).</li></ul>	2	5
15	<b>Risks of negative epidemiological situation impact on the Company's activities</b> <ul style="list-style-type: none"><li>introduction of severe restrictive measures to prevent the spread of COVID-19 may have a negative impact on supply chains</li><li>in case of significant spread (occurrence) of new variants ("omicron") of COVID-19, the rate of infection among employees is likely to increase.</li></ul> <b>Type of risk:</b> operational <b>Source of risk:</b> external and internal <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>real-time monitoring of the spread of COVID-19</li><li>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</li><li>vaccination and revaccination</li><li>disinfection of premises</li><li>performance of labour functions by employees working remotely.</li></ul>	2	3

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(continued)

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Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
16	<b>Reputation risk</b> <ul style="list-style-type: none"><li>incidents causing significant damage to customers' health, various violations of laws and other regulations</li><li>risks of dissemination in the media of information discrediting the Company's image, disclosure of confidential business information, high-profile litigations</li><li>the ability to maintain the stated level of social responsibility.</li></ul> <b>Type of risk:</b> strategic <b>Source of risk:</b> internal and external <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>availability and operation of a crisis centre</li><li>timely provision of full information about its activities by the Company</li><li>implementation of the Sustainability Strategy</li><li>implementation of the Code of Business Ethics (senior management demonstrates commitment to high standards of conduct)</li><li>training for the personnel in the field of ethics and sustainability requirements</li><li>constant interaction with stakeholders, holding seminars and forums to raise awareness about the Company's activities</li><li>monitoring information about the Company in mass media and social networks providing response to any incidents and expressing an official position on specific issues</li><li>signing a confidentiality agreement with the Company's employees and contractors</li></ul>	2	4
17	<b>Risks associated with changes in tax legislation</b> <ul style="list-style-type: none"><li>making amendments to or supplementing 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> <b>Type of risk:</b> regulatory <b>Source of risk:</b> external <b>Impact:</b> revenue	<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>	2	3

Nº	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
18	<b>Climate-related risks</b> <ul style="list-style-type: none"><li>physical climate-related risks (natural phenomena occurring as a result of the climate change: urgent risks (hurricanes, floods, fires, etc.) and systematic risks associated with long-term changes of the climatic characteristics and conditions (e.g. global warming)</li><li>transitional climate-related risks (risks and their factors associated with the transition to a low-carbon economy).</li></ul> <b>Type of risk:</b> regulatory <b>Source of risk:</b> external <b>Impact:</b> all parameters	<ul style="list-style-type: none"><li>elaboration of a plan of measures for the implementation and development of a system for identification, assessment, management and monitoring of climate-related risks</li><li>analysis and amendment (if necessary) of the Company's regulations with regard to climate-related risk management</li><li>analysis of the potential application of the results of the climate-related risk assessment and business opportunities</li><li>establishment of a team to assess climate-related risks and opportunities, hiring consultants</li><li>hiring an external auditor to assess the quality and effectiveness of the Company's climate-related risk management activities.</li></ul>	2	2