Part of the Neighbourhood

Annual Report 2021

Corporate
Statement

Magnit is aiming to contribute to improving the wellbeing and health of millions of its customers. By developing different store formats, expanding our presence and own food production, we are seeking to be helpful to all Russians and satisfy their needs, providing equal access to high-quality and accessible goods.

Magnit is a fixture of the neighbourhood!

Revenue
+19.5%
growth YoY

Share in Russian grocery
11.5%
as at the end of 2021

+4,513 stores
half being new openings, half – Dixy acquisition

Modest leverage of
1.5x
net debt to EBITDA

EBITDA margin expansion to
7.2%

LFL sales growth of
7.0%

Note: All financial metrics are provided in accordance with IAS 17 standard.

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About the Report

The Annual Report of Magnit PJSC for 2021 (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 2021, 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 2021 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. The Annual Report should be read as a whole taking into account the content of all sections as well as the notes and the explanations herein, including the information set forth in the Disclaimer.

As at the date of publication, we are witnessing growing geopolitical and economic risks that may have an impact on the business of Magnit and its suppliers. The supply of food, hygiene products and home essentials for the needs of consumers has always been and will be our top priority. We will do everything in our power to keep our supply chain resilient and support our suppliers, including a significant number of local manufacturers. Our long track record in the market proves that we remain a reliable employer and business partner in the most challenging situations thanks to the existing infrastructure and resources, responsible business practices and robust corporate governance.

Magnit at a Glance

Who we are

Magnit is one of Russia's leading food retail chains and the country's largest by number of stores and geographical coverage. The Company was founded in 1994 in Krasnodar, the South of Russia, where it is still headquartered today.

As of 31 December 2021, Magnit had a total of 26,077 stores across 67 regions of Russia and about 360 thous. employees. We operate a multi-format and omni-channel model which includes convenience and drogerie stores, supermarkets and pharmacies under the Magnit and Dixy brands. Our significant scale and reach attract 15 million customers to our stores each day, and our cross-format loyalty programme boasts about 59 million loyalty card holders. Magnit offers its customers online options in both express and regular delivery.

Magnit's business model is unique in the Russian retail market as we are the only food retailer to operate our own private-label food production business. The Company owns and manages 17 production facilities, including 4 agricultural complexes and 13 plants for the production of dry food and confectionery, with an output of more than 360,000 tonnes of produce in 2021. Our advanced logistics and supply chain infrastructure comprises 45 distribution centres and more than 5 thous. trucks, one of the largest own truck fleets in Russia.

26,077 stores
across **67 regions** of Russia

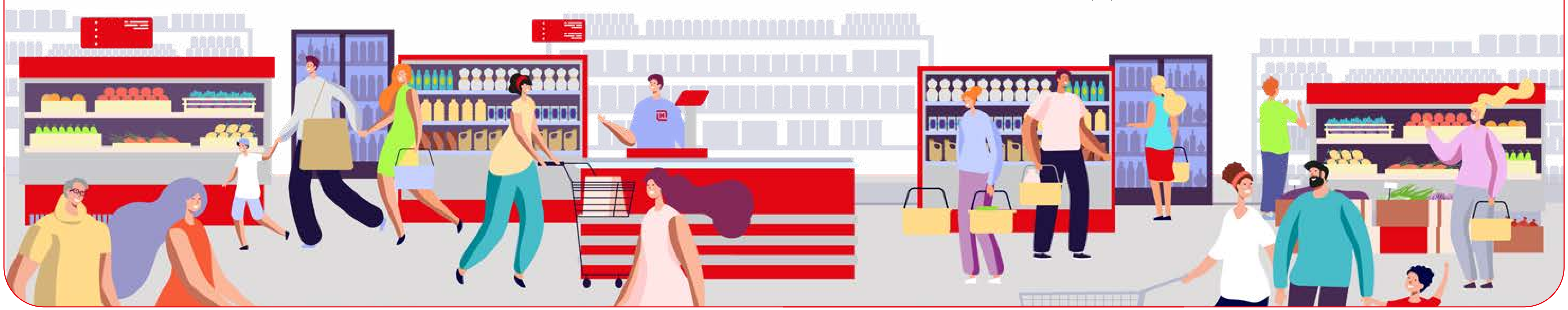
~360 thous. employees

15 mln customers
daily footfall

17 production facilities

45 distribution centres

>5 thous. trucks



Our mission, culture and values

#1

Our mission is to become the store of choice for every Russian family.

A focus on sustainability underpins every aspect of our business, and our mission is to become the store of choice for every Russian family. We have a strong corporate culture of continuing operational improvement and focus on delivering exceptional quality and customer service. This is supported by our commitment to professionalism, teamwork and respect for each other and our customers.

We encourage open and constructive dialogue, ownership of responsibilities, effective cross-functional cooperation and commitment to innovation to ensure we achieve our goals.

Our five-year sustainability strategy to 2025, "Retail with Purpose", recognises the significant opportunity we have in building a better future for everyone. The ambitious goals we set for ourselves help to embed sustainability throughout the business, enhancing our corporate culture further.

Our values

Underpinning our mission and culture is our set of values which places our customers at the heart of everything we do.

Caring for our customers

We build long-lasting connections with our customers. Our team members easily relate to customers because they also shop at Magnit

Achieving results

We always achieve our goals and strive to do so in the most efficient manner

Stronger together

We achieve our goals through joint concerted actions, incorporating the views of our employees

Taking responsibility

We know what we stand for and we take responsibility for our decisions

Chairman's
Statement

Magnit has continued to consolidate its position as one of Russia's largest retail and food production businesses. In 2021, we completed the acquisition of Dixy, and we continued to build our private label and multi-format offerings to meet consumer trends.

The ongoing global pandemic has demonstrated Magnit's ability to respond to change quickly and meet the challenges presented by constant uncertainty. First and foremost, our priority is to ensure the health and safety of our staff and customers alike, so we have put in place all the necessary measures to stop the spread of the virus and help vulnerable people to cope during these difficult times. Some of our large-format stores have been used as vaccination centers, supporting the road out of the pandemic. We also arranged vaccination of our employees in our head office, which made the vaccination process for our colleagues easier and safer.

Our strategy for sustainable growth – to continually improve our customer value proposition, bring about efficiencies, undertake considered expansion and a multi-format provision – resulted in a strong financial and operational performance with improvements across all KPIs. We are firmly positioned as a value for money store of choice for Russian families.

The acquisition of Dixy, the fifth largest grocery retailer in Russia, in July 2021 added 2,477 stores to the Magnit portfolio and strengthened our presence in the Moscow and St. Petersburg regions. The brand has a strong customer base and has added scale to Magnit's operations. Integration of the business is progressing well, with profitability improving since the acquisition.

Magnit's e-commerce sales channel continued to gain traction, achieving RUB 11 bln Gross Merchandise Value (GMV) for 2021, with the average number of orders per day exceeding 62,000 in the fourth quarter of the year. At the end of December Magnit processed 100,000 orders per day, and this is a big achievement as the Company has only recently started to roll out its e-commerce offering.

Magnit now runs a number of online delivery projects, including own delivery and partnerships, across grocery, pharma and cosmetics.

Chairman's Statement (continued)

A continued decline in real disposable income saw significant growth in discounter stores, a format that has had considerable success in Europe and which is underpenetrated in Russia. Magnit is at the forefront of this value-for-money offering, having opened over 200 My Price brand stores since July 2020.

The ongoing development of our private label is also supporting price-sensitive customers across all Magnit formats, offering high quality products at a range of prices to suit varying customer needs. We have expanded our unique own production capabilities and built new, and strengthened existing, partnerships to grow our Private label range. In 2021, we grew our Private label range by over 20%.

Our commitment to developing a 'best in class' corporate governance system resulted in a number of developments in 2021. The rapid growth of Magnit led us to reevaluate our Board structure to make sure we have a broad range of skills and knowledge needed to support our growth ambitions, while also ensuring greater diversity. As a result, the Board of Directors has been extended from nine to eleven members, strengthening its independence and gender diversity.

In parallel, the Management Board expanded from nine to 13 members to improve decision-making and reflecting the Company's strategic priorities and development in the retail market.

We continued to develop the long-term and short-term incentive (LTI & STI) programmes to ensure an optimal and fair method of motivation and compensation for top management, adding new members to the LTI and setting KPIs for the STI against which performance is evaluated.

Led by our President and CEO, Jan Dunning, our sustainability strategy is supporting the Company's overall strategy. In April 2021, Magnit published its second sustainability report, presenting the Company's progress on commitments to 2025 announced in June 2020. Now in its third year, the Sustainability Strategy is embedded fully in Magnit's day-to-day operations, underpinning many non-financial KPIs and long-term environmental and social aspirations.

We recognise that even more can be gained if we work with other influential partners to achieve our ESG goals. That is why we joined forces with eight of the largest international FMCG producers in the 'United for a Healthier Future' initiative. Our pledge is to improve the quality of life for consumers and local communities by promoting healthy living and environmental care through education, making available sustainable goods, solutions, and services, cooperating with other organisations, and investing in research.

Attracting and retaining talent is a key concern for all retailers in Russia as migration flows have slowed. In 2021, we continued to develop both financial and non-financial incentives for staff and evolved our unique internal training and development programmes. Our employees are part of the large Magnit 'family' around which there is a strong culture of communication and support both in and out of work. I would like to extend my thanks to all Magnit employees who worked tirelessly in 2021.

We maintained regular engagement with investors throughout the year, holding meetings and issuing regular announcements, reflecting the high degree of activity in this particularly busy year. We encourage two-way dialogue, responding to any concerns raised. Last year we introduced a new Audit Fees Policy in response to objections raised by shareholders in relation to non-audit fees. The new policy limits the amount of non-audit fees charged by Magnit's auditors.
We welcome any feedback and would like to thank our investors for bringing this matter to our attention and for their continued support.

I would like to extend my thanks to all members of the Board and Management Board, both old and new, for their dedication to Magnit and supporting the execution of our strategy. I would also like to extend a warm welcome to all those who joined in 2021, as they support the continued growth and transformation of the Company.

Charles Ryan

Chairman of the Board of Directors

President and CEO's Statement

Magnit had another remarkable year in 2021. We are now bigger than ever and have consolidated our market position as one of Russia's leading retailers and private companies. This has been achieved through a strategically important acquisition, organic expansion and an unwavering focus on delivering our strategic objectives.

We continued to enhance our value proposition founded on high quality at an affordable price, and addressing a wide range of consumer missions. Our customers are responding positively to the changes as evidenced by our growing loyalty programme, increased footfall and average spend.

Trading performance

We have delivered yet another year of record results, with robust sales growth and improved efficiencies in our operations and processes. Our strong sales increase benefitted from both organic and acquired growth.

Total sales grew by 19.5% to RUB 1,856.1 bln as a result of an increase in like-for-like sales and retail space growth. Net retail sales, adjusted for Dixy, grew by 11.3% to RUB 1,680.5 bln, outpacing selling space growth on further improvement of sales densities. LFL sales grew 7.0%, driven by a 7.1% average ticket growth with traffic flat year-on-year (0.1% LFL traffic decline).

The strategically important acquisition of Dixy was completed in July and the subsequent performance of Dixy has been consolidated into the Magnit Group results, with sales and operating performance of the Dixy brand also reported separately. The integration of Dixy has progressed well, with the first portion of synergies successfully extracted and further efficiencies to be gained.

EBITDA was RUB 133.1 bln with a 7.2% margin, a small improvement on 2020 as a result of stronger gross margin and efficiency initiatives, which were partially offset by the consolidation of Dixy.

Our gross debt position as at 31 December 2021 stood at RUB 270.4 bln, and our cash position increased to RUB 73.4 bln compared to RUB 44.7 bln the previous year. Net Debt to EBITDA ratio was 1.5x at the year-end compared to 1.1x as at 31 December 2020.

CAPEX in 2021 was significantly higher at RUB 66.9 bln, compared with RUB 32.1 bln in 2020, as the Company executed its expansion and redesign programmes.

Delivering on our strategic priorities

In 2021 we accelerated the expansion of our retail network, adding a total of 4,513 stores, resulting in 26,077 stores at the year-end, and increasing our selling space by 20% to 8,997 thous. sq. m.

Of this, the acquisition of the Dixy retail chain added 2,412 net convenience stores and 39 superstores operating under the Megamart brand to our network. The acquisition consolidated our market position further with the addition of a well-known brand and strong customer base in the strategically important Moscow and St. Petersburg regions. We are confident that we can extract significant synergies from Dixy through shared back office functions including procurement and supply chain management.

At an operating level, the Dixy brand will remain separate to Magnit, but sharing a single loyalty programme and many synergistic back office functions such as finance, investment, project management, procurement and supply chain.

A dedicated integration management office (IMO) providing cross-functional support, driving decision-making and tracking progress is making headway in aligning Dixy's operations as well as in the brick-and-mortar aspect of the business. Dixy stores located in close proximity to existing Magnit convenience stores are being evaluated with a view to being converted into a complementary format should they prove to generate better value that way. The integration process is expected to be largely completed by mid-2022.

Magnit further opened 2,281 stores (gross) across all major formats with a particular focus on convenience stores and drogeries. Convenience stores achieved the strongest performance across all Magnit store formats, driven by an increase in average ticket value and selling space growth. Several new formats were piloted to meet diverse consumer missions such as City stores, My Price discounters and kiosk-style Magnit Go, which offers on-the-go food and snacks.

Note: All financial metrics are provided in accordance with IAS 17 standard.

President and CEO's Statement (continued)

Of these, we believe the discounter format may become a substantial business segment within the Company's ecosystem. The format is aimed at price-sensitive consumers and has a limited assortment and high proportion of private label products. Compared to convenience stores, they have higher sales densities, faster stock rotation, significantly lower operational expenses and lease costs, and around 40% less capital expenditures ensuring an attractive return on investment. During the year, 175 My Price stores were opened, bringing the total at year-end to 190 stores, compared with 15 at 31 December 2020. Further My Price store openings are planned in 2022 and beyond, to build on the success of this format.

eCommerce sales grew throughout 2021 with orders fulfilled via our own delivery and partner services linked to nearly 4,500 brick-and-mortar stores. An average of 72,000 orders per day were fulfilled in December, compared to 7,000 in the same period in 2020. Sales grew 32x overall during the year to RUB 11.2 bln. To enable eCommerce growth, we piloted our first dark store in February 2021, dedicated to serving online customers and their specific preferences. By the year end we had a total of 20 dark stores.

In line with our customer-centric approach, we implemented a number of initiatives to enhance our customer value proposition and perception. The focus was on improving our in-store experience and offering modern, well-designed and attractive shopping experiences.

A total of 703 Magnit stores were refurbished during 2021, resulting in over 78% of convenience stores, 45% of supermarkets and 62% of drogeries operating under the new concept.

During the year the number of loyalty programme cardholders reached 58.7 million, with the proportion of tickets using the loyalty card reaching 56% with sales penetration of 69%. The loyalty programme continued to deliver positive cross-format gains with 43% of our customer base visiting two or more formats. The average ticket of the active user is 1.8x higher compared to transactions without a loyalty card in a convenience store and 2.0x higher in larger formats.

We have continued to improve and expand our private label range to support a variety of consumer missions and price points. Our ambition to have an up to 25% private label share in sales by 2025 is being achieved through a focus on quality and price, investment in our own production, direct imports to differentiate our offering and strategic partnerships with suppliers. Private label sales grew by 23.8% during the year.

Magnit remains the only retailer in Russia that operates its own food production facilities out of 17 sites spread across Russian regions. The facilities currently manufacture around 500 articles, including socially important goods. Our own greenhouses ensure the availability and quality of fresh vegetables, including those that may be subject to import restrictions.

Output grew by 17% in 2021 to 360,000 tons reflecting the expansion of the private label range through a ramp-up of production rates and increased yields from greenhouse complexes.

Private label and own production is tied strongly to Magnit's sustainability commitments to 2025, since we can directly affect the decisions made in the products we produce. Our aim is to achieve a 50% share of recyclable, reusable or compostable packaging, and ensure 100% responsible production and agriculture.

Our rapid growth resulted in a 13% increase in staff at our operations to a headcount of about 360 thous., including the Dixy acquisition, a significant jump which cements our position as one of the largest private employers in Russia. We recognise the huge responsibility this comes with, so we keep working to be the nation's number one employer in retail in order to attract and retain the best talent.

Our strategy is driven by the desire to create value for employees, which will result in a constant improvement in employee net promoter score and reduced staff turnover. This is important since the labour market is experiencing increased competition, fuelled by an aging population, and by restrictions on population movements. In response, the HR team have been developing our employer value proposition (EVP), working on our corporate culture and communications, recruitment, talent development, as well as benefits and employee loyalty programmes.

Special attention is being paid to reducing a comparatively high staff turnover at Dixy. This includes improving recruitment channels, compensation packages, reducing workloads, training and induction programmes, management oversight and non-financial motivation tools.

During the period we continued to strengthen our Management Board, growing it from 9 to 13 members to reflect the changes taking place at the Company and ensure more efficient cross-functional collaboration.

Appointments included a new e-commerce Director and Chief Digital and Technology Officer. They are responsible for accelerating the roll-out of our e-commerce strategy and the continuous development of our technology and IT-infrastructure, harnessing advanced analytics and big data.

Our supply chain transformation continued through the year replacing the legacy internal solution with a cloud-based platform based on AI and ML technologies. We also began implementing a single transport management system, replacing a number of disparate technologies to bring about greater efficiencies and better coordination in our logistics services.

Outlook

We began 2022 in a strong financial position, with optimised leverage, improved working capital and increased cash generation. This gives us confidence to continue our development and further strengthen our market position.

We will continue to follow our clear strategy to improve the customer value proposition, to offer formats that meet consumer missions and introduce operational efficiencies across the Group.

The market environment continues to be tough. Noticeable increases in inflation rates are putting greater pressure on consumers as well as the cost of raw materials and production costs. In response, we have taken measures to mitigate price increases on a broad range of socially important goods, allowing us to provide targeted assistance to cash-strapped consumers.

As a responsible retailer our purpose remains to provide safe, nutritious, affordable food and products to improve the lives of our customers. At the heart of this is a strong commitment to growing the business sustainably and continuing to reduce our impacts. During 2022, we will progress our ESG commitments, fine-tune our work to drive greater improvements and facilitate greater transparency and accountability in our operations.

Over the course of this year and beyond, I am confident in Magnit's ability to further cement our position as a leading Russian retailer. This would not be possible without the hard work and commitment of our skilled teams and support of all our stakeholders, and I would like to thank them for their continued dedication to Magnit.

Jan Dunning

President
and Chief Executive Officer

Highlights
of the Year

Strategic priorities

- Improvement of LFL sales growth
- Proactive and opportunistic return-driven consolidation play
- Margin regain
- High returns leading to strong dividend payment
- Accelerate smart organic expansion
- E-grocery platform development
- Improvements of the working capital cycle

Achievements in 2021 vs 2020

>7 days optimisation of WC

with RUB 18 bln cash release and working capital turning negative

EBITDA margin improvement to **7.2%**

in 2021 from 7.0% in 2020 on the back of gross margin gains and strict cost control

2,281

gross new stores of core formats opened in 2021 vs. **1,292** in 2020

3 M&As

strategic acquisition of Dixy business and two bolt-on acquisitions of Edelweiss and Radezh

Full-year GMV of **RUB 11.2 bln**

with more than 62,000 orders daily

LFL sales growth of **7.0%**

2021 – second consecutive year of market-leading LFL sales growth

ROIC[1] growth to **16.5%**

in 2021 vs 13.8% in 2020 vs 7.9% in 2019 and 20% YoY increase in dividend payment[2]

[1] ROIC = (EBIT - Income Tax) / (Average Net Debt + Average Equity)
[2] Based on the first tranche of dividend payment – for 9M 2021 of RUB 30 bln vs 9M 2020 of RUB 25 bln
Note: All financial metrics are provided in accordance with IAS 17 standard.

2021 strategic priorities – We deliver what we promise

In 2021, Magnit delivered significant progress against its strategy. We continued organic expansion and improvement of customer experience in our stores, demonstrating industry-leading growth in LFL sales. We completed a strategically important acquisition of Dixy that strengthened our positions in Moscow and St. Petersburg and improved its profitability. Despite this large acquisition, we managed to maintain a "healthy" debt level at 1.5x EBITDA (IAS 17). The e-commerce channel, launched by Magnit in the second half of 2020, quickly gained traction and surpassed RUB 11 bln in turnover for the full year. We also managed to further optimise our working capital cycle and improve return on investments.

Corporate Governance

— Shareholders approved a new edition of the Articles of Association that expanded the size of the Board of Directors from nine to eleven members
— Magnit further strengthened the Board of Directors, introducing new independent Board Members with expertise in tech and finance
— We continued to strengthen the Management Board to improve decision-making. The Management Board was expanded to 13 members
— The Board of Directors introduced the Audit Fees Policy to limit the volume of non-audit fees received by the Company's external auditor to ensure its independence.

Securities

— Dividends paid for 9M 2021 amounted to RUB 30 bln. This represents 20% YoY growth compared with RUB 25 bln paid for 9M 2020
— Magnit placed RUB 20 bln of exchange-traded bonds with a 7.05% coupon
— Credit Rating Agency ACRA affirmed its credit rating for Magnit bonds at AA (RU)
— S&P upgraded Magnit's credit rating to BB+ with forecast "Stable"

Operations

— Redesign of more than 700 Magnit stores (including convenience stores, supermarkets and drogeries) to improve customer value proposition
— Magnit organic expansion to add 1,450 convenience stores, 825 cosmetic stores and 6 supermarkets during the year, boosting the gross number of store openings 77% from 2020
— Successful pilot of 190 My Price discounter stores showing returns of >50% has triggered the decision to further roll out this format
— Concept tailoring of new promising ventures City and Go and launch of updated pilots
— Multi-format e-commerce rollout (including dark stores scaling) led to 62,000 daily orders and annual GMV of RUB 11.2 bln
— IT landscape upgrade on track, including SAP-based ERP integration, supply chain software, focus on cloud-based technologies.

Sustainability

— Reducing carbon emissions in logistics operations via upgrading our truck fleet, switching to more environmentally friendly fuel
— Ongoing energy saving programme for refrigerator equipment, air conditioners and lighting systems
— Magnit headquarters in Krasnodar received a Green Office certificate for practices including waste recycling, energy and water saving
— Project to analyse waste composition at our stores to increase waste recycling vs disposal
— Joint initiative with eight largest FMCG brands – "United for a Healthier Future" – to promote healthy lifestyles among consumers and local communities
— Rollout of healthy food zones in our stores
— "Kind Bunny" project – creating an inclusive environment for people with disabilities in our stores, training personnel to serve this category of customers
— In July, National Rating Agency ranked Magnit No.3 in the ESG rating of Russian public non-financial companies and No. 1 among retailers
— In August, MSCI increased Magnit's ESG rating to BBB.

Market Overview

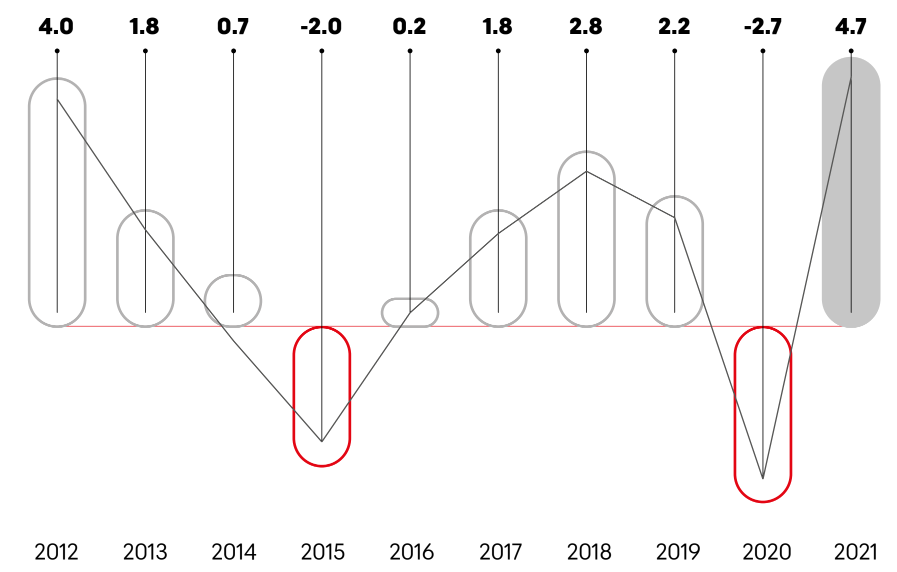
Consumer spending surged in April 2021 following the removal of restrictions and continued to show growth for the rest of the year, albeit at a slowing rate. Food retail has benefitted with a return to growth, and the market leaders, including Magnit, gained market share due to consolidation and the ongoing focus on modernisation and CVP improvements.

Macroeconomic Environment

Year-on-year GDP improved by 4.7% in 2021 due to the gradual recovery of economic activity following the implementation of the Nationwide Economic Recovery Plan and the removal of restrictive measures related to COVID-19. This was coupled with a highly supportive inflationary trends for retailers and a substantial recovery in real disposable incomes as people returned to work.

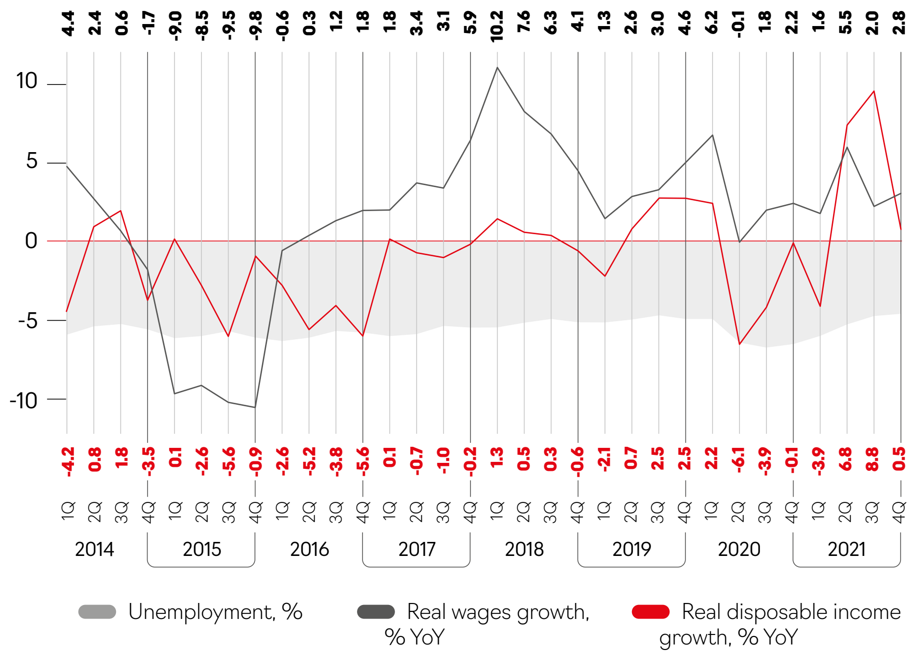
After the initial spike in consumer spending in 2Q 2021, retail and food sales growth weakened in subsequent quarters. To provide additional stimulus to the economy the government announced a series of additional financial support measures for families, vulnerable people and small businesses. This includes a one-off payment to pensioners, as well as elementary and secondary school students, of RUB 10,000 and RUB 15,000 to ex-military personnel. Meanwhile children aged 8 to 16 years from families with one parent now receive payments of on average RUB 5,650 a month.

Real GDP change in Russia, %



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

Real wages, real disposable income and unemployment rate, %



Source: Federal State Statistics Service

Low-income households typically spend around 40% of income on food and the implication of this extra support is that it will be directed towards food purchases.

According to SBER CIB bank, in total the government is expected to spend an estimated extra RUB 500 billion between 2021–2024 on social services, construction, and state oversight over environmental, digital, and customer-oriented development projects. This is being made possible thanks to strong economic performance and a recovery in non-oil and gas tax revenues[1].

The monthly minimum wage in Russia rose by 5.5% in 2021 to RUB 12,792. In Moscow it was set at RUB 20,589 and RUB 19,000 in St. Petersburg.

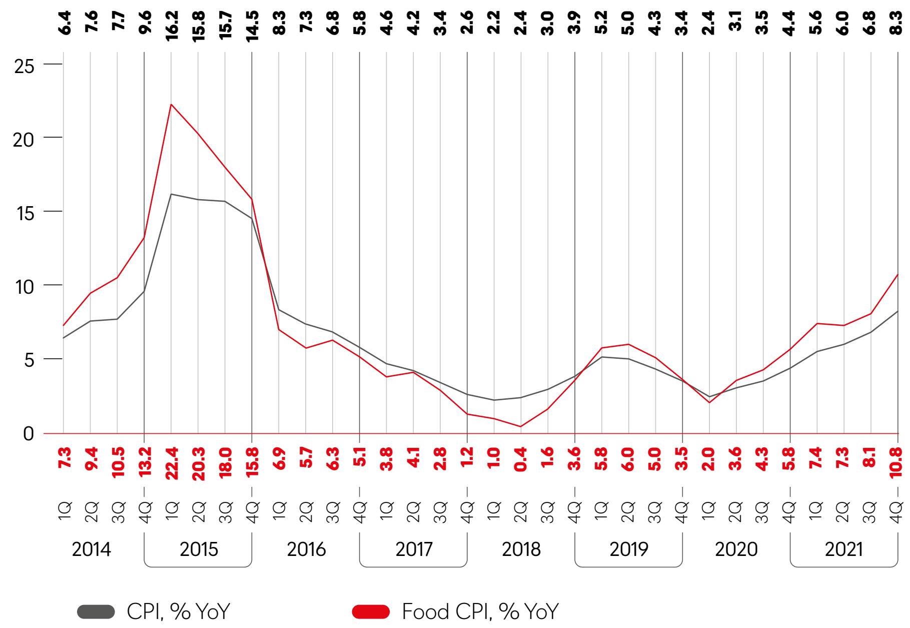
In 2021, average real wage grew marginally by 2.9% while real disposable income (RDI) has been slowly growing by 3.1% year-on-year, driven primarily by a rebound in incomes from property and business.

The average total number of the unemployed in December 2021 amounted to 3.2 million shrinking year-on-year to 4.3% compared to 5.9% the previous year. The unemployment rate has dropped to a record low, while the number of vacancies is at a record high.

The Consumer Price Index (CPI) rose throughout 2021 by 6.7%[2], while Food CPI increased by 8.4%[3] with particular rises in fresh foods such as vegetables and eggs. Rising food prices increased food spend by 2.4%, drawing growing concern by consumers.

Seasonally adjusted growth in consumer prices rallied to a six-year high in October and November. Household inflation expectations rose up to a five-year high in December. Businesses' price expectations also held close to multi-year highs. In response, the Central Bank of Russia raised its benchmark policy rate to 8.5% during its December 2021 meeting, to dampen the continually rising inflation.

CPI and Food CPI in Russia, %



Source: Federal State Statistics Service

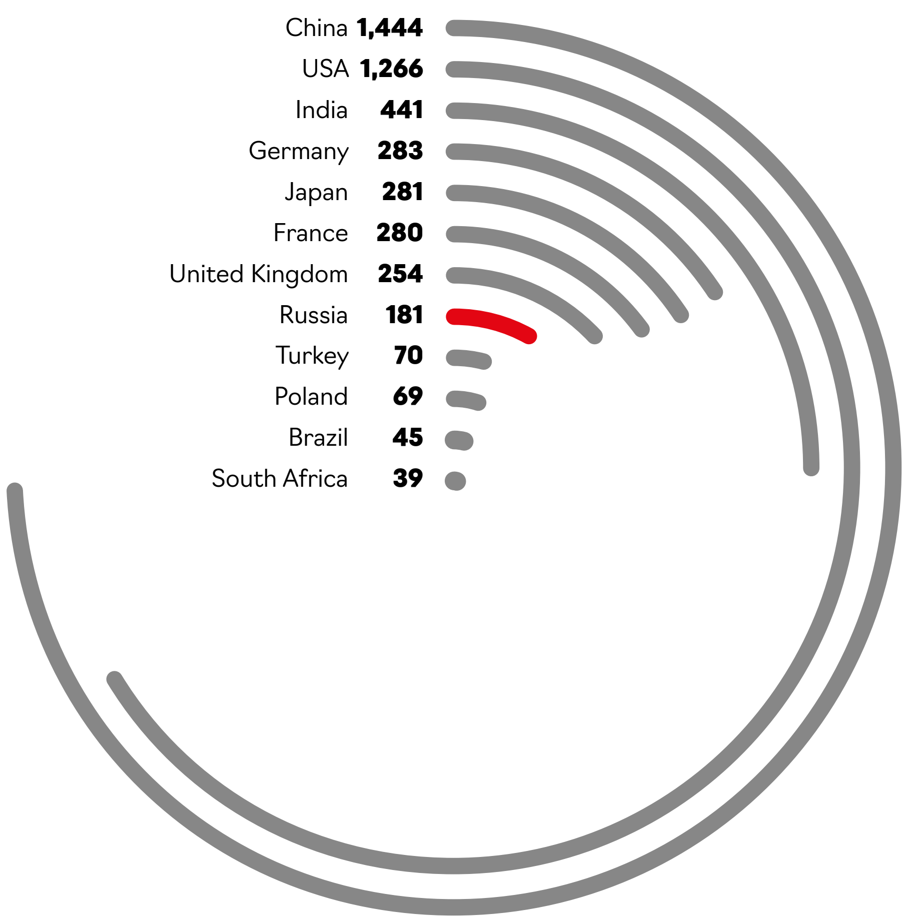
[1] SBER CIB Investment research, Russia economic monthly – very strong revenues allow government to boost spending, 10 September 2021
[2] Average annual inflation rate is given based on the average quarterly CPI changes year-on-year.
[3] Inflation rate at the end of December 2021 since December 2020 was 10.6%.

Market Overview
(continued)

#1

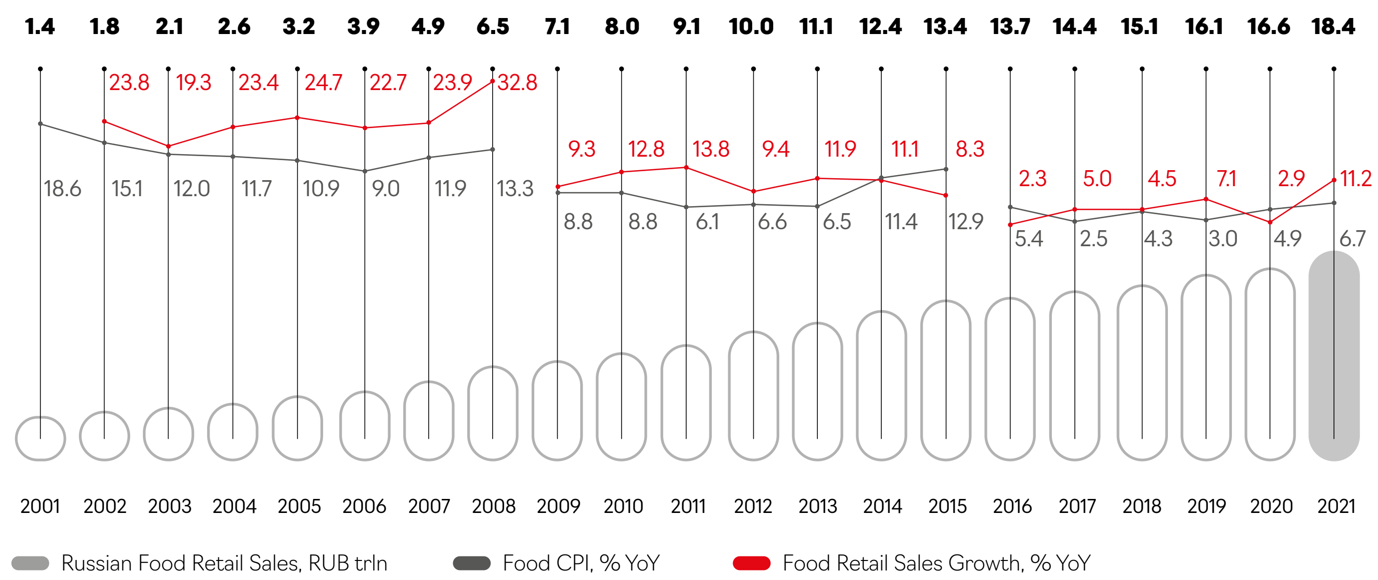
in Russia by number of stores and geographical footprint

Grocery Retail Market in 2021, USD bln



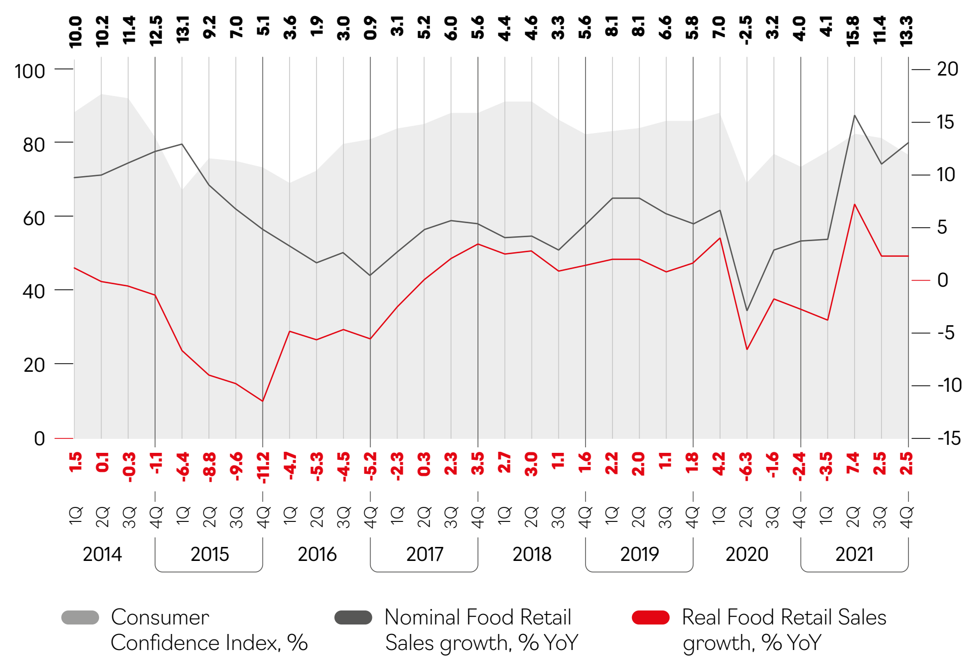
Source: Euromonitor, 2021

Food Retail Sales in Russia in 2001–2021



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

CCI and Real Food Retail Sales growth, %



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

Russian retail market

The easing of COVID-19 related restrictions in April 2021 saw an immediate and significant real growth in retail sales in Russia, and continued growth throughout the year to an average of 7.3%. This was reflected in real growth of food retail sales in Russia to an average of 2.2% demonstrating a strong recovery from the previous year.

Modern retailers such as Magnit continued to benefit, taking a 75% market share as operators resumed their store roll-out after the 2020 hiatus, adding 2.6 mln sq. m of new space during 2021. This was coupled with a continued strong performance from modern convenience stores. The recovery in real disposable income (RDI) and consumer confidence index (CCI) in 2021 resulted in customers continuing to concentrate their spend on food rather than on travel, entertainment and leisure. The statistics clearly reiterate that grocery retail is benefitting more from the post-pandemic recovery than other industries in Russia.

In 2021, the Russian food retail market remained 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 with the top five players increasing the market share in revenue terms to 42%, up 2 p.p. from 2020.

Market Overview
(continued)

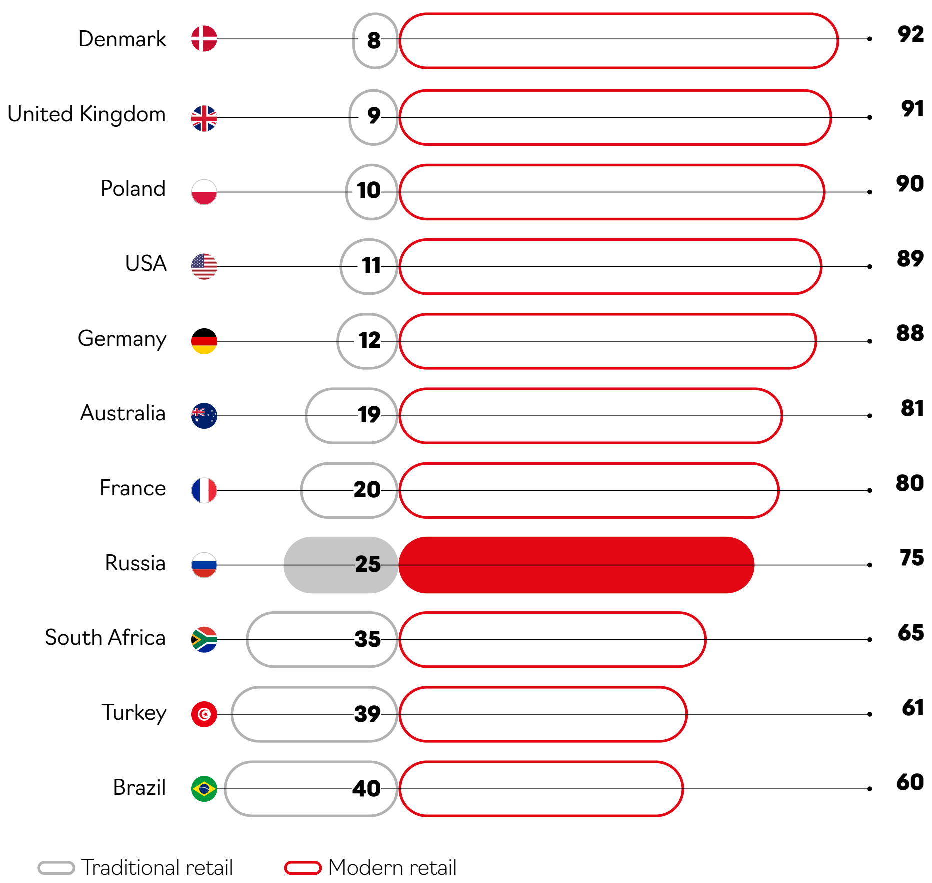
#2

retail chain in Russia by revenue

There remains considerable scope for consolidation in a fragmented and underpenetrated market, particularly for companies like Magnit which are well funded and have clear M&A strategies. Russia remains behind developed countries, where the top 5 players account for 61% 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 and market consolidation. In 2021, the top 10 companies in Russian retail demonstrated sales growth of 11% year-on-year. Magnit's market share in 2021 increased by 0.6 p.p. to 11.5%, due to acceleration of organic expansion as well as acquisition of Dixy.

The trend to shop online has skyrocketed as a result of the pandemic, especially in large cities such as Moscow and St. Petersburg. The e-grocery market in Russia in 2021 grew by 247% and reached RUB 383 bln, which is 2.1% of the total food retail market volume, leaving considerable room for growth.

Share of Modern and Traditional Retail in 2021, %

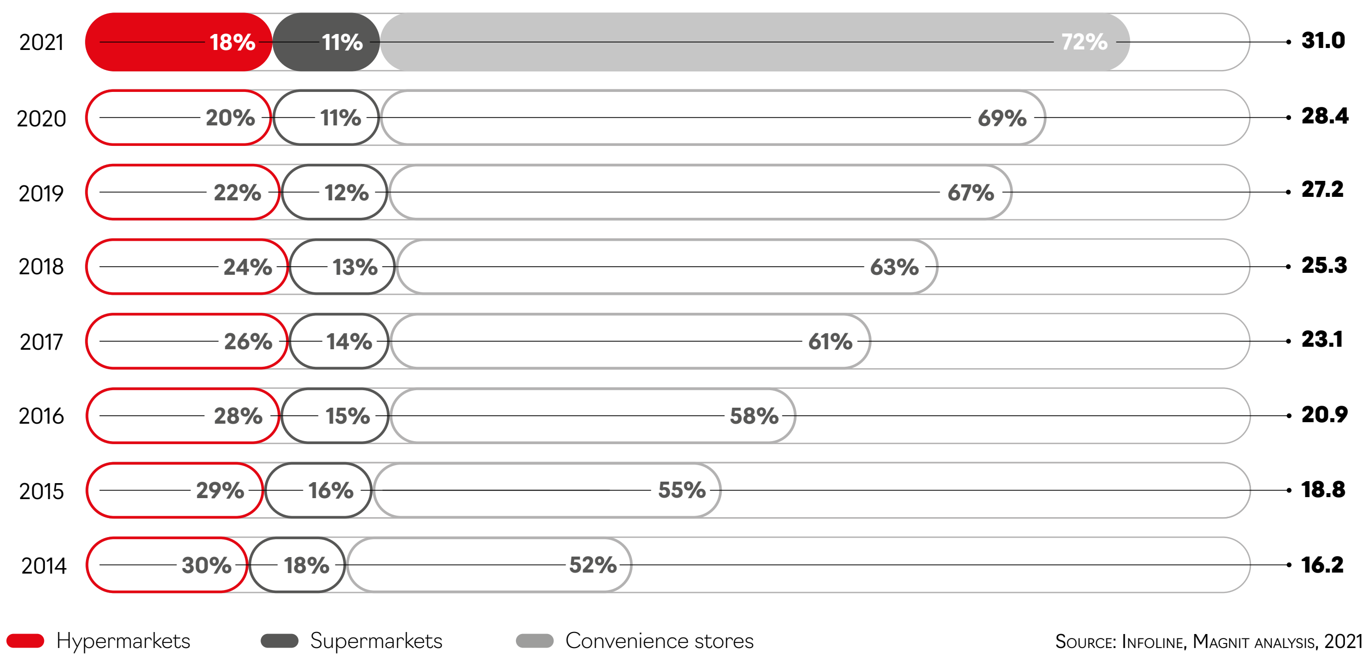


Source: Euromonitor, 2021

In 2022, we will continue our smart growth strategy focusing on improved sales density, new store openings, and enhanced CVP. In addition, the growth of e-commerce is fast accelerating, giving further opportunities. We will continue to closely monitor opportunities available in the market.

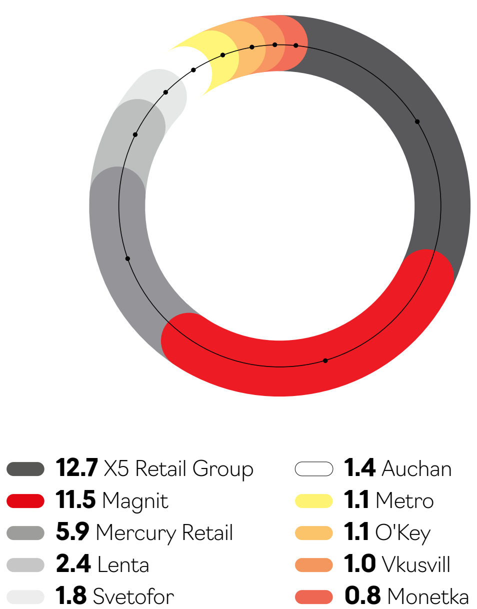
See more at Strategy and Operational Review

Total Selling Space in Russia for modern retail in 2014–2021, mln sq. m



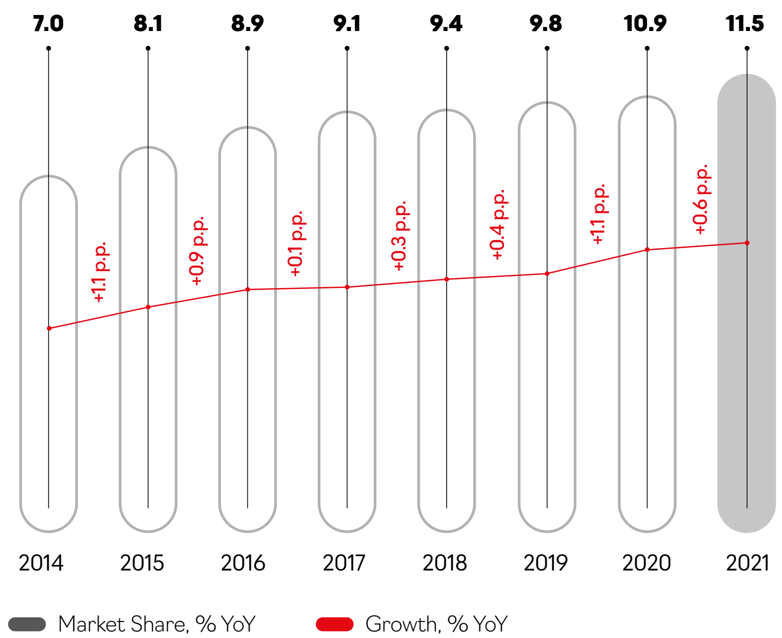
Source: Infoline, Magnit analysis, 2021

Magnit market share by revenue in Russia in 2021, %



Source: Infoline, Magnit analysis, 2021

Magnit Market Share by Revenue in Russia in 2014–2021, %



Source: Federal State Statistics Service, Magnit analysis, 2021

Market Overview
(continued)

Key trends in consumer behaviour and preferences in 2021

Spending still up, but showing slowing trend

Grocery buying behaviour adopted during the pandemic has remained, with consumer spending on average higher by 2.4% year-on-year, but showing a slowing trend as consumer concerns about the pandemic decrease and confidence index returns to pre-pandemic levels. This will lead to a greater balance between price, quality and usability.

Convenience continued to trump price

Continuing to favour convenience stores and retailers that can offer omni-channel capabilities, although price remains a top priority for store selection.

Consumers becoming more digital

Growing dependency on online content driving changes in consumer behaviour and interaction with retailers. Consumers expect relevant and personalised content and access to services and shopping at an any time and everywhere. Demand for immediate actions and service is increasing due to the accelerating pace of life, and consumers are checking prices and promo offers.

Focus on healthy living and conscious consumption

Greater awareness around the environment, nutrition and health is leading to consumers who are ready to pay more for healthier and eco-friendly products in certain categories.

Key trends in Russian retail market

Growing inflation

Inflationary trends are expected to support food retail into 2022, but will put pressure on CAPEX.

Further consolidation

M&A activity of federal players is expected due to the withdrawal of smaller and regional operators.

eGrocery sales accelerating

eGrocery is expected to reach 5% penetration in food retail in 2024. Number of dark stores is increasing to serve the eGrocery market.

Rise of hard discounters

A growing number of hard discounter stores targeted at the price-sensitive consumer niche and penetration into locations, such as remote or regional, which are not suitable for regular formats. Availability of smaller retail units is helping to drive expansion.

Emerging digital systems

Technology enabling a more personalised experience through analytics.

State support

Additional and continued financial payments to support the elderly, young families and other low-income and vulnerable social groups, with much of this spending being directed towards food purchases.

Sustainable development becoming key

Stakeholders increasingly focused on sustainable development and responsible behaviour from large companies, with expectations of continuous environmental, social and governance improvement.

Market Overview
(continued)

Key changes in regulatory environment in 2021

Change	Regulatory Document	Effective Date
Indexation of the Platon heavy vehicle charge system tariff (increase by 14 kopecks compared to the previous tariff)	**Decision of the Ministry of Transport of the Russian Federation**	1 February 2021
Approval of the list of goods and packaging to be disposed of after the loss of their consumer properties	**Executive Order of the Government of the Russian Federation No. 3721-r dated 31 December 2020**	1 January 2021 to 1 January 2022
Approval of the procedure for conducting continuous monitoring of prices for consumer goods and services	**Regulation of the Government of the Russian Federation No. 497-r**	27 February 2021
Increase of minimum retail prices for spirits, including vodka and cognac	**Order of the Ministry of Finance of Russia No. 232n dated 7 October 2020**	1 January 2021
According to the law, the "Champagne" name can be used only in relation to Russian-made goods in the territory of the Russian Federation. Foreign wines should be renamed "sparkling wines". There are other changes in the classification of wine products, in retail it is necessary to organise a separate layout	**Federal Law No. 345-FZ on alcohol market regulation**	2 July 2021
Extension of agreements on fixation of prices for sugar until 1 June 2021, and for sunflower oil until 1 October 2021	**Agreements between market participants on stabilisation of sugar and sunflower oil prices**	30 March 2021
On 1 April 2021, the transitional period for labeling alcohol imported into the territory of Russia was completed. From 1 January 2021, all alcohol must be labeled with federal special marks. Prior to this, only products made in Russia were designated by special marks	**Federal Law No. 436-FZ dated 22 December 2020**	1 January 2021
20% increase in the excise tax rates on cigarettes and other tobacco products in Russia from 2021 came into force	**Federal Law No. 321-FZ**	1 January 2021
The minimum retail price for a pack of cigarettes has been set at RUB 107.78	**Federal Law No. 504-FZ dated 30 December 2020**	1 July 2021
Extension of the anti-tobacco law to all nicotine-containing products	**Federal Law No. 303-FZ dated 31 July 2020**	28 January 2021
Creation of a national system of traceability of goods (NSP) in Russia. From 1 July 2021, organisations are required to submit reports on transactions with goods subject to traceability, and documents containing traceability details	**Federal Law No. 371-FZ of 9 November 2020**	1 July 2021
New rules for the sale of goods at retail came into force	**Regulation of the Government of the Russian Federation No. 2463**	1 January 2021
Executive order on urgent measures to support small and medium-sized entrepreneurs in the retail sector. Regional authorities are recommended to facilitate the work of retail markets and fairs in crowded places	**Executive Order of the Government of the Russian Federation No. 208-r dated 30 January 2021**	30 January 2021

Change	Regulatory Document	Effective Date
Changes were introduced in the process of implementing the labeling of dairy products, including the postponement of the deadline for the mandatory display of the product code in retail sales	**Regulation of the Government of the Russian Federation No. 2100 dated 30 November 2021**	On the day of publication, as far as the provisions relating to retail trade are relevant
Extension of the food embargo until the end of 2022. The document envisages a ban on the import of meat, dairy and fish products, vegetables and fruits, salt, live pigs and edible offal from the EU, the USA, Norway and Australia	**Decree of the President of Russian Federation**	30 September 2021
The President of the Russian Federation Vladimir Putin instructed the Federal Antimonopoly Service to monitor the formation of product prices in retail chains. On 13 August 2021, the FAS of the Russian Federation began unscheduled on-site inspections in relation to leading retail chains for an anti-competitive agreement, the consequence of which may be an increase and maintenance of prices	**Decree of the President of Russian Federation**	8 August 2021
A number of regions of the Russian Federation adopted regulations on mandatory vaccination of certain categories of citizens, including trade employees, and on pass control at the entrance to certain shopping facilities (admission of citizens only with a QR code on vaccination, QR code on the previous disease, QR code on a negative test for the coronavirus infection or a certificate of medical exemption)	**Resolutions of chief medical officers of regions on the basis of paragraph 6 part 1 article 51 of the Federal law No. 52-FZ "On sanitary and epidemiological well-being of population" dated 30 March 1999, article 10 of the Federal law No. 157-FZ "On immunoprophylaxis of infectious diseases" dated 17 September 1998, item 18.3 Sanitary Rules and Regulations 3.1/3.2.3 146-13 "General requirements for the prevention of infectious and parasitic diseases", order of the Ministry of Health of Russia No. 125n "On approval of the national calendar of preventive vaccinations and calendar of preventive vaccinations for epidemic indications" dated 21 March 2024**	

Strategy

Our strategic goal is to cement our current leading federal retail positions by growing our market share significantly and profitably.

Our strategic ambition is to become #1 for consumers, employees and investors.

Our strategy at a glance

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

Investors
Creating value for shareholders thanks to attractive returns

Employees
Constant improvement of eNPS[2]/ engagement, employee turnover and staffing level

Magnit recorded significant sales growth in 2021, driven by increased selling space, a trading environment that improved throughout the year, and continued sales uplift from mature stores, resulting in a sales density improvement of 4.7%. It is clear that our initiatives to enhance consumer perception and experience are working, as demonstrated by positive NPS and Consumer Satisfaction Index trends and net consumer gains. Our sustainability strategy is now embedded throughout our organisation as we continue to add more data metrics to monitor our performance and improvements. We have continued to develop internal processes to extract greater efficiency and our investment in people has intensified to ensure we have the right competencies and have an agile and innovative company.

+4.7%
sales density improvement in 2021

These efforts have created significant value for shareholders – Magnit's local share price has increased by 55% from January 2019 to December 2021, and a new approach to investments and redesigns drove impressive returns and uplifts.

[1] Net Promoter Score/ Consumer Satisfaction Index
[2] Employee engagement and satisfaction survey

Our goals are supported by four pillars:

Consumer first

- Consumer-centric decision-making with enhanced loyalty (as the key data source)/ personalisation powered by AI / Big Data
- Enhanced CVP and clustering to better serve consumer needs
- Improved brand positioning (including care, safety, ESG and value for money)
- E2E consumer offering going beyond traditional offline space – digital / ecosystem

Employer of choice

- Flexible and proactive approach to personnel attraction
- Intensified investment in people to ensure best competencies and business continuity
- One team approach as the base for effective cross-functional cooperation
- Talent assessments and social lifts
- Agility and innovative thinking

Most efficient and promising ways to market

- Smart expansion in core formats to profitably catch up market share, including M&As
- Actively and structurally consider new sales lines, new niches / markets
- OMNI including online
- Agile sourcing including partnerships with suppliers, crystalised offering in own production / Private Label to enhance offering and secure positioning

Modern and efficient platform

- Defined and straightforward functional strategies
- Smooth and efficient processes
- Flexible organisational structure, clear responsibility split combined with entrepreneurial culture
- Flexible, reliable and scalable cloud-based IT solutions and Data platform
- Product-centric technology organisation

Sustainability

Sustainability is firmly embedded in all areas of our strategy and it is key to the continued growth of the Company. It 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 sets out our ambitions and strategic principles and formalises our approach. We are committed to reducing our environmental impact and having a positive impact on the wider society, as well as ensuring our employees are satisfied and upholding the highest standards of corporate governance.

Strategy
(continued)

Strategic priorities

Priorities	Our strategic priorities for 2021	Our strategic guidance for 2025
Enhance CVPs	Keep improving CVP as a key driver for material improvements of sales density and profitability supported by processes and ways of working enhancement	Clear CVP initiatives to enhance consumer perception **and experience big time** Clear potential to **increase sales densities** by way of speeding up value accretive redesigns
Extract efficiency	Continuous focus on extracting efficiency to get higher profitability and cash generation	**Thought-out strategic plan** to capture tremendous business improvement
Smart expansion	Focus on smart expansion implying high profitability targets for new openings	**Accelerate smart organic expansion** (p.a. on gross basis) — ~1,000 convenience stores — 700–800 drogeries — 300–600 discounters — 5–10 supermarkets and superstores
Strengthen our overall positioning	Due to overall market evolution and high consolidation potential we expect more opportunities to become available in the M&A field where we could selectively (based on strategic and value accretive approach) strengthen our overall positioning	Proactive and opportunistic **return-driven consolidation play (M&A)**
Extend consumer offering	Extend consumer offering complementary to our core business (incl. partnerships, E-comm, new geographies and specialised formats in important adjacent consumer missions, etc.) to better satisfy consumer needs	Build a **leading e-commerce platform** capable of handling **5%+ of Magnit turnover** with seamless integration into an omni-channel consumer experience Continue to proactively consider adjacent **value accretive niches** Adherence to **sustaining high return requirements** for new projects

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

- Benefits from lucrative EBITDA margin (IAS 17) steadily improving to **8.0% in 2021–2024 and 8%+ from 2025 despite expanding into e-commerce channel and discounters**
- Improvement of working capital with a focus on stock days optimisation **by 4–7 days, incl.:**
  - 3–5 days in grocery
  - 10–15 days in drogerie
- **Continue following strict return requirements for all projects. CAPEX to remain <4.0% as a % of sales**
- Comfortable leverage of ~1.5x (IAS 17) of Net Debt/EBITDA with a self-imposed ceiling of 2.0x and high potential to fall **to around 1.0x in the next years subject to M&A opportunities**
- **Focus on constant improvement of returns and value accretion for shareholders. Expect double-digit ROIC[1] growth in 2025 vs 2021**
- **Capacity for annual increase of dividend payments** depending on the financial position and subject to Board decision and shareholder approval

[1] ROIC = (EBIT - Income Tax) / (Average Net Debt + Average Equity)

ДИКСИ

Integrating Dixy

Our in-depth examination makes us confident that we can extract significant synergies from the acquisition of Dixy in the medium term, and allows us to maintain our ambitious long-term targets.

While Dixy and Magnit will continue to operate as separate brands, we have established an integration management office (IMO) as well as new joint committees at the senior level for strategy, investment, financial, remuneration and integration. New cross-functional mandates have been identified to align financial terminology and investment methodology as well as key decision-making processes such as investments, authorities and HR. Project management, audit and tracking will also be a joint effort, and we are in the process of combining our communications plans to align our corporate cultures.

Synergies identified :

Commercial
- Combined sourcing/procurement
- Private label production, direct import and seasonal and exclusive assortment
- Align pricing strategy

Operations
- New effective solutions for overlapping stores on a case-by-case basis
- Potential to transform / redeploy Dixy stores into a Magnit convenience, supermarket, drogerie, hard discounter or dark store

Cost savings
- Align business processes and IT
- Centralise back office and support functions where relevant
- Share and decrease costs in marketing, utilities and outsourced services
- Reduce tariffs for acquiring, cash collection and bank fees

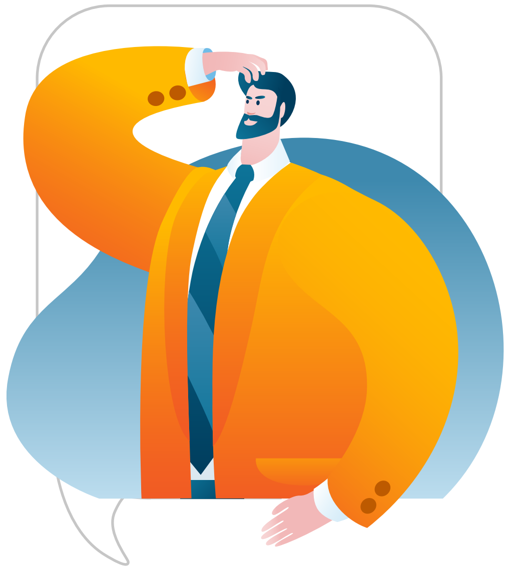
Cross-synergies
- Technology sharing
- Customer data analysis via loyalty programmes
- Re-usage of data centers

See more on how we are integrating Dixy on p. 42.

Investment Case

The acquisition of Dixy, the fifth largest grocery retailer in Russia, in 2021 is expected to strengthen Magnit's competitive position significantly in the Russian food retail sector.

The Dixy brand's strong exposure to the strategically important Moscow and St. Petersburg regions, which in 2020 accounted for approximately 29% of the total Russian food retail market[1], has led to a sharp increase in the Company's market positions in both capitals, including more than twofold market share growth in both Moscow and St. Petersburg. The integration of Dixy will provide synergies in procurement, category management, technology, as well as cost savings in various business processes. This, together with the significant gains in e-commerce and the development of Private Label products and CVP will benefit the Company's customers and provide value accretion for shareholders.



5 reasons to invest in Magnit

Market potential

We offer exposure to a sizeable market with potential for further organic expansion and consolidation

- Sizeable market with growing modern food retail penetration which offers opportunities for organic expansion
- Fragmented market with high potential for further consolidation
- Large players are gaining market share
- New niches / ways to market actively emerging with constantly evolving e-grocery market

Russian market offers further growth potential

Share of Modern and Traditional Retail in 2021, %

Traditional retail	Modern retail
8	92
9	91
10	90
11	89
12	88
19	81
20	80
25	75
35	65
39	61

Traditional retail · Modern retail

The market has potential for further consolidation

Share of top-5 players in grocery retail in 2021, %

80
79
75
62
61
58
43
42
41
33

Source: Euromonitor, 2021

[1] Data combined for Moscow & Moscow region and St.Petersburg & Leningradsky region for 2020 according to Rosstat

Leading player

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

- Multi-format offering with four core formats covering range of shopping missions in grocery, drogerie and pharma segments
- Wide geographical coverage with 26,077 stores in 3,898 cities in 7 federal districts
- 11.5% market share in food retail sales
- Serving customers in all highly populated Russian regions (67 regions, 58.7 mln loyalty cards)
- Well-developed country-wide supply chain with 45 distribution centres 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 2018–2021, %

Year	Russian sales growth, % YoY	Magnit sales growth rate*, %
2021	11.2	19.3
2020	2.9	13.4
2019	7.1	11.4
2018	4.5	8.3

* including VAT

Growth ambitions

On track to speed up profitable return-driven growth leading to further market share grab

- Speed up value accretive organic expansion
- Smart expansion implying high profitability targets for new openings
- Consider small to mid-size value accretive M&A to strengthen market positions
- Adherence to sustaining high return requirements for new projects
- Store network redesign programme to improve sales density
- Build a leading e-grocery platform capable of handling 5%+ of turnover
- Proactively consider adjacent value accretive niches

+13 bps
EBITDA margin improvement in 2021 (IAS 17)

+ 4.7%
sales density improvement in 2021

Efficiency gains

We have tremendous business improvement potential to be materialised

- Further CVP improvement to drive material improvements of sales density and profitability
- CVP initiatives to enhance consumers' perception and experience
- Increase in sales densities also by way of speeding up redesigns and processes improvement
- Extension of consumer offering complementary to core business
- Benefits from lucrative EBITDA margin steadily improving to 8.0% within 2021–2024 and 8%+ (IAS 17) from 2025 despite expansion of the e-commerce channel and discounters
- Continuous focus on efficiency to get higher returns

Dividends

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

- Focus on quality of new store openings resulting in better payback
- Keeping a comfortable level of Net Debt/EBITDA leverage at ~1.5x (IAS 17)
- Clear plan to improve working capital with a focus on stock days optimisation
- Value accretion for shareholders leading to continuous strong dividend payment

Magnit dividend payment and dividend yield in 2008–2021

Year	Total dividends paid, RUB bln	Dividend yield, %
2008	0.1	0,3
2009	1.3	0,7
2010	0.6	0,2
2011	2.1	0,8
2012	7.7	1.7
2013	12.8	1.5
2014	34.3	3.7
2015	29.4	2.8
2016	26.3	2.5
2017	24.7	4.0
2018	31.0	8,7
2019	31.0	8,9
2020	50.0	8,7
9M 2021	30.0	5.4

RUB 64.2* bln
strong free cash flow in 2021
* excluding Dixy

1.5x
Net Debt/EBITDA leverage (IAS17) as of December 2021

Business Model

We are everywhere for our customers

Inputs: resources and relationships

Our customers
15 mln
customers daily

Employees
~360 thous.
one of the largest private employers in Russia

Suppliers
>6 thous.

Shareholders
>150 thous.
According to EGM 2021

Government and regulators
Magnit has an efficient corporate governance framework

Environment and communities
Magnit's Sustainability Strategic Framework sets an ambitious goal for embedding sustainability in every aspect of the business

How our business is different

Quality and range
100 quality awards in 2021
12 quality control laboratories conducting
>2.8 thous. daily tests
>4 thous. private label SKUs = 16% share of PL

Multi-format and omni-channel
>4,490 offline stores and 20 dark stores in 64 regions of Russia
8,997 thous. sq. m selling space
3,898 cities & townships

Largest supply chain network
45 distribution centres in seven federal districts
>5 thous. trucks
1.9 mln sq. m of warehouse space

Own production and private label
4 agricultural complexes in seven federal districts
13 industrial facilities
168 production lines

Outcomes for our stakeholders

- Everywhere for our customers
- Rewarding our employees
- Cooperating with our suppliers
- Delivering returns to our shareholders
- Economic contribution
- Protecting the environment and supporting communities

Business Model (continued)

We are everywhere for our customers.

Magnit is further solidifying its leading position in Russian retail by transforming the business, improving its customer proposition and maintaining high business profitability. We strive to become the number one choice for our customers, employees and investors.

Inputs: resources and relationships

Our customers

Magnit is the number one Russian retailer in terms of the quantity of stores, proximity to customers and geographical coverage. 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 a population of 3,000 people.

15 mln
customers daily

~59 mln
cross-format loyalty card holders

69%
penetration in sales

Employees

The scale of operations makes Magnit one of Russia's largest employers. Being an employer of choice is a key strategic focus to achieve our ambitions.

~360 thous.
employees – one of the largest private employers in Russia

Experienced
and talented management team

Suppliers

Magnit is committed to being a reliable and trusted partner to its suppliers. We differentiate our product offering through tailored procurement initiatives, which includes direct import and strategic partnerships with suppliers.

>6 thous.
suppliers

7%
direct import supplies (~750 contracts)

Shareholders

Strong capital discipline with a focus on returns in all investment decisions

Comfortable level of Net debt/EBITDA leverage

at 1.5x (IAS17)

RUB 64.2[1] bln
strong free cash flow

[1] Excluding Dixy acquisition

Government and regulators

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 ensuring the protection of stakeholders rights.

Environment and communities

Magnit's Sustainability Strategic Framework sets an ambitious goal for embedding sustainability in every aspect of the business and its processes across five key areas:

— reducing environmental impact
— creating a responsible supply chain
— taking care of employees
— supporting local communities
— promoting healthy lifestyles

How our business is different

Recognised for supreme quality and breadth of range

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

100 quality awards
in 2021

12 quality control
"from field to plate" laboratories conducting

>2.8 thous. daily tests

>4 thous.
private label SKUs

16 %
share of private label (PL)

Multi-format and omni-channel

Magnit operates a multi-format model across 26,077 stores which includes convenience stores and supermarkets, drogeries and pharmacies. Both food and non-food segments of Magnit are present online.

8,997 thous. sq. m
selling space

3,898
cities & townships

Covers over
4,490 offline stores
and **20** dark stores
in **64** regions of Russia

Largest supply chain network in Russia

Our wide geographical coverage requires us to have advanced logistics and supply chain management to always bring fresh produce to our customers. We have a continuous long-term programme of truck fleet renewal replacing old vehicles with Euro-5 eco standard.

45
distribution centres in **seven** federal districts

>5 thous.
trucks

1.9 mln sq. m
of warehouse space

Own production capabilities and private label

Uniquely in Russia, Magnit operates a private label (PL) food production business, managing plants for growing vegetables and the production of dry food and confectionery as well as greenhouse and mushroom complexes, which are amongst the largest in Russia.

4
agricultural complexes

13
industrial complexes facilities

168
production lines

Outcomes for our stakeholders

Everywhere for our customers

- Customer satisfaction rates and NPS scoring
- Adapting / new format based on specific customer trends prevalent in different localities
- Launching new pilots including the rollout of CVM (Customer Value Management) tools
- Gaining new customers
- Online delivery / shopping

Rewarding our employees

200 thous.
employees enrolled in Magnit's Corporate Academy

83%
employee engagement rate

72%
employee satisfaction rate

Cooperating with our suppliers

52% of SKUs
supplied by 4.2 thous. local producers

Improving
availability of goods through technology, innovation and communication

Working
together to identify new trends and upcoming projects

Supplier
representatives working within Magnit offices

Delivering returns to our shareholders

Consistent
strong dividend payment

~RUB 48 bln
of dividends paid in 2021

New store openings payback with ROI[2] >40%

Economic contribution

RUB 94 bln
taxes paid in 2021

44 procurement
sessions in **38 regions**

[2] ROI = OCF for the year with ramp-up phase / CAPEX

'Retail with Purpose': delivering value through our sustainability strategic framework

Our ambitions

Leader
in environmental impact reduction in the industry

#1 Employer
in the industry

Best
in class corporate governance

100%
responsible supply chain

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

Protecting the environment and supporting communities

— Reduction targets for carbon emissions, energy and resource usage, pollution and food waste
— Responsible sourcing and production and 100% responsible sourcing for socially important categories
— Community programmes across Magnit's geographic footprint

Operational Review

RUB 1,808 bln net retail revenue, up **19.7%** YoY

7.0% LFL sales growth

8,997 thous. sq. m total selling space

26,077 convenience stores, supermarkets, superstores and drogeries

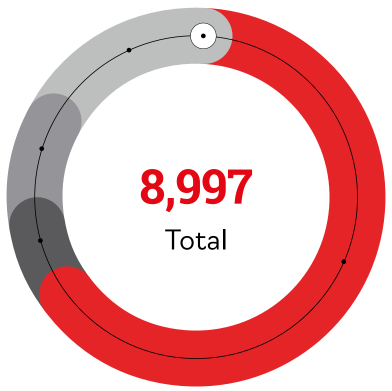
As restrictions related to the COVID-19 pandemic eased in 2021, Magnit was able to accelerate sales growth and resume new store openings at a large scale. Over the past year, our network expanded by a record number of 4,513 stores with almost half accounting for new openings and another half – for the strategically important acquisition of the Dixy chain that strengthened our positions in Moscow and St. Petersburg. While accelerating inflation has been putting pressure on consumer incomes, Magnit managed to increase operational efficiency.

We delivered market-leading LFL sales growth of 7.0% after having improved customer value proposition in our stores. This was driven by 7.1% average ticket growth, while LFL traffic declined by 0.1%. At the same time, we increased profitability with EBITDA margin (IAS 17) gaining 13 bps YoY and reaching 7.2%. These improvements became possible due to better purchasing terms with suppliers, reducing working capital cycle by more than a week and expanding private label and own production.

Net retail revenue by format, RUB mln

- **1,309,682** Convenience Magnit[1]
- **120,552** Convenience Dixy
- **214,988** Supermarkets[2]
- **152,215** Drogerie
- **10,314** Other formats[3]

Selling space by format, thous sq. m



- **5,635** Convenience Magnit
- **718** Convenience Dixy
- **1,012** Supermarkets
- **1,604** Drogerie
- **28** Other formats

[1] Convenience Stores include convenience stores and small pilots such as Magnit City and My Price discounters
[2] Including Megamart superstores
[3] Other formats include pharmacies and stores located at Russian Post offices

Our loyalty programme, which covers 59 mln participating customers, helped to increase synergy between our different store formats with 43% of consumers visiting at least two of these formats. Via different formats – convenience stores, supermarkets, superstores, drogeries and discounters – we are targeting different groups of customers and adjust our offering to their specific needs. Convenience stores have remained our core format, with the Dixy acquisition strengthening it further. We are also developing new trading formats to follow consumer preferences.

In 2021, our important achievements included the roll-out of My Price discounters to target frugal customers and development of the e-commerce channel that has grown almost from scratch to reach RUB 11.2 bln GMV last year. See more details on these in separate sections below.

See case studies about Discounters on p. 44 and about e-commerce on p. 52 for more information.

In 2021, Magnit almost doubled CAPEX YoY to RUB 66.9 bln and accelerated store network expansion, adding 2,295 new stores on the gross basis during the year (1,450 Magnit and 14 Dixy convenience stores, 825 drogeries and 6 supermarkets). Besides the Dixy acquisition (discussed in a separate section below) Magnit also conducted smaller regional deals, acquiring rights for 56 stores of the Edelweiss chain in Kazan and 58 stores of the Radezh chain in Volgograd. We also redesigned 703 Magnit stores during the year to improve the interior and customer value proposition. In mature stores, we increased revenue per square meter – sales density improved 4.7% YoY. We continued piloting ultra-small formats focused on ready-to-eat products – Magnit City and Magnit Go – for locations with high traffic.

In 2021, Magnit increased net retail revenue 19.7% to RUB 1,808 bln due to LFL sales growth and acceleration of selling space growth to 20.0%. Including the Dixy acquisition, our selling space increased to almost 9 mln sq. m.

Operational Review (continued)

Magnit convenience stores

Magnit convenience is our primary format accounting for 72% of the Company's retail revenue and 63% of its selling space. These stores are aimed at everyday shopping and minor stock up and offer a product range of more than 5,000 SKUs, including the most popular food and non-food products at attractive prices. We are constantly developing this format to follow consumer demand. Last year, Magnit opened 1,450 new convenience stores (gross) and redesigned another 611. As of year-end, 78% of Magnit convenience stores were either new or redesigned.

At the same time, we continued to improve our customer value proposition. We expanded the ready-to-eat product range, unified dry food offering across stores, introduced new goods into important categories and reduced shrinkages by 0.4 p.p.

The share of private label goods, which usually cost consumers less than brand names, rose by 1.7 p.p. at convenience stores during the year. Net Promoter Score (NPS) – a metric that measures customers' loyalty – rose by 2.5 p.p. for Magnit convenience stores last year, showing the widest improvement among the Company's formats.

In the reporting year, Magnit convenience stores generated RUB 1,309,682 mln of net retail revenue, a 12.8% increase YoY. Total selling space of convenience stores expanded 10.7% during the year to 5,635 thous. sq. m due to new store openings.

In 2021, LFL sales in Magnit convenience stores increased by 8.2%. This was driven by 8% growth in the average ticket, while consumer traffic advanced 0.2%.

RUB 1,310 bln
net retail revenue, up **12.8%** YoY

5,635 thous. sq. m
of selling space

8.2%
LFL sales growth

16,190 stores
+8.6% increase YoY

Magnit supermarkets

RUB 208 bln
net retail revenue

937 thous. sq. m
of selling space

1.9%
LFL sales growth

470 stores

In 2021, the number of our supermarkets under the Magnit Family brand and superstores under the Magnit Extra brand remained unchanged and amounted to 470 stores. Magnit Family is a classic supermarket with average selling space of about 2 thous. sq. m. Its product range includes about 14.7 thous. items, almost triple the product range at a convenience store. Magnit Extra is an even larger format (superstore) with a more diverse range of products at competitive prices.

In the reporting year, we redesigned 74 Magnit supermarkets and superstores to improve the shopping experience. We added healthy food zones ("Health Island"), expanded the range of fresh and farm products.

We strive to ensure that the offered goods cover a wide range of interests of buyers, providing them not only with food, but also with goods for the home and garden. We maintain the share of new products in the target assortment at the level of 30.5%. We are also expanding our private label offering, the share of which grew by 2.3% p.p. in 2021.

Despite the temporary introduction of QR codes to access shopping malls where a third of Magnit's supermarkets are located, the total net retail revenue of this format amounted to RUB 208,316 mln, and LFL sales grew by 1.9%. This result was driven by a 5.2% increase in the average ticket and a 3.1% decrease in traffic.

Magnit Cosmetic (drogerie)

Magnit Cosmetic stores ("drogerie") are our leading non-food format offering a wide range of cosmetics, perfumes, home goods and household cleaning products. In 2021, Magnit Cosmetic posted strong growth in LFL sales by 4.4%. The format's net retail revenue increased by 13.4% YoY to RUB 152,215 mln, while the sales density of the format improved by 2.3%.

In 2021, we opened 825 Magnit Cosmetic stores (gross), accelerating the pace of new openings YoY. As a result, our selling space reached 1,604 thous. sq. m, expanding 12.3%. This was the highest selling space growth across our formats. When opening new stores and redesigning the existing ones, we adhered to a neutral colour scheme that logically zoned the premises, and also fit out stores with digital equipment, such as E-Visage smart mirrors, which allow us to test a particular cosmetic product in a virtual format, price checkers, interactive displays and self-service cash desks. At the end of 2021, our drogerie format consisted of 6,966 Magnit Cosmetic stores.

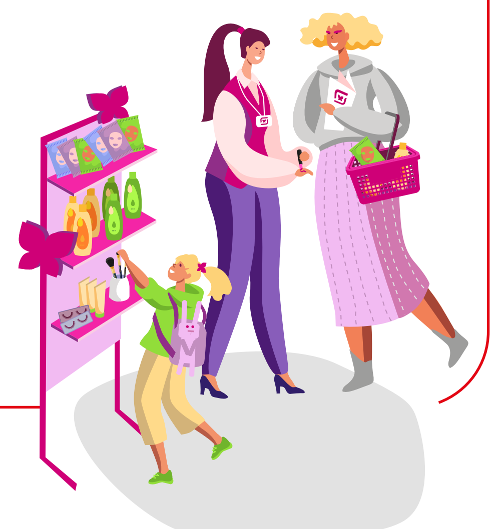
Paying special attention to the marketing development of this format, in 2021 we launched three online "clubs", where members receive exclusive content and exclusive offers from Magnit Cosmetic. To promote the format among younger generations, we are actively collaborating with influencers, who helped us significantly increase our audience reach by 78% in 2021. In the reporting year, we also expanded delivery from Magnit Cosmetic stores to regions of presence, where we previously hadn't offered delivery.

RUB 152 bln
net retail revenue,

1,604 thous. sq. m
of selling space

4.4%
LFL sales growth

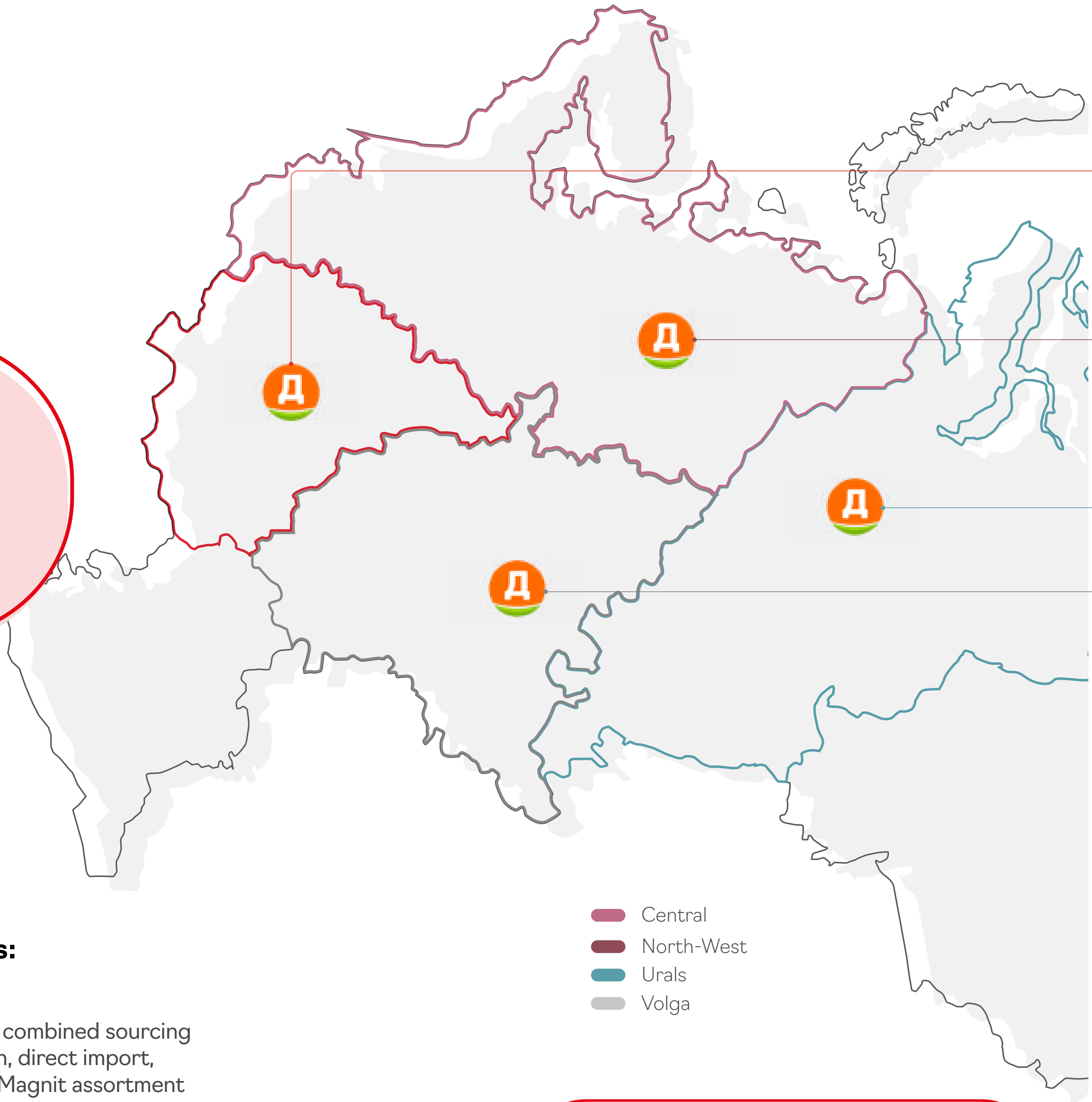
6,966 stores



Case Study:
Dixy – Acquisition update

2,477
stores

5 operating DCs
with 150 thous. sq. m total space and a fleet of 708 trucks acquired



As of 31 December 2021

Convenience Stores	Supermarkets& Superstores	Disribution Centers
CENTRAL FEDERAL DISTRICT (ex. Moscow & Moscow region)		
437	–	–
Moscow & Moscow region		
1,315	–	3
NORTHWESTERN FEDERAL DISTRICT (ex. St. Petersburg & Leningrad region)		
144	–	–
St. Petersburg & Leningrad region		
444	–	1
URALS FEDERAL DISTRICT		
71[1]	39	1
VOLGA FEDERAL DISTRICT		
1	–	–
Total 2,412	Total 39	Total 5

The acquisition of Dixy, the fifth largest grocery retailer in Russia, was completed on 22 July 2021

Key highlights:
— Enhanced scale
— Significantly strengthened market positions in two capitals: Moscow region market share increased by 2.1x and St. Petersburg and Leningrad region market share increased by 1.7x
— Accelerating e-commerce roll-out in both capitals
— High-quality locations
— Well-known brand
— Strong customer base
— FY2020 Dixy total revenue of RUB 298.8 bln
— Dixy to operate as a separate business

Significant synergies:

— Commerce
- Procurement thanks to combined sourcing
- Private label production, direct import, seasonal and exclusive Magnit assortment
- Aligning pricing strategy

— Operations
- New effective solutions for overlapping stores on a case-by-case basis
- Potential transformation of some regional stores into Magnit convenience, supermarket, drogerie, hard discounter or dark stores

— Cost savings
- Aligning business processes and IT
- Centralising back-office & support functions where relevant
- Decreasing costs in marketing, utilities and outsourced services
- Reduction in tariffs for acquiring, cash collection, bank fees, etc.

— Cross-synergies
- Technology sharing
- Customer data analysis via loyalty programmes
- Re-usage of data centers

>25% EBITDA
increase in 2022

[1] 17 Dixy stores are already transferred to Magnit format
[2] Three Months Moving Average as of December 2021 vs June 2021

Key achievements to date

— Smooth integration while maintaining growth and meeting key financial targets (revenue, sales density and EBITDA)
— All FAS requirements met on time in terms of store base optimisation
— 95 Dixy stores in Urals[1] are in the process of transferring to Magnit format
— >150 bps commercial margin uplift driven by joint procurement conditions
— Scale-driven SG&A benefits, including cash collection, banking services and marketing, etc.
— Decreased staff turnover, with TMMA[2] down by 39.3%

Next steps

— Continue roll-out of efficiency projects aimed at synergies extraction and profitability uplift
— Implementation of Magnit's Direct Import and Private Label categories
— Backward upside for Magnit – Dixy's category expertise in Moscow
— Extra synergies via joint marketing efforts
— Rent negotiation campaign for Dixy stores
— Megamart stores in Urals to be transferred to Magnit supermarkets and superstores
— Agile approach towards functional cooperation, organisational structure and SG&A optimisation

Case Study:

My Price Discounter Stores

- Underpenetrated market segment in Russia compared to developed markets
- Fast growing channel targeting price-sensitive consumers
- Rolling out discounter stores after success of pilot project
- Enabling expansion into new regional and remote locations
- Limited assortment in lower-price segments

Expanding Magnit's offering into formats that are complementary to the core business to better satisfy consumer needs is central to our corporate strategy. We regularly pilot new store formats to cover the maximum number of relevant shopping missions and attract customer segments.

Magnit started piloting discounter stores in July 2020 in response to the fast-changing economic environment. As at 31 December 2021 the Company had 190 operating My Price discounters compared to 15 stores a year ago. During 2021 Magnit opened 175 stores. Today we have over 200 discounters in operation delivering encouraging results.

The discounter concept is aimed at price-sensitive consumers who frequently make minor purchases of traditional goods or stock up on products.

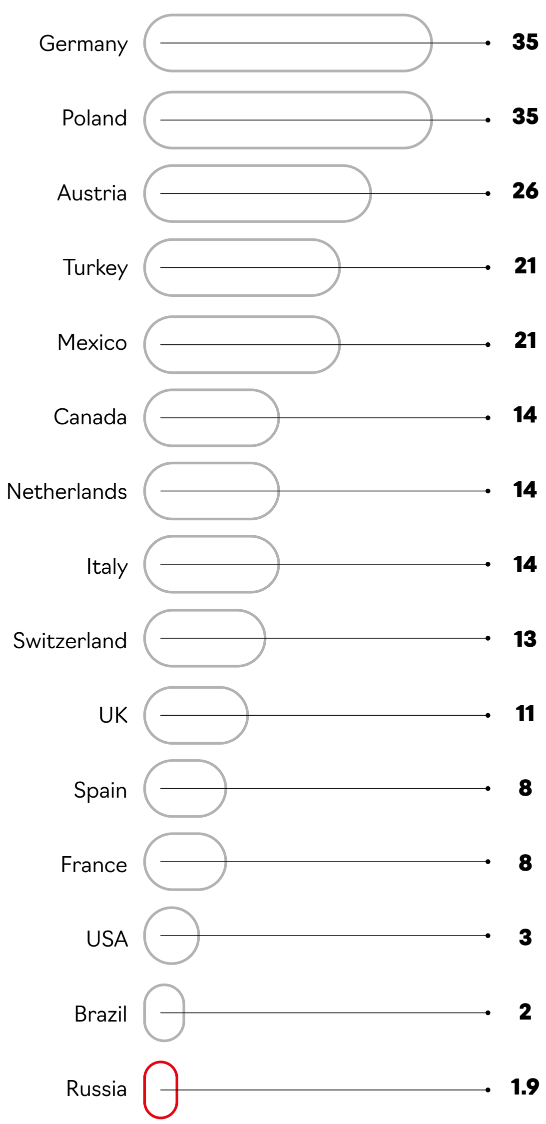
Market background

The hard discounter segment is underpenetrated in Russia compared to other developed markets where they are often seen as market disruptors, providing considerable room for growth.

The macro environment is also supportive for developing the discounter format, as real disposable income has been declining since 2012.

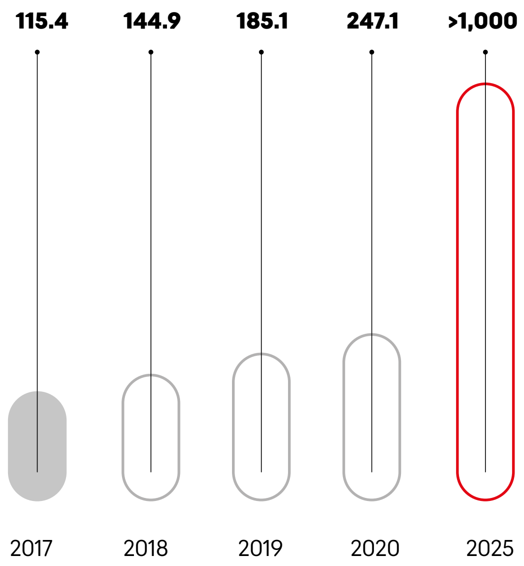
Hard discounters currently have 1.9% penetration in Russia, and this is expected to grow to around 5% by 2025.[1]

Discounters market shares in grocery retail , %



Source: Euromonitor

Russian discounter market size, RUB bln



Source: Euromonitor, Infoline

Store format

My Price discounters have selling space below 250 sq. m and offer a regular limited assortment of around 2,000 high-demand SKUs with a high rotation. 65% of total assortment is in lower-price segments, and the share of Private Label is currently around 23% of total sales.

Discounters offer a variety of value packs in the following categories: fruits, vegetables, dry foods, dairy, confections, baby food, drinks, pet food, household chemicals, and others. Most of the assortment is dry food with a limited share of fresh and ultra-fresh. Fruit and vegetable availability is designed to cover basic needs.

The format follows Magnit's EDLP (everyday low price) pricing policy where regular prices are already low without any promotions. The stores are designed to attract customers from other chains rather than from our own convenience stores. Pricing is set at 0.85 of the consumer price index, or 15% lower than prices elsewhere. The objective is to have the best customer attractiveness within a particular catchment area in terms of value for money.

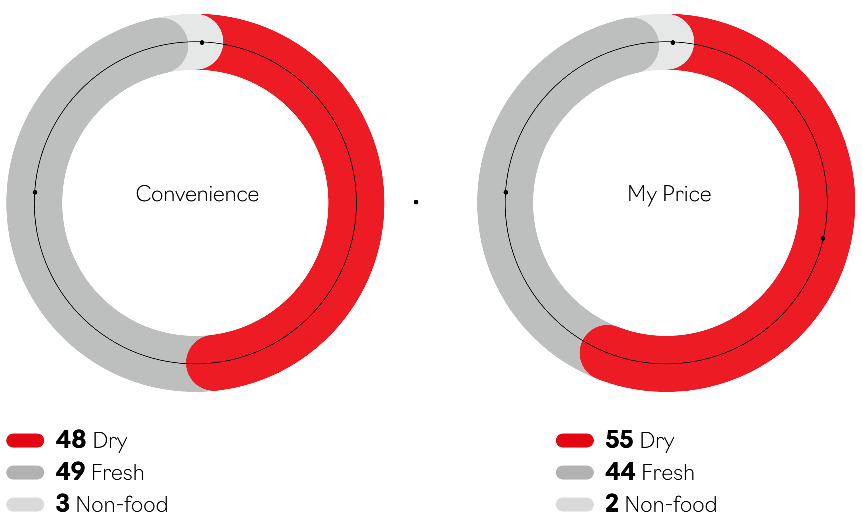
23% share of Private Label in total sales

65% of total assortment is in lower-price segments

[1] Goldman Sachs, Russia Retail, December 2021

Case Study: My Price Discounter Stores (continued)

Product mix differences, %



The layout of the store is simple and aimed at maximum efficiency, e.g. fresh fruit and vegetables are located next to the open refrigerated displays to save on additional equipment; products are displayed in show boxes and less often on a pallet.

The concept implies an optimised staffing level compared to convenience stores – 5 FTE vs 11 in convenience stores on average — though customer service levels remain high. In discounters that generate sales comparable to a convenience store there are still 2 FTE less vs convenience format. Discounters require significantly less capital expenditure for opening, including investments in repairs and refurbishment.

In September 2021, we launched a new design that was created specifically for our discounter format. It emphasises the low-price concept while creating a positive ambiance and providing a comfortable shopping space. Previously, our discounters used visual elements of our convenience stores.

The results of these stores are encouraging, sometimes exceeding our expectations and fully prove the concept.

2021 Performance

The results from My Price stores in 2021 were encouraging, at times exceeding our expectations and fully prove the long-term potential of the concept:

- LFL sales growth of 30 % in reformatted stores mainly driven by footfall
- The lower average transaction value compared to a convenience store is due to a narrower assortment, shift to lower price segments and lower prices
- Optimised operating model resulting in higher sales productivity despite the limited number of grocery and general merchandise SKUs across a narrow range of categories with a focus on entry-level prices
- Higher share of Private Labels at lower prices vs convenience stores enables better merchandise margin
- Assortment mix, EDLP model and sharply priced commodity goods leading to lower gross profit margin despite improved shrinkage
- Limited fixturing, low rent, and labour costs help reduce SG&A expenses, with savings potentially reinvested back into price to help drive volume
- Discounters converted from convenience stores generate higher profitability vs their performance as convenience stores driven by higher sales density and lower SG&A
- Pilot stores operate with positive EBITDA and Net Income after the ramp-up phase
- The share of highly rotated items on the shelves leads to higher inventory turnover – by 30–40% – allowing for higher profitability
- CAPEX is about 40% lower than for the same size convenience store implying very attractive returns.

My Price potential

We see significant potential in this concept for a number of reasons:

Decline in real disposable income	Real disposable income has been declining since 2012 and price-conscious customers are sensitive to ongoing economic uncertainty and rising food prices.
High growth potential not limited by Moscow and St. Petersburg markets	The fastest-growing market segments now are specialist stores, hard discounters and online. However, hard discounters have much greater growth potential, have proven success in developed markets, and are not limited by geographies like Moscow and St. Petersburg. The niche can become sizeable when roll-out brings efficiencies.
Everyday low prices are part of Magnit's DNA	The EDLP model is part of Magnit's DNA. Our production capacities across Russia have increased substantially supporting the development of the Private Label offering.
High availability of locations < 250 sq. m	Since the COVID-19 pandemic an increasing number of locations below 250 sq. m have become available at attractive rental rates.
Fits certain locations which would not support a regular convenience store	Customers are willing to travel further to visit My Price due to the affordable price points, giving greater flexibility on where stores can be located.
Production growth in Russia supports Private Label expansion	Production capacities across Russia have increased substantially supporting the development of Private Label offering through hard discounters.
Lower CAPEX and strict OPEX control lead to attractive returns	Low CAPEX and strict OPEX control allow us to derive returns that fit our internal requirements and achieve better sales densities.
Magnit's purchasing power, own production and direct import operations	Magnit's own production facilities, direct import operations and high purchasing power make our offer attractive for customers in that we can offer a regular assortment of products, differentiating us from our competitors.

Future development

We see an opportunity to open 300–500 My Price discounters in 2022 including reformatting some convenience stores, potentially including Dixy stores, making Magnit the largest discounter operator amongst Russian retailers.

We see significant potential for expanding this format in specific regions and areas. Discounters fit well in locations such as small and remote locations, where opening a convenience store may be inefficient, and where consumer incomes are lower than average.

Meanwhile we are continuing to develop the concept, including giving discounters their own unique design to make the format uniquely recognisable. We are developing our product range to increase the proportion of Private Label and are expanding our product mix so that there are more non-food items and seasonal offers. We are also engaging with suppliers to develop shelf-ready packaging and layout.

To support our growth in this area, we have appointed a dedicated operational director for discounters and are building a dedicated team to manage Magnit's discounter infrastructure including analytics, operations, and expansion teams.

Given our competitive strengths, including own production capabilities, Magnit is exceptionally well positioned to take advantage of the growing customer demand for discounters and basic fast-moving consumer goods.

Case Study:
Private Label and Own Production

Magnit is the only food retailer in Russia with its own food production facilities. Its Private Label range is a key area of differentiation.

The development of Magnit's PL[1] is central to our customer value proposition. Since the start of the COVID-19 pandemic there has been an increase in demand for PL products, partly as consumers have become more price-sensitive.

We have also noticed a shift towards PL among those consumers who previously preferred mainstream and premium products. In addition to providing our customers with excellent value for money, our PL goods also generate higher margins compared to branded products.

PL products are available at a range of prices to suit varying customer needs, split across three core divisions:

Magnit's private label portfolio 2022–2025

	Good	Better	Best
	Price-driven	**Value for money**	**Additional value**
	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
Key umbrella brands	моя цена My Price	Magnit family brands	PREMIERE of TASTE
Category brands (food)	Tafi	Lucky Days, Gusto di Roma, Solo-Nina, Eat Meat	Kensington
Category brands (non-food)	Каспер	la fresh, UNO, KuMiHo, WowPlay!, Wellfort, Sportour	NaNi
Format brands		Stellary, Zollider, Beauty Bomb	Gardenica
Loyalty campaigns		Скрепыши	Royal Küchen
Other exclusive brands		Including direct import	

food
non-food

2021 highlights:

23.8% growth in revenue of PL sales to **RUB 267.5 bln**

16% PL share in total sales

>4,000 SKUs PL portfolio, including **1,650 food SKUs**

In 2021 we continued to optimise our PL portfolio and product range in response to changing customer demand by enhancing in-house production capabilities and building long-term relationships with our partners and external suppliers.

During the year, Magnit's PL portfolio increased by 750 SKUs, currently we have more than 4,000 PL SKUs in various categories: milk and dairy products, fish gastronomy, processed meat and sausages, fruits and vegetables, cheese, bread, grocery, confectionary, soft and hot drinks, snacks, canned and frozen food, cosmetics and household goods, non-food.

In response to increased demand for fresh products, our Magnit Freshness brand now incorporates over 150 SKUs in the fruit and vegetable category as well as several dairy lines.

In December 2021, we opened a second test studio based on one of own large-format stores in Izhevsk, providing more opportunities to test out our PL products with customers. Magnit's first test studio was opened in 2020 in Krasnodar.

In 2022 we will continue to develop our PL offering by refreshing our brands. We will be investing in and updating the design of our key Magnit brand, as well as a redesign of our Lucky Days confectionary brand.
As we continue to broaden our portfolio, next year we also plan to launch new non-food brands: Sportour – goods for sports and outdoor activities, Wellfort – goods for the home, Wowplay – games and toys.

Longer term, we have set out ambitious targets to grow our PL business. In 2025 we aim for PL to account for 25% of our total sales, and our goal is to reach 100% core PL SKUs availability in all Magnit stores.

[1] PL – Private Label

Case Study: Private Label and Own Production (continued)

Own production

Our state-of-the-art, in-house production facilities underpin the development of the PL range by allowing us to adapt easily and quickly to evolving consumer tastes. Today, Magnit operates 13 industrial production and four agricultural complexes which produce a vast range of goods including vegetables, spices, cereal and frozen fish.

In 2021, Magnit's facilities produced 362,000 tonnes of produce, a 17% increase year-on-year.

The total area of Magnit-owned greenhouses is 113 hectares and annual production of agricultural products is 90,000 tonnes.

During 2021 concepts for more than five new projects were approved, including two facilities for growing berries and green crops, facilities for oyster mushroom production, coffee production and a ready meal factory. In 2022 construction of Russia's largest berry production facility will begin at the Krasnodar greenhouse complex. It will open in 2023 and be able to produce 1,229 tonnes of strawberries and 95 tonnes of blueberries per year.

Fast facts

25% of cucumbers, tomatoes and lettuce sold in Magnit stores are produced in our own greenhouses

85% of the mushrooms sold in Magnit stores are own production

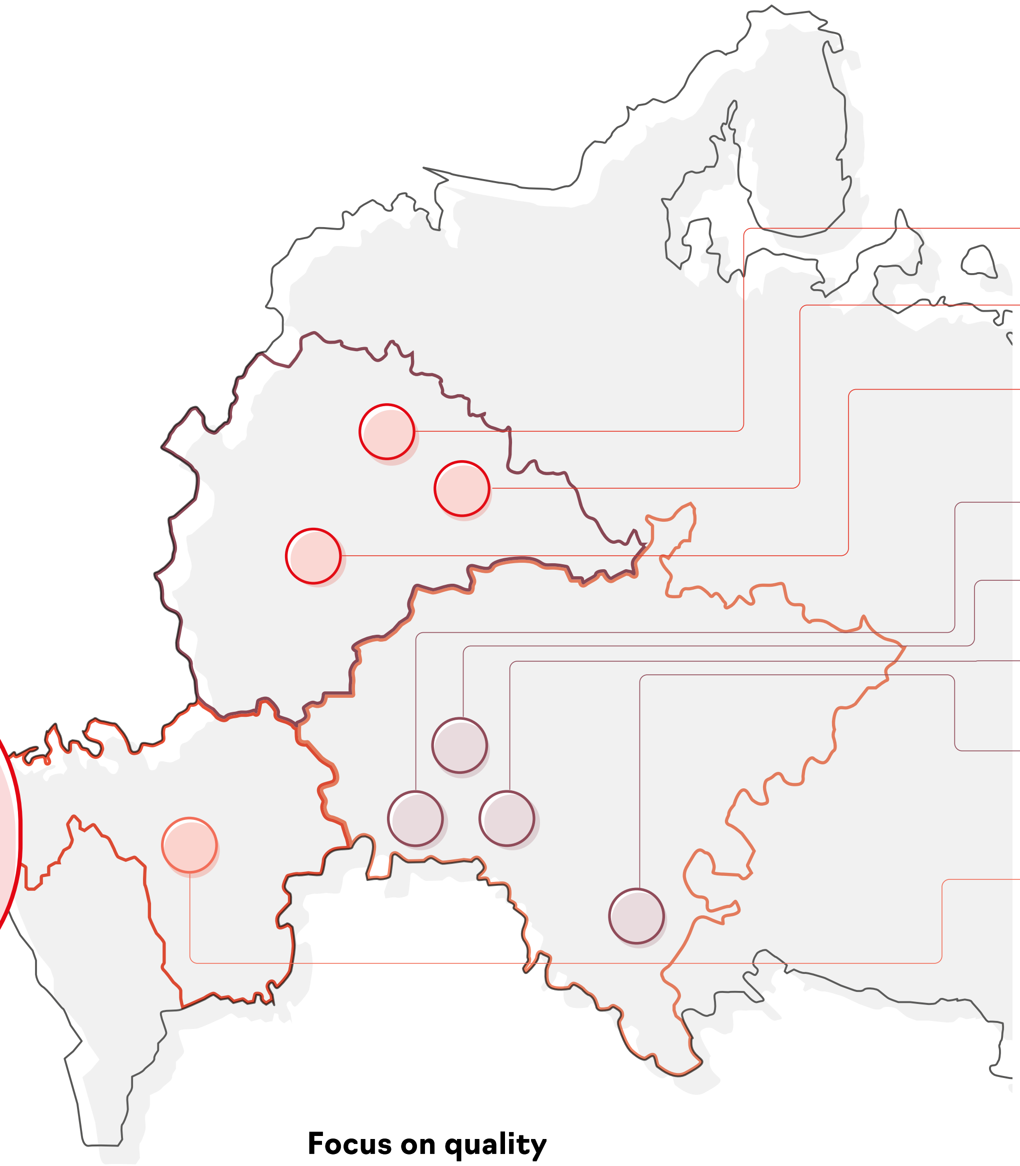
25% of sales of dried fruits and nuts in Magnit stores are Vostochny Guest PL brand

21% of pasta sales are Gusto Di Roma PL brand

Share of in-house production across different product types[1], %

Plum tomatoes	9
Cucumbers	15
Round tomatoes	22
Lettuce	29
Cherry tomatoes	55
Mushrooms	60

[1] Share in total sales in kg



CENTRAL FEDERAL DISTRICT

Tver region
- Tver separate division

Moscow region
- Cheese Slicing Facility Dmitrov JSC Tander

Lipetsk region
- Moskva na Donu LLC

VOLGA FEDERAL DISTRICT

Saratov region
- Saratov separate division

Penza region
- Cheese Slicing Facility Penza JSC Tander

Samara region
- Togliatti separate division

Republic of Bashkortostan
- Ufa separate division

SOUTHERN FEDERAL DISTRICT

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

Focus on quality

To maintain the high standards of our PL products, we carry out a range of quality assurance tests to ensure quality control throughout the production process, from raw materials to the finished product.

All production facilities are equipped with modern equipment with a high degree of automation. This allows us to ensure the production of quality products with minimum manual labour. All production facilities are constantly monitored online to maintain high quality levels throughout the production process. Our production complies with GOST R ISO 22000-2007 and the international Food Safety System Certification (FSSC) v.5.

In 2021, an innovative pilot scheme for vertical greenhouses was tested, implemented in cooperation with the Israeli company Vertical Field, a leading agri-tech company which develops urban farms. Magnit's first vertical greenhouse was opened next to the superstore in Krasnodar. Green crops such as lettuce, spinach and basil are successfully grown in the greenhouse – ensuring maximum freshness for customers.

Sustainability

As part of our commitment to sustainability, at least 50% of the packaging for PL and own production will be recyclable, reusable or compostable by 2025.

Case Study:
E-commerce

2021 highlights:

62,274 average number of orders per day*

RUB 11.2 bln 2021 online GMV

4,490 offline stores in 301 cities are covered by Magnit's e-commerce services

* in 4Q 2021

Developing strong omni-channel business to further enhance our CVP

Magnit has been piloting e-commerce services since the second half of 2020, with the online sales channel already demonstrating strong performance. The Company currently operates both its own delivery through the Magnit Dostavka (Magnit Delivery) app and delivery via partnerships with Yandex.Eda, Delivery Club, Sbermarket and Wildberries. Both food and non-food segments of Magnit are present online, covering all customer missions:

Grocery and drogerie
- Stock-up (2 hours+) — big ticket purchase
- Express (30 minutes) — everyday small purchases
- E-Pharma — current needs and regular purchases

Magnit's e-commerce services today cover 4,490 offline stores and 20 dark stores in 301 cities across 64 Russian regions, with 66% of the revenue generated outside Moscow and St. Petersburg.

The aim is to quickly capture opportunities in low-penetrated regional markets by converting Magnit's loyal customers into online, while getting new customer inflow in computerised Moscow & St. Petersburg markets. The Company plans to leverage existing infrastructure in the regions with strong physical presence. However, in Moscow and St. Petersburg, Magnit may continue opening dark stores to support brick-and-mortar presence to cover the cities with its delivery service.

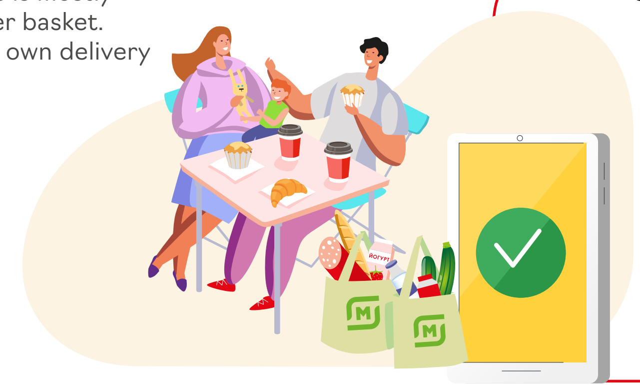
Performance

Our online sales channel is delivering strong results despite only recently launching in the second half of 2020.

In 2021, our e-commerce gross merchandise value (GMV) totalled RUB 11.2 bln.
By the end of December 2021, GMV of Magnit's e-commerce services exceeded 1% of total revenue, while for the full year of 2021 it stood at 0.6% of total revenue.

Over the course of the year, the average number of orders per day continued to grow steadily, reaching 62,274 in 4Q 2021 vs 3,959 the year before (15.7x growth).
On 30 December 2021, we reached a milestone of 100,000 orders per day, whilst in December 2020 the daily number of orders was only 7,000.

The average order value across all online services for 2021 was RUB 1,045 including VAT. This average order value is approximately 2.8x higher than the average ticket in the convenience stores (RUB 371). This is mostly due to a larger number of items per basket. The average ticket within Magnit's own delivery service was RUB 1,239.



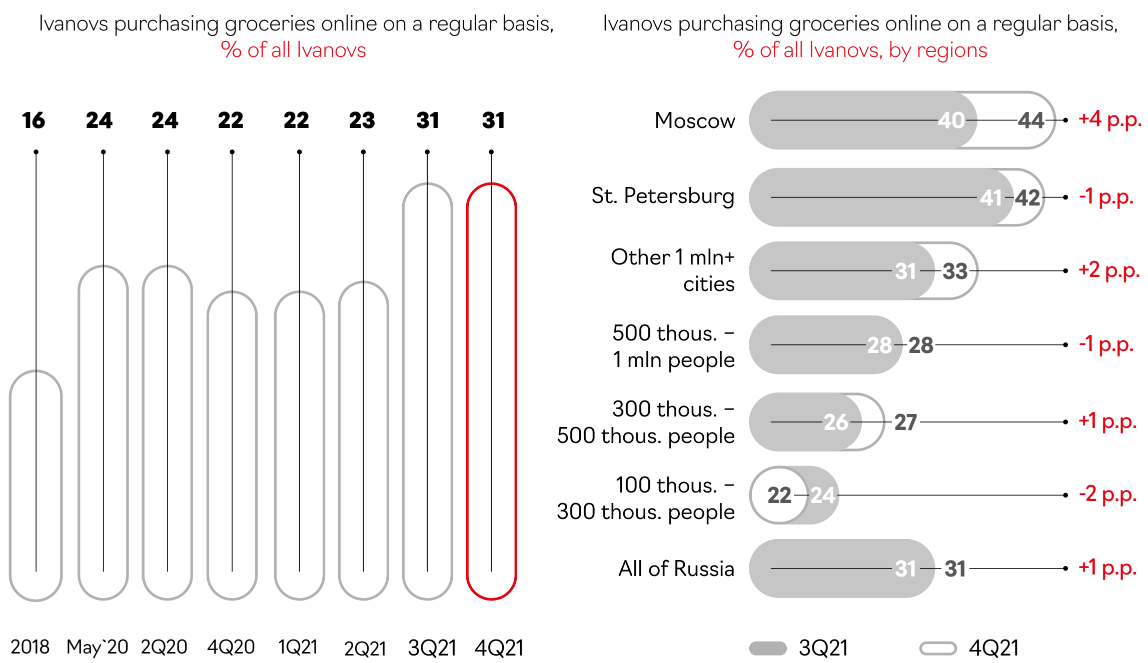
Key developments

During the year we continued to develop our partnerships and began working with Sbermarket and Wildberries, the largest online retailer in Russia, as we rolled out the joint delivery offering across Russian cities. In December 2021, we launched 30-minute express grocery delivery through Delivery Club, building on our previous delivery projects with the company. We also launched a new partnership with Uteka and Megapteka, a pharmacy products marketplaces, which made Magnit Pharmacy assortment available on a partner platform, successfully complementing our own e-pharma offering.

In 2021 we started opening dark stores throughout the country, which will further enhance our operational efficiency in e-commerce. These include our first pharmacy dark store, which operates as a click-and-collect pharmacy.

In July 2021, Magnit appointed Andrey Lukashevich as E-Commerce Director. He was responsible for shaping our e-commerce strategy and executing the roll-out of digital sales channels, establishing and developing the e-commerce infrastructure, and ensuring that the e-commerce business achieves its key financial targets. Andrey brought a wealth of experience in e-commerce, having previously held executive positions at Delivery Club, Mail.Ru Foodtech Ventures and Vezet taxi aggregator. On 12 April 2022 Andrey Lukashevich left the Company for family reasons.

Growing online grocery adoption in Russia, %



Note: May '20 refers to our special survey dedicated to the lockdown and spread of COVID-19

Source: Sber CIB Ivanov Consumer Confidence Tracker

Omni retail at the core of Magnit's future ecosystem

We aim to build an ecosystem of complementary services around the Magnit brand and our strong omni-channel core. The launch of our payment service Magnit Pay in December 2020 was an important step in this process, which represented the first stage in the development of an enhanced app centred around Magnit's loyalty programme.

Magnit Pay can be used to pay for purchases in any store – online and offline, within and beyond Magnit.

As at year-end 2021, the Company issued 7.5 million virtual payment cards. About 51% of holders use this service for purchases outside the Magnit ecosystem. Most often, virtual cards are used in grocery stores, as well as for payment for transport, subscription and delivery services.

Financial Review[1]

In 2021, Magnit maintained strong financial discipline across its operations. We upheld a return-based approach in opening new stores and refurbishing the existing ones. We've been rolling out e-commerce in a prudent way to avoid financial losses. We managed to increase both revenue and EBITDA margin boosting value for our shareholders.

I am delighted that having completed a relatively large deal – acquisition of Russia's fifth-largest food retailer Dixy – Magnit managed to keep leverage at a healthy level of 1.5x EBITDA with average cost of debt being low at 6.4%. Another big achievement for us has been the decrease of the working capital cycle by more than 7 days, which released RUB 18.3 bln of cash for the Company.

Dmitry Ivanov,
Chief Financial Officer

FY 2021 key financial highlights

Total revenue increased by

19.5%

YoY to RUB 1,856.1 bln. Total revenue adjusted for the Dixy acquisition increased by 10.8%

Net retail sales reached

RUB 1,808 bln

increasing 19.7% YoY. Net retail sales growth adjusted for the Dixy acquisition was 11.3%

Gross profit increased by

20.1%

YoY to RUB 439.2 bln with a margin of 23.7% as a result of better promotional margin, lower shrinkage and favourable format mix

Cash SG&A[2] increased by

25bps

to 17.8% due to higher advertising and other costs

EBITDA was

RUB 133.1 bln

with a 7.2% margin – an improvement of 13 bps YoY as a result of stronger gross margin but partially offset by Dixy consolidation

Net income increased by

36.8%

YoY to RUB 51.7 bln with a margin of 2.8% vs 2.4% a year ago

As of 31 December 2021 **Net Debt** was

RUB 197.0 bln

The Net Debt to EBITDA ratio was 1.5x

[1] The Company provides analysis of financial metrics using the IAS 17 approach in the current section of the report
[2] Selling, general and administrative expenses excluding depreciation and amortisation

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 FY 2021 increased by 19.5%. This growth was underpinned by net retail sales growth of 19.7% and wholesale revenue growth of 10.6%. Wholesale operations accounted for 2.6% of total sales.

Gross Profit in FY 2021 increased by 20.1% YoY to RUB 439.2 bln with a margin of 23.7%. An improvement of 13 bps YoY was a result of better promotional margin, lower shrinkage and favourable format mix.

The latter positively impacted gross margin, with the share of wholesale operations decreasing to 2.6% from 2.8% a year ago. Promotional intensity was slightly higher YoY driven by the dynamics of the 1H.

Transportation expenses were flat YoY and stood at 2.5% as a percentage of sales despite continued increase of on-shelf availability. This was due to higher productivity and utilisation at distribution centres, which offset the negative impact of the increased container shipping tariffs.

Alongside the growing share of fresh products, overall improvement of on-shelf availability and consolidation of the Dixy business, shrinkage as a proportion of sales decreased further by 20 bps YoY. This was driven by ongoing optimisation of supply chain processes, renegotiation of quality standards with suppliers and other initiatives.

FY 2021 Key Financial Results

	IAS 17			IFRS 16		
RUB mln	FY 2021	FY 2020	Change	FY 2021	FY 2020	Change
Total Revenue	**1,856,079**	1,553,777	19.5%	**1,856,079**	1,553,777	19.5%
Retail	**1,807,752**	1,510,071	19.7%	**1,807,752**	1,510,071	19.7%
Wholesale	**48,327**	43,707	10.6%	**48,327**	43,707	10.6%
Gross Profit	**439,238**	365,729	20.1%	**439,264**	365,756	20.1%
Gross Margin, %	**23.7%**	23.5%	13 bps	**23.7%**	23.5%	13 bps
SG&A, % of Sales	**–20.6%**	–20.5%	–17 bps	**–19.2%**	–19.1%	–15 bps
EBITDA pre-LTI[3]	**134,054**	110,264	21.6%	**215,132**	179,043	20.2%
EBITDA Margin pre-TI, %	**7.2%**	7.1%	13 bps	**11.6%**	11.5%	7 bps
EBITDA	**133,143**	109,410	21.7%	**214,220**	178,189	20.2%
EBITDA Margin, %	**7.2%**	7.0%	13 bps	**11.5%**	11.5%	7 bps
EBIT	**79,744**	63,493	25.6%	**108,897**	88,424	23.2%
EBIT Margin, %	**4.3%**	4.1%	21 bps	**5.9%**	5.7%	18 bps
Net Finance Costs	**–12,966**	–13,497	–3.9%	**–46,578**	–44,268	5.2%
FX Gain/ (Loss)	**302**	–1,310	–123.1%	**281**	–1,453	–119.3%
Profit before Tax	**67,081**	48,686	37.8%	**62,600**	42,703	46.6%
Taxes	**–15,387**	–10,905	41.1%	**–14,494**	–9,709	49.3%
Net Income	**51,694**	37,781	36.8%	**48,106**	32,993	45.8%
Net Income Margin, %	**2.8%**	2.4%	35 bps	**2.6%**	2.1%	47 bps

[3] LTI – Long-Term Incentive Programme

Financial Review
(continued)

Selling, General and Administrative Expenses (SG&A)

RUB mln	IAS 17 FY 2021	IAS 17 FY 2020	IAS 17 Change	IFRS 16 FY 2021	IFRS 16 FY 2020	IFRS 16 Change
Staff costs	**166,606**	139,886	19.1%	**166,606**	139,886	19.1%
as a % of sales	**9.0%**	9.0%	−3 bps	**9.0%**	9.0%	−3 bps
Rent	**80,834**	67,011	20.6%	**2,739**	1,429	91.7%
as a % of sales	**4.4%**	4.3%	4 bps	**0.1%**	0.1%	6 bps
Depreciation, amortisation & impairment	**53,399**	45,917	16.3%	**105,323**	89,765	17.3%
as a % of sales	**2.9%**	3.0%	−8 bps	**5.7%**	5.8%	−10 bps
Utilities & communication services	**34,252**	28,827	18.8%	**34,252**	28,827	18.8%
as a % of sales	**1.8%**	1.9%	−1 bps	**1.8%**	1.9%	−1 bps
Advertising	**11,475**	7,628	50.4%	**11,475**	7,628	50.4%
as a % of sales	**0.6%**	0.5%	13 bps	**0.6%**	0.5%	13 bps
Other expenses	**10,944**	7,265	50.6%	**10,907**	7,265	50.1%
as a % of sales	**0.6%**	0.5%	12 bps	**0.6%**	0.5%	12 bps
Bank Services	**9,022**	7,108	26.9%	**9,022**	7,108	26.9%
as a % of sales	**0.5%**	0.5%	3 bps	**0.5%**	0.5%	3 bps
Repair & maintenance	**8,216**	6,732	22.1%	**8,192**	6,732	21.7%
as a % of sales	**0.4%**	0.4%	1 bps	**0.4%**	0.4%	1 bps
Taxes, other than income tax	**2,944**	2,925	0.7%	**2,944**	2,925	0.7%
as a % of sales	**0.2%**	0.2%	−3 bps	**0.2%**	0.2%	−3 bps
Packaging & materials	**5,500**	4,861	13.1%	**5,500**	4,861	13.1%
as a % of sales	**0.3%**	0.3%	−2 bps	**0.3%**	0.3%	−2 bps
Total SG&A	**383,194**	318,159	20.4%	**356,962**	296,425	20.4%
as a % of sales	**20.6%**	20.5%	17 bps	**19.2%**	19.1%	15 bps
Cash SG&A (excl. D&A)	**329,795**	272,242	21.1%	**251,638**	206,660	21.8%
as a % of sales	**17.8%**	17.5%	25 bps	**13.6%**	13.3%	26 bps

NOTE: Please note that there may be small variations in calculation of totals, subtotals, and/or percentage change due to rounding of decimals.

SG&A costs increased by 17 bps YoY to 20.6% as a percentage of sales.

Cash SG&A expenses as a percentage of sales increased by 25 bps to 17.8% on higher advertising and other costs.

Advertising expenses increased by 13 bps YoY to 0.6% as a percentage of sales on higher marketing activities including digital marketing and loyalty campaigns.

Rental costs as a percentage of sales increased by 4 bps YoY to 4.4% driven by the consolidation of Dixy stores predominantly located in the Moscow and St. Petersburg regions with higher rent rates, acceleration of stores openings and, subsequently, a larger number of stores in the ramp-up period as well as a higher share of leased selling space. The share of leased selling space increased to 80.2% at the end of 2021 vs 78.0% a year ago. Despite the above-mentioned factors, rent expense of Magnit's standalone business decreased as a percentage of sales thanks to higher sales density, improved lease terms with landlords and the closure of inefficient stores.

Staff costs as a percentage of sales remained flat YoY at 9.0% (−3 bps YoY). Higher productivity of in-store personnel, ongoing automation of business processes partially offset additional pressure from new stores in the ramp-up phase and slightly higher staff rotation due to the pandemic last year.

Utilities, repair and maintenance, packaging and materials, bank and tax expenses remained broadly flat as a percentage of sales YoY.

Other costs increased by 12 bps YoY to 0.6% as a percentage of sales on higher advisory services, online order picking and delivery and software maintenance.

Other income and expense increased by 25 bps to 1.3% as a percentage of sales due to higher income from sales of packaging materials as well as advertising, rental and sublease income.

As a result, EBITDA was RUB 133.1 bln with a 7.2% margin – an improvement of 13 bps YoY. This was driven by gross margin dynamics partially offset by higher SG&A costs. LTI expenses in the reported period stood at 0.05% of sales – as a result, EBITDA margin pre-LTI was 7.2% (in line with the reported EBITDA).

Depreciation as a percentage of sales reduced by 8 bps YoY to 2.9% due to consolidation of the Dixy business with a lower share of depreciation as a percentage of sales as well as positive operating leverage effect.

As a result, operating profit in 2021 stood at RUB 79.7 bln with 4.3% EBIT margin.

Net finance costs in 2021 decreased by 3.9% and stood at RUB 13.0 bln. In the reporting period the Company increased its total debt by RUB 104.3 bln by obtaining long-term bank loans and bond issuance. These supported the Company's accelerated expansion and the acquisition of Dixy.

As a result, average cost of debt increased to 6.4% (33 bps YoY). 99.8% of the Company's debt profile is represented by long-term borrowings and bonds with an average maturity of 18 months.

Higher interest expense was offset by higher interest income compared to the previous year.

In 2021 the Company reported FX gain in the amount of RUB 0.3 bln related to direct import operations.

Income tax in 2021 was RUB 15.4 bln with effective tax rate of 22.9%.

As a result, net income in 2021 increased by 36.8% YoY and stood at RUB 51.7 bln. Net income margin increased by 35 bps YoY to 2.8%.

Financial Review
(continued)

Balance Sheet and Cash Flows

Inventories increased by RUB 18.9 bln (9.2%) compared with 31 December 2020 and stood at RUB 225 bln on the back of total sales growth of 19.5%. Adjusted for the Dixy acquisition, inventories of Magnit's standalone business reduced substantially. This was driven by a number of ongoing projects, including the reduction of slow-moving items, assortment harmonisation and IT solutions that are aimed at better on-shelf availability and promotion forecasting.

Trade and other payables grew by RUB 56.4 bln compared with 31 December 2020 and stood at RUB 240.8 bln, driven by higher sales and increased payment days. Accounts receivable increased by RUB 3.2 bln vs 31 December 2020 and stood at RUB 11.7 bln due to higher sales and improved commercial terms with suppliers.

As a result, working capital as of 31 December 2021 turned negative with the cash release of RUB 18.3 bln. Negative working capital was achieved for both the standalone Magnit and Dixy businesses.

Financial Position Highlights (IFRS 16)

RUB mln	31 Dec 2021	31 Dec 2020
Non-current assets	**889,346**	**678,461**
Inventories	224,873	205,949
Trade and other receivables	11,727	8,564
Cash and cash equivalents	73,399	44,700
Other current assets	10,100	7,718
Assets	**1,209,444**	**945,392**
Equity	**178,985**	**182,889**
Long-term loans and borrowings	205,287	147,695
Other long-term liabilities	410,132	330,535
Trade and other payables	240,771	184,325
Short-term loans and borrowings	65,139	18,392
Other short-term liabilities	109,129	81,557
Equity and liabilities	**1,209,444**	**945,392**

Debt Composition and Leverage

As at 31 December 2021 Gross Debt increased by RUB 104.3 bln or 62.8% compared to 31 December 2020 and stood at RUB 270.4 bln. The Company's cash position increased to RUB 73.4 bln as at 31 December 2021 from RUB 44.7 bln as at 31 December 2020. As a result, Net Debt increased by 62.3% YoY to RUB 197.0 bln as at 31 December 2021.

Debt Composition and Leverage

	31 Dec 2021	30 June 2021	31 Dec 2020
IAS 17			
Total Debt, RUB bln	270.4	265.5	166.1
Long-Term Debt	205.3	222.9	147.7
Short-Term Debt	65.1	42.6	18.4
Net Debt, RUB bln	197.0	136.1	121.4
Net Debt/EBITDA	1.5x	1.2x	1.1x
IFRS 16			
Net Debt, RUB bln	653.3	498.9	479.0
Net Debt/EBITDA	3.0x	2.7x	2.7x

The Company's debt is fully RUB-denominated, matching its revenue structure. The Net Debt to EBITDA ratio was 1.5x as at 31 December 2021 vs 1.1x as at 31 December 2020.

Cash Flow Statement for 2021

	IAS 17			IFRS 16		
RUB mln	12M 2021	12M 2020	Change	12M 2021	12M 2020	Change
Operating cash flows before working capital changes	136,443	109,930	24.1%	215,359	175,540	22.7%
Changes in working capital	18,298	30,217	−39.4%	18,499	30,580	−39.5%
Net interest expense and income tax paid	−30,776	−25,738	19.6%	-64,388	−56,509	13.9%
Net cash from operating activities	123,965	114,409	8.4%	169,470	149,611	13.3%
Net cash used in investing activities	−127,903	−29,533	333.1%	−126,689	−29,020	336.6%
Net cash generated / (used) from/(in) financing activities	32,638	−49,077	−166.5%	−14,082	−84,793	−83.4%
Net cash increase / (decrease)	28,699	35,798	−19.8%	28,699	35,798	−19.8%

Cash Flow Statement for 2021

The Company's cash flows from operating activities before changes in working capital in 2021 equalled to RUB 136.4 bln, which was RUB 26.5 bln or 24.1% higher YoY. The change in working capital continued to improve and stood at RUB 18.3 bln compared to RUB 30.2 bln in 2020 as a result of higher YoY trade and other payables partially offset by higher inventories.

Net interest expense and income tax paid in 2021 increased by RUB 5.0 bln or 19.6% to RUB 30.8 bln. Net interest expenses decreased by 0.7% YoY to RUB 12.6 bln in 2021 due to higher average amount of cash on bank accounts during the reported period. Income tax paid for 2021 increased by 39.2% to RUB 18.2 bln.

With this net cash flow from operating activities in 2021 increased by 8.4% to RUB 124.0 bln as a result of higher EBITDA and positive movement of working capital.

Net cash used in investing activities predominantly composed of capital expenditures increased by 333.1% to RUB 127.9 bln in 2021 due to acceleration of expansion and redesign programmes as well as the Dixy acquisition.

Capital expenditure for the full year of 2021 almost doubled and stood at RUB 66.9 bln, compared with RUB 32.1 bln in 2020. This increase was driven by almost twofold acceleration of the Group's expansion and store redesign programme (2,295 store openings on gross basis including Dixy and 703 redesigns (Magnit only) in 2021 vs 1,292 and 385 respectively in 2020).

In 2021 net cash generated from financing activities was RUB 32.6 bln vs RUB 49.1 bln used in 2020. In 2021 the Company paid dividends in the total amount of RUB 48.1 bln[1].

As a result of the factors mentioned above net cash position in 2021 increased by RUB 28.7 bln to RUB 73.4 bln as of 31 December 2021.

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

Key Performance Indicators

LFL sales

Significance

Like-for-like sales is the best barometer of how well we adjust to consumer needs. If we continually innovate and improve our customer value proposition, people will ultimately choose to spend more at Magnit stores.

Measurement

LFL calculation base includes stores that have been operating for 12 months since the first day of sales. LFL sales growth is calculated based on sales turnover including VAT.

2021 results

LFL sales

+7.0% YoY

Earnings (EBITDA)

Significance

Our strategy implies not just growth at any cost, but rather profitable growth that creates long-term value for Magnit stakeholders.

Measurement

EBITDA (earnings before interest, taxes, depreciation and amortisation) is a basic metric for earnings that is neutral to the company's capital structure and methods of amortisation. EBITDA is a non-audited metric under IFRS, it is calculated by the Company.

2021 results

EBITDA

+21.7% YoY

EBITDA margin

+13 bps YoY

Return on invested capital

Significance

Return on invested capital (ROIC) measures how efficiently Magnit invests in projects such as opening new stores or production facilities. The Company is creating value if its ROIC exceeds its weighted average cost of capital, comprised of net debt and equity.

Measurement

We calculate ROIC as earnings before interest and taxes less income tax divided by the sum of average net debt and average equity.

2021 results

ROIC reached 16.5%

+265 bps YoY

Inventory turnover

Significance

Managing inventory turnover is the key element of retail business. We buy goods from suppliers and sell them to customers as soon as possible to operate efficiently. Having inventories that are either too high or too low can result in losses for the business.

Measurement

Working Capital Cycle shows the average number of days it takes to sell goods purchased from suppliers to Magnit customers.

2021 results

Decrease in the working capital cycle was

>7 days YoY

which released

RUB 18.3 bln

of cash for Magnit

NOTE: ALL FINANCIAL METRICS ARE PROVIDED IN ACCORDANCE WITH IAS 17 STANDARD.

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[1]
- 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.

[1] Approved by the decision of the Board of Directors on 12 December 2019 (Minutes w/o of 13 December 2019).

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[2] 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.

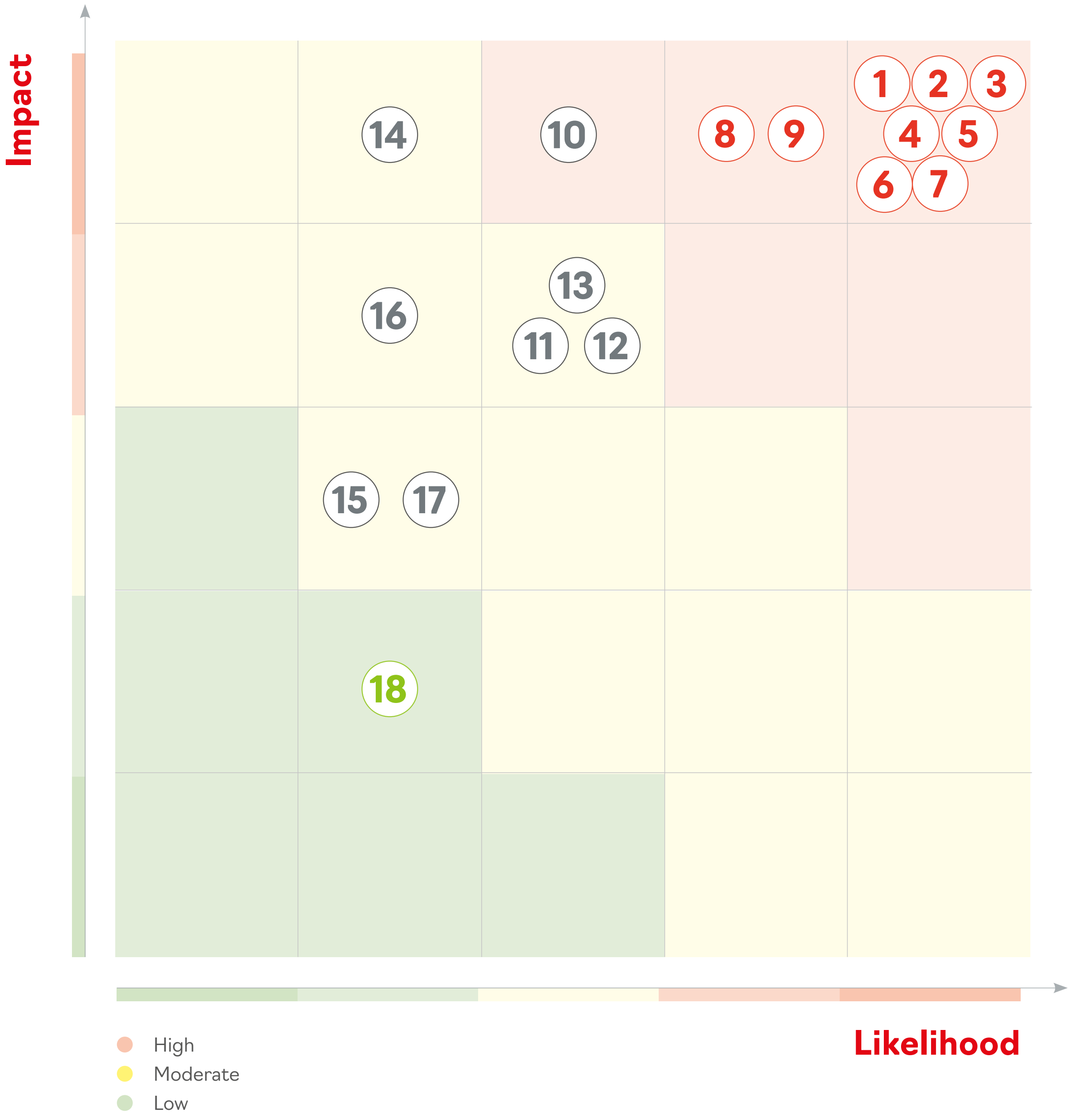
[2] Within the organisational structure of JSC Tander – main operational company

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.

Risk map



Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
1	**Risk of deterioration of socio-economic and political conditions** — deterioration of macroeconomic factors (high level of inflation, high exchange rate volatility and rouble 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. **Type of risk:** strategic **Source of risk:** external **Impact:** all parameters	— 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.	5	5
2	**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. **Type of risk:** operational **Source of risk:** internal and external **Impact:** all parameters	— search for alternative contractors from the countries not subject to sanctions — readjustment of logistics chains — search for and development of Russian suppliers.	5	5
3	**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. **Type of risk:** strategic **Source of risk:** internal and external **Impact:** strategy execution, revenue, EBITDA	— adjustment of the transformation project — collective decision-making — hiring external consultants to speed up and optimise the processes.	5	5

Risk Management
(continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
4	**Risks of adverse regulatory changes** — nationalisation of the Company — strengthening of the currency control — introduction of price regulation by the government — limiting of trade margins growth — EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations — increase in the cost of environmental charges — restriction on the use of packaging/packages, other types of packaging within own production and private label in the sales areas — government approval of distance selling of alcohol — additional regulation of shelves and layout — introduction of quotas on the supply of key consumer basket goods to retail chains — more complicated procedures for licensing and obtaining permits from external regulatory bodies — possible introduction of new licenses and permits. **Type of risk:** regulatory **Source of risk:** external **Impact:** 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, and technical documents — the government eases regulation in a number of areas, which is a supporting factor for business operation.	5	5
5	**Restriction / suspension of work of foreign software / services:** — suspension / termination of cooperation with some IT partners — difficulty of quick replacement of software and services. **Type of risk:** operational **Source of risk:** external **Impact:** all parameters	— search for alternative vendors.	5	5
6	**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, and propagation of virus software. **Type of risk:** operational **Source of risk:** internal and external **Impact:** 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 — additional investments in the development of information technologies.	5	5

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
7	**Risks associated with IT infrastructure support** — increased business requirements to IT systems, provision of the speed and quality of the relevant information — increased requirements to prompt search of defects and their liquidation in the information management systems providing an adverse impact on the operations — lack of IT staff with the necessary qualifications. **Type of risk:** operational **Source of risk:** internal **Impact:** revenue, EBITDA	— 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.	5	5
8	**Risks of increased competition** — development of e-commerce / marketplace / ecosystems — introduction of new players specialising in a particular offer and closing needs (hard discounters, alcoholic beverage stores, etc.) — monopolisation of the market in a number of product categories by the largest manufacturers — increase in price pressure — traffic outflow. **Type of risk:** strategic **Source of risk:** external **Impact:** revenue	— development of own e-commerce — launch of price projects — launch of the new format of Moya Tsena 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.	4	5
9	**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	— 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.	4	5

Risk Management (continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
10	**Risk of absence and recruitment of personnel** — significant increase of compensation payments and benefits in the labour market for high-demand professions — reduction of migration flows to the Russian Federation — abandonment of outsourcing and introduction of additional workload for employees — lack of IT specialists in the labour market — remote employment opportunity. **Type of risk:** operational **Source of risk:** internal and external **Impact:** revenue, EBITDA	— 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
11	**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. **Type of risk:** operational **Source of risk:** internal **Impact:** all parameters	— 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
12	**Risks in the field of industrial safety, occupational health and environment** — fires, smoke, ignitions — occurrence of accidents, impact of natural factors — occupational injuries — violation of occupational and fire safety standards and regulations by the Company's employees and contractors — intensification of the negative epidemiological situation, spread of COVID-19. **Type of risk:** operational **Source of risk:** internal and external **Impact:** 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 — maintainance 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, Fire Safety Policy of the Magnit Group — insurance of facilities against force majeure factors — vaccination, revaccination, transfer of employees to remote work.	3	4
13	**Risks of making poor investment decisions** — return on investment of new stores and reconstructions is below the WACC — growth of the number of unprofitable stores — excess CAPEX per facility (excess requirements, excessive standards, low-quality construction and installation works). **Type of risk:** strategic **Source of risk:** internal and external **Impact:** 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.	3	4
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. **Type of risk:** operational **Source of risk:** internal **Impact:** revenue, EBITDA, LFL	— 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 legislation for the prompt adjustment of internal quality control technologies of the goods sold and produced — audit of stores, own production facilities and distribution centers, including remote monitoring — processing and analysis of inquiries (customers, stores and distribution centres, regulatory authorities, media and nonprofit organisations).	2	5
15	**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 (occurrence) of new variants ("omicron") of COVID-19, the rate of infection among employees is likely to increase. **Type of risk:** operational **Source of risk:** external and internal **Impact:** 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 — vaccination and revaccination — disinfection of premises — performance of labour functions by employees working remotely.	2	3

Risk Management
(continued)

Risks description

№	Risks and factors	Risk management	Likelihood YoY change	Impact YoY change
16	**Reputation risk** — incidents causing significant damage to customers' health, various violations of laws and other regulations — 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. **Type of risk:** strategic **Source of risk:** internal and external **Impact:** all parameters	— 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** — making amendments to or supplementing 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. **Type of risk:** regulatory **Source of risk:** external **Impact:** 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.	2	3
18	**Climate-related risks** — 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) — transitional climate-related risks (risks and their factors associated with the transition to a low-carbon economy). **Type of risk:** regulatory **Source of risk:** external **Impact:** all parameters	— 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-relarted 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

Sustainable
Development

Jan Dunning,
Chairman of the Sustainability Steering Committee

Dear stakeholders,

As Russia's No. 1 retailer by the number of stores and geographic outreach, we feel not only obliged to retain and strengthen our market leadership, but also responsible for the Company's sustainable development and its contribution to sectoral and social sustainability. That is why our annual report focuses on the key results achieved by the Company as part of its ESG Strategy goals for 2025.

Striving to become a leading Russian retailer in sustainability, Magnit has set ambitious goals that include leadership in the environmental impact reduction in the retail sector, having positive impact on the quality of life of the Russian consumers, becoming a number one employer in the industry, as well as creating a 100% responsible supply chain and the "best in class" Corporate Governance.

As part of the ESG Strategy, we set out a variety of quantitative and qualitative targets in environmental stewardship, sustainable sourcing, employees, communities, and health and wellbeing.

Our commitment to sustainability goes far beyond the topics that are of material significance for Magnit and its immediate stakeholders. As part of our ESG Strategy, we strive to contribute to all UN Sustainable Development Goals (SDGs), while also placing a particular emphasis on the following: Zero Hunger (SDG 2), Decent Work and Economic Growth (SDG 8), Responsible Consumption and Production (SDG 12), and Climate Action (SDG 13).

There is no doubt that it will take us some time to deliver on our strategic goals in the selected areas, but we take pride in the progress made against the Strategy and are happy to present the interim results achieved by Magnit's sustainability team in 2021.

In the reporting year, we focused on programmes designed to promote healthy lifestyles, collection and processing of waste, and creation of a sustainable sourcing system. We also continued our efforts to reduce direct and indirect GHG emissions by buckling down to the renewal and gradual transformation of Magnit's car fleet and boosting energy efficiency across the Company.

Our sustainability pursuits in 2021 helped Magnit improve its positions in a variety of ESG ratings. The Company's ambition to become the best employer in the Russian retail sector was endorsed by the platinum award given by Forbes and KPMG to recognise Russia's top employers in terms of their ESG record.

The Russian National Rating Agency called Magnit the leader of ESG integration among Russian non-financial public companies in retail, thus acknowledging our progress in corporate governance, assurance of product quality and safety, carbon footprint reduction, and development of staff relations.

With the acquisition of Dixy in 2021, Magnit experienced a major change in its corporate structure. We seek to fully integrate Magnit's sustainability principles into the business processes of Dixy, while also fine-tuning the company's current business practices.

Our ESG achievements would have been impossible without the concerted efforts of Magnit's team, suppliers and partners. I would like to take this opportunity to thank each stakeholder for their significant contribution to Magnit's sustainability efforts.

Despite all the accomplishments so far, we still have a lot of ambitious goals ahead. They are mostly about integrating ESG principles into all our business processes and operations.

Overview

In 2020, focused on issues that matter most to its stakeholders, Magnit set its sustainability strategy goals for 2025. Now in its second year, the Company has made considerable progress across its five priorities, fine-tuning its work to drive even greater improvements across environmental and social goals.

Magnit changed gears in 2021, growing significantly through a major acquisition, launching numerous stores and new formats, and building the e-commerce business. This was achieved against a continued backdrop of uncertainty around the COVID-19 pandemic and supporting customers and employees to a 'return to normal'.

At the heart of this is a strong commitment to grow the business sustainably and continue to reduce the Company's impacts.

Key highlights for 2021

72 %
employee satisfaction

8 thous.
volunteers/events[1]

16 %
increase in purchases from local suppliers

27 %
of private label sales falls on healthy lifestyle products

>99 %
of the total volume of plastic generated in the distribution centres is sent for recycling

8 %
decrease in specific electricity consumption (kWh/mln RUR) since 2019

19 %
reduction of specific GHG emissions (t CO_2 eq/mln RUR) since 2019

RUB 641 mln
allocated for social and charity projects

[1] The indicator is calculated based on the number of volunteers divided by the number of events, since it is currently not possible to calculate the absolute number of volunteers

Interaction with stakeholders

While improving Magnit's sustainability management and reporting, we consider the views of all stakeholder groups. We determine the most important issues to enhance communication and develop engagement with our stakeholders on these issues.

Magnit engages in an open dialogue with all stakeholder groups, both internal, such as employees and shareholders, and external, such as suppliers and customers. The Company's interaction with stakeholders is built on the principles of respect for stakeholders, transparency, regularity, and compliance with obligations.

Read more about our stakeholder engagement on p. 112.

Sustainable Development (continued)

Sustainability Strategy

Magnit's sustainability 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 outlined 5 key areas and sets quantitative and qualitative targets for 2025:

Our goals for 2020-2025
2021 Indicators

Environmental Stewardship

To be a **Leader** in environmental impact reduction in the industry

— CO_2 emissions
— Packaging waste
— Food waste
— Energy and water use

6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

50% Private labels and own production packaging be recyclable, reusable or compostable

100% Recyclable plastics in own operations are recovered and recycled

50% Food waste reduction

30% Greenhouse gas emissions reduction

25% Water and energy consumption reduction

Private label (24.5% of the total number of SKU was checked):
25% of packaging is recyclable,
36% – partially recyclable

Own production: 30% of packaging is recyclable,
44% – partially recyclable

>99% of plastic packaging generated during shipping activities was recycled in 2021

Reduction by 46% of specific food waste generation (167.66 kg/mln RUR) since 2019

Reduction by 8% in specific electricity consumption (1,825.6 kWh/mln RUR) since 2019

Reduction by 19% (2.37 t CO_2 eq/mln RUR) of specific greenhouse gas emissions (scope 1 and 2) since 2019

Sustainable Sourcing

To strive towards a **100%** responsible supply chain

— Products and raw materials from responsible sources
— Best local products
— Food and non-food safety
— Responsible own agriculture and production
— Private labels
— Green marketing

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
17 PARTNERSHIPS FOR THE GOALS

100% Responsible sourcing for socially important categories

100% Responsible own production and agriculture

Partnership
Programmes for local suppliers & farmers

Development of a pilot project for ESG certification of suppliers of socially important goods

The Company obtained certification for the compliance with the international food safety management system according to FSSC 22000-2018 standards

Launch of the initiative to switch private label goods to eco-friendly packaging

Opening of the first vertical ecological greenhouse

Magnit received more than 100 awards for the quality of its own production in various quality competitions in 2021

Increased by 16% the total volume of purchases from local suppliers

Employees

To be the **#1** employer in the industry

— Fair, safe and rewarding workplace
— Training and development

8 DECENT WORK AND ECONOMIC GROWTH

70% Rate of employee satisfaction

50% Injury rate reduction and zero fatalities

40% Turnover rate

72%

0.91 Injury rate (per 1,000 employees)

53%

Communities

To make a **Positive** impact on the quality of life of all Russians

— Corporate volunteering
— Emergency help
— Charity

2 ZERO HUNGER
8 DECENT WORK AND ECONOMIC GROWTH
17 PARTNERSHIPS FOR THE GOALS

10% Employee volunteers

Community Programmes for all the regions of the Company's presence

2.5%

In 2021, all 67 regions of the Company's presence regions were covered with social projects

Health & Wellbeing

To **Improve** the quality of life for consumers and local communities

— Promoting healthy lifestyle: nutrition and sports
— Availability of health-related services and products

2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING

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

Healthy food
Related products are available to all of consumers

Implementation of new partnership projects aimed at promoting healthy lifestyles, as well as active development of own initiatives, led to the increase of consumers' coverage across the country

The number of Health Cubes in the supermarkets has reached 228, while the category's popularity has increased by 9%

Revenue of RUB 41,487 mln from Magnit's healthy lifestyle private label products, which accounts fo 27% of private label sales

Sustainable Development
(continued)

Fuel consumption by the Group's enterprises in 2018–2021[1]

Fuel types	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	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	-	215,820,780	-	191,462,410	-	150,276,040	-
Gasoline, l	12,645,506	-	13,168,980	-	13,123,330	-	15,519,030	-

Fuel consumption by the Group's enterprises in 2018–2021, RUB mln[1]

Fuel types	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	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	-	7,713.4	-	6,649.1	-	5,781.9	-
Gasoline	433.3	-	472.7	-	460.3	-	557.5	-

Energy consumption by the Group's enterprises in 2018–2021[1]

Type of energy resource	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	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	1,201,925	469	1,232,174	561	1,369,486	462
Electricity, KW per hour	,564,578,505	217,587	2,725,130,567	241,101	2,839,098,541	266,604	3,155,928,433	202,163
Natural gas, cbm	170,739,126	24,903	234,939,230	18,937	187,787,159	29,386	216,570,229	23,442

Energy expenditures by the Group's enterprises in 2018–2021, RUB mln[1]

Type of energy resource	2018		2019		2020		2021	
	All companies of the Group	Magnit PJSC	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	2,083.3	0.8	2,201.4	1.0	2,537.8	0.8
Electricity	13,762.9	1.1	15,066.8	1.4	17,295.9	1.6	19,043.3	1.3
Natural gas	1,067.8	0.2	1,548.3	0.1	1,229.1	0.2	1,443.5	0.1

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

[1] Excluding Dixy.
Data for 2019 and 2020 differ from the data in the 2019 Annual Report due to improved data collection.

Chairman's Review

Dear shareholders,

In 2021 we continued to improve our corporate governance systems, responding to queries and concerns raised by shareholders.

The continued rapid growth of Magnit prompted us to reevaluate our Board in order to make sure we have a broad range of skills and knowledge needed to support our growth ambitions, whilst ensuring greater diversity. The new edition of the Articles of Association stipulates an increase in the size of the Board of Directors from nine to eleven members. As a result, and after shareholder approval, the Board was extended, with seven out of eleven members having served on the Board in the last Board cycle.

We welcome four new Board members including Sergey Zakharov, Pierre-Laurent Wetli, Vsevolod Rozanov as well as our first female Board member, Naira Adamyan, supporting our gender diversity principles.

The strengthened Board composition increases the number of independent directors, making the Company's approach significantly ahead of current Russian practices. I would like to take this opportunity to thank our former Board members, Evgeny Kuznetsov and Gregor Mowat, for their contribution to Magnit.

Following the Board changes, the members of Committees of the Board of Directors were reformed to best reflect relevant professional experience and knowledge. The Committees continue to be headed by Non-Executive Directors and consist of only Independent Directors. Towards the end of the year, we also published a new edition of the Regulations on Committees of the Board of Directors. The changes are part of Magnit's continuous development of a strong corporate governance system complying with Russian and international best practices.

In parallel, we strengthened the Management Board from nine to 13 members, in line with the Company's strategic priorities and development in the retail market. New appointments to the Management Board in 2021 include Francesco Fiamingo (Commercial Director for Formats and Dry/Non-Food), Pavel Lokshin (Chief Marketing Officer), Andrey Lukashevich (Director for E-Commerce), Yuri Misnik (Chief Digital and Technology Officer) and Egor Shumilin (Commercial Director for Fresh / Ultra Fresh and Regions). We also welcomed Fedor Pavlovsky as Chief Supply Chain and Logistics Officer.

We continued to develop our long-term and short-term incentive (LTI & STI) programmes to ensure an optimal and fair method of motivation and compensation for top management, adding new members to the LTI and setting KPIs for the STI against which performance was evaluated in 2021.

In April 2021 we published our second sustainability report, presenting our progress on commitments to 2025. Now in its third year, our Sustainability Strategy is fully embedded in Magnit's day-to-day operations, underpinning many of our non-financial KPIs and long-term environmental and social aspirations. Led by our President and CEO, Jan Dunning, our sustainability approach is supporting the Company's corporate governance.

The Board is committed to maintaining open and constructive dialogue with investors and responding to any concerns raised. A major outcome of our interactions in 2021 highlighted dissatisfaction with non-audit fees for consultancy work being charged by our auditors, E&Y, which were higher than audit-related fees in 2020.

In response, we engaged independent consultants to investigate the reasons for these concerns and to provide recommendations. The result of this exercise is the creation of the Audit Fees Policy which oversees the approval process for services provided to Magnit by the Company's external auditors and assures auditors' independence.

The Audit Fees Policy stipulates that Magnit will limit the total fees for non-audit services in a calendar year to an amount not exceeding 50% of the total fees for the audit and audit-related services in the relevant year with effect from 1 January 2022.

We maintained a high level of engagement throughout the year, holding virtual and face-to-face meetings, as well as issuing regular announcements as part of increased intensity of activity at Magnit as we pursue our strategy. A milestone in our development was the acquisition of Dixy, which strengthens our market position in the Moscow and St. Petersburg regions in particular. We also reviewed our Company Policies, updating them to maintain the latest standards; these are available on the Company's website.

We continue our work in strengthening our corporate governance and endeavour to comply with the UK Corporate Governance Code. We are continuing to build a sustainable business in line with the best corporate governance practices and look forward to updating our shareholders with details on ongoing improvements.

Charles Ryan

Chairman of the Board of Directors

Board of Directors

The Annual General Meeting of shareholders of Magnit on 10 June 2021 approved changes to the Company's Articles of Association increasing the size of the Board of Directors from 9 to 11 people. The Extraordinary General Meeting of shareholders of Magnit on 9 September 2021 elected the first Board comprised of 11 people, as follows:

Full composition of the Board of Directors

Status	Name	Key experience	Citizenship	Born
Independent	Naira Adamyan	Sanofi (consumer goods)	Russia	1961
	Walter Koch	Management consulting	Germany	1962
	Vsevolod Rozanov	Sistema PJSFC (finance)	Russia	1971
	Charles Ryan	UFG Asset Management	USA	1967
	James Simmons	Mazovia Capital (finance)	USA	1978
	Pierre-Laurent Wetli	Consulting (ex-Bain)	Switzerland	1976
Non-executive	Tim Demchenko	VTB Capital	UK	1973
	Alexey Makhnev	VTB Capital	Russia	1976
	Alexander Vinokurov	Marathon Group	Russia	1982
	Sergey Zakharov	Marathon Group	Russia	1980
Executive	Jan Dunning	Magnit President and CEO	Netherlands	1959

Independent   Non-executive   Executive

Members of the Board of Directors

Charles Ryan,
Chairman of the Board of Directors

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 privatisation programme for industry and real estate. In 1994, Mr. Ryan co-founded the United Financial Group, an independent investment bank in Moscow.

In 2005, when Deutsche Bank acquired 100% of UFG's investment banking business, Mr. Ryan was appointed 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.

Naira Adamyan,
Member of the Board of Directors

Naira Adamyan is a physician by training with a PhD in immunology and began her career in 1997 at Janssen Russia & CIS (the pharmaceutical division of Johnson and Johnson).

Over the following 18 years she held various leadership positions within the Group with increased responsibilities, including Managing Director Janssen Russia & CIS, General Manager Johnson & Johnson LLC and Board member of EMEA region at Janssen.

In 2015, Ms. Adamyan joined Sanofi as Country Chair of Russia and General Manager of Eurasia. She was later appointed Head of Eurasia, Middle East, before becoming Head of Strategy and Innovation in 2020. Naira was Chair of the Board of Directors of AIPM (Association of more than 60 Pharma companies) and co-Chaired InPharma (association of 14 research-based global Pharma companies). She was also a Board Member of the American Chamber of Commerce. Ms. Adamyan received the EY Business Women Russia 2015 award and is listed in RBC's Top 25 CEO Women of Russian Business.

Board of Directors (continued)

Members of the Board of Directors

Tim Demchenko,
Member of the Board of Directors

Tim Demchenko has over twenty years of international private equity and corporate investment experience. Based in London, Tim has worked for global technology companies (Siemens, IBM) and international investment banks.

Tim has served as a Board Director on multiple private and public companies helping to steer companies development and expansion strategy, operational performance optimization and corporate governance.

Tim holds a Masters in Finance degree from London Business School and completed executive courses at Harvard Business School.

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

Jan Dunning joined Magnit in January 2019 as President and Member of the Management Board. After joining the Board of Directors in May 2019, Jan was elected Chief Executive Officer in June 2019. Prior to joining Magnit, Jan spent over 25 years in the retail industry working in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance. In 2011–2018, Jan worked as the Chief Executive Officer of Lenta.

Previously, he served as the 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 the General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North.

Walter Koch,
Member of the Board of Directors

Since 1999 Walter Koch has held senior positions at some of the largest European home appliance manufacturers such as AEG and Electrolux, being in charge of Logistics, SCM and After Sales Service.

During 2007 to 2010 Walter 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.

Currently, Walter owns and operates an independent consulting firm and in May 2019 he got elected as an Independent Director of PJSC Magnit, Russia.

Alexey Makhnev,
Member of the Board of Directors

Alexey Makhnev has over two decades of expertise and experience within the Russian consumer and retail sector. In 2006, Mr. Makhnev was a lead member of the Deutsche Bank investment banking team that carried out Magnit's IPO. For six years from 2009 to 2015 Mr. Makhnev served on Magnit's Board of Directors.

Over the past twenty years, Mr. Makhnev has worked on a large number of consumer and retail transactions in Russia and the CIS, including Magnit, Lenta, Okey, Dixy, Mvideo, LSR, Etalon, PIK, and Rusagro.

Vsevolod Rozanov,
Member of the Board of Directors

Vsevolod Rozanov began his career at Bain & Company in 1993. In 2002, he moved on to join the leading Russian public investment company Sistema, holding CFO roles consecutively at MTU-Inform, Comstar UTS and MTS JSC. In 2008, he became CEO of Sistema's Indian greenfield telecom venture, SSTL (under the MTS India brand).

In 2013, Mr. Rozanov moved back to Moscow to become Sistema Group's CFO.

From 2018 to 2021 he was Managing Partner in charge of Sistema's financial assets as well as the South Asian businesses. He has served as a board member at various companies within the Sistema Group (telecom, banking, pulp & paper, etc.)

He currently serves as the Chairman of the Board of Directors of Sistema Capital, as well as member of the boards of MTS Bank, Fortenova Grupa and Volga-Dnepr Logistics B.V.

Board of Directors
(continued)

Members of the Board of Directors

James Simmons,
Deputy Chairman of the Board of Directors

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 has an MBA from Harvard Business School, where he was a Baker Scholar.

Alexander Vinokurov,
Member of the Board of Directors

Alexander Vinokurov began his career in 2004 with the investment banking division of Morgan Stanley (London).

In 2006, he returned to Russia as Vice President of TPG Capital, co-founding the company's Russian office.

In 2011, Mr. Vinokurov 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, he became CEO of A1, Alfa Group's investment arm specialising in the acquisition of the assets that are undervalued due to challenging economic situations.

In May 2017, Mr. Vinokurov left his post as President of A1 to co-found Marathon Group.

Pierre-Laurent Wetli,
Member of the Board of Directors

Pierre-Laurent Wetli has spent the past 20 years of his career working at Bain & Company, one of the Big Three management consulting firms.

Mr. Wetli worked at Bain's Moscow office from 2008 until recently, leading projects for Bain's retail and consumer goods clients in Russia and the CIS.

He has a strong understanding of the food value chain in Russia and its transformation over the last 15–20 years and brings relevant expertise in regard to strategy development, post-merger integration and commercial activities in the retail space.

Mr. Wetli is currently also chairing the advisory committee of one of Russia's leading consumer goods companies.

Sergey Zakharov,
Member of the Board of Directors

Starting 2004 Sergey Zakharov spent eight years working with M&A and capital markets in Moscow and London at the international law firm Clifford Chance, where he advanced to a counsellor.
In 2012, Mr. Zakharov was appointed Vice President at Summa Group.
In 2014, he joined A1, the investment arm of Alfa Group, as Executive Director, after which he left to co-found Marathon Group in 2017.

Mr Zakharov is currently Partner, Chairman of the Management Board at Marathon Group.

Composition of Board Committees

Name	Status	Audit Committee	HR & Remuneration Committee	Strategy Committee	Capital Markets Committee
Charles Ryan[1]	Independent Non-Executive				Chairman
Naira Adamyan	Independent Non-Executive		⬭	⬭	
Pierre-Laurent Wetli	Independent Non-Executive	⬭		⬭	
Alexander Vinokurov	Non-Executive				
Tim Demchenko	Non-Executive				
Jan Dunning	Executive Director				
Sergey Zakharov	Non-Executive				
Walter Koch	Independent Non-Executive		⬭	Chairman	⬭
Alexey Makhnev	Non-Executive				
Vsevolod Rozanov	Independent Non-Executive	Chairman		⬭	⬭
James Simmons	Independent Non-Executive	⬭	Chairman	⬭	

⬭ Participation in Committees

[1] Chairman of the Board of Directors

Management Board

Over the course of 2021, there were a number of changes in Magnit's senior team to support the Group's continued growth.

On 22 July 2021 PJSC Magnit increased the size of its Management Board to 13 people to make decision-making more efficient. Chief Digital and Technology Officer Yuri Misnik, Chief Marketing Officer Pavel Lokshin along with Commercial Directors Francesco Fiamingo and Egor Shumilin were all added to the Management Board.

Chief Supply Chain and Logistics Officer Fedor Pavlovsky and Director for E-commerce Andrey Lukashevich[1] also joined the Management Board, replacing respectively Maria Dei and Florian Jansen, who both left the Company.

Full composition of the Management Board as of 31 December 2021

Name	Position	Joined	Background
Jan Dunning	President & CEO	2019	Metro, Lukas Klamer, Aldi North, Lenta
Anna Bobrova	Human Resources Director	2019	Metro, X5, JSC SIA International Ltd
Andrey Bodrov	Chief Investment and Strategy Officer	2019	Lenta, Investment banks
Francesco Fiamingo	Commercial Director for formats and Dry/ Non-Food	2019	Metro, Lenta
Ruslan Ismailov	Deputy CEO – Retail Chain Director	2019	Lenta, Metro, Mosmart
Pavel Lokshin	Chief Marketing Officer	2021	Metro, K-rauta, Perekrestok Express, O'Key
Andrey Lukashevich	Director for E-commerce	2021	Delivery Club, Vezet
Anna Meleshina	Corporate Relations and Sustainability Director	2019	Coca-Cola, Heineken, Lenta
Yuri Misnik	Chief Digital and Technology Officer	2021	Microsoft, AWS, banks
Fedor Pavlovsky	Chief Supply Chain and Logistics Officer	2021	Lenta, Adidas, X5
Maxim Shchegolev	Director for Chain Development, Real Estate and Maintenance	2020	Lenta, O'Key
Egor Shumilin	Commercial Director for Fresh/ Ultra Fresh and Regions	2018	X5
Elena Zhavoronkova	Chief Legal Officer	2018	Polyus, Evraz, TMK

[1] On 12 April 2022 Adrey Lukashevich left the Company for family reasons. The Board of Directors decided to remove Andrey Lukashevich from the Management Board.

Management Board

Jan Dunning,
President and CEO

Jan Dunning joined Magnit in January 2019 as President and Member of the Management Board. After joining the Board of Directors in May 2019, Jan was elected Chief Executive Officer in June 2019. Prior to joining Magnit, Jan spent over 25 years in the retail industry working in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

In 2011–2018, Jan worked as the Chief Executive Officer of Lenta. Previously, he served as the 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 the General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North.

Anna Bobrova,
HR Director

Anna has almost 20 years of experience in HR, particularly within the retail sector, and has successfully implemented projects aimed at the development and performance enhancement of line staff and management and increasing the service level in stores. She has also built and managed modern IT systems in employee management.

Prior to joining Magnit, in 2003–2009 Anna worked in the HR department of Metro, from 2011 to 2013 was the Director of HR and Organisational Development in X5 Retail Group.

She held managerial positions in HR at JSC SIA International Ltd (2015–2019), Rimera Group (2013–2015) and Rosatom (2009–2011).

From August 2019 Anna has held the position of HR Director. Anna was appointed Member of the Management Board of PJSC Magnit on 10 September 2019.

Andrey Bodrov,
Chief Investment and Strategy Officer

Andrey Bodrov has 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 more than ten years in investment banking, 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 at Lenta from February 2016.

Since September 2019 Andrey has held the role of Chief Investment and Strategy Officer of PJSC Magnit and is responsible for Magnit's investments, strategy, capital allocation and M&A. Andrey was elected as a Member of the Management Board of PJSC Magnit on 13 December 2019.

Management Board
(continued)

Management Board

Francesco Fiamingo,
Commercial Director for formats and Dry/ Non-Food

Francesco Fiamingo has over 20 years of experience in retail across different fields. He began his career at Metro Cash & Carry in Italy and has held senior positions at the company in Russia and Serbia, where he was in charge of procurement.

Prior to joining Magnit in 2019, Francesco was the Commercial Director for the Hypermarket format at Lenta. He occupied the position of the Commercial Director for the Supermarket format at Lenta during the period from 2014 to 2017.

Francesco was appointed a Member of the Management Board of PJSC Magnit from 28 October 2021.

Ruslan Ismailov,
Deputy CEO – Retail Chain Director

Ruslan Ismailov joined Magnit as the Retail Chain Director on 27 May 2019.

Ruslan has over 15 years of experience in managing consumer companies.

He started his career in 2003 in the Metro Cash & Carry retail chain, working his way from a department manager to a hypermarket director.

In 2009, Ruslan held the position of Deputy Chief Executive Officer of the Mosmart multi-format retail chain. Prior to joining the Company, he worked as a divisional director and headed the Supermarket format for four years in Lenta.

Ruslan was appointed Member of the Management Board on 4 June 2019.

Pavel Lokshin,
Chief Marketing Officer

Pavel Lokshin has more than 20 years of management experience in international and Russian retail companies.

For more than 12 years he worked at Metro Cash & Carry in various positions in Moscow, Samara, Novosibirsk, and Guangzhou.

From 2013 to 2018, he was the first CEO of K-rauta Rus, a DIY hypermarket chain, part of the Finnish Kesko group, and then of Perekrestok Express.

Prior to joining Magnit, Pavel worked as the Chief Operating Officer at O'Key Group.

From June 2021 occupies the position of the Chief Marketing Officer. Pavel was appointed Member of the Management Board of PJSC Magnit starting 22 July 2021.

Andrey Lukashevich,
Director for E-commerce

Andrey Lukashevich has had a successful career holding managerial positions in web services development companies. From 2015 to 2018, he held various executive positions in Delivery Club and became its CEO in 2016, where, during his tenure, Andrey increased the size of the business of the company several times and developed its strategy.

In 2017, he was included in the Young Media Managers of Russia Rating in the Web Service CEO category.

In May 2018, Andrey headed the Mail.Ru Foodtech Ventures, a division created specifically for investments in online sales and food delivery projects.

In early 2019, he became the CEO of Vezet taxi aggregator, a position he held until the deal with Yandex.

Since July 2021 Andrey held the position of the Director for E-commerce. He was appointed Member of the Management Board of PJSC Magnit on 22 July 2021.

Anna Meleshina,
Corporate Relations and Sustainability Director

Anna Meleshina joined Magnit in May 2019 as Director for Government & Public Relations and was subsequently appointed Director for Corporate Relations & Sustainability. Prior to Magnit, Anna served as a Public Affairs & Communications Director for Coca-Cola in Russia and Belarus from 2017 till 2019. From 2013 until 2017 Anna held the position of Public Relations & Government Affairs Director and was a member of the Management Board at Lenta.

From 2002 until 2013 Anna took different roles in HEINEKEN, becoming the Corporate Relations Director for the company in Russia and a member of the HEINEKEN global corporate relations leadership team. After that, Anna held senior positions in non-commercial organisations, 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 was appointed Member of the Management Board from 20 November 2020.

Management Board
(continued)

Management Board

Yuri Misnik,
Chief Digital and Technology Officer

Yuri Misnik has more than 20 years' experience in IT, having worked in leading companies such as Microsoft, Amazon Web Services, HSBC, and National Australia Bank (NAB). He has been a Cloud pioneer, leading the development and integration of Azure and AWS services in large international corporations.

In 2012, he joined the team of Amazon Web Services to work on the implementation of Amazon Cloud (AWS) services in the UK and Europe. From 2015 to 2019, Yuri served as the Digital Chief Information Officer at HSBC and later as a CIO at National Australia Bank.

He pioneered the implementation of Cloud, Agile, DevOps, and product teams in financial services, and worked on bringing a combination of modern solution development methods and cutting-edge implementations of cloud services.

From late 2019, Yuri served as the Group Chief Technology Officer at First Abu Dhabi Bank (FAB), where he was responsible for driving the group's technology strategy to ensure that FAB was ready for the next generation of digital banking services.

Yuri is the Chief Digital and Technology Officer. He was appointed Member of the Management Board of PJSC Magnit starting 12 November 2021.

Fedor Pavlovsky,
Chief Supply Chain and Logistics Officer

Fedor Pavlovsky has over 10-years' experience in retail. He spent most of his career working in the field of supply chain management and logistics.

Before joining Magnit Fedor was managing Supply Chain function of Pyaterochka (X5 Retail Group) in 2020–2021, where he was in charge of all logistics and supply chain processes. Earlier, in 2018–2020, he worked as a Senior Director for Supply Chain at Adidas in charge of the CIS supply chain (Russia, Ukraine, Kazakhstan), focusing on omni-channel and e-commerce growth.

Prior to that, Fedor spent over 10 years working at LLC Lenta.

Since May 2021 he has held the position of the Logistics Director and supervises supply chain and logistics. He was appointed Member of Management Board of PJSC Magnit starting 22 July 2021.

Maxim Shchegolev,
Director for Chain Development, Real Estate and Maintenance

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 for eight years at O'KEY Group, where, for the most part, he was responsible for store chain development. At earlier stages of his career, Maxim occupied various management positions in companies dealing in electronics and household appliances, including Megatekhnika and Partiya.

Since April 2020 he has been the Director for Chain Development, Real Estate and Maintenance. Maxim was appointed Member of the Management Board of PJSC Magnit starting 14 April 2020.

Egor Shumilin,
Commercial Director for Fresh/ Ultra Fresh and Regions

Egor Shumilin joined the Magnit team in June 2018 as the Director for Category Management Transformation before being appointed the Director of Category Management in August that year. On 1 February 2021, Egor was appointed the Fresh / Ultra Fresh Commercial Director, from 22 June 2021 – Commercial Director for Fresh / Ultra Fresh and Regions.

Prior to joining the Company, Egor worked at X5 Retail Group (Pyaterochka, Perekrestok, Karusel retail chains), where since 2008 he successfully worked his way up from Procurement Specialist to the Head of the Department. Since 2013 within the Pyaterochka retail chain he participated in the formation and implementation of the strategy for updating the concept of stores and the implementation of category management. Egor was appointed Member of the Management Board starting 26 April 2021.

Elena Zhavoronkova,
Chief Legal Officer

Elena Zhavoronkova joined Magnit in June 2018 as the Director for Legal Affairs and Corporate Governance. Previously, she served as Vice President for Legal Affairs at PJSC Polyus. From July 2021 Elena is the Director of DIXY HOLDING LIMITED and from August 2021 – the Head of the representative office of DIXY HOLDING LIMITED in Moscow (a company of Magnit Group).

In 2010-2014, Elena held a similar position at Evraz. From 2008 to 2010 Ms. Zhavoronkova headed the legal department at United Industrial Corporation. In 2000–2008, worked her way from legal consultant to the Head of Legal Department at TMK. Elena was appointed Member of the Management Board on 22 June 2018.

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, as well as international best practices. The Company continually enhances its corporate governance and ensures the protection of shareholders and other stakeholder rights.

Governance, management and control at the Company are divided among the shareholders (via the 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 corporate law, Magnit's Articles of Association and internal policies.

Structure of corporate governance bodies

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

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

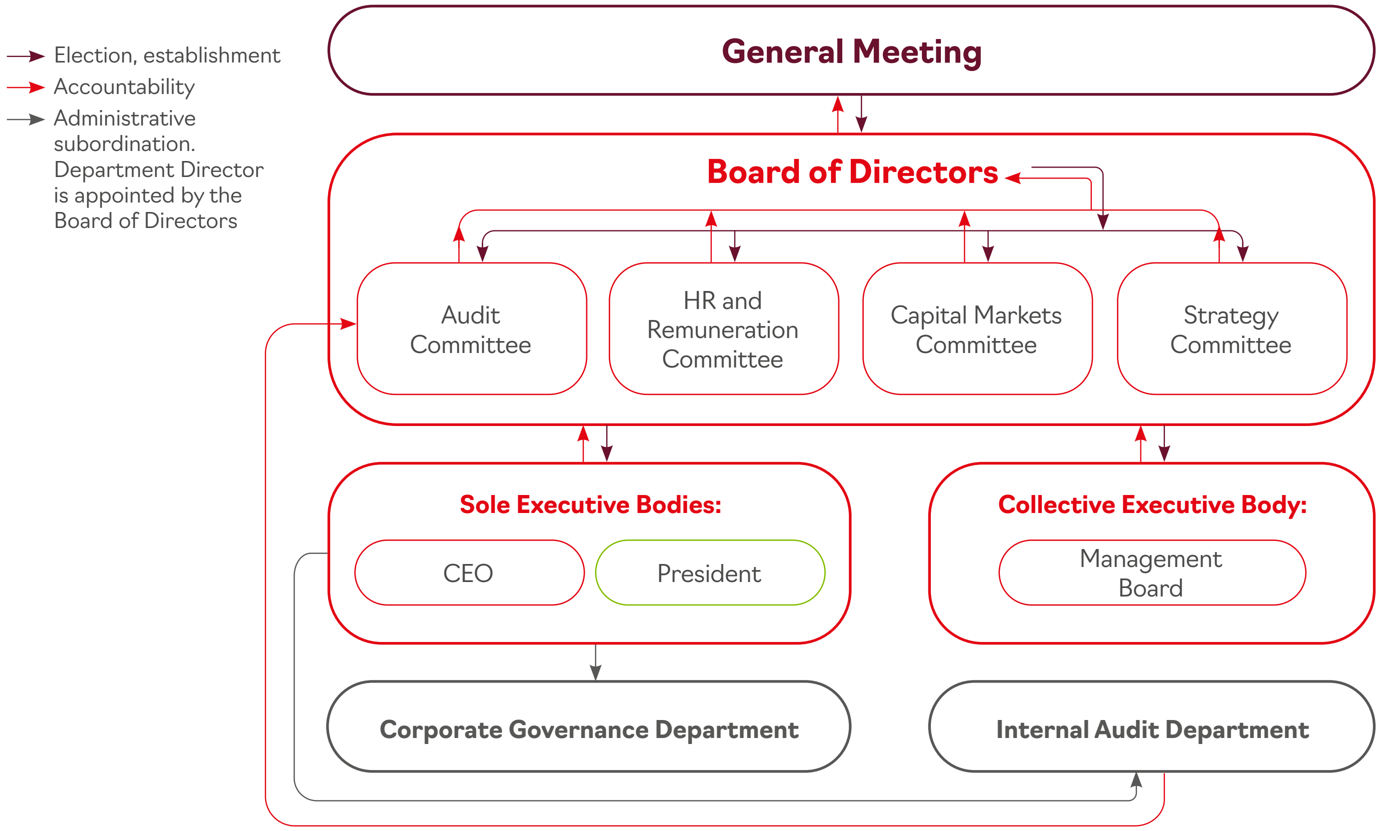
The Board of Directors is elected by shareholders at the General Meeting and is accountable to them. It provides strategic oversight and monitors the activities of the executive bodies: the CEO (Chairman of the Management Board), President and the Management Board.

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, ensures the efficient operation of the remaining corporate governance bodies and is responsible for all necessary disclosures.



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].

The Company's activities are governed by its Articles of Association approved in a new edition by the annual General Meeting of Shareholders of PJSC Magnit held on 10 June 2021 and internal regulations[2], including:

Internal regulations

Document	Effective date
Regulations on the Board of Directors	11 June 2021
Regulations on the Committees of the Board of Directors	10 November 2021
Code of PJSC Magnit On Terms and Conditions of Transactions with Financial Instruments	25 June 2019
Regulations on the Sole Executive Bodies (President and CEO)	31 May 2019
Regulations on the Collective Executive Body (Management Board)	25 December 2020
Code of Business Ethics	24 March 2019
Regulations on Internal Audit	31 October 2018
Regulations on the General Shareholders Meeting	11 June 2021
List of Insider Information	17 January 2022
Regulations on the Corporate Governance Department	30 May 2016
Regulations on the Dividend Policy	30 May 2016
Internal Control and Risk Management Policy	13 December 2019
Audit Fees Policy	6 September 2021
Anti-Bribery and Corruption Policy	25 February 2014
Regulations on the Information Policy	24 April 2021
Anti-alcohol and Anti-drug Policy	1 January 2020
Safe Use of Vehicles Policy	1 January 2020
Fire Safety Policy	1 January 2020
Occupational Safety Policy	1 January 2020
Charity, Sponsorship and Volunteer Policy	1 January 2020
Environmental protection and occupational health and safety policy	1 January 2020

[1] For the report on compliance with the principles and recommendations of the Code see Appendix 1.
[2] For more details, see the website of the Company at https://www.magnit.com/en/corporate-governance/corporate-documents/.

Corporate Governance Framework (continued)

Compliance with the principles and recommendations of the Corporate Governance Code (hereinafter, the "CGC")[1]

Corporate governance principles	Number of principles recommended by the Code	2017			2018			2019			2020			2021		
		Complied with	Partially complied with	Not complied with	Complied with	Partially complied with	Not complied with	Complied with	Partially complied with	Not complied with	Complied with	Partially complied with	Not complied with	Complied with	Partially complied with	Not complied with
Shareholder rights and equal conditions for shareholders to exercise their rights	13	9	2	2	9	2	2	8	2	3	8	2	3	10	1	2
Board of Directors	36	31	3	2	33	1	2	33	1	2	33	1	2	33	2	1
Corporate Secretary	2	2	0	0	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	9	1	0
Risk Management and Internal Control System	6	6	0	0	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	5	2	0
Significant corporate actions	5	3	2	0	3	2	0	3	2	0	3	2	0	4	1	0
Total grade	**79**	**62**	**12**	**5**	**64**	**11**	**4**	**64**	**10**	**5**	**64**	**10**	**5**	**69**	**7**	**3**
	-	**78%**			**81%**			**81%**			**81%**			**87%**		

Complied with
Partially complied with
Not complied with

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 compliance with the principles and recommendations of the Code, see Appendix 1 on p. 219.

Corporate Governance Framework Development

PJSC Magnit continues to steadily develop its corporate governance system in accordance with 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 2021, the Company further improved its corporate governance system. The main changes and innovations are listed below.

- Shareholders approved a new edition of the Articles of Association, which stipulates an increase in the size of the Board of Directors from nine to eleven members
- Further strengthened the Board of Directors, including appointing a female Independent Non-Executive Director to the Board
- Reorganised and elected members to the four Board Committees following changes to the composition of the Board of Directors
- Continued to strengthen the Management Board to improve decision-making. The Management Board was expanded to 13 members
- Published a new edition of the Regulations of the Board of Directors and Regulations on Committees of the Board of Directors
- Published new Regulations on the General Shareholder Meeting
- Published new Regulations on the information policy
- Reviewed and approved the short-term incentive programme and the KPIs of members of the Management Board
- Included new participants into the list of the long-term incentive programme
- The practice of liability insurance of members of the Board of Directors was continued
- Introduced the Audit Fees Policy to oversee the approval process of external auditors, assure independence and manage fees.

In 2022, the Company plans to:

- further improve the efficiency of and consistently follow corporate governance processes
- continue to increase the number of implemented recommendations of the CGC
- take the necessary measures to implement the recommendations of the CGC.

Addressing shareholders' concerns

The AGM held on 10 June 2021 amended the Company's Regulation on the General Shareholders Meetings (clause 5 article 53) stipulating that if more than 20 percent of the shareholders vote against the decisions recommended by the Board of Directors, the Company is obliged to engage with shareholders through consultations.

At the AGM more than 20 percent of Magnit shareholders voted against the ratification of the auditor under IFRS. Although the majority of shareholders voted in favour of the ratification, in line with the above amendment, the Board instructed the management team to consult with Magnit's shareholders on the decision.

The management hired an independent agency and conducted a perception study among its shareholders. The study identified that the main rationale for those voting against the decision was due to the non-audit fees awarded to the auditor over the past fiscal year. These additional fees raised concerns among shareholders around the auditor's independence.

In response to the findings of the perception study, the Board introduced the Audit Fees Policy to oversee the approval process of external auditors, assure independence and manage fees. The policy limits the sum of non-audit fees it pays to the approved auditor to no more than 50% of its audit fees with effect from 1 January 2022.

[1] Statistics provided are based on a report on compliance with the principles and recommendations of the CGC, prepared on the basis of Bank of Russia Recommendation Letters No. IN-06-52/8 dated 17 February 2016 (in relation to statistics for 2017-2020) and No. IN-06-28/102 (in relation to statistics for 2021).

Corporate Governance Framework (continued)

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.

At the Annual General Shareholders Meeting held on 10 June 2021, shareholders approved new Regulations on the General Shareholders Meeting.

The key capabilities of the General Meeting of Shareholders include:
- approval of the Company's annual report
- approval of the Company's annual accounting (financial) statements
- election of the Company's Board of Directors
- distribution of profits, including dividend payments
- approval of major and related party transactions and
- approval of the Company's auditor.

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 three General Meetings in 2021: one annual General Meeting (AGM) and two extraordinary General Meetings (EGM), all meetings were in the form of absentee voting.

General Meeting resolutions

GM[1]	Quorum, %	Key resolutions
AGM, 10 June 2021	73.38	— Approval to re-elect the nine members of the Board of Directors — Approval of the annual report and annual financial report for 2020 — Approval of the distribution of profit (including the payment (declaration) of dividends) based on the 2020 results — Approval of the Articles of Association — Approval of the Regulations on the General Shareholders Meeting and Regulations on the Board of Directors in the new editions
EGM, 9 September 2021	75.09	— Approval to terminate powers of the Board of Directors that consisted of nine members, reflecting the decision of the AGM held on 10 June 2021 to extend the Board to eleven members — Four new members of the Board of Directors were appointed; seven of the nine original members of the Board were re-elected to the extended Board
EGM, 16 December 2021	71.78	— Approval of the dividend payment based on the 9M 2021 financial results

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

Board Responsibilities

Composition and Evaluation of Effectiveness

Board of Directors Responsibilities

The Board of Directors is the collective governing body responsible for the overall management of the Company, except for the matters reserved to the General Shareholders Meeting in accordance with the federal laws and the Company's Articles of Association. The Board of Directors shall also be responsible for the strategic management of the Company, risk management and internal control frameworks, oversight over the executive bodies of the Company, and other key functions

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.

Induction and training of members of the Board of Directors

When newly elected, members of the Magnit Board of Directors undergo an induction 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 among the Company's executive bodies, and the work of the Board of Directors
- familiarisation with the Company's documents: the latest annual reports, the minutes of annual and extraordinary General Meetings of Shareholders, the minutes of meetings of the Board of Directors, and other relevant information about the Company's activities.

Composition of the Board of Directors

- The Board of Directors of the Company shall consist of eleven (11) members and be elected by the General Shareholders Meeting
- At least three members of the Board of Directors shall be independent directors
- The members of the collective executive body (Management Board) may not account for more than one fourth of the members of the Company's Board of Directors. The sole executive bodies (President and Chief Executive Officer) may not simultaneously serve as Chairman of the Board of Directors.

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.

Board Responsibilities, Composition and Evaluation of Effectiveness (continued)

The Board of Directors' activities in 2021

In the reporting year, the Board of Directors held 18 meetings and considered 133 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, etc.

Held
18 meetings

Considered
133 issues

100%
average attendance at meetings 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 analysed:
- the structure, composition and independence of the Board of Directors and its Committes
- the organisation of work of the Board of Directors and its Committes
- the effectiveness of the Board of Directors and its Committes
- the role and performance of the Board Chairman
- the overall performance, involvement and contribution as well as skills and competencies of each director.

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.

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 analysed for compliance with the provisions of 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 a 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 formed the basis of the plan to improve the efficiency of the Board of Directors in 2021. During 2021 we followed the plan, i.e. the Board of Directors has been extended, strengthening its independence and gender diversity as well as expanding the skills and competences of the Board members.

[1] Organisation for Economic Co-operation and Development

Internal Control
and Risk Management System

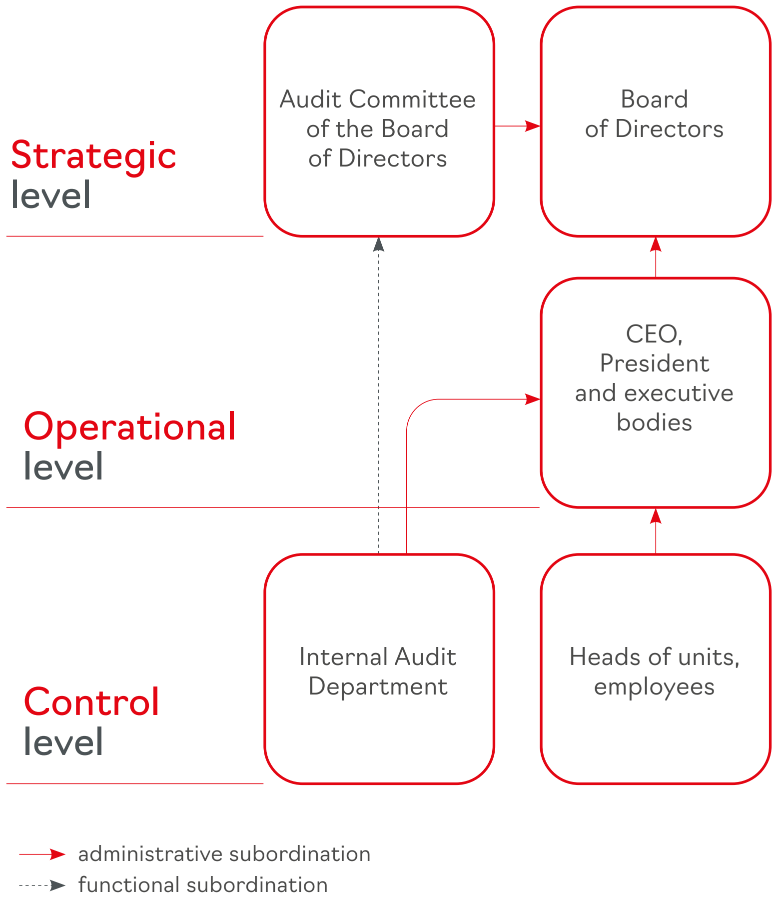
The internal control and risk management system of Magnit is responsible for:

- 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; and
- 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 dated 12 December 2019, minutes of 13 December 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



Strategic level:
- approving the strategic framework for the establishment and operation of the internal control and risk management system
- integration of the internal control and risk management system into the Company's organisational processes, including the drafting of policies, and the process of managing changes
- identifying perceptions of the internal control and risk management system among employees

Operational level:
- organisation of the operation and continuous monitoring of the effectiveness of the internal control and risk management system

Control level:
- implementation of control procedures and risk management measures, monitoring of their effectiveness

The internal control system is based on the principles of the COSO concept recommended by the Corporate Governance Code. According to the COSO model[1], 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 among the participants in the internal control and risk management system, as well as decision-making in corresponding areas, is implemented via the Company's information systems. The relevant information is defined, recorded and transmitted in such a form as 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.

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

[1] The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is a voluntary private organisation established in the United States that 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 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
- 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.

On 10 September 2021 the changes were made in the management of the Department. A new Director of the Internal Audit Department was appointed.

In 2021, 21 audits were conducted by employees of the Internal Audit Department. Based on the results of the audits, 217 corrective actions were developed and approved. Some of them were implemented in 2021, the rest will be implemented from the beginning of 2022.

At the beginning of 2022, changes were made in the structure of the Internal Audit Department due to the Company's acquisition of the Dixy chain. Within the organisational structure of Dixy, an internal audit unit was formed that functionally reports to the Director of the Internal Audit Department of PJSC Magnit.

Efficiency assessment

In 2021, 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, risk assessment, control procedures, information, communications, and monitoring.

According to the assessment, the current level of organisation and functioning of the internal control and risk management system was deemed to be 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, a member of Self-regulatory Organisation of Auditors Association "Sodruzhestvo" (SRO AAC) (Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations 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 10 June 2021 as the auditor of the Company's consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Ernst & Young LLC has been auditing the consolidated statements of PJSC Magnit and its subsidiaries prepared in accordance with the international Financial Reporting Standards since 2010. The partner of Ernst & Young LLC since 2020 is Ilya Ananyev.

The auditor inspected the 2021 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 2021, prepared in accordance with IFRS.

The auditor's total remuneration paid by the Group in 2021 amounted to RUB 134.96 mln (excluding VAT), including:

- remuneration for the audit and audit-related services – RUB 76.64 mln (56.79% of the total amount paid), including RUB 61.85 mln paid for the statutory audit and review of the consolidated financial statements of the Company
- remuneration for other audit-related services ("non-audit services") – RUB 58.32 mln (43.21% of the total amount paid).

These amounts include payments made for the services for the provision of which the auditor was hired in 2020, and which were completed in 2021.

In September 2021 the Audit Committee of the Company's Board of Directors approved the Audit Fees Policy.

For more details on this Policy and measures taken by the Company following the results of the AGM in 2021, see Corporate Governance Framework Development.

Therefore, aggregate volume of services for which the auditor was engaged by the Group in 2021 amounted to RUB 123.96 mln (excluding VAT), including:

- audit and audit-related services – RUB 83.82 mln (67.62% of the total volume of services), of which RUB 77.85 mln relate to the statutory audit and review of the consolidated financial statements of the Company
- other audit-related services ("non-audit services") – RUB 40.14 mln (32.38% of the total volume of services and 47.89% of the total volume of audit and related services).

The bulk of the "non-audit" services for the provision of which the Group hired the auditor in 2021 are consulting services related to the implementation of IT solutions for inventory forecasting and replenishment.

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 10 June 2021 as the auditor of the Company's accounting (financial) statements for 2021 prepared in accordance with the Russian Accounting Standards.

AF Faber Lex LLC is a member of the Self-Regulatory Organisation of Auditors Association SODRUZHESTVO (SRO AAS) No. 441 dated 20 March 2020 with the main registration number entry (ORNZ) 12006114232.

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 total remuneration paid by the Group's companies to AF Faber Lex LLC in 2021 amounted to RUB 6.59 mln (excluding VAT), including:

- remuneration for the audit services – RUB 6.095 mln (92.49% of the total amount paid), including RUB 316.2 thousand paid for the audit of the PJSC Magnit accounting (financial) statements for 2020
- remuneration for other audit-related services ("non-audit services") – RUB 495 thousand (7.51% of the total amount paid).

Committees
of the Board of Directors

The Board of Directors has four Committees:
- Audit Committee
- HR and Remuneration Committee
- Strategy Committee
- 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.

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

In 2021, the Committees held 17 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 the management in order to increase the efficiency of cooperation between the executive bodies of the Company and the Board of Directors.

The following independent directors sit on the following Committees:

Name	Status	Audit Committee	HR & Remuneration Committee	Strategy Committee	Capital Markets Committee
Charles Ryan	Independent Non-Executive				Chairman
Naira Adamyan	Independent Non-Executive		⬭	⬭	
Pierre-Laurent Wetli	Independent Non-Executive	⬭		⬭	
Walter Koch	Independent Non-Executive		⬭	Chairman	⬭
Vsevolod Rozanov	Independent Non-Executive	Chairman		⬭	⬭
James Simmons	Independent Non-Executive	⬭	Chairman	⬭	

⬭ 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.

Members: Vsevolod Rozanov (Chairman), James Simmons, Pierre-Laurent Wetli

Key results:
- Evaluation of the auditor's report on the financial statements of PJSC Magnit for 2021, compiled in accordance with Russian accounting standards
- Evaluation of the auditor's report on the consolidated financial statements of PJSC Magnit and its subsidiaries for 2021 prepared in accordance with Federal Law No. 208-FZ dated 27 July 2010 "On Consolidated Financial Statements"
- Preliminary consideration of the report on transactions concluded by PJSC Magnit in 2021, in which there was an interest
- Development of proposals for the appointment of an external auditor, payment for its services and terms of engagement
- Approval of the remuneration of the head of the internal audit unit based on the results of work in 2021
- Consideration of the internal audit conclusion based on the results of assessing the reliability and effectiveness of the risk management, control and corporate governance processes of PJSC Magnit in 2021
- Development of proposals for the head of the structural unit that carries out internal audit
- Development of proposals for payment for the services of an external auditor
- Approval of the Audit Fees Policy
- Consideration of the report on evaluation of the efficiency of the internal control and risk management system of PJSC Magnit and its subsidiaries for 2021
- Consideration of the results of performance of the structural unit that carries out internal audit in 2021
- Approval of the plan of operation of the structural unit that carries out internal audit in 2022
- Approval of the budget of the structural unit that carries out internal audit in 2022.

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.

Members: James Simmons (Chairman), Naira Adamyan, Walter Koch

Key results:
- Evaluation of candidates to the Board of Directors in terms of having the necessary experience, knowledge, business reputation, absence of a conflict of interest, and compliance of candidates for members of the Board of Directors with the independence criteria determined by the current Regulations on the Board of Directors of the Company (including the Listing Rules of the Moscow Exchange)
- Preliminary approval of remuneration for members of the Management Board of PJSC Magnit and other key employees of the group of companies of PJSC Magnit based on the results of work in 2021
- Change in the total number of participants in the Long-term Remuneration Programme for Key Employees of JSC Tander and PJSC Magnit and approval of the List of positions of employees of PJSC Magnit and JSC Tander that are covered by the Long-term Remuneration Programme for Key Employees of JSC Tander

Committees of the Board of Directors (continued)

and PJSC Magnit, in a new edition.
- Inclusion of New Participants into the Long-term Remuneration Programme for Key Employees of JSC Tander and PJSC Magnit
- Approval of additional agreements to the Securities Purchase and Sale Agreements under the Long-term Remuneration Programme for key employees of JSC Tander and PJSC Magnit with individual Programme Participants
- Recommendations regarding the formation and composition of the collegial executive body (Management Board) of PJSC Magnit
- Development of proposals for the head of the structural unit that carries out the internal audit
- Recommendations regarding the approval of changes to the short-term incentive programme (STI) for the President and members of the Management Board of PJSC Magnit for 2021, as well as key performance indicators (KPI) for the President and members of the Management Board of PJSC Magnit
- Recommendations regarding the approval of key performance indicators for the head of the structural unit performing internal audit in 2021
- Recommendations regarding the approval of the List of positions of employees of PJSC Magnit and JSC Tander, which are subject to the Long-term remuneration programme for key employees of JSC Tander and PJSC Magnit, in a new edition
- Recommendations regarding the inclusion of New Participants in the Long-term Remuneration Programme for Key Employees of JSC Tander and PJSC Magnit
- Approval of changes to the short-term incentive programme (STI), as well as key performance indicators (KPIs) for individual members of the Management Board of PJSC Magnit for 2021.

Strategy Committee

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

Members: Vsevolod Rozanov, James Simmons, Naira Adamyan, Pierre-Laurent Wetli, Walter Koch (Chairman)

Key results:
In the reporting year, the Strategy Committee reviewed the plan for opening stores and the budget for 2021, actively interacted with the management team on further development of the Corporate Strategy of the Company for 2021–2025 and oversaw its implementation.

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.

Members: Vsevolod Rozanov, Walter Koch, Charles Ryan (Chairman)

Key results:
- Consideration of the results of the evaluation of the work of the Board of Directors of PJSC Magnit
- Preliminary consideration of recommendations to the General Meeting of Shareholders of the Company on the distribution of profits and losses of the Company based on the results of the 2020 reporting year, including the dividend amount from the Company's shares, the procedure for its payment and the date on which the persons entitled to receive dividends are determined
- Formation of recommendations to the Board of Directors on amendments to the Articles of Association of PJSC Magnit and internal documents of PJSC Magnit
- Discussion of issues of priority areas of activities of PJSC Magnit.

Corporate Secretary

The Corporate Governance Department of PJSC Magnit performs the function and responsibilities of the Corporate Secretary.

The main objective of the Department is to maintain effective communication with the shareholders, coordinate the Company's actions to protect the rights and interests of the shareholders and ensure the effective operation of the Board of Directors.

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.

Corporate Governance Department reports to the President and CEO and is accountable to the Board of Directors.

On 27 May 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
(born in 1978)

Corporate Governance Director

Education:

2000 – Kuban State University (Faculty of Law).

Experience:

Joined PJSC Magnit in 2016, from JSC Tander (subsidiary of PJSC Magnit) where she had worked for 11 years.

Remuneration

Report

Directors' Remuneration

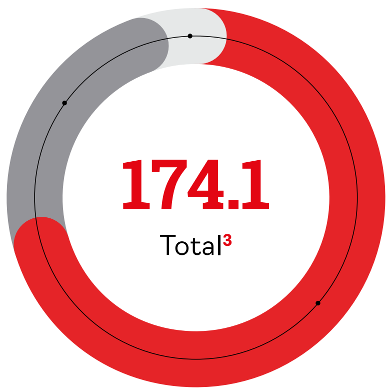
In 2021, the Directors' remuneration policy was regulated by the Regulations on the Board of Directors of PJSC Magnit[1].

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 (EUR 150,000)
— additional remuneration.

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

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

Remuneration paid to members of the Board of Directors in 2021, RUB mln



[1] Regulations were approved at the AGM on 10 June 2021 (minutes of 11 June 2021).
[2] The issue of compensation for expenses of 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 May 2019 (minutes of 31 May 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 of the sole executive bodies (CEO and President)

In 2021, the policy of remuneration and compensation of expenses of the CEO and the President was regulated by the Regulations on the 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 the employment agreement, Jan Dunning received a signing bonus and 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. This number of shares was transferred in three tranches: on 21 May 2019 (50%), 23 March 2020 (25%) and 8 February 2021 (25%).

Remuneration of members of the Management Board

In 2021, the policy of remuneration and compensation of expenses to members of the Management Board was regulated by the Regulations on the collective executive body (Management Board), approved by the EGM on 24 December 2020 (minutes of 25 December 2020).

Remuneration paid to members of the collective executive body in 2021: RUB 872.5 mln.

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 individual KPIs approved by the Board of Directors for the reporting year	The remuneration amount depends on the Group's financial results, share price, time worked during the programme, as well as the planned number of shares approved by the Board of Directors	— VHI policy for an employee and family members (partner and children) — accident insurance — business trips — communication — transport — rental housing.

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 target value of the bonus as a percentage of salary. The actual amount of the bonus depends on the fulfillment of the Corporate KPIs and individual KPIs approved by the Board of Directors for the reporting year	The remuneration amount depends on the Group's financial results, share price, time worked during the programme, as well as the planned number of shares approved by the Board of Directors for each participant of the programme	— 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,[5] RUB mln

Remuneration	All companies of the Group	PJSC Magnit
Base Salary	324.4	4.7
Bonus	539.0	–
Compensation of expenses	9.1	–
Total	872.5	4.7

Remuneration Report (continued)

KPI

In 2021 the Company had targets against the following triggers to calculate the annual bonus:
- LFL retail sales (%)
- EBITDA (RUB bln)
- Inventory (days).

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:
- LFL retail sales (%)
- EBITDA (RUB bln)
- OMNI revenue (RUB bln).

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 the CEO-1 level.

LTI

In addition to the short-term incentive scheme, the Group has a long-term remuneration programme. The programme objectives are:
- motivation of participants to increase the share price of the Company
- motivation of participants towards 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 seven 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 2021, 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 the 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 the programme.

In 2021, the Company transferred 222,449 shares to 53 employees as part of the long-term remuneration programme, including 31,914 shares transferred to 11 employees who left the Company in 2021.

	2021
Number of employees who received shares *including employees who left the Company*	53 *11*
Shares transferred *including to employees who left the Company*	222,449 *31,914*

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 seven 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 are delivered in three stages within the period of seven 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 December 2018. The programme participant continues to work in the Group on the exercise date of the option.	

LTI remuneration in 2021

Name	Position	Shares
Management Board		
Jan Dunning	Chairman of the Management Board, President, CEO	72,928
Anna Bobrova	HR Director	4,960
Andrey Bodrov	Chief Investment and Strategy Officer	4,813
Francesco Fiamingo	Commercial Director for formats and Dry/Non Food	2,597
Ruslan Ismailov	Deputy CEO – Retail Chain Director	12,979
Pavel Lokshin	Chief Marketing Officer	0
Andrey Lukashevich	Director for E-commerce	0
Anna Meleshina	Corporate Relations and Sustainability Director	1,492
Yuri Misnik	Chief Digital and Technology Officer	0
Fedor Pavlovsky	Chief Supply Chain and Logistics Officer	0
Maxim Shchegolev	Director for Chain Development, Real Estate and Maintenance	2,542
Egor Shumilin	Commercial Director for Fresh/Ultra Fresh and Regions	9,693
Elena Zhavoronkova	Chief Legal Officer	7,063
Other employees of the Company		71,468
Employees who left the Company in 2021		31,914

Stakeholder
Management

Magnit engages in an open dialogue with each of its stakeholders 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.

Key stakeholder groups

Stakeholder	Why they are important	How we engage	Key concerns	How we respond
Customers	Our customers are our number one priority as we drive improvement in our value proposition. We have a customer-centric approach to our decision-making.	Engagement is achieved via customer purchases both offline and online. We have plenty of physical touch points with customers: — Offline business (cash desks, info screens, price tags, in-store communications, consultations by beauty experts at Magnit Cosmetic and pharmacists, etc.) — Loyalty programme and Loyalty App (MAU) — Delivery App (Number of online orders) — Digital (social media, etc.) — Call centre We collect data and feedback from these touch points, which serve as a basis for personalisation and proposition improvement. We work to continuously improve our offering based on customer feedback and various surveys (GFK reports, focus groups on various topics, mystery customer). Based on the findings, we launch internal discussions and action plans.	— Quality of products and service — Choice (assortment) — Inflation (prices) — Health & Safety (including measures against COVID-19)	We pay attention to all elements of CVP both online and offline and have various analytical tools to help category managers tailor our offering. We have a dedicated quality department which constantly monitors quality standards compliance and introduces improvements. We follow trends and work across four directions in our category management to provide and optimise choice, including rationalisation & harmonisation, clustering, best in local and personalisation enabled by the loyalty programme. We offer a value for money concept to our customers based on affordability, price monitoring, promos, personalisation and through the development of the discounter concept. The Company undertakes additional measures to protect customers and employees in the pandemic environment. Magnit follows hygiene programmes and cleaning procedures developed as a response to the COVID-19 pandemic.
Suppliers	Our suppliers are key to helping us deliver variety, value and quality to our customers. We aim to build long-term mutually beneficial relationships that are based on trust and mutual respect to help them grow.	Interaction with partners is of daily, but we also identify and develop separate formats: regional procurement conferences, an annual conference of partners, strategic sessions, JBP (joint business planning) and JVC (joint value creation) programmes. We invest in communication platforms with partners: supplier portal, SRM system and logistics programmes.	Our partners are primarily concerned with the sustainable development of joint business – from sales volumes to the assessment of the quality of their products by consumers and the impact on the environment.	At the centre of interaction is our category management team, which engages other specialised services to address the issues facing us and our partners. We integrate our suppliers into Magnit's internal business processes to improve interaction and sales performance, and exchange logistics data through the 'Magnit Service' portal. In 2021, we introduced digital supplier contracts, significantly reducing the time for document verification. We require our suppliers to adhere to our Code of Business Conduct which sets out the standards for interaction. Food suppliers are required to adhere to the Code of Good Practice which sets out the principles of mutual respect and good faith among market participants.
Employees	The Company's employees are our main asset, ensuring the execution of all business processes.	We strive to be the employer of choice, to attract and retain talent. Each year, we aim to increase our employer Net Promoter Score (eNPS) and measure Magnit's 'Brand Health' on a quarterly basis by monitoring social media. We engage directly with employees through dedicated employee social platforms, internal email newsletter, and our dedicated employer website. Business information and broader information sessions are made available online for employees on non-work and social issues.	— Fair pay — Working conditions — Rewards and benefits — Training, skills and development — Diversity and inclusion — Health and safety — Mental health	We engage with our employees to understand their concerns using both research and analytics. In 2021, we evolved our EVP to attract and retain staff. Our focus has been to promote a culture of a work family and develop a strong eco-system around employees both in work and outside. Magnit offers employees a broad system of benefits, including, amongst others, voluntary health insurance, accident insurance, partial compensation for meals. We look to increase the number of survey participants each year and gather comments and suggestions, conduct workshops to develop solutions. We motivate staff through a wide range of opportunities for professional development, including competitions, rewards, individual and departmental awards and education. We offer regular and ongoing training and development.

Stakeholder Management
(continued)

Key stakeholder groups

Stakeholder	Why they are important	How we engage	Key concerns	How we respond
Society and local community	Magnit plays an essential role in society by feeding the nation and being one of the largest private employers in the country either directly or indirectly through its supply chain. Our position enables us to address wider societal issues such as food poverty, health and wellbeing, healthy living, responsible consumption and education.	We aim to responsibly engage with our communities and many of our community initiatives are carried out at the local level through our store presence. We use a variety of mediums and formats to engage with communities, either through on-the-ground presence, via the media, social media, video, and our website. We carry out educational programmes aimed at children of school age, provide direct investment into community projects (such as building playgrounds) and volunteering.	— Local employment opportunities — Local charitable causes and investment in national social projects — Economic contribution — Environmental factors — Food security	We respond to needs both on a pre-planned basis through engagement with communities and also take action on immediate needs when required. Local and regional managers coordinate local activities, while our central marketing teams manage activities on the national level. The Company supports many local and national charity campaigns such as the "United for a Healthier Future" campaign, which encompasses educational programmes, research, partnerships, and making healthier products available. Amongst others, Magnit local charitable campaigns support blood donor programmes, orphanages, charitable clothing and food collections, voluntary environmental working days, tree planting and promoting the benefits of volunteering. In 2021, our emergency response focused on fulfilling basic human needs where vulnerable groups required food, clothing, environmental, infrastructure or emergency assistance.
Investors and shareholders *More information can be found on p. 130.*	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 and virtual meetings; conducting road shows and site visits; and participating in investment conferences and other events.	— Performance against set strategy and targets — Changes in strategy — Dividends / capital growth — COVID-19 pandemic impact — Macro-economic environment, inflation and promo activity — Status of business transformation — Expansion plans and M&A opportunities — Sustainability of margins — Working capital improvements — Management KPIs and incentive schemes — Management team changes — Changes in shareholder structure	On 18 February 2021, Magnit held its Capital Markets Day and presented its 2025 Strategy. This event covered about 300 institutional and individual investors as well as media representatives. In addition, in 2021 we: — created a corporate video aimed at investors, — hosted seven conferences with individual investors, — expanded content and improved structure of press releases, presentations and documents with reference information, — introduced an up-to-date consensus of key financial indicators based on analysts' forecasts.
Governments (authorities)	Public authorities set many business regulations according to which we build and develop our business.	We strive to become the No. 1 expert for the Russian authorities in the field of trade by: — sharing our expertise at public events organised by the authorities (for instance, SPIEF, Russian Retail Week or Russian Agricultural Exhibition "Golden Autumn") — membership in joint working groups ("regulatory guillotine"), public and expert council under the Ministry of Industry and Trade, Federal Service for Alcohol Market Regulation – Rospotrebnadzor amongst others — preparing expert opinions on government initiatives in trade and food security using regulatory impact assessment (RIA) and ex post impact assessment tools — heading Committees, commissions and working groups in business associations such as RUIE Commission on Trade and Consumer Markets, ACORT[1] Quality Committee, and working groups on regulation of excisable products by ACORT.	— Food security in the country — Regulation that provides access to quality goods and food for all residents of the country regardless of income level — Import substitution policy — Access to the shelves for Russian manufacturers — Spread and prevention of COVID-19	In 2021, the key issues related to regulatory restrictions as a result of the pandemic, including mandatory vaccination of employees, tougher preventative measures for COVID-19 in retail outlets, introduction of QR codes and bans on the utilisation of retail facilities in some regions and rising food prices. The state restrained the growth of prices for socially important products by reducing retail margin and price fixing, and by reducing the number of intermediaries in the supply chain. The industry had to look for compromises that would allow for fulfilling the state's social role, and would not be a burden for business.

[1] Russia Association of Retailing Companies

Shareholder
and Investor Engagement

Authorised and issued share capital

As of 31 December 2021, the authorised capital of Public Joint-Stock Company Magnit amounted to RUB 1,019,113.55 and consisted of 101,911,355 ordinary registered uncertified shares[1] with a par value of RUB 0.01 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 RUB 0.01 each (declared shares).

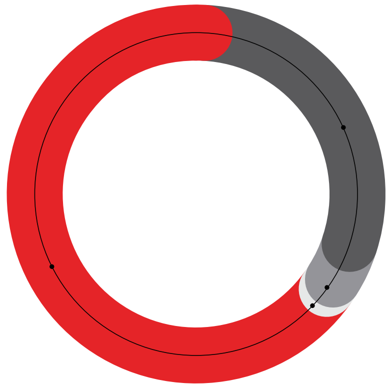
Marathon Group had 29,791,196 votes which is 29.23% of the total number of ordinary registered shares, including shares held by VTB Group under repurchase agreements (as of 14 January 2022).

As of 31 December 2021, PJSC Magnit does not hold any treasury shares. As of 31 December 2021, JSC Tander, owned by the Company, held 3,982,871 voting shares in PJSC Magnit, which amounts to 3.91% of the total number of ordinary registered shares, which were acquired in 2018–2019 in order to implement its LTI programme. As of 31 December 2021, no other organisations controlled by the Company owned voting shares in PJSC Magnit.

205,905 shares and 24,427 GDRs (0.21% of the total registered shares) are owned by the Members of the PJSC Magnit Management Board.

As of 31 December 2021, 37 entities were registered in the share register, including 33 individuals, one nominal holder (National Settlement Depositary) and three other legal entities.

Information on persons who hold, dispose of votes accounted for and/or are beneficiaries of PJSC Magnit shares[2], %



The Company has both an ordinary share listing on the Moscow Exchange (MOEX) and a GDR listing on the London Stock Exchange (LSE). According to Moscow Exchange as of 31 December 2021, the share of the free-float in the Company's shares was 66.65%[3]. As at the end of 2021, Magnit's market capitalisation was RUB 554.6 bln[4] on MOEX and USD 7,643 mln[5] on the LSE.

Structure of share capital as at the end of 2021[3]

Title	Number of registered entities	Share of authorised capital, %
Legal entities	4	97.58
Including nominal holders	1	97.58
Individuals	33	2.42
Other (unidentified persons)	1	0.00004
Total	**38**	**100**

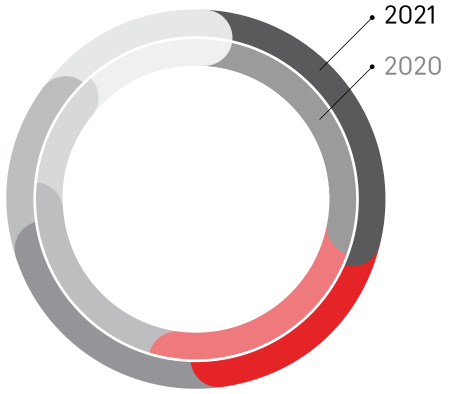
Significant changes in the share capital structure in 2021

Date of change	Change
November 2021	VTB Group announced the sale of its stake in PJSC "Magnit", including the sale of approximately 12.4% of the PJSC "Magnit" shares to Marathon Group. As a result of the transaction with VTB Group, Marathon Group increased the share of votes accounted for voting shares in the charter capital of PJSC "Magnit" to 24.99%.
January 2022	Marathon Group increased its share of votes accounted for voting shares in the charter capital of PJSC "Magnit" to 29.23%.

[1] State registration number: 1-01-60525-P of 4 March 2004
[2] According to information available to PJSC Magnit as of 14 January 2022
[3] 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. The calculation is made in accordance with the Listing Rules of the Moscow Exchange and the approved methodologies for calculating the free-float ratio.
[4] Capitalisation in RUB is calculated using the following formula: number of shares outstanding * share price as at the end of 2021.
[5] Capitalisation in USD is calculated using the following formula: 5* number of shares outstanding * GDR price as at the end of 2021.

Shareholder and Investor Engagement (continued)

Breakdown by geography of free-float, %



2020	2021	
27.5	**27.9**	United States of America and Canada
24.2	**19.0**	Russian Federation
22.3	**21.5**	United Kingdom
11.8	**15.5**	European Union
14.2	**16.1**	RoW

Source: Shareholder Identification report

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.

As of 31 December 2021, Magnit shares were 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 1Q–4Q 2021

	Share price, RUB			Volume, RUB mln[1]			
Period 2021	Min.	Max.	As at end of period	Period total	Daily average	Daily median	Market capitalisation at end of period, RUB bln
1Q	4,874	5,749	5,334	164,603	2,572	2,401	543.6
2Q	5,065	5,657	5,313	131,302	2,020	1,659	541.4
3Q	5,091	6,085	6,085	119,239	1,807	1,533	620.1
4Q	5,431	6,920	5,441	163,148	2,472	2,097	554.6

Source: Bloomberg, Company analysis

Authorised and issued share capital history

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 total amount of funds allocated for share buybacks as follows (taking into account the changes approved by the Board on the 4 October 2018):
- up to RUB 16,500,000,000 – for LTI programme
- up to RUB 5,700,000,000 – as payment for transactions related to acquisition of SIA Group

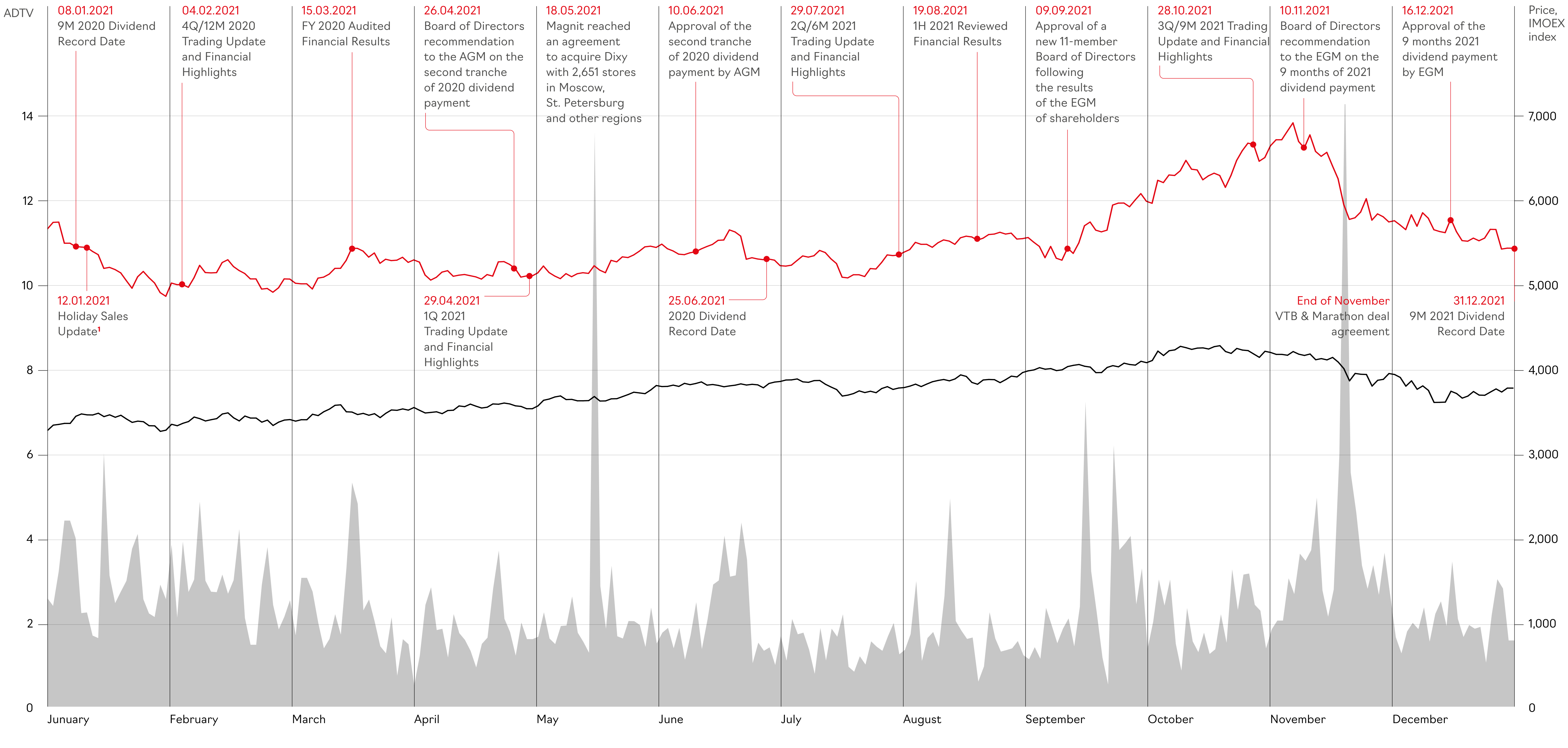
The programme was launched on 5 September 2018 and completed on 1 March 2019.

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.

[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.

Shareholder and Investor Engagement
(continued)

Share trading on the Moscow Exchange in 2021



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

Source: Boomberg

Shareholder and Investor Engagement (continued)

GDR listing

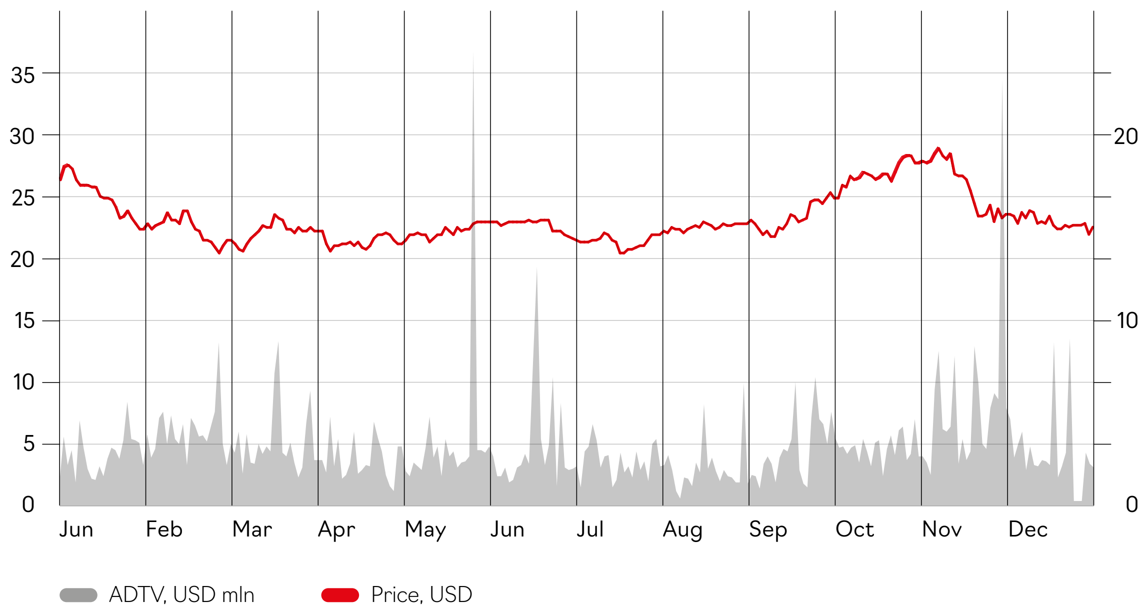
The Company's global depositary receipts (GDR) have traded on the main market of the London Stock Exchange (MGNT) since 22 April 2008.

One share represents five depositary receipts. As of 31 December 2021, 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 2021	GDR price, USD[1]			Volume, USD mln[2]			Market capitalisation at end of period, USD mln
	Min.	Max.	As at end of period	Period total	Daily average	Daily median	
1Q	13.57	18.41	14.99	330.40	5.16	4.98	7,638.26
2Q	13.74	15.42	14.51	308.40	4.74	3.63	7,391.12
3Q	13.62	16.85	16.85	246.65	3.74	3.21	8,586.03
4Q	14.58	19.26	15.00	378.95	5.74	4.63	7,643.35

GDR quotes on London Stock Exchange in 2021



Source: Bloomberg, Company analysis

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

Indices

As of 31 December 2021, Magnit was included in a broad number of different indices.

VanEck	vaneck.com
SPDR	ssgafunds.com
iShares	ishares.com
Columbia Threadneedle Investments	columbiathreadneedleus.com
Vanguard	investor.vanguard.com
S&P	spglobal.com
MSCI	msci.com
STOXX	stoxx.com
MOEX and RTS	moex.com/ru/index/IMOEX
FTSE	ftserussell.com
WisdomTree	wisdomtree.com

Analyst coverage and consensus forecasts

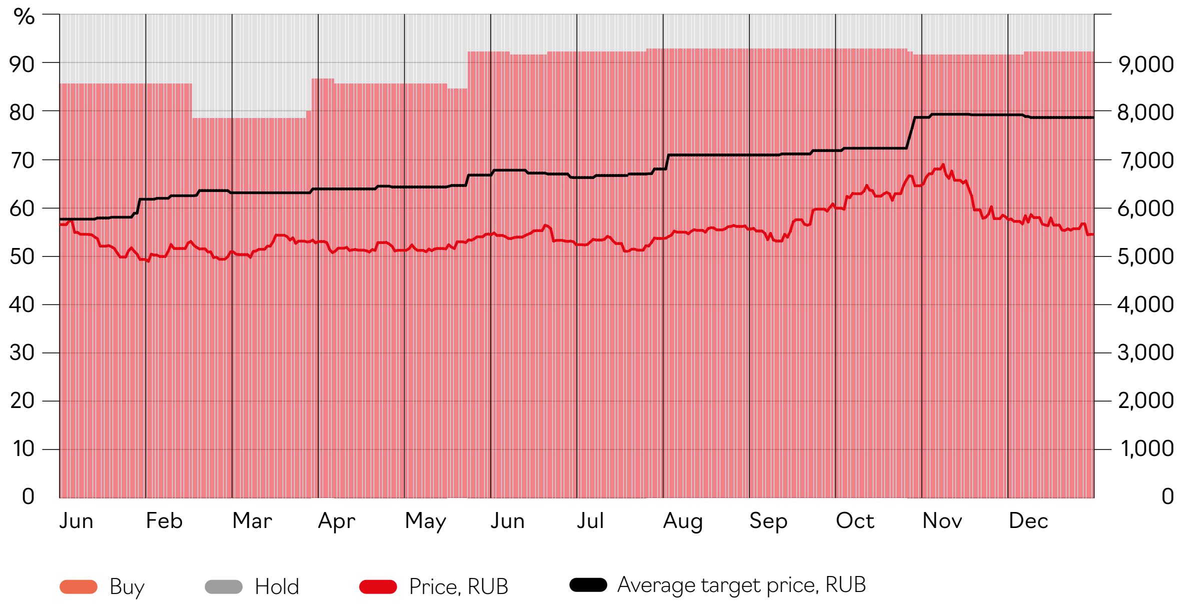
As of 31 December 2021, 17 investment banks produced equity research on Magnit.

Bank	Analyst	Phone	E-mail
Alfa Bank	Evgeniy Kipnis	+7 (495) 795-3713	ekipnis@alfabank.ru
Aton	Victor Dima	+7 (495) 213-0344	victor.dima@aton.ru
Bank of America Merrill Lynch	Ilya Ogorodnikov	+7 (495) 662-6073	ilya.ogorodnikov@bofa.com
BCS	Maria Sukhanova	+7 (495) 213-1505	MSukhanova@bcsgm.com
Citi	Nick Coulter	+44-20-7500-7266	nick.coulter@citi.com
Gazprombank	Marat Ibragimov	+7 (495) 980-4187	marat.ibragimov@gazprombank.ru
Goldman Sachs	Maxim Nekrasov	+7 (495) 645-4013	maxim.nekrasov@gs.com
HSBC	Bulent Yurdagul	+90 (212) 376-4612	bulentyurdagul@hsbc.com.tr
JP Morgan	Elena Jouronova	+7 (495) 967-3888	elena.jouronova@jpmorgan.com
Morgan Stanley	Henrik Herbst	+44 2076 77-1309	henrik.herbst@morganstanley.com
Raiffeisen	Egor Makeev	+7 (495) 221-9851	egor.makeev@raiffeisen.ru
Renaissance Capital	Kirill Panarin	+7 (499) 956-4216	kpanarin@rencap.com
Sberbank CIB	Mikhail Krasnoperov	+7 (495) 933-9838	mikhail_krasnoperov@sberbank-cib.ru
SOVA Capital	Leonid Sinyutin	+7 (495) 223-2323	Leonid.Sinyutin@sovacapital.com
UBS	Ulyana Lenvalskaya	+7 (495) 648-2093	ulyana.lenvalskaya@ubs.com
VTB Capital	Maria Kolbina	+7 (495) 663-4648	maria.kolbina@vtbcapital.com
Wood & Company	Lukasz Wachelko	+48 22 222 15 60	lukasz.wachelko@wood.com

Shareholder and Investor Engagement

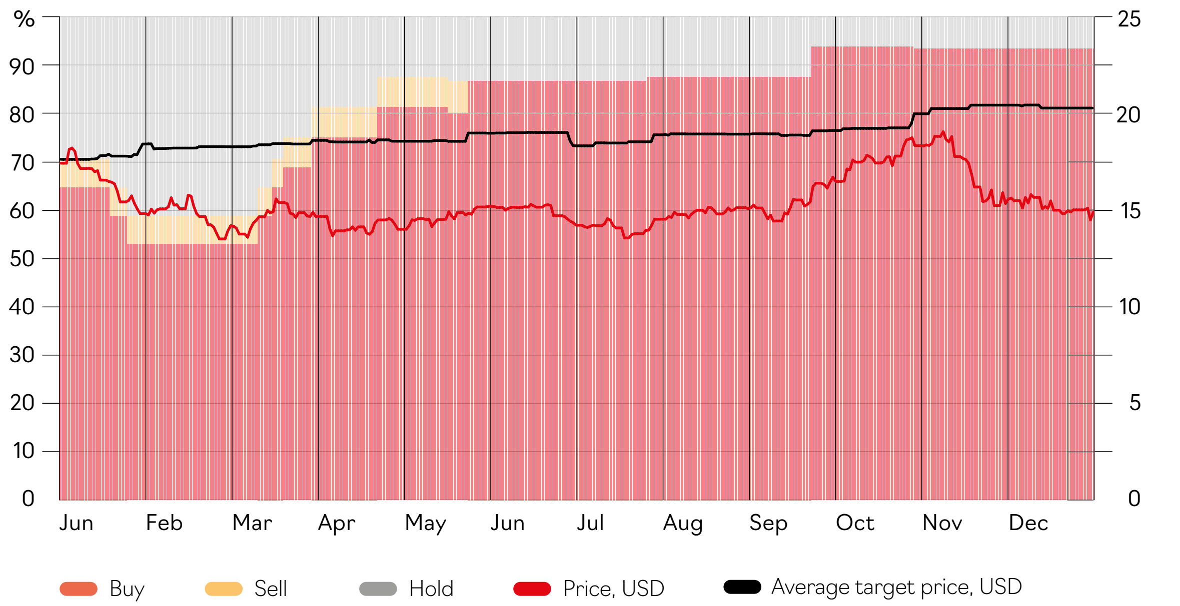
(continued)

Analyst recommendations and average target price, local shares



Source: Bloomberg, Company analysis

Analyst recommendations and average target price, GDRs



Source: Bloomberg, Company analysis

Company collected recommendations and consensus on local shares for 2021, %

Company collected recommendations and consensus on GDRs for 2021, %

Source: Company collected consensus

Consensus for key financial indicators for 2021, RUB bln (IAS 17)

	Sales and growth	Gross profit and margin	EBITDA and margin	Net Income and margin
Consensus average	1,844.5 *18.7%*	434.8 *23.6%*	130.6 *7.1%*	48.9 *2.7%*
Reported	1,856.1 *19.5%*	439.2 *23.7%*	133.1 *7.2%*	51.7 *2.8%*

Consensus for key financial indicators for 2021, RUB bln (IFRS 16)

	Sales and growth	Gross profit and margin	EBITDA and margin	Net Income and margin
Consensus average	1,845.5 *18.7%*	434.8 *23.6%*	208.7 *11.3%*	43.3 *2.3%*
Reported	1,856.1 *19.5%*	439.2 *23.7%*	214.2 *11.5%*	48.1 *2.6%*

Source: Company collected recommendations and consensus for 2021 based on open sources

Shareholder and Investor Engagement (continued)

Bonds

The Company uses bonded loans as a form of debt financing for its business, which are primarily raised by issuing exchange bonds.

In 2021, PJSC Magnit had nine outstanding issues of exchange bonds (BO-003P-02, BO-003P-01, BO-003P-04, BO-003P-05, BO-002P-01, BO-002P-02, BO-002P-03, BO-002P-04, BO-001P-05) with a total nominal volume of RUB 100 bln (the volume in circulation at the end of the reporting year was RUB 90 bln, bonds issue BO-003P-02 was repaid on 24 February 2021).

Parameters of the BO-003P-02, BO-003P-01, BO-003P-04, BO-003P-05 series bonded loans of PJSC Magnit

Issue identification number and assignment date	4B02-02-60525-P-003P, 21.02.2019	4B02-01-60525-P-003P, 1.02.2019	4B02-04-60525-P-003P, 29.10.2019	4B02-05-60525-P-003P, 23.12.2019
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)
Number of securities	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten m ln)	10,000,000 (ten mln)
Nominal value of each security, RUB	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
Placement date	26.02.2019	05.02.2019	05.11.2019	26.12.2019
Placement method	public placement	public placement	public placement	public placement
Maturity date	728th day from the placement date	1,092th day from the placement date	910th day from the placement date	1,092th day from the placement date
Number of coupons	4	6	5	6
ISIN code	RU000A1004G9	RU000A1002U4	RU000A100ZS3	RU000A1018X4
Coupon rate	8.50 %	8.70%	6.90%	6.60%

Parameters of the BO-002P-01, BO-002P-02, BO-002P-03, BO-002P-04, BO-001P-05 series bonded loans of PJSC Magnit

Issue identification number and assignment date	4B02-01-60525-P-002P, 04.03.2020	4B02-02-60525-P-002P, 27.04.2020	4B02-03-60525-P-002P, 19.05.2020	4B02-04-60525-P-002P, 02.06.2021	4B02-05-60525-P-001P, 02.06.2021
Volume of issue, RUB	15,000,000,000 (fifteen bln)	10,000,000,000 (ten bln)	15,000,000,000 (fifteen bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)
Number of securities	15,000,000 (fifteen mln)	10,000,000 (ten mln)	15,000,000 (fifteen mln)	10,000,000 (ten mln)	10,000,000 (ten 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)
Placement price	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
Placement date	05.03.2020	29.04.2020	22.05.2020	02.06.2021	02.06.2021
Placement method	public placement	public placement	public placement	public placement	public placement
Maturity date	1,092th day from the placement date	1,092th day from the placement date	1,092th day from the placement date	1,092th day from the placement date	1,092th day from the placement date
Number of coupons	6	6	6	6	6
ISIN code	RU000A101HJ8	RU000A101MC3	RU000A101PJ1	RU000A1036H9	RU000A1036M9
Coupon rate	6.20%	6.70%	5.90%	7.05%	7.05%

Credit ratings

In 2021, leading rating agencies assigned credit ratings to the Company. ACRA affirmed its ratings of the Company and bonds. S&P upgraded its rating of the Company to BB+ (Outlook Stable). Credit ratings of PJSC Magnit as of 31 December 2021 are provided in the table.

Rating agency	Rating recipient	Rating	Forecast	Date of rating (issued / reaffirmed)
Standard & Poors	Issuer at international scale	BB+	Stable	17.12.2021
ACRA	Issuer at national scale	AA (RU)	Stable	02.06.2021
	Bonds BO-003P-01; BO-003P-04; BO-003P -05; BO-002P-01; BO-002P-02; BO-002P-03; BO-002P-04; BO-001P-05.	AA (RU)	–	02.06.2021

Shareholder and Investor Engagement (continued)

Dividends

The key objective of the Company's dividend policy is to provide increasing shareholder returns and ensure further growth of the Company's capitalisation. The dividend policy is also focused on optimising the balance between retained profit and shareholder returns.

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.

Report on announced and paid dividends in 2008–2021

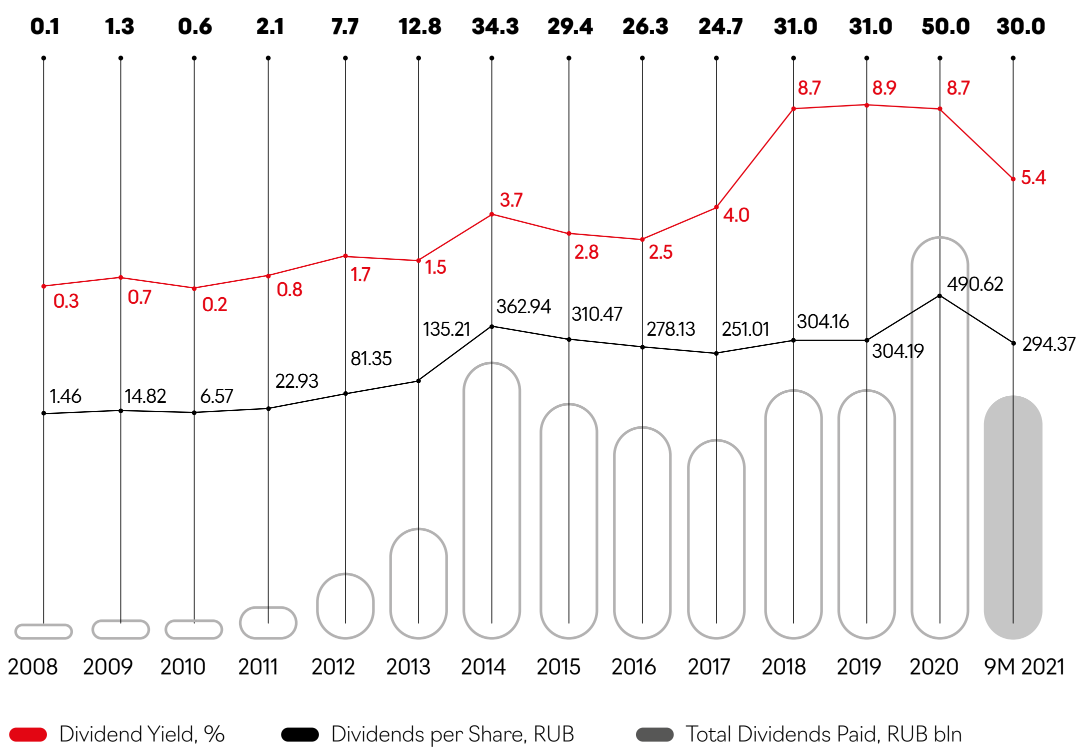
Year	Total dividends announced, RUB bln	Total dividends paid, RUB bln	Dividend per share, RUB
2008	0.1	0.1	1.46
2009	1.3	1.3	14.82
2010	0.6	0.6	6.57
2011	2.1	2.1	22.93
2012	7.7	7.7	81.35
2013	12.8	12.8	135.21
2014	34.3	34.3	362.94
2015	29.4	29.4	310.47
2016	26.3	26.3	278.13
2017	24.7	24.7	251.01
2018	31.0	31.0	304.16
2019	31.0	31.0	304.19
2020	50.0	50.0	490.62
9M 2021	30.0	30.0	294.37

A dividend payment in the amount of RUB 245.31 on the ordinary registered shares of PJSC Magnit in relation to the 2020 financial results was approved by the Annual General Meeting of Shareholders on 10 June 2021 (minutes dated 11 June 2021). Earlier, on 24 December 2020, the Extraordinary General Meeting of Shareholders approved a decision to pay dividends based on the results of 9 months 2020 in the amount of RUB 245.31 on the ordinary registered shares (minutes dated 25 December 2020).

Thus, the total payment of dividends for 2020 amounted to RUB 50 bln or RUB 490.62 per ordinary share, which is 61% higher compared to the amount paid for the previous year.

The Extraordinary General Meeting of Shareholders on 16 December 2021 (minutes dated 17 December 2021) approved the payment of an interim dividend in the amount of RUB 294.37 on the ordinary registered shares of PJSC Magnit which corresponds to the total payment of RUB 30 bln, based on the results of nine months of 2021.

Total Dividends Paid, RUB bln



Regulations on the dividend policy of PJSC Magnit (new edition) dated 27 May 2016
https://www.magnit.com/en/shareholders-and-investors/dividends/

Shareholder and Investor Engagement (continued)

Shareholder 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 and virtual meetings; conducting road shows and site visits; and participating in investment conferences and other events.

Eight conference calls and six publications regarding the financial and operational results were conducted by senior management in 2021, including dedicated investor calls focusing on the rationale, strategy and progress of discounter, private label initiatives and the Dixy acquisition. In 2021 the IR team also participated in a number of virtual conferences, including the ones with retail investors.

On 18 February 2021 Magnit held its Capital Markets Day and presented its 2025 Strategy. This event covered about 300 institutional and individual investors as well as media representatives.

The Company's management held six roadshows and together with the IR team participated in 199 different investor events covering 211 institutional investors in 2021. Seven conferences for individual investors were also held.

IR department activity

6 Financial and operational results releases

7 individual investor events

8 Calls with senior management

211 institutional investors covered

6 Roadshows

4 ESG events/ calls with investors

199 institutional investor events (e.g. conferences, consumer days, tours, forums, etc.), where Magnit participated

Magnit continued to develop its website to improve disclosure and the accessibility of information, including maintaining an up-to-date consensus forecast of key financial indicators based on analysts' forecasts. The Company also produced a corporate video highlighting its operations and achievements.

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
- Macroeconomic 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
- Expansion plans and M&A opportunities, including Dixy acquisition and status of integration
- Discounter pilot
- Sustainability of margins
- Working capital improvements
- Management KPIs and incentive schemes
- Management team changes
- Changes in the shareholder structure

Responding to our investors' concerns

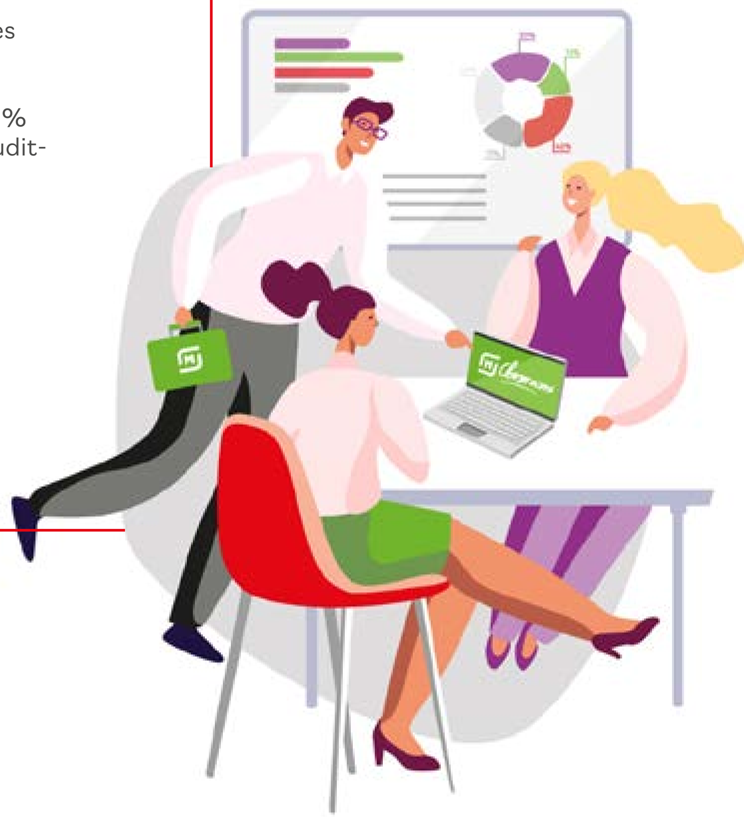
In 2021 we established an audit fee policy in response to investor concerns.

This important issue was highlighted at our AGM, a number of investors voted to not re-elect our auditors, E&Y, on the basis that non-audit related fees exceeded audit fees for the year ended 31 December 2020.

We took this issue seriously and sought to understand the reason why investors saw this issue as important.

We hired an external consultant to carry out a review to understand their concerns and expectations going forward.

This resulted in the creation of the Audit Fee Policy, which states that Magnit will limit the total fees for non-audit services in a calendar year to an amount not exceeding 50% of the total fees for the audit and audit-related services in the relevant year with effect from 1 January 2022.



Investor Calendar

2021-2022

2021

19 January 2021
Retail Investor Call (VTB Capital)
Virtual

4 February 2021
4Q&FY 2020 Unaudited Results & Conference Call
Krasnodar

11–12 February 2021
WOOD's EM Consumer & Industrials Virtual Conference
Virtual

18 February 2021
Capital Markets Day 2021
Virtual

9 March 2021
UBS Global Consumer & Retail Virtual Conference
Virtual

15 March 2021
FY 2020 Audited Financial Results
Krasnodar

16 March 2021
HSBC Central & Eastern Europe Conference
Virtual

17 March 2021
CFO Conference Call
Virtual

29 April 2021
1Q 2021 Trading Update and Financial Highlights Conference Call
Krasnodar

11–13 May 2021
Morgan Stanley EEMEA Conference
Virtual

18 May 2021
Retail Investor Call (Aton)
Virtual

19–21 May 2021
Sberbank CIB "The Inside Track" Virtual Conference
Virtual

2–4 June 2021
BAML Emerging Markets Debt & Equity Conference 2021
Virtual

9 June 2021
Retail Investor Call (Finam)
Virtual

22–25 June 2021
RenCap Russia conference
Virtual

7 July 2021
Discounters | Virtual Investor Meeting with Magnit COO
Virtual

8 July 2021
Retail Investor Call (BCS)
Virtual

26 July 2021
Dixy Acquisition Conference Call
Virtual

29 July 2021
2Q/1H 2021 Trading Update and Financial Highlights and Conference Call
Krasnodar

19 August 2021
1H 2021 Reviewed Financial Results
Krasnodar

1 September 2021
UBS Investor Trip
Virtual

7 September 2021
Retail Investor Call (Gazprombank)
Virtual

8–9 September 2021
Citi's GEMS Virtual Conference
Virtual

9–10 September 2021
GS Global Retail Conference

4–7 October 2021
HSBC Global Emerging Markets Forum
Virtual

20 October 2021
Retail Investor Call (Sberbank CIB)
Virtual

28 October 2021
3Q/9M 2021 Trading Update and Financial Highlights and Conference Call
Krasnodar

8–9 November 2021
Goldman Sachs CEEMEA One-on-One Conference
Virtual

16 November 2021
Retail Investor Call (VTB Capital)
Virtual

30 November–
2 December 2021
UBS Global Emerging Markets One-on-One Virtual Conference
Virtual

8–10 December 2021
WOOD's Winter Wonderland EME Conference
Virtual

2022

10–11 January 2022
Citi's 1st Emerging Europe Virtual Conference
Virtual

18–20 January 2022
JP Morgan CEEMEA Opportunities Conference
Virtual

25–26 January 2022
BofA EEMEA Stars Conference 2022
Virtual

4 February 2022
FY 2021 Unaudited Results and Conference Call
Krasnodar

17 February 2022
Capital Markets Day
Virtual

4 March 2022
FY 2021 Audited Financial Results
Krasnodar

Independent auditor's report on the consolidated financial statements of PJSC Magnit and its subsidiaries for 2021

March 2022

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 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2021, 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 2021 and its consolidated financial performance and its consolidated cash flows for 2021 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. the results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent auditor's report

(continued)

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 13 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 8 and 9 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
Provisional purchase price allocation in business combination	
On 22 July 2021, the Group acquired control of DIXY Holding Limited through the purchase of 100% of ordinary shares. We considered assessing the provisional purchase price allocation to be one of the matters of most significance in the audit of the consolidated financial statements, due to the fact that the goodwill from this acquisition, represented by the excess of the remuneration paid over the fair value of identifiable net assets of the acquired company in the amount of 65,411,968 thousand rubles, is the significant asset for the Group. Determining the fair value of assets and liabilities acquired in business combination involves significant judgments and estimates by the management and is performed with participation of an independent appraiser. Information about this acquisition is disclosed in Note 7 to the consolidated financial statements.	In the course of the audit procedures, we read the sale-purchase agreement between the Group and the seller of DIXY Holding Limited shares, and other transaction documentation affecting the accounting of the business combination. We evaluated the methodology and assumptions behind the significant judgments involved in the determination of the provisional fair values of the identifiable assets acquired. We involved our valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets and liabilities of the acquired subsidiary, and tested, on a sample basis, mathematical accuracy of the fair values of assets and liabilities of the subsidiary acquired. We assessed the disclosure of business combination in the consolidated financial statements.
Impairment testing of goodwill from acquisition of the SIA Group and the DIXY Group	
As at 31 December 2021, the balance of goodwill is 92,291,285 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC (hereinafter SIA Group), and 65,411,968 thousand rubles related to acquisition of DIXY Holding Limited (hereinafter DIXY Group). As a result of these transactions, the Group obtained control over the SIA Group and the DIXY Group. Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of cash generating units to which goodwill is allocated 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 and other. Information about goodwill is disclosed in Note 11 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 units. 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 units 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 9 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 2021

Other information consists of the information included in the Annual report of PJSC Magnit for 2021 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 2021 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 the 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.

The 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 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 the 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 the 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.

Independent auditor's report
(continued)

From the matters communicated with the 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,

acting on behalf of Ernst & Young LLC
on the basis of power of attorney dated 1 March 2022
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906101744)

3 March 2022

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..

Details of the audited entity

Name: PJSC Magnit

Record made in the State Register of Legal Entities on 12 November 2003, State Registration Number 1032304945947.

Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5..

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements
for the year ended 31 December 2021

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 2021 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 2021 were approved by management on 3 March 2022.

On behalf of the management as authorised by the Board of Directors.

The Chief Executive Officer of PJSC Magnit

J.G. Dunning

3 March 2022

Consolidated statement of financial position as at 31 December 2021

(In thousands of Russian rubles)

	Notes	31 December 2021	31 December 2020 (Note 4.1)*
Assets			
Non-current assets			
Property, plant and equipment	8	377,302,570	336,125,498
Advances paid for the purchase and construction of property, plant and equipment		1,614,644	387,846
Right-of-use assets	9	397,835,247	308,444,695
Intangible assets	10	19,249,279	5,506,252
Long-term net investments in sublease		18,635	—
Goodwill	11	92,291,285	26,879,317
Long-term financial assets	12	1,033,846	1,117,551
		889,345,506	**678,461,159**
Current assets			
Inventories	13	224,873,040	205,949,194
Trade and other receivables	14	11,726,775	8,563,822
Advances paid and other prepaid expenses	15	9,198,907	6,663,337
Taxes receivable, excluding income tax		164,084	75,650
Short-term net investments in sublease		8,404	—
Short-term financial assets		289,748	317,672
Income tax receivable		438,559	661,791
Cash and cash equivalents	16	73,398,608	44,699,581
		320,098,125	**266,931,047**
Total assets		**1,209,443,631**	**945,392,206**
Equity and liabilities			
Equity attributable to the shareholders of the parent			
Share capital	17	1,020	1,020
Share premium	17	87,326,641	87,390,921
Treasury shares	17	(15,028,071)	(16,021,596)
Share-based payments reserve	32	1,877,419	2,055,322
Retained earnings		104,808,170	109,463,257
Total equity		**178,985,179**	**182,888,924**

* Some of the above amounts are not consistent with consolidated financial statements for 2020 and reflect the adjustments described in Note 4.1.

The accompanying notes on pages 14-79 are an integral part of these consolidated financial statements.

	Notes	31 December 2021	31 December 2020 (Note 4.1)*
Non-current liabilities			
Long-term payables	19	2,553,058	—
Long-term loans and borrowings	21	205,286,600	147,694,926
Long-term lease liabilities	9	396,043,533	316,141,855
Long-term advances received		57,080	—
Long-term government grants	22	2,363,865	2,167,641
Deferred tax liabilities	30	9,114,787	12,225,590
		615,418,923	**478,230,012**
Current liabilities			
Trade and other payables	19	240,771,082	184,324,892
Taxes payable, excluding income tax	20	14,718,445	11,854,351
Dividends payable	18	28,829,503	24,094,729
Short-term advances received		888,397	955,732
Contract liabilities	23	4,176,829	2,592,558
Short-term government grants	22	253,475	627,304
Short-term loans and borrowings	21	65,139,311	18,391,601
Short-term lease liabilities	9	60,262,487	41,432,103
		415,039,529	284,273,270
Total liabilities		**1,030,458,452**	**762,503,282**
Total equity and liabilities		**1,209,443,631**	**945,392,206**

* Some of the above amounts are not consistent with consolidated financial statements for 2020 and reflect the adjustments described in Note 4.1.

The accompanying notes on pages 14-79 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2021

(In thousands of Russian rubles)

	Notes	2021	2020 (Note 4.1)*
Revenue	24	1,856,078,950	1,553,777,351
Cost of sales	25	(1,416,814,680)	(1,188,021,688)
Gross profit		**439,264,270**	**365,755,663**
Rental and sublease income		4,110,784	3,153,243
Selling, general and administrative expenses	26	(356,961,600)	(296,425,439)
Other income	29	24,742,259	17,069,195
Other expenses		(2,258,726)	(1,129,018)
Operating profit		**108,896,987**	**88,423,644**
Interest income	27	2,547,456	504,476
Finance costs	28	(49,125,469)	(44,772,274)
Foreign exchange gain/(loss)		280,745	(1,453,331)
Profit before income tax		**62,599,719**	**42,702,515**
Income tax expense	30	(14,493,857)	(9,709,223)
Profit for the year		**48,105,862**	**32,993,292**
Total comprehensive income for the year, net of tax		**48,105,862**	**32,993,292**
Profit for the year			
Attributable to:			
Shareholders of the parent		48,105,862	32,993,292
		48,105,862	**32,993,292**
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		48,105,862	32,993,292
		48,105,862	**32,993,292**
Earnings per share (in RUB per share)			
– basic profit for the year attributable to the shareholders of the parent	31	491.69	337.95
– diluted profit for the year attributable to the shareholders of the parent	31	488.78	336.07

The accompanying notes on pages 14-79 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(In thousands of Russian rubles)

	Notes	2021	2020 (Note. 4.1)*
Cash flows from operating activities			
Profit before income tax		**62,599,719**	**42,702,515**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8, 9, 26	101,936,190	88,061,585
Amortization of intangible assets	10, 26	3,387,190	1,703,793
Loss/(gain) from disposal of property, plant and equipment		494,079	(1,165,190)
Loss from disposal of intangible assets	10	4,035	45,065
Changes in expected credit losses for receivables	14, 26	(103,510)	451,920
Impairment and write-offs of advances paid	15, 26	132,090	132,207
Provision for expected credit losses on financial assets		—	247,436
Expenses for inventories carried at net realizable value	13	2,904,292	597,351
Share-based payments reserve	32	840,399	876,076
Gain from cancellation of lease contracts	9, 29	(1,070,698)	(1,687,459)
Gain from Covid-19 related rent concessions	9, 29	(1,819,124)	(1,481,968)
Income from government grants	22	(242,801)	(664,257)
Foreign exchange (gain)/loss		(280,745)	1,453,331
Finance costs	28	49,125,469	44,772,274
Interest income	27	(2,547,456)	(504,476)
Operating profit before changes in operating assets and liabilities		**215,359,129**	**175,540,203**
(Increase)/decrease in trade and other receivables		(769,807)	4,021,037
Increase in advances paid and other prepaid expenses		(2,156,435)	(369,376)
(Decrease)/increase in advances received		(44,244)	14,583
Decrease in taxes receivable		76,435	1,388,557
(Increase)/decrease in inventories		(3,073,283)	12,327,041
Increase in long-term and short-term trade and other payables		22,600,579	4,098,609
Increase in tax payables		542,720	7,563,344
Increase in contract liabilities		1,323,063	1,535,847
Cash generated from operations		**233,858,157**	**206,119,845**

* Some of the above amounts are not consistent with consolidated financial statements for 2020 and reflect the adjustments described in Note 4.1.

The accompanying notes on pages 14-79 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(In thousands of Russian rubles) (continued)

	Notes	2021	2020 (Note. 4.1)*
Income tax paid		(18,213,507)	(13,088,683)
Interest paid		(48,632,139)	(43,820,851)
Interest received		2,457,340	400,901
Net cash from operating activities		**169,469,851**	**149,611,212**
Cash flows from investing activities			
Purchase of property, plant and equipment		(52,781,645)	(28,136,397)
Purchase of intangible assets		(7,093,766)	(3,340,433)
Proceeds from sale of property, plant and equipment		1,050,808	2,069,928
Acquisition of a subsidiary, net of cash acquired	7	(68,148,804)	—
Loans provided		(11,495)	—
Loans repaid		230,674	196,832
Proceeds from government grants	22	65,196	190,269
Net cash used in investing activities		**(126,689,032)**	**(29,019,801)**
Cash flows from financing activities			
Proceeds from loans and borrowings	34	169,505,660	452,555,765
Repayment of loans and borrowings	34	(88,752,694)	(471,761,619)
Dividends paid	18	(48,115,232)	(29,871,472)
Repayment of lease liabilities	9	(46,719,526)	(35,715,802)
Net cash used in financing activities		**(14,081,792)**	**(84,793,128)**
Net increase in cash and cash equivalents		**28,699,027**	**35,798,283**
Cash and cash equivalents at the beginning of the year	16	44,699,581	8,901,298
Cash and cash equivalents at the end of the year	16	**73,398,608**	**44,699,581**

* Some of the above amounts are not consistent with consolidated financial statements for 2020 and reflect the adjustments described in Note 4.1.

The accompanying notes on pages 14-79 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2021

(In thousands of Russian rubles)

	Notes	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 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	18	—	—	—	—	(39,513,258)	(39,513,258)
Share-based payments	32	—	—	—	876,076	—	876,076
Transfer of rights to equity instruments for share based payments	17, 32	—	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**
Balance at 1 January 2021		**1,020**	**87,390,921**	**(16,021,596)**	**2,055,322**	**109,463,257**	**182,888,924**
Profit for the year		—	—	—	—	48,105,862	48,105,862
Total comprehensive income for the year		—	—	—	—	**48,105,862**	**48,105,862**
Dividends declared	18	—	—	—	—	(52,850,006)	(52,850,006)
Share-based payments	32	—	—	—	840,399	—	840,399
Transfer of rights to equity instruments for share based payments	17, 32	—	(64,280)	993,525	(929,245)	—	—
Canceled rights to equity instruments for share based payments		—	—	—	(89,057)	89,057	—
Balance at 31 December 2021		**1,020**	**87,326,641**	**(15,028,071)**	**1,877,419**	**104,808,170**	**178,985,179**

Notes to the consolidated financial statements for the year ended 31 December 2021

(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, the DIXY and the Megamart names. 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 2021	Ownership interest as at 31 December 2020
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 services	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 Zelen Yuga[1]	Production of agricultural products 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 MF-SIA	Management activities	100%	100%
LLC SIA International – Vladivostok[2]	Commission trade of medicines and medical products	—	100%
LLC SIA International – Nizhniy Novgorod[2]	Commission trade of medicines and medical products	—	100%
LLC SIA International – Khabarovsk[2]	Commission trade of medicines and medical products	—	100%
Stellary Cosmetic GmBH	Holder of intangible assets	100%	100%
LLC Gastronom Media[3]	Marketing services	100%	—
DIXY Holding Limited[4]	Investment holding	100%	—
JSC DIXY Group[4]	Investment holding	100%	—
JSC DIXY Ug[4]	Food retail and wholesale	100%	—
LLC Mit[4]	IT services	100%	—
LLC DIXY Snezhinsk[4]	Assets holder	100%	—
LLC Argument[4]	Assets holder	100%	—

[1] In 2021, Moroznye pripasy LLC was renamed to Zelen Yuga LLC; the company also changed its core activities from food production to production of agricultural goods for the Group.

[2] 2021, the management of the Group decided to liquidate a number of the SIA group companies engaged in commission trade of medicines and medical products. Liquidation of these companies did not have a significant impact on the consolidated financial statements of the Group and its operations.

[3] During the 12 months ended 31 December 2021, the company Gastronome Media LLC was established, the main activity of which is the provision of marketing services. This change did not have any significant impact on the consolidated financial statements of the Group and its operations.

[4] During the 12 months ended 31 December 2021, the Group obtained control over 100% of ordinary shares of DIXY Holding Limited, more details on business combination are disclosed in Note 7.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

2. Basis of preparation of the financial statements

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 or business acquisition date.

Functional currency
The Russian ruble is the functional currency of the main companies within the Group and the currency in which these consolidated financial statements are presented.

Going concern
In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2022, taking into account Russia's current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones (Note 34).

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Current versus non-current classification of assets and liabilities

The Group presents assets and liabilities in statement of financial position based on current/ non-current classification. An asset is current when it is:

— expected to be realised or intended to be sold or consumed in normal operating cycle;
— held primarily for the purpose of trading;
— expected to be realised within twelve months after the reporting period; or
— cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

— it is expected to be settled in normal operating cycle;
— it is held primarily for the purpose of trading;
— it is due to be settled within twelve months after the reporting period; or
— there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

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 re-assessing 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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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 specially 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 is recognized in the reporting period, when the services were provided, because the customer simultaneously receives and consumes the benefits provided to them by the Group. Revenue from packaging materials is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group classifies such types of revenue within other income.

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
Vehicles	>1-10

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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.

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 disposa proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

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:

- buildings from 1 to 28 years;
- land from 1 to 54 years.

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-to-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 and leases of low-value assets
The Group applies the short-term lease recognition exemption and exemption for lease of low-value assets to its leases contracts (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 or leases agreement of low-value assets). Lease payments on short-term leases and leases of low-value assets 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.

The Group classifies a sublease contract as a finance lease if the lease term constitutes a major part of the useful life of the underlying asset or at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset even if title is not transferred upon expiry of the lease.

Finance leases under sublease contracts are capitalized at the commencement date of the lease at the fair value of future minimum lease payments as receivables within "Net investments in sublease" in the Group's consolidated statement of financial position.

Lease payments are apportioned between interest (recognized as finance income) and a reduction in sublease receivables. At the same time, the Group recognizes a partial disposal of right-of-use assets related to leased premises at the proportionate share of subleased premises in total leased trade space.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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).

Contract balances with customers

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade and other receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees receive equity instruments as consideration for rendered services (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service conditions and, where applicable, the performance conditions are fulfilled (the vesting period).

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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 2021 and 2020. 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 2021 and 2020 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.

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; and insolvency or bankruptcy of the Group or any of counterparties.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

3. Summary of significant accounting policies (continued)

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 Reclassification in the consolidated financial statements

The Group changed the presentation of certain items in the Group's consolidated statement of financial position as of 31 December 2021, the consolidated statement of comprehensive income for 2021, and the consolidated statement of cash flows for the year ended 31 December 2021. The comparative amounts as at 31 December 2020 and for the year ended 31 December 2020 have been aligned with the newly adopted format of presentation.

The Group made the following changes with respect to comparative data in the consolidated statement of financial position as at 31 December 2020:

— RUB 23,252,598 thousand were reclassified from "Accrued expenses" to "Trade and other payables";
— "Prepaid expenses" and "Advances paid" were combined into "Advances paid and other prepaid expenses";
— RUB 387,846 thousand were reclassified from "Property, plant and equipment" to "Advances paid for the purchase and construction of property, plant and equipment".

The Group made the following changes with respect to comparative data in the consolidated statement of comprehensive income for the year ended 31 December 2020:

— sub-title operating profit has been presented. Operating profit includes other income and other expenses, as these items relate to the Group's main operating activities;
— "Selling expenses" and "General and administrative expenses" were combined into "Selling, General and administrative expenses".

The Group made the following changes with respect to comparative data in the consolidated statement of cash flows for the year ended 31 December 2020:

— RUB 132, 207 thousand were reclassified from "Decrease in advances paid" to "Impairment and write-off of advances paid";
— RUB 6,232,493 thousand were reclassified from "Increase in accrued expenses" to "Increase in long-term and short-term trade and other payables";
— "Increase in prepaid expenses" and "Decrease/increase in advances paid" were combined into "Increase in advances paid and other prepaid expenses".

Impact on the condensed consolidated statement of financial position as at 31 December 2020 (increase/(decrease) per line item):

	31 December 2020 as previously reported	Effect of eclassification	31 December 2020 as restated
Non-current assets			
Property, plant and equipment	336,513,344	(387,846)	336,125,498
Advances paid for the purchase and construction of property, plant and equipment	—	387,846	387,846
Total non-current assets	**678,461,159**	—	**678,461,159**
Current assets			
Advances paid and other prepaid expenses	—	6,663,337	6,663,337
Advances paid	5,581,366	(5,581,366)	—
Prepaid expenses	1,081,971	(1,081,971)	—
Total current assets	**266,931,047**	—	**266,931,047**
Total assets	**945,392,206**	—	**945,392,206**
Current liabilities			
Trade and other payables	161,072,294	23,252,598	184,324,892
Accrued expenses	23,252,598	(23,252,598)	—
Total current liabilities	**284,273,270**	—	**284,273,270**
Total liabilities	**762,503,282**	—	**762,503,282**
Total equity and liabilities	**945,392,206**	—	**945,392,206**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

Impact of the changes on comparative data in the consolidated statement of comprehensive income for the year ended 31 December 2020 is presented below:

	2020 as previously reported	Effect of restatement	2020 as restated
Selling expenses	(16,887,124)	16,887,124	—
General and administrative expenses	(279,538,315)	279,538,315	—
Selling, general and administrative expenses	—	(296,425,439)	(296,425,439)

The table below shows the effect of changes on the consolidated statement of cash flows for the year ended 31 December 2020:

	2020 as previously reported	Effect of restatement	2020 as restated
Cash flows from operating activities			
Adjustments for:			
Impairment and write-off of advances paid	—	132,207	132,207
Cash flows from operating activities before changes in working capital	**175,407,996**	**132,207**	**175,540,203**
Increase in long-term and short-term trade and other payables	(2,133,884)	6,232,493	4,098,609
Increase in accrued expenses	6,232,493	(6,232,493)	—
Decrease/(increase) in advances paid	188,592	(188,592)	—
Increase in prepaid expenses	(425,761)	425,761	—
Increase in advances paid and other prepaid expenses	—	(369,376)	(369,376)
Cash flows from operating activities	**206,119,845**	—	**206,119,845**

4.2 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 2021, the accounting policies adopted in the preparation of the annual consolidated financial statements for 2021 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- provide temporary relief to entities from having to meet the separately identifiable requirement when an risk-free interest rate instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16
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 was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Group applied this practical expedient in the consolidated financial statements.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

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 IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Comparative Information
The amendments are a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendments are aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

IFRS 17 incorporating the amendments are effective for annual reporting periods beginning on or after 1 January 2023.

IFRS 17 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.

In November 2021 the IASB proposed amendments to IAS 1 *Presentation of Financial Statements* to improve the information companies provide about long-term debt with covenants.

IAS 1 requires a company to classify a liability as non-current only if the company has a right to defer settlement of the liability for at least 12 months after the reporting date. However, such a right is often subject to the company complying with covenants after the reporting date. For example, a company might have long-term debt that could become repayable within 12 months if the company fails to comply with covenants after the reporting date.

The proposed amendments would specify that, in such a situation, covenants would not affect the classification of a liability as current or non-current at the reporting date. Instead, a company would:

- present non-current liabilities that are subject to covenants on the statement of financial position separately from other non-current liabilities; and disclose information about the covenants in the notes to its financial statements, including their nature and whether the company would have complied with them based on its circumstances at the reporting date.

The IASB expects that these proposals will improve the information a company provides about non-current liabilities with covenants by enabling investors to assess whether such liabilities could become repayable within 12 months.

The proposals also address feedback from stakeholders about the classification of debt as current or non-current when applying requirements introduced in 2020 that are not yet in effect. Consequently, the IASB is also proposing to defer the effective date of those requirements to align with the proposed amendments.

The IASB proposed to defer the effective date to no earlier than 1 January 2024. Comments are due to be received by the IASB by 21 March 2022.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The IASB has amended IAS 12, Income Taxes, to require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations.

Paragraphs 15 and 24 of IAS 12 were amended to include an additional condition where the initial recognition exemption is not applied. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences. Paragraph 22A has been added to provide further clarification of this principle. Paragraphs 22(b) and 22(c) of IAS 12 have also been amended.

These amendments might have a significant impact on the preparation of financial statements by companies that have substantial balances of right-of-use assets, lease liabilities, decommissioning, restoration and similar liabilities. The impact for those affected would be the recognition of additional deferred tax assets and liabilities.

These amendments should be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments should be applied on a modified retrospective basis. The Group is currently assessing the impact on the consolidated financial statements.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

4. Summary of changes in accounting policies and disclosures (continued)

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.

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.

The amendment is not applicable to the Group.

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 material impact on the consolidated financial statements of the Group.

Amendments to 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 material impact on the consolidated financial statements of the Group.

Amendments to IAS 8 Definition of Accounting Estimates
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have material impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements,* in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

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.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

5. Significant accounting judgements and estimates (continued)

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;
— 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, information and consulting services from related parties, receives loans from them, places deposits, receives income from renting premises, and performs transactions with financial assets and recognizes income on them.

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).

As at 31 December 2020 and for the period from 1 January 2021 to 26 November 2021, Bank VTB PJSC was a shareholder of the Group and had a significant influence over the Group.

On 26 November 2021 the share of votes held by Bank VTB PJSC on the Company's shares was reduced to 7.727%, of which 7.72% is held by VTB Group companies under the repurchase agreement with Marathon Retail LLC. Starting from the above date, Bank VTB PJSC and VTB Group companies ceased to be related parties of the Group.

On 26 November 2021, the share of votes held by Marathon Group on the Company's shares was increased to 24.99%, of which Marathon Retail LLC owns 18.94%. In respect of 3.49% of the Company's voting shares the right to dispose votes is held by Marathon Retail LLC on the basis of the repurchase agreements concluded with VTB Group. Marathon Group will also receive right to dispose 4.23% of the Company's voting shares after the Federal Antimonopoly Service (FAS) of Russia upholds the respective motion of Marathon Retail LLC on the basis of the above mentioned repurchase agreements.

Marathon Retail LLC is the Group's shareholder having a significant influence on the Group starting from 26 November 2021. Marathon Group companies are included in other related parties of 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 2021 and 31 December 2020 are presented as follows:

	Shareholders		Other related parties	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Long-term financial assets (Note 12)	—	—	1,014,994	—
Other receivables (Note 14)	—	2,567	—	3,114
Short-term financial assets (Note 12)	—	—	200,000	—
Other payables (Note 19)	—	20,583	—	165,670
Advances received	—	11,890	—	492

The Group's transactions with related parties for the years ended at 31 December 2021 and 31 December 2020 are presented as follows:

	Shareholders		Other related parties	
	2021	2020	2021	2020
Interest income (Note 27)	702,834	49,429	9,282	—
Selling, general and administrative expenses	91,329	91,134	734,420	79,228
Rent and utilities income	35,105	28,839	442	2,041
Other income	4,378	61	38,579	23,998
Purchases of inventory	—	—	1,241,667	564,472
Loans receivable repayment	—	—	200,000	—
Finance costs	—	309,193	7,909	—
Repayment of loans received, incl. finance costs	—	33,509,193	—	—

No guarantees have been given to or received from related parties.

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 2021 amounted to RUB 2,101,606 thousand (2020: RUB 1,733,030 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 2021, information on these accruals is disclosed in the Note 32.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

7. Business combination

Acquisition of holding company "DIXY Holding Limited"

On 22 July 2021, the Group acquired control over DIXY Holding Limited by purchasing 100% of its ordinary shares. DIXY Holding Limited is registered in the Republic of Cyprus, has a permanent establishment and tax residence in the Russian Federation. DIXY Holding Limited is a holding company of DIXY Group, which includes the following legal entities: "DIXY Group" JSC, "DIXY-Yug" JSC, "DIXY-Snezhinsk" LLC, "MIT" LLC, "Argument" LLC which are located in the Russian Federation ("DIXY Group"). Shares and securities of DIXY Group companies are not admitted to organized trading.

DIXY Group is primarily engaged in food retail in the Russian Federation. As at the acquisition date, DIXY Group operated 2,438 convenient stores under the "DIXY" brand and 39 supermarkets under the "Megamart" brand.

The Group's management expects that acquisition of the retail business of DIXY will significantly increase the Group's competitiveness in the Russian food retail sector. Strong presence in the strategically important Moscow and Northwestern regions will significantly enhance the market position, including a significant growth of the market share in Moscow and St. Petersburg. The Group also expects to enjoy synergy gains in purchases, category management and business processes, leading to an increase in the shareholder value of the Group taken as a whole.

Assets acquired and liabilities assumed

The assets and liabilities of the DIXY Group, recognised in the financial statements as at 31 December 2021, were based on a provisional assessment of their fair value, since independent appraisal of DIXY Group's property, plant and equipment, intangible assets, and assessment of the favorable and unfavorable terms of the lease when compared to market for the following adjustments of the right-of-use assets and assessment of the other assets and liabilities had not been completed by the date when the 2021 financial statements were approved for issue by the Board of Directors.

In connection with this the Group was in the process of completion of assessment and purchase price allocation at the reporting date. The Group plans to complete its fair value measurement of assets and liabilities of DIXY Group by July 2022.

The information about provisional fair values of identifiable assets and liabilities of DIXY Group at the date of acquisition is disclosed below:

	Provisional fair value recognized on acquisition
Assets	
Property, plant and equipment (Note 8)	36,140,434
Advances paid for the purchase and construction of property, plant and equipment	445,933
Right-of-use assets (Note 9)	76,676,831
Intangible assets (Note 10)	7,189,391
Long-term net investments in sublease	16,730
Short-term net investments in sublease	11,519
Inventories	18,754,855
Trade and other receivables	2,298,083
Advances paid and other prepaid expenses	511,225
Taxes receivable, excluding income tax	164,869
Cash and cash equivalents	27,967,922
	170,177,792
Liabilities	
Long-term loans and borrowings	236,741
Long-term lease liabilities (Note 9)	69,143,140
Deferred tax liabilities (Note 30)	771,108
Trade and other payables	30,094,440
Taxes payable, excluding income tax	2,321,374
Income tax payable	60,971
Short-term advances received	33,989
Contract liabilities	261,208
Short-term loans and borrowings	22,858,887
Short-term lease liabilities (Note 9)	13,691,176
	139,473,034
Total identifiable net assets measured at fair value	**30,704,758**
Goodwill arising on acquisition (Note 11)	65,411,968
Consideration transferred on acquisition	**(96,116,726)**

The fair value of trade and other receivables is RUB 2,298,083 thousand. The gross amount of trade and other receivables under the contract is RUB 2,757,330 thousand, the amount equaled to RUB 459,247 thousand is not expected to be received at the acquisition date.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

7. Business combination (continued)

The Group measured the acquired lease liabilities using the present value of the remaining lease payments as at the acquisition date. Right-of-use assets were measured in the amount equal to the amount of lease liabilities adjusted to reflect favorable and unfavorable terms of the lease when compared with market.

A deferred tax asset consists mainly of the asset recorded in respect of right-of-use assets and lease liabilities. The deferred tax asset will be realized in subsequent periods upon recognition of depreciation of the right-of-use asset and finance expenses related to the lease liability within profit or loss for the period. A deferred tax liability resulted mainly from a difference between the carrying amounts of property, plant and equipment and intangible assets determined for tax and financial reporting purposes. The deferred tax asset and deferred tax liability are presented in the consolidated financial statements on a net basis.

The goodwill of RUB 65,411,968 thousand is attributable to the business concentration in the strategically important Moscow and Northwestern regions and expected synergies arising from the acquisition. The total amount of goodwill is allocated to the Group's activities under the next groups of cash generating units: "Magnit convenience", "Magnit Semeyniy", "DIXY" and "Megamart", including stores and warehouses related to them. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, DIXY Group contributed RUB 133,940,617 thousand of revenue and RUB 2,382,943 thousand of profit before tax of the Group.

If the business combination had taken place at the beginning of the year, the Group's revenue would have been RUB 2,019,502,746 thousand. The effect of this factor on the Group's profit before tax cannot be estimated, as DIXY Group did not report under the Group's accounting policies before the merger.

Cash flow analysis for acquisitions

Transaction support costs (included in cash flows from operating activities)	(778,191)
Net cash acquired in business combination (included in cash flows from investing activities)	27,967,922
Cash paid	(96,116,726)
Net cash flows on acquisition	**(68,926,995)**

Transaction costs of RUB 778,191 thousand were included in selling, general and administrative expenses.

Fair value of each type of consideration paid on acquisition

Cash paid on acquisition	87,575,153
Adjustment of transaction price	8,541,573
Total consideration paid	**96,116,726**

At the date of obtaining control the Group paid RUB 87,575,153 thousand in cash for the shares acquisition of DIXY Holding Limited. This amount represented the initial consideration under the contract for the purchase of DIXY Holding Limited's shares (the "Contract") reduced by RUB 1,424,847 thousand due to the exclusion of the 148 DIXY Group's stores from the transaction in order to comply with legislation on competition protection and trade.

In addition, the Contract provided for an adjustment of the consideration depending on the difference between the target and actual values of net debt and net working capital according to DIXY Holding Limited's consolidated financial statements at the time of completing the transaction. The adjusted consideration amounted to RUB 8,541,573 thousand and was fully paid by the Group in cash to the previous owner.

The Contract also provided a condition about contingent consideration, the fair value of which the Group estimated as insignificant.

8. Property, plant and equipment

Property, plant and equipment as at 31 December 2021 consisted of the following:

	Land	Buildings	Machinery and equipment	Vehicles	Assets under construction	Total
Cost						
At 1 January 2021	14,004,986	338,225,881	145,154,891	31,422,940	10,544,806	**539,353,504**
Business combination (Note 7)	1,780,495	23,174,463	7,828,741	3,183,630	173,105	**36,140,434**
Additions	7,965	—	27,089,474	7,720,440	21,443,872	**56,261,751**
Transfers	—	21,932,653	—	—	(21,932,653)	—
Disposals	(28,151)	(7,050,674)	(7,986,901)	(3,500,811)	(69,469)	**(18,636,006)**
At 31 December 2021	**15,765,295**	**376,282,323**	**172,086,205**	**38,826,199**	**10,159,661**	**613,119,683**
Accumulated depreciation and impairment						
At 1 January 2021	—	(81,519,114)	(101,032,702)	(19,966,404)	(709,786)	**(203,228,006)**
Depreciation for the year	—	(21,311,126)	(20,959,033)	(4,514,778)	—	**(46,784,937)**
Impairment for the year	(95,059)	(2,677,689)	(45,049)	—	(393,610)	**(3,211,407)**
Reversal of impairment losses	—	307,322	8,210	—	586	**316,118**
Disposals	—	6,909,170	7,322,178	2,859,771	—	**17,091,119**
At 31 December 2021	**(95,059)**	**(98,291,437)**	**(114,706,396)**	**(21,621,411)**	**(1,102,810)**	**(235,817,113)**
Net book value						
At 1 January 2021	**14,004,986**	**256,706,767**	**44,122,189**	**11,456,536**	**9,835,020**	**336,125,498**
At 31 December 2021	**15,670,236**	**277,990,886**	**57,379,809**	**17,204,788**	**9,056,851**	**377,302,570**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

8. Property, plant and equipment (continued)

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

	Land	Buildings	Machinery and equipment	Vehicles	Assets under construction	Total
Cost						
At 1 January 2020	14,013,576	327,078,060	136,281,849	37,228,490	10,183,421	**524,785,396**
Additions	—	—	12,972,082	1,301,557	15,486,523	**29,760,162**
Transfers	—	14,965,156	—	—	(14,965,156)	**—**
Disposals	(8,590)	(3,817,335)	(4,099,040)	(7,107,107)	(159,982)	**(15,192,054)**
At 31 December 2020	**14,004,986**	**338,225,881**	**145,154,891**	**31,422,940**	**10,544,806**	**539,353,504**
Accumulated depreciation and impairment						
At 1 January 2020	—	(65,460,025)	(85,932,297)	(22,288,558)	—	**(173,680,880)**
Depreciation for the year	—	(18,795,931)	(18,657,366)	(4,539,806)	—	**(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	3,558,121	6,861,960	102,957	**14,287,316**
At 31 December 2020	**—**	**(81,519,114)**	**(101,032,702)**	**(19,966,404)**	**(709,786)**	**(203,228,006)**
Net book value						
At 1 January 2020	**14,013,576**	**261,618,035**	**50,349,552**	**14,939,932**	**10,183,421**	**351,104,516**
At 31 December 2020	**14,004,986**	**256,706,767**	**44,122,189**	**11,456,536**	**9,835,020**	**336,125,498**

* The Group has changed the classification and disclosure by group of property, plant and equipment as at 31 December 2020, and for the year ended 31 December 2020 in order to present more accurate and relevant information to users.

The rate used to determine the amount of borrowing costs eligible for capitalization was approximate to weighted average effective interest rate for the period.

The information on interest expenses included in the cost of qualifying assets is disclosed in Note 28.

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 2021, 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 for 2021,the Group recognized impairment losses in the consolidated statement of comprehensive income of RUB 3,211,407 thousand for the tested assets, the total amount of the impairment losses is attributable to the Group's property, plant, and equipment (as for 2020: in the amount of RUB 2,973,036 thousand, including impairment of property, plant and equipment in the amount of RUB 2,141,557 thousand, right-of-use assets in the amount of RUB 831,479 thousand rubles). As for 2021 the amount of reversals of impairment losses of property, plant and equipment amounted to RUB 316,118 thousand, right-of-use assets – RUB 524,004 thousand (as for 2020: the amount of reversals of impairment losses of property, plant and equipment in the amount of RUB 300,218 thousand, right-of-use assets in the amount of RUB 303,769 thousand).

Group approach for impairment testing

The evaluation was performed at the lowest level of aggregation of assets that is able to generate independent cash inflows (CGU), which is generally at the individual store level.

In determining units that generate substantially independent cash inflows management of the Group considered a number of factors, including how it controls performance of CGUs, how it makes decisions about liquidation of assets or continuance of CGUs operations.

The Group compared recoverable amount of an individual CGU with its carrying amount for the purpose of impairment test. The recoverable amount is measured as the 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 of the main assumptions applied in the model of the expected cash flows is increase of revenue by 4.6% (mainly driven by CPI) (2020: 4.2%).

Cash flow forecasts for capital expenditure are based on the 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 13.63%. (2020: 12.81%).

The Group's management believes that all of its estimates are reasonable and consistent with the way 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 215,959 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 165,022 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 227,541 thousand.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

9. Lease

Group as a lessee

Right-of-use assets and lease liabilities
As at 31 December 2021, right-of-use assets consisted of the following:

	Buildings	Land	Other assets	Total
Cost				
As at 1 January 2021	**516,163,117**	**4,871,966**	**—**	**521,035,083**
Business combination (Note 7)	76,155,720	314,473	206,638	**76,676,831**
Additions	50,127,475	128,908	1,035	**50,257,418**
Modification	16,238,489	(4,143)	2,438	**16,236,784**
Indexation*	2,401,868	26,633	—	**2,428,501**
Derecognition	(7,224,184)	(29,688)	—	**(7,253,872)**
As at 31 December 2021	**653,862,485**	**5,308,149**	**210,111**	**659,380,745**
Accumulated depreciation and impairment				
As at 1 January 2021	**(211,716,722)**	**(873,666)**	**—**	**(212,590,388)**
Depreciation for the year	(53,133,875)	(141,250)	(25,321)	**(53,300,446)**
Reversal of impairment losses (Note 8)	524,004	—	—	**524,004**
Derecognition	3,815,483	5,849	—	**3,821,332**
As at 31 December 2021	**(260,511,110)**	**(1,009,067)**	**(25,321)**	**(261,545,498)**
Net book value				
As at 1 January 2021	**304,446,395**	**3,998,300**	**—**	**308,444,695**
As at 31 December 2021	**393,351,375**	**4,299,082**	**184,790**	**397,835,247**

* Revaluation of rental payments that depend on the index (linked to CPI).

In 2021 depreciation of a right-of-use assets in the amount of RUB 520,478 thousand was capitalized to the value of property, plant and equipment.

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 8)	(831,479)	—	**(831,479)**
Reversal of impairment losses (Note 8)	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**

* Revaluation of rental payments that depend on the index (linked to CPI).

In 2020 depreciation of a right-of-use assets in the amount of RUB 264,355 thousand were capitalized to the value of property, plant and equipment.

The information about impairment test performed is disclosed in Note 8.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

9. Lease (continued)

Lease liabilities

Set out below are the carrying amounts of Group's lease liabilities and their movements during the period:

	2021	2020
At 1 January	357,573,958	357,210,159
Business combination (Note 7)	82,834,316	—
Additions and other increase	50,252,704	36,459,462
Modification	16,236,784	10,405,521
Indexation*	2,428,501	1,391,455
Payments	(46,719,526)	(35,715,802)
Interest accrued (Note 28)	33,613,620	30,771,302
Interest paid	(33,613,620)	(30,771,302)
Derecognition	(4,503,238)	(10,838,108)
Rent concessions due to Covid-19 pandemic (Note 29)	(1,819,124)	(1,481,968)
Foreign exchange loss	21,645	143,239
At 31 December	**456,306,020**	**357,573,958**

* Revaluation of rental payments that depend on the index (linked to CPI).

	Year of maturity	31 December 2021
Short-term liabilities	2022	60,262,487
Long-term liabilities	2023-2071	396,043,533
Total		**456,306,020**

	Year of maturity	31 December 2020
Short-term liabilities	2021	41,432,103
Long-term liabilities	2022-2069	316,141,855
Total		**357,573,958**

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

	2021	2020
Depreciation and impairment of right-of-use assets (Note 26)	52,255,964	44,227,143
Interest expenses on the lease (Note 28)	33,613,620	30,771,302
Foreign exchange loss	21,645	143,239
Gain from cancelation of lease contracts (Note 29)	(1,070,698)	(1,687,459)
Gain from Covid-19 related rent concessions (Note 29)	(1,819,124)	(1,481,968)
Lease expenses related to short-term lease (Note 26)	653,668	267,715
Lease expenses related to lease of low-value assets (Note 26)	78,306	79,410
Variable lease payments (Note 26)	2,006,546	1,081,701
	85,739,927	**73,401,083**

10. Intangible assets

As at 31 December 2021, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2021	301,620	6,861,127	34,180	99,345	**7,296,272**
Business combination (Note 7)	70,755	1,577,879	5,540,757	—	**7,189,391**
Additions	241,631	9,604,561	7,087	91,582	**9,944,861**
Disposals	(65,192)	(1,371,284)	(176)	(41,813)	**(1,478,465)**
At 31 December 2021	**548,814**	**16,672,283**	**5,581,848**	**149,114**	**22,952,059**
Accumulated amortisation and impairment					
At 1 January 2021	(125,306)	(1,600,621)	(12,559)	(51,534)	**(1,790,020)**
Amortisation for the year	(111,674)	(2,418,208)	(815,197)	(42,111)	**(3,387,190)**
Disposals	63,184	1,369,257	176	41,813	**1,474,430**
At 31 December 2021	**(173,796)**	**(2,649,572)**	**(827,580)**	**(51,832)**	**(3,702,780)**
Net book value					
At 1 January 2021	**176,314**	**5,260,506**	**21,621**	**47,811**	**5,506,252**
At 31 December 2021	**375,018**	**14,022,711**	**4,754,268**	**97,282**	**19,249,279**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

10. Intangible assets (continued)

Part of the Group's software is under development and integration as at 31 December 2021.

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**

Amortization expense is included in selling, general and administrative expenses (Note 26). The information about impairment test performed is disclosed in Note 8.

11. Goodwill

Goodwill as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Goodwill as at 1 January	**26,879,317**	**26,879,317**
Goodwill arising on acquisition (Note 7)	65,411,968	—
Goodwill as at 31 December	**92,291,285**	**26,879,317**

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

	As at 31 December 2021	As at 31 December 2020
Stores "Magnit convenience", "Magnit Semeyniy", "DIXY" and "Megamart"	65,411,968	—
Stores "Magnit Cosmetic" and "Magnit Pharmacy"	25,511,824	25,511,824
Manufactory company TD-holding LLC	1,367,493	1,367,493
Total	**92,291,285**	**26,879,317**

Groups of CGUs comprising next stores "Magnit convenience", "Magnit Semeyniy", "DIXY" and "Megamart"

As at the reporting date, the Group performed annual impairment testing of goodwill arising on acquisition of DIXY Group. For impairment testing purposes, goodwill was allocated to the groups of CGUs comprising "Magnit convenience", "Magnit Semeyniy", "DIXY: and "Megamart" formats.

In assessing goodwill impairment, the carrying value of the assets of the groups of CGUs, to which the amount of goodwill was attributable was compared to the 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 13.63%.

As a result of the analysis no impairment was identified for the goodwill.

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

11. Goodwill (continued)

Gross margin
The gross margin included in the forecast of the Group's activities in the "Magnit convenience", "Magnit Semeyniy", "DIXY" and "Megamart" stores is in accordance with the approved strategic development plans 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 free cash flow, but would not cause an impairment losses.

Discount rate
An increase in the pre-tax discount rate by i.e. + 0.5%, to 14.13%, would reduce the expected discounted cash flows but would not cause an impairment loss.

Revenue growth
Revenue growth for the forecast period being in the range from 2.0% to 7.4%. The forecast is based on Group's activities in the "Magnit convenience", "Magnit Semeyniy", "DIXY" and "Megamart" stores. 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 4.6%. 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.

Groups of CGUs comprising next stores "Magnit Cosmetic" and "Magnit Pharmacy"

As at the 31 December 2021 and 2020, the Group performed annual impairment testing of goodwill arising on acquisition of SIA Group. For impairment testing purposes, goodwill was allocated to the groups of CGUs comprising "Magnit Cosmetic" and "Magnit Pharmacy" formats. In assessing goodwill impairment, the current carrying amounts of assets of the CGU group comprising "Magnit Cosmetic" and "Magnit Pharmacy" stores, to which the entire amount of goodwill was allocated, were compared to the 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 13.63% (2020: 12.81%).

As a result of the analysis no impairment was identified for the goodwill.

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 the 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 14.13%, would reduce the expected discounted cash flows but would not cause an impairment loss.

Revenue growth
Revenue growth for the forecast period being in the range from 3.1% to 5.8% (2020: 2.2% to 10.7%). 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 4.6% (2020: 4%). The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

A decrease in customer demand may lead to decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

Manufactory company TD-holding LLC

The Group performed its annual impairment test of goodwill related to the acquisition of TD-holding LLC as of 31 December 2021 and 2020. In assessing whether the goodwill has been impaired, the carrying value of cash generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for five years approved by the management of the Group, plus terminal value, and by taking into account inflation 4.6% (2020: 4%), demand for goods produced by TD-holding 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 13.63% (2020: 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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

12. Long-term financial assets

As at 31 December 2021 non-current financial assets comprise the long-term loan issued amounted to RUB 1,014,994 thousand (as at 31 December 2020: RUB 1,117,551 thousand) and other financial assets in the amount of RUB 18,852 thousand. As at 31 December 2021, the amount of the long-term loan issued is classified as a loan issued to the related party (Note 6), as at 31 December 2020 this amount was not related to balances with related parties. As at 31 December 2021 and 31 December 2020 the current portion of the long-term loan amounted to RUB 200,000 thousand (Note 6).

Interest income recognized with respect to the long-term loan issued for the year ended 31 December 2021 amounted to RUB 97,645 thousand (for the year ended 31 December 2020 to RUB 95,992 thousand), including RUB 9,282 thousand reflected as operations with other related parties (Note 6).

The long-term loan is recognized at amortized cost. The contract expires on 31 December 2024, accrued interest is payable on the specified date.

The Group did not recognize any expected credit loses for impairment of the long-term loan issued.

13. Inventory

Inventory as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Goods for resale (at lower of cost and net realisable value)	211,925,870	194,944,876
Materials and supplies (at cost price)	12,947,170	11,004,318
	224,873,040	**205,949,194**

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 2021 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 2,904,292 thousand (2020: RUB 597,351 thousand).

14. Trade and other receivables

Trade and other receivables as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Other receivables – third parties	6,738,519	5,224,320
Trade receivables – third parties	6,399,234	4,848,309
Other receivables – related parties (Note 6)	—	5,681
Expected credit losses	(1,410,978)	(1,514,488)
	11,726,775	**8,563,822**

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 wholesale customers of the Magnit Pharma.

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 2021 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 2021:

	Current	Overdue				Total
		<90 days	90-180 days	180-360 days	>360 days	
2021						
ECL rate	0.1-3%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	7,805,827	3,835,113	223,697	196,116	1,077,000	**13,137,753**
ECLs	76,127	115,053	44,740	98,058	1,077,000	**1,410,978**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

14. 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 2020:

	Current	Overdue				Total
		<90 days	90-180 days	180-360 days	>360 days	
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**

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

	2021	2020
As at 1 January	**(1,514,488)**	**(1,062,568)**
Accrual of provision for expected credit losses	(296,251)	(668,262)
Reversal	351,310	186,314
Receivables written off as uncollectable	48,451	30,028
As at 31 December	**(1,410,978)**	**(1,514,488)**

15. Advances paid and other prepaid expenses

Advances paid and other prepaid expenses as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Advances to third party suppliers	7,946,501	5,694,059
Other prepaid expenses	1,213,862	1,143,496
Advances for customs duties	962,755	617,903
Impairment of advances paid	(924,211)	(792,121)
	9,198,907	**6,663,337**

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Cash on hand, in RUB	2,761,656	2,080,093
Cash in banks, in RUB	6,078,224	9,348,609
Cash in banks, in foreign currency	4,632	935
Cash in transit, in RUB	5,068,673	1,599,303
Cash placed on accounts with minimum account balance, in RUB	16,130,000	9,160,000
Deposits, in RUB	43,355,423	22,510,641
	73,398,608	**44,699,581**

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 2021 and 2020.

As at 31 December 2021, cash of RUB 43,355,423 thousand was placed in rubles deposits, and cash of RUB 16,130,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2022. Interest accrued as at 31 December 2021 was immaterial.

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.

17. Share capital, share premium and treasury shares

	2021 No. ('000)	2020 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
Treasury shares	3,983	4,246

* All shares, including treasury shares, have the same voting and dividend rights.

	2021	2020
Share premium at 1 January	87,390,921	87,379,413
Transfer of rights to equity instruments under share-based payments program (Note 32)	(64,280)	11,508
Share premium at 31 December	**87,326,641**	**87,390,921**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

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

	2021 No. ('000)	2020 No. ('000)
Balance of shares outstanding at beginning of financial year	97,665	97,550
Transfer of treasury shares under share-based payments program (Note 32)	222	74
Transfer of treasury shares under employment contract with the Company's President (Note 32)	41	41
Balance of shares outstanding at the end of financial year	**97,928**	**97,665**

In 2021, the Group did not acquire any treasury shares on the open market.

In 2021, the Group transferred 222,449 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 32). The fair value of the compensation was RUB 756,794 thousand. The difference of RUB 81,558 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 2021, the Group transferred 41,177 treasury shares to the Company's President under his employment contract (Note 32). 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 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 32). 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 Company's President under his employment contract (Note 32). 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.

18. Dividends declared

In 2021, the Group declared dividends to shareholders relating to 2020 and the 9 months of 2021.

	2021
Dividends declared for 2020 and for 9 months 2021 (RUB 245.31 and RUB 294.37 per share)	52,850,006

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 2021, the Group paid dividends of RUB 48,115,232 thousand (2020: RUB 29,871,472 thousand).

As at 31 December 2021, dividends payable were RUB 28,829,503 thousand (31 December 2020: RUB 24,094,729 thousand). Dividends payable as at 31 December 2021 were paid in January 2022.

19. Short-term and long-term trade and other payables

Short-term trade and other payables consisted of the following as at 31 December 2021 and 2020:

	2021	2020
Trade payables to third parties	182,054,322	145,281,458
Accrued expenses and other payables to third parties	36,758,261	21,530,784
Accrued staff costs	21,958,499	17,326,397
Accrued expenses and other payables to related parties (Note 6)	—	186,253
	240,771,082	**184,324,892**

As at 31 December 2021 and 2020 long-term payables consisted of the following:

	2021	2020
Other long-term payables	2,553,058	—
	2,553,058	**—**

Average trade payables turnover was 42 days in 2021 and 43 days in 2020. 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.

As at 31 December 2021 and 2020 trade and other payables denominated in foreign currencies totaled:

	2021	2020
US dollars	7,960,592	8,488,173
Euros	4,211,822	1,910,746
Pounds sterling	366	—
	12,172,780	**10,398,919**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

20. Taxes payable excluding income tax

Taxes payable excluding income tax as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Value added tax	8,210,562	8,251,995
Social insurance contributions	4,194,626	1,790,088
Personal income tax	1,642,159	1,226,450
Property tax	598,069	520,401
Other taxes	73,029	65,417
	14,718,445	**11,854,351**

21. Loans and borrowings

Long-term and short-term loans and borrowings as at 31 December 2021 and 2020 consisted of the following:

	Year of maturity 2021	2021	Year of maturity 2020	2020
Long-term loans and borrowings				
Unsecured bonds	2023-2024	60,553,270	2022-2023	70,897,128
Unsecured bank loans	2023-2027	147,857,070	2022-2027	79,614,330
Less: current portion of long-term loans and borrowings		(3,123,740)		(2,816,532)
Total long-term loans and borrowings		**205,286,600**		**147,694,926**
Short-term loans and borrowings				
Unsecured bonds	2022	30,467,826	2021	10,296,260
Unsecured bank loans	2022	31,547,745	2021	5,278,809
Current portion of long-term loans and borrowings		3,123,740		2,816,532
Total short-term loans and borrowings		**65,139,311**		**18,391,601**

The Group's loans and borrowings as at 31 December 2021 and 31 December 2020 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 2021 and 31 December 2020.

22. Government grants

	2021	2020
At 1 January	**2,794,945**	**3,268,933**
Received during the year	65,196	190,269
Recognized in profit or loss	(242,801)	(664,257)
At 31 December	**2,617,340**	**2,794,945**
Short-term	253,475	627,304
Long-term	2,363,865	2,167,641

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.

23. Contract liabilities

Contract liabilities as at 31 December 2021 and 2020 consisted of the following:

	2021	2020
Short-term liabilities to the customers under loyalty program	2,775,444	2,148,681
Short-term advances received from customers	1,401,385	443,877
	4,176,829	**2,592,558**

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

	2021	2020
At 1 January	**2,148,681**	**810,214**
Deferred during the year	13,450,995	12,235,191
Recognized as revenue during the year	(12,824,232)	(10,896,724)
At 31 December	**2,775,444**	**2,148,681**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

24. Revenue from contracts with customers

Revenue for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Retail	1,807,751,911	1,510,070,771
Wholesale	48,327,039	43,706,580
	1,856,078,950	**1,553,777,351**

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 29) and for the 2021 amounted to RUB 1,872,793,927 thousand (2020: RUB 1,562,939,358 thousand).

25. Cost of sales

Cost of sales for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Cost of goods sold	1,371,109,693	1,149,730,128
Transportation expenses	45,704,987	38,291,560
	1,416,814,680	**1,188,021,688**

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold includes losses due to inventory shortages, as well as transportation costs.

In 2021, staff costs, including payroll, social contribution expenses and related provisions totaling to RUB 32,519,074 thousand (2020: RUB 28,727,412 thousand) were included in cost of sales.

26. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020*
Staff costs	166,606,430	139,885,603
Depreciation and impairment of right-of-use assets (Note 9)	52,255,964	44,227,143
Depreciation and impairment of property, plant and equipment (Note 8)	49,680,226	43,834,442
Utilities and communication services	34,252,210	28,826,999
Advertising	11,474,781	7,627,912
Bank charges	9,022,470	7,108,373
Repair and maintenance	8,192,322	6,731,558
Packaging and raw materials	5,500,153	4,861,131
Amortisation of intangible assets (Note 10)	3,387,190	1,703,793
Taxes, other than income tax	2,944,221	2,924,806
Rent (Note 9)	2,738,520	1,428,826
Security	1,659,216	1,790,229
Accrual of expected credit losses and impairment of advances paid (Notes 14, 15)	28,580	584,127
Other expenses	9,219,317	4,890,497
	356,961,600	**296,425,439**

* The Group has changed the comparative historical data for the year ended 31 December 2020 for classification and disclosure of selling, general and administrative expenses in order to present more accurate and relevant information to the users.

In 2021 staff costs include payroll amounted to RUB 130,825,254 thousand (2020: RUB 109,078,576 thousand), social contribution expenses amounted to RUB 34,572,909 thousand (2020: RUB 30,104,070 thousand) and also other staff costs in amount RUB 1,208,267 thousand (2020: RUB 702,957 thousand).

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

27. Interest income

Interest income for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Interest on deposits	2,442,234	392,391
Interest on loans issued	105,222	112,085
	2,547,456	**504,476**

In 2021, interest on deposits in the amount of RUB 702,834 thousand (2020: RUB 49,429 thousand), interest on loans issued in the amount of RUB 9,282 thousand are reflected as transactions with related parties (Note 6).

28. Finance costs

Finance costs for the years ended 31 December 2021 and 2020 consisted of the following:

	2021	2020
Interest on loans and borrowings	9,821,407	8,462,099
Interest on bonds	5,687,902	5,669,013
Interest on lease liabilities (Note 9)	33,613,620	30,771,302
Other finance costs	211,467	—
Total interest expense for financial liabilities	**49,334,396**	**44,902,414**
Less amounts included in the cost of qualifying assets	(208,927)	(130,140)
	49,125,469	**44,772,274**

29. Other income

Other income for the years ended 31 December 2021 and 2020 consisted of the following

	2021	2020
Sales of packing materials	8,885,560	3,790,327
Advertising income	7,829,417	5,371,680
Fines and penalties	4,260,095	2,626,926
Gain from Covid-19 related rent concessions (Note 9)	1,819,124	1,481,968
Gain from cancellation of lease contracts (Note 9)	1,070,698	1,687,459
Gain from the sale of property, plant and equipment	—	1,165,190
Other income	877,365	945,645
	24,742,259	**17,069,195**

30. Income tax

The Group's income tax expense for the years ended 31 December 2021 and 2020 was as follows:

	2021	2020
Consolidated statement of comprehensive income		
Current tax	18,341,283	13,728,393
Adjustments in respect of current income tax of previous year	34,485	(171,081)
Deferred tax	(3,881,911)	(3,848,089)
Income tax expense reported in the consolidated statement of comprehensive income	**14,493,857**	**9,709,223**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

30. Income tax (continued)

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2021 is as follows:

	At 1 January 2021	Recorded in the consolidated statement of comprehensive income, 2021	Business combination (Note 7)	At 31 December 2021
Deferred tax assets				
Right-of-use assets / lease liabilities	(12,105,870)	(763,269)	(1,248,647)	(14,117,786)
Accrued expenses	(1,879,458)	(743,102)	(544,008)	(3,166,568)
Inventory	(1,475,351)	(3,536,078)	(107,809)	(5,119,238)
Advances paid	(188,570)	6,652	—	(181,918)
Other	(564,183)	13,476	(427,524)	(978,231)
Total deferred tax asset	**(16,213,432)**	**(5,022,321)**	**(2,327,988)**	**(23,563,741)**
Including offset with deferred tax liability	16,213,432	5,022,321	2,327,988	23,563,741
Net deferred tax asset	—	—	—	—
Deferred tax liabilities				
Property, plant and equipment	27,885,979	918,754	1,744,203	30,548,936
Intangible assets and other prepaid expenses	390,401	223,169	1,354,893	1,968,463
Trade and other receivables	162,642	(1,513)	—	161,129
Total deferred tax liability	**28,439,022**	**1,140,410**	**3,099,096**	**32,678,528**
Including offset with deferred tax asset	(16,213,432)	(5,022,321)	(2,327,988)	(23,563,741)
Net deferred tax liability	**12,225,590**	**(3,881,911)**	**771,108**	**9,114,787**

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**

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

30. 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:

	2021	2020
Profit before tax	**62,599,719**	**42,702,515**
Theoretical income tax expense at 20%	**(12,519,944)**	**(8,540,503)**
Adjustments for:		
Non-taxable income or non-deductible expenses for tax purposes	(1,585,999)	(1,141,221)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(353,429)	(198,580)
(Charge)/reversal of income tax liability as a result of filing amended tax returns	(34,485)	171,081
Income tax expense	**(14,493,857)**	**(9,709,223)**
Effective income tax rate	**23.15%**	**22.74%**

As at 31 December 2021 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 4,179,305 thousand (as of 31 December 2020: RUB 3,825,876 thousand).

Temporary taxable differences associated with investments in associates, disclosed in Note 7, for which no deferred tax liability has been recognized, as for 31 December 2021 amounted to RUB 1,867,875 thousand (as for 31 December 2020: none). The Group doesn't expect to sell its investments in subsidiaries in the foreseeable future, all investments in subsidiaries are controlled by the Group.

The Group intends to apply 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 (except for DIXY Group, see Note 7 for information about business combination).

31. Earnings per share

Earnings per share for the years ended 31 December 2021 and 2020 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:

	2021	2020
Profit for the year attributable to shareholders of the parent	48,105,862	32,993,292
Weighted average number of shares (in thousands)	97,838	97,629
Basic earnings per share (in RUB)	**491.69**	**337.95**
Effects of dilution from share options on number of shares (in thousands)	582	545
Weighted average number of ordinary shares adjusted for the effect of dilution (in thousands)	98,420	98,174
Diluted earnings per share (in RUB)	**488.78**	**336.07**

32. Share-based payments

Long-term incentive program for key management personnel

The Group has a long-term incentive program for its key management ("Program"). 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).

The maximum number of shares that can be purchased by participants during the period of the Program is 3,510,638.

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 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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

32. Share-based payments (continued)

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 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.

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:

	2021	2020
Dividend income (%)	9	6
The expected average volatility for the period (%)	25.65	30.27
Average risk-free interest rate for the period (%)	8.20	4.42
Estimated time for exercise of options (years)	4	5
Weighted average share price (RUB)	4,893	4,637
Applicable model	Monte-Carlo	Monte-Carlo

Movement for the period

For the year ended 31 December 2021, the Group recognized an expense in respect of share-based payments in the amount of RUB 821,238 thousand (2020: RUB 971,718 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 2021, the Group transferred 222,449 treasury shares (2020: 73,597 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 756,794 thousand (2020: RUB 271,571 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 81,558 thousand reflected as a decrease in share premium (2020: RUB 5,770 thousand recorded as an decrease in share premium).

The weighted average fair value per share at the execution was RUB 3,350 in 2021 (2020: RUB 3,690).

Share-based payments under the employment contract with the Company's President

According to the terms of the employment contract concluded with the Company's President, the President is entitled to the Company'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 Company to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Company.

In 2021 the Group recognized an expense in the consolidated statement of comprehensive income in respect of share-based payments of RUB 19,161 thousand (2020: RUB 106,681 thousand).

During 2021, the Group transferred 41,177 treasury shares (2020: 41,177 shares) repurchased from shareholders under the terms of the employment agreement entered into with the Company's President. The fair value of equity instruments provided during the period was RUB 172,451 thousand (2020: RUB 172,451 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 (2020: RUB 17,278 thousand) was recorded as an increase in share premium.

The weighted average price per share at the execution date was RUB 4,188 in 2021 (2020: RUB 4,188).

33. 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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

33. Contingencies, commitments and operating risks (continued)

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.

In a number of Russian regions, retail companies were required to ensure that employees are vaccinated against Covid-19. The Magnit Group is taking every effort to encourage vaccination in order to keep its employees healthy and its business running smoothly. Covid-19 vaccination statistics and restrictions differ from region to region in Russia.

The Group's management continuously assesses the risks, as well as the consequences of the pandemic and the measures taken by the government. 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.

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 as at 31 December 2021 and 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 2021 and 2020, 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 2021 and 2020, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

	31 December 2021	31 December 2020
Within 1 year	5,538,208	2,536,645
	5,538,208	**2,536,645**

34. 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 21, cash and cash equivalents disclosed in Note 16 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

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 2021 of 3.65 (2020: 2.62).

The debt-to-equity ratio as at 31 December 2021 and 2020 was as follows:

	2021	2020
Loans and borrowings (Note 21)	270,425,911	166,086,527
Long-term and short-term lease liabilities (Note 9)	456,306,020	357,573,958
Cash and cash equivalents (Note 16)	(73,398,608)	(44,699,581)
Net debt	**653,333,323**	**478,960,904**
Equity	178,985,179	182,888,924
Net debt-to-equity ratio	**3.65**	**2.62**

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 an increase in net debt in 2021.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

34. Financial risk management objectives and policies (continued)

Fair values

Set out below is a comparison by class of carrying amount and fair value of the Group's financial instruments that are recorded in the consolidated financial statements.

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	
	2021	2020	2021	2020
Long-term loans (Note 21)	145,376,171	77,795,398	138,170,569	79,179,985
Bonds (Note 21)	59,910,429	69,899,528	57,953,500	70,373,951

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 2021 and 2020, 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 (Note 21)	Proceeds from loans and borrowings	Business combination (Note 7)	Repayment of loans and borrowings	Finance costs (Note 28)	Interest paid	31 December (Note 21)
2021 Short-term and long-term loans and borrowings	166,086,527	169,505,660	23,095,628	(88,752,694)	15,509,309	(15,018,519)	270,425,911
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

Information about changes in lease liability are presented in Note 9.

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
2021 Dividends payable (Note 18)	24,094,729	52,850,006	(48,115,232)	28,829,503
2020 Dividends payable (Note 18)	14,452,943	39,513,258	(29,871,472)	24,094,729

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 2021 and 2020 the foreign currency balances were presented by trade and other payables disclosed in Note 19.

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
2021	+15.00%	(1,194,089)	+15.00%	(631,773)
	-15.00%	1,194,089	-15.00%	631,773
2020	+16.00%	(1,381,542)	+16.00%	(339,500)
	-16.00%	1,381,542	-16.00%	339,500

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

34. Financial risk management objectives and policies (continued)

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.

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 2021:

As at 31 December 2021	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	22,975,111	(11,248,336)	11,726,775
	22,975,111	**(11,248,336)**	**11,726,775**
Financial liabilities			
Trade and other payables	(252,019,418)	11,248,336	(240,771,082)
	(252,019,418)	**11,248,336**	**(240,771,082)**

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
	19,765,158	**(11,201,336)**	**8,563,822**
Financial liabilities			
Trade and other payables	(195,526,228)	11,201,336	(184,324,892)
	(195,526,228)	**11,201,336**	**(184,324,892)**

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.

Notes to the consolidated financial statements

(In thousands of Russian rubles) (continued)

34. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

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 months	3 months to 1 year	1-5 years	More than 5 years	Total
2021						
Trade and other payables and long-term payables	165,814,593	74,956,489	—	2,913,008	—	**243,684,090**
Dividends payable	28,829,503	—	—	—	—	**28,829,503**
Long-term and short-term lease liabilities	8,131,999	16,239,147	73,312,099	329,070,610	196,635,694	**623,389,549**
Long-term and short-term loans and borrowings	942,770	21,230,436	57,303,441	218,725,131	203,103	**298,404,881**
	203,718,865	**112,426,072**	**130,615,540**	**550,708,749**	**196,838,797**	**1,194,308,023**
2020						
Trade and other payables	146,749,260	37,575,632	—	—	—	**184,324,892**
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**
	176,984,347	**66,318,039**	**61,916,804**	**415,633,651**	**166,350,425**	**887,203,266**

As at 31 December 2021, the Group has net current liabilities of RUB 94,941,404 thousand (31 December 2020: RUB 17,342,223 thousand), including the carrying amount of short-term loans and borrowings in the amount of RUB 65,139,311 thousand (31 December 2021: RUB 18,391,601 thousand).

Additionally to the current loans the Group has access to financing facilities of RUB 261,811,137 thousand remained unused at 31 December 2021 (2020: RUB 280,612,664 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

35. Subsequent events

On 14 January 2022 the share of votes held by Marathon Group on the Company's shares increased to 29.23%. the increase of share occurred as the result of the acquisition of additional 4.23% of votes due to the satisfaction of the corresponding application of Marathon Retail LLC by the FAS of Russia. This amount includes votes on the Company's shares transferred to VTB Group under the repurchase agreements concluded between Marathon Retail LLC and VTB Group.

In February 2022, certain countries announced new packages of sanctions against the public debt of the Russian Federation, a number of Russian banks and organizations, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the euro. It is expected that these events may affect the activities of Russian enterprises in various sectors of the economy.

The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group's management is analyzing the possible impact of changing micro- and macroeconomic conditions on the Group's financial position and results of operations.

Appendices

to the Annual Report

Report on complying

with the principles and recommendations of the Corporate Governance Code

The Board of Directors confirms that the data provided in this report contains complete and reliable information on the Company's compliance with the principles and recommendations of the Corporate Governance Code for 2021.

Complied with
Partially complied with
Not complied with

#	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 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 above means of communication were organized by the company and made available to shareholders in the course of preparation for each general meeting held in the reporting period.	Complied with	–
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. In the reporting period the notice of an upcoming general meeting of shareholders is posted (published) on the company's website on the Internet no later than 30 days prior to the date of the general meeting, unless a longer period is required by law 2. The notice of an upcoming meeting indicates 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 (if its establishment is stipulated by the company's Articles of Association).	Complied with	–
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 the course of preparation for, and during, the general meeting. 2. The position of the board of directors (including dissenting opinions (if available) 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. 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.	Complied with	–

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
1.1.4	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. The company's Articles of Association defines the deadline for shareholders to submit proposals to the agenda of the annual general meeting which shall be at least 60 days after the end of the respective calendar year. 2. In the reporting period the company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.		–
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way	1. The company's Articles of Association provides for an opportunity to fill in the electronic form of the ballot online the web address of which is specified in the notice on holding of the general meeting of shareholders.		The criterion for compliance with this paragraph of the Report is new, the specified amendments have not yet been reflected in the Company's corporate governance practice. The possibility and necessity of introducing the relevant amendments to the Company's Articles of Association is planned to be considered before the annual general meeting of shareholders, which will be held for 2023. However, the majority of the Company's 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.
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. Shareholders had an opportunity to express their opinions and to ask questions on the agenda. 2. The company invited candidates to the company's governing and control bodies and took all necessary measures to ensure their participation in the general meeting of shareholders at which their nominations were put to vote. The candidates to the company's governing and control bodies who were present at the general meeting of shareholders were available to answer questions of shareholders. 3. The sole executive body, the person responsible for the accounting, the chairman or the other members of the board of directors' audit committee were available to answer shareholders' questions at the general meetings of shareholders held in the reporting period. 4. In the reporting period the company used telecommunication means to ensure the remote participation of shareholders at general meetings, or the board of directors made a reasonable decision on the fact there was no need (opportunity) to use such means in the reporting period.		Criteria 2 and 3 are only partially not complied with. Criterion 4 is not complied with. Company's internal documents set out the possibility for candidates to the management and supervision bodies of the Company, as well as for the sole executive body, a person responsible for the accounting, and other 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. 17-FZ dated 24 February 2021, the general shareholder meetings were held in the form of absentee. However, these persons are always available to answer questions – shareholders are able to address their questions regarding the Company's operation through the Investor Relations department or the Corporate Governance department. 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 the Company's 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 2023.

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	**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's regulations on the dividend policy have been approved by the board of directors and disclosed on the company's website on the Internet. 2. If the company's dividend policy that prepares the consolidated financial statements uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements. 3. The explanation of the proposed net profit distribution, including payment of dividends and the company's own needs, and the assessment of its compliance with the dividend policy adopted by the company, with clarifications and economic explanation of the requirement to direct a certain part of net profit to the company's needs in the reporting period, were included in the materials for the general meeting of shareholders, the agenda of which contains an item on profit distribution (including the payment (declaration) of dividends).		–
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. In addition to the restrictions established by law, the company's regulations on the dividend policy identify financial/ economic circumstances under which the company shall not make decisions on the dividend payment.		–
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.		–
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. In the reporting period the means of profiting from the company by the controlling persons, other than dividends (for example, through the transfer pricing, unjustified provision of services to the company by the controlling person at inflated prices, through internal loans replacing dividends to the controlling persons and (or) its controlled persons) were not used.		–

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 the company's controlling persons did not abuse their rights with respect to the company's shareholders, there were no conflicts between the company's controlling persons and shareholders, and if such conflicts occurred, the board of directors paid due attention to them.		–
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.		Since 2018 the Company has a long-term incentive programme for executive bodies and other key employees of the Company with the use of the Company's shares, it has been planned for 5 years. 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's 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 2023.

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
1.4	**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.**			
1.4.1	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 technologies and terms of provided services used by the company's registrar meet the needs of the company and its shareholders and ensure the account of rights for shares and realization of shareholders' rights in the most efficient way		–
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. In the reporting period the nomination (appointments and HR) committee reviewed the compliance of the professional expertise, skills and experience of the members of the executive bodies with the company's current and expected needs determined by the company's approved strategy. 3. In the reporting period the board of directors reviewed the report(s) by the sole executive body or the collective executive body (if available) 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 company's principles of, and approaches to, setting up a risk management and internal control system were defined by the board of directors and specified in the company's internal documents determining the risk management and internal control system policy. 2. In the reporting period the board of directors approved (revised) the appropriate amount of risks (risk appetite) of the company, or the audit committee and (or) risk management committee (if available) considered if it was reasonable to submit the issue of revising the company's risk appetite for consideration by the board of directors.		–
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, the company's executive bodies, and other key executives of the company	1. The company has developed, approved by the board of directors and put in place a remuneration and reimbursement (compensation) policy (policies) 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.		–
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. Persons responsible for implementing the information policy are identified in the company's internal documents.		–
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 results of self-assessment and (or) external assessment of 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 attendance of the board of directors and committee meetings by each member of the board of directors. 2. The annual report discloses key performance assessment (self-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 a transparent procedure in place enabling its shareholders to forward inquiries to the chairman of the board of directors (and, if applicable, to the senior independent director) and receive feedback on them.		–

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
2.3	**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. 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 assessment of the compliance of the professional expertise, skills and experience of the nominees with the company's current and expected needs, 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 information on availability of the nominees' written consent to be elected to the board of directors.		–
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. In the reporting period the board of directors reviewed its requirements to professional expertise, experience and skills and defined expertise essential to the board of directors in the short and long term.		–
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. In the reporting period the board of directors considered whether the number of directors met the company's needs and shareholders' interests.		–

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 prevails 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 issue on independence of incumbent directors (after their election). 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.		–
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 in the reporting period and submitted the results to 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
2.5	**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 (self-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 complete and reliable information for the agenda of a board meeting.		–
2.6	**Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.**			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks	1. The company's internal documents stipulate that a director should notify the board of directors of any existing conflict of interest as to any agenda item of a meeting of the board of directors or its committee, prior to discussing the relevant agenda item. 2. The company's internal documents stipulate that a director should abstain from voting on any item in connection with which they have a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.		–
2.6.2	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 the sufficiency of time for work on the board of directors, including its committees, was analysed as part of the procedure of assessment (self-assessment) of the board of directors' performance 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 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 receive information and documents necessary for the board of directors' members to perform their duties and related to the company and its controlled entities, while executive bodies of the company should ensure the provision of the relevant information and documents. 2. The company carries out a formalised induction programme for newly elected members of the board of directors.		–
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. In the reporting period members of the board of directors who were not able to attend the meeting of the board of directors were provided with an opportunity to participate in the discussion of agenda items and voting remotely – by means of conference and video conference communication.		–

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
2.7.3	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 (including those listed 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 over the past few years 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 provides for resolutions on the most important matters, including those 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.		–
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.		–

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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, and conditions (events), upon the occurrence of which the remuneration committee considers the revision of the company's remuneration policy for members of the board of directors, executive bodies and other key executives.		Criterion 3 is only partially complied with. The Company's internal documents do not specify the specific conditions, upon the occurrence of which the remuneration committee considers the issue of revising the Company's remuneration policy for the members of the Board of Directors, executive bodies and other key executives. The criterion for compliance with this paragraph of the Report is new, therefore the specified amendments have not yet been reflected in the Company's corporate governance practice. The possibility and necessity of introducing the relevant amendments to the internal documents is planned to be considered before the annual general meeting of shareholders, which will be held at the end of 2023. However, the HR and Remuneration Committee considers remuneration issues on a regular basis.
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. 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) 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. 3. For the purpose of forming the board of directors that meets the company's goals and objectives most fully, in the reporting period the nomination committee, on its own or jointly with other board of directors' committees or the company's authorised shareholder relations unit, organised the engagement with shareholders, not limited to the largest shareholders, in the context of choosing nominees to the company's 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
2.8.4	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 structure of the board of directors was in line with the scale and scope, business goals and requirements, and the risk profile of the company. 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. The audit committees, remuneration committee, nomination committee (or the relevant committee with a combined function) were headed by independent directors in the reporting period. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee (or the relevant committee with a combined function), 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. The procedures of conducting the assessment (self-assessment) of the board of directors' performance are determined in the company's internal documents. 2. Assessment (self-assessment) of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual assessment of directors, and the board of directors in general. 3. Results of assessment (self-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.		Criterion 1 is not complied with. This criterion is new, the procedures of conducting the assessment (self-assessment) of the Board of Directors' performance are not formalized in the internal documents. However, the assessment of performance of the Board of Directors and Committees of the Board of Directors is carried out annually by the Board of Directors' HR and Remuneration Committee on a regular basis. Also, an independent assessment of the Board of Directors' performance was carried out in 2021. The possibility and necessity of introducing the relevant amendments to the internal documents is planned to be considered before the annual general meeting of shareholders, which will be held at the end of 2023.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.		–
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 biographical data of the corporate secretary are published on the corporate website and in the company's annual report (including information on age, education, expertise, experience), and information on positions in the governing bodies of other legal entities held by the corporate secretary for at least the last five years.		–
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 company has adopted and published an internal document – regulations on the corporate secretary. 2. The board of directors approves the nominee to the position of the corporate secretary and terminates his powers, considers the additional remuneration to him. 3.The company's internal documents stipulate the right of the corporate secretary to request, receive documents and information from the company's governing bodies, structural units and officials.		–
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. Remuneration of members of the board of directors, executive bodies, and other key executives of the company is determined based on the results of a comparable analysis of the level of remuneration in comparable companies.		–

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
4.1.2	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 (or) its (their) introduction practices, carried out the assessment of its (their) efficiency and transparency and provided relevant recommendations on the revision of the policy (policies) to the board of directors as required.		–
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. In the reporting period the company paid remuneration to the board of directors' members in accordance with the remuneration policy adopted by the company. 2. In the reported period the company did not apply any forms of short-term motivation, additional financial motivation, the payment of which depends on the results (indicators) of the company's performance in relation to the board of directors' members. Payment of remuneration for the participation in meetings of the board of directors or committees of the board of directors were not made.		–
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.		–

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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. When determining the amount of remuneration to be paid to the members of the executive bodies and other key executives of the company, the risks incurred by the company are taken into account in order to avoid incentives to take excessively risky management decisions.		–
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. If 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), the programme implies that the right to dispose of shares and other financial instruments 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.		The Board of Directors approved the Long-Term Incentive Programme. The Programme is designed to motivate management to increase the market capitalisation of the Company supported by EBITDA growth. The Programme includes remuneration in the form of shares and options in annual tranches. Remuneration will depend on the share price. The Programme is designed for five years. There are no restrictions on the disposal of shares received under the Programme Instead of a restriction of the disposal of shares (and the dependance of the right of disposal on the achievement of indicators), it provides for a dependance of the granting of shares on the achievement of certain indicators and the deferred provision of shares in each of the annual tranches in parts over 3 years, and the loss of participants' right to receive tranches (parts of tranches) in case of resignation from the Company. The Company finds this approach to the provision of shares as part of the long-term incentive most reasonable and plans to follow it in the future.

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
4.3.3	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.		–
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 duties, powers, responsibilities 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 a safe, confidential and 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 (the audit committee and (or) the risk management committee (if available) organized the assessment of the reliability and efficiency of the risk management and internal control system. 2. In the reporting period the board of directors reviewed the results of assessment of the reliability and efficiency of the company's risk management and internal control system. Information on the results consideration is 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 engaged an independent external organization with the same line of reporting.		–

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2.2	The internal audit division assesses the reliability and efficiency of the risk management and internal control system, as well as the corporate governance system, applies generally accepted standards of internal audit	1. In the reporting period the reliability and efficiency of the risk management and internal control system were assessed as part of the internal audit procedure. 2. In the reporting period the corporate governance practice (certain practices) was (were) assessed as part of the internal audit procedure, including the procedures of the information interaction (including internal control and risk management issues) at all levels of the company's management, as well as stakeholders engagement.		–
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. In the reporting period the board of directors (or one of its committees) considered the issue on the efficiency of information engagement of the company, shareholders, investors and other stakeholders, and considered if it was reasonable (necessary) to revise the company's information policy.		–
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.		–
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 has a procedure ensuring coordination of work of all structural units and employees of the company who are related to information disclosure or whose operation may result in the requirement to disclose 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.		–

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
6.2.2	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. The company's information policy determines approaches to the disclosure of information on other events (actions) that have a significant impact on its securities' prices, the disclosure of which is required by law. 2. The company discloses information on its capital structure, as stated in recommendation 290 of the Code, in its annual report and on the corporate website. 3. The company discloses information on the controlled entities which are material for the company, including key areas of their operation, on tools ensuring accountability of the controlled entities, authorities of the company's board of directors in terms of determination of the strategy and assessment of the performance of the controlled organization. 4. The company discloses a non-financial report – sustainability report, environmental report, corporate social responsibility report or other report containing non-financial information, including factors related to the environment (including environmental and climate change factors), society (social factors) and corporate governance, except for the report of the issuer of securities and the company's annual report.		Criterion 2 is only partially complied with. The obligation to disclose information, including in the form of the issuer's report (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 authorised 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 (issuer's 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. 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.

#	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 results of the assessment of the efficiency of external and internal audit. 2. The company's annual report contains information on the company's environmental protection and safety policy, social policy of the company.		–
6.2	**The company provides information and documents requested by its shareholders in accordance with the principles of fairness and ease of access.**			
6.3.1	Shareholders' rights to access the company's documents and information are not exercised with any unreasonable difficulties.	1. The company's information policy (internal documents determining the information policy) establishes (establish) the procedure for providing shareholders with easy access to information and documents of the company, as requested by shareholders. 2. The company's information policy (internal documents determining the information policy) contains (contain) provisions stipulating that if a shareholder requests information on the entities controlled by the company, the company shall make the necessary efforts to obtain such information from the relevant entities controlled by the company.		Criterion 2 is not complied with. This criterion of compliance with the Report is new. This recommendation of the Corporate Governance Code is not directly specified in the Company's information policy. However, in the reporting year the Company adopted a new edition of the Regulations on the information policy which, among other issues, takes into account the recommendations of the Corporate Governance Code. In practice, the Company provides information on the Company's performance at the requests of shareholders, makes necessary efforts to obtain information from the relevant entities controlled by the Company, and in addition to the information, the disclosure requirements of which are stipulated by the current legislation, the Company on its own initiative discloses a large amount of information on the legal entities controlled by the Company that are material for the Company. In practice, access to the information on the Company's performance is not hindered. The Company finds this approach most reasonable and plans to follow it in the future.
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 delisting of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's Articles of Association provides for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors. The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company's Articles of Association include a list (criteria) of transactions or other actions classified as material corporate actions. Resolutions on material corporate actions are referred by the company's Articles of Association 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.		–
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.		–
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 include the approval of other transactions that are material to the company, in addition to transactions established by law, to the board of directors' authorities. 2. All material corporate actions in the reporting period were duly approved before they were taken.		–

#	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.If in the reporting period the company performed material corporate actions, the company disclosed information on such actions in due time and in detail, including the grounds for, and of, such actions and consequences of such actions for shareholders.		–
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 determine cases and a procedure for engaging an 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 appraiser to estimate the value of shares acquired and bought back by the company. 3. If there is no formal interest of a member of the board of directors, the sole executive body, a member of the collegial executive body of the company or a controlling person of the company, or a person entitled to give instructions obligatory for the company, in the company's transactions, but there is a conflict of interests or other actual interest, the company's internal documents specify that such persons shall not participate in voting on the approval of such transaction.		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). The possibility and necessity of bringing the Company's internal documents in compliance with the Code's recommendation is planned to be considered before the annual general meeting of shareholders, which will be held at the end of 2023.

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".

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 27 April 2022.

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
YoY	Year Over Year

Disclaimer

The Annual Report should be read as a whole taking into account the content of all sections as well as the notes and the explanations herein, including the information set forth in this section.

The Annual Report was prepared based on the information available to Magnit and the Group as of 31 December 2021, unless otherwise implied by the meaning or content of the information provided. When using the information in this Annual Report, please note that the information on S&P and MSCI ratings assigned to Magnit is given as of 31 December 2021, whereas as of the date of actual publication of the Annual Report such ratings have been revised and/or withdrawn due to the general change/withdrawal of ratings of Russian issuers and entities.

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 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.

Since February 2022 we are witnessing growing geopolitical tension and certain countries have announced and imposed and subsequently expanded various sanctions against the Russian Federation's sovereign debt, certain Russian banks, organizations and individuals. The Russian Federation has taken a number of retaliatory measures, including those drastically changing the regulation of Russian business compared to what it was as of 31 December 2021. These events, separately or jointly with other known and unknown circumstances, including those arising after 31 December 2021, may affect the Company's strategy and business plans.

In addition to official information on the activities of Magnit, this Annual Report contains information obtained from third parties and from sources which Magnit finds to be reliable. However, the Company does not guarantee the accuracy of this information, as it may be abridged or incomplete. Magnit 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 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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