




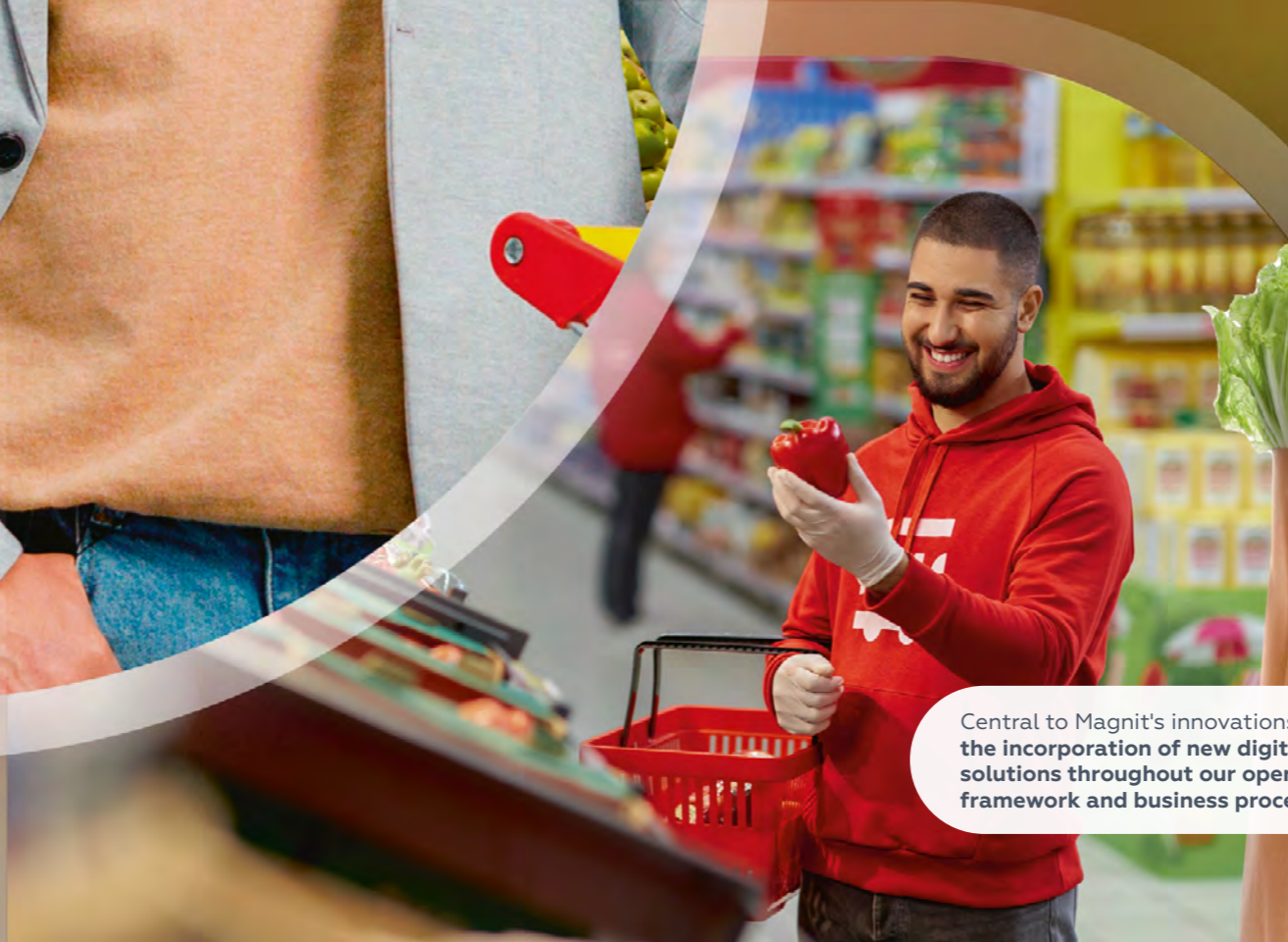
Transformation for sustainable growth

Strategy report

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 Our strategic ambition is to uphold leadership by maintaining competitiveness
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Central to Magnit's innovations is the incorporation of new digital solutions throughout our operational framework and business processes
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Management statement

Dear clients, shareholders and partners,

The past year marked another successful chapter in Magnit's history as the Company continued to grow and effectively respond to evolving market conditions. We were able to build a robust multiformat structure and kept up our active efforts to enhance the value proposition, update store designs, test new formats, develop our own production, and integrate modern technologies into business processes.

At the core of Magnit's mission is our commitment to cater to every customer's needs and deliver the best products at affordable prices. Our dedicated efforts have borne fruit, as we witnessed an increase in sales volumes and expanded into new markets in 2023.

Operational performance and financial results

The reporting year was successful in terms of operational and financial results. The Company's sustained organic growth and ability to effectively and quickly adapt to changes in the economic environment enabled us to achieve an 8.2% YoY increase in total revenue, which reached RUB 2,545 bln. Magnit's net retail revenue saw a 9.1% YoY increase, driven by a 6.1% growth in retail space and a 5.5% increase in LFL sales due to positive trends in average ticket and traffic. By the end of last year, the selling space of our stores exceeded 10 mln sq. m.

Net retail revenue increased ahead of selling space growth thanks to higher sales density. By the end of the year, 91% of our selling space reached a mature level of sales, with LFL sales growth primarily attributable to the strong performance of mature stores.

Moreover, 2023 was a period of further expansion for the Group, with selling space increasing by 6.1% YoY due to organic growth of the retail network. We opened 1,982 stores (gross) or 1,760 stores (net) during this period.

The concerted efforts of management and all units resulted in a 94% YoY increase in net income, reaching RUB 66.1 bln, and a 115 bps YoY year increase in net income margin, reaching 2.6%.¹

Our loyalty programme also had a successful year, with the number of loyalty card holders surpassing 76.4 million. By the end of the year, purchases using these cards accounted for 50% of tickets and 66% of sales. The loyalty programme continues to yield positive cross-format results, with 42% of Magnit customers visiting two or more of the Company's store formats and an average ticket of an active loyalty card holder 1.9x higher than in purchases without a loyalty card.

Achievement of strategic goals

Magnit's strategy aims at balanced growth of the Company's share in the retail market, which will solidify our position as a leading industry player.

An important priority in 2023 was the active development of new areas of growth. Discounter stores remain one of the fastest-growing market segments with consistently strong potential for further development. Magnit aims to establish an industry benchmark for high-quality hard discounters, a format that the Russian market is currently lacking. In 2023, we launched the new First Choice (V1) format, catering to modern consumers who are budget-savvy but accept no compromises in quality. This format combines a wide range of products (around 1,000 SKUs), advanced technologies such as self-checkouts, and low prices due to deep optimisation of operational processes and logistics.

To occupy another niche and become closer to consumers, Magnit began testing the ultra-convenience format in 2023. These compact stores are located as close as possible to customers and offer the most popular staples at competitive prices and a fast shopping experience. Since September, we have opened several Magnit Ultra-Convenience stores in Moscow and the Moscow region.

We continue to develop our stores and expand our presence in target segments through organic growth and high-quality format development.

A notable example is the update of store concepts and value propositions for Magnit Convenience, DIXY, and Magnit Pharmacy launched in 2023 in line with current retail and technology trends and changes in consumer behaviour and preferences.

In 2023, we strengthened our position as the only retailer in Russia with its own food production facilities, increasing output to 300,000 tonnes.²

To maintain this growth going forward, we implemented several initiatives, such as expanding cultivated land area, launching vegetable-growing projects, and opening own production facilities in our convenience stores and large-format stores.

An essential factor in Magnit's success is a carefully devised and balanced partner engagement strategy.

We prioritise supporting domestic manufacturers and working with Russian companies, cooperating with over 2,500 local suppliers. To attract new partners, we hold regular regional procurement sessions. For small-sized Russian manufacturers and farmers, we have a number of initiatives in place to help them promote their products and offer special terms of supply to Magnit. In 2023, we welcomed 849 Russian suppliers as new partners of Magnit.

In 2023, we continued to develop our logistics network, which is now one of the largest in Russia.

We successfully launched the Ugolnaya Gavan 3PL³ centre and the first distribution centre for the V1 hard discounter chain in the Dmitrovsky district of the Moscow region. Opening our own distribution centre for the hard discounter format is an effective tool for reducing costs, enabling us to proceed to the V1 scaling stage.

An important focus of our development has been the continuous improvement of the private label range in all formats to meet the needs of increasingly price-sensitive consumers.

Private labels offer customers products of guaranteed quality at attractive prices. During the reporting year, sales of private label products increased by 11%, with the product range adding 700 new SKUs. We will continue to develop private labels in line with market trends, expanding our brand portfolio and assortment where necessary.

All products that make it to our store shelves undergo rigorous quality control, which is confirmed by the many awards won by Magnit.

In 2023, we received 47 awards at the 2023 Quality Assurance event. The accolades from the expert community are the result of the consistent efforts of our private label team, with nearly every fifth product in Magnit stores sold under one of our private labels. Especially important for us was winning the Joint Retailer-Producer Project category: it is through fostering partner relations and long-term contracts that we ensure the competitiveness of our private labels.

¹ Financial metrics are provided in accordance with IAS 17.

² Net of contract manufacturing.

³ 3PL, or third-party logistics, is a practice of outsourcing most of logistics operations, including storage, transportation, labelling, and packaging.

New horizons

The reporting year saw several significant events for the Company in the field of M&A. Magnit completed the acquisition of the KazanExpress marketplace and started its integration process for the subsequent launch of Magnit Market, our own marketplace. By acquiring KazanExpress, Magnit will be able to quickly enter the buoyant marketplace segment and capture its meaningful share without having to build its own platform from scratch. Our infrastructure, including several dozen distribution centres, a fleet of trucks, and the country's largest network of 29,000 stores ready to serve as pick-up points, will enable us to quickly step up our presence in this dynamic market segment.

Additionally, Magnit entered into an agreement to acquire a 33% stake in Samberi, the largest retailer in the Russian Far East, as part of our network expansion in Russian regions. We look forward to successful development in this promising part of the country.

To strengthen its positions and further expand in the CIS markets, Magnit continued to scale up its chain of drogerie stores in Uzbekistan in 2023, increasing the total number of M Cosmetic stores in the country to 70.

Keeping up with prevailing trends in technology, the Company introduced several innovative solutions in all areas of business in 2023. We began scaling self-checkouts and machine vision technology for recognising products on shelves and introduced an algorithm for selecting cosmetics using artificial intelligence, smart scales with product recognition technology, our own software for self-checkouts, unmanned product transportation, and more.

Notably, we migrated our loyalty programme to the domestic Manzana platform, operating on cloud technology. This transition enabled us to add new features to the loyalty programme and ensured its stable operation and reliable data protection for all customers. We intend to develop these areas going forward and are confident that they will considerably improve customer experience while automating and enhancing the efficiency of all the Company's business processes.

Corporate governance

In 2023, Magnit was assigned a ruAAA rating by the Expert RA rating agency, and in early 2024, an AAA(ru) rating by ACRA. These ratings reflect the Company's high quality of corporate governance, strong market and competitive positions, high margins, low leverage, and very strong liquidity.

Respect for the rights of all our shareholders remains an absolute priority for us. In June 2023, in response to requests from international investors, Magnit decided to provide shareholders with an opportunity to monetise their holdings in the Company within the existing regulatory and market constraints. Following the two tender offers announced on 16 June and 10 October 2023 by our subsidiary Magnit Alyans LLC, as well as the bilateral transaction of October 2023, we acquired a total of over 30 million Company shares, which make up around 29.7% of all issued and outstanding shares.

In December 2023, the Company's General Meeting of Shareholders resolved to elect a new Board of Directors and pay dividends on ordinary shares in the amount of RUB 42 bln, or RUB 412.13 per share.

Sustainable development

The Company continues to implement its sustainability strategy to 2025 across all areas. Magnit recognises its impact on stakeholders and is committed to implementing large-scale initiatives in the field of social responsibility and sustainable business development.

We strive to support socially vulnerable population groups and people in emergency situations. In 2023, we donated 1,530 tonnes of products as part of socioeconomic and charitable projects. I would like to highlight the food sharing programme launched in 2022 in collaboration with the Foodbank Rus charity foundation. Since its inception, we have donated 320 tonnes of food to those in need. Furthermore, in early 2024, we expanded the programme to encompass non-food products as well.

Our employees remain the backbone of our Company and a critical driver of its long-term sustainability. Making work at Magnit attractive and effectively supporting and motivating employees are our priorities in the field of human resources. To adapt to structural challenges in the labour market, we focused on retaining and developing our talent as a key asset, applying a flexible and proactive approach to recruitment, and increasing investment in employees to develop their key competencies and ensure continuity of our business. We achieved good results, with employee satisfaction reaching 81% in 2023.

In 2023, we also prioritised environmental issues, reducing specific greenhouse gas emissions by 31% vs the 2019 base year, and specific energy consumption by 18% vs the 2019 base year. We created Russia's first voluntary standard for recyclable eco-friendly pre-packs, which are branded cardboard racks and structures designed to attract customer attention within the store. The introduction of the standard developed by Magnit and its partners will help return cardboard to the circular economy and reduce waste.

With a steadfast commitment to responsible business practices and a clear focus on our strategic goals, we are confident in our ability to successfully achieve our objectives and make a meaningful contribution towards a sustainable future.

In conclusion, I would like to express my gratitude to the entire Magnit team, including our employees and partners, for their dedicated efforts, and commend the strong performance of our corporate governance bodies and all Company units, which enabled informed and timely decision-making across every aspect of our business.

Magnit's robust performance in 2023 reaffirmed the resilience of our governance and organisational structure in the face of challenges and external changes. It also showcased the strength of our business model, highlighting the importance of being present in customers' lives as a reliable supplier of quality products with a constant focus on consistency, exceptional service, and self-improvement. Looking ahead to 2024, we anticipate a wealth of possibilities and enticing opportunities, fuelling our confidence as we forge ahead with all our projects.

PJSC Magnit

Market overview

Macroeconomic environment

In 2023, Russia experienced a robust recovery of its economic activity, surpassing the growth projections made by the Bank of Russia (0.5–2.0%) and the Ministry of Economic Development (1.2%) in April. By the end of the year, the country's GDP grew by 3.6% compared to 2022 and by 2.4% compared to 2021, reaching RUB 139.0 trln (2021-year roubles) and fully offsetting the decline witnessed in 2022.¹

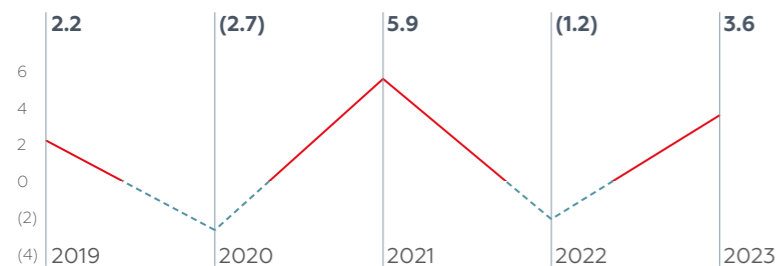
The rebound in economic activity was primarily attributed to a surge in investment portfolios, largely fuelled by generous budget spending, as well as to an upswing in industrial production, which from May 2023 remained near its highest levels in a decade. As a result, the industrial production index witnessed a growth of 3.5 p.p. compared to the previous year¹.

Furthermore, a substantial expansion in consumer lending played a favourable role in stimulating domestic consumption and bolstering the economy. However, this growth in consumer borrowing also contributed to an uptick in inflation and emerged as one of the key factors behind the rouble weakening. In response, the Bank of Russia implemented a series of five key rate hikes throughout 2023, more than doubling the rate from 7.5% to 16.0%.

Throughout 2023, the average annual unemployment rate in Russia remained at a historic low of 3.2%, reaching 3.0% by the end of the year. According to sociological research conducted by SberCIB³, there was a persistent labour shortage in the country at the year-end. 11% of the respondents indicated that their companies were hiring new employees, which represented a 3 p.p. increase compared to the previous year. Additionally, 20% of the respondents mentioned that their employers were facing challenges in filling existing vacancies. This marked a 5 p.p. increase compared to Q4 2021 when there

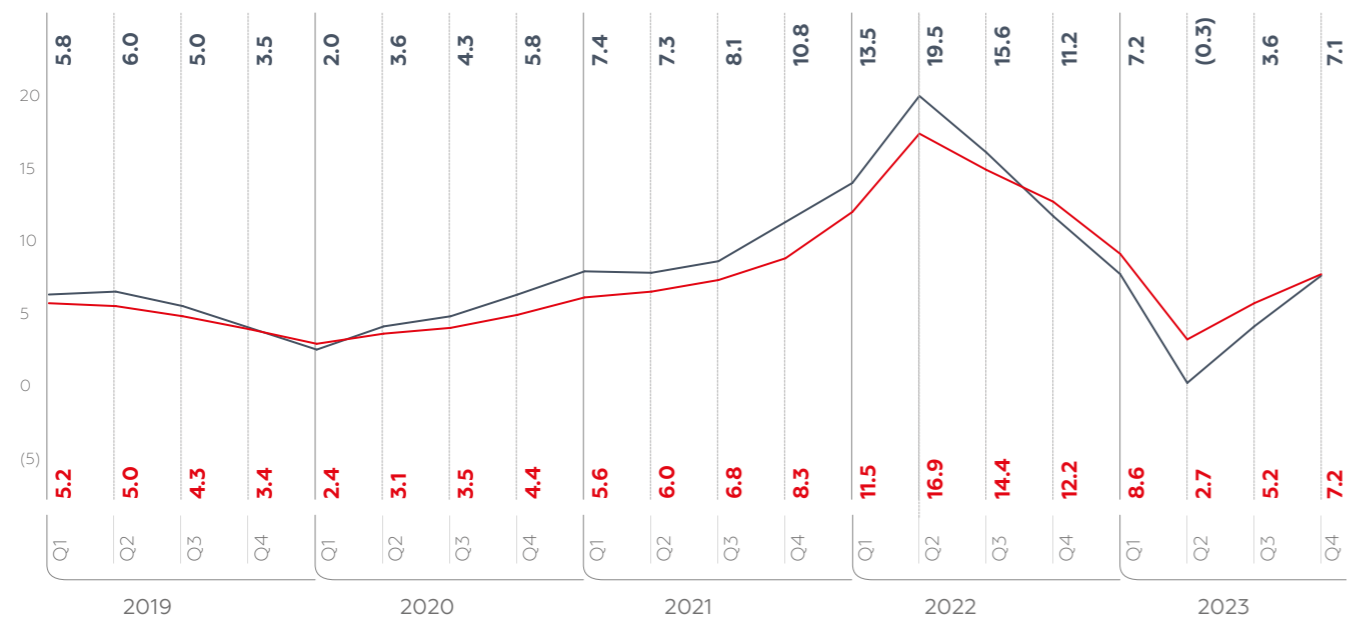
was no labour shortage in the market. These factors contributed to a rise in real wages by 7.8% and real disposable income by 5.4%. According to the National Research Institute for Labour, wage inequality decreased to its lowest level in the past two decades, with a ratio of 13.1x.

Real GDP change in Russia², %



The tightening of the monetary policy was primarily driven by the materialisation of proinflationary risks, as stated by the regulator. These risks included the domestic demand exceeding the economy's production capacity and the weakening of the rouble during the summer months. As a result, by the end of December, the accelerated inflation stabilised at 7.4%, while the food inflation rate was curbed to 8.2%.

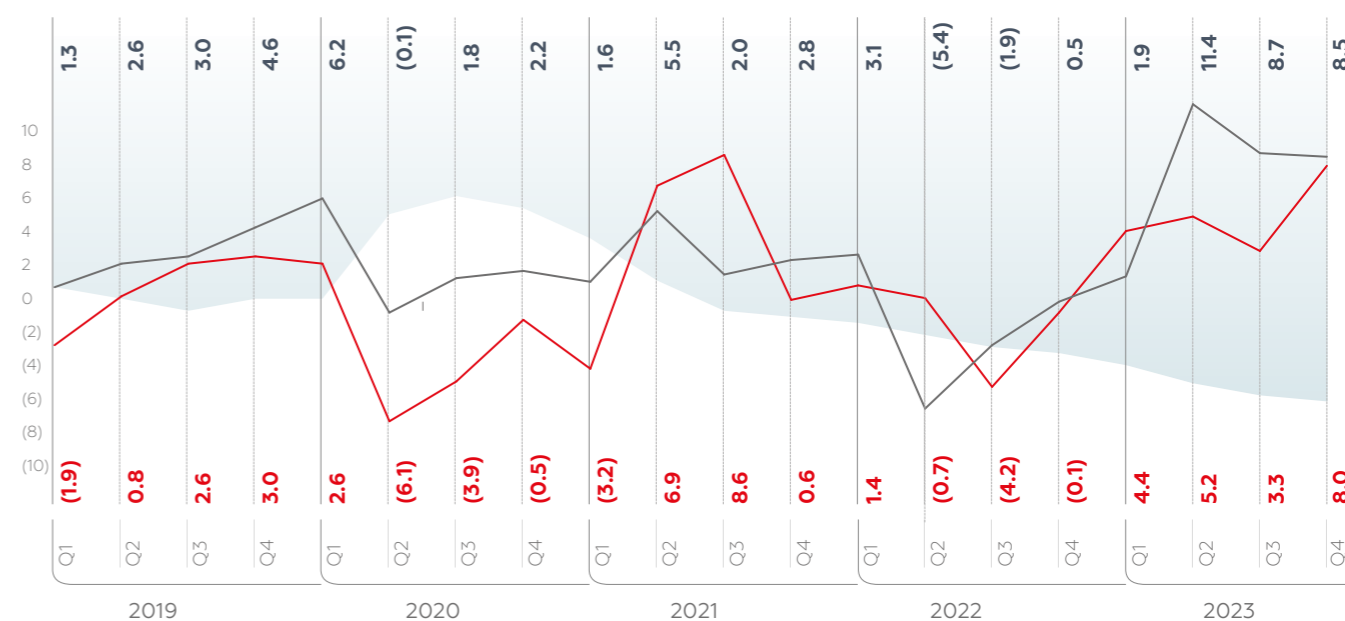
Quarterly CPI and food CPI in Russia, % YoY



— Food CPI, %
— CPI, %

¹ Sources: Bank of Russia, Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.
² Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.

Real wages, real disposable income and unemployment rate, %



— Real wages growth, % YoY
— Real disposable income growth, % YoY
● Unemployment, %

Russian retail market

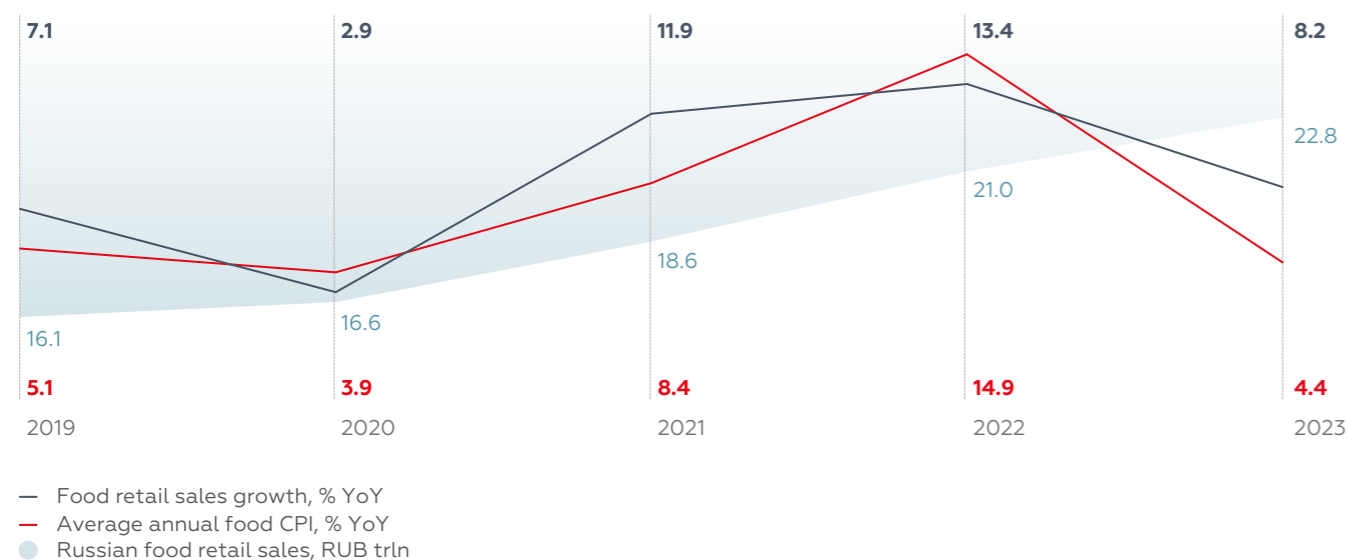
In 2023, retail sales in Russia increased by 11.3% YoY to RUB 47.4 trln, according to Rosstat. Despite the release of pent-up demand for various non-food products and services, food sales experienced a surge as well, registering an 8.2% increase to RUB 22.8 trln. Consequently, in 2023, the Russian food retail market remained the eighth largest in the world in terms of revenue.

RUB 22.8 trln

food retail sales in Russia in 2023

³ Source: SberCIB Ivanov Consumer Confidence Tracker.

Food retail sales in Russia in 2019–2023¹



Expenditures on food continued to be a significant component of Russian households' budgets. According to a research by SberCIB², food accounted for 39% of Russians' total expenditures in 2023.

Overall, the retail market environment in Russia in 2023 proved favourable for operators of modern retail formats, including Magnit. Retail chains successfully increased their combined market share to 75% through the opening of new stores.

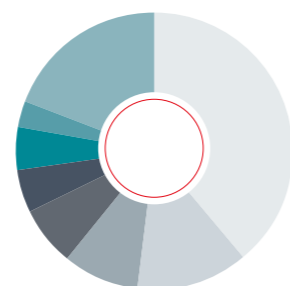
The cumulative growth in retail space amounted to approximately 2.6 mln sq. m, with a significant share continuing to be dominated by convenience stores.

Total selling space for modern retail in Russia, mln sq. m

Year	Hypermarkets, %	Supermarkets, %	Convenience stores, %	Total
2023	14	9	77	37.7
2022	16	10	74	35.1
2021	17	11	72	32.5
2020	19	11	70	29.7
2019	21	11	68	28.2
2018	23	12	65	25.6
2017	25	12	63	23.0
2016	27	13	60	20.3
2015	28	14	58	17.6

- Hypermarkets, %
- Supermarkets, %
- Convenience stores, %

Consumer spending in 2023², %



- 39 Food
- 13 Utilities
- 9 Clothing
- 7 Interest payments
- 5 Healthcare
- 5 Household goods
- 3 Leisure
- 19 Other

37.7 mln sq. m.

total selling space for modern retail in Russia in 2023

¹ Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.
² Source: SberCIB Ivanov Consumer Confidence Tracker.

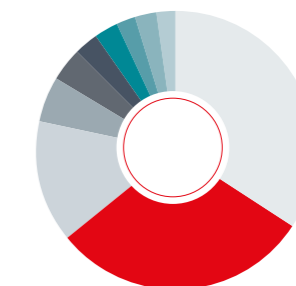
The modern retail market in Russia continues to hold significant growth potential. As at the end of 2023, the Top 5 players captured a market share of 38%, whereas in Western economies the figure typically stands at 60% or more.

In 2023, the market share of the Top 10 retail chains increased by 1.9 p.p. to 43%. The combined market share of Magnit was 12.8%.

The crisis of 2022 still presents additional growth opportunities for the Russian retail sector. Most leading players continue to invest in their own production, develop private labels, and ramp up product offering at affordable prices. According to INFOLine³, the share of private label sales in the food category increased by 2 p.p. in 2023, reaching 11% of total retail sales.

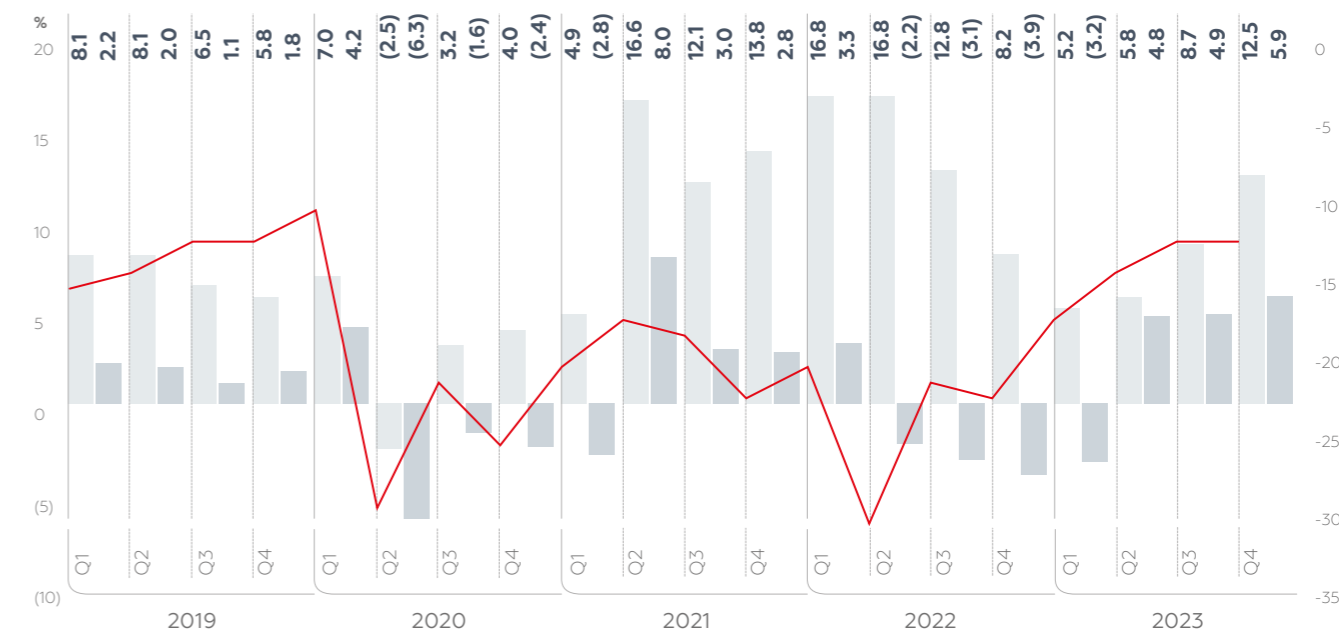
Alongside the expansion of conventional retail formats, online food retail experienced robust growth. In 2023, the e-grocery market in Russia grew by 47% YoY, reaching RUB 918 bln or 4.0% of total food retail sales (RUB 22.8 trln)³. However, in major cities such as Moscow and St Petersburg, the growth continued to slow down due to a weaker low-base effect.

Market share of the largest retail chains by revenue in Russia in 2023⁴, %



- 14.6 X5 Group
- 12.8 Magnit
- 6.1 Mercury Retail
- 2.3 Lenta
- 1.6 Svetofor
- 1.2 Vkusvill
- 1.2 Auchan
- 1.0 Monетка
- 1.0 METRO
- 0.9 O'KEY

CCI and food retail sales growth⁵, %



- Nominal food retail sales growth, YoY
- Real food retail sales growth, YoY
- Consumer confidence index

³ Sources: INFOLine, Company analysis.
⁴ Sources: INFOLine, Magnit analysis. Market share of Monетка is given prior to the acquisition by Lenta. Monетка is included in the market share of Lenta starting from 2 October 2023.
⁵ Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.



Despite the economic recovery, the purchasing behaviour of Russian consumers remained under pressure from inflation. The share of Russians trying to save on food remained significant in 2023, averaging 64% throughout the year.¹ In response, Magnit actively continued to develop its private label portfolio and production capabilities. In 2023, the Company achieved a 20% share of private labels in total sales, expanded its private label offering to 5,500 SKUs, and produced 300,000 tonnes² of goods, including 109,000 tonnes of agricultural products, which grew by 17% compared to 2022.

Furthermore, the Company continued to test and develop new formats tailored to meet the latest consumer trends. In 2023, we opened three small-format Magnit Ultra-Convenience stores and 53 technologically advanced First Choice (V1) hard discounters.

In 2024, we will continue to implement our smart growth strategy, which includes exploring new promising store formats, while also enhancing our unique CVP and developing online sales and digital services.

We will also remain committed to nurturing our key competitive advantages, including a diverse private label offering and unique in-house production capabilities.

Key trends in consumer behaviour and preferences in 2023

Surge in rational consumption, staying away from impulse buying

Consumers are becoming more rational about their spending and more cautious with their budgets, placing value on key factors such as money, time, and assortment when making purchasing decisions.

Increase in the popularity of mid- and lower-price segments

The decline in real disposable incomes has led Russians to opt for more affordable alternatives instead of premium brand products. This shift presents new opportunities for the development of our own production capabilities and private label offerings.

Consumers becoming more digital

The demand for online shopping and delivery continues to rise, particularly in non-metropolitan regions. However, in major cities like Moscow and St Petersburg, where the pace of life is fast, there has been a slight slowdown in growth rates due to the diminishing low-base effect. E-commerce remains one of the most dynamic channels, largely thanks to the prevailing cost-saving trend, as consumers actively compare prices and seek out better online deals.

Growing interest in locally produced goods

In recent years, Russians have started purchasing more products from local manufacturers. This is primarily because local goods are often priced lower than Western alternatives or can replace items that are no longer available. Additionally, some consumers are changing their consumption habits to support domestic producers.

Interest in healthy products and responsible consumption

There is a rising consumer interest in eco-friendly products, healthy eating and healthy lifestyles, driving a willingness to spend more on high-quality and environmentally conscious products in certain categories.

Key trends in the Russian retail market

Growing share of Russian manufacturers

Many brands withdrawing from the market set stage for the growth of Russian manufacturers, including local suppliers and farms.

Active expansion of marketplaces

Consumers are increasingly shifting their product searches from search engines to marketplaces. It is expected that the influence of this channel will continue to grow across nearly all consumer markets in the medium term.

eGrocery sales growth

The share of eGrocery sales in food retail is expected to approach 7% by 2025. This will also lead to an increase in the number of dark stores that serve the online delivery market. Key market players are actively investing in the development of their online sales channels and revising their business models to integrate express delivery and pickup services, marketplaces, and dark stores.

Shifts in demand and supply

In recent years, Russian consumers have been favouring more affordable products, including local brands and private labels, as well as appealing promotional deals offered by retailers. Simultaneously, the Russian retail sector has continued to adapt to economic and geopolitical shifts by transforming sales channels, updating product offerings, and introducing alternatives to discontinued brands.

Omni-channel development

Consumers are increasingly selecting shopping destinations based on their specific circumstances (urgent, spontaneous or planned purchases, those requiring ample time for decision-making, etc.), pushing retailers to become more omni-channel and integrate seamlessly into their lives.

Increasing presence of hard discounters and mini-markets

Discounters and mini-markets are gaining popularity due to consumers' price sensitivity and, unlike other formats, are in demand, including in remote locations. Availability of smaller retail outlets is helping to drive expansion. This segment is expected to be the primary driver of traditional retail in the near future.

Emerging digital systems

Digital technologies continue to evolve, enabling personalised approaches and streamlining business processes.

Key changes in the regulatory environment in 2023

Change	Regulatory document	Effective date
Increase in the minimum retail prices for alcoholic beverages, including vodka, brandy and sparkling wines, since 7 January 2023	Orders of the Ministry of Finance of Russia Nos. 168n and 180n	1 January 2023
Increase in the minimum retail price for a pack of cigarettes to RUB 119	Federal Law No. 1-FZ dated 27 January 2023	1 March 2023
Indexation of the Platon heavy vehicle charge system tariff (an increase by 30 kopecks compared to the previous tariff)	Resolution of the Ministry of Transport of Russia	1 February 2023
Expiry of the weight control exemption for trucks that bring medicines, food, and essentials into the country	Regulation of the Government of Russia No. 1670	1 February 2023
Extension of the ban on freight haulage by truck in Russia for companies from unfriendly countries. The list of exempted goods categories has been reduced to 20	Regulation of the Government of Russia No. 1078	30 June 2023

¹ Source: SberCIB Ivanov Consumer Confidence Tracker.

² Net of contract manufacturing.

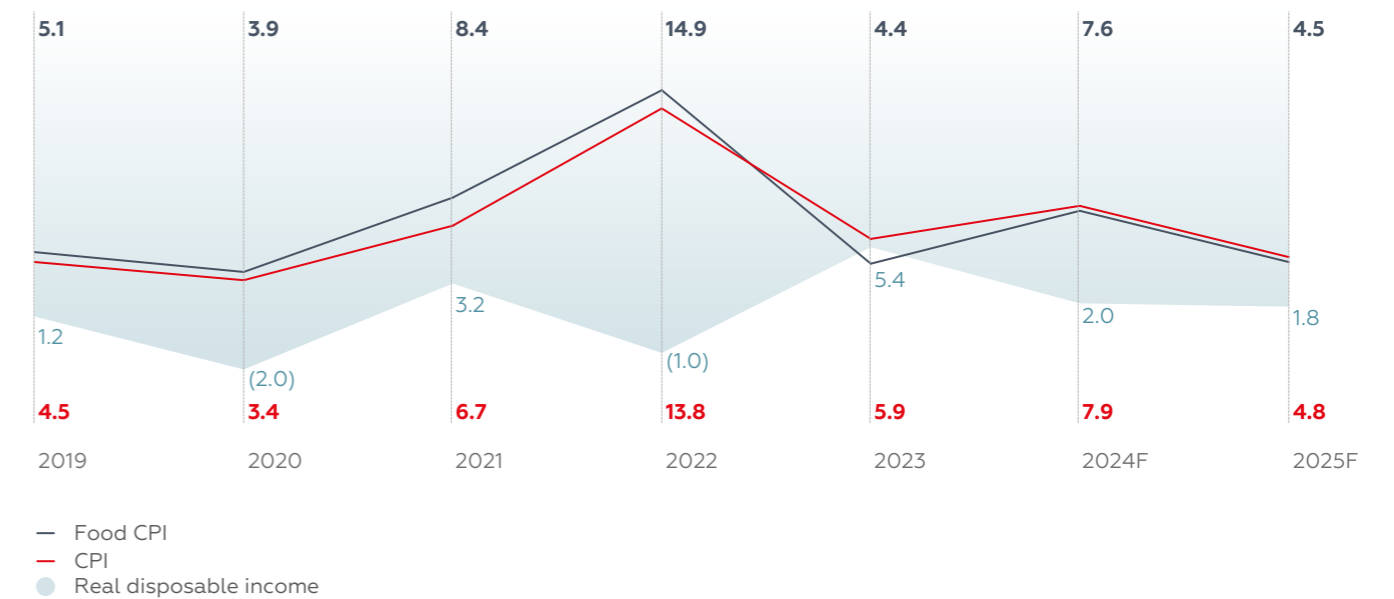
Change	Regulatory document	Effective date
Implementation of electronic special permits for heavy-duty vehicle travel on roads. Introduction of higher fines for exceeding weight or size limits for vehicles carrying heavy or oversized cargoes	Federal Law No. 172-FZ	28 April 2023
Introduction of an increased import duty of 35% on shampoos, tooth cleaning products, deodorants, cleaning solutions, as well as shaving-related products imported from unfriendly countries. Effective until 31 December 2023	Regulation of the Government of Russia No. 2240	9 December 2022
Increase in the import duty on a range of goods imported from unfriendly countries	Regulation of the Government of Russia No. 1173	20 July 2023
Extension of automatic renewal of licences and other types of permits until the end of 2023	Regulation of the Government of Russia No. 63	23 January 2023
Introduction of an excise duty on sugar-sweetened beverages (RUB 7 per litre)	Federal Law No. 443-FZ	1 July 2023
Indexation of excise duties on alcoholic beverages and tobacco products by 5% in 2024 and by 4% in 2025 and 2026	Federal Law No. 389-FZ	31 July 2023
Introduction of additional product labelling rules	Regulation of the Government of Russia No. 1861	1 March 2023
Introduction of an electronic registry of licences for the production and sale of tobacco and nicotine-containing products	Regulation of the Government of Russia No. 1138	1 September 2023
Introduction of mandatory labelling for children's mineral water; phased transition to mandatory labelling for specific types of medical products and antiseptics	Regulations of the Government of Russia Nos. 834, 894 and 870	1 September 2023
Approval of amendments to the list of goods permitted for parallel imports	Order of the Ministry of Industry and Trade of Russia No. 2701	21 July 2023
Implementation of an experimental system to prevent the sale of expired products as well as illegal tobacco and nicotine-containing products with a view to establishing an information exchange mechanism between retailers and the monitoring information system for mandatorily labelled goods	Regulation of the Government of Russia No. 74	1 February 2023
Conducting a three-year experiment to allow remote retail sales of prescription medicines in the city of Moscow, the Belgorod and Moscow regions	Federal Law No. 405-FZ	1 March 2023
Revision of the list of medical goods exempt from sale and import VAT	Regulation of the Government of Russia No. 2374	1 April 2023
Introduction of fines ranging from RUB 20,000 to RUB 200,000 for selling prescription medicines without a prescription	Federal Law No. 175-FZ	28 April 2023
Extension of the simplified procedure for registering medicines until the end of 2024	Regulation of the Government of Russia No. 824	27 May 2023
Simplifying the process of granting permits for online sales of non-prescription medicines	Regulation of the Government of Russia No. 272	18 February 2023
Implementation of new requirements for including the "product code" information in the receipts for the delivery of labelled goods.	Regulation of the Government of Russia No. 1090	1 March 2023
Modification of the rules regarding the inclusion of this information	Regulation of the Government of Russia No. 786	19 May 2023
Introduction of liability for the sale of counterfeit and unlabelled goods by marketplaces, along with their obligation to transmit information to the Chestny Znak labelling system	Regulation of the Government of Russia No. 1351	1 March 2023
Expansion of the list of children's goods produced domestically that are subject to a reduced VAT of 10%	Regulation of the Government of Russia No. 594	14 April 2023
Permitting regional authorities to enter into voluntary agreements with retail chains to stabilise prices for socially important food essentials. Effective until 6 May 2026	Regulation of the Government of Russia No. 662	6 May 2023
Establishment of administrative liability for failure to comply with online ads labelling requirements	Federal Law No. 274-FZ	1 September 2023
Transfer of responsibility for the disposal of packaging of Russian-made goods from producers of goods to producers of packaging. Establishment of importers' responsibility for the disposal of packaging	Amendments to Federal Law No. 89-FZ On Production and Consumption Waste dated 24 June 1998	4 August 2023

Food retail market outlook¹

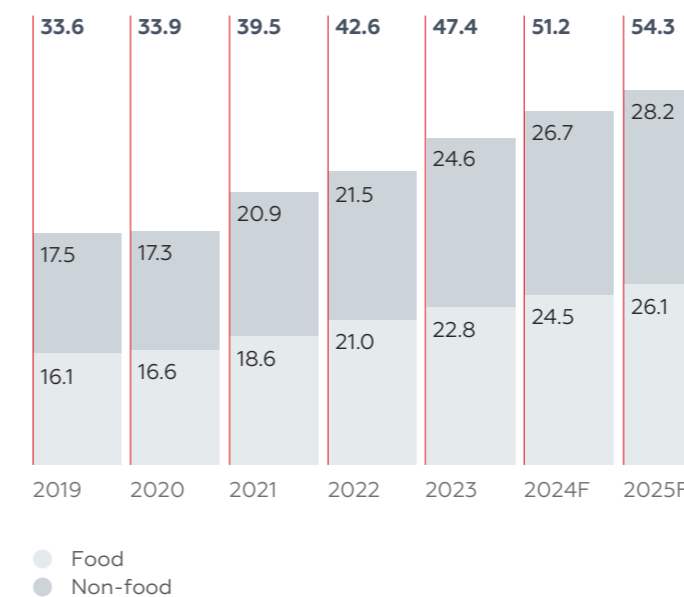
Real disposable incomes in Russia are projected to continue their growth trajectory (+2% YoY), driven primarily by a rise in wages (+10% YoY) amidst record-low unemployment.

The growth rates and margins of major Russian food retailers are projected to remain on par with the levels seen in 2023.

Average annual CPI and real disposable income growth¹, %



Russian retail turnover¹, RUB trln



RUB 47.4 trln
retail sales in 2023



¹ Sources: Alfa-Bank forecast, Federal State Statistics Service and Ministry of Economic Development data, Magnit analysis.

Strategy

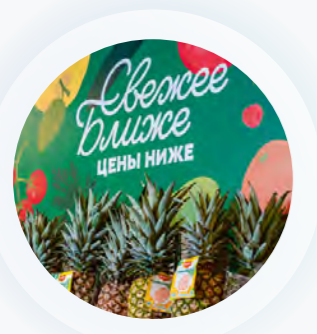
Our strategic ambition is to uphold leadership by maintaining competitiveness in an ever-evolving environment that requires adaptability to structural challenges.

We aim to preserve our market share and its balanced growth to solidify our current position as one of the leading retail players.

Magnit is focused on boosting efficiency in the prevailing market conditions.

To achieve this goal, we identified several priorities, both front-end (first group) and back-end (second group).

Our strategy relies on continuous improvement of Magnit’s key existing formats:



development of our flagship convenience store format



smart investments in the Magnit Cosmetic drogerie format



balance between sustaining and expanding the Magnit Family and Magnit Extra hypermarket formats

...as well as new areas of growth with the focus on expanding the product offering and enhancing customer experience:



development of the discounter format



piloting of the ultra-convenience format



E-com services: Magnit Delivery, a marketplace on the basis of the acquired KazanExpress and a Superapp¹

Key first group (front-end) priorities include:

- consumer-centric decision-making with enhanced loyalty and improved personalisation powered by Big Data (and later AI);
- improved brand positioning (including care, safety, sustainability, and value for money);
- improved loyalty programme;
- technological ecosystem to offer a fully-fledged omni-channel experience;
- broader private label offering;
- product assortment and store offerings tailored to local customer preferences through effective clustering strategies and assortment management.

Key second group (back-end) priorities include:

- all cross-functional end-to-end initiatives focused on improving the efficiency of key business processes;
- flexible organisational structure with clear responsibilities, combined with entrepreneurial culture and efficient cross-functional collaboration;
- investments in process automation and standardisation;
- flexible, reliable and scalable cloud-based IT solutions and data platform;
- new distribution centre openings;
- fleet renewal;
- monetisation of online and offline infrastructure.

To be able to respond to structural challenges, we place a special focus on:

- retaining and developing our employees as our key asset;
- taking a flexible and proactive approach to personnel attraction;
- intensifying investment in people to ensure best competences and business continuity;
- designing refined functional strategies;
- adjusting the offering of imported products.

¹ Developing a super application that integrates a loyalty programme, communication platform, delivery service, and marketplace.

Innovation and digital solutions

Magnit is constantly searching for innovations and piloting forward-thinking projects to gain additional competitive advantages and create a new shopping experience.

Our approach to innovation is designed:

- to enhance our production facilities;
- to streamline business processes;
- to reduce environmental footprint;
- to elevate customer service;
- to fortify our CVP.



Digital solutions and business innovations

Central to Magnit's innovations is the incorporation of new digital solutions throughout our operational framework and business processes. With a robust digital transformation programme in place, we are committed to refining our CVP with a focus on customers, accelerating new product launches, achieving cost efficiencies by minimising redundant operational roles, unlocking the potential of valuable customer data analytics, and fostering a culture of employee engagement.

The Company's digital transformation relies on:

- a flexible, modular business architecture that readily adapts to shifting market demands and customer needs;
- state-of-the-art tools and technologies that foster the creation of composable services to ensure flexibility and speed while minimising costs;
- a product-centric approach that helps find, test and scale creative solutions to emerging challenges.

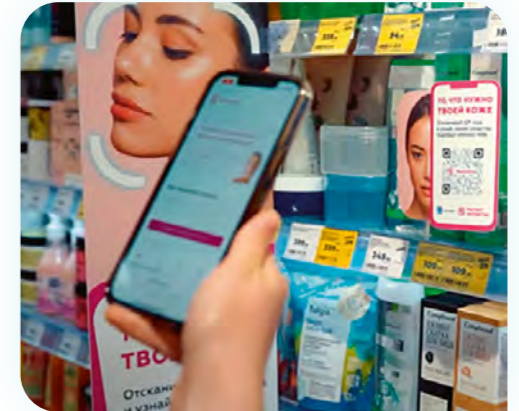


AI-powered technology for choosing cosmetics

In June 2023, Magnit announced the launch of BeautyScan, a customised cosmetics selection technology, in more than 200 Magnit Cosmetic stores in Moscow and St Petersburg, offering a highly personalised service, improved customer experience, and a focus on maintaining health and beauty.

Pilot tests have indicated a 5% uplift in sales and a conversion rate nearing 70%. In 2024, the Company plans to expand the technology to over 5,000 Magnit Cosmetic stores in the City and Metropolis clusters.

For more details, see the Format Overview section on [p. 60](#)



AI-based promotions

In 2023, Magnit continued its project to enhance the performance of individualised promotions by relying on in-house ML-based innovations.

As part of the project, target segments and optimal promotional mechanics are selected by AI, and promotions are personalised through a variety of tools such as express bonuses, individual discounts, and bonuses for purchases in a specific product category.

The main advantages of the technology are its high efficiency, targeting based on hundreds of parameters, including consumer-specific offers, as well as the ability to gauge the campaign's performance on a daily basis and swiftly respond to changes in consumer behaviour.

Machine vision

In 2023, Magnit focused on scaling up its machine vision technologies to the hypermarket chain, building on the initial tests conducted in 2021. One of the technologies is product recognition (Image Recognition). By the end of the reporting year, it was successfully implemented across all Magnit stores in the large Extra and Family formats, covering 20,000 SKUs.

To monitor product display on the shelf, the Company uses a Russian-developed technology based on a neural network that recognises product images from photographs and makes sure that products on shelves match the planned arrangement (planogram). The technology reviews the availability of products on the shelf and the remaining stock in the store, the sequence in which the products are placed on the shelves as well as the front shelf and other layout arrangements. Whenever any errors are detected, staff members are alerted via a mobile app, enabling swift corrections.

In 2024, the Company plans to refine this tool further for use in large store formats, with a new module for controlling price tags and non-displayed products and determining the share of domestic producers on the shelf.

x3 ROI vs conventional advertising campaigns.



The product recognition technology is available in all large format stores.



Clever Lever smart scales with product recognition

In 2023, the Company started to expand its Clever Lever project, introducing smart scales equipped with product recognition to large store formats. Initially piloted across 37 stores, the technology demonstrated significant efficiency, with losses of goods sold by weight decreasing to just 0.22% of store gross revenue. The innovation was deployed in more than 1,500 self-service scales.

In December of the reporting year, the technology was rolled out to 205 hypermarkets and is already available for customers. With a presence in 242 stores across the chain, Magnit plans to introduce this technology as standard in 2024, expanding it to the remaining geography of large formats and initiating pilots in convenience stores.

Electronic price tags and media shelves

The year 2023 saw the launch of the Scissors Free pilot (Electronic Price Tags and Media Shelves).

The project concept is to provide convenience stores, Magnit Cosmetic stores and large store formats with electronic price tags for all active SKUs, as well as install media shelves on racks with target product categories. The project involves the collaboration of two technologies: digital price tags and flexible media content management with marketing tools.

The first convenience store with electronic price tags was launched in Moscow in December 2023. In Q1 2024, the rollout plans to continue to cover the entire pilot group of stores in Krasnodar, Moscow and St Petersburg.

As part of the project, the Company will test the system's functionality, swift price management, synchronisation of price updates without the use of manual labour, sales support with videos, and advertisement displays on targeted product racks.

Video recognition on self-service scales is a cutting-edge technology developed in Russia and based on neural networks. It can identify goods without a bag with an accuracy of 98%, and products in coloured or transparent bags with an accuracy of up to 95%. The system's neural network can be trained on popular products within four hours, extending to four days for less common items, without limitation on the number of unique SKUs.



Extended barcode technology

In the reporting year, the Company commenced the scale-up of extended barcodes (EBC). Unlike traditional barcodes, EBCs carry detailed product information such as expiry dates, production dates, weight or size, and batch numbers. The EBCs we use meet international standards and can be read by the most common modern scanners.

The solution will help improve on-shelf product availability, optimise efforts to control the shelf life in stores, and reduce losses and markdown costs. Leading Russian food producers, including Cherkizovo and EFKO, are among the first to join Magnit in rolling out the EBC technology.

Technology to check product expiry dates

In 2023, the Company launched a new technology to check expiry dates of Chestny Znak-labelled dairy products at the checkout. According to the Advanced Technologies Development Centre, the operator of the labelling system in Russia, Magnit was the first retailer to implement this kind of solution. It obtains information on the product's shelf life directly from the Chestny Znak system during the checkout process and prevents the transaction if the product has expired.

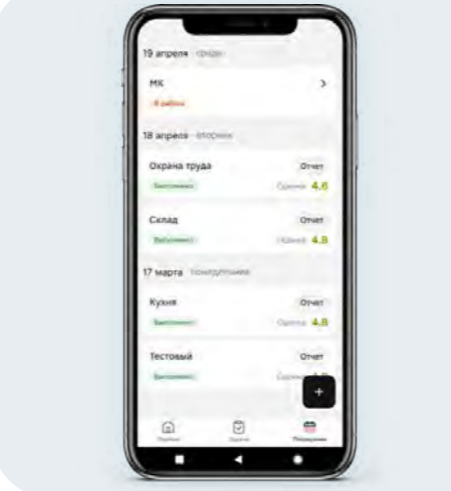
Looking ahead, Magnit, in partnership with the Advanced Technologies Development Centre, plans to expand the technology to include other labelled product categories such as packaged water, enhancing the ability to check expiry dates and prevent sales of expired items.

Mobile app for digital administration and operations management

MDrive is a key tool to manage and assist with day-to-day operations within store teams. In 2023, we focused on expanding the basic supervisor audit process across our core formats. The new UX digitalized all basic operational functions (check-list analysis, audit, instructions). Another promising pilot in Q4 was the communication of customer feedback after offline purchases: now store teams receive real-time feedback and ratings reflecting the in-store shopping experience, allowing for swift service improvements. In 2024, we will strengthen our focus on MDrive's supportive capabilities and offer improvements in the availability of operational analytics, quality and convenience of task completion, routine administrative task automation, and overall app stability.

129 suppliers or 1,550 SKUs in categories such as dairy, cheese, meat deli, poultry, baby food and others, joined the extended barcode project in 2023.

The technology for checking the expiry dates of labelled dairy products was scaled up to all Magnit stores.



Import substitution for technologies

Magnit develops proprietary self-checkout software

In the reporting year, Magnit started deploying proprietary software at self-checkouts in its stores, successfully installing the system in some 2,000 checkouts. Developed by our in-house IT team, the software will ensure independence from foreign suppliers, facilitate internal service maintenance, support quick enhancements of device capabilities, and reduce the cost of terminal operation and the need for additional equipment. Also, the software surpasses the performance of Western alternatives, enabling the use of current checkouts without expensive upgrades.

Magnit plans to improve the user interface and customer journey by integrating self-checkouts into a single ecosystem with Magnit's mobile app. This way customers will be offered a seamless and intuitive interaction with Magnit's various services.

In 2024, we anticipate all self-checkouts will operate on this proprietary software.

Transfer of loyalty programme to Russian-developed solutions

The transition of our loyalty programme to the Russian-developed Manzana platform in 2023 was a major milestone for Magnit. The new solution is powered by a cloud-based technology tailored to the Company's needs.

The transition unfolded over several months: the Company started to migrate users in March, gradually connecting more cardholders to the new system. Throughout this period, customers retained access to bonus accruals and spending,

card discounts and other features, including the ability to register new cards. We preserved all historical data on accumulated points and bonuses, as well as analytical data. Concurrently, the Company continued enhancing its loyalty programme, introducing new mechanics. For example, the number of product categories available for customers to choose from was expanded and segmentation was refined, resulting in a 30% increase in effective communications without compromising customer response.

>30 thous.

checkouts to be installed in 2024 in line with each format's demand

Magnit to become Russia's leading retailer in terms of fleet of devices



Unmanned trucking technology

The Company's strategy is aimed at improving the efficiency of its operations, with a special emphasis on cutting-edge robotisation solutions. Magnit is also exploring the prospects of using robotic solutions in warehouse logistics, which is especially relevant given the complexity of logistics and growing freight volumes. In the reporting year, Magnit launched unmanned cargo deliveries on the M11 Neva highway. In addition, Magnit takes part

in an initiative to test unmanned logistics corridors on the M11 Neva highway as part of a regulatory sandbox regime programme.

For more details on this project, see the Logistics and Transport section on [p. 108](#)

Looking ahead



• Voice assistant in transport logistics

As part of its strategy to enhance transport technologies, Magnit successfully adapted and piloted a voice assistant designed to monitor transport statuses. This innovative solution will help provide precise and timely information, enabling faster response to unforeseen logistics challenges.

• Platform for recruiting general staff

Magnit is testing a new service for filling temporary roles related to functions such as stocking shelves, assembling orders, or servicing pick-up points. The service is expected to be particularly effective during peak periods when the demand for temporary workers spikes.

• Leveraging AI technologies to save energy costs

The Company will continue to explore energy efficiency solutions in 2024.

• Business process robotisation

In 2023, Magnit successfully tested industrial robot cleaners in stores, assessing their effectiveness and suitability for wider use within the Company's premises.

ESG innovations

Green packaging

Magnit is actively involved in initiatives to reduce its plastic and paper footprint. We are fully aware that a significant proportion of retail waste comes from packaging materials. Consistent efforts to integrate eco-friendly practices into our business processes and improve the sustainability of our packaging are major components of our sustainability strategy.

Packaging is the key source of waste for a retail chain. This is mostly cardboard, polyethylene film, and plastic crates for fruit and vegetables.

We efficiently collect, process and recycle between 95% and 99% of all recyclable plastics, film and cardboard from our retail stores and distribution centres.

Voluntary standard for recyclable POSM¹ equipment

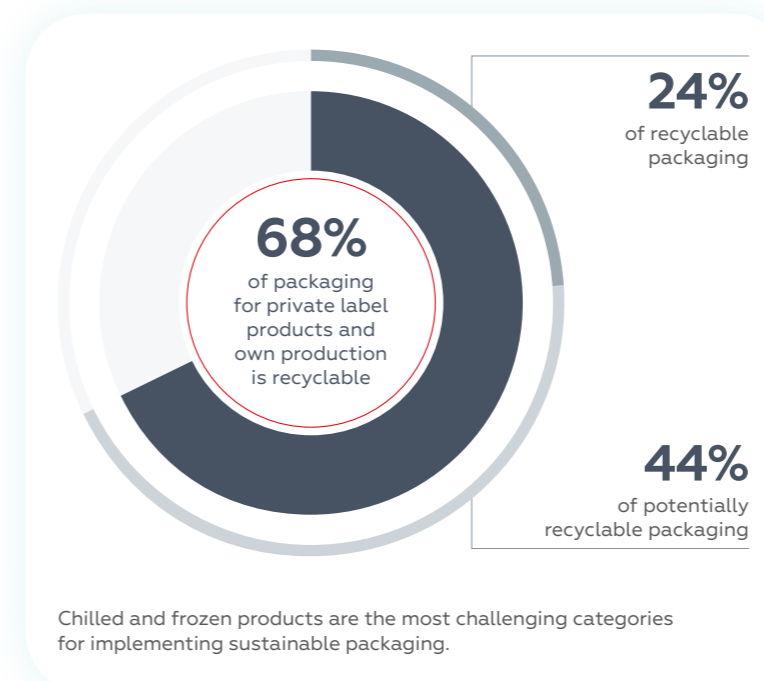
In 2023, Magnit and its partners developed Russia's first voluntary standard for recyclable pre-packs. Pre-packs are branded product displays that are delivered to stores with products already stacked. The display racks are mainly made up of cardboard, but the strong presence of additional materials such as metal, plastics and occasionally concrete hinders their recyclability. The new standard encourages suppliers to eliminate the use of metal and plastic elements and lamination in these displays. Pre-packs adhering to these guidelines are expected to be marked accordingly. The adoption of the standard is set to avert the production of 2.4 million kg of waste (400,000 pre-packs), reintegrate cardboard into a circular economy, and lessen the volume of solid municipal waste produced.



Advancing eco-friendly consumer packaging

We are committed to incorporating green solutions across all areas of our operations, including both offline and online sales channels. To achieve this, we actively participate in initiatives promoting eco-friendly packaging.

In 2023, Magnit and its suppliers continued to implement the Voluntary Sustainable Packaging Standard (ECR Russia), which is based on international and Russian best practices and tailored business recommendations, and takes into account all applicable requirements of Russian laws. The initiative is expected to considerably reduce the volume of non-recyclable retail waste.



¹ Point of sale materials are materials that help promote a brand at the point of sale.
² FMCG – fast moving consumer goods.

New green packaging standard for e-commerce

In 2023, Magnit, together with leading e-commerce players, FMCG² companies and ECR Russia, developed voluntary guidelines for sustainable transport packaging tailored to e-commerce services and online retailing. The guidelines will be an effective self-assessment and self-regulatory tool for online retailers, promoting the selection of functional packaging options that minimise environmental impact and waste production.

The guidelines categorise packaging into three traffic light groups based on environmental friendliness: "best solution" (green), "acceptable" (amber), and "recommended to avoid" (red). The classification covers all major categories of transport packaging (boxes, bags, film, wrapping, etc.) except for reusable packaging (couriers' backpacks).

When developing the standard, we took into account the possibility of producing packaging from renewable materials, the use of recycled materials in its production, easiness of sorting, and other parameters.

In its operations, Magnit relies only on packaging that complies with the new e-commerce standard.



Information security and personal data protection

Magnit's information security is based on a set of interrelated organisational and technical tools which comprise an integrated information security management and assurance system. Our comprehensive approach enables us to protect ourselves against modern information security threats, comply with Russian legal requirements, and prevent financial, reputational and other damage. The Company's information security system is designed and developed in line with global best practices.

Magnit has a formalised procedure for internal auditing, which falls within the remit of a dedicated department. We regularly assess information security risks and test our information systems on a quarterly basis.

Key focus areas of information security

Cyber security system

The Company has a set of systems and services to protect against cyberattacks, with solutions in place to identify and eliminate vulnerabilities in IT equipment, detect virus activity and zero-day attacks¹, as well as monitor and respond to security incidents. Magnit monitors the integrity of software architecture across all of its external IT services. The Company's IT team performs ongoing updates to network devices, servers and software, as well as routine scans of all external Company services for known vulnerabilities.

All of Magnit's web services are protected through tools designed to detect and block network attacks on web applications. We actively employ Anti-DDoS² solutions, and regularly scan open internet ports.

Due to the withdrawal of foreign vendors of security systems, in 2023, we tested and adopted domestic solutions for security orchestration, automation and response (SOAR). The Company also began replacement of its security information and event management (SIEM) and vulnerability management (VM) systems.

Anti-fraud

Magnit has established a transparent framework to monitor and respond to incidents related to loyalty programme bonus points. IT experts constantly analyse open-source intelligence (OSINT) to detect new attack vectors, implement and improve anti-fraud equipment for blocking illegitimate debits and bonus point accruals, build processes for analysing the Company's projects under development and implementation for minimising the risks of attacks, etc.

Development of IT security competencies

One of our information security priorities is to make employees more aware of cyber security rules. In 2023, the focus was set to develop practical skills for navigating the digital environment safely. Employees receive interactive training and are subjected to simulated phishing attacks to build practical skills. The use of gamification promotes employee engagement in the learning process.

Work from home

In 2023, we conducted a functional analysis of Russian remote access VPN systems and bench testing of products. A pilot project is planned for 2024 in several branches of the Company.

Secure development

To ensure security throughout software development lifecycle, an application security orchestration and correlation (ASOC) solution was implemented in 2023.

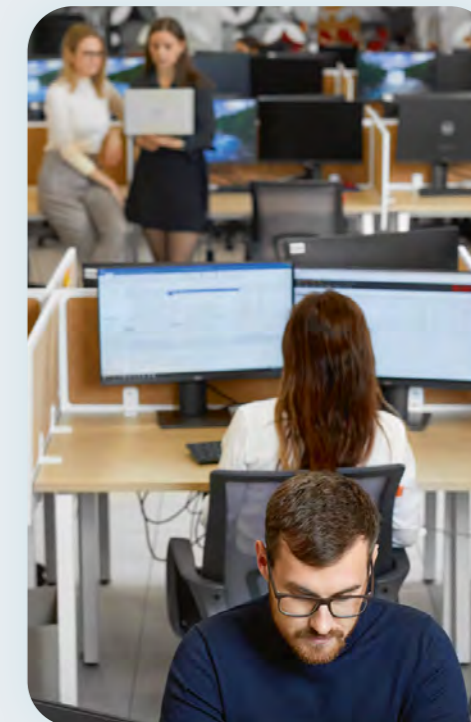
Protection of personal data

We have a systematic approach to protecting the personal data of all stakeholders and continuously monitor all existing and planned information systems. The Company makes consistent efforts to raise awareness of employees in information security and personal data protection, with training materials, videos and information security courses now developed and available. Magnit also approved corporate regulations and instructions on personal data processing and protection.

Employees of the IT Department working with user data are duly trained on a regular basis. The Company has automated the collection of consents to personal data processing.

We maintain a log of security incidents in information systems for processing personal data and inquiries regarding their processing and storage.

In addition, internal and external audits assess risks, analyse processed data, and develop and update a threat model for information systems and technical solutions to eliminate such threats.



Plans for 2024



In 2024, we will continue to develop our information security systems to prevent new threats, including further automating of processes, implementing import substitution of information

security tools, standardising processes and approaches in our development teams, and developing DevSecOps³ processes.

¹ Zero-day – an exposed software vulnerability or malware with no identified means of containment.
² Anti-DDoS is a tool of protection against DDoS attacks, which aim to disrupt the computer system through a constant stream of requests.
³ DevSecOps (development, security and operations) is a modern development practice that enables organisations to rapidly build and release secure applications.