

# 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%.<sup>1</sup>

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.<sup>2</sup>**

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 3PL<sup>3</sup> 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.

<sup>1</sup> Financial metrics are provided in accordance with IAS 17.

<sup>2</sup> Net of contract manufacturing.

<sup>3</sup> 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**