



Magnit is the winner in two categories of Loyalty Awards Russia

In 2023, Magnit's efforts to develop its loyalty programme won praise from the professional community as the Company took two nominations of Loyalty Awards Russia, a national award recognising best performers in loyalty marketing, CRM and customer experience management.

With its successful Stickers campaign, Magnit won the Best Loyalty Programme in FMCG Retailing category. Stickers, featuring famous meme characters and phrases, were given to loyalty card holders making purchases above a specific threshold, customers who purchased sponsored products, and everyone taking part in a dedicated game in Magnit's mobile app. The campaign ran in spring 2023.

Also, Magnit won the Best Mobile Loyalty Programme category for its project to improve the value of virtual loyalty cards for customers via its mobile app. The updated app version provides customers with additional privileges, such as choosing three favourite product categories to get an increased cashback, as well as exchange of bonuses for higher cashback.

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.



In the reporting year, we launched a new campaign: titled Gold of the Magnit Sea, it has a gaming component and is available for all loyalty card holders. As part of campaign, customers had an opportunity to collect 22 unique "magnets", or gaming tokens showing symbols of ancient civilisations, sponsors, and Magnit. The tokens were issued depending on the ticket size and store format. Campaign terms and conditions were the same for offline and online customers.

During the year, Magnit also held other successful campaigns as part of its loyalty programme, such as Magnitopolis-2, a savings campaign offering construction toys and targeting families with children, as well as rational loyalty programmes covering some of the popular products.

In 2023, Magnit continued developing and scaling up its subscription service. It has subscription plans for different product categories and store formats, which enable users to accumulate more bonuses, use personal discounts and individual promos. Subscriptions are bought using the option to pay with bonuses. The service covers around 500,000 active users per year.

Additionally, customer can facilitate bonus collection by paying with cobranding cards or making purchases at our partners. Today, 22 partners offer additional bonuses to our customers.

Private labels and own production

Private labels

Magnit strives to continuously develop its private labels to offer unique products with excellent value for money. Having in-house production contributes to business stability and gives an opportunity to fully control the process of creating the final product. The development of a diverse range of private labels is central to our customer value proposition. Magnit's private labels offer an excellent price-quality ratio, which makes them more attractive to customers than similar goods of well-known brands. Thanks to our in-house production, we can offer products in a wide price range to suit different consumer preferences. The trend in demand for these products confirms their popularity: the number of customers choosing Magnit's private labels is steadily growing, including those who prefer products of medium and high price category.

Magnit's private label portfolio includes 51 brands and around 5,500 SKUs. The Company's key private labels are the mid-price umbrella brand Magnit, which offers customers an opportunity to save money while maintaining the same quality as well-known brands, and its subbrands M Freshness, M Kitchen, M Health and M Lifestyle, as well as the umbrella brand My Price, which covers basic needs in the lower price segment while maintaining a stable level of quality.

The portfolio boasts over 45 exclusive brands from various product groups and price segments. The goods offered exclusively by Magnit stores are produced predominantly by Russian companies, as well as at the retailer's own 20 food production facilities. For example, M Freshness sells vegetables, mushrooms and herbs grown at the retailer's own greenhouse facility in Krasnodar, while the brand's chilled ready-to-cook meat products and brined cheeses are made by local producers.

It is not an easy task to attract the attention of customers and encourage them to try new brands, but we do a lot of preparatory work and offer products that are really demanded by customers and are of high quality.

The efficiency of Magnit's private labels is largely driven by a thorough approach to the way they are developed and launched, including:

- preliminary analysis of the market and competition;
- search for market niches that are still available;
- deep dive into best international practices and the offering of manufacturers, including as part of own production;
- engagement of cutting-edge in-house R&D labs and test studios to develop products and upgrade their quality.



51 brands

in Magnit's private label portfolio

20

in-house food production facilities



Results

11%

YoY growth in revenue from private label sales

35%

share of Magnit umbrella brand in our private label sales mix

5,454

SKUs in the private label portfolio

710

new private label SKUs in 2023

2,443

food SKUs in the private label portfolio

from 34 to 45

increase in the number of exclusive brands included in Magnit's private label portfolio

20%

share of private labels in sales

78 awards

of the 2023 International Quality Assurance event brought home by private labels of Magnit and DIXY



We continue to expand our private label portfolio and assortment in line with changing consumer demand, developing our own production and building long-term partnerships with external suppliers. Our private label portfolio features approximately 5,500 SKUs. 2023 saw the launch of more than 700 private label SKUs. These include milk and dairy products, fish and meat delis, ready-to-eat dishes, fruit and vegetables,

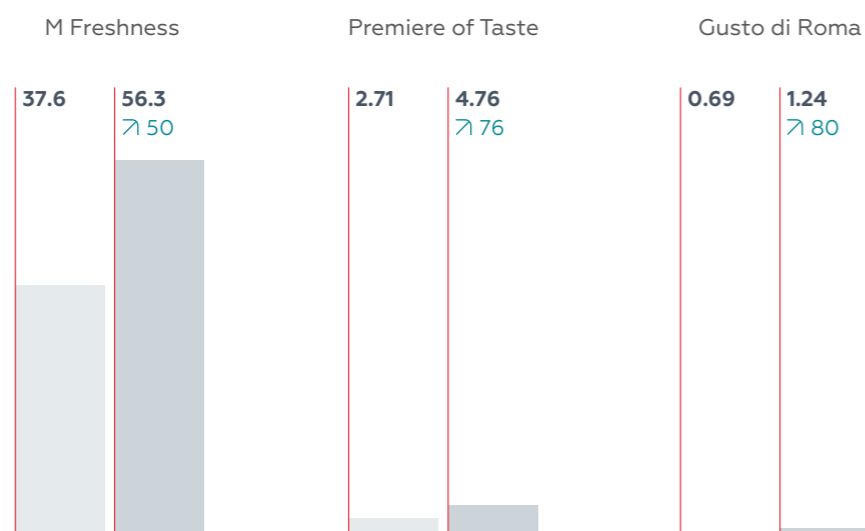
cheese, bread, dry food, confectionery, soft and hot drinks, snacks, canned and frozen food, cosmetics, household chemicals, paper and hygiene products, household goods, and other non-food items.



The sales of Magnit, our largest brand in terms of sales, reached RUB 149.5 bln (an increase of +32% vs 2022). The fastest growing brands were:



Sales of Magnit's fastest growing brands, RUB bln



● 2022
● 2023
↗ 2023/2022, %

In order to increase recognition and sales of its private label products, the Company is actively promoting their sales outside the chain. For example, in 2023, Magnit joined forces with Tatspirtprom to introduce its exclusive Sombrero tequila brand supplied to Russia as part of its own imports to non-retail and HoReCa segments. The brand is performing well above the market, with Sombrero sales up 2.3% in value terms in 2023 amid declining sales for the category in the overall market. According to preliminary estimates, the partnership with Tatspirtprom may enable the retailer to double its tequila sales on the Russian market in the future.

In the reporting year, Stellary and Beauty Bomb, Magnit's exclusive brands in the make-up category, expanded outside our stores. Currently, the products of these brands can be found

on the shelves of a Russian beauty chain, with plans to expand distribution to other sales channels in 2024.

Ready-to-eat dishes are another promising area for the development of Magnit's assortment. We have them produced for our convenience stores by local manufacturers under the M Kitchen brand according to relevant recipes and under the strict control of the hypermarkets' own production staff.



Our achievements

The quality of our private labels is evidenced not only by stronger demand we see for them but by expert opinion as well. Magnit is a regular participant and winner of the Private Label Awards, an important appreciation of the retail chains' private labels. In the reporting year, the Company won four Private Label Awards. Beauty Bomb, Magnit's private label, was recognised as the best private label of a perfume and beauty chain and drogeries. NaNi, a brand under which diapers and baby hygiene products are produced for Magnit stores, became the winner in the Joint Retailer–Producer Project nomination. The jury also highly praised Premiere of Taste, another Magnit brand offering premium products such as canned food, frozen berries and mixes, and other products from around the world. This brand won a prize in the Best Private Label in the Premium Segment category. In addition, the Gusto di Roma brand, under which Magnit stores offer top-grade pasta made of durum wheat, as well as coffee and pasta sauces, was recognised in the Best Private Label of Food Products category.

In November 2023, at the Quality Assurance contest, goods under Magnit's exclusive private labels and ready-to-eat dishes of the Company's own production received 47 awards: 19 gold and 13 silver medals, and 15 quality certificates. The jury took a special notice of products under the Magnit and M Freshness private labels for bakery, meat products, cheese and dairy products, fish deli, and others. The awards also went to products under the retailer's exclusive brands – Eat Meat, Gusto di Roma, Lucky Days, Premiere of Taste, ready-to-eat and ready-to-cook dishes sold in Magnit supermarkets and superstores under the M Kitchen brand (confectionery, salads, meat products, etc.).



To study and improve the quality and consumer properties of our private labels, we collect and analyse customer feedback. At our own test studios in Krasnodar and Izhevsk, customers participate in blind tests of our products and provide advice on how to improve them. With this feedback under our belt, we can considerably improve our sales, sometimes by as much as 70%. In the reporting period, Magnit's test studios held over 1,000 tests of private label products. Improvement of our private label consumer properties allows us to consider them as full-fledged competitors to well-known brands and to plan their promotion.

In addition to evaluating private label products in test studios, we launched customer feedback analysis in the mobile app. If a product has a low NPS, we conduct additional testing in a test studio and, if necessary, improve the consumer properties of such product. In the future, we plan to give feedback to customers on their reviews in the app.

The Company also uses a creative approach to designing its private labels: in 2023, Magnit held a championship among Russian university students where the contestants had to develop a line of private label products. More than 1,200 applications were submitted for participation in the championship. The Company built a talent pool of gifted students who are employed by Magnit as jobs become available.



Looking ahead



In the future, we plan to apply a fundamentally different approach to private label creation: in developing our brands, we will rely on FMCG experience with in-depth market analysis, while in designing products we will apply an R&D approach involving process engineers.

We expect this segment to continue strong growth on the back of consumers' desire to save money and their growing trust in retailers' brands, including by filling the private label portfolio with new products and brands.

Own production

When creating a new product, we benchmark our own production capabilities with those of external partners and compare economic efficiency metrics. All opportunities and costs being equal, we opt for our own capacities, as this plays a major role in expanding Magnit's private label range and enables us to quickly respond to changes in consumer preferences.

Today, Magnit operates 14 industrial production and 6 agricultural complexes which produce a vast range of goods, including vegetables, spices, and cereals. The total headcount at our own production facilities is around 5,200 people.

All production facilities possess modern equipment with a high degree of automation. With 175 in-house laboratories, we ensure quality control throughout the entire production process, from feedstock procurement to the manufacture of finished products. All the facilities are constantly monitored online. Our processes comply with GOST R ISO 22000-2007 and the international FSSC v.5¹ requirements.

14 industrial assets

6 agricultural assets

5,200 people

total headcount at the Company's own production facilities

300 thous. tonnes² of products, including

109 thous. tonnes of agricultural products

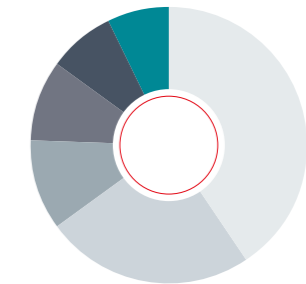
In 2023, Magnit manufactured 300,000 tonnes² of products, including 109,000 tonnes of agricultural products, up 17% YoY. Concepts for a total of seven new projects were approved, including two ready meal factories to be located at the Krasnodar Industrial Park and the Solnechnogorsk hypermarket. These plans are aligned with the corporate strategy to offer ready-to-eat products.

Import substitution

In 2023, we did our utmost to minimise reliance on imports (raw materials, ingredients and packaging) at all of our own production sites. As a result, we delivered a 20% reduction in imported components.

The share of packaging materials made in Russia saw a 1.27x growth vs 2022. Today, more than 0.3% of all packaging materials used by the Company come from Russia, compared to just 0.2% in 2022.

Share of in-house production across some of the fresh product categories³, %



- 73 ● Cherry tomatoes
- 44 ● White mushrooms
- 19 ● Cucumbers
- 17 ● Lettuce
- 14 ● Round tomatoes
- 13 ● Plum tomatoes

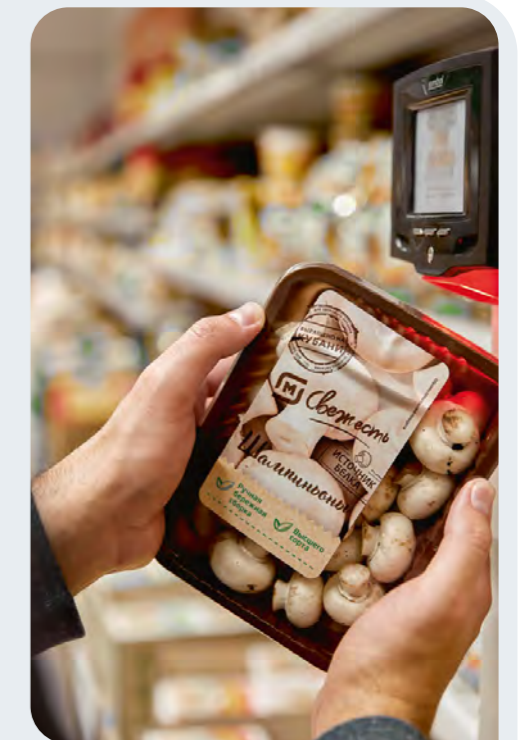
Magnit's own facilities

Federal district	Region	Facility	Products	
Southern Federal District	Krasnodar territory	• Kuban Factory of Bakery Products LLC	• Confectionery, pasta, pastry, fresh vegetables, herbs and mushrooms • Packaging of cheese and fruit	
		• Kuban Confectioner LLC		
		• Plastunovskaya separate division		
		• Tikhoretsk separate division		
		• Novotitarovskaya separate division		
		• Cheese Slicing Facility Krasnodar JSC Tander		
		• Cheese Slicing Facility Novorossiysk JSC Tander (two workshops)		
Central Federal District	Tver region	• Zelenaya Liniya LLC – Tikhoretsk separate division	• Tea, snacks, coffee	
		• Zelenaya Liniya LLC – Plastunovskaya separate division		
		• Zelenaya Liniya LLC – Mushroom complex		
		• Zelenaya Liniya LLC – Exotic and oyster mushroom complex		
Volga Federal District	Moscow region	• Tver separate division	• Cheese slicing and packaging	
		• Cheese Slicing Facility Dmitrov JSC Tander		
		• Lipetsk region		• Vegetables
		• Belgorod region		• Fresh vegetables
Volga Federal District	Saratov region	• Greenhouse LLC	• Dry food, snacks	
		• Saratov separate division		
		• Penza region		• Cheese slicing and packaging
		• Samara region		• Togliatti separate division
Volga Federal District	Orenburg region	• Frozen products	• Cheese slicing and packaging	
		• Cheese Slicing Facility Orenburg JSC Tander		

Own organic production

The modern customer is keen to purchase natural products, with the demand for them steadily growing year after year. In 2023, Magnit received its first certificate of compliance with organic production requirements. Now the packages of My Price and M Freshness white mushrooms grown in Magnit's mushroom complex will bear the national organic product label as a testament to our high production standards. The graphic sign will be accompanied by a barcode to provide information about the manufacturer and the types of its products. In addition, the term "Organic Product" will appear on the packaging.

The certificate confirms that Magnit grows white mushrooms in full compliance with organic production requirements (e.g. without the use of genetically modified organisms, raw materials, crop protection agents, or soil amendments). The certification involved the verification of all aspects of production, storage and transportation of the products: acceptance control of feedstock, processes in the compost preparation shop, mushroom cultivation shop, packaging department, warehouse, product packaging patterns, etc., right down to the detergents used by the employees.



¹ FSSC – Food Safety System Certification.
² Net of contract manufacturing.

Agricultural facilities

³ Share in the category's total sales in kg.

Leaf vegetable growing centre

In 2023, Magnit announced a new project – the launch of a leaf vegetable growing centre scheduled for early 2024. The new production site is expected to cover a third of the retail chain's demand for these products.

The new facility, Zelen Yuga (Southern Greens), will be located in the Krasnodar Industrial Park and produce ten types of leaf vegetables, both commonly used by consumers and those more rare on dining tables in Russia: parsley, dill, scallion, sorrel, spinach, basil, mint, rosemary, rocket, and thyme. Leaf crops will be cultivated on an area of 12 hectares with a planned production volume of more than 1,700 tonnes per year. The facility will be the largest in its segment in southern Russia.

The new asset will procure domestic seeds, with the share of imported seeds not exceeding 30% at the start. For each crop, Magnit experts selected several varieties of seeds, which will enable the Company to minimise the procurement of imported seeds and to expand sowing areas. The facility will use hi-tech solutions, while irrigation and climate control systems will be automated.



Opening a brewery in a Moscow superstore

In the reporting year, we launched a minibrewery at the Magnit Extra superstore which opened in Moscow in the summer of 2023. The Company sells its products in the superstore under the new Svoya Varka private label.

For more details, see the Format Overview section on [p. 68](#)



Lean production

For three years now, Magnit's own production facilities have been adhering to lean production principles, which aim to increase employee engagement, create a culture of responsibility, and instil high standards of work. In 2023, 75% of personnel at our own production sites underwent training in lean production basics.

Also, a rationalisation system is strongly in place across Magnit's sites. As a result, in 2021–2023, our employees submitted 4,500 proposals on how to improve the Company's operations. 64% of the proposals were accepted, and of that number, over 3,000 proposals were implemented as at December 2023.

Expanding in-house production of outdoor vegetables

In 2023, Magnit expanded the area of cultivated land at the Moskva Na Donu farm in the Lipetsk region by 180 hectares. Due to the rotation of fallow lands, the total cultivation area increased to about 3,700 hectares. In addition to potatoes, carrots and beetroot, Magnit grows wheat, soybeans and sunflowers in its fields to maintain a balanced crop rotation.

In 2023, the harvest of potatoes, beetroot and carrots in 2023 increased by almost 50% to 28,700 tonnes, including 20,500 tonnes of potatoes. In addition, in 2023, Magnit expanded the range of cultivated crops through niche products for which demand is growing, in particular, the indigo potato variety. Magnit is also considering sowing garlic, white cabbage and sugar beet in the next seasons.

It should also be noted that the Company uses mainly Russian-grown seeds. For example, only Russian seeds are used to grow potatoes, wheat, and soybeans.

Testing domestic tomato and potato varieties

In 2023, in its greenhouse facility in the Krasnodar territory, Magnit sowed seeds of 20 tomato hybrids bred by a Russian company. In the current season, Magnit also tested ten domestic potato varieties at its farm in the Lipetsk region.



Plans for 2024

- Achieve a 10x increase in the area occupied by potatoes of domestic varieties to about 200 hectares.
- Ramp up greenhouse vegetable production with a focus on Russian breeders.
- Increase mushroom production to meet the growing demand for mushrooms.

