

Own production

Magnit is the only Russian retailer that operates its own food production facilities, which manufacture private label items. These are high-quality food products developed based on customer preferences and sold at affordable prices.

Our approach to management

Magnit consistently increases the share of own production and private labels in its sales. This approach helps us progress towards the strategic goal of enhancing the sustainability of our supply chain: we remain confident about the high quality of our products and compliance with all the applicable production requirements and standards.

We rely on the principles of environmental and social responsibility to manage the sustainability of our food production facilities and industrial agriculture assets. The agricultural practices that we employ help increase yields, while also preserving ecosystems.

Key documents

- ▶ Own Brand Packaging Policy
- ▶ Quality, Food & Non-Food Safety Policy
- ▶ Government product quality assurance and product labelling requirements (GOST)
- ▶ Russian Federation Food Safety Doctrine
- ▶ National and international standards, guidelines and recommendations for sustainable production, food systems, and agriculture

Material topics

- ▶ Ensuring local and regional food security
- ▶ Building sustainable food production chains
- ▶ Stability of regional food markets
- ▶ Maintaining the assortment of popular product categories and pursuing import substitution

359 thous. tonnes

of products supplied by own production facilities in 2022 (up 9%)

5 thous.

SKUs in the private label portfolio

20%

share of private labels in total sales

Priority UN SDGs



2022 highlights

- ▶ Launch of an in-house coffee roasting and packaging facility in Tver with a capacity of 800 tonnes (My Price, Magnit and Gusto di Roma brands)
- ▶ Recognition of Magnit's and DIXY's private labels at the 2022 International Quality Assurance awards (44 gold medals, 22 silver medals, 12 quality excellence certificates in various categories)
- ▶ Recognition of Magnit's private labels as some of the best at the 2022 Private Label Awards
- ▶ Growing popularity of Magnit's private label diapers (Casper and NaNi), which outperformed the Pampers brand
- ▶ Start of implementing the Voluntary Sustainable Packaging Standard jointly with other private label producers
- ▶ Start of promoting exclusive in-house pasta brands: launch of publicity campaigns to advertise private labels (Gusto di Roma pasta and NaNi diapers) on TV and in the digital media
- ▶ Launch of a new mushroom growing centre in the Krasnodar territory with an annual capacity of 1,300 tonnes

Progress towards our strategic goals in 2022

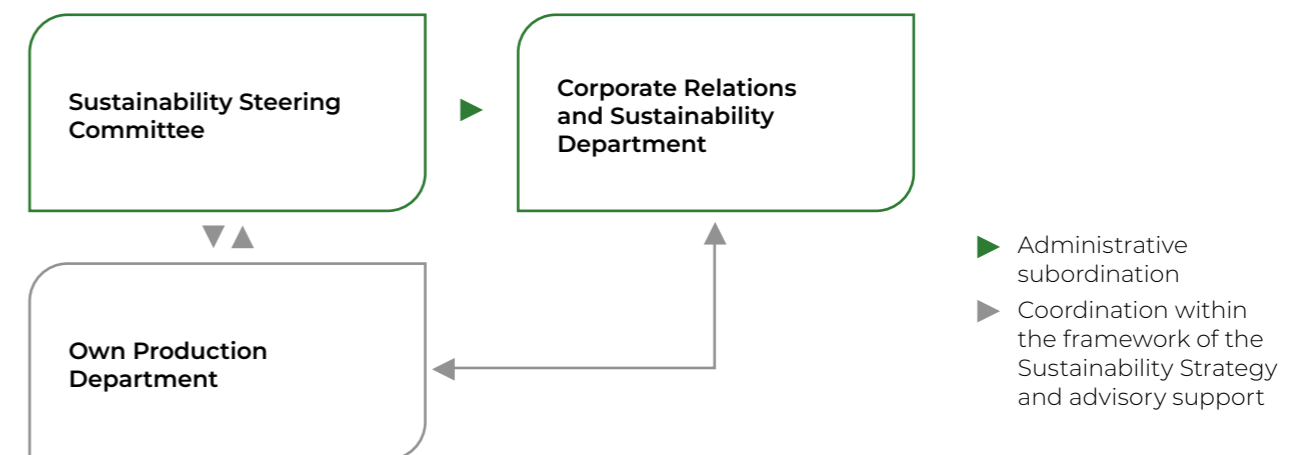
Strategic goal to 2025

100% responsible approach to own production and agriculture

2022 performance

- ▶ 32% of packaging for private labels is recyclable, while the share of potentially recyclable packaging stands at 46%
- ▶ 68% of packaging for private labels is recyclable, while the share of recyclable packaging stands at 24% share of potentially recyclable packaging stands at 44% (recycling infrastructure for some components is limited)
- ▶ We started to assess private label packaging for compliance with the Voluntary Sustainable Packaging Standard
- ▶ In partnership with ECR Russia, we organised a series of online workshops to raise awareness about the Voluntary Sustainable Packaging Standard among private label suppliers

Governance structure



Own production (continued)

We offer our customers the best quality to price ratio thanks to our own production capabilities. Our food processing assets supply store shelves with confectionery, pasta, pastry, and frozen ready-to-cook products, and other food categories.

In the reporting year, we continued to reduce the dependency of Magnit's own production sites on imports (raw materials, ingredients, packaging). The share of foreign ingredients went down by 30%, while the share of ingredients produced from imported materials decreased by 37%.

Geography of Magnit's own facilities

Southern Federal District	Central Federal District	Volga Federal District
Krasnodar territory <ul style="list-style-type: none"> ▶ Kuban Factory of Bakery Products LLC 	Tver region <ul style="list-style-type: none"> ▶ Tver separate division TD-Holding LLC Tea, snacks, coffee 	Saratov region <ul style="list-style-type: none"> ▶ Saratov separate division TD-Holding LLC Dry food, snacks
<ul style="list-style-type: none"> ▶ Kuban Confectioner LLC ▶ Plastunovskaya separate division TD-Holding LLC ▶ Tikhoretsk separate division TD-Holding LLC ▶ Novotitarovskaya separate division TD-Holding LLC ▶ Cheese Slicing Facility Krasnodar JSC Tander ▶ Cheese Slicing Facility Novorossiysk JSC Tander 	Moscow region <ul style="list-style-type: none"> ▶ Cheese Slicing Facility Dmitrov JSC Tander Cheese slicing and packaging 	Penza region <ul style="list-style-type: none"> ▶ Cheese Slicing Facility Penza JSC Tander Cheese slicing and packaging
<ul style="list-style-type: none"> ▶ TK Zelenaya Liniya LLC –Tikhoretsk 	Lipetsk region <ul style="list-style-type: none"> ▶ Moskva na Donu LLC Vegetables 	Samara region <ul style="list-style-type: none"> ▶ Togliatti separate division TD-Holding LLC Frozen products
<ul style="list-style-type: none"> ▶ TK Zelenaya Liniya LLC – Plastunovskaya 	Belgorod region <ul style="list-style-type: none"> ▶ Greenhouse LLC Fresh vegetables 	Republic of Bashkortostan <ul style="list-style-type: none"> ▶ Ufa separate division TD-Holding LLC Dry food, snacks
<ul style="list-style-type: none"> ▶ TK Zelenaya Liniya LLC – Mushroom Complex 		Orenburg region <ul style="list-style-type: none"> ▶ Cheese Slicing Facility Orenburg JSC Tander Cheese slicing and packaging
<ul style="list-style-type: none"> ▶ TK Zelenaya Liniya LLC – Exotic and Oyster Mushroom Complex 		
<p>Confectionery, pasta, pastry, fresh vegetables, herbs and mushrooms Packaging of cheese and fruit</p>		
<p>■ – Agricultural assets</p>		

New opportunities

We continue to develop our own production facilities to offer our customers best value for money.

In October 2022, Magnit launched hi-tech coffee roasting and packaging operations (800 tonnes per year) at its facility in Tver. Coffee feedstock comes from Brazil and Vietnam, the world's largest suppliers. For whole bean coffee, we use a hybrid roasting technology, which combines the benefits of conduction and convection techniques and helps preserve the quality of beans and bring out their taste to the fullest. For ground coffee, cold grinding is used, where beans are not heated and preserve their original aroma and flavour.

Next year we will start selling whole bean and ground coffee under the My Price, Magnit and Gusto di Roma brands. By leveraging in-house production capacities, we will be able to achieve a 10% lower price vs peer products in the low-price segment and a 20% lower price in the medium+ price segment.

The share of foreign ingredients went down

by **30%**

The share of ingredients produced from imported materials decreased

by **37%**



Own production (continued)

Industrial agriculture

Growth of the agricultural business is key to enhancing the sustainability of supply chains, ensuring Magnit's independence from third-party suppliers, expanding product range, and improving the quality of products available on the chain's store shelves.

In our agricultural operations, we are guided by the key principles of sustainability for food and agriculture of the UN Food and Agriculture Organisation (FAO):

Protect and enhance natural resources

- ▶ Grain and vegetable crops span 3,600 ha of our arable lands, where we have adopted deep tillage technology to reduce soil erosion

Improve livelihoods and foster inclusive economic growth

- ▶ We expand the range of healthy lifestyle products manufactured by our agricultural assets, control their safety and quality, and offer attractive prices for all customer categories

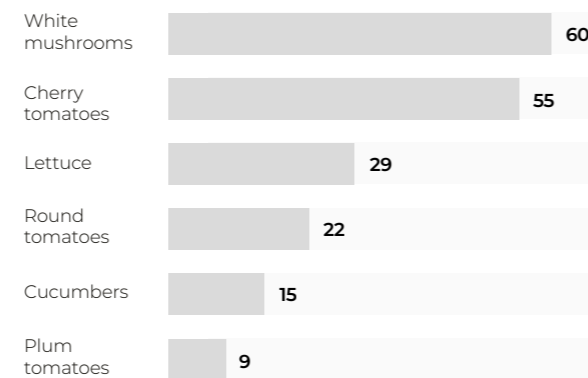
Enhance the resilience of people, communities and ecosystems

- ▶ We leverage designated agricultural and environmental techniques to minimise our chemical impact on plants and land and use alternatives wherever we can

By adhering to these principles, we promote the highest quality and safety standards at our agricultural facilities and improve the Group's logistics and delivery infrastructure.

Magnit operates 6 agricultural facilities with a total food output of over 98,400 tonnes per year. In 2022, we combined our industrial and agricultural assets into a standalone business unit – Agricultural and Industrial Complex.

Share of in-house production across select fresh product categories, %



98.4 thous.
tons of products the total food output of Magnit agricultural enterprises



Progressive development

Zelenaya Liniya, our flagship agricultural asset, is located in the Krasnodar territory. This is Russia's largest greenhouse complex for growing environmentally clean cucumbers, tomatoes, leaf vegetables, and eggplants. It also includes one of Russia's biggest mushroom growing facilities which almost completely satisfies Magnit's needs in fresh white mushrooms.

Zelenaya Liniya is our testing ground for trying out the latest labour productivity enhancement and environmental impact mitigation technologies. All of Zelenaya Liniya's facilities are designed using cutting-edge technologies and boast modern automated irrigation, heating, lighting and ventilation systems. The mushroom growing facility runs the entire range of production operations – from making compost to packaging and distributing end products.



Digital platform for higher yields

Zelenaya Liniya's greenhouses are equipped with sensors monitoring microclimate parameters, resource consumption, and plant development metrics across the life cycles of tomatoes, cucumbers, eggplants, and lettuce. An intelligent management system analyses data transmitted by the sensors and generates performance improvement recommendations. As a matter of fact, the system acts as a virtual assistant helping the agronomist to mitigate the risk of planning and production inaccuracies, control resource usage, reduce expenses and minimise environmental impacts.



Industrial robotisation

We launched a robotic unit which automatically forms a corrugated box, loads it onto the conveyor belt, and sends it to the relevant vegetable picking sector.

To reduce labour inputs and avoid weighing mistakes, we use the robot for packaging cherry tomatoes, as it can pack 2,500 special trays per hour.

In 2023, we plan to test some more robotic technologies, for example, those designed for monitoring plant conditions and the spread of plant pests.



Automation of greenhouse management

At Zelenaya Liniya, we successfully completed transition to 1C ERP Industrial Agriculture, the latest Russian software package which enabled the Company to automate production management processes and address the cost allocation and write-off issue in the context of varying fruit-setting times.