

Product quality and safety

Magnit daily serves over 16 million customers in 4,000 localities across Russia. Ensuring quality and safety of products is a top priority for the Company.

Our approach to management

All in-store products meet the statutory requirements of the Eurasian Economic Union and Russia, corporate standards, technical specifications and the terms agreed with suppliers. Magnit has a dedicated Quality Management System Department (DSMK), which is responsible for quality and safety management systems for goods sold in its stores.

Product quality and safety is assured through clear standards for Magnit's own and supplier products, regular lab sample testing, harnessing technology and big data, staff training and regular audits.

Throughout 2022, we made improvements to quality and safety controls to maintain the high standards that our customers expect.

Material topics

- ▶ Ensuring consumer health and safety

Priority UN SDGs



Key documents

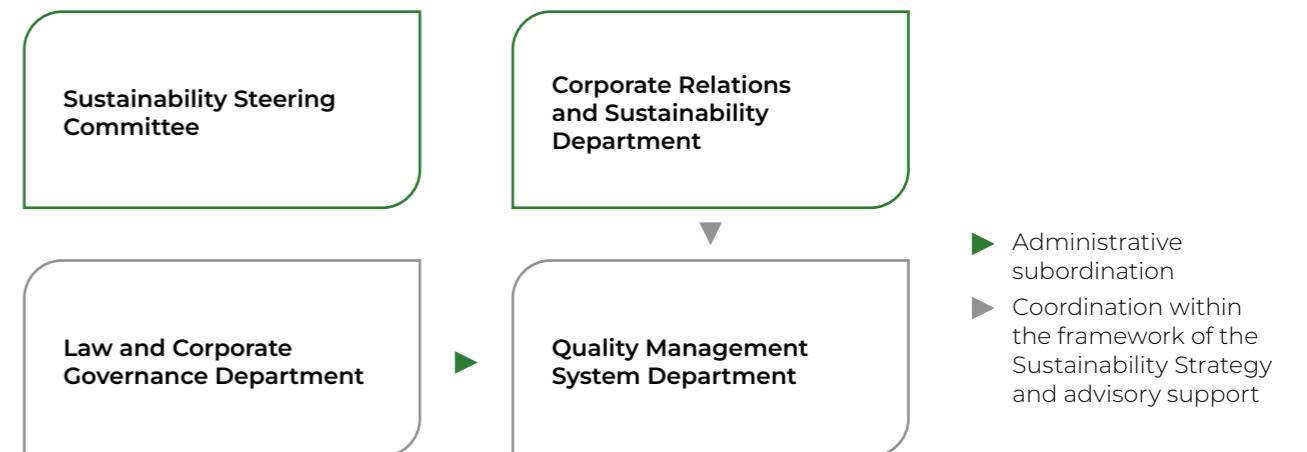
- ▶ Government product quality assurance and product labelling requirements (GOST)
- ▶ Quality, Food & Non-Food Safety Policy

Principles of the Social Charter of the Russian Business

Business partnership and stakeholder engagement

The key objective of our operations is to meet the needs and expectations of our product and service consumers in a reliable and efficient manner

Governance structure



Quality in control

In 2022, we developed and implemented a set of initiatives designed to assure the quality of our products, services and customer experience. These initiatives include regular independent audits of suppliers, lab product tests, maintenance of the cold

chain throughout the product life cycle in stores and distribution centres, compliance with sanitation and hygiene standards in stores and distribution centres, efforts to obtain permits for the supermarket and hypermarket chains' own products, etc.



In 2022, products of Magnit's own facilities won

186 awards at international competitions

- ▶ Quality Assurance – 65 awards
- ▶ 100 Best Goods of Russia – 24 awards
- ▶ Best Product – 19 awards
- ▶ Product of the Year – 21 awards
- ▶ Made in Kuban – 57 awards



Quality assurance stages

- 1 Selection of the feedstock and materials supplier, analysis of received samples
- 2 Acceptance control of feedstock and materials provided by the supplier
- 3 Laboratory controls across the production cycles
- 4 Management of customer requests and grievances

Product quality and safety

Steps taken to improve product quality

Development of private labels

Our customers are the ultimate assessors of the quality of Magnit's private labels. We produce around 5,000 private-label SKUs across 29 categories, including those manufactured at 20 Magnit facilities. Krasnodar and Izhevsk host two test studios equipped in accordance with the ISO and GOST requirements. Customers can visit these studios to test our products. We carefully analyse customer feedback, progressively improve the quality of existing products and launch new ones. In 2022, we conducted approximately 700 tests (up 60%), which helped us roll out over 500 new private labels and improve the properties of nearly 70 SKUs.

Lab product tests

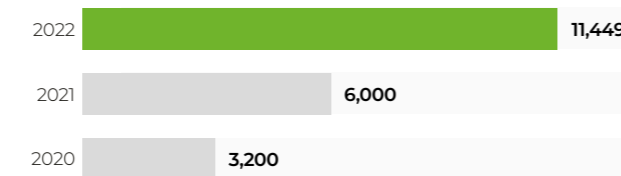
We regularly test product samples in collaboration with 170 laboratories, including state-run facilities, research institutes and federal scientific centres. In 2022, we carried out 1,500 sample tests for products made by Magnit's integrated facilities.

Supplier quality audit

We seek to partner with suppliers of certified products and trace product origins. Audits are an important element of the quality and safety assurance system. Magnit conducts audits across the supply chain – from the supplier's production sites to stores.

Before the supplier's products are admitted to store shelves, we test these products and relevant production processes for compliance with the quality standards of Russia and the Customs Union. Thanks to these additional checks, the share of partner products found to be in breach with the applicable requirements is gradually going down.

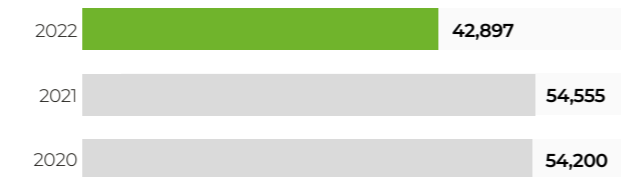
Lab tests of supplied products



Product samples collected in 2020–2022



Wipe samples collected at supermarkets' and hypermarkets' own production units in 2020–2022

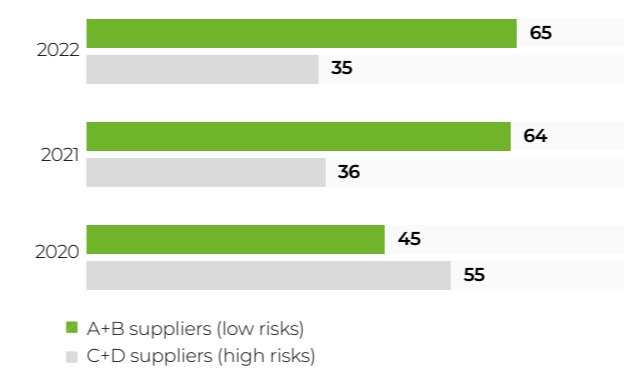


Share of supplied products found to be in breach of the applicable standards as part of the lab tests, %



Our quality assurance experts regularly conduct on-site audits to inspect the suppliers' production conditions. In 2022, Magnit completed 573 audits of suppliers' production facilities and around 18,000 remote and on-site audits of its stores. In 2023, we will continue improving our audit procedures with a focus on suppliers' production processes.

Supplier quality assessment, % of total Magnit suppliers



Temperature monitoring

Maintenance of the right storage temperature conditions is crucial for ensuring product safety and quality. We monitor the performance of the refrigeration equipment in large-format stores and transfer relevant data to Magnit's Control Centre in the real-time mode. The refrigerated areas of our distribution centres are equipped with wireless temperature monitoring systems that help maintain the right temperature.

Monitoring of ready-to-eat food processing

We produce our own ready-to-eat food at designated plants within the hypermarket and supermarket buildings. For this food category, we use the freshest available products, and screen suppliers for their compliance with the applicable quality standards and temperature requirements. The cooks preparing ready-to-eat dishes strictly abide by relevant recipes and processing procedures, and send food to store shelves as soon as the dishes are ready. All expired food that has not been sold is disposed of. All ready-to-eat food processing plants are equipped with surveillance cameras which facilitate control over food preparation.

Staff training in product quality standards

We train line employees and store managers of large formats, Magnit Family, Magnit Cosmetics and Magnit Convenience in product quality, sanitation and hygiene standards. Our programmes leverage a wide range of training methods (including presentations, brief instructions, online courses and videos) to improve employee engagement. In 2022, we held 223 training sessions for our store staff.

Shipment and inventory accounting efficiency

In 2022, we focused on efficiency and fruit and vegetable quality assurance by switching to FIFO shipments whereby the first items to be shipped are the ones with the shortest expiry dates. On top of that, we streamlined our supply chains and replenishment systems, while also improving our pricing and markdown procedures.

Labelling and packaging

Magnit is a participant of the national track and trace digital system Chestny ZNAK. A digital code put on the product's label guarantees its traceability, while the marking meets the requirements of the applicable Russian laws. The codes of labelled products supplied to our distribution centres and sold across our retail network are fed into the Company's digital system and stored there. We fully comply with the product category labelling requirements and do not sell unlabelled goods thus giving our customers confidence in the authenticity of purchased products.

We strive to reduce dependency on import supplies and promote packaging production in Russia. Over the past year, the share of domestically produced packaging materials that we use in our operations increased by 3.5 times. Over 70% of packaging materials sourced by the Company are manufactured in Russia (up 50 p.p. YoY).

Efforts to substitute imports of packaging and its components in 2022

- ▶ Magnit's facilities switched to Russian-made cellulose cardboard.
- ▶ Our own production sites started sourcing twist films made in Belarus.
- ▶ We also began transition to twist films and fruit and vegetable mesh packaging manufactured in Russia..

¹ International Organization for Standardization.

¹ First In, First Out.