

President and CEO's Statement

2020 was an extraordinary year for all of us, presenting both challenges and opportunities. The COVID-19 pandemic required swift action in response to the rapidly changing economic environment, consumer behaviour and regulation. I am delighted to report that Magnit successfully navigated this turbulent period to deliver robust results, demonstrating our ability to seize opportunities and create value.

During 2020, we focused on ensuring a continuous supply of products to meet increased demand, delivering a full range of products at affordable prices. Despite the pandemic, we launched a record number of new projects, in line with our strategic goals. Firstly, we improved our retail operations and processes, increasing both our efficiency and customer experience. We saw a continuous inflow of new customers, and significant progress in both customer satisfaction rates and NPS scores. Our organisational design continued to be enhanced and we commenced our digital transformation programme. We also made significant progress towards the commitments made as part of our sustainability strategy.

Performance

In delivering strong operating and financial results in 2020, we made steady progress against our three main strategic priorities.

We focused on the high operating efficiency of the existing store base and temporarily decelerated the expansion of our retail network. This was in line with our plans to review our expansion and capital allocation approach. In total, we opened 839 new stores¹ in 2020, growing net retail space by 3.6%.

Our sales grew by 13.5%, to RUB 1,554 bln, mainly driven by the significant increase in like-for-like sales, and to a lesser extent by retail space growth.

Our like-for-like sales grew by 7.4%, driven by increased spend per visit on a higher number of items per basket, a trading up effect, lower promotion intensity and on-shelf inflation. Meanwhile, 14.1% growth in the like-for-like average ticket outstripped the like-for-like traffic decline of 5.9%.

Improvement in profitability during the year is reflected in the 97 bps year-on-year growth in EBITDA margin (IAS 17) to 7.0%. We also successfully released RUB 30.5 bln of cash from our working capital.

Finally, in light of the pandemic, we took the decision to significantly reduce our leverage to 1.1x², which will position us well for future expansion. As a result, we nearly doubled ROIC for the business.

¹ Number of opened stores net.

² Net Debt/EBITDA (IAS 17).



President and CEO's Statement (continued)

COVID-19 pandemic

The health and safety of our customers and employees has been our highest priority. At the same time, it was crucial to maintain high service levels to remain the store of choice for our customers. In response to the pandemic, we immediately implemented rigorous health and safety measures in our stores and distribution centres, which included disinfection, daily medical examinations and temperature checks for employees, intensified cleaning, installation of protective screens and sanitisers.

The pandemic has affected all parts of society and we saw it as our responsibility to support the most vulnerable. In response, we reached out to the communities we operate in, delivering over 350,000 free food parcels, giving out over 150,000 special cards with higher level of bonuses to front line health workers, delivering coffee to hospitals and encouraging employees to volunteer to deliver groceries to elderly and vulnerable people.

Strategic priorities in action

As part of our journey to becoming a modern, innovative retailer, in 2020 we continued to optimise our key business processes while maintaining focus on capital allocation and expansion priorities.

In line with our strategy, we continued to put our customers at the centre of our decision-making process, leveraging existing competitive advantages and investing in the optimisation of our end-to-end business processes to create opportunities for future growth.

We strive to be recognised as a “value” retailer that fulfils customer needs and provides the “best quality for an affordable price”. To achieve this, we continued to adjust our customer value proposition (CVP), develop our own production facilities and our private label assortment.

An important driver of Magnit's transformation remained the improvement of our category management function, which was introduced in 2019 and further developed in 2020, when we addressed several topics, such as developing a CVP strategy for each format, format-specific category management and assortment management.

We try to tailor our CVP to all existing formats by adapting the logistical, marketing and operational capacities of each format. In this context, we see store clustering as a unique opportunity to improve the whole management system of Magnit.

In 2020, we successfully rolled out our cross-format loyalty programme, which encompasses all Magnit stores and provides us with an opportunity to gain a deeper understanding of our customers. By the end of the year, more than half of all purchases were made using our loyalty card, and the penetration rate in sales reached 70%.

As part of our value proposition, we progressed our redesign programme and introduced several tools to improve customer experience, such as fresh and ultra-fresh zones in our stores, and the new position of a Quality Attendant supervising the quality of the products in-store.

We introduced smart sourcing based on changing consumer patterns, providing deeper differentiation versus competitors. Leveraging our private label portfolio, we expanded the assortment of our private label “Magnit Freshness”. As a result, the revenue from sales of private label products increased by 54%. We also continued to develop our own production capabilities; as of the end of 2020, Magnit operated 13 production plants and four agricultural facilities.

The focus on performance involves the creation of an omnichannel ecosystem through the use of cutting-edge digital technologies. In 2020 we commenced our digital transformation which will be powered by widespread use of big data and advanced analytics, SAP and e-commerce. The integration of these tools will impact almost every business process in Magnit and will be the key to elevating our operational performance. We expect the impact from the Enterprise Resource Planning (ERP) implementation to reach billions of rubles, and considering our size, this may become the largest digital transformation programme in the history of Russian retail. In 2020 we also completed the centralisation of the finance function in the Shared Service Centre (SSC) in Krasnodar.

Another priority in enhancing our operational efficiency was the development of our logistics system. In 2020 Magnit started to roll out its Forecasting & Replenishment system based on AI and machine learning technologies.

By implementing this project, we plan to significantly increase the transparency of our operations, and increase availability of assortment, particularly for fresh and ultra-fresh categories.

The significant scale of our business and its impact on society make sustainability a vital part of our long-term business strategy. In 2020 Magnit implemented its sustainability strategy, “Retail with Purpose”, identifying five priority areas and, for the first time in Russian retail, set quantitative and qualitative targets and criteria for their implementation by 2025. Moreover, we joined the UN Global Compact (UNGC), the world's largest corporate sustainability initiative. During the previous year we launched several pilots, such as testing LNG and electric trucks for deliveries and Green Office project.

Magnit recognises that its employees make a huge contribution to the Company's progress. We ensure our employees are well compensated, provide a comprehensive benefits package and numerous development opportunities. In 2020 we launched the Corporate Academy for training employees of all levels and conducted the first company-wide employee engagement survey. The survey had over 43,000 responses and revealed overall engagement levels of 84%, one of the best results among food retailers. I personally would like to thank everyone for their dedication during this challenging year.

Outlook

Magnit is entering 2021 with a reinforced balance sheet, strong cash generation and improved working capital. All this serves as a robust foundation for faster and profitable expansion.

Our main purpose remains to provide safe, nutritious, affordable food and products to improve the lives of our customers. In the near future, we plan to continue our step-by-step improvements across all business areas and deliver further profitability gains aimed at creating additional value for our shareholders. We plan to resume our expansion and redesign programme by opening and renovating more stores in 2021. This will include developing new formats, such as Moya Tsena (My Price) discounters, the wide expansion of e-commerce projects and a delivery service. Meanwhile, we plan to continue refining our CVP, improving the product range and launching new customer experience tools in our stores.

In 2021 and beyond, we will focus on improving efficiencies and capitalising on our strengths. Throughout our logistics system, we will implement best practice concepts, including the Forecasting and Replenishment system and the renewal of vehicle fleet. We will also continue to advance our loyalty programme to offer deeper personalisation and emotional engagement with our customers.

Magnit will develop its business in line with the new sustainability strategy, seeing all our commitments as long-term priorities. This includes increased focus on healthy living and waste recycling, areas close to our stakeholders' hearts. We aim to position ourselves as an open and proactive partner for all our stakeholders, working with our partners, including industry associations. One of the main stakeholder groups is our suppliers, with whom we have several joint programmes to build upon.

I would like to thank the Board of Directors and the whole Magnit team for their consistent work and contribution to the process of value creation for our shareholders, employees, partners and customers. I am truly looking forward to us continuing to lead the way forward in operational efficiency and sustainability in our industry in 2021 and the years ahead.

Jan Dunning

President
and Chief Executive Officer