

Operational Review

In 2020, Magnit faced unprecedented challenges due to the Covid-19 pandemic and the Company reacted quickly to the rapidly changing environment and changing consumer behavior. Implementing rigorous health and safety measures, ensuring the availability of products, maintaining affordable pricing levels and continuing to deliver high levels of customer service were all crucial to attract new customers and remain the store of choice.

In 2020, Magnit focused on the operating efficiency of the existing store base and delivered solid LFL results and sales density growth. We achieved strong profitability improvements with EBITDA margin (IAS 17) up 1 p.p. year-on-year. Working capital improved significantly, with RUB 30.5 bln of cash released from working capital. Debt reduction became an area of focus due to the challenges brought by the pandemic and we reduced our leverage significantly. Achieving such strong results against this backdrop is an outstanding achievement.

Our business model once again demonstrated its resilience and ability to adapt. We saw a continuous inflow of new customers, and a significant improvement in both customer satisfaction rates and NPS scoring. Magnit continued to adapt its formats, forming clusters based on specific customer trends prevalent in different localities, and launching new pilots including Magnit Metropolitan, Moya Tsena¹ discounters, Mini Cosmetics stores and online offering. Progress was made in developing and improving operational structure and range, while enhancing category management.

We also leveraged our private label brand and own production capabilities, tailoring our logistics and supply chain based on demand and the specific requirements of different formats. The roll-out of our loyalty programme has provided us with a unique opportunity to gain a better understanding of our customers and tailor our range accordingly to better suit their needs. Magnit continues to implement its redesign programme, improve its e-commerce segment and continue with its digital transformation to support all departments with the relevant data and technologies.

Our operational efficiency is extremely important, along with the improvement of business processes. We managed to improve service levels and on-shelf availability of the new product range for our customers even at the time of increased demand. The overall supply chain remained robust throughout the year. Shrinkage level was decreased thanks to the efforts of the team to streamline cross-functional processes aimed at improvement of inbound goods, faster delivery, accurate forecasting in collaboration with suppliers, etc. We also note substantial reduction in staff turnover, higher productivity of personnel and improvement in rent rates with landlords. As a result, costs remained under strict control, despite additional COVID-19-related expenses which totalled RUB 2.8 bln.

Due to the COVID-19 pandemic, CAPEX was lower than initially projected. This was mostly as a result of slower expansion and the delay of redesign projects during the lockdown period. In Q4 we resumed our expansion programme and opened 445 stores on a gross basis – more than in any quarter of 2020 and higher than in the previous year.



Anti-COVID-19 measures and related costs:

- additional payments to frontline personnel
- purchases of sanitisers, thermometers, thermal imagers
- purchases of respirators, gloves and medical masks
- installation of screen protectors at the cash desks and special marking in the stores to ensure social distancing
- intensified cleaning
- zero mark up on several socially important product categories²
- charity boxes, additional discounts to medical officers, elderly people and socially vulnerable citizens.

At the same time, we closed only 35 stores – the lowest number in any quarter of 2020. On the back of remarkable rise in returns per store, we go into 2021 with a solid foundation for growth, as we continue striving to deliver the best value for our shareholders.

Operational review

RUB 1,510 bln

13.3% year-on-year increase in net retail revenue

7.4%

LFL sales growth

839

stores opened in 2020 (net)

7,497 thous.

sq. m total selling space

3.6%

year-on-year increase in total selling space

6.5%

year-on-year sales density increase

Magnit continues to develop as an open and progressive business working for the benefit of all its stakeholders, including our employees, suppliers and communities. We made a significant step forward in formalising our approach to sustainability, with the announcement of our sustainability strategy setting out goals and commitments to be achieved by 2025.

Our success would have been impossible without the Magnit team and we strive to ensure Magnit remains an attractive and innovative employer. In 2020 we reviewed our incentive programme, improved our on-boarding procedure for new employees, and continued to develop our corporate academy.

Performance

In 2020, Magnit's net retail sales reached RUB 1,510 bln. Despite a slowdown in the pace of new openings and the difficult macroeconomic situation, the Company delivered double-digit sales growth of 13.3% driven by a strong uplift in LFL sales of 7.4% and also by selling space growth of 3.6%. As a result, overall sales densities in 2020 improved by 6.5% year-on-year as we saw customers responding positively to our product offering, customer service levels and pricing. We are actively gaining new customers and market share, reflected in our improved NPS scoring and LFL sales performance.

The lockdown measures imposed to control the pandemic distorted the structure of LFL sales – the frequency of visits fell, while the average ticket increased. Over time the frequency of visits started to recover, but LFL sales remained strong. We have closely monitored the effect of the pandemic on LFL sales and we calculate that

it had a 2.8% positive impact in 2020. This indicates that most of the growth in LFL sales during 2020 was due to fundamental changes in the business unrelated to COVID-19 pandemic.

LFL sales growth in 2020 was well above CPI. Stores opened before 2018 were the main driver of the Company's strong LFL performance. In Q4 2020 only 5.5% of Magnit's selling space was in the ramp-up phase with 94.5% already matured.

As noted above, measures against COVID-19 resulted in mobility restrictions, forcing consumers to stay in their homes, with an associated impact on their shopping habits. This resulted in a reduction in the frequency of visits, with a LFL traffic decline of -5.9% in 2020. This decrease in the number of visits was more than compensated by 14.1% growth in LFL average ticket, driven by increased spending per visit on a higher number of articles per basket, a trading up effect, lower promotional intensity and on-shelf inflation.

In 2020 Magnit signed the long-term lease agreements for 77 retail facilities previously occupied by stores operated by TD Intertorg under the Family and Spar brands, and acquiring long-term leasehold rights for 89 Evroros, Yablochko, and Tvoy stores in Murmansk and the Murmansk region in the Northwestern Federal District. As for macroeconomic factors, Magnit's results were impacted by further consolidation in the private sector, growing competition and a decline in consumers' purchasing power.

¹ My Price.

² For a number of months during challenging epidemiological situation.

Operational Review (continued)

Convenience stores

A convenience store with an average of 6,450 SKUs is aimed at everyday shopping with a large range of the most popular food and non-food products at attractive prices.

This format accounts for 77% of Magnit's net retail sales in 2020. Here customers can buy fresh dairy products, fruits and vegetables, bread and dry foods, flour and confectionery products, or household chemicals spending the minimum time. Stores are located in cities, towns and more rural locations, which makes Magnit the largest and the most accessible retail chain in Russia in terms of geographical coverage.

The revenue for convenience stores in 2020 was RUB 1,161 bln, an increase of 13.8%. There were 14,911 Magnit convenience stores in Russia by the end of 2020. In 2020 Magnit focused on streamlining its portfolio of stores, disposing of 380 non-core stores and focusing on the most profitable locations. New store openings were slowed down due to the pandemic, but in Q4 Magnit opened 212 stores (net) – the highest number across all quarters of 2020 and higher than the previous year. In 2020, selling space grew by 2.8%. As a result, sales density of convenience food stores substantially improved by 8.2% year-on-year. 280 convenience stores were redesigned, bringing the share of convenience stores operating under the new concept up to 72%. LFL sales growth for 2020 reached 8.2%, an improvement of 1.3% compared to 2019.

LFL average ticket growth for the year was 15.2%, driven by volume increase, trading up effect and on-shelf inflation. The trading up effect was a result of less frequent but more expensive shopping, changes in the product range, improved quality control.

Increased on-shelf inflation was a result of lower year-on-year promotional activity, overall food prices growth and local currency depreciation. LFL traffic went negative and stood at -6.1%; this decrease was an industry-wide trend due to the pandemic.



Convenience stores

13.8%

year-on-year sales growth

14,911

stores

8.2%

LFL sales growth

2.8%

year-on-year increase in selling space

77%

of the net retail sales

5,090

thous. sq. m of selling space

289

net store openings

8.2%

sales density increase year-on-year

Magnit piloted three additional formats in 2020, which showed positive results.

Magnit City

Pilot stores were opened in Moscow and Krasnodar. The concept is for small stores with a cozy interior and a café, where visitors can grab a bite, take away any of the ready-to-eat offerings, or make other small purchases, as well as charge their smartphone and connect to Wi-Fi. Magnit City stores are located in high traffic spots with the total space of 120-180 sq. m and the range of up to 3,200 SKUs.

The first three pilot stores that were opened in Moscow and Krasnodar in summer 2019 received positive feedback from customers and were commercially viable, therefore the concept was rolled out further with six more store openings in 2020.

Magnit Metropolitan

Magnit opened the first metropolitan convenience store in October 2020. It reflects customer preferences in metropolitan areas and its design focuses on creating a pleasant ambience, providing useful services and digital solutions while maintaining attractive prices. The updated Magnit store boasts an assortment of around 6,000 SKUs, with particular focus on the Fresh and Ultra-Fresh categories, which occupy 35% of the sales area. For improved customer convenience, a Magnit Pharmacy is located on the same site. The Company plans to use the elements of the metropolitan store concept in different combinations in other localities in the future.

Magnit Discounters (Moya Tsena)

These outlets have a comparatively limited product range of around 1,750 high-demand SKUs with a large proportion of the entry price products (around 65% of total assortment), private labels (around 18% of total assortment), and value packs: fruits, vegetables, dry foods, dairy, confections, etc. The concept also has a reduced staffing level compared to the convenience store and requires much less capital expenditures for opening.

The first three stores in this new format were opened in July 2020 in Samara, Volgograd and Ulyanovsk region. They replaced existing Magnit convenience stores that did not fully meet CVP requirements but were well suited for the discounter concept. These initial three stores showed promising results, so the format was rolled out to Krasnodar and Lipetsk region in September 2020. By the end of 2020, 16 Moya Tsena stores were opened, with more planned in 2021.

Operational Review (continued)

Supermarkets

1.7%

year-on-year
sales growth

941

thous. sq. m
of selling space

-0.8%

year-on-year increase
in selling space

13%

of the net
retail sales

0.8%

LFL sales growth

1.5%

sales density increase
year-on-year

470

stores

3

stores closed (net)



Supermarkets include two sub-formats – Magnit Family supermarkets and Magnit Extra superstores. In 2020 Magnit supermarkets continued to grow, despite being impacted by changing consumer habits. The federal lockdown did not have any impact on standalone stores, but those located within closed shopping centres also had to close.

Magnit's goal is to increase the sales density of the supermarkets. The larger formats now have an improved product range, café, extended in-store food offering, more seasonal and less non-food offers, as the overall consumer behavior has shifted towards bulk buying of seasonal, fresh and ultra-fresh categories.

New cross-docking stations will also enhance the product range and the new store layouts are designed to unify the layout approach across all the stores.

Supermarkets account for 13% of Magnit's net retail sales. Three stores were closed in 2020 (on a net basis) and 25 were redesigned.

The supermarket segment was the most affected by the pandemic, but there was a positive growth in LFL sales of 0.8%, despite the country-wide trend for consumers to avoid visiting large stores and shopping centres. LFL traffic was negative and stood at -11.5%, however the lower frequency of visits was compensated by higher spending per visit resulting in solid LFL average ticket growth of 13.9%. In 2020 sales density in supermarkets improved by 1.5% year-on-year.



Magnit Family Supermarkets

The supermarkets have a larger product range than the Convenience stores and are located within walking distance of residential communities and business districts, as well as in shopping centres. This format is offering the full product range at attractive prices.

Magnit Extra Superstores

Magnit superstores are modern and high-tech stores for the whole family located within the city area. Such stores have broader range of all products, including Magnit's private labels, with a focus on fresh and ultra-fresh products.

In 2020 Magnit launched its supermarket delivery service. The service allows customers to receive their orders within three hours or book a delivery for a certain time within the next two days. The cost of delivery ranges RUB 0-199 depending on the order amount. The online service offers a convenient way for customers to shop and over 25,000 products are available online.

Themed stores

Some Magnit superstores have a themed design. They are located in the cities that have hosted notable events or have famous local industries.

Adler, Sochi: the store is dedicated to the Winter Olympic Games.

Krasnodar: in October 2020 Magnit launched a new superstore in collaboration with suppliers designed as a candy factory.

Togliatti, Samara region (famous for the Avtovaz car-producing factory): the store design resembles city streets, walkways and car elements; traffic signs are installed as navigation tools and the store is decorated with a few real cars.

Samara (the heart of the Russian aerospace industry): aerospace-themed store with sky images and planets of the Solar system.



Operational Review (continued)

Magnit Cosmetic

22.4%

year-on-year
sales growth

6,183

stores

10.3%

LFL sales growth

9.7%

year-on-year increase
in selling space

9%

of the net
retail sales

1,428

thous. sq. m
of selling space

553

net store
openings

7.2%

sales density increase
year-on-year

The Magnit Cosmetic format was launched by the Company in 2010 and accounts for 9% of net retail revenue, an increase of 0.7 p.p compared to 2019. These stores stock non-food products such as mass-market make-up products and personal care items (including private label products), household cleaning products, perfumes, hygiene products, and household items.

Magnit Cosmetic is the most dynamic and successful format of the Company, with double digit positive LFL sales growth of 10.3%. In 2020 it also benefited from the proximity to the customers and the closure of competitor stores. 553 new drogeries opened (on net basis) in 2020.

With 80 stores redesigned during the year the share of drogeries operating under the new concept reached 56%. By year end, there were 6,183 stores, an increase in selling space of 9.7%. As a result, revenue reached RUB 134 bln, a 22.4% increase year-on-year. Sales density improved by 7.2% year-on-year.

One of the most important changes of 2020 was the refinement of product ranges between different stores to meet the needs of different customer types in different locations, with certain locations stocking an increasing number of eco-friendly products to meet customer demand.

Magnit is targeting strong levels of growth for its cosmetics business. In 2020 Magnit started rolling out the mini format of Magnit Cosmetic to existing convenience stores in selected locations. The cosmetics store, which offers customers around 4,000 products, will improve the customer proposition of Magnit Convenience stores and enhance the sales density. In December 2020, delivery services from Magnit Cosmetic were launched in Krasnodar and Ekaterinburg and we plan to expand the delivery services in 2021.



Magnit Pharmacy

This modern pharmacy format was launched by the Company in 2017

and is characterized by its affordable prices, easy navigation, convenient open display and friendly and professional staff.

In 2020, Magnit began a click and collect service that allows customers to order products online and collect from over 100 pick-up locations in Magnit Pharmacies throughout Moscow and the Moscow region. Customers can choose between two types of click & collect service: 30 minutes' pick-up of products in-stock at the nearest store or next-day pick-up of full product range held in the warehouse.

The product range currently includes around 5,000 items, with plans to expand it significantly.

Customers can also place orders online for home delivery. The e-pharmacy was Magnit's first e-commerce offerings for customers.



On the Magnit corporate website, 3D-tours of various store formats are available for all visitors. This online experience allows participants to visit all of the Magnit formats: convenience stores, supermarkets, Magnit Cosmetic stores and pharmacies, and discover more about how they operate.

During the tour, participants can see how the Company's stores are evolving in terms of customer offering, product range and service, and what new technologies and solutions are being introduced to make shopping as enjoyable and convenient as possible.



See more at:
<https://www.magnit.com/en/about-company/store-formats/>

E-commerce

In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners. At the end of 2020, Magnit operated six online delivery projects, all of them in pilot stage. Magnit is continually evolving the format of its delivery service to satisfy the needs of all customers.

The Company started developing its food-tech business together with industry specialists, partnering with Delivery Club in August 2020, and with Yandex.Eda in September 2020. Both services provide express delivery within 1 hour.

In September, the Company introduced online ordering for its Magnit Pharmacy format; in early November, it launched its own Magnit Delivery app for express deliveries within Moscow; and late in November it also started a regular delivery service from Magnit Family stores in Krasnodar. In the beginning of December 2020, Magnit and Delivery Club launched deliveries from Magnit Cosmetic stores in Ekaterinburg and Krasnodar.

During the first three months, the pilot schemes' growth dynamics exceeded original expectations and highlighted the potential of this market.

Magnit fulfils around 6,000 online orders every day. According to the Company's analysis, most of the orders are placed by customers who did not shop at its brick-and-mortar stores before.

The annualised run rate for Magnit's online segment stands at RUB 2.0 bln based on December sales turnover. Among these segments, convenience store-based express delivery has the highest sales and shows the best growth dynamics.

Magnit's e-commerce services today covers over 1,000 stores in 47 regions and 72 cities, with around 50% of the current revenue from these online projects generated outside Moscow and St Petersburg. During 2021, the Company plans to expand online delivery adding at least 1,500 convenience, drogeries and large-format stores in more than 50 regions across Russia.

Improving Customer Experience

Magnit always strives to deliver the best customer experience across all market segments.

Several important milestones were achieved in 2020, with the introduction of new product ranges, updated navigation across all the formats, increased availability and quality of the product range, refreshed private labels and development of the customer loyalty programme. Another focus area and crucial task during the pandemic was safety of the customers and employees. Even during nationwide quarantine Magnit didn't close a single store.

In March 2020, we formulated our social mission and introduced a role of an "on duty officer". This approach was welcomed by our staff and helped to increase team morale.

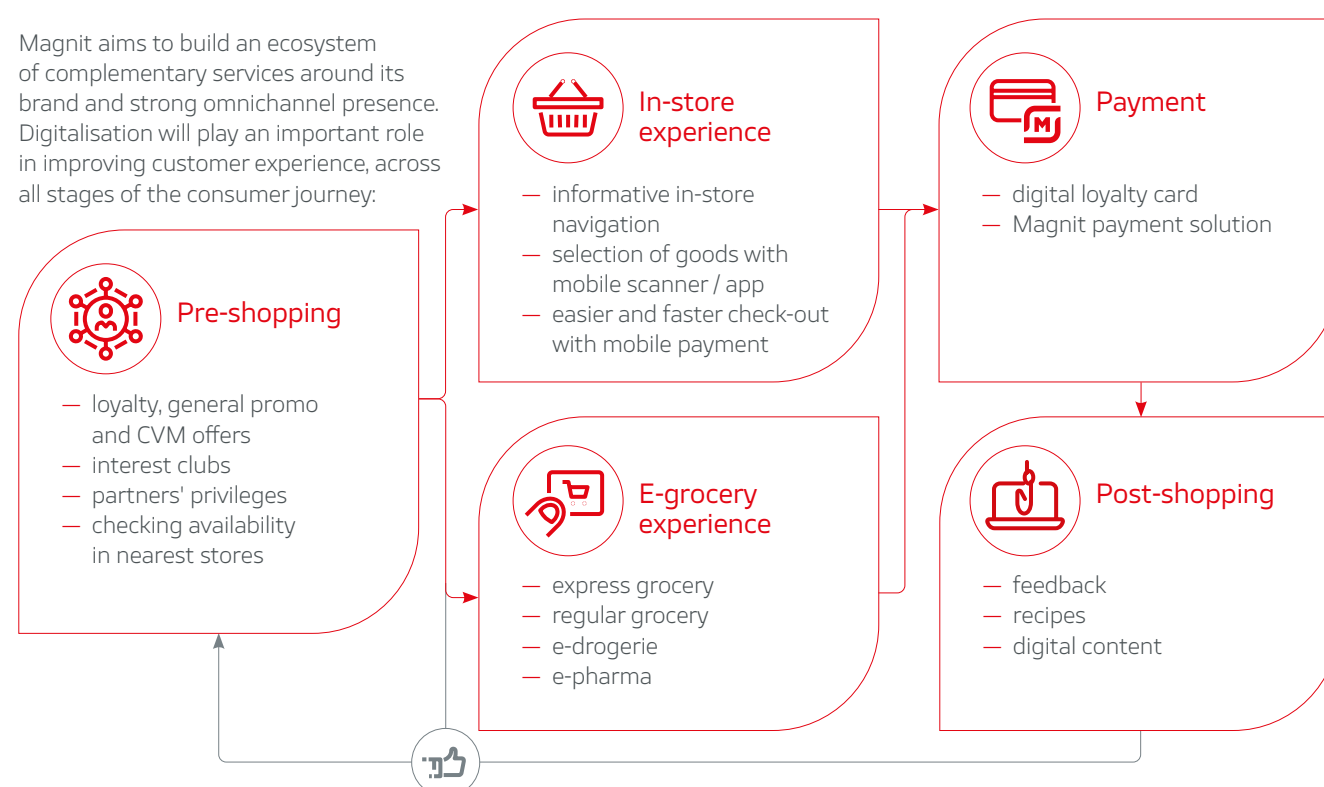
During the year, Magnit actively hired workers from its partners to help them sustain their financial position and close the shortage of employees for the Company: overall we hired 2,500 people in 2020.

Magnit continued to work on the improved customer value proposition (CVP): we added the new fresh and ultra-fresh zones to our stores, improved on-shelf availability, piloted new formats within the dedicated areas and significantly revised our product range. We maintain continuous quality control and introduced the new position of Quality Attendant, who supervises the quality of the products in-store. In Magnit Cosmetic stores, we also have Beauty Experts assisting our customers to choose the best products to meet their needs.

Magnit staff are constantly trained to provide the best service and hospitality to the customers, while being efficient and using the best available technologies.

- We introduced clusterisation in different localities
- We improved layout, navigation and zoning within the stores
- We are open and friendly to our customers, employees and suppliers
- We use cutting-edge technologies to understand customer habits and behaviours to offer them the best possible experience
- We take care of our employees and offer them all opportunities for education and personal development.

Magnit aims to build an ecosystem of complementary services around its brand and strong omnichannel presence. Digitalisation will play an important role in improving customer experience, across all stages of the consumer journey:



Best Customer Experience

Pilot projects at different stages of development and implementation.



Digital tools

SelfieToPay:

face-recognition-based payment technology

Dual-mode checkouts

(work both as self-service terminals and standard cashier-operated checkouts)

MobiScan:

app to scan and pay at self-service checkouts

Interactive

price checkers, mobile printers

Bicolor

electronic price tags, providing instant updates on product information

Smart shelf:

video analytics, RFID systems, weight and optical control

Data Matrix

labeling system for dairy products

LED screens

with useful content

E-sommelier



Store organisation

"Farmers' Market"

"Health Island"

for balanced nutrition

Local food

products

Own bakeries

with professional coffee machines

Fresh Café

with an open kitchen and TV screens

Kids' department

with a playground

Consumer corners

Reverse vending

machines collecting empty plastic bottles and aluminum cans



Facilities and services

Quality Attendants

on duty

Beauty Experts

in Magnit Cosmetic

Convenient and intuitively understandable zoning, easy navigation

Store space

arrangement based on customer's purposes

Accent lighting

Measures

Against COVID-19: Taking Care of **Everyone**

Since the beginning of the pandemic, Magnit has introduced a number of measures to make shopping at our stores as comfortable and safe as possible.

The company is committed to helping customers and employees to reduce the spread of COVID-19 and support those who are struggling. In difficult conditions, we continue to provide customers of 66 regions across Russia with all their required products and services, maintain our supply chains and logistics, and introduce new safety and hygiene measures.

Magnit is attentive and responsible to the situation, therefore:

— We've improved store safety

- Increased the number of activities for the disinfection of premises, door handles, carts, cash registers and other equipment
- Allocated special schedule for disinfection from 2.00 to 2.30 pm in convenience stores and Magnit Cosmetic stores
- Applied special markings near the tills to maintain social distancing
- Installed protective screens at cash registers
- Installed free sanitisers
- Temporarily closed cafes in large stores
- We increased the opening time and hired additional staff to reduce queues
- We equipped the surfaces of supermarkets and hypermarkets with a special protective film with silver ions, which is in addition to mechanical disinfection

- Removed cosmetic samples from Magnit Cosmetic stores
- We carry out daily medical examination and measurement of the body temperature of employees
- We inform customers about compliance with security measures and urge them to use self-service checkouts.

— We have improved safety measures at distribution centres

- Increased the number of activities for disinfection of premises, tools and equipment
- Restricted staff movement between premises and face-to-face meetings
- Adjusted the work schedule to remove any contact between shifts
- Transferred some of the administrative staff to remote working
- We assess the quality of products remotely: product specialists are able to assess goods with video cameras.
- We carry out daily medical examinations and temperature checks for employees.

— We have adapted the delivery of products

- We maintain a sufficient level of stocks in distribution centres
- Increased shipments of goods from distribution centres to stores
- Increased the level of stocks in retail outlets where appropriate.

— We are supporting the most vulnerable

- We were selling several socially important product categories with zero markup during the pandemic
- With the support of the Ministry of Health of the Russian Federation, we issued a series of special bonus cards for medical workers with an increased accrual of bonuses of 20%
- On weekdays until 11 am we provide a 10% discount to pensioners, volunteers and social workers for purchasing goods for the elderly
- Launched the #MagnitZabota programme and, with the assistance of regional authorities, we provide food packages to socially vulnerable citizens
- We supported personnel of other organisations who had to suspend their operations by temporarily engaging them in our stores and distribution centres.

Organisational

Structure

Magnit is upgrading its organisational structure by developing its multi-format approach to ensure the correct distribution of formats across the regions. Our new organisational design reflects the right balance of centralization and decentralization. We have introduced new format heads in commercial and operations functions to strengthen format focus and expertise. We have a new digital, tech and OMNI team to strengthen tech, Big Data and e-commerce capabilities. We have a separate procurement team in the commercial department, including Private Label, own production and direct import. We are rebalancing RACI¹ between commercial and supply chain departments to ensure E2E ownership.

Headquarters

Head Office is responsible for strategy development, budget and methodology and serves as a centre of best practice to implement across the regions.

Head Office also performs a centralized support function via its Shared Service Centre.

In 2020 Magnit has completed its migration of its financial function to the Shared Service Centre (SSC), established in 2019 in Krasnodar. Now, Magnit's SSC will keep centralised accounts of all transactions and perform payroll calculations for over 300,000 employees in 66 regions from all of branches, districts, distribution centres, and motor transport enterprises. Centralisation of the financial function (accounting and payroll calculations) in the SSC will enable Magnit to save around 27% of its cost before migration, or around RUB 470 mln annually.

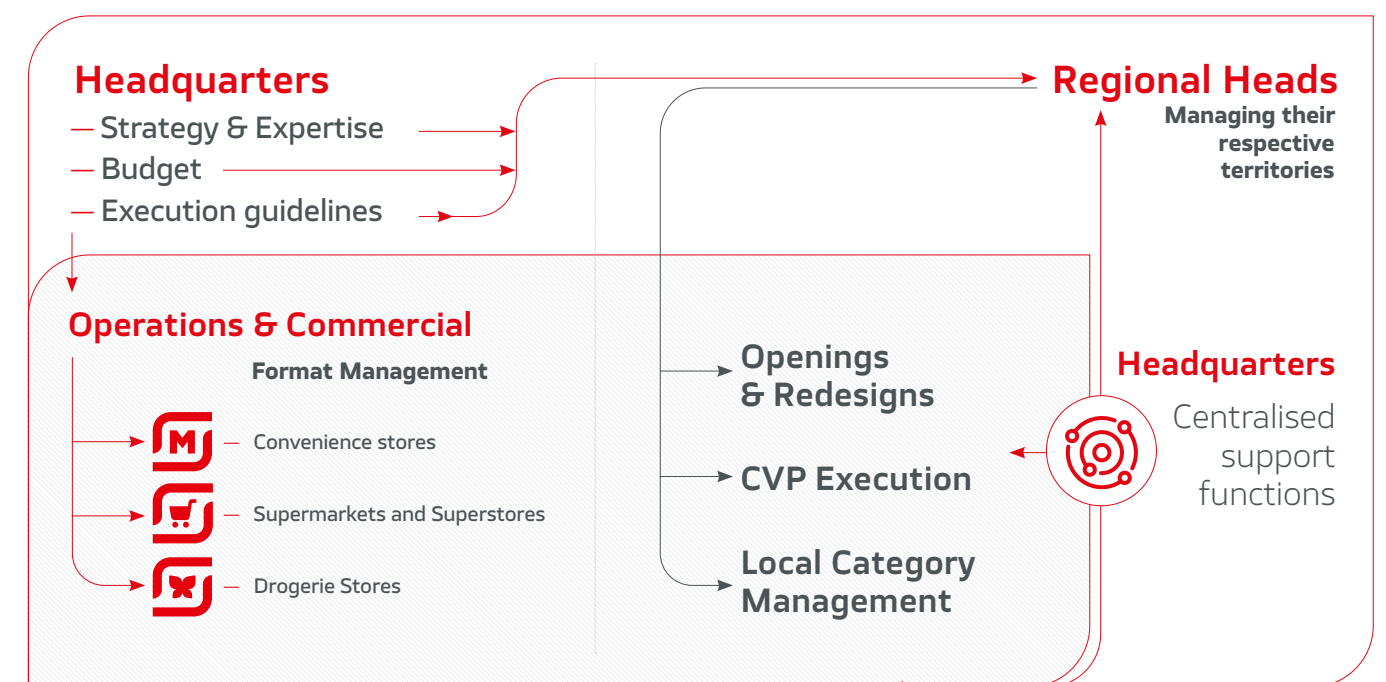
Magnit's SSC was awarded the winner of the "Best SSC rollout in Russia and CIS" award, beating peers across different industries. The criteria included the technological level and the overall achievements for the reporting period.

The Shared Service Centre will largely contribute to the Magnit's automatisisation and centralisation, utilizing robotics to carry out the routine tasks and standard requests which were previously handled by regional teams.

Regional Structure

There are eight regional heads managing their respective territories. Regional Heads are responsible for openings & redesigns, CVP execution and local category management. Regional Heads report to Head Office.

The primary focus is on operational efficiency, quality control, and development of customer satisfaction. The digital transformation of Magnit and aligning the ERP system into communication processes will allow for more effective communication between the branches and the Head Office.



¹ Responsibility assignment matrix (Responsible, Accountable, Consulted, Informed).

Category Management

The concept of category management (CM) was introduced in Magnit in 2019. It has concentrated on the promotional transformation and new product management along with Consumer Decision Tree developments. Category management has become one of the drivers of Magnit's transformation, and in 2020 there were several key topics which the Company addressed. They included working out the CVP strategy for each format, format-specific category management and extremely successful loyalty programme rollout. One of the milestones of the 2020 has become the product range management.

Magnit has four pillars of its category management which are at the heart of the business, ensuring the customer remains the focus for all business decisions and transformations. Magnit uses state-of-the-art analytics and Big Data tools to drive its transformation towards knowing the customer and understanding what the customer wants.

Category management has been taught in the Magnit Corporate Academy since 2019. The training programme covers all functional levels (line managers, category managers and category directors), and 230 people have already completed their curriculum.

Fresh and Promo	Operational and Format Management of CM	Dry/Nonfood items/Selling Space	Commercial/ Procurement block
Fresh Food Products	Big Formats	Grocery	Own Production
Ultra-Fresh	Magnit Cosmetic	Beverages	Private Label
Fruits and Vegetables	Small Formats	Beauty and Cleaning Products	
Meat, Fish and Poultry	Wholesale	Nonfood products	
Promo Planning	Commercial Districts	CM Pricing and Sales Support	

Pillars of Category Management

Customer comes **First**

All generations approach

Understanding the customer **insights**

Being **close** to the customer



Magnit's Corporate Academy is a programme of training and development for Company's employees at all levels (employees, line managers and middle managers).

The Academy has combined and modified the existing training programmes, becoming a single platform for continuous professional development for employees. It encompasses three faculties – Logistics, Retail and Category Management. The emphasis is placed on improving the qualifications of line personnel, building a talent pool in each function and preparing employees for the new challenges of a rapidly changing business environment.

Educational programmes are based on internal knowledge and experience accumulated in the Company.

In the reporting year, about 200 thous. people were enrolled in the Corporate Academy.

Magnit revised existing programmes for employees and developed new ones in order to contribute to the all-round development of personnel and, consequently, of the Company.

Product range management


The Company is working towards the optimal balance between promotional activities and pricing strategies within its product range management. The eventual goal is to embed the category management principles across all the supply chain to ensure the best possible product range in all Magnit formats.

In 2020 Magnit has started its transition towards new Product Management System, which was adjusted to reflect the different regions and formats within the category management structure. It allows more flexibility and for individual approach to each particular store.

This approach led to the opening of Magnit Metropolitan and Discounters format, where the product range is carefully matched with the needs of the customers within the target area. Even during the pandemic, customers were still trading up in their product choice, therefore we aim to expand the product matrix in order to give customer the widest possible choice of products.

Other priorities for the future include more streamlined transition of the new items to the shelves and unification of the item codes. Magnit is working towards digitalising of all the producers with the help of the coding laboratories.

Transition to the new product management system

-   Target matrix management
-  "Matryoshka" – geographically dispersed product alignment
-  Assortment matrix corrections according to the new releases
-  Dates agreed with commodity experts to place items on sets .
-  Automated assortment update in accordance with the target category matrix
-  Selection of rotating pairs to keep picking points between the displayed product range and new products

Cooperation

with Suppliers

Efficient cooperation with our suppliers allows us to make more accurate plans and forecasts, to optimise procurement volumes, to deliver the best products at minimum cost and to achieve better commercial terms.

There are still areas for potential improvement in cooperation with suppliers. Some of the main focus areas Magnit is currently working include the flow of key documents, improving forecasting techniques, on-shelf product availability and sharing information about the customer preferences between suppliers (as appropriate).

To benefit from the synergies of working with the suppliers, Magnit is committed to being a reliable and trusted partner. In 2020, the Company held a conference titled "On the same wavelength", where management of Magnit met with suppliers to discuss the major trends and upcoming projects.

"Implant" project

In 2019 we launched the unique "Implant" project. Magnit invites employees of our major suppliers to work in our offices in order to build cooperation and understanding, and also offer an external viewpoint of our processes and procedures with a view to improving efficiencies and best practice.

At the end of last year, 13 suppliers' representatives worked at Magnit. This year, the number of "implants" will increase by at least another 30. In 2020, the service level of suppliers participating in the "Implant" project increased by 4.9%, and completeness and timeliness of their deliveries by 7.4%.

In addition, the availability of goods on the shelf among some of Magnit's partners increased by an average of 10.6%, the forecasting accuracy of purchases at the distribution centres (DCs) increased by 10.3%, and the level of service for shipments from the DC to retail outlets increased by another 6.7%.

10.3%

increase in the accuracy of procurement forecasts in distribution centers (DC)

6.7%

increase in the level of service for shipments from DC to retail outlets

Advanced barcodes

Magnit started to implement advanced barcodes which include the expiry date. It enables the Company to better understand the volumes and expiry dates of goods in order to offer the best possible markdown method and to provide optimal discount. At the pilot stage, the project was encompassing 17 suppliers and 225 SKUs. Due to the use of advanced barcodes, the delivery of fresh products was optimized to reduce wastage and as a result, Magnit will drastically decrease the volume of wasted produce and save millions of rubles annually.

17

suppliers

225

SKUs at the pilot stage

Vendor Managed Inventory

In 2020, Magnit, in cooperation with Baltika, piloted a vendor management inventory (VMI) system at Samara DC. The system is based on the SaaS solution GCR from Generix Group and allows suppliers to autonomously forecast and replenish stock at the retailer's DC. It analyses the data provided by the retailer on daily basis and suggests the optimal delivery volume. The supplier immediately learns about sales trends and in case of any shortages may ship the necessary goods on the same day. The use of the VMI system helps to improve the freshness of products on the shelf due to more frequent restocking, allows to reduce costs for calculating needs and placing orders and to accelerate turnover.

The pilot showed a higher level of efficiency than expected, and the project will be extended to different DCs and different suppliers.

SaaS GCR

the system allows suppliers to autonomously forecast and replenish stock at the retailer's DC

Goods availability assessment system

The Company has developed a digital solution to assess and monitor availability of products in stores. The automatic system identifies and performs detailed analysis of delivery-related failures along the entire chain, from the manufacturer to the shelf. With the help of big data and machine learning, the system analyses deviations using an extensive library containing data about sales and products. When the system was piloted, sales in the 100 stores chosen for testing increased by 1.5%–2%. Sales of promotional products, which the Company is also working on in a separate stream, have increased by almost 17% in Magnit Cosmetic stores and by 5% in Convenience stores.

1.5-2.0%

sales growth in 100 stores selected for testing

Startups to launch pilots with Magnit

In Magnit's Digital Office in Skolkovo, several finalists of the MGNTech Accelerator were invited to showcase their ideas – the first project of this kind for the retailer. During the Demo Day, the Foundation's specialists and Company executives selected 10 innovative projects with the most potential for further development. The Company is expecting the increase in economic impact from scaling the innovations that succeed during the pilot phase to be at least RUB 1 bln in 2021-2022. Startups include BestPlace – a geoanalytics platform utilising consumer data for segmenting stores and managing the product range depending on the customer's profile, and Bio Z Laboratory – a solution for increasing the freshness and shelf life of products using active packaging.

In 2019-2020 the Company launched a number of new projects for suppliers. The Magnit Service Portal now allows the exchange of logistics data and can track the speed and quality of product shipments to distribution centres. Suppliers can familiarise themselves with any deviations in logistics and adjust tasks to respond quickly.

In addition, Magnit introduced digital contracts with suppliers, significantly reducing the time needed for document verification.

10

innovative projects with the most potential for further development

RUB 1.0 bln

economic impact from scaling the innovations

Private Label

and Own Production

Magnit is the only food retailer in Russia with its own food production facilities. The development of Magnit's Private Label (PL) range is central to our customer value proposition (CVP). Such products not only provide excellent value for money, but also higher margins compared to branded goods.

To date, Magnit stores stock over 2,500 PL SKUs in various categories: milk and dairy products, flour, cereals, soft drinks, tea, coffee, meat and vegetable preservation, fruits and vegetables, confectionery and household goods.

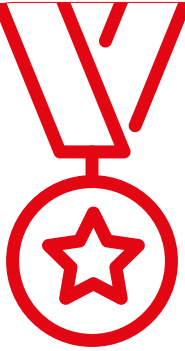
In 2020 we continued to optimise our private label portfolio and expand the product range. We scaled up our 'My Price' brand and the 'Magnit family' brands, and continued the roll-out of the portfolio of cross-category PL. Since the beginning of 2020, the 'My Price' and 'Magnit family' brands are available in the majority of Magnit stores.

Magnit has developed its Magnit Freshness brand incorporating over 100 SKUs in the fruit and vegetable category (including cucumbers, tomatoes, mushrooms, lettuce), with dairy and meat items added during 2020. We also made other notable improvements to the range, expanding our range of tomatoes, increasing production of eggplant and green lettuce, and exploring opportunities to invest in the production of oyster mushrooms.

Magnit is seeking to broaden its PL range by enhancing in-house production capabilities and by building long-term relationships with its partners and external suppliers of products for the PL. In particular, Magnit is looking into the possibility of directly importing exclusive products in order to develop its unique private label line.

Quality of PL products

To ensure high standards of PL products, we carry out a range of quality assurance tests such as vendor auditing and consumer testing. In 2021, we plan to audit all PL suppliers and more than double the number of laboratory tests carried out on products.



Awards received in 2020 by Magnit for its PL products:

44 Magnit's PL products: Quality Assurance, a competition of food products quality (18 gold medals, 16 silver medals, 10 quality diplomas)

Gusto di Roma (pasta): Private Label Awards, Best Private Label for Food Products and Best Department of Private Label nominations

Premiere of Taste (Magnit's premium PL): Dieline, Pentawards and White Square international design competitions (silver)

23 Magnit's PL products awarded at the competition '100 Best Goods of Russia'

59 Magnit's PL products awarded with the 'Made in Kuban' mark of quality

Zollider (a brand of care cosmetics for men, in cooperation with Gradient): listed by Forbes among the most successful new brands in Russia

Stellary (a brand of decorative cosmetics, mascara): 'Best of Beauty 2020' by Glamour magazine

2020 Results:

19%

growth in revenue from PL sales

10%

share of PL in sales structure



PL products are available across each of Magnit's price brackets:

My Price	Magnit family brands (Magnit, Magnit Freshness, Magnit Necessities)	Premiere of Taste
● Good	● Better	● Best
Products at attractive prices, including everyday essentials	The core of our product range providing optimal value for money. The range includes both food and non-food products. Dairy products, beverages, groceries, delicatessen; fruit, vegetables and mushrooms; household goods	The best from across the world — the flagship in food products Snacks, nuts, preserves, cheeses, and healthy lifestyle products

Quality of products

Magnit focuses on continuous development and improvement of its own production facilities. We recruit the best specialists in the field, and special laboratories conduct tests of our new products to ensure quality control throughout the production process, from raw materials to the finished product. All production facilities are constantly monitored online to maintain a high quality throughout the cycle. Our production complies with GOST R ISO 22000-2007 and the international Food Safety System Certification (FSSC) v.5.

Development of own production

In 2020, Magnit opened a cheese slicing and packaging facility in the city of Penza and the same type of production in Dmitrov, Moscow area. A citrus packaging facility was commissioned in Novorossiysk, enabling the Company to expand its offer of packaged fresh products, reduce the load on logistics and improve quality control of the products.

A number of initiatives were started throughout the year, including the development of different types of fillings for confectionary

at Kuban Factory of Bakery Products LLC and chocolate paste production lines at Kuban Confectioner LLC, designing a new production facility for green crops, a production complex for growing oyster mushrooms and a facility for roasting, grinding and packaging coffee.

In addition, in April Magnit completed the first stage of construction of the second greenhouse complex in Tikhoretsk district of Krasnodar region. The greenhouses produce cucumbers, tomatoes, eggplants and lettuce.

Private Label and Own Production (continued)

In-house production

Underpinning Magnit's PL range are the Company's in-house production facilities. Magnit operates 13 industrial and four agricultural facilities, located in Krasnodar, Saratov, Ufa, Tver, Lipetsk and Togliatti regions.

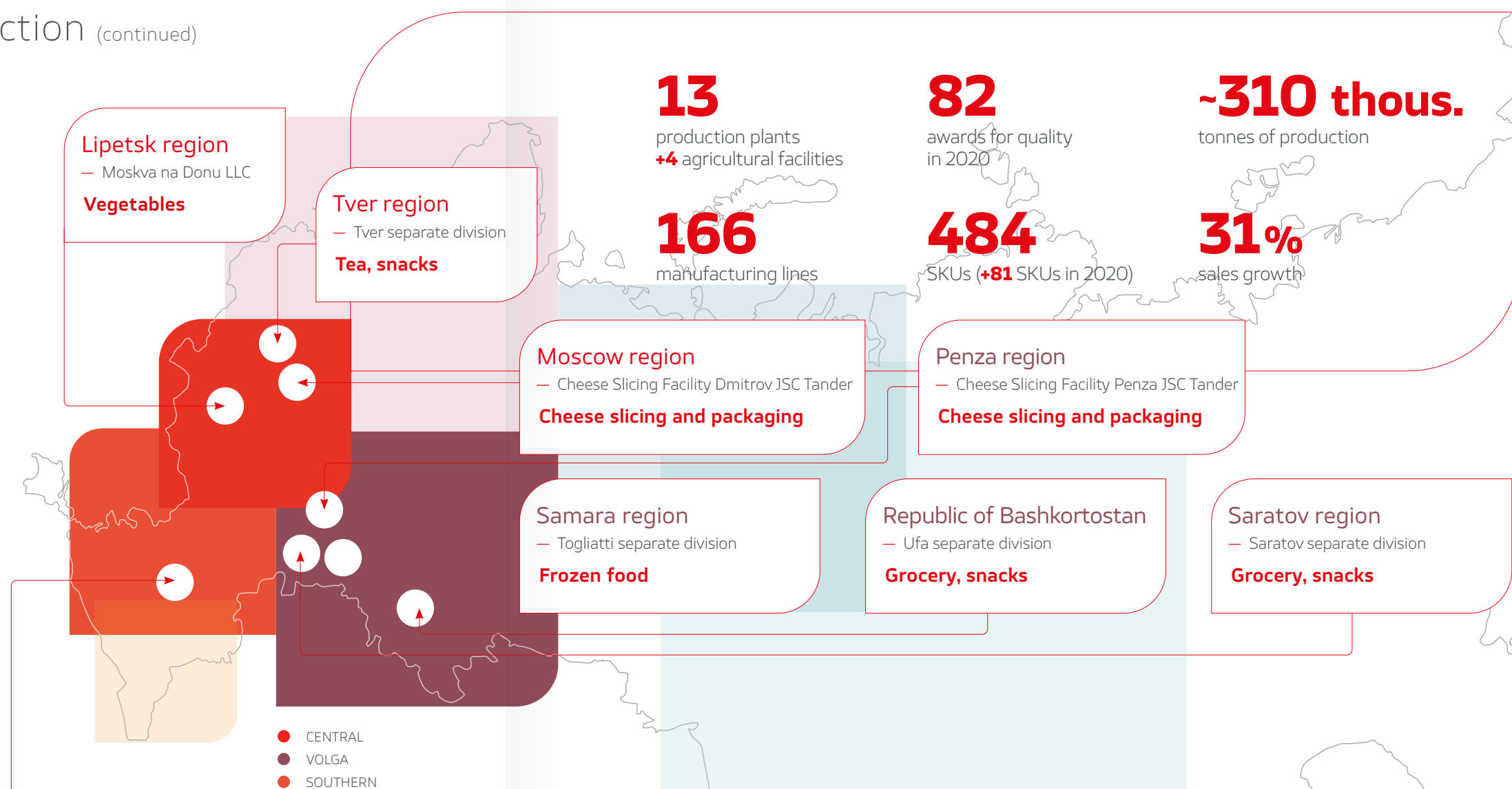
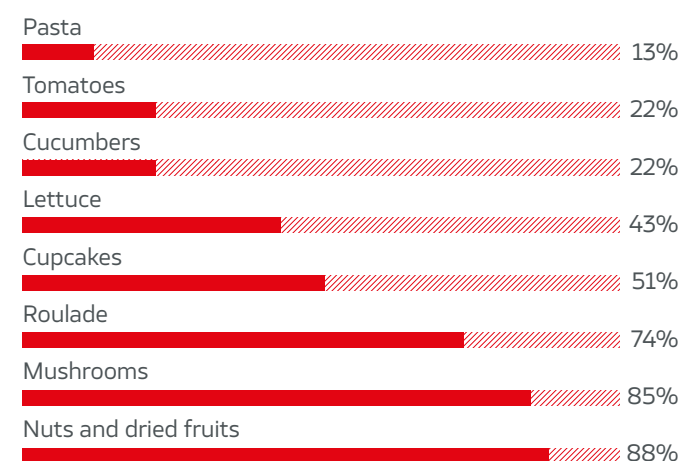
In house production enables the Company to deliver local products to our stores, including in the fresh category products: among the produced goods are frozen semi-finished products, pasta, snacks, cereals, vegetables. The Company's own facilities set a record in 2020, having produced 310,000 tonnes of products, a 31% increase in sales year-on-year.

Magnit is the only Russian food retailer with its own agricultural facilities producing fresh vegetables, three of which are located in Kuban, and one in the Lipetsk region. The total area of greenhouses is 113 hectares and annual production of agricultural products is 98,000 tonnes. Our greenhouse complex Zelenaya Liniya is the second largest in Russia (by greenhouse surface area and volume of vegetables produced).

Magnit's production sites primarily produce products for the low-price segment; however, the sites will be further reoriented towards the production of food with higher added value going forward. Thus, the share of our own production in these categories is expected to increase.

When designing and developing our production facilities, we take into account structural changes in consumer taste, such as increased demand for products in the fresh and ultra-fresh categories.

Share of in-house production across different product types, %



Krasnodar region

- Kuban Factory of Bakery Products LLC
- Kuban Confectioner LLC
- Plastunovskaya separate division
- Tikhoretsk separate division
- Novotitarovskaya separate division
- Cheese Slicing Facility Krasnodar JSC Tander
- Cheese Slicing Facility Novorossiysk JSC Tander
- Zelenaya Liniya LLC – Tikhoretsk separate division
- Zelenaya Liniya LLC – Plastunovskaya separate division
- Zelenaya Liniya LLC – Mushroom complex



Shiitake mushroom production

Magnit piloted Russia's first compact plant to produce exotic shiitake mushrooms. The plant is located in the Company's mushroom complex in the Krasnodar region. It is unique due to its remote management of the growing process which utilizes artificial intelligence (AI). The AI system controls the environment to ensure optimal growing conditions: climate control, operation of sensors and controllers and energy recovery.

During this first stage, the plant produced almost 1.5 tonnes of mushrooms per month.



Sustainability of the PL range

In line with the Company's Sustainability Strategy, 50% of packaging for PL and own production will be recyclable, reusable or compostable.

Marketing and Loyalty

Programme

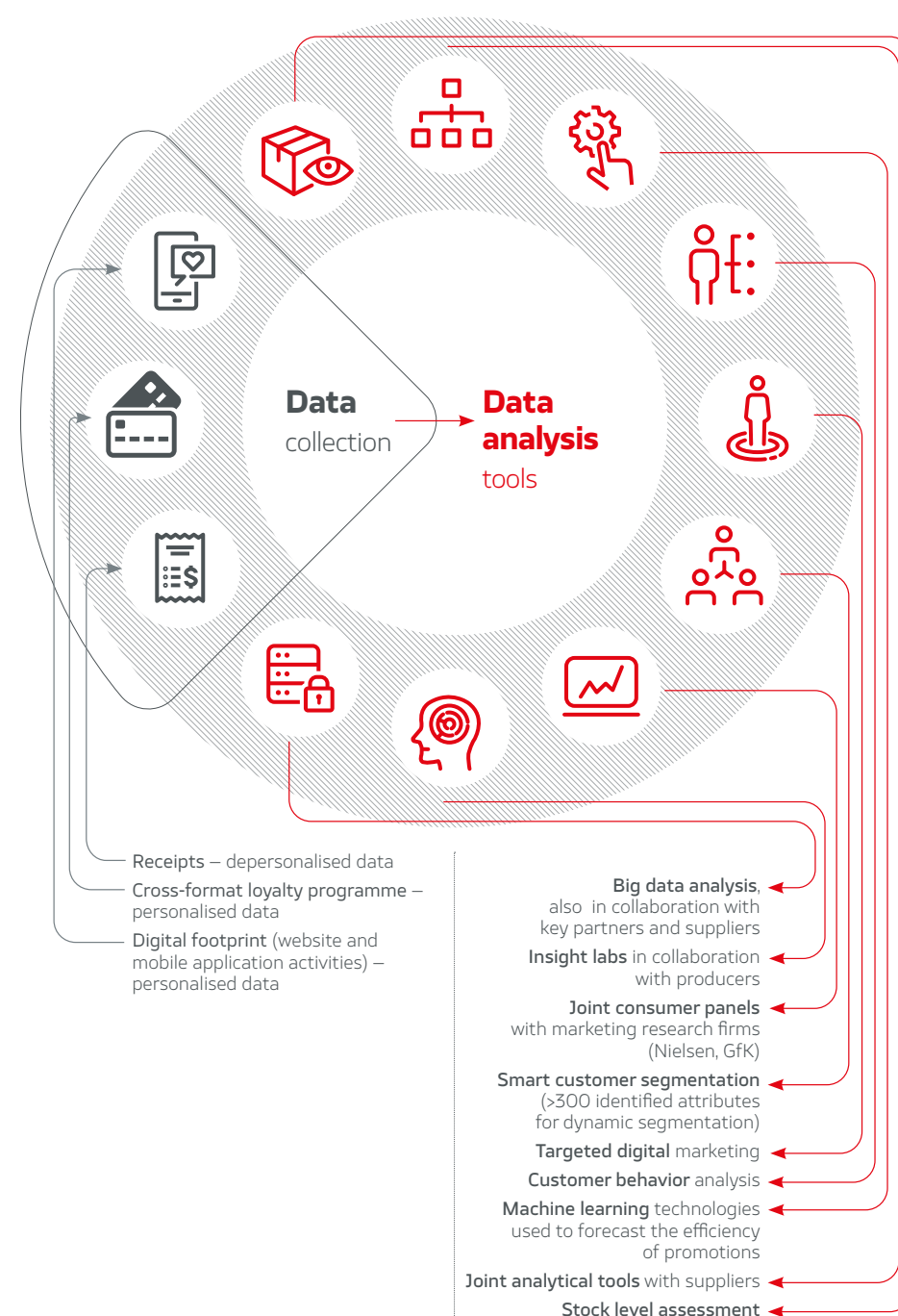
Marketing

Our strategic goal is to become a love brand, which drives us to design customer experience around their personality rather than their wallet, give them something more than products at competitive prices, and provide enjoyment in their daily lives.

Magnit's marketing function ensures superior customer communication and strives to provide personalised recommendations to all our customers. We seek to communicate each of our different offerings clearly, so our audience understands the different Magnit formats.

In order to ensure the effectiveness of our marketing campaigns, we develop a deep understanding of the target audience and their preferences. Our priority is to use the correct messaging in order to really resonate with our customers. Big data analysis and other modern technologies are widely used in marketing to support these efforts.

Marketing data collection and analysis at Magnit



New marketing projects and technologies

- **Digital marketing platform** used to identify target groups on various websites, such as VK, Yandex and Odnoklassniki, Facebook (incl. Instagram) and Google (incl. Youtube), and to use targeted advertising to each of these groups based on the chosen criteria. The platform enables an increase in the accuracy of the marketing campaigns of between x2 – x5, while the increase in sales per contact may reach 5-15%.
- **Combining the customer data processing technologies** of the Chain's Digital Marketing Platform and Romir Research Holding, which enables Magnit to increase the effectiveness of its own marketing campaigns and provide brands and advertising agencies with a tool to accurately set up the customer communications.
- **'My Magnit' magazine** – the biggest Russian printed periodical of a retailer. The magazine contains information about trends, new products and lifehacks, advice and recipes.
- **Innovative contact points with customers** (digital screens, price checkers, screens at cash desks, disinfection terminals): bright and dynamic images attract customers' attention, while entertaining content creates an emotional connection.
- **Project of digital transformation**, which encompasses all aspects of marketing. The changes will include content digitalisation (production catalogue, My Magnit magazine), display of goods and recipes on the screens, mobile application development, "digital sommelier" launch.
- **Launch of theme clubs** (health and beauty club, pet owners club, wine lovers club, kids' club) with the purpose to develop communities within our customers base.

Key marketing campaigns of 2020

Collaboration with Gorod loyalty programme

In September 2020, we launched a promotion campaign in Magnit and Magnit Cosmetic stores in Moscow and the Moscow region: up to 50% of the purchase amount was returned as bonus cashback in the Gorod mobile app (linked to the Troika card).

The bonuses could be exchanged for a discount coupon, which gives the opportunity to defray up to 100% of the check amount minus RUB1 in Magnit and Magnit Cosmetic stores. It might be used to pay for mobile, transportation, or exchanged for up to 99% discount with partners.

This type of marketing campaign is unique for Russian retail. It attracts customers, adds a level of interaction in stores, shows customers additional information about products, and suggests similar products with cashback options. We also estimate that in the future, such programme might potentially change customer experience in offline stores.

Skrepyschi 2

In 2020 (from September 30 to November 22) Magnit ran the "Skrepyschi 2" marketing campaign. Customers received one toy for every RUB 400 spent in our convenience stores and two toys for every RUB 800 in supermarkets and drogeries. "Skrepysch" is a cartoon character, which can be used for different purposes, e.g. as a bracelet, bookmark, a keychain or another accessory.

A similar marketing campaign was run in Magnit in Q3 2019, which increased turnover by approximately 1.8%.



Collaboration with Gorod loyalty programme

>35,000
goods

>1,700
stores

up to 50%
cashback in bonuses

In 2020, the campaign was even more successful: in the course of the campaign, Magnit handed out over 242 mln pcs. of Skrepyschi (32 mln pcs. more than a year before), and the Company's total turnover increased by approximately 2.1% (compared to the approximate rise of 1.8% in 2019).

Pora otygrat'sya (Time to recoup)

In August-October 2020, Magnit ran a gamified promotion campaign Pora otygrat'sya (Time to recoup) for members of the loyalty programme. The loyalty card members were able to win Apple gadgets and other exciting prizes such as gift cards, discounts and coupons. To win a prize, customers had to shop in supermarkets, scan their receipts and be active in the Magnit official mobile app in VK – vk.cc/magnitapp.

The campaign showed excellent results with 1.5 mln participants, 2 mln receipts registered and the number of Magnit's social media subscribers increased by 700%.

Marketing and Loyalty Programme (continued)

Loyalty programme and partnerships

The cross-format loyalty programme is one of the key tools of Magnit's communication with various customer bases. Data collected within the programme provides a deep understanding of the customer needs, which enables us to improve category management, merchandising, product range localisation and promotional offers, as well as to develop private labels. Furthermore, the data allows Magnit to shift towards personalised digital marketing and targeted offers for customers.

The key feature of the Magnit loyalty programme is the opportunity to collect and spend bonus points across all retail chain formats: convenience stores, supermarkets, drogeries and pharmacies.

43 mln customers enrolled in the loyalty programme

70% penetration of loyalty card in sales

55% share of tickets using the loyalty card

More than every second purchase in Magnit is performed with a loyalty card

Our award system is one of the most attractive on the market: a customer obtains a basic bonus of 0.5–2%, depending on the purchase amount. In addition, customers earn personal points for participation in different promotions (1 bonus point equals RUB 1, and can be used to cover up to 100% of the purchase price).

In 2020 we finished the roll-out of the loyalty programme. As of the end of 2020, the number of active users reached 43 mln. The share of the company's revenue with the use of loyalty cards was 70%. The loyalty programme also delivers positive cross-format gains with sustainable growth of customers visiting two and more store formats: at the end of 2020, the share of such customers was almost 44%.

Magnit continues to develop its loyalty programme. The updated programme will be characterised by increased levels of personalisation, and emotional engagement with participants. Among the features of the updated 'loyalty programme 2.0' are: implementing the principles of Customer value Management, based on the customer life-circle, automated omnichannel system of requests processing, super app and personal accounts for users, clubs and additional services (Magnit Pay, Magnit Mobile).

Apart from that, we have created a long-term saving loyalty programme with a single currency "Magnitiki" and product rotation. We will launch digital stickers along with traditional ones, and will create our own recognisable brands as the extension of the Skrepyski and Royal Kuchen programmes.



In 2020, Magnit loyalty programme received the prizes in Loyalty Awards Russia 2020 – the national award in the field of loyalty marketing and CRM:

- Best loyalty programme of a food retailer
- Start of the year – best new project in loyalty marketing.

Co-branded bank cards and partnerships

As part of its loyalty programme, Magnit launches and develops co-branded products with banks, which helps to increase customer loyalty and retail turnover, as well as commission from partnering banks.

Since 2019, Magnit has co-branded bank cards with Pochta Bank and Tinkoff Bank, which allow their holders to gain extra bonus points in the Company's loyalty programme.

In 2020 Magnit continued to collaborate with the banking industry. Together with Modulbank, we issued the first co-branded card for entrepreneurs. The card is linked to an SME bank account, where the individual may gain and spend bonuses. It also provides additional benefits from selected partners.

In November 2020, the VTB-Magnit co-branded debit card was launched. Card holders benefit from bonuses of up to 5% of purchases in Magnit stores and additional bonuses from transactions in other retail chains.

To offer customers more value through the loyalty card and to monetise its database, Magnit has started partnerships with other brands. By the end of 2020, over 66 external partners accrued bonuses on the Magnit loyalty card, among them fashion retailers, HoReCa, educational services and other services.

Logistics

Magnit's logistics system operates 38 distribution centres with 1.7 mln sq. m of warehouse space, a fleet of more than 4,400 trucks and almost 34 thous. employees. In 2020, Magnit continued to implement measures aimed at increasing the efficiency of its logistics and supply chain in line with "The chain of freshness" strategy introduced a year earlier. The strategy covers all areas of logistics including distribution, transit, international delivery, distribution centres, and management structure.

Magnit's retail network will enable its suppliers to independently forecast and replenish stocks at the retailer's distribution centres (DC). In 2020, the vendor management inventory system was implemented in the Company on the basis of the GCR SaaS solution developed by Generix Group, an international vendor of cloud solutions for automation and supply chain optimisation. The system reduces labour costs for calculating capacities and placing an order as it independently suggests the recommended volume of products for shipment for each DC.

It was initially tested together with Baltika in Samara and showed positive results in terms of store satisfaction and freshness of delivered goods. It is expected that the system will be implemented throughout the Magnit chain.

The Company equipped all 38 of its distribution centres with a remote temperature monitoring system and implemented sensors to keep track of the conditions during delivery to the store. Currently, the level of compliance with the temperature requirements is at 96% for the logistics centres, and 95% for the vehicle fleet. In the future, Magnit plans to bring these figures up to 100%.

Magnit has embarked on an ambitious long-term programme of truck fleet renewal. Within the programme, the Company sells available trucks, purchases small duty vehicles and semi-trailers.

The new vehicles are suitable for big cities and can make several deliveries per day, which reduces delivery time of fresh produce to stores and contributes to Magnit's "Freshness" strategy.

At the same time, the new mainline vehicles of increased cargo capacity will significantly reduce the Company's delivery expenses.

In H1 2021 Magnit plans to purchase 750 vehicles. They will all comply with the Euro 5 emissions standard, contributing to the sustainability strategy and reducing the negative impact on the environment.

Magnit approach to delivery by geographical zones

Geographical zone	Daily delivery of fresh category	Fresh and cross-docking platforms ^{1,2}	Contactless goods acceptance at night	Use of leased transport
< 80 km	●	●	●	●
> 80 km High population density	●	●	●	●
< 80 km Low population density		●	●	●

● maximum potential ● minimum potential

¹ Delivered In Full, On Time (DIFOT) is a measurement of delivery performance in a supply chain and measures how often the customer gets what they want at the time they want it.

² Cross-docking platform is a transshipment platform used to consolidate incoming products for outgoing destinations. Inbound and outbound of items is carried out within one day.

Logistics (continued)

Novosibirsk DC

One of the major achievements in logistical infrastructure was the opening of the new distribution centre in Novosibirsk which increased the warehousing capacity of the Company in Siberia.

>40,000
sq. m

>400
supplied stores

100
local suppliers work for

>700
new jobs created

Magnit also fully rebuilt Voronezh DC in October 2020, which caught fire in 2019. The restored warehouse has an area of 24,000 sq. meters for storage and distribution of goods.

Magnit seeks to not only improve logistical efficiency but also to cut the amount of harmful emissions. In 2020 Magnit converted over 250 of its vehicles from diesel to environmentally friendly natural gas fuel (LNG). The gas-powered vehicles will be operated over long distances in the Central, Volga, Ural and North-Western districts. This innovation will cut greenhouse gas emissions by 4,400 tons per year and will reduce the fuel costs by 14%.

We consider and test different solutions aimed at improving the efficiency and effectiveness of warehousing processes and operation of distribution centres. In July 2020 Magnit launched a lighting control system based on motion sensors in its logistics centre in Krasnodar. The main aim of the project was to evaluate the operating efficiency of sensors. The launch of this technology at all company facilities will save about 3,120,000 kW/hour per year.

Geographical coverage of distribution centres in 2020

Region	Number of DCs	Total warehouse space (thous. sq. m) ¹
Central Federal District	10	512
Volga Federal District	10	470
Southern Federal District	8	313
Urals Federal District	3	143
Northwestern Federal District	3	119
Siberian Federal District	3	110
North Caucasian Federal District	1	40

Overview of the logistics chain

Logistics chain characteristics	2020	2019	2018	2017
Number of stores served	21,564	20,725	18,348	16,298
Number of distribution centres	38	38	37	37
Total warehouse space, thous. sq. m ¹	1,707	1,686	1,645	1,640
Selling space per 1 sq. m of warehouse space, sq. m.	4,39	4,29	3,91	3,51
Number of stores per 1 warehouse ²	567	545	496	440
Sales per 1 sq. m of warehouse space, RUB thous. sq. m	910	812	752	697
Centralisation ratio ³ , %	91	91	89	88
Number of company-owned trucks	4,355 ⁴	5,656	5,897	6,089

¹ Excluding small pharma warehouses located in the other regions.
² Excluding pharmacies.
³ Share of goods delivered to the stores via distribution centres.
⁴ The number of trucks decreased in 2020 due to our truck fleet renewal programme.

Forecasting and replenishment

In late 2020, Magnit started to roll out the new Forecasting & Replenishment (F&R) system with the help of Relex solution platform. The project will become the largest in Russian logistics and one of the largest in the world, covering about 22,000 stores, 38 distribution centres, and will be adapted to the updated system and business architecture of the company. The new F&R system is based on AI and machine learning technologies and encompasses all functions of goods distribution, data analysis, accurate forecasting of sales volume for each product in each store and planning deliveries. Through its implementation, Magnit plans to significantly increase transparency of operations, increase availability of products, particularly for Fresh and Ultra-Fresh categories, optimise inventory, ensure a high level of service, and improve the quality and speed of interaction with suppliers. The pilot project will be launched in 2021 at one of the distribution centres in Krasnodar, which serves more than 1,250 stores.

Pooling

It has been two years since we launched pooling. Pooling entails the consolidated delivery of goods from different suppliers to distribution centres using a transport company. The system now encompasses 11 shipment regions and 10 transport companies. Pooling allows suppliers to reduce logistics costs by an average of 10-30%. In 2020, approximately 46,000 pallets per month (3% of the total turnover) were delivered through pooling. By the end of the year, 350 companies (>12% of suppliers) had joined the system.

Cross-docking platforms

Cross-docking platforms are the small warehouses located between the distribution centres and the stores used to consolidate incoming products for outgoing destinations. Thanks to cross-docking platforms, inbound and outbound shipment of items is carried out within one day.

Magnit plans to cover the local suppliers with the cross-docking platforms to decrease the costs of transportation and speed up the delivery process. In 2020 the new approach to cross-docking was introduced with the help of Nestle. It is also based on cross-docking model and reduces the time for delivery and the need for warehousing space.

Automation

Automation and digitalisation are key elements of Magnit's modernisation of logistics.

- RS+OSA+MS is the analytical platform merged from the three existing platforms, which allows to forecast the orders based on the sales from every point of the supply chain.
- Time slot is a system that manages the loading and unloading and allows to minimise potential for corruption and increase efficiency. It has been introduced in 100% of Magnit warehouses.
- Picking carousel is a project piloted in two warehouses which allows for faster introduction of items to the product range. It will be rolled-out in the first quarter of 2021.
- New Warehouse Management System (WMS) is aimed at decreasing the amount of warehousing space and the increasing the handling capacity of the warehouse. It is being piloted in one distribution centre and will be launched in all DCs by 2023.
- Pick by voice provides voice instructions to employees via headset. This improves labour efficiency and reduces errors. In 2020, all Magnit DCs were equipped with the system. It allows the user to keep track of the movement of products online. Personal assistants are used when assembling an assortment that does not require special storage conditions.

New electrical trucks "Moskva"

are being tested by Magnit in DC Dmitrov. They were specifically designed for Magnit by the 'DRIVE ELECTRO' company and will deliver goods for Magnit stores for the next 6-12 months. These new trucks are more environmentally friendly, create less noise and are fully equipped for the Russian climate. If the pilot is successful, Magnit will purchase 200 trucks.

9 tonnes
loading capacity

110 km/h
maximum speed



Future Development

There is a pipeline of logistics projects to be launched and piloted in 2021, including scaling the WMS system and developing the cross-docking and pooling systems. Magnit will try to align the supply chain for the specific format, while ensuring timely and safe delivery.

Quality Control

Magnit devotes a lot of attention to the quality of its products and made several improvements in 2020. We constantly review and update internal regulatory documents on food and non-food safety, as well as standards and procedures for effective management of food and non-food safety risks. We support and enhance the quality management system and the system for supplier evaluation. The quality management system is being improved along the entire supply chain and monitored through internal audits and preparation for third-party certification audits.

Magnit has a quality control team who oversee this function, comprised of qualified professionals with the required knowledge and experience.

In 2020, Magnit adopted a food and non-food product quality and safety policy. It states the Company's commitment to compliance with Russian laws and regulations concerning the quality and safety of food and non-food products.

In March 2020, Magnit introduced the position of Quality Attendant, responsible for daily control of the quality of goods. The Quality Attendant monitors the cleanliness of the store throughout the day, the quality of food, including checking the fresh and ultra-fresh products, and the product display on the shelves.

Customers may recognise the Quality Attendant by a special pin on their uniform and address them with any concerns and questions. This focus on quality is a key part of our plan to be the first-choice grocery retailer for Russian customers.



Our ambition

is to further enhance our customer experience and provide complementary services beyond our core offering, and to ensure an effective modernisation of our internal processes and overall systems to drive cost efficiencies and ensure effective scalability in the long-run.

Digital transformation

Our ambition - to further enhance our customer experience and provide complementary services beyond our core offering, and to ensure an effective modernisation of our internal processes and overall systems to drive cost efficiencies and ensure effective scalability in the long run.

Magnit is on track with its digital transformation which will enable a better shopping experience and improve staff productivity. Moreover, it has the potential to improve returns to our shareholders and benefits all the stakeholders, including Magnit's customers, employees, suppliers and investors.

Magnit has made significant progress towards process automation, with the rollout of the loyalty programme, implementation of e-commerce development, initiation of the electronic document flow and kick-off of the ERP SAP introduction. We also introduced the Supplier Relationship Management system for our production facilities.

A lot of work has already taken place to improve internal levels of automation and efficiency, and Magnit has now brought all these projects under one umbrella strategy, the large-scale Digital Transformation Programme. For 2021, the Company has defined 7 major goals for its digital transformation.

Fix & Re-Build Tech

Fix (short-term) ways of working in IT and Data and minimise tech barriers and re-build (mid- and long-term) IT and Data architecture, overall tech Employee Value Proposition (EVP), and ensure the correct approach to systems and resource management to improve the quality and speed up time to market for tech initiatives.

Support retail core via Tech & Data

Support implementation of game-changing core systems and enable retail and service functions to operate smoothly and efficiently using appropriate tech and data infrastructure and tools.

Establish strong (Digital) consumer brand

Build strong brand fundamentals with a data-driven approach to all aspects of marketing and personalisation

Build foundations for a modern omnichannel customer experience in Magnit-centered ecosystem

Rebuild digital product landscape, successfully scale e-commerce and realize transformational partnership opportunities

Drive Change

Drive, track and communicate change, focusing on digital transformation and ensure track and trace of functional and E2E transformation initiatives

Fund the journey & run effective budget management for impact

Implement a sustainable, effective and transparent financial process with a systematic and balanced approach across all financial procedures

Build a strong team & effective HR management for digital team

Focus on development of strong and motivated digital transformation team by building an attractive Magnit Tech Brand, proper talent acquisition and development processes controlled by effective HR KPI reporting

Future Development (continued)

ERP Transformation

ERP (Enterprise Resource Planning) is aimed at facilitating the management of business processes in the Company. The ERP system builds the strong foundation for the further initiatives across all business areas.

The entire ERP Transformation Programme will take up to five years. By end of 2022, Magnit will complete the pilot phases for each solution, it will then take 3 years to roll them out across the company.

As a result of the ERP integration Magnit expects the major economic benefits will come in the area of Goods Movement and Logistics through the reduction of inventory and write-offs, etc.

The ERP-driven Supply Chain effects are expected to be amplified by successful delivery of other core modernisation projects such as Forecasting & Replenishment or WMS relaunch. Magnit also expects increased efficiencies in finance, non-commercial procurement and human resource processes.

Magnit launched a large-scale Digital Transformation Programme to integrate all the existing projects and new initiatives under one umbrella strategy. The Company has identified 27 initiatives within 4 major goals for its digital transformation.

There are four underlying projects included into the ERP Transformation Programme:

1

Goods movement and Logistics

2

Finance, Non-commercial procurement and Real Estate

3

HR project

4

Middleware, Internal SAP Centre of Excellence

Implementation in partnership with leading integrators delivering SAP solutions

Magnit's internal team

Magnit's ERP Transformation Programme consists of the following SAP solutions:

Name	Description
SAP S/4Hana for Retail	The powerful tool to utilise all financial and commercial functions and unify all the business processes within the Company
SAP Central Finance	The system unifies the financials of all Magnit's enterprises
SAP CAR	The modern check storage to be created within Magnit
SAP Track and Trace	The programme will trace the operations to comply with all the regulations
SAP Business Objects and SAP Analytics Cloud	The tools will be used to construct corporate analytics and unification of the reporting

Build a strong brand and product

This focuses on ensuring effective and engaging interaction with customers, given the unprecedented size of Magnit's loyalty base.

- **E-commerce.** In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners. Magnit piloted six online delivery projects in 2020 and is refining the format to meet customer needs. By the end of the year, Magnit's e-commerce services encompassed over 1,000 stores in 47 regions and 72 cities. During 2021, the Company plans to expand online delivery, adding at least 1,500 convenience, Magnit Cosmetic and large-format stores in more than 50 regions across Russia.



For more information about our e-commerce projects, please see p. 65.

- **Magnit App.** Magnit is working on developing its app, featuring all the advantages of the loyalty card, delivery services and multi-format offerings.
- **Adjacent Projects**
 - **MPay** is a new tool which allows customers to pay for their purchases in any store, including online orders. The virtual card can be topped up for free or added to various pay services and allows customers to transfer money to any Russian card. The tool is especially beneficial for loyalty programme members, as by using Magnit Pay they get an additional 0.5% of their purchase amount accrued as bonus points. For 30 days after the first purchase, customers will receive double point rewards. The launch of Magnit Pay represents an important milestone in the establishment of Magnit's superapp.

Since the payment service was brought online, about 100,000 Magnit customers have become active users, of which 60 thous. users have added a Magnit Pay card to contactless payment services for offline usage. Every day, about 30 thous. virtual payment cards are issued via Magnit's app, with their total number already standing at about 2 million.

- **MMobile (Magnit Mobile)** is an MVNO service that Magnit is developing to allow customers to benefit from both the mobile and retail: the loyal customers will be able to get mobile traffic almost for free, just making the regular purchases in Magnit.
- **Mobiscan** is a self-scanning device that will be installed in the shops and digitalise the store experience for the customer.