

Our Strategy

Overview

Magnit recorded double digit sales growth in 2020, mainly due to significant sales uplift in the mature stores resulting in sales density improvement of 6.5%. A number of initiatives are already showing good progress in line with the new strategic vision. Magnit accelerated updated CVP implementation, improved internal processes, embarked on transforming its digital capabilities, launched new pilot projects (e.g. Discounter, Kiosk) and set ambitious sustainability targets as part of its Sustainability Strategy. Customers' response to these new initiatives has been overwhelmingly positive, as demonstrated by a positive NPS trend across all formats. Staff turnover is at a record low level with room for further improvement. All these efforts have created significant value for shareholders – Magnit's share price has increased by 66% since 2019¹ and new approach to investments and redesigns drove impressive returns and uplifts.

New store opening with attractive

ROI² ~40%

Redesign of Convenience and Large formats yield lucrative uplifts in LFL sales of

+16%

Note: FY 2020. Net of COVID effect.

The **unprecedented** events of 2020 also led to a re-evaluation of several areas to ensure we are well positioned to meet changing customer demands.



Coronavirus

National lockdowns negatively impacted economies and changed consumer behaviour

The significant increase in people working from home resulted in soaring demand for online services and home delivery, as well as lower in-store traffic



Good for Me and the World

Transfer from demand on "fast & easy" to "don't make me think"

Consumers' increased focus on sustainability and responsible consumption raised their expectations of brands



Technology & Commodity

Technology & data increasingly becoming vital for a successful business. Technology is accelerating the pace of change in how people entertain themselves and consume.

Increasing consumer expectations of the digital consumer journey.

These challenges create opportunities for retailers who can rapidly adapt to changing consumer behaviour and meet digital expectations.

We understand that this ability to adapt will be key to achieving our strategic ambitions.

Our Strategic Goal



Cement current leading federal retail positions growing market share significantly and profitably

Our Strategic Ambition

#1

Become #1 for consumers, employees and investors



Strategy at a glance

We decided to concentrate on a number of areas to overcome the challenging macro environment, and it is against this backdrop that Magnit defined its strategic priorities for 2021-2025.

Strategic priorities for Magnit for 2021–2025



Enhancing CVP as a key driver for material improvements in sales density and profitability



Extracting efficiency to get higher profitability and cash generation



Smart expansion implying high profitability targets for new store openings



Selectively strengthen our overall positioning (based on strategic and value accretive approach) with M&A deals



Extend consumer offering complementary to our core business to better satisfy consumer needs

Our strategy is driven by the desire to create value for our three major stakeholders – our consumers, our employees and our investors.



Consumers
Growing LFL, best in NPS³ and net consumer gains

Nº1



Employees
Constant improvement in eNPS⁴ and staff turnover



Investors
Creating value for shareholders through attractive returns

¹ 30 December 2020 compared to 30 December 2019.

² ROI = OCF of fully ramped up year / CAPEX.

³ Net Promoter Score.

⁴ Employee Net Promoter Score.

Our Strategy (continued)

These ambitious goals will support the evolution of Magnit and satisfy customers, employees and investors.

Our strategy is built around four major pillars:

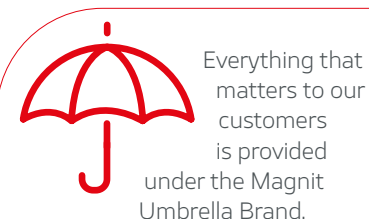


We put our consumers first and have a customer centric philosophy ...



Consumer first

- Consumer centric decision making to strengthen customer loyalty
- Enhanced CVP and clustering to better serve customer needs
- Improved brand positioning (incl. care, safety, ESG and value for money)
- Going beyond the traditional offering to build an E2E customer ecosystem



Key differentiating pillars

- Multi-format model
- One loyalty programme
- Own production facilities
- One brand
- Emotional touch.

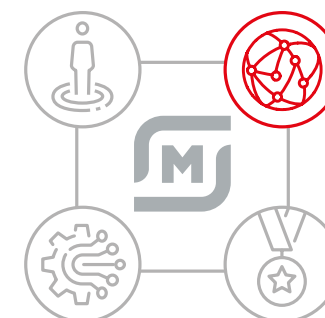
As the only truly national multi format retailer, Magnit offers a full range of products and services to meet customer needs, supported by its strong brand, loyalty programme and vertically integrated structure.

We are improving the CVP of our key formats and moving away from purely focusing on price, instead offering a new concept of a friendly, safe, and comfortable store where customers can find everything they need and get the best value for money.

We are rationalising our product range to ensure consistency across stores and increase business efficiency, revising our category management structure, rethinking our approach to target categories, removing inefficiencies and rebalancing the price mix to capture all relevant consumer segments. We aim to utilize additional capacity and efficiency throughout the system and boost efficiency in our stores. This is also supported by assortment harmonization meaning "matryoshka" principle revision with focus on proper proposition throughout units of needs and price tiers regardless of the store size.

Clustering is another way of better serving customers while tailoring the CVP to the core clusters (cities, towns and villages) and two supplementary ones (street retail and joint openings with cosmetics).

... in order to serve our customers in the best possible way, we consider the most efficient & promising ways to market ...



Most efficient & promising ways to market

- Smart expansion in core formats to increase market share, including M&A
- Actively consider new sales lines, new niches and markets
- Omnichannel development including e-commerce
- Agile sourcing including partnerships with suppliers, crystalized offering in own production and private labels to enhance proposition and secure positioning

CVP enhancement and customer centricity remain our key priorities. We plan to expand smartly with high profitability targets for new openings as well as developing through M&A, which will become increasingly important as the Russian market consolidates.

We will extend our customer proposition by offering services that are complementary to our core business, including partnerships, e-commerce and new specialised formats to better satisfy customer needs. Our approach is to pilot relevant customer offerings and operating models. We then selectively scale the pilot projects that show attractive performance and ultimately deliver the best proposition to our customers and high returns.

We have big ambitions to differentiate our product offering through tailored procurement initiatives in private label, own production, direct import and strategic partnerships with suppliers.

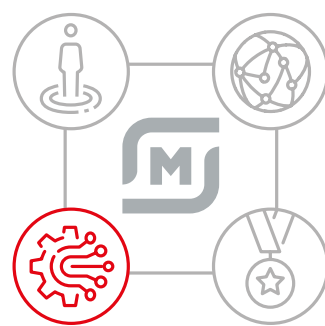
We believe we are very well positioned to expand our Private Label (PL) efforts – we expect the PL offering to account for 25% of sales by 2025, while extending the range and rationalizing the brand portfolio with specific focus on the cross-category brands and value for money. Our own production facilities and expertise are well placed to deliver this and we will continue to invest in strengthening our high-quality proposition.

Direct import is another hugely important area and we have a specially dedicated procurement team focused on securing the best deals and products for our stores. Our procurement strategy goes beyond the traditional approach to buying – we want to create long-term mutually beneficial E2E strategic partnerships with our suppliers (including data, innovations, capacity utilization, tailored offerings, merchandising supported by aligned promotional and marketing initiatives).

Our Strategy (continued)

E-commerce is an essential part of the omni-channel customer experience. Therefore, we are investing in our delivery service to make it available to the majority of our customers by the end of 2021. We aim to build an ecosystem of complementary services around the Magnit brand and strong omni-channel core. Magnit will develop this ecosystem through strategic partnerships with leading providers in adjacent verticals. In H2 2020 Magnit started testing e-commerce services, both independently and in cooperation with partners. As of the end of 2020, Magnit had six online delivery projects, all of them in pilot stage. Magnit is searching for the optimal format of the delivery service to satisfy the needs of all customers.

... the respective ambitions require modern and efficient platforms built around clear functional strategies and processes initiatives, adaptive organisational structure and modern IT and operational systems ...



Modern and efficient platform

- Defined and straightforward functional strategies
- Flexible organisation structure, clear responsibility split combined with entrepreneurial culture
- Smooth and efficient processes
- Flexible, reliable and scalable IT, operational and data platform

Our goal is to build a modern and efficient platform around clear functional strategies and processes, adaptive organizational structure and modern IT and operational systems. This requires clear synchronization of all functional strategies supported by specific E2E processes improvement action plans, clear RACI¹ and ownership culture, and migration into modern operational platforms supported by a review of our technological capabilities.

Next generation data capabilities to power digital transformation require a modern centralised data platform to enable data-driven decision-making. This technological advancement will be accompanied by the introduction of scalable, industrial solutions for key systems, including ERP, Forecasting & Replenishment, Warehouse Management, and Transportation Management Systems. In addition, e-commerce will be launched across all segments.

... we would not be able to achieve our strategic ambitions without our people – we are aiming to become the employer of choice in Russia



Employer of choice

- Intensive investment in people to support talent development and expertise
- Agility and innovative thinking
- One team approach: effective cross functional cooperation
- Performance assessments and promotion opportunities
- Employee engagement

Magnit is privileged to be one of the largest private employers in Russia and is committed to supporting its employees and their families, especially during these uncertain times. In November last year we launched the first company-wide employee engagement survey and it revealed an overall engagement score of 84%, one of the best results among food retailers.

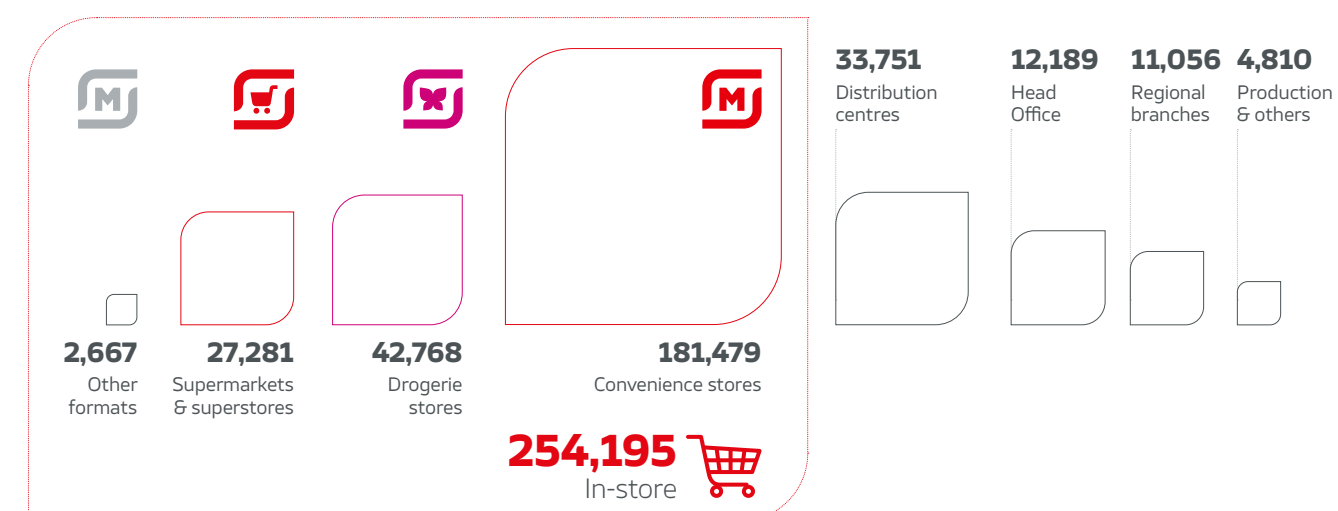
Longer term, we are constantly refining our organisational structure to maximise synergies. Magnit aims to be a change leader in labour market transformation by developing an attractive EVP for all employees and in particular to attract Tech and Digital specialists.

We are committed to building a strong employer brand and be recognised as a leading employer in all segments. We utilize digital channels to communicate with and recruit new employees. Promoting an open and friendly culture is vital to ensuring alignment between strategic priorities and everyday activities.

Magnit believes in the education and professional development of its employees. We continue to run our Retail Academy, as well as establishing modern HR IT-solutions to automate HR processes and provide employees with all the relevant functionality through digital channels.

Magnit – One of the Largest Private Employers in Russia

316,001
headcount of employees



¹ A responsibility assignment matrix (RAM), also known as RACI matrix or linear responsibility chart (LRC), describes the participation by various roles in completing tasks or deliverables for a project or business process.

Our Strategy (continued)

Key Strategic Guidance 2021-2025

Our strategy in action envisions our future goals.

Clear CVP initiatives

to enhance consumer perception and experience big time

Accelerate smart organic expansion

(annually on gross basis):

- Convenience: 1,000-1,500 stores
- Drogerie: 750-1,000 stores
- Supermarkets & Superstores: 5-15 stores

Adherence to sustain high return requirements

for new projects

Thought through strategic plan

to execute to capture tremendous business improvement potential

Build a leading e-grocery platform

capable of handling 5%+ of Magnit turnover with seamless integration into an omnichannel consumer experience

Continue to proactively consider adjacent value

accretive additional niches

Clear potential to increase sales densities

also by the way of speeding up value-accretive redesigns

Proactive and opportunistic return-driven consolidation play (M&A)



Key Financial Guidance 2021-2025¹

We believe that every strategic move should be supported by strong and robust financials.

Benefit from lucrative EBITDA margin (IAS 17) steadily moving to the direction

of 8%

within 2021-2025 leading to very attractive cash generation

Improvement of working capital

with a focus on stock days optimization by:

- 3-5 days in grocery
- 10-15 days in drogerie

Comfortable leverage of

~1.5x

of Net Debt/EBITDA (IAS 17) with a self-imposed ceiling of 2.0x

Focus on high returns and value accretion for shareholders leading to

continuous strong dividend payment

Sustainability

We firmly believe that embedding sustainability in our strategy is key to continued growth of the Company. We plan to use every opportunity to make Magnit one of the leading companies in Russia in terms of the implementation of efficient and scalable technological and environmental solutions.

Sustainability is an integral part of what we do and acting in the interests of all our stakeholders will produce better returns over the long-term for our shareholders. Our Sustainability Strategy "Retail with Purpose"², which was announced last year, sets out our ambitions and strategic principles and formalizes our approach to sustainability. We are committed to reducing our environmental impact and having a positive impact on wider society, as well as ensuring our employees are satisfied and upholding the highest standards of the corporate governance.

¹ Based on IAS17.

² Please, see [Sustainable Development](#), p. 102.