

# The New Magnit

## Magnit's strategic principles and vision

As part of our strategy development, we have formulated three strategic principles for Magnit:



### 1. The customer is the top priority

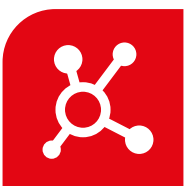
Our strategy is based on fundamental improvements in the value proposition for our customers. We will focus on the most important components for the consumer. We will update our product range: we will ensure the most in-demand products are available on our shelves, increase the degree of localization of the product line, and expand the share of private labels. We will monitor the freshness and quality of our products while maintaining our existing leadership in price. In an effort to improve the convenience of our stores, we have already launched a redesign program in which improvements have been made to the layout of the retail space and the display of products on the shelves, and the stores themselves have become brighter and cleaner. The customer focus will become part of Magnit's DNA, and our staff will become more friendly and welcoming.



### 2. Our strengths serve as the foundation for our growth

We will maintain our advantages of being close to the customer and having the largest supply chain. Our operating model is based on more than 18,000 retail outlets in 2,976 cities, 38 distribution centers, more than 5,900 trucks, and our unique direct import system and this will enable us to become a leader in terms of efficiency.

We will expand our own production capacity and develop the unified Magnit Store Family brand. Internal production will serve as the basis for the development of private labels, and multi-format offerings with a unified loyalty program will make our proposition even more attractive to consumers, set us apart from our competitors, and allow us to get a profound understanding of our customers' needs.



### 3. Digital competencies are a platform for future leadership

We will create new digital competencies for Magnit that are relevant to each component of the value chain. The omni-channel proposition for consumers will help us to enter the new and growing segment of the market and enhance the loyalty of our customers, while the digitization of internal processes will offer a breakthrough in the level of efficiency.

The retail market in Russia has evolved over the past five years. As market growth rates have slowed, competition has picked up: the top 5 national players already control 29% of the market, and their share is only going to get bigger. Our consumers are becoming increasingly demanding – such parameters as product freshness, the variety of assortment, a store’s cleanliness and convenience, and the staff’s friendliness and appearance have become critical to them. Having said that, they still remain sensitive to price and are not willing to overpay for quality.

Magnit must adjust to the changing retail market. In an effort to meet the new reality and strengthen our leadership position, we have launched a strategic program of the company’s transformation. The program

focuses on our customers and meeting their needs, maximizing the strengths of our business model, and creating new platforms for growth. We have set the goal of offering a new standard of affordable consumption and a positive consumer experience for all Russian families. We will meet the most important needs of customers under a single umbrella brand. We are creating a network of Magnit stores for all Russian families.

The transformation program was launched in the second half of 2018 and has rapidly produced results: we are proud that the Company had positive comparable sales in the fourth quarter of 2018 for the first time in two years.

Based on the market context and our strategic principles, we have formulated the following vision for Magnit:

# 1

**Gain the trust of customers and ensure the cost-efficiency of key business operations:**

- Attain a profound understanding of our customers’ needs.
- Introduce a new value proposition for existing store formats:
  - Maintain our traditional advantage of low prices.
  - Update the product range and create a differentiated offering through the product freshness and quality provided by our unique Internal Production and Private Labels
- Launch and scale a loyalty program
- Reinforce the customer’s perception of the Magnit umbrella brand.
- Transform the efficiency of operations in stores and the supply chain

**Growth due to the customer-focused transformation of existing formats**

# 2

**Become the new standard of affordable consumption for all Russian families:**

- Strengthen our unique proposition that unites all formats, categories, sales channels, and communications. Launch a mass omni-channel proposition:
  - Accommodate all customer missions associated with the purchase of food, health and beauty products, child care, baby food, and pet care, and create an offering of related services (e.g. delivery)
  - Create a specialty store proposition for each mission
- Make our loyalty program even more attractive to consumers by introducing the practice of the mass personalization of offerings based on big data analytics.
- Create a seamless omni-channel ecosystem that allows customers to quickly and conveniently switch between sales channels and missions.

**Grow by increasing the customer’s wallet share, mass personalization, and robust omni-channel business model**