

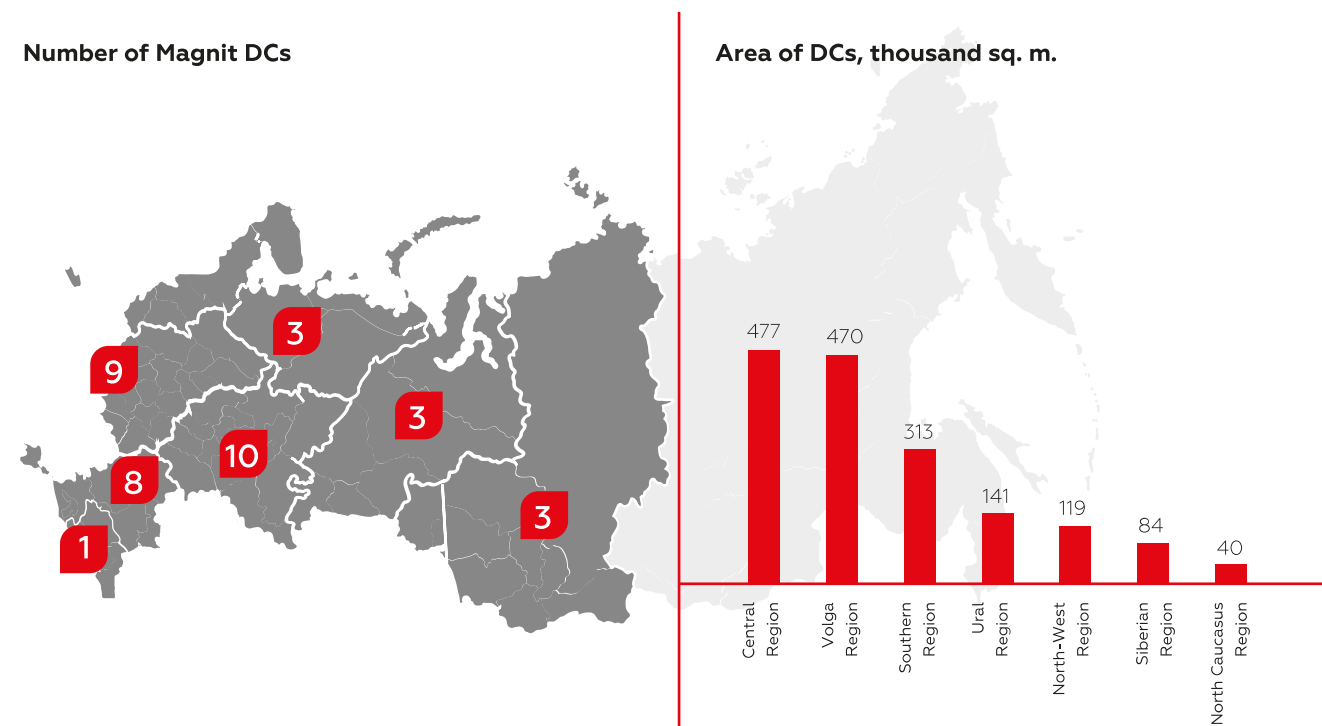
Logistics chain management

The logistics development strategy supports the development of Magnit’s multi-format store chain and is based on the strategic network development plan:

Thousand of stores	as of the end of 2018	by 2023
Convenience stores	13.4	22.8
Drogerie stores	4.5	9.3
Supermarkets	0.5	0.9
Pharmacies and ultra-small formats	0.1	9.0
Number of distribution centers ¹	38	Around 50

One of the key factors affecting the achievement of the Company’s targets is warehouse capacity, which needs to be increased by conducting a comprehensive review of the development strategy for the distribution center network and means of delivering goods to stores.

Magnit’s warehouse infrastructure by federal district²



1. Including SIA
 2. Excluding SIA

Key warehouse infrastructure indicators¹

Region	Number of distribution centers	Useful warehouse space (thousand sq. m.)	Number of stores served
Central Region	9	477	5,322
Volga Region	10	470	5,625
Southern Region	8	313	2,976
Ural Region	3	141	1,866
North Caucasus Region	1	40	579
North-West Region	3	119	1,152
Siberian Region	3	84	879
Total	37	1,645	18,399

Overview of the logistics chain²

Revenue in 2018, RUB mln	1,237,015
Total selling space, thousand sq. m.	6,425
Number of stores served	18,399
Number of distribution centers	37
Useful warehouse space, thousand sq. m.	1,645
Selling space per 1 sq. m. of warehouse space, sq. m.	3.9
Number of facilities per 1 warehouse	497.3
Sales per 1 sq. m. of warehouse space, RUB thousand/sq. m.	752
Share of goods processed via distribution centers	89%
Number of company-owned trucks	5,897

1. Excluding SIA

2. Excluding SIA

Events of 2018

Magnit purchased the SIA Group, one of Russia's largest distributors of drugs and medical products, in November 2018 as part of the large-scale development of the pharmacy chain in Magnit stores. The SIA Group's warehouse logistics with total area of almost 80,000 sq. m. consist of a number of small warehouses and a large automated logistics center in Moscow with total area of more than 40,000 sq. m. This transaction provides a strong platform that allows us to rapidly grow our highly profitable "Magnit Cosmetic" format and develop the new pharmacy format.

As previously mentioned, the integration of SIA into Magnit is proceeding according to the approved plan and roughly 2,000 "Magnit Cosmetic" stores will transition to providing services via the logistics platform that was acquired by the end of the first quarter of 2019.

In addition, a project was launched based on this platform to open 2,000 pharmacies in 2019.

The goal of optimizing the network is to establish a Magnit logistic network structure based on the simulation of strategic scenarios. The simulation will be used to determine the optimal number of distribution centers and their distance from shopping facilities.

In addition to warehouse geography and their space, a number of initiatives are planned to improve the operational efficiency of distribution centers. Reducing stocks at warehouses and stores while maintaining a balance of representation and losses is a priority for improving the quality of supplies.

The strategic scenarios for optimizing the distribution network include an analysis of development and operation via transit warehouses and national warehouses, options for creating import hubs, and the introduction of a larger number of direct delivery warehouses.

When optimizing stocks, strategic scenarios involve revising the model for the staggered pick-by-line of inventory, considering alternative types of processing for certain product categories (cross docking and peak-by-line), storage at suppliers' warehouses, joint inventory management with suppliers, revising the minimum order size, and delivery frequency.

As part of the multi-format strategy adopted by Magnit, the priority of the Company's transport unit is to minimize costs by optimizing the structure of transit flows, using hired vehicles, and analyzing the structure of the vehicle fleet by age (retirement management). Other goals include improving the level of service, reducing delivery time, and revising the frequency of delivery for each format and the goods acceptance process.