

Case studies (continued)

Expansion of the My Price soft discounter chain

In 2022, Magnit opened more than 500 My Price soft discounters across 62 regions of Russia. The new stores feature an area of 100–300 sq. m, easy-to-navigate zoning and an assortment of about 2,000 SKUs.

The new soft discounters were launched both in large cities and small towns with a population of up to 2,000 people, helping to improve the availability of products and enhance food security. Most stores opened in Tatarstan, the Chelyabinsk region and Krasnodar territory, and their total number went up to as many as 700 discounters.

Soft discounters offer a variety of special price value packs in the following categories: fruit, vegetables, dry foods, dairy, confections, baby food, drinks, pet food, household chemicals, and others.

This store format is popular with customers and meets the prevailing trend of lean consumption. Its prices are on average 15% lower than those in convenience stores, and may be 30–40% lower in some product categories. The soft discounters also benefit from optimised headcount (an average of up to 5 employees compared to 11 employees in convenience stores, without compromising the

quality of service) and improved efficiency of retail space utilisation, which helps them save costs on purchasing additional equipment.

The discounter segment is underpenetrated in Russia compared to a number of other developed markets where they are often seen as market disruptors, providing considerable room for growth. In 2021, hard discounters had 3.3% penetration in Russia, and their share is expected to grow to around 11% by 2025¹. Given the continued contraction of the real disposable income of households in Russia since 2012, the macroeconomic conditions are also conducive to the development of this format. Discounters fit well in small and remote locations, where opening a convenience store may be inefficient, and where consumer income is lower than average.

Approximately 20% of the My Price sales come from Magnit's private labels. Going forward, we plan to increase their share to 50% and launch a dedicated range of private labels for our discounters.

40%
less investment in new discounter openings vs similar-size convenience stores

52%
LFL sales growth in 2022

x2
higher sales density vs first launches

2022 performance

- ▶ Higher sales productivity despite the limited product offering.
- ▶ Better merchandise margin vs convenience stores thanks to a significant share of private labels.
- ▶ Higher profitability of discounters converted from convenience stores vs their performance as convenience stores driven by higher sales density and lower SG&A.
- ▶ Higher inventory turnover owing to the assortment of highly rotated products.

¹ Alfa-Bank, INFOLine, December 2022.

Efforts to streamline logistics

For a retail business of our scale, efficiency in logistics is a key success factor. In 2022, we focused on achieving logistics efficiency gains and tested new logistics formats, which may soon become industry best practices.

Product deliveries via the Northern Sea Route

In November 2022, Magnit became the first Russian grocery retailer to test the Northern Sea Route. Six 40-foot containers with goods were shipped from China on a Russian Arctic container ship, Monchegorsk, directly to a port in St Petersburg.

Following the test shipment, Magnit evaluated the economic effect of launching the new

logistics corridor and is currently fine-tuning operational processes as needed. Regular shipments via the Northern Sea Route may begin as early as spring 2023.

Potentially, Magnit can use the new logistics corridor to source large quantities of nonfood products from China and other Asia-Pacific countries and distribute them across its major logistics hubs in central and southern Russia.

Supply chain logistics improvement

The Company and its partners embraced an end-to-end supply chain to streamline product shipments in a meaningful way. Magnit took over part of the suppliers' logistics functions to increase delivery speed, improve inventory turnover and reduce distribution costs.



~30
days delivery time

10 days
faster delivery vs intermodal runs

up to 15 %
cost saving for Magnit

>5.5%
of potential average cost efficiency gains across some product categories

Cost savings in logistics unlock additional opportunities for lowering the price of products, thus improving their affordability and value for customers. The end-to-end supply chain helps harmonise all logistics processes from manufacturer to buyer, while also reducing inventory levels, improving delivery times and increasing turnover.

Case studies (continued)



Launch of fruit and vegetables sourcing via ports in the Russian Far East

Magnit embarked on developing intermodal transportation of products from Asia-Pacific through the Russian Far East, pioneering in fruit and vegetables sourcing via this route. The efficient operation of the customs service makes it possible to streamline clearance processes and reduce clearance time. Products are then delivered to the Company's distribution centres in special reefer containers that maintain the required temperature levels.

30–40 minutes
average time needed for staples customs clearance

The launch of these new logistics operations will help reduce both the cost of goods and delivery time, boost efficiency of Magnit's distribution processes and ensure consistently high quality of fruit and vegetables, one of the most popular product categories.

Unmanned logistics corridors testing

Magnit and other logistics and transport operators signed the Common Programme of the Regulatory Sandbox Regime (RSR) for the implementation of the Unmanned Logistics Corridors (ULC) initiative on the M11 Neva highway.

The programme was developed by the Digital Transport and Logistics Association with support of the Russian Ministry of Transport. The unmanned logistics corridor on the M11 highway is slated for launch by 2024, with a total of 19,500 km of Russian public roads potentially becoming available for autonomous vehicles by 2030.

Over the next three years, digital innovations in truck transportation will be tested in areas of designing, building and operating highly automated trucks and infrastructure for

30%
potential saving in driver payroll costs

28%
potential saving in fuel costs by 2025

them as well as developing unmanned transport and logistics services. The testing of technical solutions and business models for unmanned trucking will make it possible to scale the project to other highways in the shortest possible time and at the lowest cost.



Shipping of goods from Asia in partnership with TransContainer

As part of the partnership, TransContainer, Russia's largest operator of containers and fitting platforms, will be developing new logistics solutions for freight transportation, taking into account the geography of Magnit's imports. The synergy of Magnit's and TransContainer's expertise and extensive experience in logistics will enable the Company to improve the efficiency of its distribution processes and the quality of service.

The partners have already launched the delivery of non-food products from China via the Vostochny Port, looking to assess the economic effect from cooperation and tweak the operational processes.

134 TEUs¹
shipped in 2022

The partnership with TransContainer will help Magnit streamline its logistics globally and reduce delivery costs, while TransContainer will be able to improve capacity utilisation and secure predictable demand for its services from a steadfast and reliable partner.

Improved assortment rotation at Magnit Cosmetics

Maintaining and improving the on-shelf availability of products is the number one priority for Magnit amid the headwinds caused by the limited supply of imported goods and raw materials, logistics constraints and the departure of major players from the Russian market.

Against this background, we launched an initiative to improve the assortment rotation and new SKUs introduction at Magnit Cosmetics, which is strongly dependent on imports. By leveraging early volume and date arrangements with suppliers, reviewing our internal processes, and optimising the supply chain, we were able to accelerate both SKU rotation and introduction.

These efforts also helped us increase the transparency of processes both on the Company side and the supplier side, improving supply discipline and accuracy of product shipments.

Swift arrangements to source products in short supply

Magnit joined forces with its key suppliers to develop sourcing arrangements for products in short supply caused by global feedstock shortages and external logistics constraints.

We work in lockstep with suppliers to ensure monthly alignment of our sourcing needs with their supply capabilities. To do that, we:

- ▶ define sourcing priorities by region;
- ▶ leverage similar available products to handle shortages;
- ▶ identify priority promotional products;
- ▶ ensure targeted replenishment for high-traffic stores.

x2
faster introduction of new SKUs

600 SKUs
introduced at a faster rate

2%
improvement in on-shelf availability at Magnit Cosmetics

5%
increase in supplier service provision for new SKUs

3%
increase in availability of products in short supply

2%
increase in availability of products for targeted promotions

¹ TEU (or twenty-foot equivalent) is a conventional unit of measurement for the capacity of cargo vehicles.