

CHOICE OF SUPPLIERS

In order to minimise customs, tax and other types of risks, the Group conducts an internal audit of all suppliers. Auditors from the Finance Division, the Corporate and Legal Relations Division and the Security Division take part in the audit of every counterparty. As part of the creation of the consolidated M.Video–Eldorado Group in 2018, the Company conducted an audit of all of LLC ELDORADO's counterparties.

In assessing the business practices of counterparties, the following factors are analysed, among others:

- the justification for selecting the counterparty (including an assessment of the terms of the transaction);
- business reputation, when the counterparty was established as a legal entity, the frequency of rotation of legal entities that were previously counterparties of Group companies;
- the absence of evidence that the counterparty is artificially reducing its tax liabilities;

- the availability of qualified personnel;
- the availability of production capacity for business purposes (warehouse, office, fixed assets, etc.);
- chain of suppliers from the manufacturer/importer, price changes;
- payment of tax obligations;
- a financial sustainability assessment (no losses for three years);
- correctness of customs declarations.

Contracts with audited suppliers are concluded for a term of not more than three years.

The Group has a Committee for the Accreditation of Counterparties for Commercial Procurement that reviews difficult cases and approves important counterparties for which there are discrepancies in the auditors' reports.

LOGISTICS

THE MAIN OBJECTIVE OF THE GROUP'S LOGISTICS FUNCTION IS TO ENSURE THE AVAILABILITY OF GOODS ON STORE SHELVES AND THE DELIVERY OF ORDERS, TAKING INTO ACCOUNT THE NEEDS OF CUSTOMERS IN EACH REGION. THE CONTINUOUS DEVELOPMENT AND OPTIMISATION OF INVENTORY AND TRANSPORTATION MANAGEMENT SYSTEMS IS A NECESSARY CONDITION FOR THE EFFECTIVE EXPANSION OF THE GROUP'S RETAIL NETWORK AND ONLINE BUSINESS IN ACCORDANCE WITH THE STRATEGY OF INCREASING ITS SHARE IN THE RUSSIAN MARKET.

See 'The Group's Strategy', p. 41



M.Video–Eldorado Group's strategic objective in 2018 was a deep restructuring of logistics systems and processes as part of the transition of the two chains into a single business model. The Group approved and implemented a new structure for the Supply, Distribution and Logistics Division, which, by the end of the year, proved to be effective in supporting the two brands.

Initially, the organisation of logistics at M.Video and Eldorado was based on different approaches: M.Video outsourced the majority of its processes, while Eldorado supported its own operations. Since the merger, the Group has been using a mixed logistics model of outsourcing and its own in-house operations. As part of the merger of M.Video and Eldorado, the Group retained the best practices of both networks and achieved significant synergies through the scaling and optimisation of operational processes and resources.

In 2018, the Group's team implemented more than 150 changes. In particular, to support the sales of both brands, a centralised, unilevel distribution network was conceptualised; processes for combining central and regional warehouses, long-haul transportation and home deliveries to customers were launched; and uniform rules for receiving/shipping goods were introduced.

Some 150 new retail stores were integrated into the updated distribution network. These included, at the end of the Q4, 46 new stores stocked with goods for opening at former MediaMarkt properties (22 M.Video stores and 24 Eldorado stores).

As a result, the distribution network of stores and warehouses enables the Company to fulfil 90% of sales using stocks in the region, with a high level of customer service – customers can pick up goods themselves from stores 30 minutes after placing an order or receive delivery by courier within 24 hours of placing an order.



150

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Group distribution network as of 31 December 2018

Property	Description and functionality	Locations
<ul style="list-style-type: none"> 9 central distribution warehouses 45% of inventory 	<ul style="list-style-type: none"> Concentration of all goods purchased by the Group from over 300 suppliers in a total area of more than 250 thousand square metres Distribution of goods to stores and regional multiplatforms Processing of customer orders for delivery 	Moscow (3), Novosibirsk, Kazan, Rostov-on-Don, Yekaterinburg, Nizhny Novgorod, Vladivostok
<ul style="list-style-type: none"> >50 regional multiplatforms 8% of inventory 	<ul style="list-style-type: none"> Storage of oversized equipment Delivery of goods to stores and customers within a radius of 150-200 km 	Large and medium-sized cities in various regions of Russia (Novorossiysk, Tyumen, Irkutsk, Ulyanovsk, Yakutsk, etc.)
<ul style="list-style-type: none"> 941 stores in the M.Video, Eldorado and m_mobile chains 47% of inventory 	<ul style="list-style-type: none"> Presentation of equipment samples in showcases, as well as storage of small-sized and digital equipment Issuing orders to customers, including those who placed their order on the website 	>200 cities in Russia

Key logistics transformation projects in 2018

Project	Main results in 2018
Optimisation of the distribution network	<ul style="list-style-type: none"> Conceptualisation of a distribution network to support sales by both brands Implementation of the first stage of the unification of central warehouses and regional platforms Increasing the operational efficiency of current capacity by 20%
Logistics integration with MediaMarkt	<ul style="list-style-type: none"> Takeover and optimisation of MediaMarkt's logistics assets Opening and stocking 46 new stores at MediaMarkt properties in the shortest possible time during the high sales season
Consolidation and acceleration of client deliveries	<ul style="list-style-type: none"> Speeding up the delivery of client orders of digital products (M. Video for 127 cities, Eldorado for 113 cities) Combining the delivery of client orders for the two brands in 53 cities in Russia (≈60% of the total)
HiTechnic service: combined delivery and installation of equipment	<ul style="list-style-type: none"> Pilot project for combined deliveries and installations at M.Video based on Eldorado's experience
Optimisation of inventory management	<ul style="list-style-type: none"> Ensuring the purchase of goods for both brands (using M.Video's methodology) Achievement of targets in terms of the representation of the product line in stores during the high sales season

DELIVERY OF GOODS

In 2018, M.Video–Eldorado Group shipped more than 2.6 million cubic metres of goods, or about 50 thousand vehicles (7% more than in 2017).

All long-haul shipments are carried out by Group counterparties. The choice of transport service providers, including for long-haul transport and home delivery of goods to customers, is based on tender procedures.

The focus of the Group's transport logistics is the constant improvement of delivery times for the entire range of digital equipment and household appliances.

The standard matrix for one M.Video or Eldorado store is 5–7 thousand items depending on the size, geographical location and the specific features of each individual store (for cities with a large number of stores, 7–9 thousand items). A less popular range of more than 10 thousand

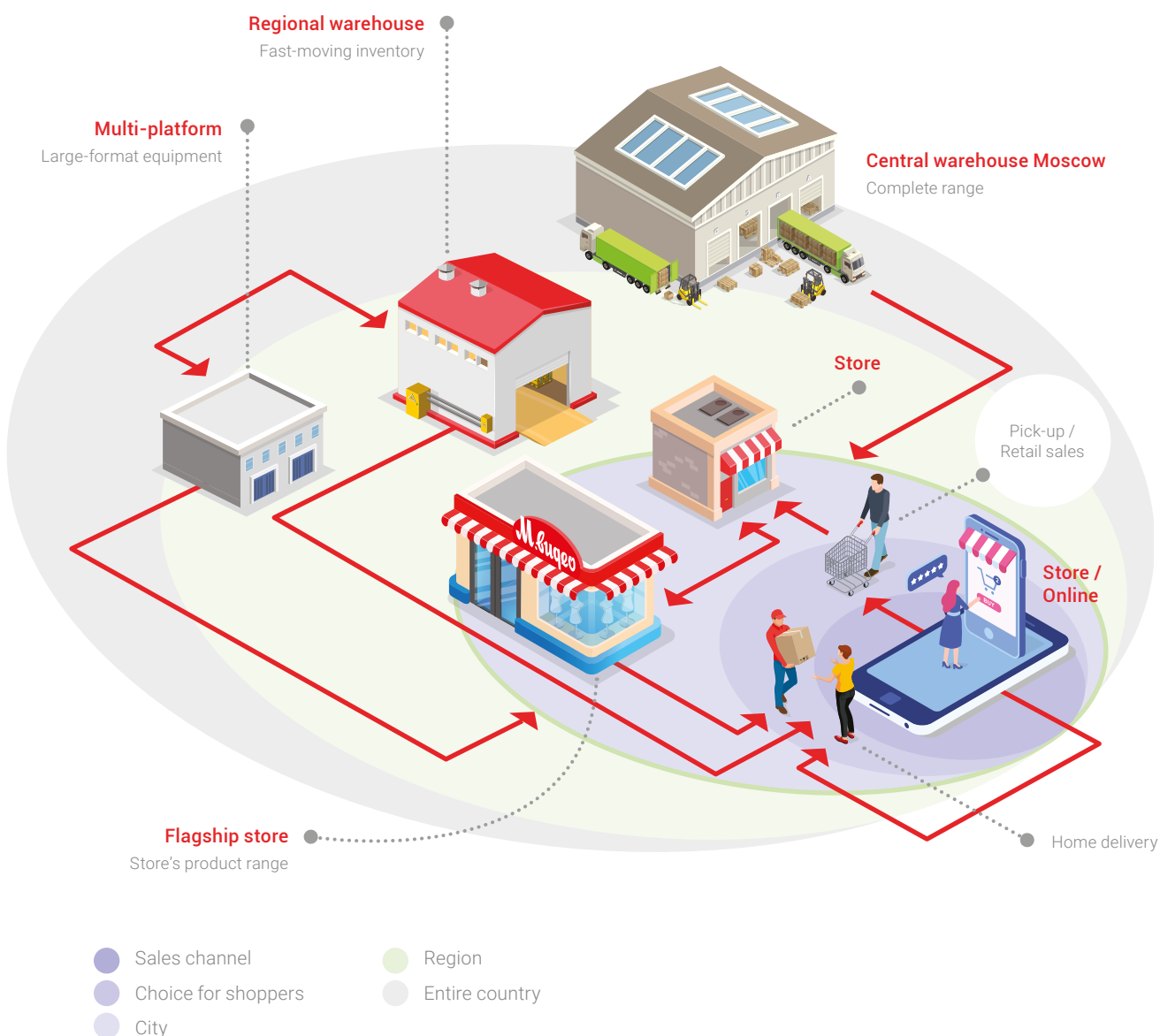
items is stored at the central warehouse in Moscow or at the supplier's warehouse (products are available through the Vendor Catalog service). For those goods that customers cannot receive as part of the service in a particular city, the Group uses a system of delivery upgrade of orders through less truck load shipping (LTL), cross-docking, express delivery by plane, etc.

Orders are delivered to customers by counterparties. As part of the service, high standards of customer service are maintained: urgent delivery, equipment carried up

to the relevant floor free of charge, acceptance of discount mechanisms at the delivery address, etc.

In addition to standard home delivery, a service offering combined delivery and installation of equipment is offered in a number of cities. In 2018, it was decided to develop this service for both Group networks under the HiTechnic brand. On-site service is supported both by partners (through outsourcing) and by HiTechnic's own delivery service using more than 150 branded vehicles.

Inventory restocking model



Order	Number of deliveries
Pick-up (order online for in-store pickup)	3,858,382
PPO (inspect an item at a store and order it from the warehouse)	1,593,769
Retail home delivery (in-store purchase with delivery to customer's address)	1,337,560
E-com home delivery (online purchase for delivery to customer's address)	699,367
Total number of orders	7,489,078

The number of deliveries
in 2018 exceeded

7 million orders **+25%**
y-o-y

DIGITAL TECHNOLOGIES IN LOGISTICS

Digital technologies are one of the key drivers for the development of the logistics platform and customer service. For many years, M.Video–Eldorado Group has been investing in state-of-the-art IT systems that support logistics (SAP ERP (enterprise resource planning), SAP TMS, Predictix, VeeRoute and others), for most of which the Group was a pioneer in the industry and a significant reference in the market.

In 2018, M.Video–Eldorado Group introduced a state-of-the-art system for managing consumer data and product technical specifications. This system makes it possible to pinpoint and correctly manage recommendations for accessories for basic products on the Group's sites; to create and edit SEO search results to simplify product searches; to create and highlight on the Group's sites data on differences in the technical specifications of goods (e.g., colour, memory size, etc.); and to speed up the viewing of product flypages. Reviews and ratings are also combined for the convenience of customers.

The Group is developing VeeRoute, a mobile application for delivery drivers that is integrated with order management and other systems that helps transfer information about the status of orders in real time, to quickly change drivers' electronic route list, etc. M.Video was one of the first to pilot this mobile solution, produced by a Russian startup, which made it possible to significantly improve the quality of last-mile delivery.

The Group has a process of end-to-end inventory planning from supplier to store. The planning system, based on Predictix technologies, uses various mathematical models to predict the optimal level of service at each stage in the supply chain for more than 20,000 active items, with the product line changing by 40% per year.

The Group uses paperless document flow in most transactional processes, which makes it possible to speed up the processing and sending of documentation and to monitor information exchange at all stages of the supply chain.

In 2018, electronic data interchange (EDI) was implemented with more than 100 key suppliers, which made it possible to optimise procurement processes.

An SAP SRM–based electronic tender platform makes the process of purchasing non-commercial services as transparent as possible.

In February 2019, the Group completed its merger with Eldorado and the transition to a single SAP ERP system. The current logistics system successfully serves both brands in every region where they operate. The further integration of processes and the improvement of the distribution system and logistics for M.Video and Eldorado will continue in 2019–2020.