

Customer satisfaction

Both M.Video and Eldorado are constantly working to improve customer satisfaction and measure relevant performance. The main customer satisfaction indicator used by the Group is the NPS index, which is the willingness of customers to recommend a place to purchase home appliances and electronics.

A marketing study conducted by Impacto between January and December 2018 showed that M.Video's NPS reached 76%, an increase of 3 percentage points

year-on-year. At the same time, M.Video maintains a high degree of customer satisfaction in all store operating parameters, ranging from 83% for "Ability to buy the latest product models" to 98% in "Overall satisfaction with sales staff" and "Speed of service at the M. Service zone".

The NPS for Eldorado is also high at 59%. Eldorado demonstrates high satisfaction in most parameters, the best of which are "Speed of service in the product pickup zone" (97%), "Speed of service in the service zone" (96%), and "Overall satisfaction with sales staff" (96%).

SUPPLY SYSTEM AND SUPPLIER RELATIONS

ONE OF THE GROUP'S KEY BUSINESS PRIORITIES IS TO BUILD A LONG-TERM STRATEGIC PARTNERSHIP AND MUTUALLY BENEFICIAL RELATIONS WITH SUPPLIERS IN ORDER TO MAINTAIN THE STABILITY OF ITS BUSINESS AND SUSTAINABLE MARKET DEVELOPMENT.

Oleg Muraviev, Commercial Director of M.Video–Eldorado Group said: "It's important for us to see suppliers as partners focused on long-term relationships and development. The quality of our offer for customers depends on the kind of relationship we build with our counterparties. Therefore, we strive for mutually beneficial cooperation that both the Group and all its suppliers can benefit from."

In 2018, during the merger of M.Video and Eldorado, the Group centralised the commercial function of both retail chains. Both Group brands enjoy the advantages of combined commercial purchases, and suppliers have the opportunity to work with a larger player that is able to position their product in all market segments and for all audiences, to provide full geographic coverage in the Russian market. For many manufacturers, M.Video–Eldorado Group is the main channel of entry into the Russian market, since it can ensure the availability of goods for consumers throughout Russia, while also offering advice, service and after-sales support, as well as marketing tools. Thus, the M.Video network has become one of the first major retailers of Russian equipment made by Bork and products produced by the Chinese company Haier, having become a reliable long-term partner for the young brands.

The Group's regular suppliers number about 300 companies. Its largest vendors include global leaders in the household appliances and consumer electronics sector, such as Samsung, Apple, LG, Sony, Huawei, Bosch and others. About 75% of the Group's commercial purchases take place through direct contracts with manufacturers, and the Group buys part of its product range through distributors. As of the end of 2018, the 10 largest suppliers accounted for about 63% of commercial purchases.

The Commercial Division is constantly identifying promising new trademarks and products that could be of interest to Russian consumers and putting the Group in a profitable position in the market. For example, M.Video was the first nationwide retail chain to launch sales in the new fashion category of smart watches, and it is developing the categories of electric vehicles, drones and gadgets for smart homes.

Together with suppliers, the Group carries out dozens of promotions and projects every day. Joint projects are an important element in the development of the ecosystem approach to retail, in which the Group, in addition to its range of products, offers its clients a chance to take part in promotions and events, additional

services, accessories and content, thus greatly expanding the customer experience. In 2018, for example, M.Video became the first chain in Russia, in addition to its Apple shops, to open authorised Apple service centres in stores. The service centres use certified equipment, as well as hardware and spare parts received directly from Apple. In 2018, there were more than 100 Apple shops in M.Video stores, and M.Video–Eldorado Group had become the largest seller of Apple smartphones in Russia by the end of the year.

M.Video–Eldorado Group is also developing its sales of niche and rare items through the Vendor Catalog in its online resources and in stores. The retailer’s partners can exhibit their product offers through the store’s online storefront. In this case, the Group does not purchase these goods but can arrange their sale, delivery and all related services for buyers. This approach enables the Group’s customers to order any model of equipment, including rare or exclusive items; the retailer can thus expand its product range without additional risks to its working capital, and the manufacturer increases sales and can test customer demand for experimental models. Sales through the Vendor Catalog increased by 2.8 times in 2018.

Value creation for suppliers

Opportunities	Cases and results
Promotion and information on the site	
<ul style="list-style-type: none"> • More than 612 million visits to the mvideo.ru and eldorado.ru sites per year • Flexible site architecture increases opportunities to conduct promotions 	<ul style="list-style-type: none"> • M.Video and Eldorado regularly hold partnership contests, promotions and sales – more than 100 projects a year
Retail positioning	
<ul style="list-style-type: none"> • A network of ≈1,000 stores throughout Russia • 11,800 vendor zones and demo stands in M.Video stores and 12,100 in Eldorado stores 	<ul style="list-style-type: none"> • Brand zones for large vendors (Apple, Samsung, etc.) • Thematic areas: kitchenware (Tefal, Tescona, etc.), beauty zones (SEB, Philips, etc.)
Active marketing	
<ul style="list-style-type: none"> • A wide range of tools to increase user interest: <ul style="list-style-type: none"> – online presentations of new products from Samsung, Apple, etc. – detailed materials about new products on Group sites 	<ul style="list-style-type: none"> • Every year, M.Video broadcasts an exclusive presentation of new Apple smartphones on its website, along with simultaneous interpretation in real time. The broadcast gets tens of thousands of views annually • M.Video–Eldorado Group is a market leader in terms of arranging pre-orders and the launch of sales of devices from major vendors (Samsung, Apple, Huawei, etc.)
Ecosystem-based approach	
<ul style="list-style-type: none"> • Offering additional services, warranty and insurance products, digital content • Opportunities for entertainment, free testing of gaming systems, VR stations, etc. 	<ul style="list-style-type: none"> • In February 2019, M.Video’s presentation as part of the early start of sales of the Metro: Exodus game, with the participation of writer Dmitry Glukhovskiy, gathered several thousand participants, which contributed to high sales of the product • M.Video is the only retailer that creates unique streaming content for fans of games on popular social networks. The ecosystem created by the Group for gamers (gaming zones, online tournaments, etc.) has helped make the Group one of the market leaders in terms of the sale of game consoles (about 50%) and laptops (about 20%)

Source:



www.cnews.ru/news/line/2018-10-12_mvideo_otkryla_v_magazinah_poinoformatnye

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



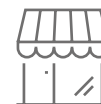
M.Video–Eldorado Group's strategic objective in 2018 was a deep restructuring of logistics systems and processes as part of the transition of the two chains into a single business model. The Group approved and implemented a new structure for the Supply, Distribution and Logistics Division, which, by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

new retail stores were integrated into the updated distribution network