

Market Overview

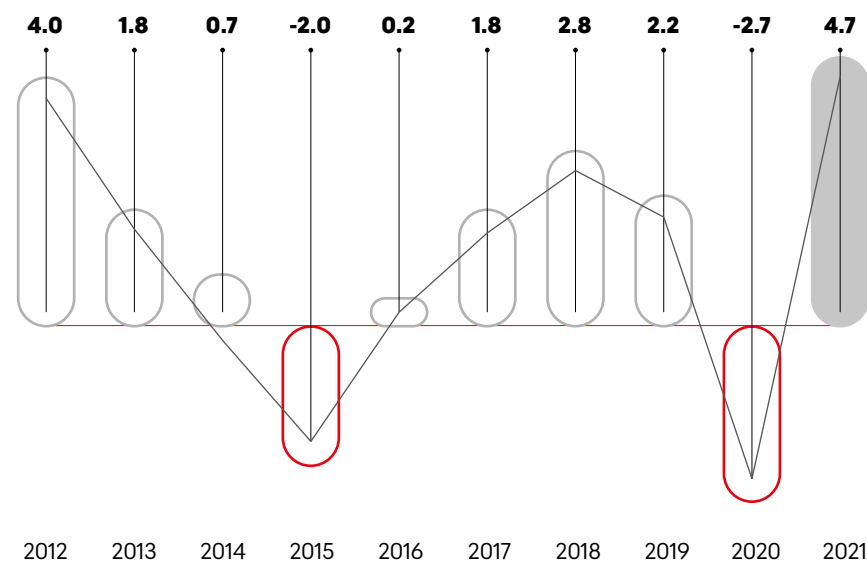
Consumer spending surged in April 2021 following the removal of restrictions and continued to show growth for the rest of the year, albeit at a slowing rate. Food retail has benefitted with a return to growth, and the market leaders, including Magnit, gained market share due to consolidation and the ongoing focus on modernisation and CVP improvements.

Macroeconomic Environment

Year-on-year GDP improved by 4.7% in 2021 due to the gradual recovery of economic activity following the implementation of the Nationwide Economic Recovery Plan and the removal of restrictive measures related to COVID-19. This was coupled with a highly supportive inflationary trends for retailers and a substantial recovery in real disposable incomes as people returned to work.

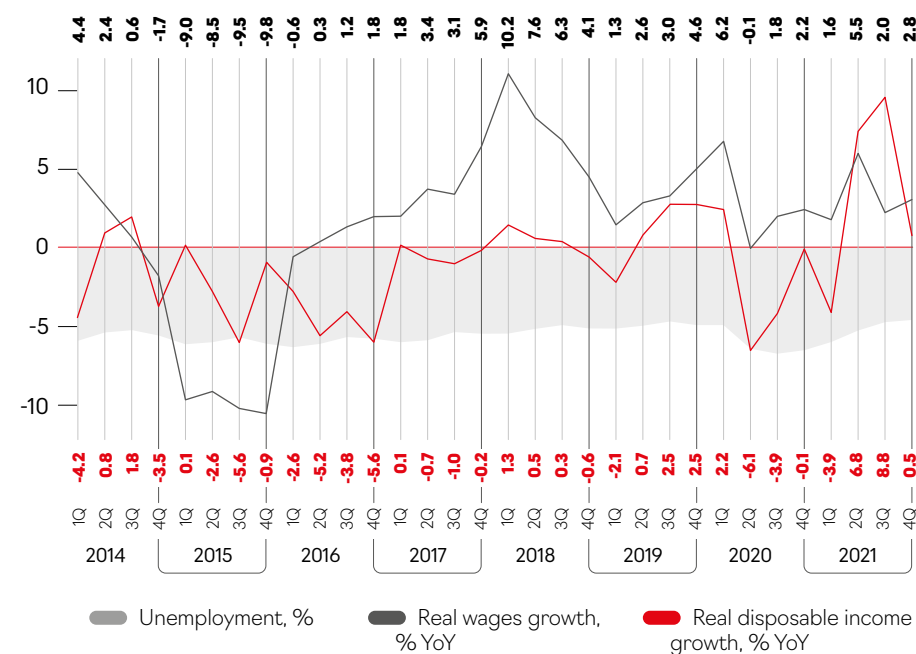
After the initial spike in consumer spending in 2Q 2021, retail and food sales growth weakened in subsequent quarters. To provide additional stimulus to the economy the government announced a series of additional financial support measures for families, vulnerable people and small businesses. This includes a one-off payment to pensioners, as well as elementary and secondary school students, of RUB 10,000 and RUB 15,000 to ex-military personnel. Meanwhile children aged 8 to 16 years from families with one parent now receive payments of on average RUB 5,650 a month.

Real GDP change in Russia, %



SOURCE: FEDERAL STATE STATISTICS SERVICE, MINISTRY OF ECONOMY DEVELOPMENT OF THE RUSSIAN FEDERATION

Real wages, real disposable income and unemployment rate, %



SOURCE: FEDERAL STATE STATISTICS SERVICE

Low-income households typically spend around 40% of income on food and the implication of this extra support is that it will be directed towards food purchases.

According to SBER CIB bank, in total the government is expected to spend an estimated extra RUB 500 billion between 2021-2024 on social services, construction, and state oversight over environmental, digital, and customer-oriented development projects. This is being made possible thanks to strong economic performance and a recovery in non-oil and gas tax revenues¹.

The monthly minimum wage in Russia rose by 5.5% in 2021 to RUB 12,792. In Moscow it was set at RUB 20,589 and RUB 19,000 in St. Petersburg.

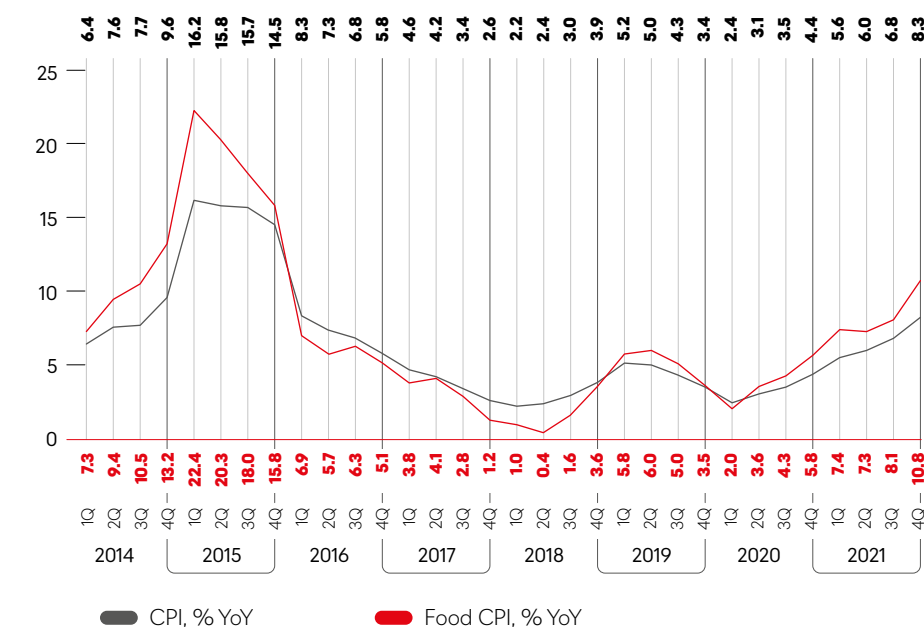
In 2021, average real wage grew marginally by 2.9% while real disposable income (RDI) has been slowly growing by 3.1% year-on-year, driven primarily by a rebound in incomes from property and business.

The average total number of the unemployed in December 2021 amounted to 3.2 million shrinking year-on-year to 4.3% compared to 5.9% the previous year. The unemployment rate has dropped to a record low, while the number of vacancies is at a record high.

The Consumer Price Index (CPI) rose throughout 2021 by 6.7%², while Food CPI increased by 8.4%³ with particular rises in fresh foods such as vegetables and eggs. Rising food prices increased food spend by 2.4%, drawing growing concern by consumers.

Seasonally adjusted growth in consumer prices rallied to a six-year high in October and November. Household inflation expectations rose up to a five-year high in December. Businesses' price expectations also held close to multi-year highs. In response, the Central Bank of Russia raised its benchmark policy rate to 8.5% during its December 2021 meeting, to dampen the continually rising inflation.

CPI and Food CPI in Russia, %



SOURCE: FEDERAL STATE STATISTICS SERVICE

¹ SBER CIB INVESTMENT RESEARCH, RUSSIA ECONOMIC MONTHLY – VERY STRONG REVENUES ALLOW GOVERNMENT TO BOOST SPENDING, 10 SEPTEMBER 2021

² AVERAGE ANNUAL INFLATION RATE IS GIVEN BASED ON THE AVERAGE QUARTERLY CPI CHANGES YEAR-ON-YEAR.

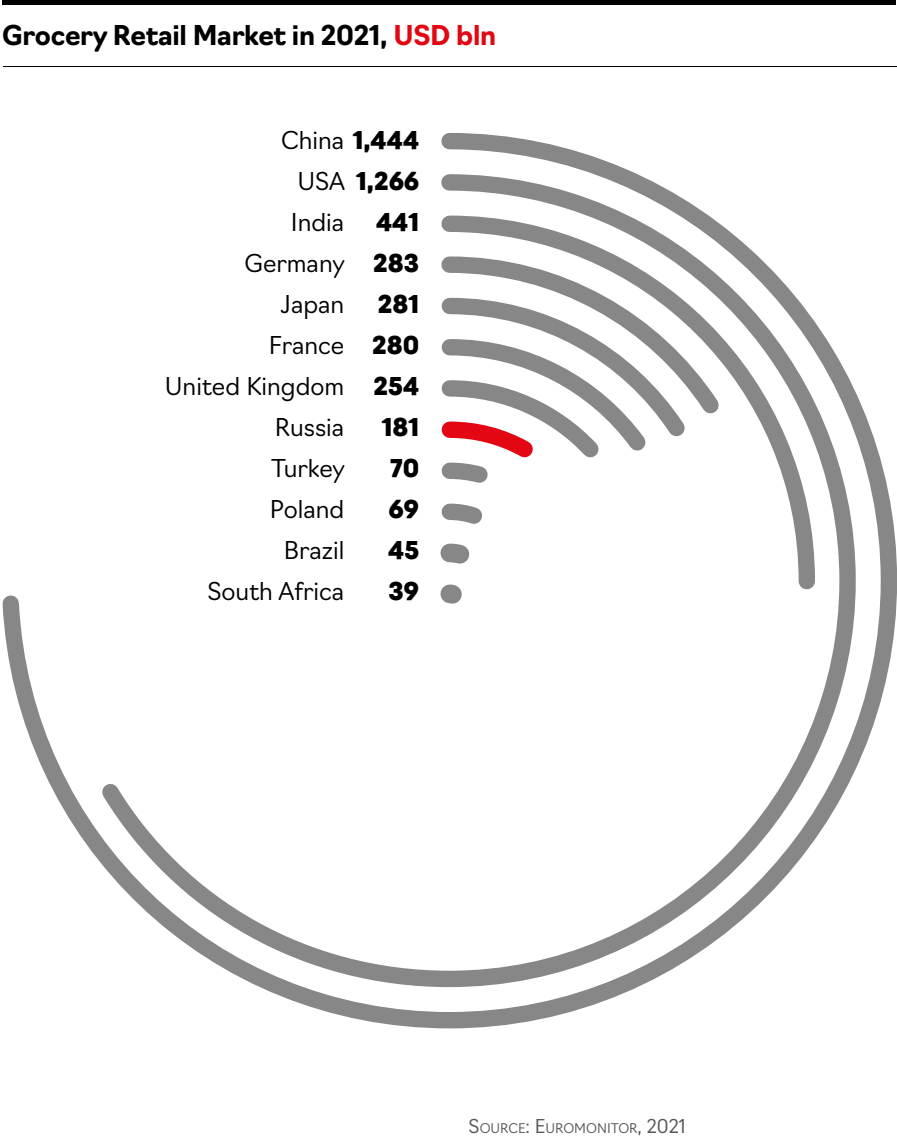
³ INFLATION RATE AT THE END OF DECEMBER 2021 SINCE DECEMBER 2020 WAS 10.6%.

Market Overview

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#1

in Russia by number of stores and geographical footprint

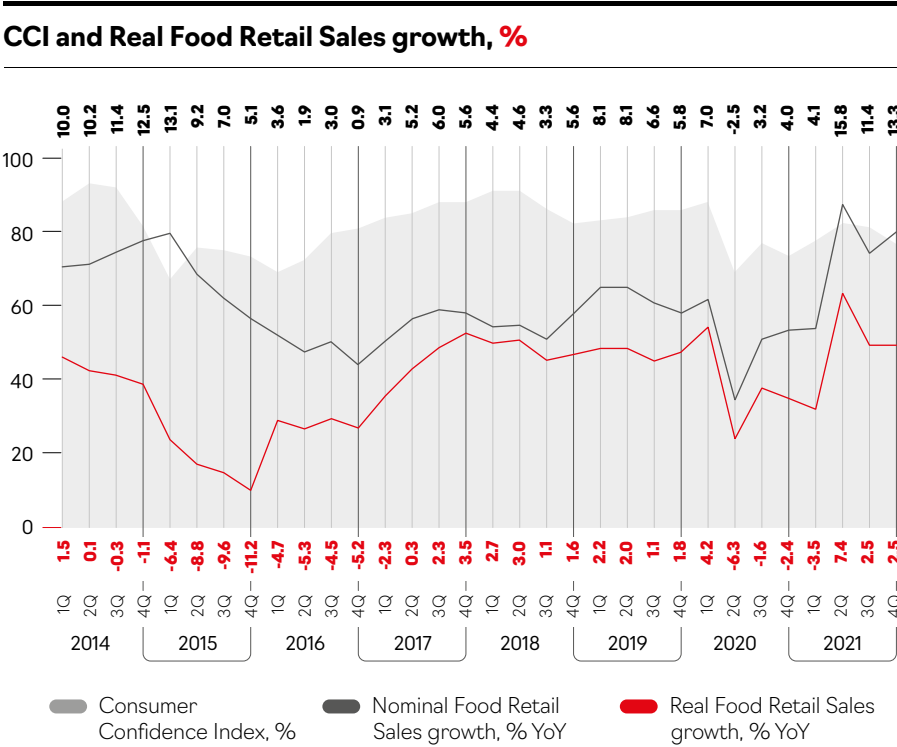
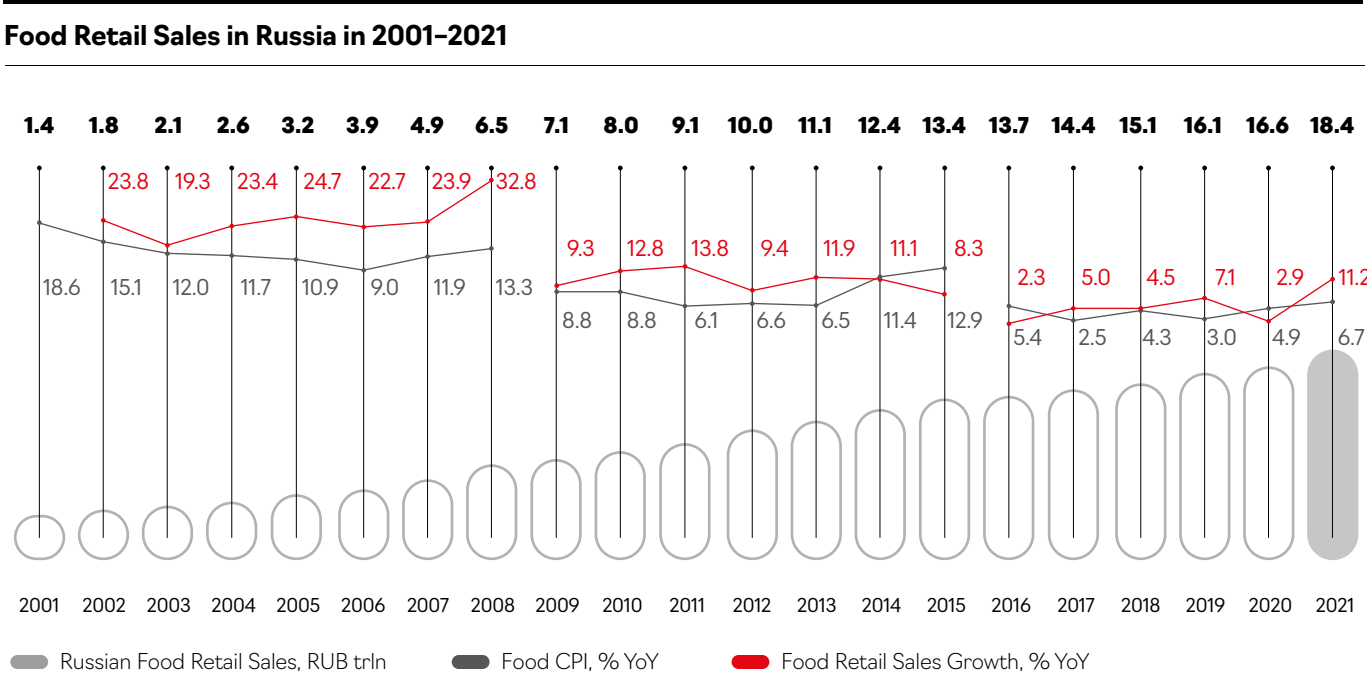


Russian retail market

The easing of COVID-19 related restrictions in April 2021 saw an immediate and significant real growth in retail sales in Russia, and continued growth throughout the year to an average of 7.3%. This was reflected in real growth of food retail sales in Russia to an average of 2.2% demonstrating a strong recovery from the previous year.

Modern retailers such as Magnit continued to benefit, taking a 75% market share as operators resumed their store roll-out after the 2020 hiatus, adding 2.6 mln sq. m of new space during 2021. This was coupled with a continued strong performance from modern convenience stores. The recovery in real disposable income (RDI) and consumer confidence index (CCI) in 2021 resulted in customers continuing to concentrate their spend on food rather than on travel, entertainment and leisure. The statistics clearly reiterate that grocery retail is benefitting more from the post-pandemic recovery than other industries in Russia.

In 2021, the Russian food retail market remained the eighth largest in the world in terms of revenue, ahead of countries such as Italy, Turkey, Brazil and Poland. The modern Russian food retail market has solid potential for further growth with the top five players increasing the market share in revenue terms to 42%, up 2 p.p. from 2020.



Market Overview

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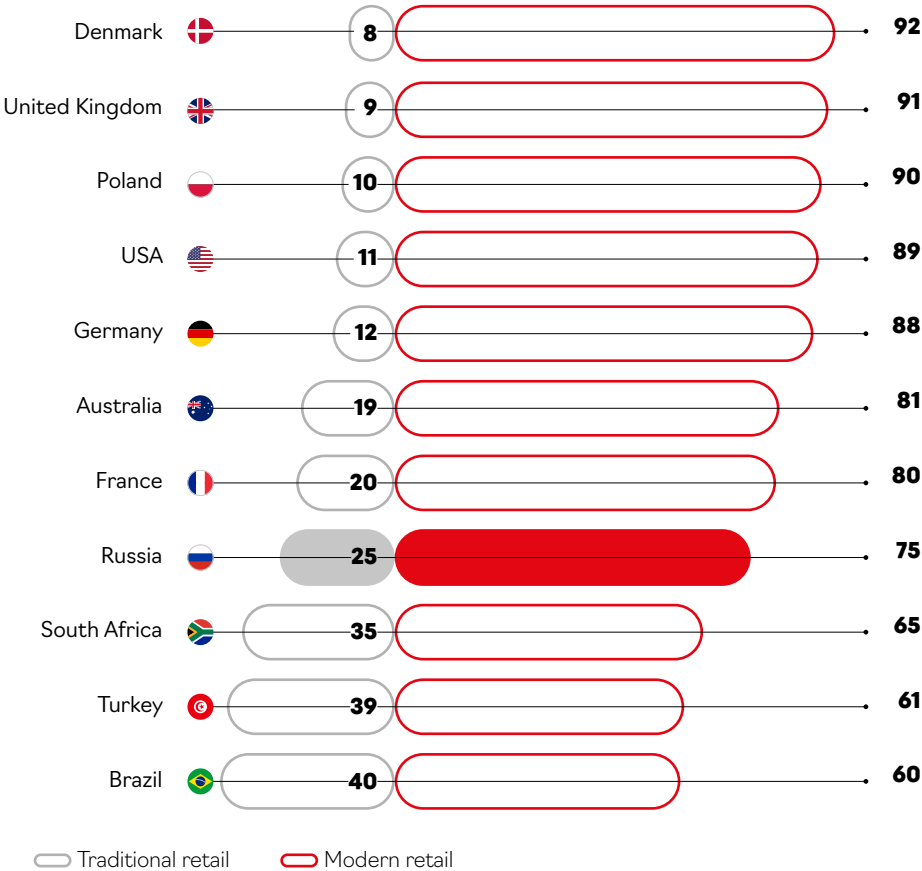
#2

retail chain in Russia
by revenue

There remains considerable scope for consolidation in a fragmented and underpenetrated market, particularly for companies like Magnit which are well funded and have clear M&A strategies. Russia remains behind developed countries, where the top 5 players account for 61% or more of the market. Over the past few years, leading Russian retailers have recorded a significant increase in their respective market shares, primarily due to the rapid growth of convenience stores and market consolidation. In 2021, the top 10 companies in Russian retail demonstrated sales growth of 11% year-on-year. Magnit's market share in 2021 increased by 0.6 p.p. to 11.5%, due to acceleration of organic expansion as well as acquisition of Dixy.

The trend to shop online has skyrocketed as a result of the pandemic, especially in large cities such as Moscow and St. Petersburg. The e-grocery market in Russia in 2021 grew by 247% and reached RUB 383 bln, which is 2.1% of the total food retail market volume, leaving considerable room for growth.

Share of Modern and Traditional Retail in 2021, %

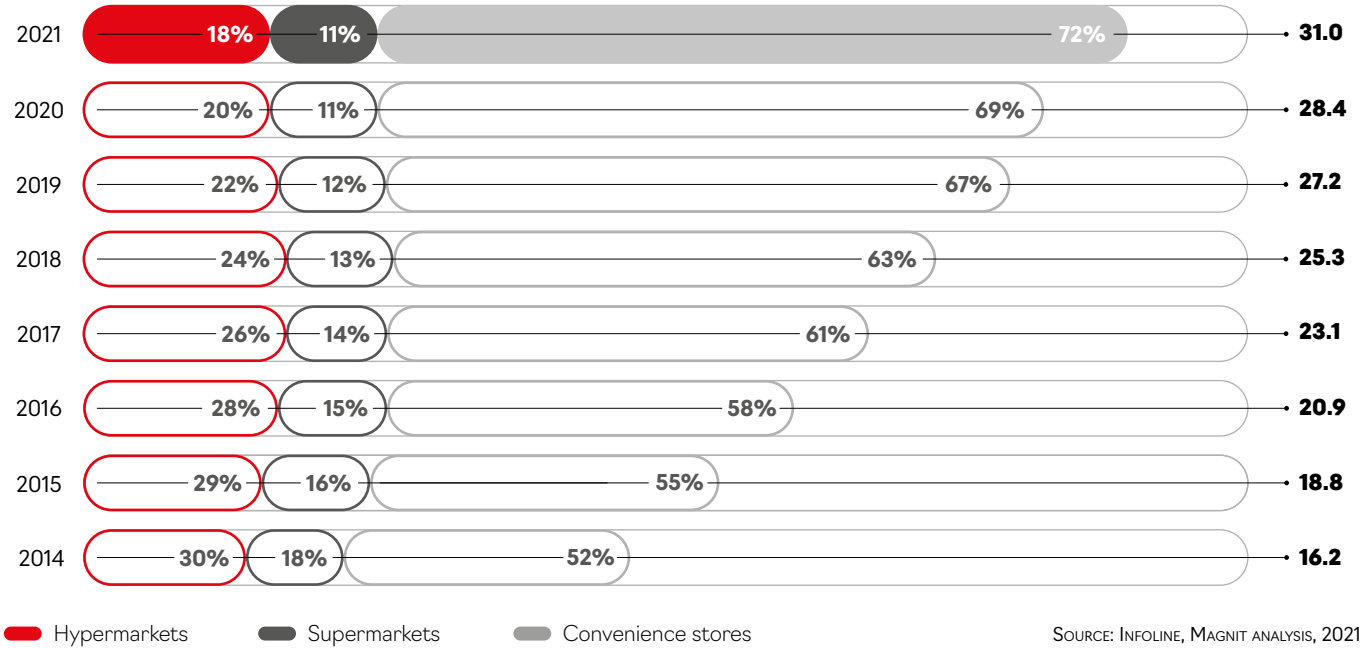


SOURCE: EUROMONITOR, 2021

In 2022, we will continue our smart growth strategy focusing on improved sales density, new store openings, and enhanced CVP. In addition, the growth of e-commerce is fast accelerating, giving further opportunities. We will continue to closely monitor opportunities available in the market.

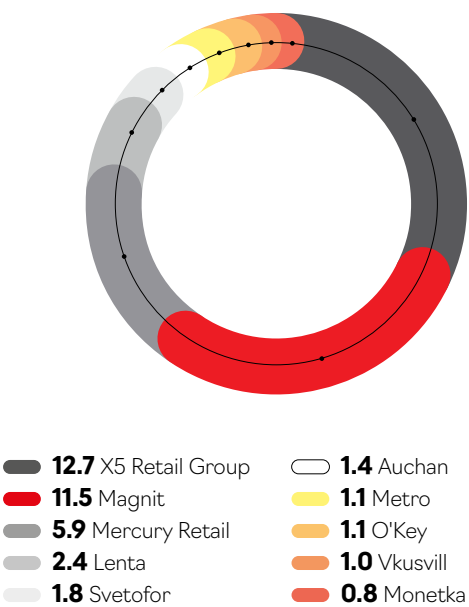
See more at Strategy and Operational Review

Total Selling Space in Russia for modern retail in 2014–2021, mln sq. m



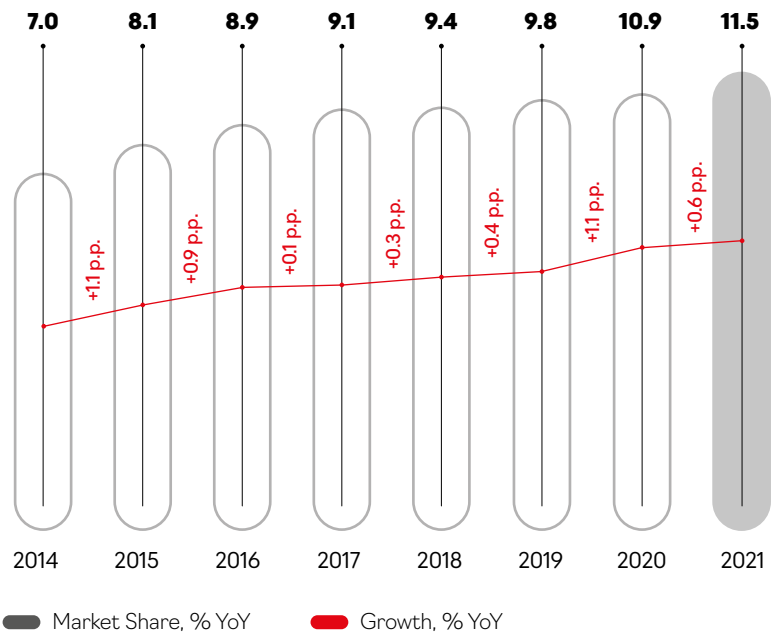
SOURCE: INFOLINE, MAGNIT ANALYSIS, 2021

Magnit market share by revenue in Russia in 2021, %



SOURCE: INFOLINE, MAGNIT ANALYSIS, 2021

Magnit Market Share by Revenue in Russia in 2014–2021, %



SOURCE: FEDERAL STATE STATISTICS SERVICE, MAGNIT ANALYSIS, 2021

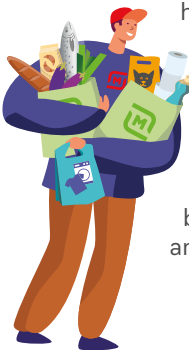
Market Overview

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Key trends in consumer behaviour and preferences in 2021

☆ **Spending still up, but showing slowing trend**

Grocery buying behaviour adopted during the pandemic has remained, with consumer spending on average higher by 2.4% year-on-year, but showing a slowing trend as consumer concerns about the pandemic decrease and confidence index returns to pre-pandemic levels. This will lead to a greater balance between price, quality and usability.



☆ **Convenience continued to trump price**

Continuing to favour convenience stores and retailers that can offer omni-channel capabilities, although price remains a top priority for store selection.



☆ **Consumers becoming more digital**

Growing dependency on online content driving changes in consumer behaviour and interaction with retailers. Consumers expect relevant and personalised content and access to services and shopping at an any time and everywhere. Demand for immediate actions and service is increasing due to the accelerating pace of life, and consumers are checking prices and promo offers.



☆ **Focus on healthy living and conscious consumption**

Greater awareness around the environment, nutrition and health is leading to consumers who are ready to pay more for healthier and eco-friendly products in certain categories.



Key trends in Russian retail market

☆ **Growing inflation**

Inflationary trends are expected to support food retail into 2022, but will put pressure on CAPEX.

☆ **Further consolidation**

M&A activity of federal players is expected due to the withdrawal of smaller and regional operators.

☆ **eGrocery sales accelerating**

eGrocery is expected to reach 5% penetration in food retail in 2024. Number of dark stores is increasing to serve the eGrocery market.

☆ **Rise of hard discounters**

A growing number of hard discounter stores targeted at the price-sensitive consumer niche and penetration into locations, such as remote or regional, which are not suitable for regular formats. Availability of smaller retail units is helping to drive expansion.

☆ **Emerging digital systems**

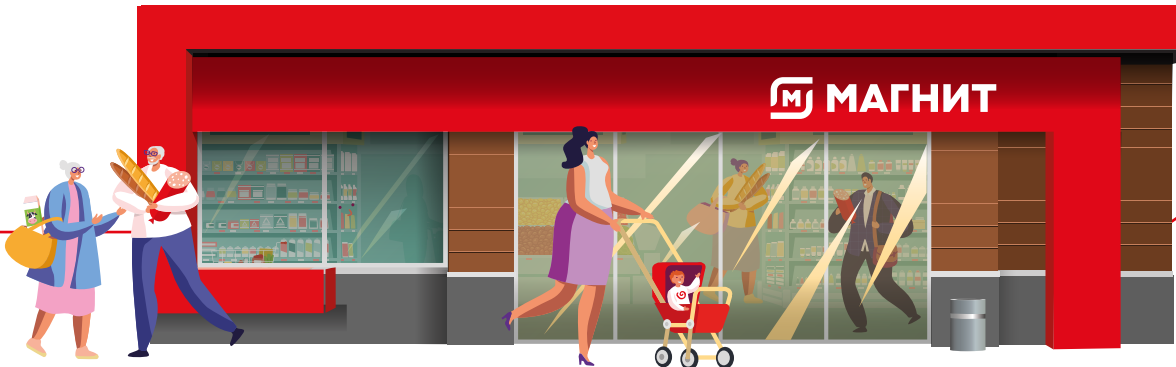
Technology enabling a more personalised experience through analytics.

☆ **State support**

Additional and continued financial payments to support the elderly, young families and other low-income and vulnerable social groups, with much of this spending being directed towards food purchases.

☆ **Sustainable development becoming key**

Stakeholders increasingly focused on sustainable development and responsible behaviour from large companies, with expectations of continuous environmental, social and governance improvement.



Market Overview

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Key changes in regulatory environment in 2021

Change	Regulatory Document	Effective Date
Indexation of the Platon heavy vehicle charge system tariff (increase by 14 kopecks compared to the previous tariff)	Decision of the Ministry of Transport of the Russian Federation	1 February 2021
Approval of the list of goods and packaging to be disposed of after the loss of their consumer properties	Executive Order of the Government of the Russian Federation No. 3721-r dated 31 December 2020	1 January 2021 to 1 January 2022
Approval of the procedure for conducting continuous monitoring of prices for consumer goods and services	Regulation of the Government of the Russian Federation No. 497-r	27 February 2021
Increase of minimum retail prices for spirits, including vodka and cognac	Order of the Ministry of Finance of Russia No. 232n dated 7 October 2020	1 January 2021
According to the law, the "Champagne" name can be used only in relation to Russian-made goods in the territory of the Russian Federation. Foreign wines should be renamed "sparkling wines". There are other changes in the classification of wine products, in retail it is necessary to organise a separate layout	Federal Law No. 345-FZ on alcohol market regulation	2 July 2021
Extension of agreements on fixation of prices for sugar until 1 June 2021, and for sunflower oil until 1 October 2021	Agreements between market participants on stabilisation of sugar and sunflower oil prices	30 March 2021
On 1 April 2021, the transitional period for labeling alcohol imported into the territory of Russia was completed. From 1 January 2021, all alcohol must be labeled with federal special marks. Prior to this, only products made in Russia were designated by special marks	Federal Law No. 436-FZ dated 22 December 2020	1 January 2021
20% increase in the excise tax rates on cigarettes and other tobacco products in Russia from 2021 came into force	Federal Law No. 321-FZ	1 January 2021
The minimum retail price for a pack of cigarettes has been set at RUB 107.78	Federal Law No. 504-FZ dated 30 December 2020	1 July 2021
Extension of the anti-tobacco law to all nicotine-containing products	Federal Law No. 303-FZ dated 31 July 2020	28 January 2021
Creation of a national system of traceability of goods (NSP) in Russia. From 1 July 2021, organisations are required to submit reports on transactions with goods subject to traceability, and documents containing traceability details	Federal Law No. 371-FZ of 9 November 2020	1 July 2021
New rules for the sale of goods at retail came into force	Regulation of the Government of the Russian Federation No. 2463	1 January 2021
Executive order on urgent measures to support small and medium-sized entrepreneurs in the retail sector. Regional authorities are recommended to facilitate the work of retail markets and fairs in crowded places	Executive Order of the Government of the Russian Federation No. 208-r dated 30 January 2021	30 January 2021

Change	Regulatory Document	Effective Date
Changes were introduced in the process of implementing the labeling of dairy products, including the postponement of the deadline for the mandatory display of the product code in retail sales	Regulation of the Government of the Russian Federation No. 2100 dated 30 November 2021	On the day of publication, as far as the provisions relating to retail trade are relevant
Extension of the food embargo until the end of 2022. The document envisages a ban on the import of meat, dairy and fish products, vegetables and fruits, salt, live pigs and edible offal from the EU, the USA, Norway and Australia	Decree of the President of Russian Federation	30 September 2021
The President of the Russian Federation Vladimir Putin instructed the Federal Antimonopoly Service to monitor the formation of product prices in retail chains. On 13 August 2021, the FAS of the Russian Federation began unscheduled on-site inspections in relation to leading retail chains for an anti-competitive agreement, the consequence of which may be an increase and maintenance of prices	Decree of the President of Russian Federation	8 August 2021
A number of regions of the Russian Federation adopted regulations on mandatory vaccination of certain categories of citizens, including trade employees, and on pass control at the entrance to certain shopping facilities (admission of citizens only with a QR code on vaccination, QR code on the previous disease, QR code on a negative test for the coronavirus infection or a certificate of medical exemption)	Resolutions of chief medical officers of regions on the basis of paragraph 6 part 1 article 51 of the Federal law No. 52-FZ "On sanitary and epidemiological well-being of population" dated 30 March 1999, article 10 of the Federal law No. 157-FZ "On immunoprophylaxis of infectious diseases" dated 17 September 1998, item 18.3 Sanitary Rules and Regulations 3.1/3.2.3 146-13 "General requirements for the prevention of infectious and parasitic diseases", order of the Ministry of Health of Russia No. 125n "On approval of the national calendar of preventive vaccinations and calendar of preventive vaccinations for epidemic indications" dated 21 March 2024	