

Market overview (continued)

Russian retail market

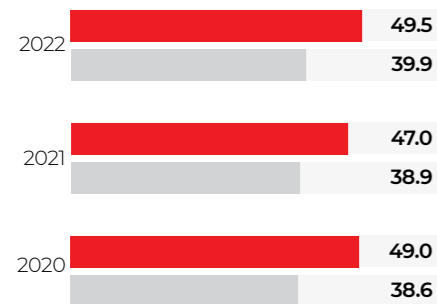
In 2022, retail sales in Russia increased by 7.7% in nominal terms YoY and amounted to RUB 42.5 trln according to Rosstat. At the same time, food retail sales rose by 13.4% in nominal terms to RUB 21.0 trln.

In the reporting period, retail chains accounted for 39.9% of the total retail sales compared to 38.9% in 2021. The share of food retail sales increased by 2.4 p.p. to 49.5%.

In 2022, the Russian market faced supply chain disruptions and sharp fluctuations in the rouble exchange rate. In 2022, fewer international companies entered the Russian market than during the COVID-19 pandemic in 2020 and 2021.

The purchasing patterns of Russians have also changed dramatically. In light of the economic downturn and falling real wages, many consumers have become more conscious about their shopping habits, reducing spending on non-food items, large home appliances and furniture, reprioritising non-essential purchases and favouring mid- and lower-price items. 38% of consumers began to make fewer purchases, including online. Among companies in the food consumer segment, premium retailers and restaurant businesses have been affected most of all.

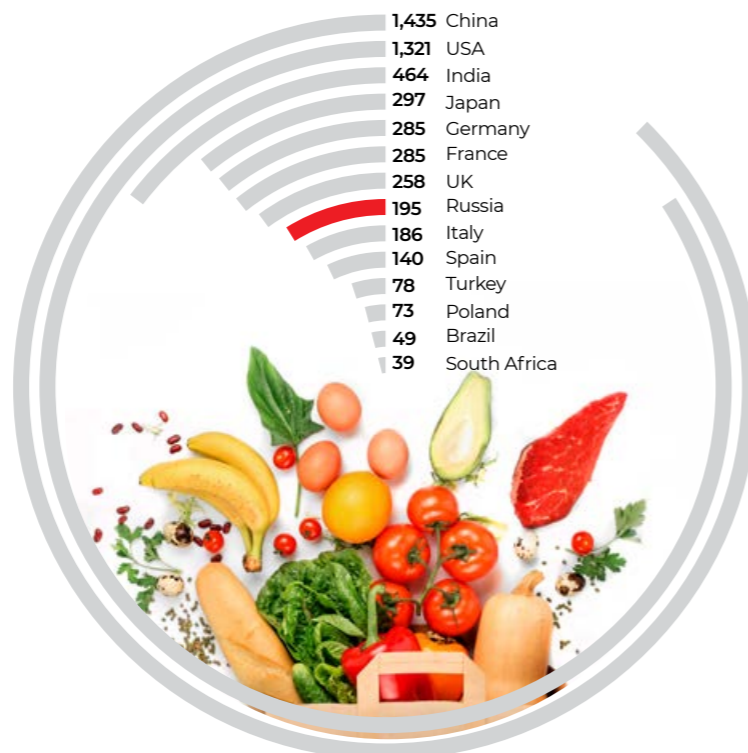
Russia's retail market in 2020–2022, %



■ Share of food retail sales in total retail sales, %
 ■ Share of retail chains in total retail sales, %

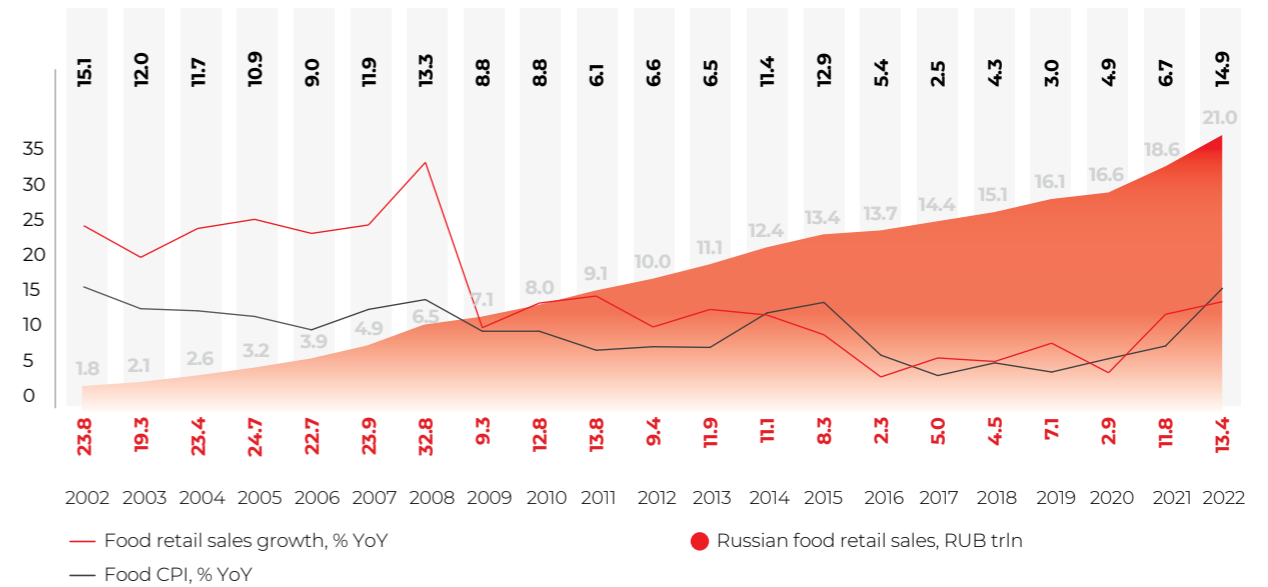
Source: Federal State Statistics Service

Grocery retail market in 2022, USD bln



Source: Euromonitor

Food retail sales in Russia in 2002–2022¹

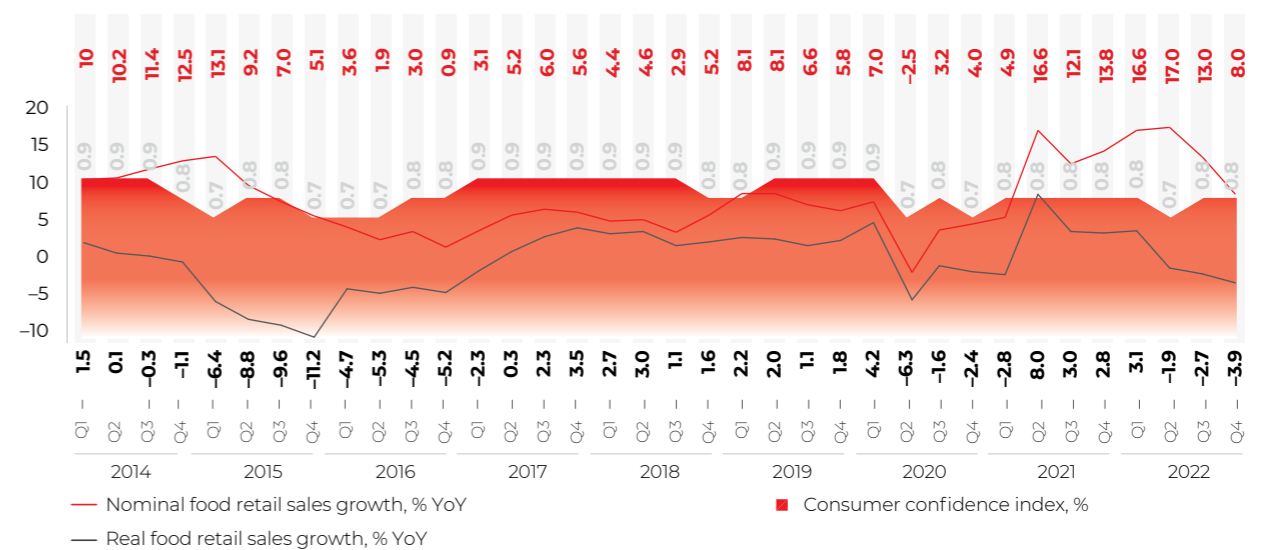


Source: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis

The development of import substitution and new partners in the Asian and Middle Eastern markets helped offset the consumer demand issues. Stronger demand for domestic products contributed to Russia's 2022 industrial production index of -0.6%, significantly above forecasts. Food production, meanwhile, showed moderate growth (+0.5%) accelerating at the end of the year.

In 2022, the Russian grocery retail market remained the eighth largest in the world in terms of revenues.

CCI and food retail sales growth, %

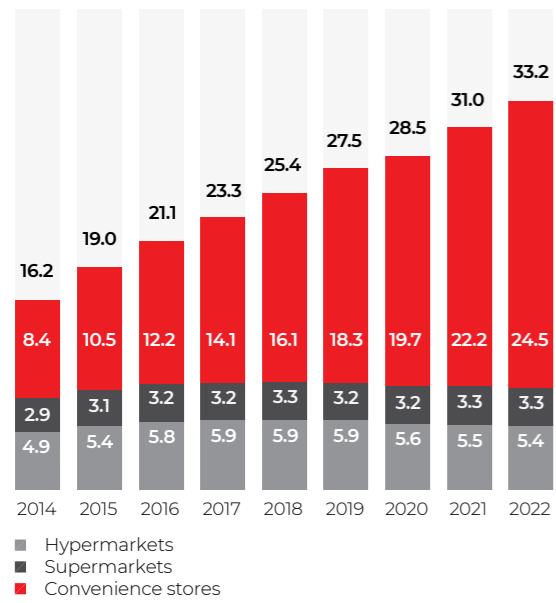


Source: Federal State Statistics Service, Ministry of Economic Development

¹ Food retail sales figures for 2021 have been adjusted against the Annual Report 2021, according to data from the Federal State Statistics Service.

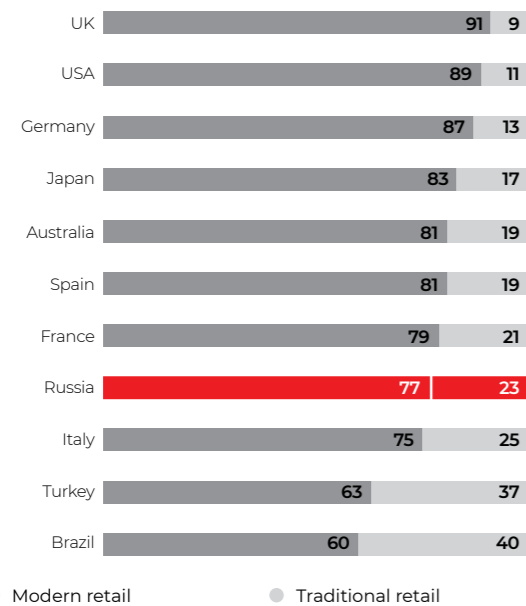
Market overview (continued)

Total selling space for modern retail in Russia, mln sq. m



Source: INFOline, Magnit analysis

Share of modern and traditional retail in 2022, %



Source: Euromonitor

The crisis of 2022 opened up new opportunities for development to Russian retailers. Most leading players continued to invest in expanding retail space and own production, develop private labels, and ramp up product offering at affordable prices.

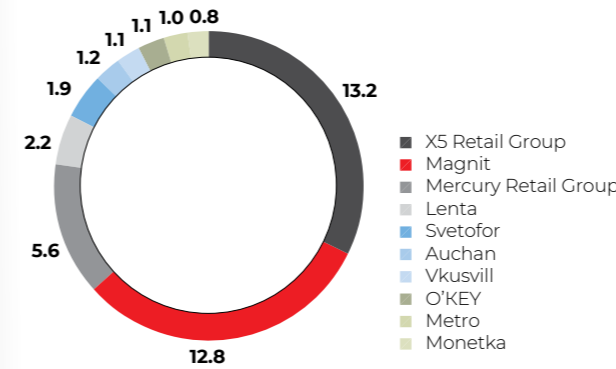
The market for online grocery sales in Russia grew to RUB 625 bln. However, growth slowed down in large cities such as Moscow and St Petersburg due to a weaker low base effect.

At year-end 2022, Magnit was the second largest Russian FMCG chain in terms of revenue, growing 27% YoY. The Company significantly increased the number of Russian suppliers and the share of domestic products in stores to 95%. Magnit's proactive approach to developing its own production facilities contributed to food security and the availability of a wide choice of products on the shelf. In the reporting period, utilisation of the Company's own production capacity rose to 64% and output increased by 9% YoY.

In response to changing consumer demand, the Company continued to open new store formats (Magnit Convenience Plus, Magnit City and Magnit Go kiosks) and develop the My Price soft discounter chain. Emphasis was placed on maximising the adaptation of both selling space and store assortment to best meet consumer needs.

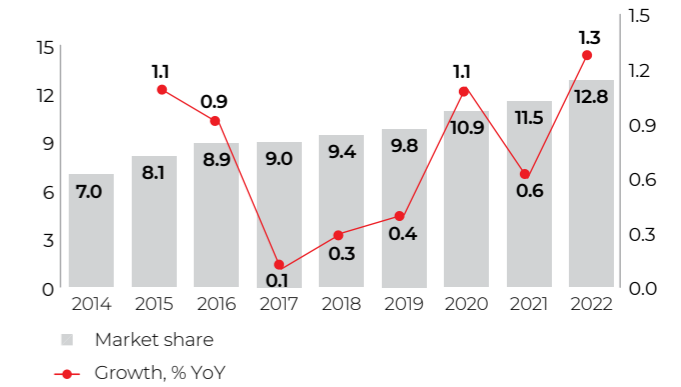
In 2022, the Top 10 companies in Russian retail demonstrated sales growth of 21% YoY. According to INFOline, the growth was mainly attributable to a fiercer price competition and a lower share of traditional and non-chain retail. In 2022, Magnit's market share increased by 1.3 p.p. to 12.8%, mainly due to qualitative changes related to a stronger value proposition to the customer resulting in higher sales density.

Magnit market share by revenue in Russia in 2022, %



Source: INFOline, Magnit analysis

Magnit market share by revenue in Russia in 2014–2022, %



Source: Federal State Statistics Service, Magnit analysis

In 2023, we plan to pursue a smart expansion strategy, improve our value proposition, and develop online sales and digital services. The development of private labels and own production will also remain a key area of our strategy.

Key trends in consumer behaviour and preferences in 2022



Cost cuts and no spontaneous purchases

Customers have become more financially and budget-conscious. Major purchases and entertainment spending outside the home have been affected most of all.



Consumers becoming more digital

Demand for online shopping and delivery continues to grow. At the same time, the segment can develop further primarily in the regions, while in Moscow and St Petersburg, which previously saw stronger demand for delivery services arising from the high pace of life, have already shown some slowdown in the growth rate.



Increase in the popularity of mid- and lower-price segments

As a result of a drop in real disposable income, Russians no longer purchase premium brands and are looking at mid- and lower-price alternatives. This creates additional opportunities for the development of own production and private labels.



Interest in healthy products and responsible consumption

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

Market overview (continued)

Key trends in Russian retail market



Growing share of Russian manufacturers

Many brands withdrawing from the market set stage for the growth of Russian manufacturers, including local suppliers and farms.



Rise of hard discounters

Discounters are gaining popularity due to consumers' price sensitivity and, unlike other formats, are in demand, including in remote locations. Availability of smaller retail outlets is helping to drive expansion.



eGrocery sales growth

The share of eGrocery sales in food retail is expected to approach 5% by 2024. This will also lead to an increase in the number of dark stores that serve the online delivery market.



Emerging digital systems

Digital technologies continue to evolve enabling personalised approaches and streamlining business processes.

Key changes in the regulatory environment in 2022

Change	Regulatory document	Effective date
Increase in the minimum retail prices for alcoholic beverages, including vodka and cognac	Order of the Ministry of Finance of Russia No. 11n dated 26 January 2022	1 January 2022
Indexation of the Platon heavy vehicle charge system tariff (an increase by 20 kopecks compared to the previous tariff)	Resolution of the Ministry of Transport of the Russian Federation	1 February 2022
Extension until 1 September 2022 of the executive order approving 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. 3324-r dated 26 November 2021	1 January 2022
The minimum retail price for a pack of cigarettes has been increased to RUB 112	Federal Law No. 504-FZ dated 30 December 2020	1 January 2022
Abolition of weight control for trucks that bring medicines, food, and essentials into the country	Regulation of the Government of the Russian Federation No. 702	19 April 2022
Extension of the abolition until 1 February 2023	Regulation of the Government of the Russian Federation No. 1670	22 September 2022

Change	Regulatory document	Effective date
Extension (until the end of 2023) of the period when retail companies can apply under a simplified procedure for registration of alterations to the premises carried out after the retail outlet was opened	Regulation of the Government of Moscow No. 3005-PP dated 26 December 2022	26 December 2022
Simplification of permit issuance for trucks to enter and move around Moscow	Regulation of the Government of Moscow No. 357	15 March 2022
Introduction of a ban on freight haulage by truck in the country for companies from unfriendly countries. The ban does not apply to 14 categories of goods, including meat, fish, alcoholic beverages, etc. Effective until 31 December 2022	Regulation of the Government of the Russian Federation No. 1728	30 September 2022
Extension of the food embargo until the end of 2023. 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, Australia, Canada, Ukraine, UK, Albania, Montenegro, Iceland, and Lichtenstein	Decree of the President of the Russian Federation	11 October 2022
Approval of automatic extension and simplified procedure for permits in 2022. 120 types of permits were covered, including those in the retail sector	Regulation of the Government of the Russian Federation No. 353	12 March 2022
Extension of the programme to compensate small and medium-sized enterprises (SMEs) for the use of the national Faster Payment System. SMEs will be able to have their costs of using the system compensated until the end of 2022	Regulation of the Government of the Russian Federation No. 1306	20 July 2022
The recognition of soft drinks produced with sugar or other sweetening agents and containing more than 5 g per 100 ml of the drink as an excisable product. The excise duty of RUB 7 per 1 litre of drink will be introduced starting from 1 July 2023	Federal Law No. 443-FZ	21 November 2022
Extension of the simplified procedure for state registration of the most popular medical devices until 1 January 2025	Regulation of the Government of the Russian Federation No. 1643	19 September 2022
Amendments to the Law on Trade allowing retail chains to acquire foreign retail chains without having to comply with the 25% market share threshold until 31 December 2022	Federal Law No. 154-FZ dated 11 June 2022	15 June 2022
Amendments to the Law on Trade enabling the Russian Government to establish a procedure for introducing and withdrawing from circulation goods subject to mandatory labelling with means of identification	Federal Law No. 341-FZ	14 July 2022
Extension of the deadline for introducing mandatory labelling of dairy products for farms and agricultural cooperatives until 1 December 2023. Postponed start of mandatory code scanning at checkout for the sale of labelled dairy products from March to September 2022. Postponed start of mandatory code scanning at checkout for the sale of labelled bottled water to 1 March 2023	Regulation of the Government of the Russian Federation No. 477	26 March 2022
Early termination of the experiment and introduction of mandatory labelling of certain nicotine-containing liquids with means of identification (liquids for electronic nicotine delivery systems, including nicotine-free ones)	Regulation of the Government of the Russian Federation No. 2178	30 November 2022
Introduction of mandatory labelling for certain nicotine-containing products (tobacco / tobacco products intended for consumption by heating)	Regulation of the Government of the Russian Federation No. 228	24 February 2022
Introduction of mandatory labelling for beer and soft drinks	Regulation of the Government of the Russian Federation No. 2173	30 November 2022
Decision on an experiment in online sales of medicines	Federal Law No. 405-FZ	20 October 2022
Extension of transitioning to unified machine-readable power of attorney exchange	Federal Law No. 536-FZ	19 December 2022