# Market overview

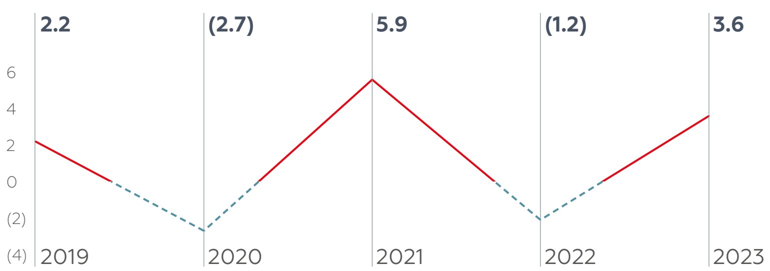
## Macroeconomic environment

In 2023, Russia experienced a robust recovery of its economic activity, surpassing the growth projections made by the Bank of Russia (0.5–2.0%) and the Ministry of Economic Development (1.2%) in April. By the end of the year, the country's GDP grew by 3.6% compared to 2022 and by 2.4% compared to 2021, reaching RUB 139.0 trln (2021-year roubles) and fully offsetting the decline witnessed in 2022.[1]

The rebound in economic activity was primarily attributed to a surge in investment portfolios, largely fuelled by generous budget spending, as well as to an upswing in industrial production, which from May 2023 remained near its highest levels in a decade. As a result, the industrial production index witnessed a growth of 3.5 p.p. compared to the previous year[1].

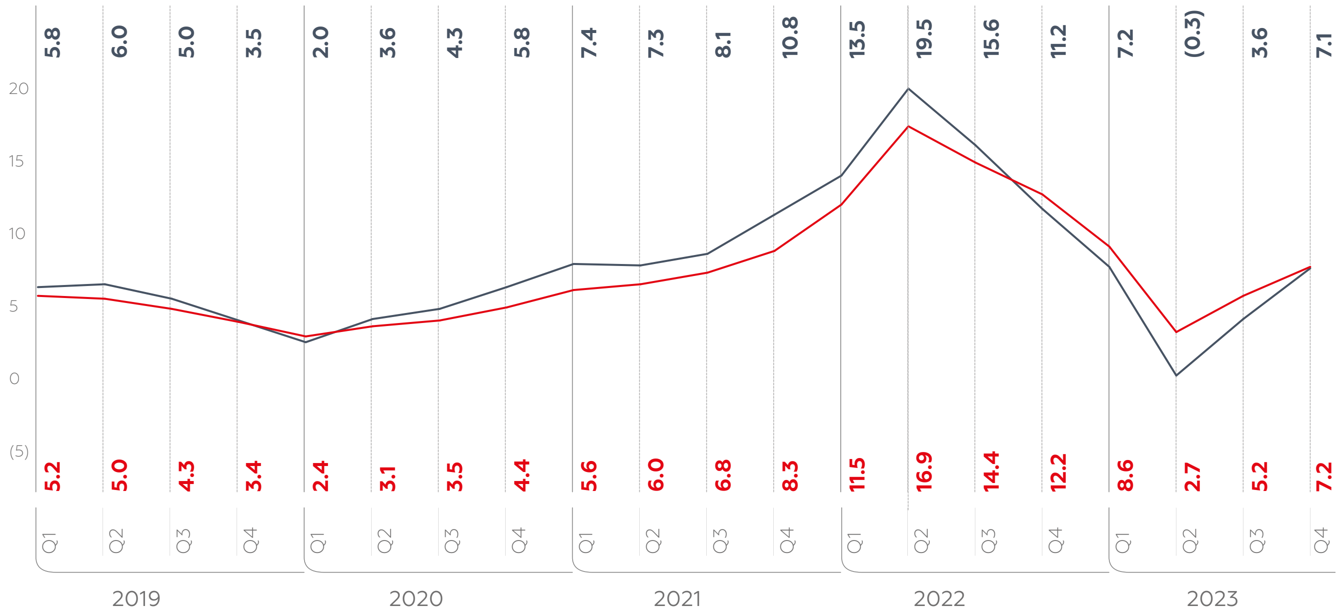
Furthermore, a substantial expansion in consumer lending played a favourable role in stimulating domestic consumption and bolstering the economy. However, this growth in consumer borrowing also contributed to an uptick in inflation and emerged as one of the key factors behind the rouble weakening. In response, the Bank of Russia implemented a series of five key rate hikes throughout 2023, more than doubling the rate from 7.5% to 16.0%.

**Real GDP change in Russia[2]**, %




The tightening of the monetary policy was primarily driven by the materialisation of proinflationary risks, as stated by the regulator. These risks included the domestic demand exceeding the economy's production capacity and the weakening of the rouble during the summer months. As a result, by the end of December, the accelerated inflation stabilised at 7.4%, while the food inflation rate was curbed to 8.2%.

**Quarterly CPI and food CPI in Russia**, % YoY

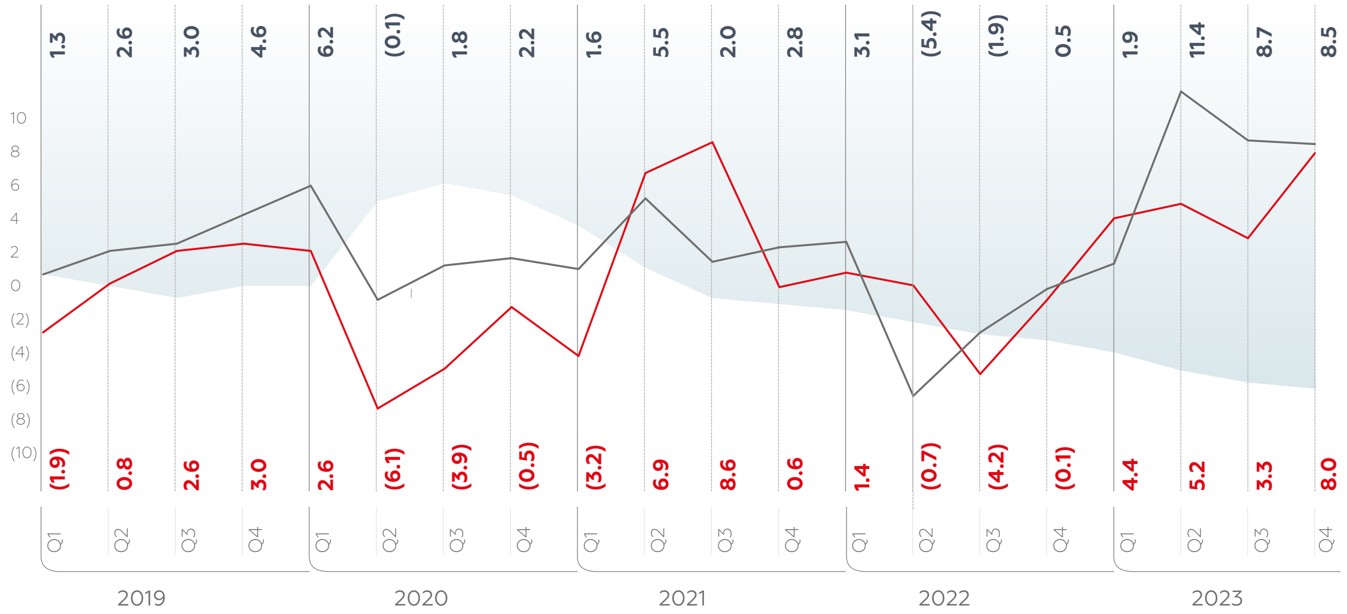



— Food CPI, %
— CPI, %

1 Sources: Bank of Russia, Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.
2 Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.

Throughout 2023, the average annual unemployment rate in Russia remained at a historic low of 3.2%, reaching 3.0% by the end of the year. According to sociological research conducted by SberCIB[3], there was a persistent labour shortage in the country at the year-end. 11% of the respondents indicated that their companies were hiring new employees, which represented a 3 p.p. increase compared to the previous year. Additionally, 20% of the respondents mentioned that their employers were facing challenges in filling existing vacancies. This marked an 5 p.p. increase compared to Q4 2021 when there was no labour shortage in the market. These factors contributed to a rise in real wages by 7.8% and real disposable income by 5.4%. According to the National Research Institute for Labour, wage inequality decreased to its lowest level in the past two decades, with a ratio of 13.1x.

**Real wages, real disposable income and unemployment rate**, %




— Real wages growth, % YoY
— Real disposable income growth, % YoY
● Unemployment, %

## Russian retail market

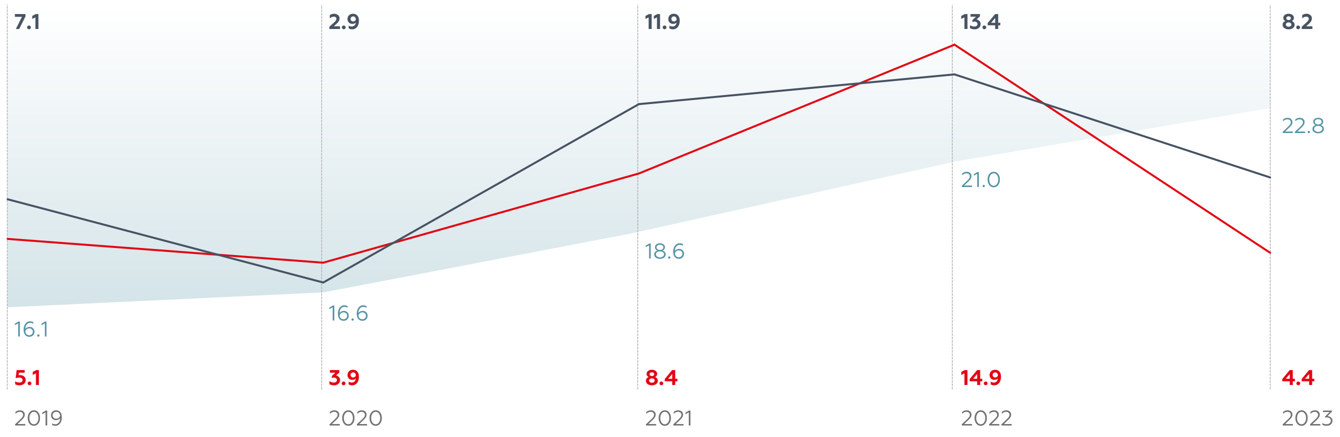
In 2023, retail sales in Russia increased by 11.3% YoY to RUB 47.4 trln, according to Rosstat. Despite the release of pent-up demand for various non-food products and services, food sales experienced a surge as well, registering an 8.2% increase to RUB 22.8 trln. Consequently, in 2023, the Russian food retail market remained the eighth largest in the world in terms of revenue.

RUB **22.8** trln

food retail sales in Russia in 2023

3 Source: SberCIB Ivanov Consumer Confidence Tracker.

## Food retail sales in Russia in 2019–2023[1]




— Food retail sales growth, % YoY
— Average annual food CPI, % YoY
Russian food retail sales, RUB trln

Expenditures on food continued to be a significant component of Russian households' budgets. According to a research by SberCIB[2], food accounted for 39% of Russians' total expenditures in 2023.

Overall, the retail market environment in Russia in 2023 proved favourable for operators of modern retail formats, including Magnit. Retail chains successfully increased their combined market share to 75% through the opening of new stores.

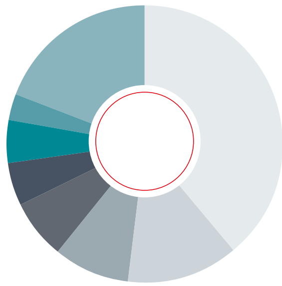
The cumulative growth in retail space amounted to approximately 2.6 mln sq. m, with a significant share continuing to be dominated by convenience stores.

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

| | | | | |
|---|---|---|---|---|
| 2023 | 14 | 9 | 77 | 37.7 |
| 2022 | 16 | 10 | 74 | 35.1 |
| 2021 | 17 | 11 | 72 | 32.5 |
| 2020 | 19 | 11 | 70 | 29.7 |
| 2019 | 21 | 11 | 68 | 28.2 |
| 2018 | 23 | 12 | 65 | 25.6 |
| 2017 | 25 | 12 | 63 | 23.0 |
| 2016 | 27 | 13 | 60 | 20.3 |
| 2015 | 28 | 14 | 58 | 17.6 |

Hypermarkets, %
Supermarkets, %
Convenience stores, %

## Consumer spending in 2023[2], %



39 Food
13 Utilities
9 Clothing
7 Interest payments
5 Healthcare
5 Household goods
3 Leisure
19 Other

**37.7** mln sq. m.

total selling space for modern retail in Russia in 2023

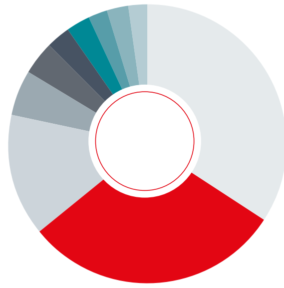
The modern retail market in Russia continues to hold significant growth potential. As at the end of 2023, the Top 5 players captured a market share of 38%, whereas in Western economies the figure typically stands at 60% or more.

In 2023, the market share of the Top 10 retail chains increased by 1.9 p.p. to 43%. The combined market share of Magnit was 12.8%.

The crisis of 2022 still presents additional growth opportunities for the Russian retail sector. Most leading players continue to invest in their own production, develop private labels, and ramp up product offering at affordable prices. According to INFOLine[3], the share of private label sales in the food category increased by 2 p.p. in 2023, reaching 11% of total retail sales.

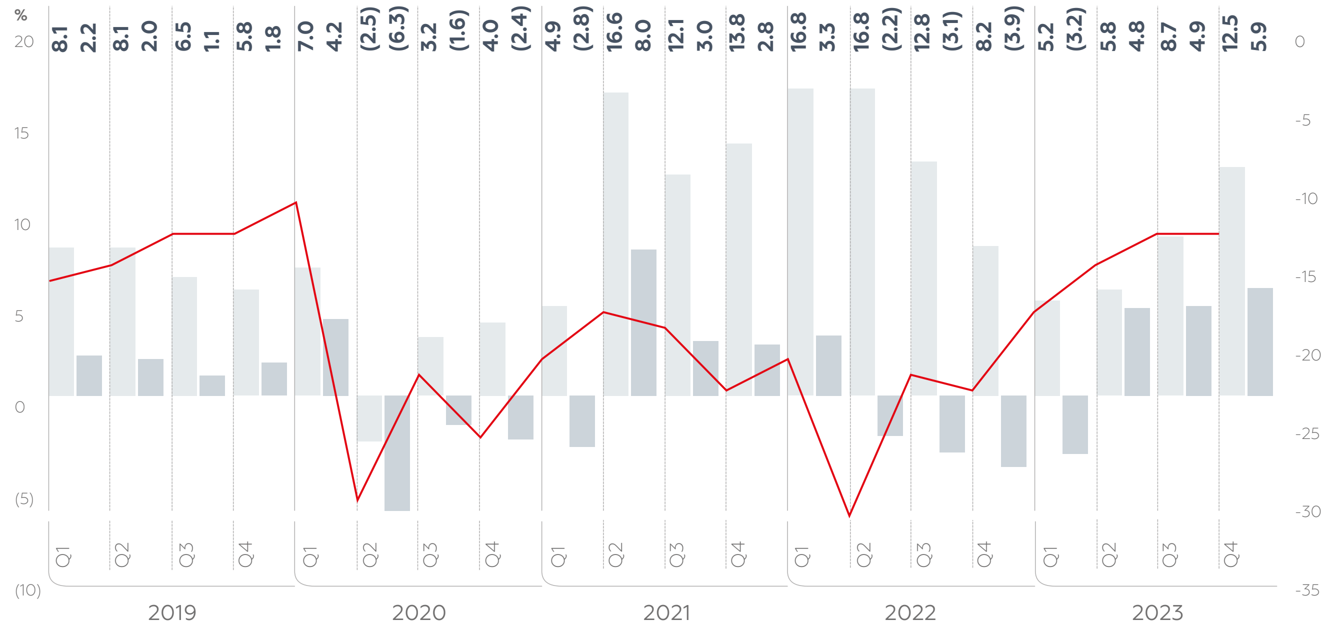
Alongside the expansion of conventional retail formats, online food retail experienced robust growth. In 2023, the e-grocery market in Russia grew by 47% YoY, reaching RUB 918 bln or 4.0% of total food retail sales (RUB 22.8 trln)[3]. However, in major cities such as Moscow and St Petersburg, the growth continued to slow down due to a weaker low-base effect.

## Market share of the largest retail chains by revenue in Russia in 2023[4], %



14.6 X5 Group
12.8 Magnit
6.1 Mercury Retail
2.3 Lenta
1.6 Svetofor
1.2 Vkusvill
1.2 Auchan
1.0 Monetka
1.0 METRO
0.9 O'KEY

## CCI and food retail sales growth[5], %




Nominal food retail sales growth, YoY
Real food retail sales growth, YoY
— Consumer confidence index

1 Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.
2 Source: SberCIB Ivanov Consumer Confidence Tracker.

3 Sources: INFOLine, Company analysis.
4 Sources: INFOLine, Magnit analysis. Market share of Monetka is given prior to the acquisition by Lenta. Monetka is included in the market share of Lenta starting from 2 October 2023.
5 Sources: Federal State Statistics Service, Ministry of Economic Development, Magnit analysis.

Despite the economic recovery, the purchasing behaviour of Russian consumers remained under pressure from inflation. The share of Russians trying to save on food remained significant in 2023, averaging 64% throughout the year.[1] In response, Magnit actively continued to develop its private label portfolio and production capabilities. In 2023, the Company achieved a 20% share of private labels in total sales, expanded its private label offering to 5,500 SKUs, and produced 300,000 tonnes[2] of goods, including 109,000 tonnes of agricultural products, which grew by 17% compared to 2022.

Furthermore, the Company continued to test and develop new formats tailored to meet the latest consumer trends. In 2023, we opened three small-format Magnit Ultra-Convenience stores and 53 technologically advanced First Choice (V1) hard discounters.

In 2024, we will continue to implement our smart growth strategy, which includes exploring new promising store formats, while also enhancing our unique CVP and developing online sales and digital services.

We will also remain committed to nurturing our key competitive advantages, including a diverse private label offering and unique in-house production capabilities.

## Key trends in consumer behaviour and preferences in 2023

### Surge in rational consumption, staying away from impulse buying

Consumers are becoming more rational about their spending and more cautious with their budgets, placing value on key factors such as money, time, and assortment when making purchasing decisions.

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

The decline in real disposable incomes has led Russians to opt for more affordable alternatives instead of premium brand products. This shift presents new opportunities for the development of our own production capabilities and private label offerings.

### Consumers becoming more digital

The demand for online shopping and delivery continues to rise, particularly in non-metropolitan regions. However, in major cities like Moscow and St Petersburg, where the pace of life is fast, there has been a slight slowdown in growth rates due to the diminishing low-base effect. E-commerce remains one of the most dynamic channels, largely thanks to the prevailing cost-saving trend, as consumers actively compare prices and seek out better online deals.

### Growing interest in locally produced goods

In recent years, Russians have started purchasing more products from local manufacturers. This is primarily because local goods are often priced lower than Western alternatives or can replace items that are no longer available. Additionally, some consumers are changing their consumption habits to support domestic producers.

### Interest in healthy products and responsible consumption

There is a rising consumer interest in eco-friendly products, healthy eating and healthy lifestyles, driving a willingness to spend more on high-quality and environmentally conscious products in certain categories.

1 Source: SberCIB Ivanov Consumer Confidence Tracker.
2 Net of contract manufacturing.

## Key trends in the 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.

### Active expansion of marketplaces

Consumers are increasingly shifting their product searches from search engines to marketplaces. It is expected that the influence of this channel will continue to grow across nearly all consumer markets in the medium term.

### eGrocery sales growth

The share of eGrocery sales in food retail is expected to approach 7% by 2025. This will also lead to an increase in the number of dark stores that serve the online delivery market. Key market players are actively investing in the development of their online sales channels and revising their business models to integrate express delivery and pickup services, marketplaces, and dark stores.

### Shifts in demand and supply

In recent years, Russian consumers have been favouring more affordable products, including local brands and private labels, as well as appealing promotional deals offered by retailers. Simultaneously, the Russian retail sector has continued to adapt to economic and geopolitical shifts by transforming sales channels, updating product offerings, and introducing alternatives to discontinued brands.

### Omni-channel development

Consumers are increasingly selecting shopping destinations based on their specific circumstances (urgent, spontaneous or planned purchases, those requiring ample time for decision-making, etc.), pushing retailers to become more omni-channel and integrate seamlessly into their lives.

### Increasing presence of hard discounters and mini-markets

Discounters and mini-markets 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. This segment is expected to be the primary driver of traditional retail in the near future.

### Emerging digital systems

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

## Key changes in the regulatory environment in 2023

| Change | Regulatory document | Effective date |
|---|---|---|
| Increase in the minimum retail prices for alcoholic beverages, including vodka, brandy and sparkling wines, since 7 January 2023 | Orders of the Ministry of Finance of Russia Nos. 168n and 180n | 1 January 2023 |
| Increase in the minimum retail price for a pack of cigarettes to RUB 119 | Federal Law No. 1-FZ dated 27 January 2023 | 1 March 2023 |
| Indexation of the Platon heavy vehicle charge system tariff (an increase by 30 kopecks compared to the previous tariff) | Resolution of the Ministry of Transport of Russia | 1 February 2023 |
| Expiry of the weight control exemption for trucks that bring medicines, food, and essentials into the country | Regulation of the Government of Russia No. 1670 | 1 February 2023 |
| Extension of the ban on freight haulage by truck in Russia for companies from unfriendly countries. The list of exempted goods categories has been reduced to 20 | Regulation of the Government of Russia No. 1078 | 30 June 2023 |

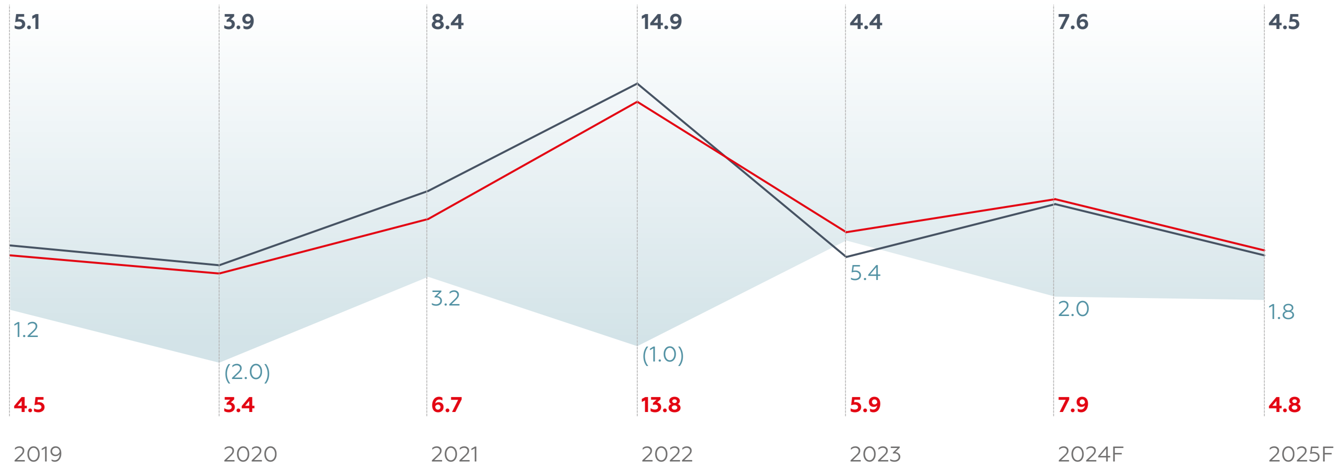
| Change | Regulatory document | Effective date |
|---|---|---|
| Implementation of electronic special permits for heavy-duty vehicle travel on roads. Introduction of higher fines for exceeding weight or size limits for vehicles carrying heavy or oversized cargoes | Federal Law No. 172-FZ | 28 April 2023 |
| Introduction of an increased import duty of 35% on shampoos, tooth cleaning products, deodorants, cleaning solutions, as well as shaving-related products imported from unfriendly countries. Effective until 31 December 2023 | Regulation of the Government of Russia No. 2240 | 9 December 2022 |
| Increase in the import duty on a range of goods imported from unfriendly countries | Regulation of the Government of Russia No. 1173 | 20 July 2023 |
| Extension of automatic renewal of licences and other types of permits until the end of 2023 | Regulation of the Government of Russia No. 63 | 23 January 2023 |
| Introduction of an excise duty on sugar-sweetened beverages (RUB 7 per litre) | Federal Law No. 443-FZ | 1 July 2023 |
| Indexation of excise duties on alcoholic beverages and tobacco products by 5% in 2024 and by 4% in 2025 and 2026 | Federal Law No. 389-FZ | 31 July 2023 |
| Introduction of additional product labelling rules | Regulation of the Government of Russia No. 1861 | 1 March 2023 |
| Introduction of an electronic registry of licences for the production and sale of tobacco and nicotine-containing products | Regulation of the Government of Russia No. 1138 | 1 September 2023 |
| Introduction of mandatory labelling for children's mineral water; phased transition to mandatory labelling for specific types of medical products and antiseptics | Regulations of the Government of Russia Nos. 834, 894 and 870 | 1 September 2023 |
| Approval of amendments to the list of goods permitted for parallel imports | Order of the Ministry of Industry and Trade of Russia No. 2701 | 21 July 2023 |
| Implementation of an experimental system to prevent the sale of expired products as well as illegal tobacco and nicotine-containing products with a view to establishing an information exchange mechanism between retailers and the monitoring information system for mandatorily labelled goods | Regulation of the Government of Russia No. 74 | 1 February 2023 |
| Conducting a three-year experiment to allow remote retail sales of prescription medicines in the city of Moscow, the Belgorod and Moscow regions | Federal Law No. 405-FZ | 1 March 2023 |
| Revision of the list of medical goods exempt from sale and import VAT | Regulation of the Government of Russia No. 2374 | 1 April 2023 |
| Introduction of fines ranging from RUB 20,000 to RUB 200,000 for selling prescription medicines without a prescription | Federal Law No. 175-FZ | 28 April 2023 |
| Extension of the simplified procedure for registering medicines until the end of 2024 | Regulation of the Government of Russia No. 824 | 27 May 2023 |
| Simplifying the process of granting permits for online sales of non-prescription medicines | Regulation of the Government of Russia No. 272 | 18 February 2023 |
| Implementation of new requirements for including the "product code" information in the receipts for the delivery of labelled goods. | Regulation of the Government of Russia No. 1090 | 1 March 2023 |
| Modification of the rules regarding the inclusion of this information | Regulation of the Government of Russia No. 786 | 19 May 2023 |
| Introduction of liability for the sale of counterfeit and unlabelled goods by marketplaces, along with their obligation to transmit information to the Chestny Znak labelling system | Regulation of the Government of Russia No. 1351 | 1 March 2023 |
| Expansion of the list of children's goods produced domestically that are subject to a reduced VAT of 10% | Regulation of the Government of Russia No. 594 | 14 April 2023 |
| Permitting regional authorities to enter into voluntary agreements with retail chains to stabilise prices for socially important food essentials. Effective until 6 May 2026 | Regulation of the Government of Russia No. 662 | 6 May 2023 |
| Establishment of administrative liability for failure to comply with online ads labelling requirements | Federal Law No. 274-FZ | 1 September 2023 |
| Transfer of responsibility for the disposal of packaging of Russian-made goods from producers of goods to producers of packaging. Establishment of importers' responsibility for the disposal of packaging | Amendments to Federal Law No. 89-FZ On Production and Consumption Waste dated 24 June 1998 | 4 August 2023 |

## Food retail market outlook[1]

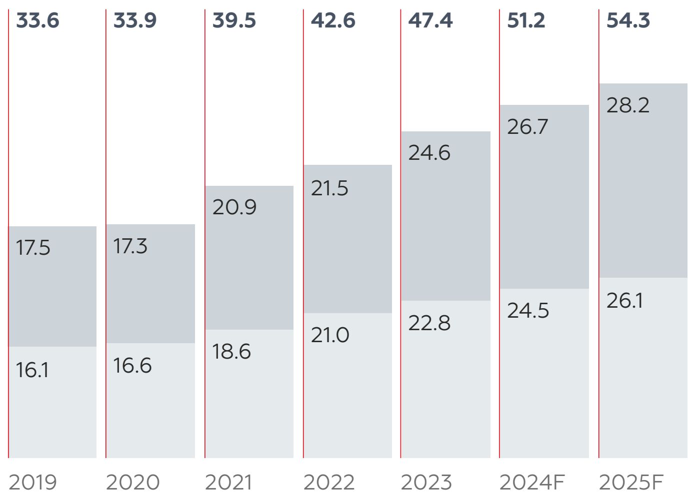
Real disposable incomes in Russia are projected to continue their growth trajectory (+2% YoY), driven primarily by a rise in wages (+10% YoY) amidst record-low unemployment.

The growth rates and margins of major Russian food retailers are projected to remain on par with the levels seen in 2023.

### Average annual CPI and real disposable income growth[1], %




### Russian retail turnover[1], RUB trln




**RUB 47.4 trln**

retail sales in 2023


1 Sources: Alfa-Bank forecast, Federal State Statistics Service and Ministry of Economic Development data, Magnit analysis.