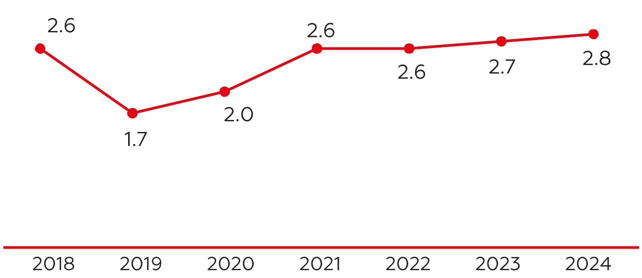
Retail market environment[1]

In 2018, the Russian retail market expanded by 2.6% in comparable prices (5.8% in monetary terms) to RUB 31.5 trillion (including VAT), with the food market growing by 4.0% in monetary terms to RUB 15 trillion. The 200 largest FMCG retail chains (including specialized chains and gas station stores) account for more than 59% of food retail turnover in Russia, while the five largest FMCG chains, including Magnit, account for only 29% of turnover.

The government predicts that retail turnover in the Russian Federation will continue to expand in 2019-2024 with an average annual growth rate of 2.4%.

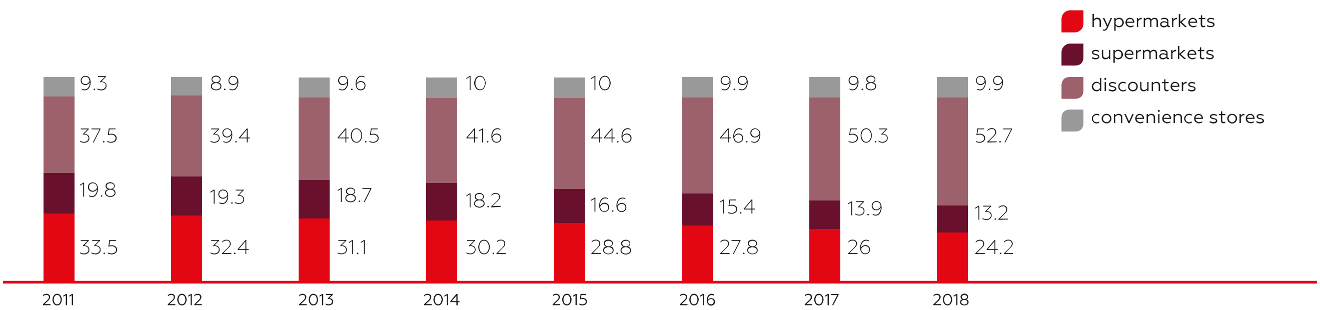
Growth in Retail Turnover, 2018-2024, Forecast, %



The number of stores of the top 200 FMCG retailers increased by 6,298 in January-December 2018, while total retail space grew by 2 million sq. m. The top 200 FMCG retailers had a total of 59,418 stores as of December 31, 2018, with overall retail space of more than 24.8 million sq. m. X5 Retail Group, Magnit, Red & White, and Lenta made the largest contributions to the growth in retail space in 2018.

As in previous years, discounters[2] demonstrated the most rapid growth in retail space in 2018 , whose share in the overall revenue structure grew by 2.4 percentage points and reached 52.7%. The share of hypermarkets and supermarkets in the retail space structure continues to decline due to increased competition from discounters and specialized chains operating in the convenience store format.

Retail space by format, %

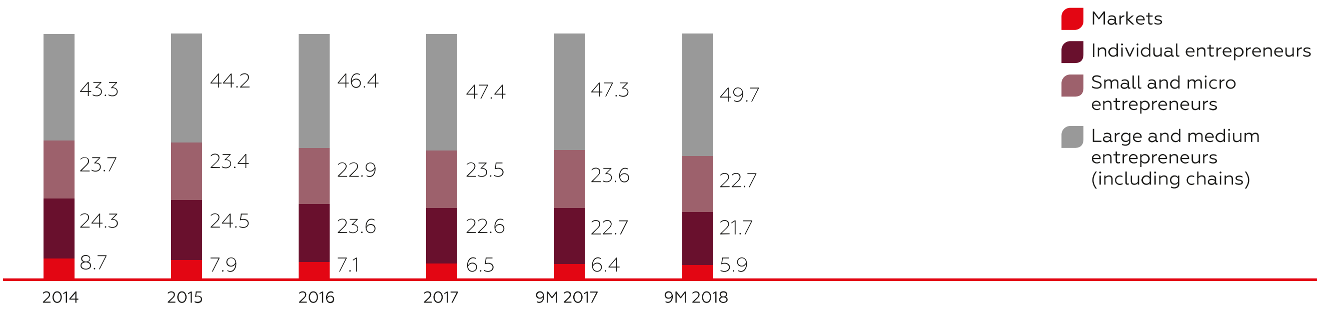


Source: INFOLine

1. Based on the Company's information and an overview by the INFOLine news agency "The State of the Consumer Market and Rating of FMCG Trade Networks in Russia" (January 2019)

2. According to the INFOLine's classification, a **discounter** is a facility with selling space of less than 500 sq. m. or a self-service store with a small (less than 15%) share of non-food items in a range of 2,000-7,000 items. INFOLine classifies a number of major Russian players, such as Pyaterochka, Dixy, and Magnit in the "soft discounter" format.

Retail turnover by organization type, %

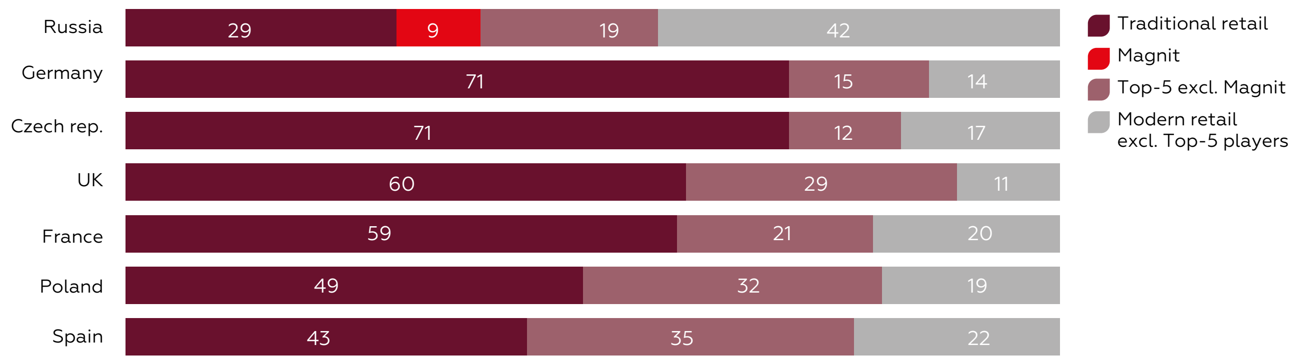


In terms of the types of organizations, the share of markets, medium-sized enterprises, individual entrepreneurs, small enterprises, and micro enterprises continued to trend downward in the overall structure of retail turnover in the first nine months of 2018. Conversely, large organizations (primarily retail chains) increased their market share, which shows there are great prospects for working in these formats in the Russian retail.

Retail market dynamics

Given the under-saturated market and the large share of traditional retail (29% in 2017) on the back of the fragmented sector (the top 5 retailers only have a 29% market share), there is potential for further organic development and consolidation of the sector. For Magnit, opening stores in regions with low level of modern retail penetration (for example, Siberia) will make it possible to secure the best locations, including through the consolidation of regional players. The Company remains focused on the convenience store format, which is most suitable for consumers who value their time and a convenient shopping process. Magnit also plans to expand into complementary segments including pharmacies among others.

Retail market dynamics[1], %



1. Data of 2017