

MARKET REVIEW

Russia's economy in 2018: accelerated economic growth amid strong consumer demand



In 2018, Russia's economy saw further acceleration of economic growth rates, with a 2.3% increase in GDP, the highest recorded since 2012. This trend was largely due to non-recurrent factors, including the performance of the oil and gas industry and a recovery in consumer demand against the backdrop of expectations regarding increased inflation.

The following key macroeconomic trends impacted the Group's business in 2018:

- depreciation of the rouble against the US dollar by 20.6% as a result of geopolitical and other factors;
- acceleration of inflation to 4.3% against the backdrop of a weakening rouble and the expected increase in VAT from 18% to 20% as of 1 January 2019;
- growth in real wages by 6.8% year-on-year due, in large part, to increased salaries in the public sector;
- a 22.4% increase for the year in retail lending by banks, including increased mortgage lending;
- a reduction in real wages in connection with falling income from bank deposits and increased tax and loan payments.

Consumption growth, which strengthened in the second half of the year, contributed to a 2.6% increase in retail sales for 2018 (after growth of 1.3% the previous year), mostly due to increased demand for durable goods, including consumer electronics.

Consumer electronics market in 2018: growth exceeded expectations

As of the end of 2018, the volume of Russia's consumer electronics market had increased by 16.6% year-on-year, significantly outstripping the expectations of market participants and exceeding RUB 1.47 trillion¹. This growth was supported both by an increase in the average purchase amount and growth in the number of purchases.

Market growth accelerated due to a number of factors, including stronger investment interest among Russians in high-priced tech segments, technological development and, as a result, the emergence of quality offerings in mid-range price segments, such as smartphones and televisions. The rouble's volatility during the year and the expectation of an increase in the VAT rate were also drivers stimulating demand for durable goods.

¹ According to GfK.

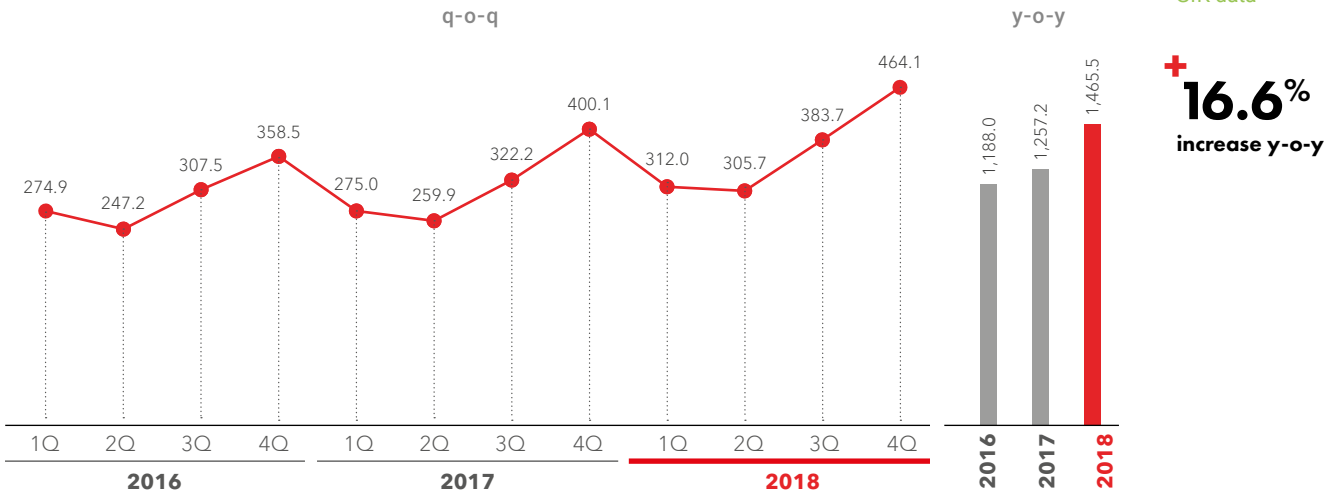
Key macroeconomic performance indicators, % (unless indicated otherwise)

Indicator	2018	2017	Change, p. p.
GDP growth	2.3	1.6	0.7
Consumer price index	4.3	2.5	1.8
RUB to USD exchange rate (year-end)	69.5	57.6	20.6%
Retail sales revenue	2.6	-4.6	7.2
Real wages	6.8	2.9	3.9
Real disposable income	-0.2	-1.2	1.0
Unemployment	4.8	5.2	-0.4
Loans to individuals, RUB trillion	14.9	12.2	22.4%

Sources:
Russian Federal State Statistics Service, Ministry of Economic Development, Bank of Russia

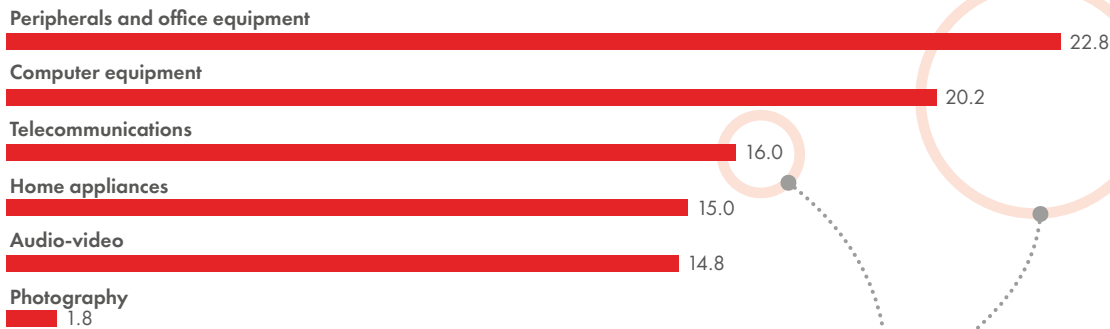
Retail market for home appliances and electronics, RUB billion

Source: GfK data

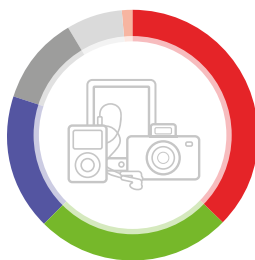


Sales turnover dynamics of Russia's home appliance and electronics market by key categories in 2018, %

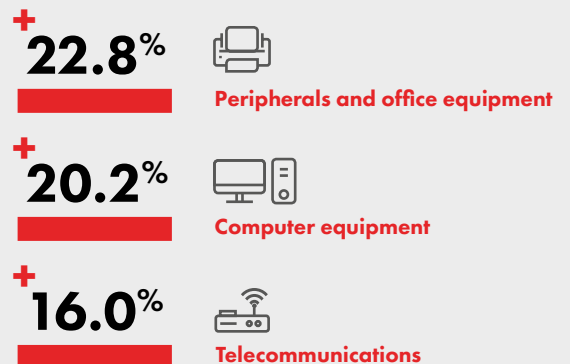
Source: Russian Federal State Statistics Service



Sales turnover structure of Russia's home appliance and electronics market by key categories in 2018, %



AS OF THE END OF THE YEAR, PRODUCTS IN THE FOLLOWING CATEGORIES WERE GROWTH LEADERS



37.3 Telecommunications	25.3 Home appliances	17.5 Computer equipment
11.4 Audio-Video	7.1 Peripherals and office equipment	1.3 Photography

Telecommunications



As of the end of the year, products in the following categories were growth leaders: telecommunications (+16.0%), computer equipment (+20.2%), peripheral and office equipment (+22.8%). Telecom products made up the better part of market turnover (37%).

Smartphone sales reached a record level in 2018, with approximately 29.6 million units sold and revenue exceeding RUB 465 billion, outstripping 2017 results by 3% and 20%, respectively. While the market is becoming saturated by volume, sales are growing significantly in revenue terms, largely due to a shift in demand to the medium and upper price segments. The average sales price for a smartphone increased by 17% over 2017 to reach RUB 15,700. The market is also witnessing growing demand for quality due to an expanded product line in the medium and upper price segments and the growing popularity of deferred payment and trade-in programmes.

Customers continue to prefer Chinese brands given the optimal price-to-quality ratio. When buying smartphones customers above all consider screen size, camera resolution, 4G and NFC support. Online sales grew faster than the market average and added 30% in terms of units sold and 50% in terms of revenue.

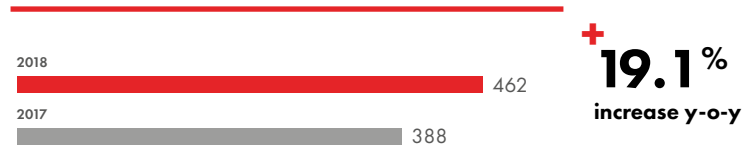
Household appliances



Sales of household appliances increased by 17% year-on-year, including due to an increase in the number of residential real estate purchases (amid expanded mortgage lending) and growing demand for new devices among apartment buyers. Innovative household products saw significant growth, including for steamers and robotic vacuum cleaners.

One of the strongest areas of growth in the telecom segment were core wearables (smart watches, fitness trackers, etc.). Consumer lending also remained an important driver in the telecom sector.

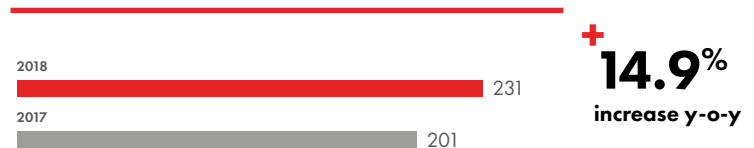
Smartphone sales, RUB billion



Sales of wearable electronics, RUB billion



Sales of major appliances, RUB billion



High demand in the telecom and computer equipment segments is behind the Group's strategy to further increase the share of digital products in total revenue faster than planned.

See 'Strategy', p. 41-49

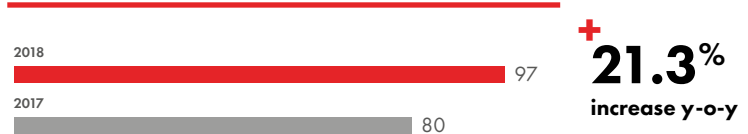


Computer equipment



Development of the computer equipment segment was largely due to explosive growth in sales of powerful gaming laptops (+65% year-on-year, according to analysis by M.Video–Eldorado Group). Demand for gaming models has reached 220,000 units per year, with turnover in this segment amounting to RUB 15 billion. Overall growth in the popularity of gaming and the development of e-sports are contributing to this dynamic (at M.Video and Eldorado, sales in this category grew faster than the market: +80% by both revenue and volume). In 2018, general sales of laptops in Russia increased by 8% in terms of units and 21% in revenue terms to 2.8 million units and RUB 97 billion, respectively. These are the highest rates of sales growth for laptops since 2012.

Sales of notebooks, RUB billion

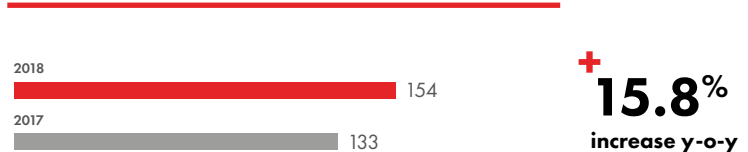


Audio-video



In the audio-video segment, sales increased by 13% year-on-year, due, in large part, due to Russia's hosting of the World Cup, which stimulated growth in TV sales. According to an analysis by the M.Video–Eldorado Group, demand for smart TVs and models with Ultra HD (4K) resolution were key trends in this category.

Television sales, RUB billion

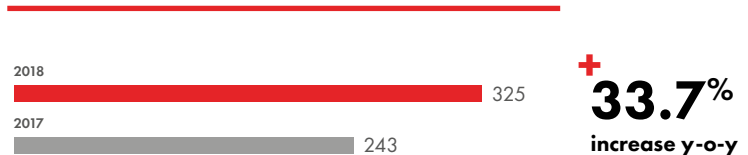


E-commerce – a key market driver



Online sales remain a key growth driver for Russia's home appliance and electronics market. Based on analysis by the M.Video–Eldorado Group, the volume of this market reached RUB 325 billion in 2018, an increase of 34% year-on-year.

Online sales of household appliances and electronics, RUB billion



THE M.VIDEO–ELDORADO GROUP: strengthening industry leadership



Following the creation of the M.Video–Eldorado Group in 2018, the Russian consumer electronics market had, for the first time ever, a player that occupied more than 25% of the market and ranked among the world's 10 largest publicly traded retailers of consumer electronics. Today, the Group is the undisputed Russian retail leader in its sector in terms of sales, technological development and customer experience. The Group enjoys a presence in all price segments and has full geographical coverage across Russia.

Thanks to the growth in sales by M.Video, which have outpaced the market (+20% year-on-year), and the strong growth of Eldorado (+14% year-on-year), the Group strengthened its position in the Russian market in 2018. According to GfK, M.Video–Eldorado's total market share at the end of the year was 25.6%¹, up from 25.3% at the end of 2017. The strong performance of both M.Video and Eldorado did not come from the opening of new stores, most of which were opened in December, but rather from precise brand positioning, expanding the market audience and attracting new customers, as well as developing the range of products and services and growing overall retail efficiency.

The Group has been strengthening its position in the e-commerce segment: according to a rating by Data Insight based on 2018 results, the Group is Russia's largest public e-commerce retailer and the largest online player in the electronics and appliances category both by the volume of online sales (RUB 77.3 billion) and by the number of online purchases (RUB 7.84 million).

The Group's brand portfolio includes two leading highly recognizable brand names in the Russian home appliances and electronics market. In 2018, M.Video became Russia's only consumer electronics retailer to enter the rating of Russia's most valuable brands according to Brand Finance (fifth among Russia's most valuable retail brands). In the second half of 2018, Eldorado refreshed its brand, advertising strategy and store format, which allowed the Group to expand its market audience and have a positive impact on the network's performance.

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¹ GfK panel for M.Video and Eldorado from 2019.