

**“Disciplined Growth From  
Back-to-Basics Focus”**

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**Moscow, Russian Federation**  
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# INTRODUCTION

# CURRENT X5 CONTEXT

- ❖ **Effective multi-format business model delivers improved customer focus and growth**
- ❖ **Good progress with back-to-basics initiatives**
- ❖ **Disciplined investment in growth drivers**
  - ❖ **Product range and availability**
  - ❖ **Store refurbishments**
  - ❖ **Store openings**
- ❖ **Despite potential challenges, multiple growth opportunities in dynamic Russian food retail market**

## Increasingly Challenging Macro Environment

### Positive Trends

- ❖ Food Inflation outpacing general cost inflation
- ❖ Low Unemployment
- ❖ Russia – Structurally Strong Fiscal Position
- ❖ Low Modern Retail Penetration

### Negative Trends

- ❖ Low GDP Growth, Declining Investment and Ruble Devaluation
- ❖ Declining Consumer Spending
- ❖ Sanctions
- ❖ Negative Real Wage Growth

**The Russian Food Retail Market Remains Very Attractive Due to the Transition From Traditional Retail to Modern Retail**

# CONSUMER TRENDS

- ❖ Evolving Russian Consumer – shopping habits and preferences not fully formed, open to innovation
- ❖ Stable Consumer Confidence Index – despite challenging environment
- ❖ Increase in household debt/interest payments – affecting consumer spend (predominantly “white goods”)
- ❖ Private Label – consumer appetite exists but a strong desire remains for choice, including branded products
- ❖ Consumer trading-down in certain categories in reaction to food inflation – however no broad trends are currently evident
- ❖ More aggressive promotions from retail chains offsetting inflation affects – well received by consumers
- ❖ Food consumption – the last to feel the impacts of weakening consumer

# CUSTOMER ORIENTED VALUE PROPOSITIONS



## “YOUR NEIGHBORHOOD STORE FOR DAILY SHOPPING NEEDS”

- ❖ 4,342 stores at 30 September 2014; Average check: 289 RUB (Q3 2014)
- ❖ Avg. net selling space, 350 sq. m.; formats: 150-300 sq. m. / 300-400 sq. m. / 400-600 sq. m. / 600-800 sq. m.



## “RUSSIA’S FAVORITE, HIGH QUALITY FRESH SUPERMARKET”

- ❖ 389 stores at 30 September 2014; Average check: 412 RUB (Q3 2014)
- ❖ Avg. net selling space, ~ 1,000 sq. m.; formats: 800 sq. m. / 1,200 sq. m. / 1,600 sq. m.



## “YOUR DESTINATION STORE FOR ALL YOUR FOOD AND HOUSEHOLD CONSUMABLE NEEDS”

- ❖ 81 stores at 30 September 2014; Average check: 623 RUB (Q3 2014)
- ❖ Average net selling space: 3,000 - 4,500 sq. m.

# X5 – WHERE WE STAND TODAY

# NO CHANGE IN “STRATEGY & PRIORITIES”

## Strategy

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**Leverage our scale and multi-format value proposition to capture greater wallet share by providing the best customer experience in the dynamic Russian food retail market**

## Strategic Priorities

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- ❖ **Build the right management team**
- ❖ **Create effective multi-format business model**
- ❖ **Define appropriate format value propositions**
- ❖ **Focus on operational execution**
- ❖ **Continue to take advantage of market opportunities for “intelligent” growth**



## CREATING VALUE FOR KEY STAKEHOLDERS

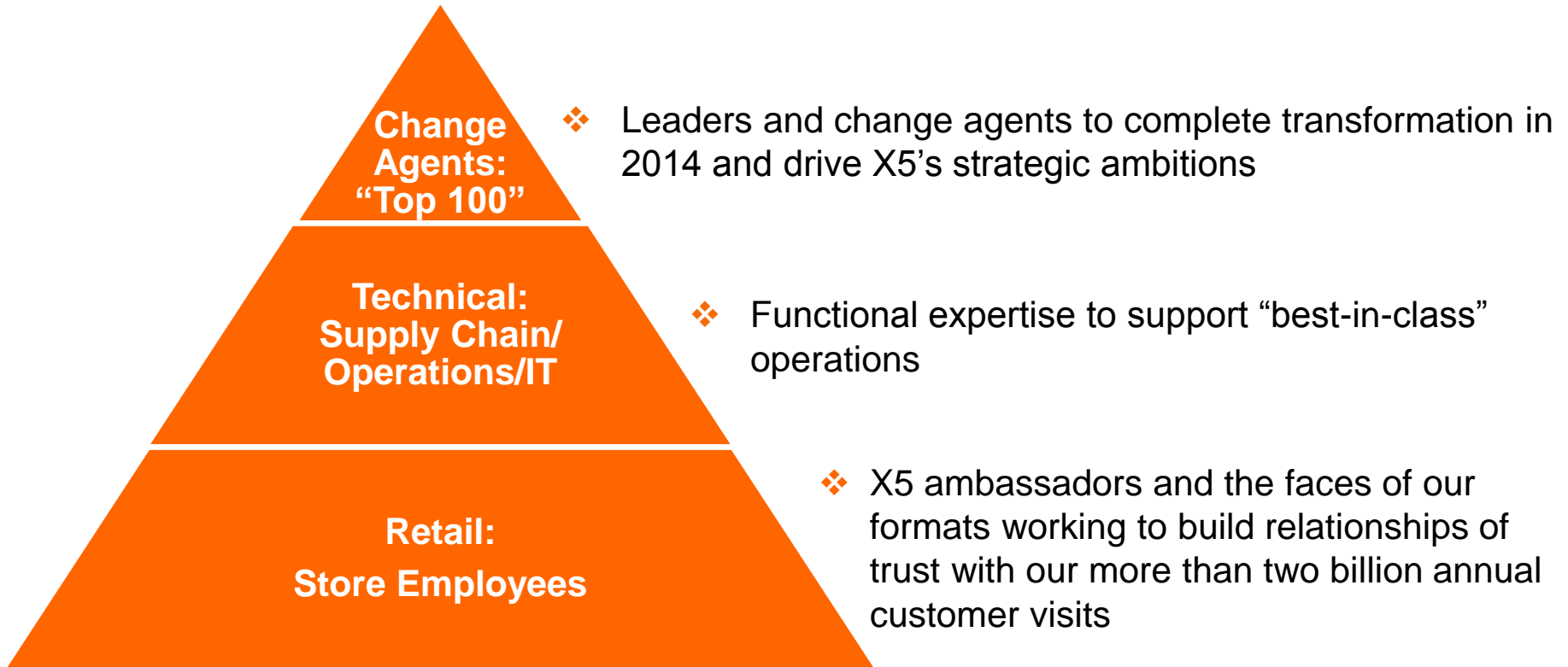
- ❖ “Improving Value Propositions”
- ❖ Drive customer loyalty
- ❖ Improve customer feedback
- ❖ Energize loyalty programs
- ❖ Meet standards in all locations



- ❖ Deliver sustainable growth
- ❖ Improve ROIC
- ❖ Clear strategy and KPI's
- ❖ Consistent/trusted delivery
- ❖ Innovation leader

- ❖ Consistent leadership and values
- ❖ Clear expectations & roles
- ❖ Actively engage employees
- ❖ Incentive programs

# THE RIGHT TEAM...



**Top-down Bottom-up Feedback Loops**

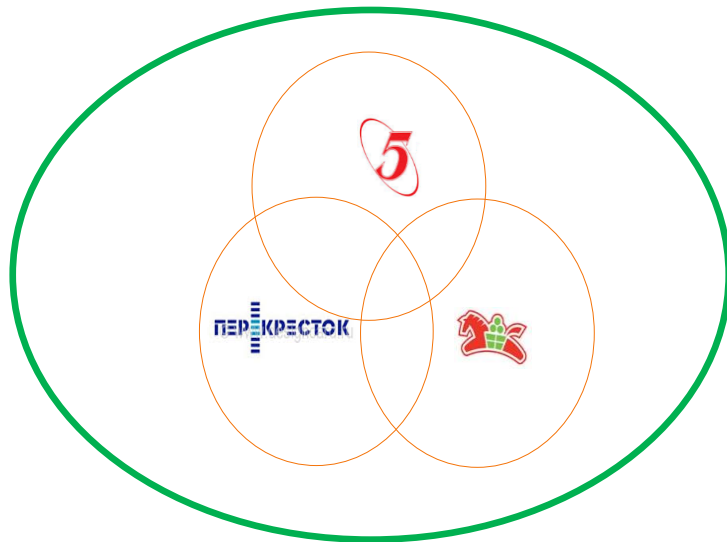


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# THE RIGHT STRATEGY...

## Capture A Greater Share Of The Customer's Wallet

### X5 2005 – 2012



However, not always the right focus

### X5 NOW

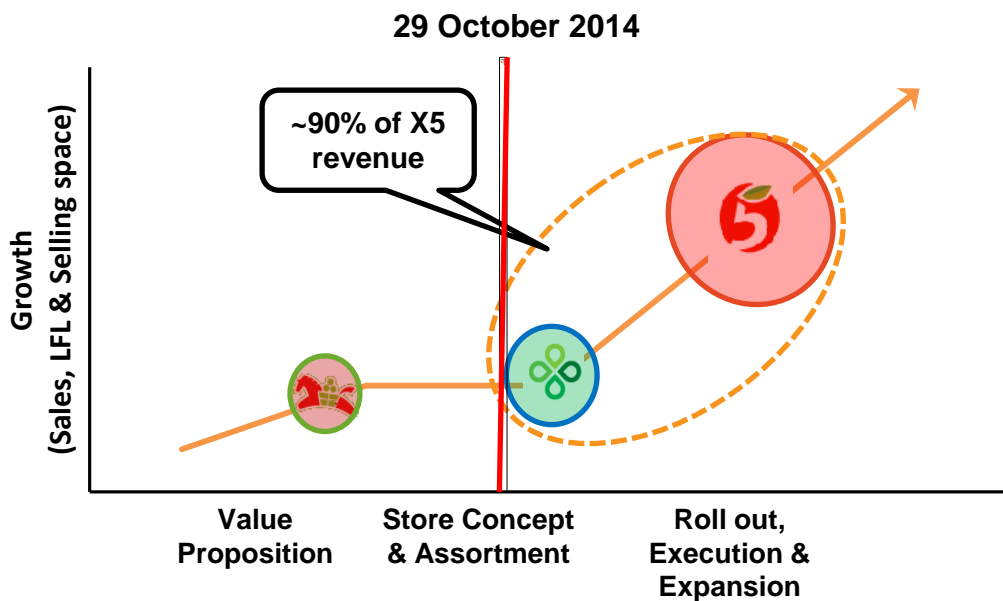


Focused execution of distinct value propositions to meet all customer needs

# COMPLETING THE TURNAROUND...

## Completing the Turnaround in 2014

## Status



Value proposition meeting customer expectations – continue accelerating refurbishments and store expansion



Value proposition and store concept redefined – aggressive roll out of refurbishments and new concept

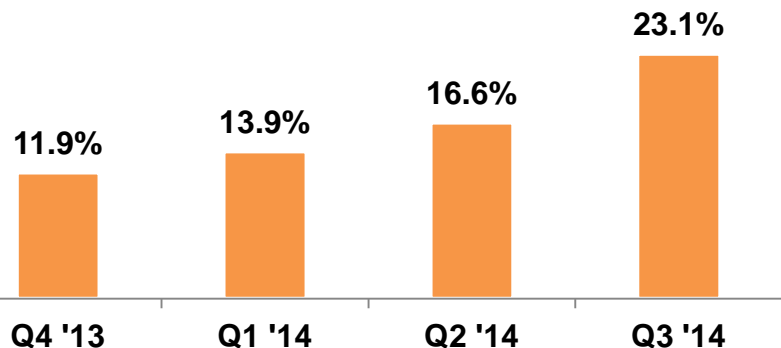


Value proposition – evaluating results from pilot projects to define Karusel hypermarket niche and in parallel developing new store location pipeline/land-bank

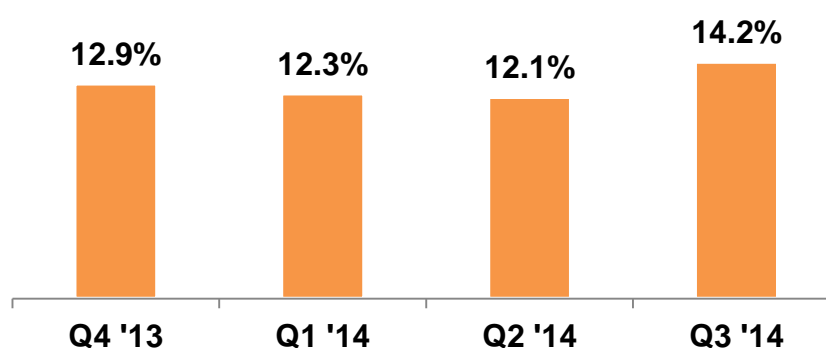
~90% of X5's sales have completed the turnaround process and are either aggressively rolling out the new concept or are ready to start

# ESTABLISHING A TRACK RECORD

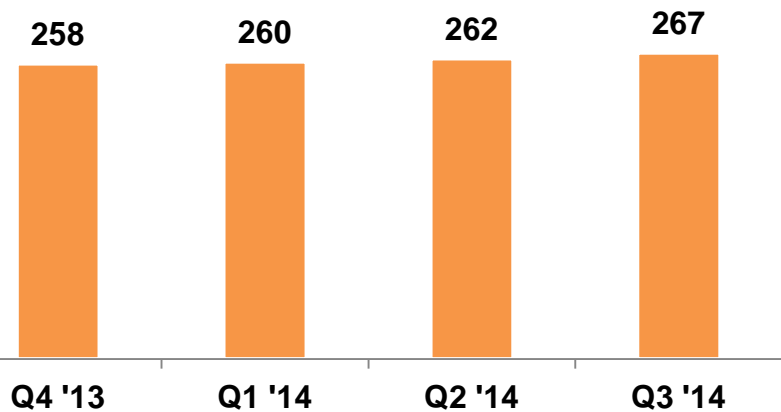
## Net Sales Growth, % y-o-y



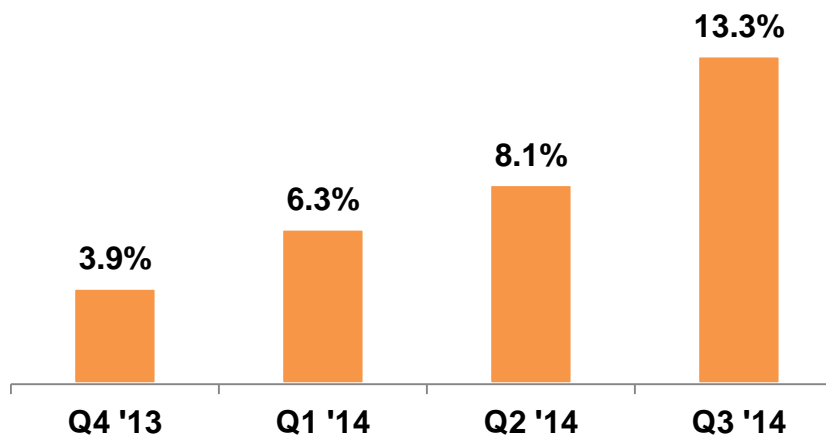
## Net Selling Space Growth, % y-o-y



## Sales Densities, th.RUB/sq.m.(1)



## Total LFL Sales Growth, % y-o-y



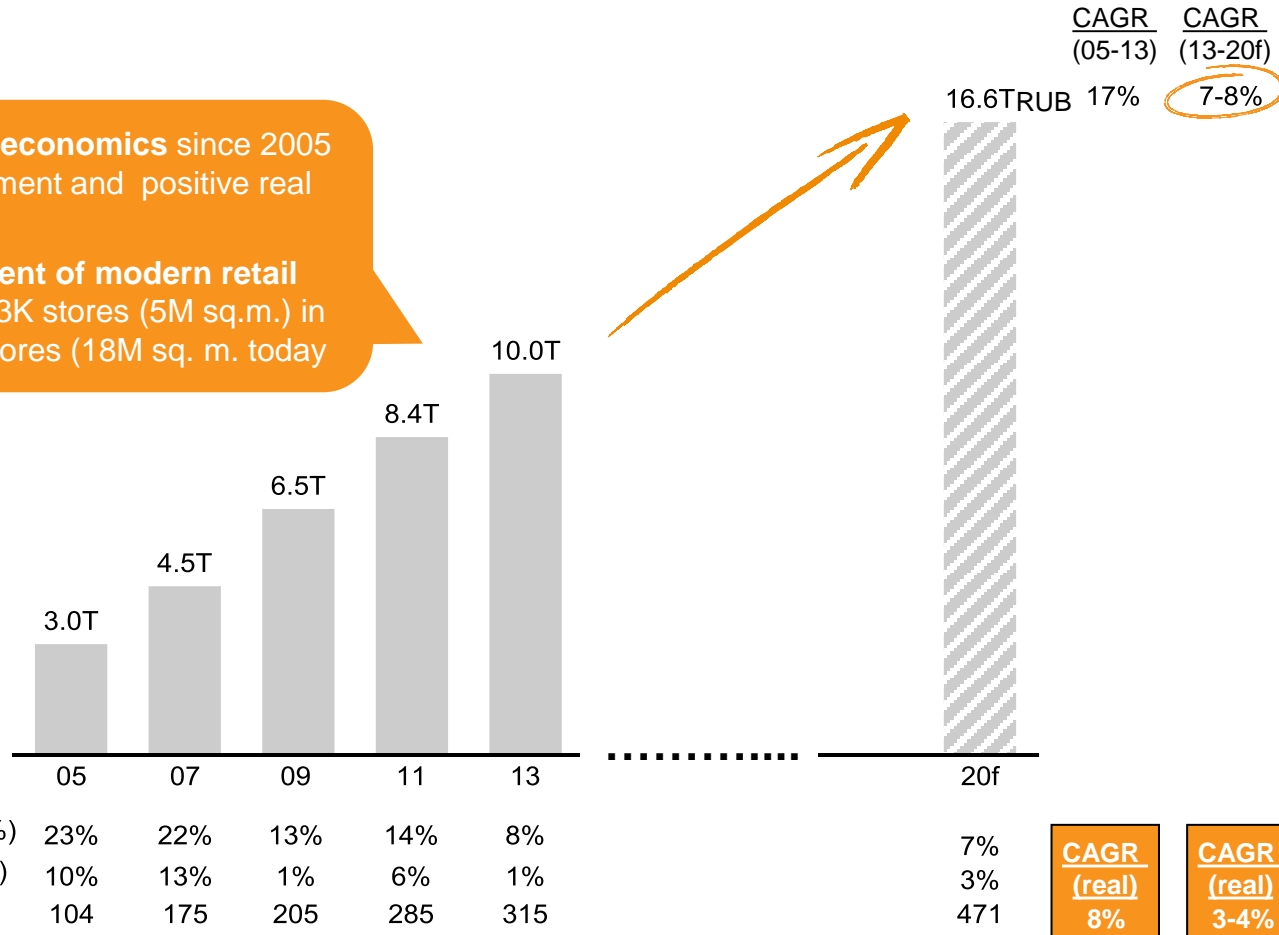
Note 1: Total net sales from trailing four quarters divided by average selling space of trailing four quarters

# MARKET OPPORTUNITY

# GROCERY RETAIL MARKET DEVELOPMENT IN RUSSIA

Grocery retail is expected to grow 7-8% p.a. midterm;  
adding ~1T RUB incremental every year

- **Positive socio-economics** since 2005 (Low unemployment and positive real wage growth)
- **Fast development of modern retail** universe from 13K stores (5M sq.m.) in 2005 to ~45K stores (18M sq. m. today)



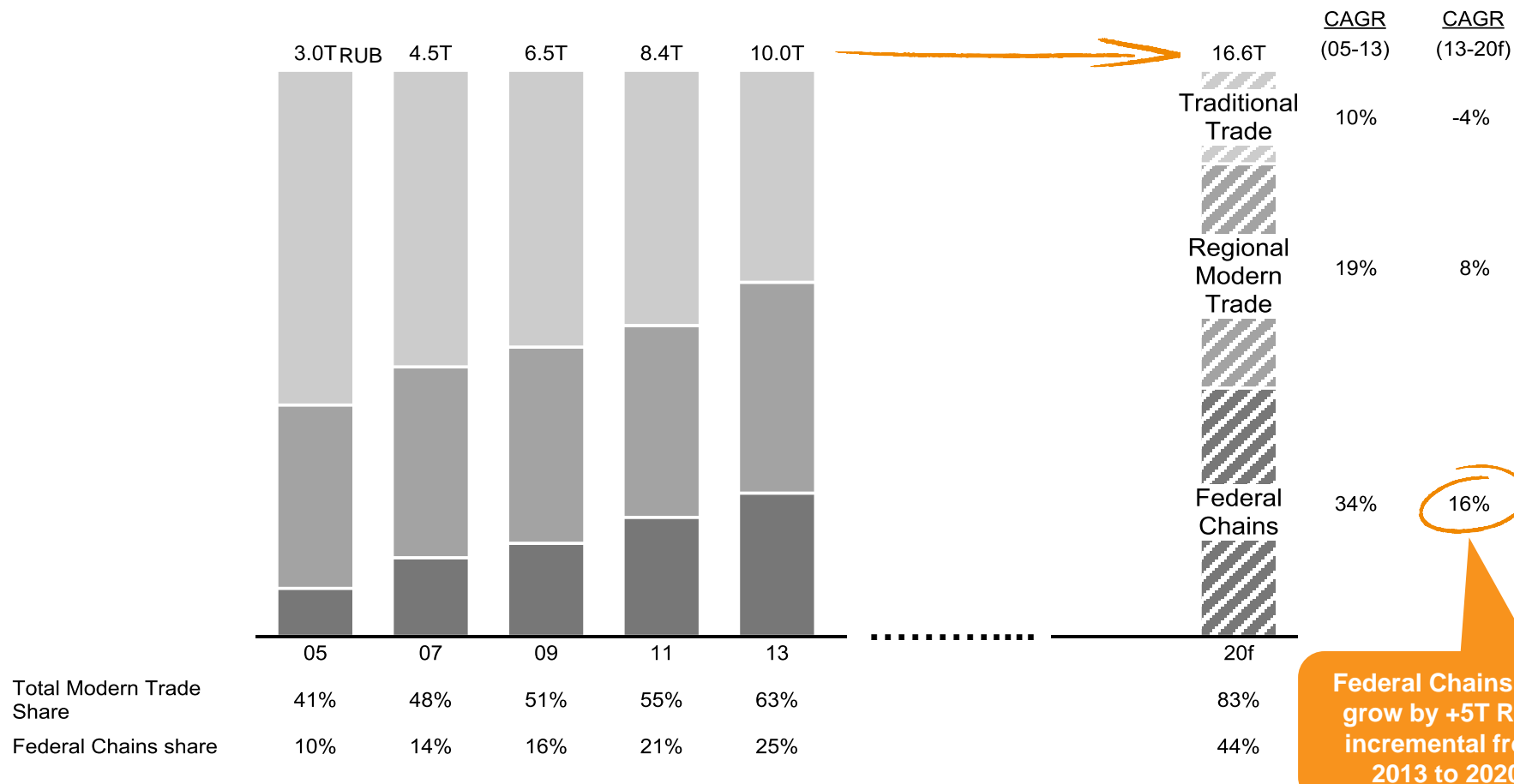
Note: Base year is 2004

Source: Euromonitor, Company Reports, Infoline, BMI, Planet Retail



# RUSSIAN GROCERY RETAIL MARKET DYNAMICS

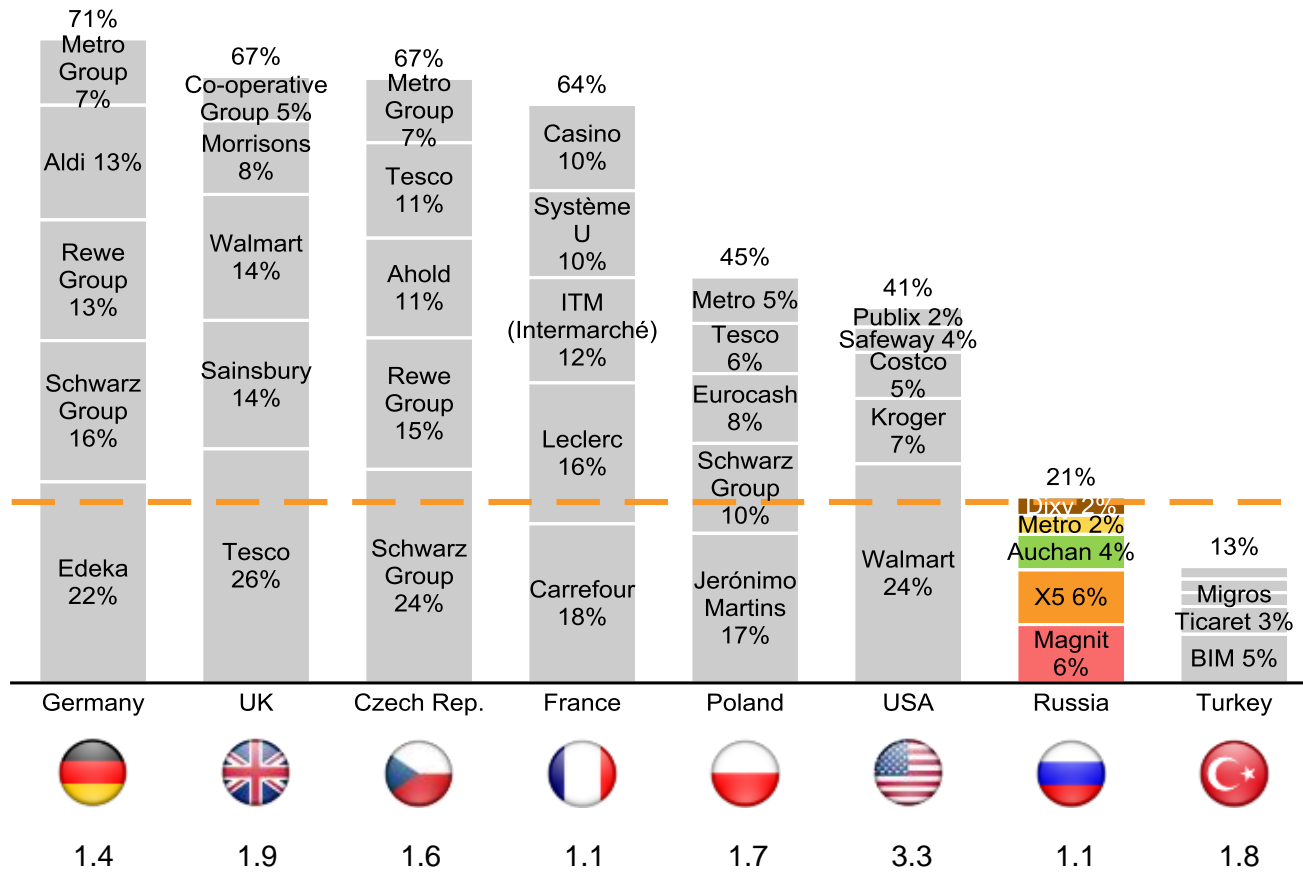
There is a power shift from Traditional Trade to Modern Trade with Federal Chains being the main driver



Note: Federal players are Magnit, X5, Auchan, METRO, Lenta, O'Key, Dixy, 7 Continent; All values and growth rates are nominal  
 Source: Euromonitor, Infoline, Company Reports

# TOP-5 SHARE OF GROCERY RETAIL GLOBALLY IN 2013

The top 5 grocery retailers in Russia are 21% of the market (vs. 60-70% in established markets)



Market leader sales  
Second player sales

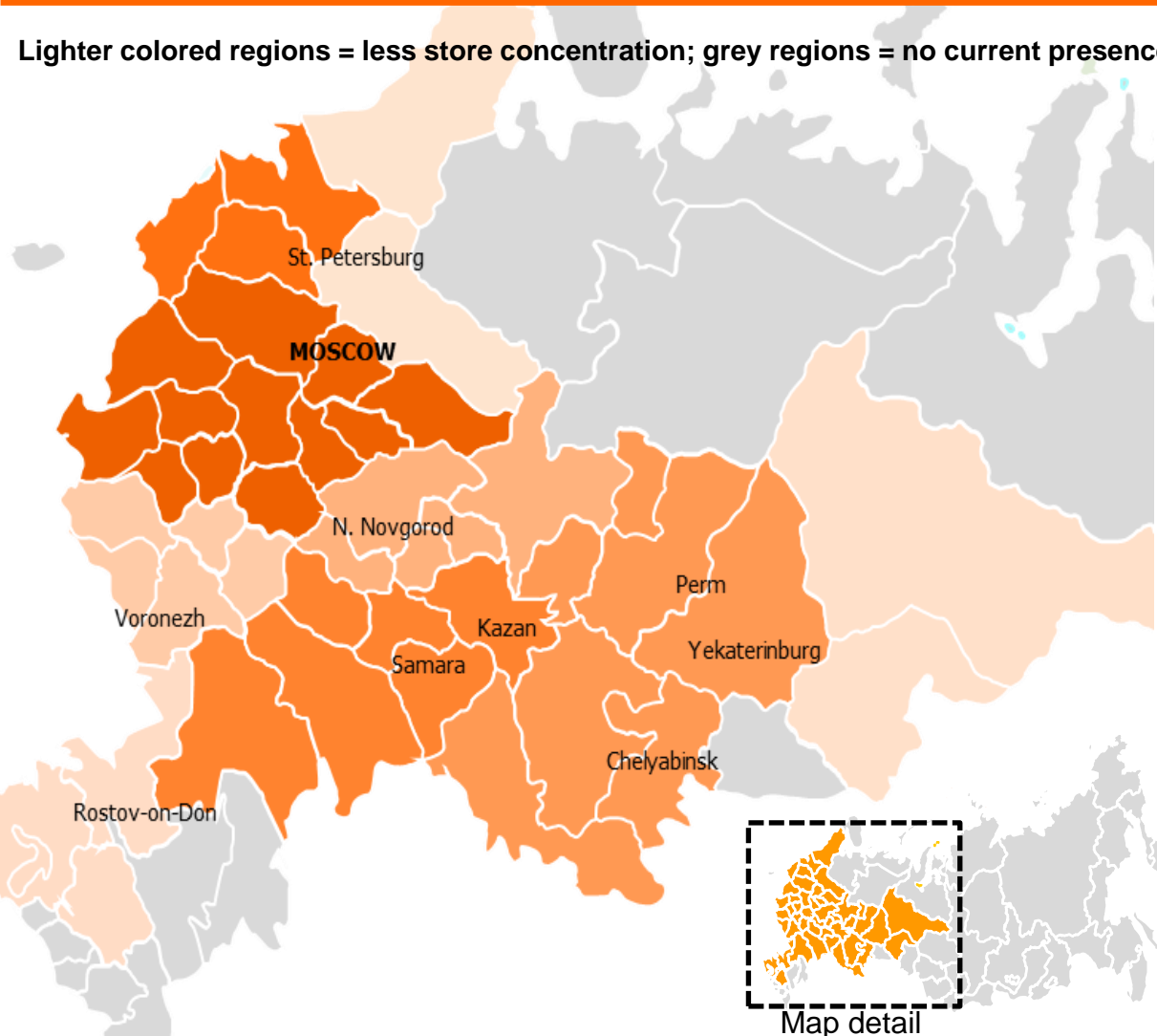
Source: Company Reports, Planet Retail. Euromonitor

# STRATEGIC PLANS

# EXPANSION OPPORTUNITIES

## Modern Retail Selling Space To Grow By ~9 Million Sq. M. Over Next 5 Years

Lighter colored regions = less store concentration; grey regions = no current presence



### Expansion Strategy

- ❖ Defend and expand “home” core regions
- ❖ Expand in other regions and build critical mass
- ❖ Target new regions over time
- ❖ Synchronized/coordinated store/DC expansion
- ❖ Develop store opening pipeline and land-bank
- ❖ Take advantage of opportunistic M&A

- ❖ **Creating shareholder value by improving customer value propositions**
  - ❖ **Focus on customers and stores**
  - ❖ **Increase sales densities**
  - ❖ **Focus on operating efficiencies**
  - ❖ **Improve profitability and returns**
  - ❖ **Increase employee engagement and develop corporate culture**
- ❖ **Focus on disciplined growth**



**Creating  
Stakeholder  
Value**

**THANK YOU FOR YOUR ATTENTION**

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