

Chairman's statement



Dear stakeholders,

It is my pleasure to report that X5 Retail Group delivered strong results for 2018, demonstrating its ability to continue leading the industry and adapting to the current challenging operating environment. Revenue for 2018 rose by 18.3% year-on-year to more than RUB 1.5 trillion, and we kept our EBITDA margin above 7.0%.

This performance means that we further strengthened our position as the top food retailer in Russia by revenue in 2018, with our revenue increasing by 18.3% while Russia's total food retail market expanded by 4.0% during the year, driven largely by 1.7% food inflation. We again outgrew our peers in the top 10, who saw a collective 9.8% rise in revenue for 2018. X5's stores served over 4.6 billion customer visits during 2018, underlining the continuing and evolving attractiveness of our retail offer to the Russian population.

Stephan DuCharme

Chairman of the Supervisory Board



Delivering on an evolving strategy

Our strategy continued to evolve in 2018, focusing on smart growth, innovation and efficiency. Our updated approach calls for measures to strengthen the existing business and enhance our innovation capabilities in the medium term, preparing X5 to become a next-gen retailer. We remain committed to strengthening our leadership position, but as top-line growth rates naturally slow as a function of the size of our business and the maturity of the industry, the importance of operational excellence and efficiency across the business will increase. We aim to share the benefits of any successful efficiency measures with our customers, which will help to drive a qualitatively different form of growth going forward.

I am pleased to note that X5 performed well against the key goals that were set before management for 2018. Last year, I wrote about the importance of technology and innovation in X5's future development. Since then, the Company has grown its online business and launched various omnichannel initiatives, made significant progress in developing its big data capabilities and successfully established an infrastructure that enables it to effectively search for and select promising new technologies.

I am impressed with the level of competence we have already built within our team in these new areas, our effort to improve and apply these competencies is ongoing, which is reflected in the recent new nomination to the Supervisory Board that should bring additional expertise in applied innovation and new technology.

Making customer-centricity a way of life

X5 has been able to achieve sustainable growth thanks to our customer-centric approach. From the Supervisory Board on down, we are constantly seeking ways to make our business more customer-centric, to adapt to the needs of our customers and to meet demand through every channel available and suitable for our business size and structure. Throughout 2018, X5 and our retail formats created more ways to make the customer's shopping experience more useful and convenient by expanding loyalty programmes, developing our omnichannel business and expanding our online offering.

Part of our customer-centric approach is continued evolution and transformation, which is discussed in detail throughout this report. X5 is a business that is not only fine-tuned to current consumer trends in Russia, but we are continuously adapting to future food retail requirements, including taking on new customers and new competitors.

Committed to all stakeholders

X5 is committed to creating value for all of our stakeholders across the entire chain. Given our prominent footprint in Russia's economic life, we aim to ensure that our operations benefit food producers and other suppliers, our employees, the customers that visit our stores and use our online services, and our investors and shareholders.

As part of this commitment, X5 continues to upgrade its reporting on ESG performance, in line with the requirements for disclosure of non-financial information. Throughout this report, we detail how we work with a wide range of stakeholders in order to address their needs and ensure that our business is part of a mutually beneficial relationship with the people and institutions we interact with.

We are also using the scale and depth of our operations to support a variety of aid programmes, including Basket of Kindness, which is a partnership with the Rus Food Foundation, Russia's first food bank. In 2018, Basket of Kindness held citywide food marathons in five metropolitan areas: Moscow, Yekaterinburg, Samara and Kazan, as well as an online marathon in Nizhny Novgorod.

A strong team with a solid pool of talent

People play an extremely important role in our business, and X5's continued success is dependent on having a team with the right skills and motivation to execute our strategic goals. I am proud to say that 2018 proved that we have this team in place and that we have a strong reserve of talented and motivated individuals within X5 Retail Group who will have the opportunity to contribute to the Company's success in the years ahead. We have worked hard to develop a high-quality talent pool in order to ensure smooth successions, withstand turbulent events and make changes when needed, and this will remain a priority going forward.

X5 is creating a culture of leadership, collaboration and customer-centricity at every level of the business. This helped us to achieve the impressive transformation and growth that X5 delivered in recent years, and we have set ourselves ambitious goals for the future. As part of this approach, both short- and long-term incentives support our strategic objectives and align management interests with those of shareholders. At the operational level, we are also fine-tuning employee motivation to help us achieve our targets, including enhanced in-store incentivisation programmes that have increased the focus on NPS to determine employee compensation.



Corporate governance

X5's Supervisory Board is tasked with guiding the Company's performance by contributing a long-term, expert view on the initiatives I have listed above. Our corporate governance system is designed to ensure that all stakeholders are duly represented and their interests taken into account. It complies with global best practices and the requirements of the Dutch Corporate Governance Code.

The eight members of the Supervisory Board, five of whom are independent directors, focus on providing oversight and input on key management issues (pending AGM approval, the appointment of Alexander Torbakhov will increase these numbers to nine and six, respectively). We strive to apply our diverse set of skills to help X5 navigate an industry that is increasingly characterised by disruption, and to ensure that the Company is "future-fit" and remains focused on delivering long-term value.

In 2018, we continued to enhance our Supervisory Board with individuals whose experience will be key to achieving our short-term and long-term strategic goals. Karl-Heinz Holland, who served for six of his 20 years at Lidl as CEO, and Nadia Shouraboura, who served as Vice President for Amazon's global supply chain and fulfilment platforms, have contributed to our work since June 2018. These appointments are strongly aligned with X5's strategic focus areas of strengthening our existing business, implementing new technologies and expanding our omnichannel offering.

Along the same lines, in January 2019, after the end of the reporting period, the Supervisory Board created an Innovation and Technology Committee, which will be chaired by Alexander Torbakhov, who has a strong track record of successfully introducing new initiatives in his previous management roles, following AGM approval.

Capital markets

X5 paid its first dividend in the amount of RUB 21,590 million, or RUB 79.5 per GDR, in June 2018. We continue to adhere to our dividend policy, and based on our 2018 financial results, the Supervisory Board proposed paying dividends in the amount of RUB 25,000 million/RUB 92.06 per GDR, which represents 87.3% of X5 Retail Group's 2018 net profit.

In February 2018, in addition to the listing on the London Stock Exchange, we completed the listing of X5 GDRs on Moscow Exchange. In addition, the Company's GDRs were included in the MSCI index family, including the MSCI Russia Index and the MSCI Emerging Markets Index.

Corporate culture

Our aim is to create a Company-wide culture of long-term value creation at X5, and we aim to lead by example at the Board and management levels. Maintaining a corporate culture that is focused on honesty and integrity, respect, being goal-oriented and focused on the customer will enable us to instil in every employee an approach that will help us to achieve our strategic goals in a sustainable way.

I believe that transforming, growing and adapting X5 into the business that it is today has created significant value for all of our stakeholders. We have developed Russia's leading proximity and supermarket formats. At the same time, we are already evolving for the food retail business of tomorrow. We will never rest on our laurels, and we will forge ahead based on the conviction that change and adaptation are an important part of the continued success of X5 for our customers and our business.

Stephan DuCharme

Chairman of the Supervisory Board