



Karusel

hypermarkets



Karusel worked hard to roll out its new CVP in 2018, with eight hypermarkets refurbished under the new concept and a renewed assortment that meets the needs of modern shoppers, who are increasingly interested in a convenient shopping experience, including in-store entertainment. While making our value proposition more attractive to customers, we have also succeeded in increasing sales densities and have focused on efficiency with new staffing structures, better quality control and standardised processes across all hypermarkets we operate.

Karusel aims to reach modern consumers with a rational approach to shopping: they are well-informed, want to get the most out of each trip, with a wide range of goods and competitive prices to stock up for a week or more. Karusel hypermarkets are evolving to meet our customers' needs and broaden their appeal to new groups of consumers. Our focus on sales densities and increasing customer loyalty means that we will maintain a cautious approach to new openings.

Maksym Gatsuts

General Director of Karusel





Karusel hypermarkets aim to offer customers a unique and comfortable shopping experience, with an updated brand concept that includes in-store dining, a wider selection of healthy foods and electronic customer communications. As we roll out this model, we continue to innovate and adapt to customer needs, with omnichannel offerings like convenient click-and-collect services, as well as a successful loyalty programme that is highly popular among our customers.

Karusel hypermarkets offer an assortment of 22,000 to 30,000 SKUs of food and non-food items, with an average selling space of 4,064 square metres.

2018 performance highlights

Net retail sales:

RUB **91** bln

Stores in operation:

as of 31 December 2018

94

Selling space:

as of 31 December 2018

382 ths m²

Customer visits:

132 mln

Stores refurbished:

8

2018 strategic highlights

Began full-scale rollout of new CVP and branding with refurbishment of eight stores in 2018

Updated assortment with focus on modern trends, healthy foods, ready-to-eat assortment

Further improved private label with enhanced quality and breadth of offering, including newly created private labels in the middle price segment

Expanded own production with a focus on products that differentiate Karusel from competitors

Improved sales densities and reduced share of stores in “clinic”

Continued modernisation of Karusel mobile app and new website launched

Continued to develop loyalty programme with penetration in traffic reaching 81% in December 2018

Shifting focus to personalised offers (SMS, apps, email) and coupons

Adapted business processes to reduce shrinkage and improve quality of fresh goods

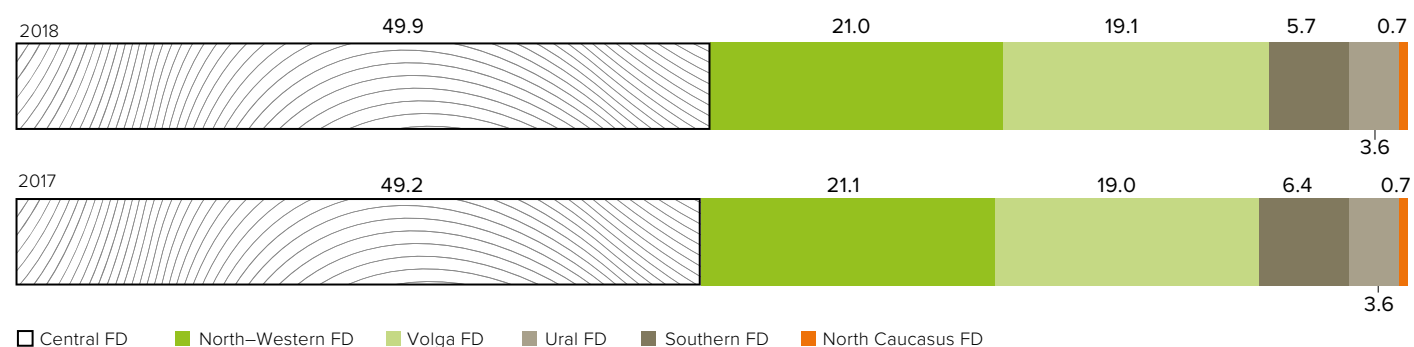
Optimised staff structure and improved quality of employees



Key operating results

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------|------|------|------|------|
| Number of stores, eop | 94 | 93 | 91 | 90 | 82 |
| Selling space '000 m ² , eop | 382 | 385 | 387 | 390 | 359 |
| Net retail sales, RUB bln | 91 | 89 | 84 | 77 | 69 |
| Customer visits, mln | 132 | 135 | 134 | 129 | 123 |

Karusel' net retail sales by region, %



Strategic Priorities

| Our priorities | What we are doing | What we plan to do |
|---|---|--|
| Continue rollout of new branding and CVP | <ul style="list-style-type: none"> Increased assortment in fresh categories Focus on assortment innovation, with new lines of health food, bio, organic and craft offerings Implemented concept of “category worlds” such as “home”, “childhood” and “seasonal” for non-food assortment Completed refurbishment of eight Karusel hypermarkets Continuously reviewed opportunities to optimise refurbishment process | |
| Develop private label and own production | <ul style="list-style-type: none"> Focus on modern trends, healthy food and food to go Further developed own production offering, with a focus on differentiating Karusel from competition Continued development of private-label lines Krugliy God, Umnoye Resheniye and BeHome with a focus on supporting Karusel’s price perception and NPS with high-quality goods Revised pricing policies and reduced costs of own production | <ul style="list-style-type: none"> Further adapt assortment to meet customers’ changing needs and keep pace with current trends Increase share of private-label assortment in revenue Improve price perception, including through further expansion of private-label offering |
| Focus on efficiency in management of people and processes | <ul style="list-style-type: none"> Implemented programme for training and development of high-potential employees Launched HR brand project Optimised staff structure Implemented measures to reduce shrinkage, such as monitoring of acceptance of goods, monitoring of cashier operations, and quality control checks at DCs | <ul style="list-style-type: none"> Improve employee engagement Reduce lease costs and shrinkage, increase operational efficiency Continue gradual renovation of stores using new branding |
| Develop programmes to enhance customer loyalty | <ul style="list-style-type: none"> Continued to refine loyalty programme based on data analytics with special promotions for cardholders Launched updated version of My Karusel mobile app with new features: catalogues, promo banners, special offers | <ul style="list-style-type: none"> Expand omnichannel offering and digital innovations |
| Expand omnichannel model and digital innovations | <ul style="list-style-type: none"> Digital communications with customers installed for several stores Introduced digital tools to increase employee engagement Launched cooperation with delivery aggregator iGooods (Moscow, St Petersburg and Kazan) | |



Further adaptation of CVP

We began to roll out our new CVP in 2018, with updated branding. Our goal is for our customers to associate our hypermarkets with favourable pricing, honesty and transparency. One area of focus in 2018 was on optimisation of our assortment: as Russian consumers become more and more concerned about the quality and healthiness of their food, we are aiming to provide them with new assortments of healthy foods and unique goods for discerning buyers. We have also worked to make the in-store experience more convenient and comfortable, with simpler internal navigation and more modern visualisations.

We are considering options to improve space utilisation and increase traffic by inviting partners to our hypermarkets.

We are also testing the “large supermarket” format. We currently have two Karusel stores being managed by the Perekrestok team, and we plan to transfer three more stores over to Perekrestok this year.



Private label. Tailored to customer needs

Our private-label brands are an opportunity to support Karusel's price perception by offering customers quality goods at lower prices. Our current private-label offering reached 4% of Karusel's revenue in 2018, and we plan to expand this to as high as 10% by 2020. With a number of private-label brands already on shelves, including our three key cross-category offerings (Krugliy God, Umnoye Resheniye and BeHome), we plan to launch a new non-food line under the Uniline brand in 2019.

In further development of our private labels, one of the key areas we will focus on is introducing unique features that will differentiate our assortment from other brands.

Cross category –
First price



Cross category –
Medium price



Separate categories –
Medium price





Own production and in-store catering

Our own production offering is a key part of Karusel's updated CVP. We have completely renewed the assortment for our own production, with a more modern selection, more healthy offerings and a wider array of food to go. At the same time, we have focused on optimising the staffing structure and bringing down production costs in order to achieve more sustainable margins.

Our aim is to develop a full-scale food service offering in-store, with pizzas, a cafeteria or restaurant available to customers without leaving the premises. In order to further optimise costs, Karusel plans to centralise its own production for certain regions. Our target is to increase the share of our own production in revenue by 1.0%-1.5% by 2020.





Operational efficiency

Our top priorities for increasing operational efficiency are in the areas of personnel, in-store processes and shrinkage.

We have already launched an HR brand project, as well as a learning and development programme for high-potential employees. Going forward, we aim to introduce initiatives that will improve staff engagement, to refine the incentivisation system and offer better working conditions.

Our in-store efficiency efforts to date have focused on standardisation of business processes across all hypermarkets, optimising staff structures and introducing schedules for regular

maintenance and upgrades for equipment and engineering systems. In the years ahead, we will focus on further optimisation and productivity enhancements that leverage IT tools, and we will continue to close inefficient stores.

Shrinkage is currently being addressed with the monitoring of acceptance of goods and cashier operations, as well as optimisation of business processes and improvements to quality control checks at DCs. We aim to further develop our quality control practices, including the introduction of trust-based acceptance at DCs and further development of our direct supplier base for fruits and vegetables.



Loyalty Programme

Karusel's loyalty programme, which was relaunched in 2015, continues to develop in line with our Group-wide push to leverage data analytics to improve performance. The programme currently enjoys the highest level of penetration in traffic and sales among all of X5's formats.

Karusel's loyalty card holders receive personalised offerings and promotions based on their preferences and shopping behaviour. We have also updated the My Karusel mobile app for loyalty programme members, with a new user interface design and the addition of promo banners. Future updates will include an online catalogue to better inform customers about what they will find in our stores, as well as some interactive features.

Highlights:

- Active cards as of 31 December 2018: 2.9 million (as of 31 December 2017: 2.4 million)
- Share of net retail sales for loyalty cards in December 2018: 94% (2017: 80%)
- Penetration of loyalty programme in traffic in December 2018: 81% (2017: 63%)



Omnichannel and digital innovations

In keeping with our move towards digital innovations, we have moved all communications with customers to electronic formats, from email to text messages and our own website and mobile app. We are also digitising in-

store processes by setting up distance modules for employees.

As we continue to develop omnichannel sales, we have expanded our cooperation with delivery aggregators like iGooods (Moscow, St Petersburg