



Pyaterochka

proximity stores



Pyaterochka has reached a crossroads in its development, and the time has come to focus on strengthening the core business while also laying the foundations for new types of growth. In previous years, Pyaterochka focused on its record-setting pace of new store openings. We have already started to decelerate openings in order to focus more on smart expansion and improving investment returns. Going forward, Pyaterochka aims to find new sources of growth on the basis of our existing stores by further adapting its assortment to the changing needs of our customers.

In the years ahead we will continue to adapt our CVP, including further developing our Pyaterochka Helps (Vyruchai-Karta) loyalty programme. In line with X5 Retail Group's updated strategic priorities, we are already developing and preparing to pilot new omnichannel business ideas, while also actively seeking out new innovations that will help Pyaterochka develop its business and remain at the forefront of our sector as the next generation of food retail emerges.

Sergei Goncharov

General Director of Pyaterochka





Pyaterochka is Russia's largest proximity store network, and we have worked hard to make Pyaterochka the market leader, not only in terms of size but also in the minds of our customers. Just a few of our key achievements in recent years include the complete refurbishment of every store we operate, the launch of the only proximity store loyalty programme in Russia, the introduction of a new CVP aimed at a wider group of customers and the introduction of greater flexibility to adapt what our stores offer with assortments that include locally produced goods and the clusterisation of assortments based on the needs of certain types of customers in the area where a store is located.

The average Pyaterochka store has 391 square metres of selling space, with more than 4,500 stock-keeping units (SKUs) on offer.

2018 performance highlights

Stores in operation:

Stores

as of 31 December 2018

13,522

+20.5% year-on-year

Selling space

as of 31 December 2018

5,291 m²

+19.5% year-on-year

New stores added

as of 31 December 2018

2,297

and 865 thousand square metres
of new selling space added

Net retail sales:

RUB 1,198 bln

+19.7% year-on-year

Pyaterochka Helps loyalty programme:

Cards issued

>65 mln

more than 29 million active users

Traffic penetration

as of 31 December 2018

48%

and 64% of retail sales attributable
to loyalty card holders

Customer visits:

3.9 bln

+19.8% year-on-year

2018 strategic highlights

Decelerated new store openings

in order to focus on smart growth and maintaining investment returns

Stable share of stores in “clinic”

indicating current business performance is sustainable

Enhanced management model

to address the Company’s significantly increased scale by delegating decision-making powers to macro-regions

Pyaterochka Helps loyalty programme,

the only loyalty programme for proximity stores in Russia, continues to expand and has piloted personalised offers for customers

Continued pilot of assortment clusterisation

to enable groups of stores to better meet customer needs based on local demographics and competition

Reduced shrinkage,

especially in H2 2018, after establishing a shrinkage committee for the Moscow macro-region and focusing on optimising the assortment, inventories and business processes to address shrinkage, especially in fruits and vegetables

Improved brand perception and expanded target audience

thanks to continued adaptation of the CVP

Improved promo planning and effectiveness

with advanced analytics

Improved operational efficiency

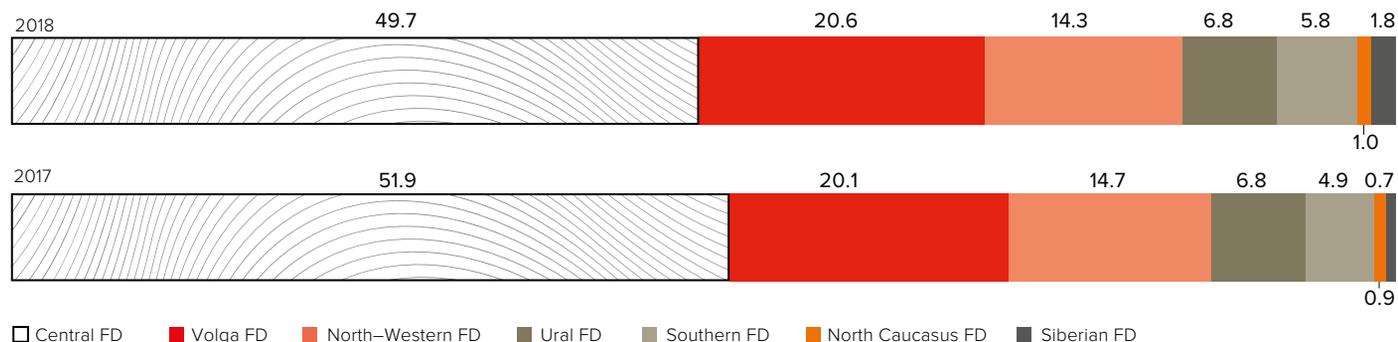
with continued enhancements to logistics, reduction in store capital costs and operating expenses, optimisation of rental agreements



Key operating results

	2018	2017	2016	2015	2014
Number of stores, eop	13,522	11,225	8,363	6,265	4,789
Selling space '000 m ² , eop	5,291	4,427	3,329	2,423	1,754
Net retail sales, RUB bln	1,198	1,001	776	585	436
Customer visits, mln	3,913	3,267	2,543	1,990	1,645

Pyaterochka net retail sales by region, %



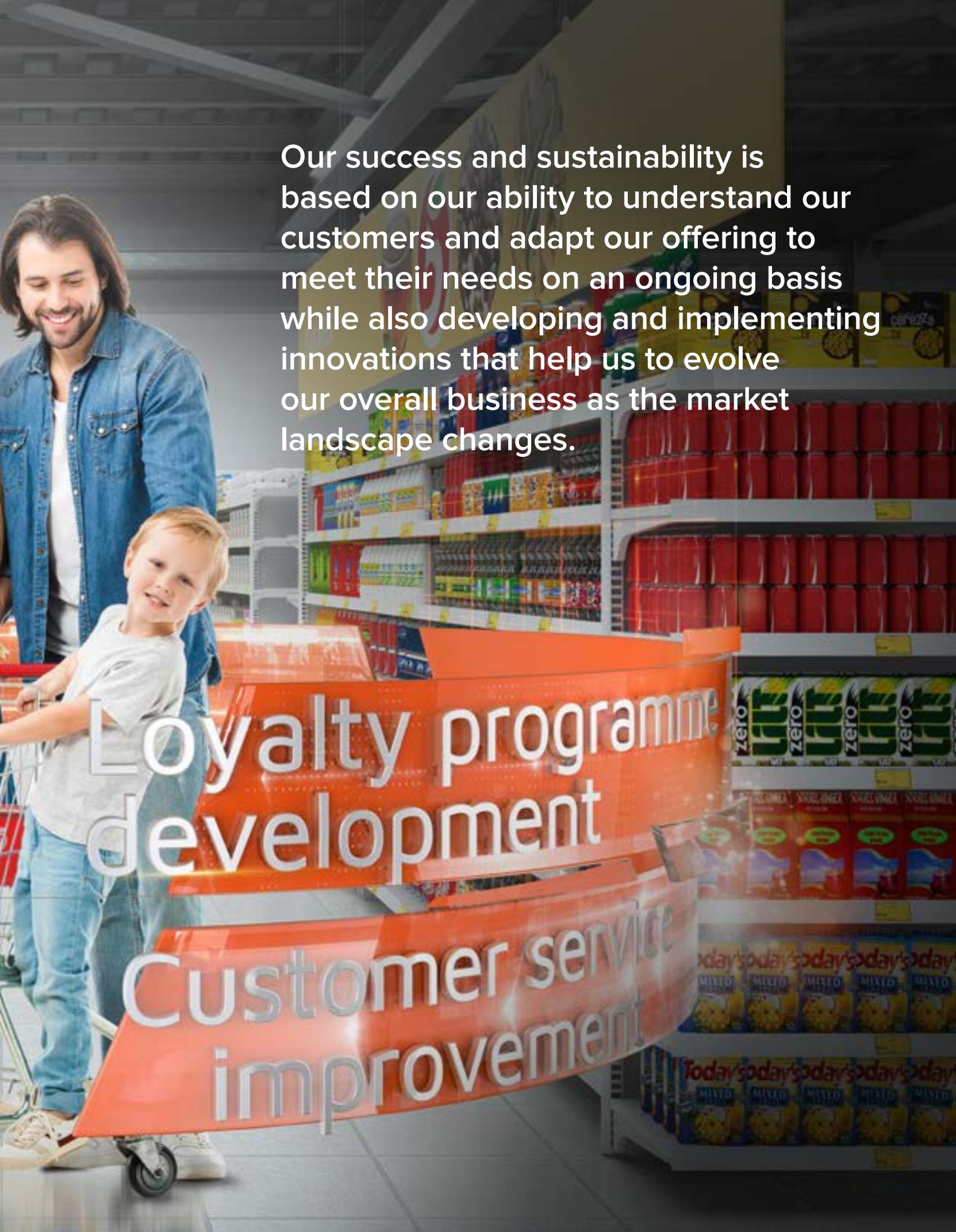
Strategic Priorities

Our priorities	What we are doing	What we plan to do
Smart expansion	<ul style="list-style-type: none"> • Prioritise maintaining target ROIC level over pace of expansion • Focus on growth in existing regions • Aim to replace smaller existing retailers as market consolidates • Number of new stores and new selling space grew by 20.5% and 19.5% year-on-year, respectively, compared to 34.2% and 33.0% growth in 2017 	
Efficient loyalty and promo programmes	<ul style="list-style-type: none"> • Further develop analytics-driven loyalty programme and personalised promo offerings • Focus on increasing number of Pyaterochka Helps (Vyuchai-Karta) participants • Increase share of wallet among our existing loyalty card holders • More balanced approach to promo activity to support sales without undue pressure on margins • Further develop advanced analytics system that enables partners to track the effectiveness of promo activity on consumer behaviour 	
Further adaptation of CVP and assortment	<ul style="list-style-type: none"> • Client-centric assortment management: piloted clusterisation of stores, smart management of shelf space, used big-data-enabled tools to regularly review assortment • Enhanced fresh category with reduced supply chain cycle, improved quality and expanded offering to include fresh bread • Improved private-label programme, increasing quality and enhancing customer feedback • Continue to expand assortment of locally produced goods: over 1,300 new producers from 68 Russian regions began to supply Pyaterochka stores in 2018 • Improve pricing process with automated pricing, cluster-based pricing and enhanced pricing policy tools • Pilot and roll out advanced analytics system that enables partners to track the effectiveness of promo activity on consumer behaviour 	<ul style="list-style-type: none"> • Further adaptation of CVP and assortment • Leadership in NPS and service level • Improvement in operational efficiency, including shrinkage • Decrease personnel turnover and improve loyalty • Improve efficiency of regional model • Rollout of personalised promotions
Improve operational efficiency	<ul style="list-style-type: none"> • Adjusted operations to address shrinkage: changed assortments to better suit store format, cut inventories, improved promo planning and control, identified temperature issues during storage or transportation of goods • Launched shrinkage committees in macro-regions and remote fruit and vegetables acceptance at DCs, resulting in a decline in shrinkage starting in Q3 2018 • Continued development of multilayer logistics infrastructure with three new DCs and four cross-docking stations • Completed integration of the WMS, decreasing logistics expense per box by over 11% year-on-year, while the overall working rate increased by 14% year-on-year • Improved “lean store” operating model with optimised processes, smart reduction in assortment, better staff planning and less inventory • Further reduced rent costs and renegotiated rent agreements 	
Strategic focus on customer satisfaction and employee engagement	<ul style="list-style-type: none"> • Introduced new values and incentives system to encourage customer-centric culture throughout the Company, not only in stores • Introduced new organisational structure for customer feedback analysis and continuous improvements • Increased efficiency of hiring and personnel management • Redistributed functions among in-store personnel to enhance productivity and maintain cost controls 	

Customer-centric
approach to
everything we do

CVP update

A woman with long blonde hair, wearing a blue denim shirt, is pushing a shopping cart filled with fresh produce like lettuce and tomatoes. She is in a supermarket aisle with shelves of various products. A glowing orange banner with the text "CVP update" is overlaid on the cart. The background shows shelves stocked with milk, cereal, and other grocery items.



Our success and sustainability is based on our ability to understand our customers and adapt our offering to meet their needs on an ongoing basis while also developing and implementing innovations that help us to evolve our overall business as the market landscape changes.

Loyalty programme
development

Customer service
improvement



Smart expansion and balanced growth

We dialled back the pace of expansion in 2018 to 865 thousand square metres, which is 21.2% less than in 2017. While this still represents significant growth, our focus going forward will be on ensuring quality and sustainability in order to strengthen the existing business. This will be achieved by adhering to the following principles:

- **Focus on ROIC:** Achieving target ROIC levels and maintaining profitability will be key criteria as we adapt our approach to new openings.
- **Natural replacement of smaller players:** While the previous years of expansion can be described as a “land grab”, the next stage of growth in Russian food retail will be defined by consolidation, and we aim for a significant portion of Pyaterochka’s growth to be through the acquisition of existing smaller players.
- **Develop and leverage our geographic information system (GIS):** GIS has been one of our core tools for selecting the right location for our new stores. In order to increase the quality of the system, we are constantly adding new data and algorithms to further enhance its accuracy.
- **Focus on existing regions:** In order to leverage existing logistics and transport infrastructure more efficiently, we aim to prioritise strengthening our presence in existing regions, while taking a more cautious approach to expanding into new markets.



Continued enhancements to CVP

We remain focused on adapting our CVP to evolving customer needs, with the goal of increasing the efficiency of our own operations. Some of the areas we are focused on include improving our client-centric assortment management process, using a clear assortment strategy and category roles. Since 2017, we have been piloting the clusterisation of stores, which will enable us to adapt the assortment at groups of stores based on demand in different types of locations.

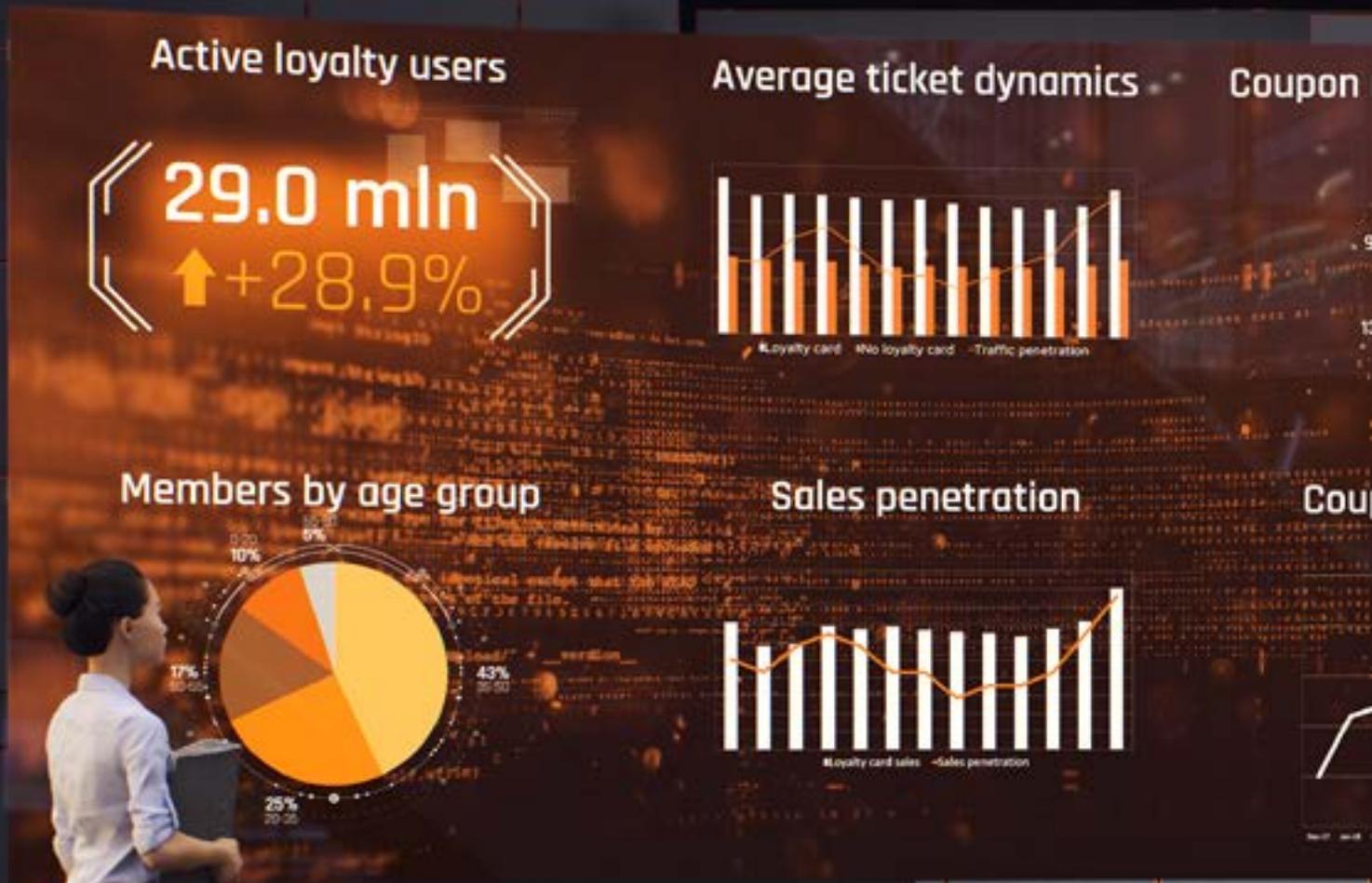
Pyaterochka’s fresh category and private-label goods have also been central to our CVP, and we are focused on improving the quality of both. In the fruits and vegetables and ultra-fresh categories, we have achieved a 39% reduction in supply chain processing time, while also piloting new offerings such as fresh bread. Our private-label offering, which consists of 120 brands, accounted for 12% of Pyaterochka’s 2018 net retail sales.

Private-label quality has been supported by the formation of a dedicated private-label team, as well as increasing analysis of customer feedback and customer needs to develop new products.

One of the core elements of Pyaterochka’s CVP is price perception, and we are improving pricing processes with automated systems, cluster-based pricing and the implementation of pricing policy tools.

We believe that promo activities represent an area for potential improvements in both our CVP and operational efficiency. To achieve this, we are rolling out promo efficiency solutions and piloting a new system that enables us to more accurately measure promo performance across our stores.

Loyalty programme



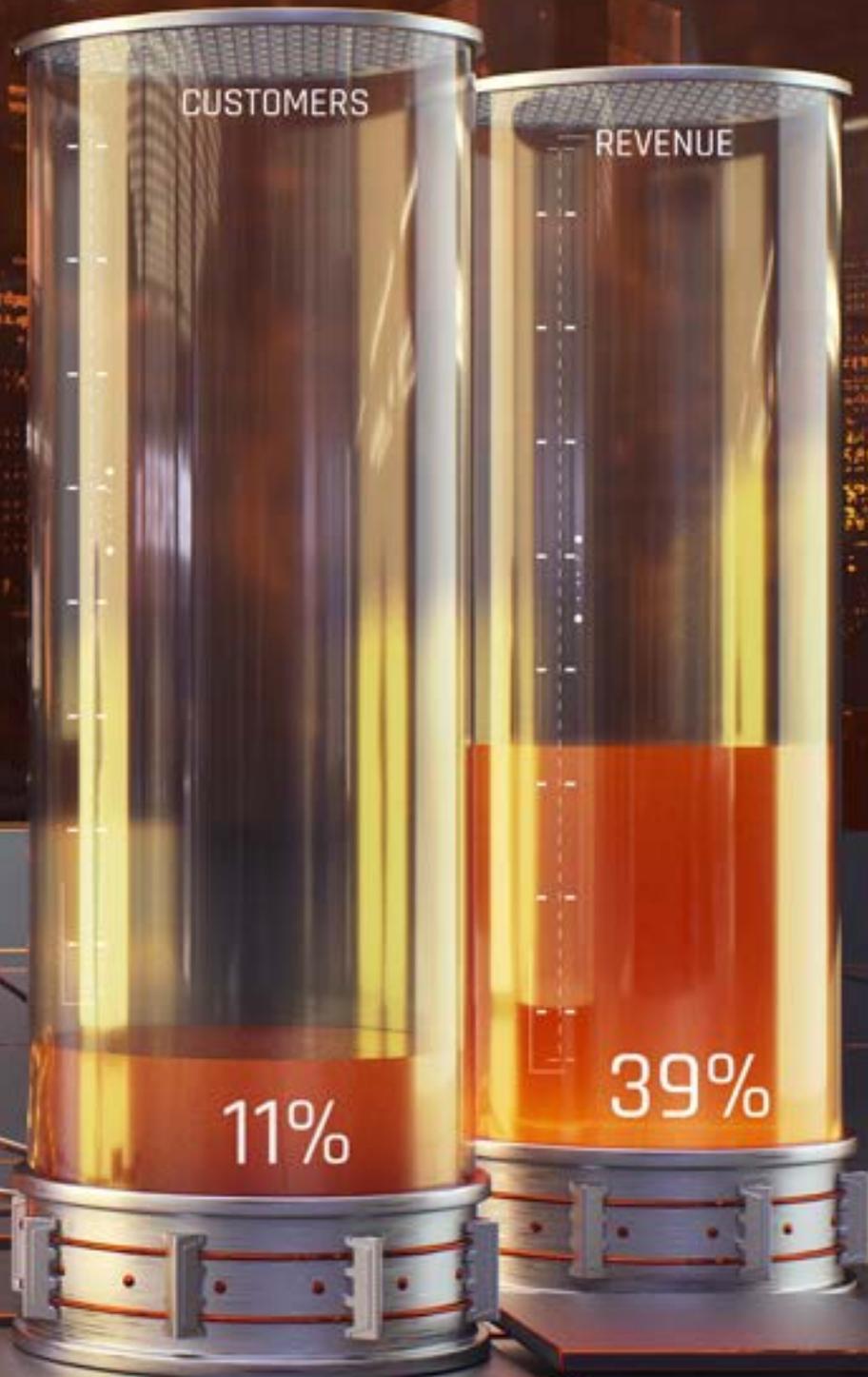
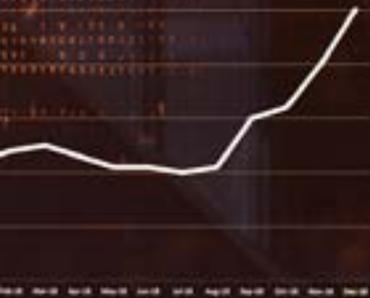
Loyalty programmes are a key to our success, providing insights into customers' preferences that help us to respond to their needs by adapting our assortment, running more effective promos and offering a more personalised experience for every shopper.

11% of our high-value customers with loyalty cards account for 39% of revenue.

redemption by category



conversion rate





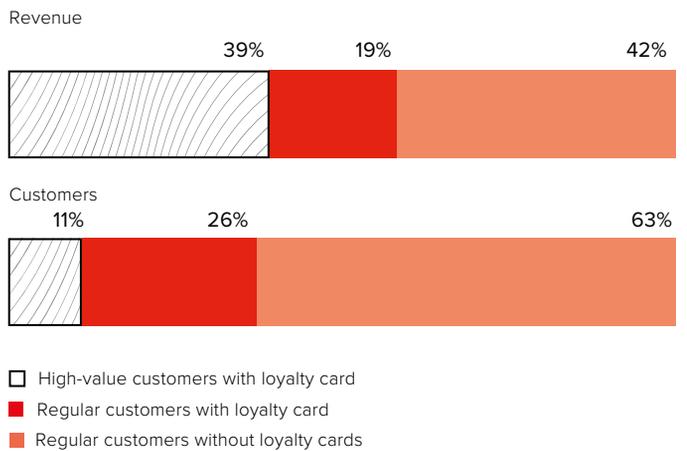
Loyalty programme – a key to growth

Pyaterochka’s loyalty programme, Pyaterochka Helps (Vyruchai-Karta), has delivered impressive results to date, and we view it as a key to potential future growth. Pyaterochka is the only proximity store format in Russia to offer customers a loyalty programme, and we are committed to further enhancing the programme to make it even more attractive.

Penetration of the loyalty programme in traffic reached 48% in 2018, up from 42% a year earlier.

We had 29 million active programme members as of 31 December 2018, and our Pyaterochka Helps card holders accounted for 64% of sales for the year. These customers are key contributors to our business: 11% of our high-value customers with loyalty cards account for 39% of revenue.

Revenue by loyalty segment





Operational efficiency

Ongoing improvements to our operational efficiency is an important cornerstone of our strategy. One of our key areas of focus in 2018 was reducing shrinkage: in the second half of 2018, thanks to measures introduced by the new team at Pyaterochka, we managed to cut shrinkage by several dozen basis points.

Another priority area is the continued development of our efficient, multilayer logistics infrastructure, which will help us to keep operating costs to a minimum while supporting our growing federal network of proximity stores.

Pyaterochka has also launched a lean store initiative to help further improve efficiency. This initiative involves gathering insights into how operations can be optimised in order to improve

processes, product quality and labour efficiency. We aim to develop a set of recommendations and policies that will enable us to implement key learnings from this process across our stores.

In addition to these measures, Pyaterochka has continued to reduce rent costs by renegotiating rental contracts with a focus on rental rates being variable as a percentage of revenue. These renegotiated contracts accounted for 38% of Pyaterochka's selling space at the end of 2018.



Omnichannel business and innovations

Pyaterochka, like all of our formats, aims to develop its own omnichannel retail business lines. One area where Pyaterochka, together with all of X5 Retail Group's formats, has already begun to implement this strategic priority is the installation of parcel lockers. By installing these lockers, we are providing customers a convenient way to pick up orders from third-party online retailers when they visit one of our stores.

The rollout of these lockers is expected to bring incremental increases in traffic to our stores. By the end of 2018, 1,599 such lockers had been installed in 1,531 Pyaterochka stores. We are constantly reviewing new ideas, and additional omnichannel business lines are due to be introduced at our Pyaterochka stores in 2019 and beyond.

Our focus on innovations also led Pyaterochka to become the first X5 format to open a lab store. We use this store to test innovative technologies and ideas in a real store operating environment. This enables us to gain a better understanding of how potential new technologies or processes could impact on operations. The lab store is currently testing a range of new technologies, including video analytics to automate monitoring queues at tills and shelf availability.



Human resources and recruitment

Pyaterochka is a major employer in Russia with over 176,000 people working across all of the format’s operations (excl. outstaffing). This includes the X5 head office, as well as stores and logistics. One of the most important challenges that we deal with when opening a new store is finding the right people to hire. This can sometimes be significantly more challenging than the process of selecting a location and preparing the store for opening.

In order to address this challenge, and to encourage all of our employees to focus on customer needs, Pyaterochka is introducing new values and incentive schemes to further enhance customer-centricity. We believe that this is a key element of putting our customers at the centre of everything we do, in addition to initiatives like updating the CVP, adapting assortment and implementing loyalty programmes.

The new organisational structure that we have put in place at Pyaterochka will help us to implement a culture of continuous improvement based on analysis of customer feedback. Among other things, we have introduced NPS performance as an element of the motivation schemes for in-store personnel, including for store directors.