

# Chairman's statement



## Dear stakeholders,

As I look back at 2017 and our outlook at the beginning of that year, I am pleased to note that X5 Retail Group has delivered on its strategic targets, and the Company achieved strong operational and financial results: selling space increased by 27.4% year-on-year, while revenue rose by 25.3% year-on-year and adjusted EBITDA margin was maintained at 7.7%. These results show that X5 is delivering sustainable growth despite continued macroeconomic challenges.

X5 has reinforced its leadership position by expanding its operations and attracting more loyal customers, seeking to offer the best value propositions on the market. We are the leading Russian public food retailer in terms of growth, increasing our overall share of the food retail market to 9.5% in 2017. Our focus on rapid and sustainable growth requires us to constantly adapt, with the economic situation, competition and consumer behaviour continually evolving.

X5 will continue to pursue its strategic objectives with its balanced, multi-format business model, which enables us to capture growth in the three largest segments of Russia's food retail business: proximity stores, supermarkets and hypermarkets. We will also further increase our standards for quality and efficiency across our operations. I believe we will continue to deliver sustainable value with a corporate culture focused on achieving long-term strategic targets.

Going forward, technology and big data analytics will play an important role in value creation, and the Supervisory Board supports X5's increased focus on technology, innovation and an omni-channel offering for its customers.

**Stephan DuCharme**

Chairman of the Supervisory Board



## Strategic continuity and adaptability

Our successful strategic transformation and customer-centric approach, which I wrote about last year, have delivered strong results and enabled us to regain market leadership. Meanwhile, we must continue to adapt as consumer behaviour evolves and the retail industry becomes increasingly technology-driven.

With a balanced operating model that enables each of our formats to adapt their distinct value propositions to the needs of their customers, we have managed to achieve rapid, efficient and sustainable growth. At the same time, the Corporate Centre has developed as a hub for innovations, pooling resources in areas like purchasing and logistics, and with overall strategic oversight.

Throughout our businesses, the customer remains at the centre of our decision-making. We are engaged in ongoing analysis of consumer behaviour and demand, always seeking new ways to enhance the data and improve the outcomes. We are innovating to find new ways to meet consumer needs, for instance through data-driven personalised loyalty programmes. At the same time, we continue to refurbish Perekrestok supermarkets and introduce day-to-day improvements across our operations in order to ensure a consistent and high-quality shopping experience at every single store X5 operates. We also remain focused on continuous improvements in efficiency, which ultimately benefits the customer as well as other stakeholders. In terms of logistics, 2017 was another year of strong progress, with 10 new DCs opened as part of the implementation of our recently-approved Logistics and Transportation Strategy.

Another key to successful strategic continuity is the strong management team that we have assembled. The Supervisory Board continues to view motivation as a key element in the long-term success of X5, and we believe that the LTI programme is essential to keeping management interests aligned with those of shareholders and other stakeholders to achieve rapid and profitable growth aimed at sustainable long-term value creation. After the first LTI programme was approved by shareholders in 2015, an updated version of the programme will be subject to AGM approval in 2018, with the aim of further aligning management interests with shareholders', and including an even greater focus on sustainable value creation.

These foundations of our approach to building X5 Retail Group have consistently proven themselves year after year, giving the Supervisory Board confidence in the Company's ability to achieve strong and sustainable results while continuing its rapid growth. Furthermore, this has enabled us to adopt X5's first-ever dividend policy in 2017, and the Board will consider regular dividends in line with this policy.

## Creating value across the chain

We recognise our responsibility as a major business in Russia and as a large employer to take a responsible and sustainable approach to our business.

In line with this, the Supervisory Board and management focus not only on financial and operational results to measure our performance, but also on non-financial metrics ranging from occupational health and safety, environmental impact, employee satisfaction and customer satisfaction, to how we can have a positive impact on the communities where we operate.

We aim to create value for our stakeholders at every stage of our business, starting from the food producers and suppliers whose goods stock our shelves, all the way through to our customers, who are looking for a convenient shopping experience with fair prices for high-quality goods.

This approach has led X5 to support local suppliers across Russia with training seminars at our DCs that help them interact more efficiently with us. The Company maintains healthy and safe workplaces for employees, and offers a growing array of career training and development opportunities.

We give back to local communities through food aid programmes like the Basket of Kindness, which, in partnership with Rus Food Foundation, was rolled out across more than 800 stores and collected more than 77 tonnes of produce that was provided to more than 6,000 families in need in 2017.

We have introduced and, where necessary, improved our internal policies to ensure that we hold ourselves and our suppliers to high standards of business conduct, with procedures in place to prevent corruption, discrimination and other unacceptable or unlawful practices.

Within the Company, we communicate these developments, conduct training for employees and maintain feedback mechanisms including a whistleblower line for reporting any type of misconduct and irregularities. With suppliers and other counterparties, X5 is currently in the process of introducing new contracts that require compliance with high standards of business conduct as well.

## Corporate governance

X5 has a robust system of corporate governance that draws on international best practices and serves to ensure that the interests of all stakeholders are duly represented and taken into account. The members of our Supervisory Board come from a variety of backgrounds and bring to the table different skills and knowledge from across retail, finance, strategy and governance.



With an understanding of the importance and benefits of diversity, including but not limited to gender, the Board developed a diversity policy in 2017. Whilst the Supervisory Board is currently not balanced with regards to gender, X5 recognises the benefits of diversity and is fully committed to achieving this. We acknowledge the importance of diversity, including gender, at all levels of the Group, and the Company has a very strong track record of developing female business leaders at the executive level, as demonstrated by the gender balance within the Executive Board and senior management team.

The Board is committed to constantly challenge and improve its own functioning and performance. The in-depth board evaluation performed by an external evaluator in 2017 helps us to ensure that members of the X5 Supervisory Board are “fit for tomorrow” and able to support management in being prepared for disruption and change.

## Corporate culture that is prepared for the future

The Supervisory Board and I believe that we must lead by example and set the tone, together with the management team, to create a culture of long-term value creation across X5's entire business. We view corporate culture as the key to instilling a systematic and sustainable approach to growing our business in every employee. In fact, we aim to move from the traditional notion of strategy to the notion of culture as the key to achieving sustainable growth and profitability.

We aim to establish a learning culture that rewards innovation and is receptive to the disruption caused by technology, for example, in order to benefit from emerging opportunities to leverage data that will enable X5 to become a smarter, quicker and even more customer-centric retailer.

Innovation has become a core area of development for X5, and the Board expects management to focus on this area to ensure that we lead the sector in developing from a traditional modern food retailer into a next-generation omni-channel retailer that can effectively and efficiently use data about its customers to constantly refine and adapt its business model.

At the same time, we will continue to focus on expanding our decentralised operating model that has successfully brought us where we are today: a truly multi-format food retail business with a constant focus on efficiency and adapting our value propositions to customer needs.

The Russian food retail market remains highly attractive, with significant potential for overall growth, consolidation and increasing the share of modern retail. I will be working closely with the other members of the Board and with our management team to ensure that X5 continues to remain at the forefront of Russian food retail, the employer of choice for our employees, and that our value proposition to customers remains the most compelling regardless of trends in the market.

I would like to extend my sincere gratitude to everyone who made 2017 a successful year for X5 Retail Group and to thank our investors for their continued belief in our story.

### Stephan DuCharme

Chairman of the Supervisory Board