

Russia's food retail market

Highlights

The world's
8th-largest grocery market

Market growth forecast for 2017–2020 (Infoline):
RUB 2.8 trillion

CAGR
2012–2017:
8%

Market share of modern retail in 2017:
70%

Market share of top five players in 2017:
24%

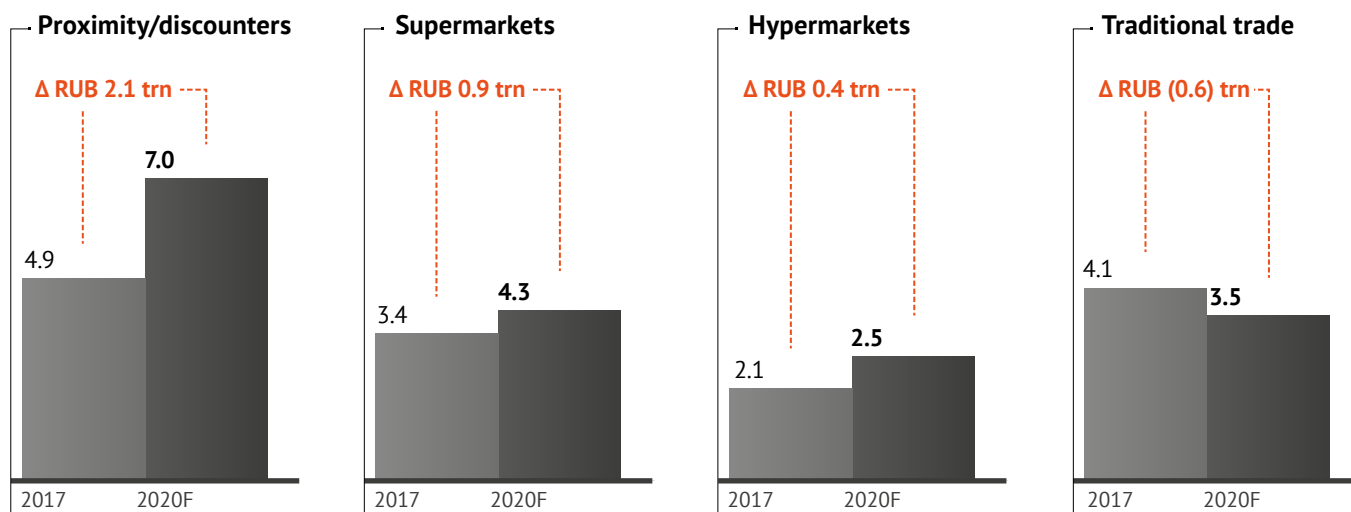
Market overview

Committed to the three major food retail formats, RUB trn

Total market size:

2017: RUB 14.4 trn
2020F: RUB 17.2 trn

Substantial mid-term growth potential for all major formats.

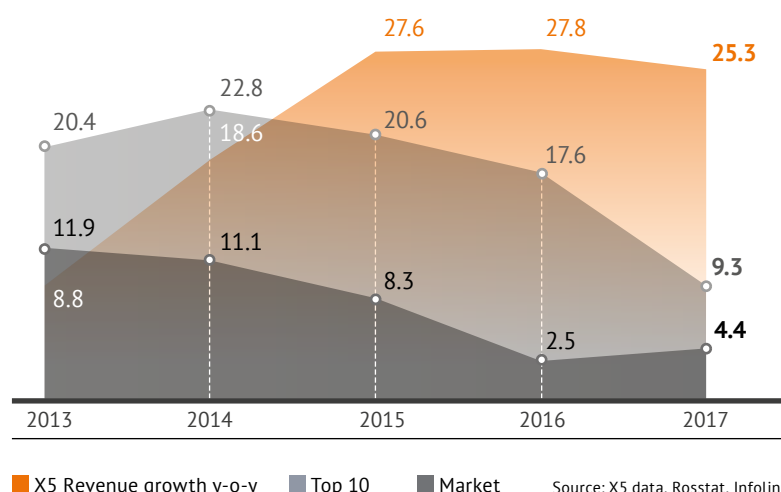


Source: Infoline

The Russian food retail market holds significant potential, especially for the largest players with the ability to expand rapidly and take market share in a growing market. We are Russia's largest retailer with an established presence in the three largest formats: proximity/discounters, supermarkets and hypermarkets.

In 2017, X5 continued to outperform the overall market, maintaining its #1 market position and extending the strong momentum that has outpaced major competitors since 2015.

X5 vs. Russian food retail in top-line growth, %



X5 compared to peers

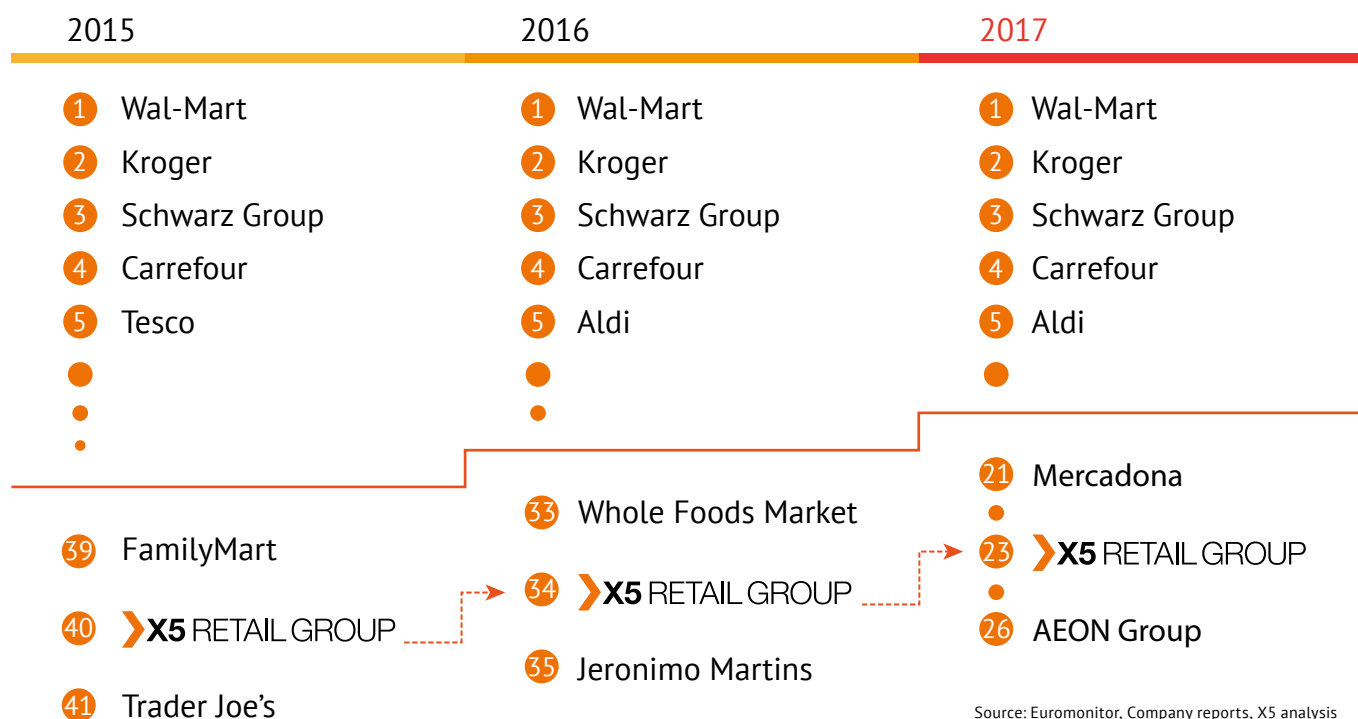
While the Russian food retail market grew by 4.4% overall in 2017, X5 managed to increase its share from 8.0% in 2016 to 9.5% in 2017, in line with the Company's strategic goal of expanding faster than other players in this growing market.

Top 10 Russian food retailers

#	Company	% of total market 2016	% of total market 2017
1	X5	8.0	9.5
2	Magnit	7.4	7.5
3	Lenta	2.1	2.5
4	Auchan	2.9	2.2
5	Dixy	2.4	2.1
6	SPS Holding	1.2	1.8
7	Metro	1.6	1.4
8	O'KEY	1.2	1.2
9	Monetka	0.6	0.6
10	Globus	0.6	0.6
TOTAL TOP 10		28.0	29.4

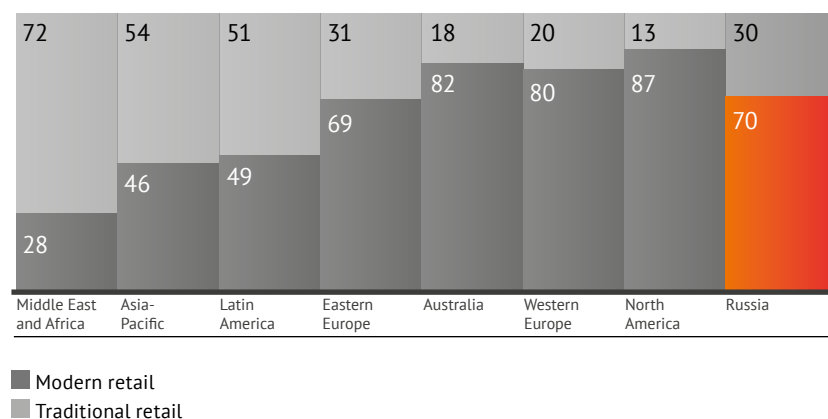
Source: Infoline

Russian food retailers vs. global peers



While outgrowing the Russian market, we also continue to improve our ranking among global food retailers: in 2017, X5 was the 23rd-largest food retailer by revenue in the world, up 10 positions from 2016. Over the last three years, X5 has consistently improved its standing among its peers.

Traditional vs. modern trade in 2017, %

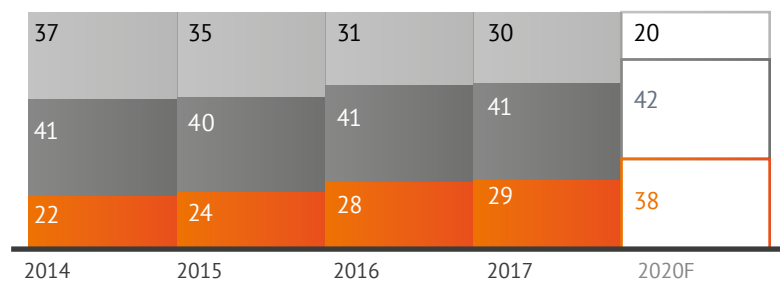


According to Infoline, the top five players in Russia control just 24% of a fragmented market, compared to 60-70% in developed markets, indicating significant potential for growth. Further market consolidation is expected in the proximity/discounter and supermarket segments, meaning individual stores, small regional chains and informal trade will increasingly give way to leading players.

The continued shift towards modern retail will be the key driver for growth for the top players. The share of modern retail in Russia has grown significantly, from 48% to 70% over the last five years, but there is still potential for further increases compared to most developed countries.

Note: All values used are nominal. All numbers are exclusive of VAT/sales tax
Source: Euromonitor, X5 analysis

Russian food retail market development, %

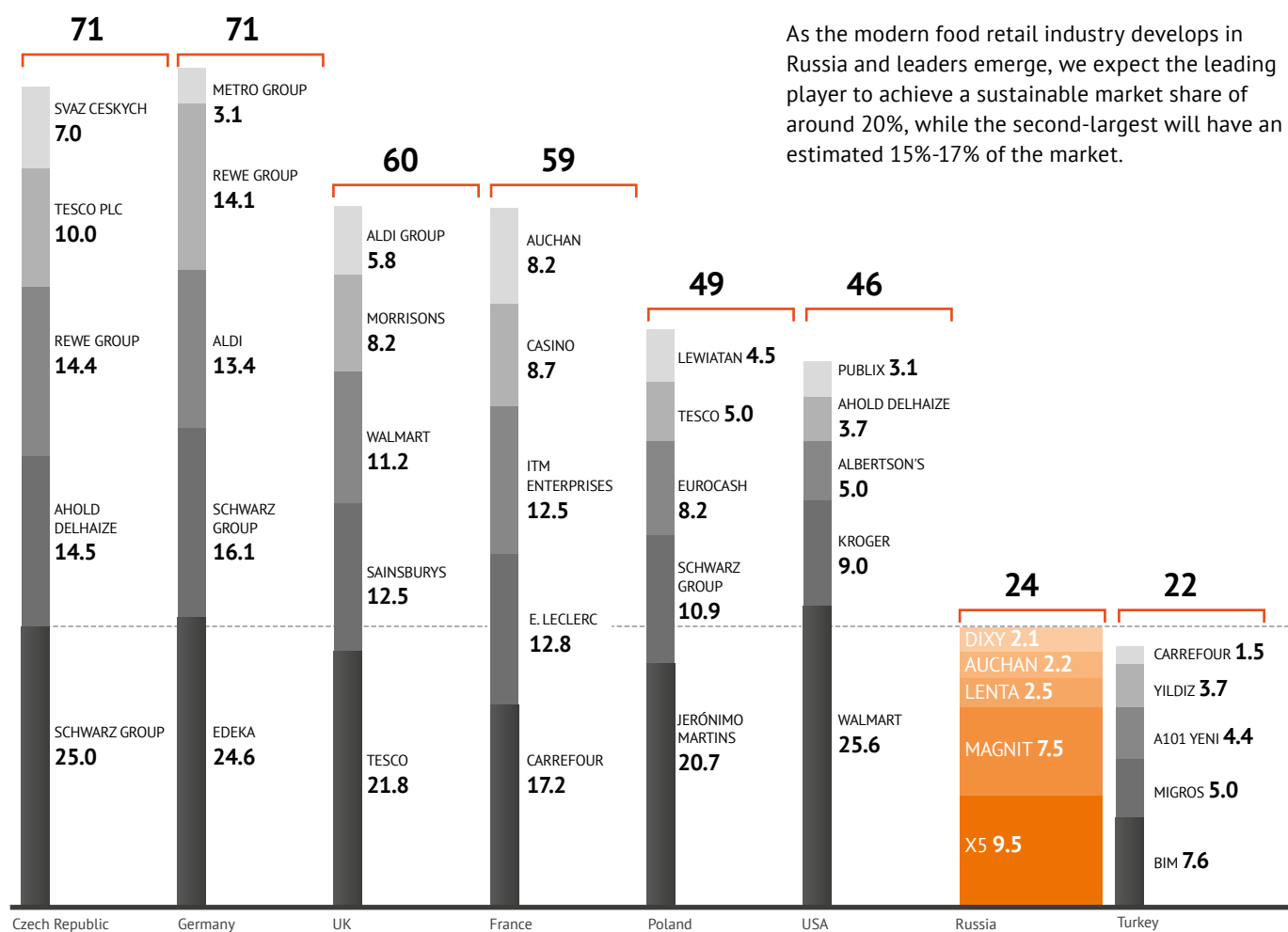


■ Federal chain
■ Regional modern retail
■ Traditional retail

Source: Infoline

Despite the substantial level of modern trade penetration in Russia already, there is still potential for further growth.

Top five share of grocery retail globally in 2017, %



As the modern food retail industry develops in Russia and leaders emerge, we expect the leading player to achieve a sustainable market share of around 20%, while the second-largest will have an estimated 15%-17% of the market.

Source: Euromonitor, Infoline (for Russian market only). Company Reports, X5 analysis

Economic and consumer trends

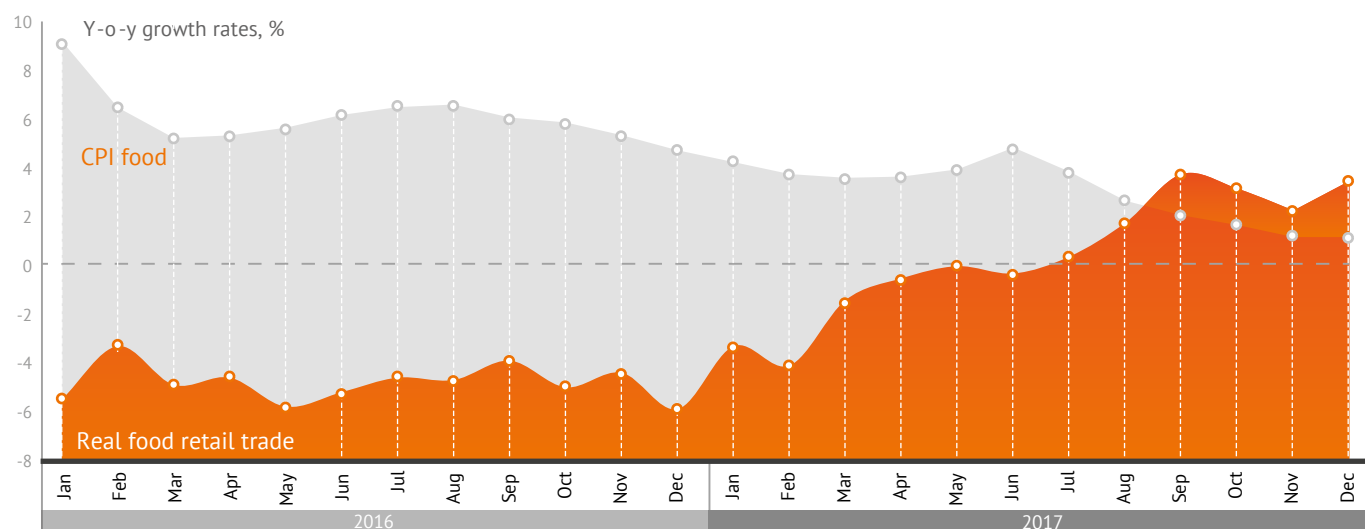
The Russian economy returned to growth in 2017, and a gradual recovery is expected to continue in 2018, but sufficient risks for the sustainability of this recovery still exist. Some of the key macro-trends that affected X5's performance in 2017 include:

- Personal consumption switched to growth on the back of steady growth in real wages, a decline in the unemployment rate and a recovery in retail lending
- Consumer confidence improved but still remained negative. Trading down started to decrease but was still high in absolute terms
- Inflation decelerated to historically record lows in 2017

Looking ahead to 2018, we expect the following macro-trends to influence our results for the year:

- Inflation is likely to stop decelerating in 2018, but the average rate for the year may still be lower than the CBR target of 4%
- Expected household consumption and real retail turnover growth will play an important role in real GDP growth of 1%-2%, according to the consensus forecast
- The key macroeconomic risks for the sustainability of the economic upturn are a weak recovery on the supply side and a decline in real disposable income on the demand side

Food retail trade and CPI dynamics

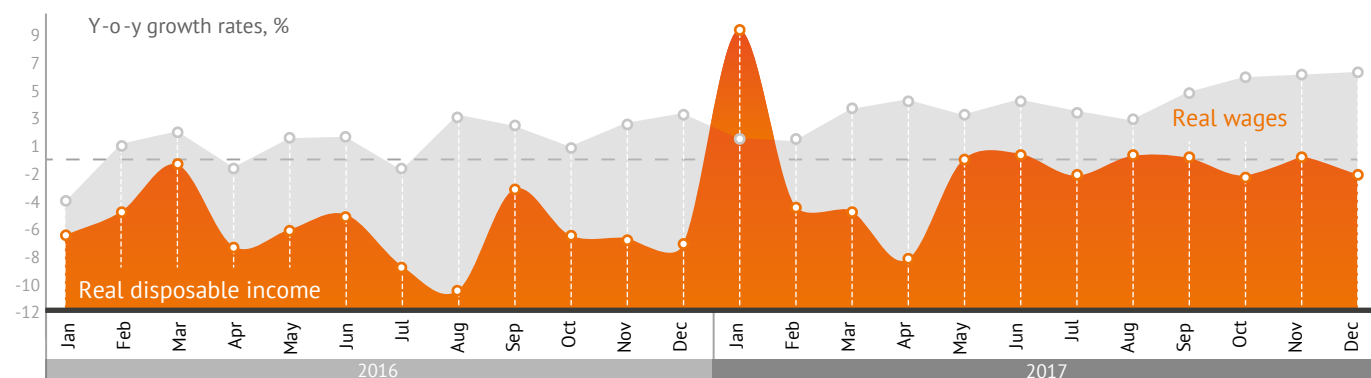


Source: Rosstat

X5 has proven its ability to adapt to the changing macroeconomic conditions and to lead a potential economic recovery, leveraging its scale, efficiency and flexibility to grow profitably while others have slowed their pace.

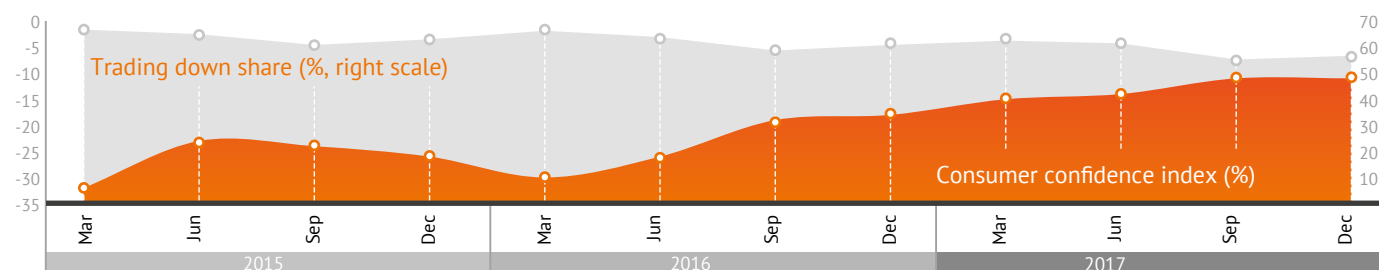
- The key factors affecting our market in 2017 were decelerating food CPI, which influenced nominal retail sales growth; negative real disposable income growth; and the slowdown in the recovery of consumption and consumer confidence towards the end of the year
- At the same time, the food retail market returned to growth in real terms, increasing by 0.5% year-on-year. In nominal terms, it increased by 4.4% to RUB 14.4 trillion in 2017
- In response to low inflation rates, the key to X5's ability to continue to deliver strong revenue growth was the increase in real consumption. Going forward, X5 will continue to concentrate on enhancing customer activity
- As consumers remained highly sensitive to prices, X5 focused on maintaining accessible prices with the help of promo activities and the development of strategic partnerships with both suppliers and private labels. To address these trends, X5 is also further developing its loyalty programmes and personalised advertising using modern data analytics. In private labels, we have introduced and are further developing offerings that compete with high-quality name brands at an attractive price point

Personal income dynamics



Source: Rosstat

Consumer behaviour indicators



Source: Rosstat, FOM

How we are responding to Russia's changing food retail market

X5 has identified the key trends that will drive Russia's food retail market in the coming years, and the Company has developed innovative methods to maintain its growth. X5's omni-channel approach, which improves customers' personal shopping experience both online and offline, is backed by smart logistics and big data analysis.

Innovation has been a core focus of our business since we completed our successful strategic transformation, and it affects all aspects of our operations, from automated recruiting software to big data analytics used to analyse customer behaviour to the GIS software we use to pinpoint locations for new stores. In innovating, our aim is not to adapt quickly to market trends, but to be the trendsetter and to lead the transformation of food retail into a high-tech business.

X5 has already launched Perekrestok Online for its customers in Moscow and aims expand the e-commerce platform to St Petersburg in 2018.

New retail

Offline + Online

WHERE WE ARE NOW

- More than 12,000 stores
- Presence in 63 of 85 regions across Russia
- Market leader with 9.5% market share in 2017 (Infoline)
- Launch of Perekrestok Online covering all of Moscow

COMING NEXT

- Grow above the market and the competition
- Defending core regions while profitably expanding in new areas
- Launch of Perekrestok Online store in St Petersburg
- Omni-channel model to improve customer experience

We aim to build a next-generation food retail company, developing an omni-channel approach with in-store and online shopping, while implementing innovative solutions and big data to advance our smart logistics operations and better inform our value proposition.

Logistics + Data

- 39 Distribution Centres
- 3,144 owned trucks
- Innovative IT solutions: JDA, GoCargo
- Focus on innovations and big data
- Strategic retail partnership with IIDF and Skolkovo
- Loyalty programmes across all three major formats
- Implementation of a new Logistics and Transportation Strategy to 2025
- Up to 20 new DCs by 2020
- Up to 3,000 new company-owned trucks by 2020
- Development based on a long-term forecast of customers' demand
- Innovative approach
- Launch of personalised promotions in proximity format
- Deep analysis of customers' needs and habits
- Customer-centric approach and data-driven culture