

Perekrestok

supermarkets



Perekrestok strengthened its position as Russia's #1 supermarket format in 2017, with 638 stores operating in around 130 cities and towns as of year end. While we continue to focus on organic growth, with over 100 new gross openings during the year, we also acquired O'KEY's supermarket business, which should add 32 stores in attractive locations in 2018, 18 of which will be in St Petersburg.

While Russia's supermarket sector saw a recovery in 2017, Perekrestok managed to outperform competitors in the supermarket sector, with year-on-year LFL traffic growth of 6.7% for 2017. We remain focused on adapting our CVP to attract a wider customer base to all of our stores, while tailoring our regional supermarkets to meet local demand. With the refurbishment programme well under way, and the launch of our online supermarket last year, we aim to bring our customers the best shopping experience across every single store we operate while continuing to expand through new channels.

Vladimir Sorokin

General Director of Perekrestok





Perekrestok is Russia's largest supermarket format, and is the oldest modern food retail format in the country. Today, we are opening modern stores in cities across Russia, while also refurbishing and updating our existing stores in traditional home markets like Moscow and St Petersburg. 2017 was a year of record growth for the supermarket banner, with 99 stores added and 88,769 square metres of net selling space added during the year. We continue to adapt the Perekrestok CVP to the needs of regional customers outside of our core regions as we expand outside of our traditional markets, while also trying to attract a broader base of customers across the chain.

Perekrestok stores offer an assortment of 8,000-15,000 PLUs, with an average selling space of 999 square metres.

Performance highlights

Net retail sales

RUB 187 bln

+20.3% year-on-year

Stores in operation

as of 31 December 2017

638

+18.4% year-on-year

Selling space

as of 31 December 2017

637 ths sq m

16.2% year-on-year

Customer visits

407 mln

+16.2% year-on-year

Stores refurbished

76

+22.6% year-on-year

LFL traffic growth in 2017

6.7%

the highest rate of growth among X5 Retail Group formats in 2017



Strategic highlights

Record number of new openings:

99 stores added in 2017 (excluding 32 O'KEY supermarkets acquired in December 2017, should be added in 2018 and be refurbished as Perekrestoks)

Continued development in regions

with the highest level of modern retail penetration and competition (Central and North-Western Federal Districts), with approximately 60% of stores opened in Moscow, the Moscow region and St Petersburg and the Leningrad region

Regional expansion:

ongoing adaptation and development of our CVP to meet the needs of customers outside of our core regions and Russia's major cities, with all new and refurbished stores in regions opened according to our new concept

Refurbishment programme:

76 stores were refurbished in 2017, with 73% of the store base operating under our new concept as of 31 December 2017 (vs. 52% as of 31 December 2016)

Service and efficiency:

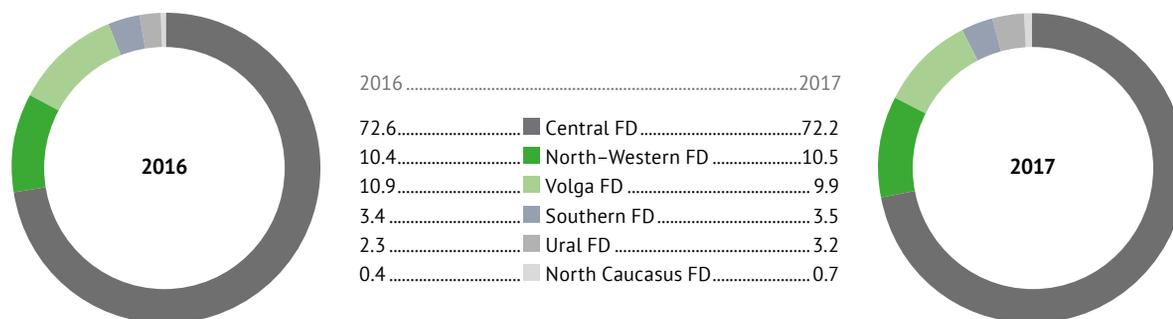
made across-the-board efficiency improvements in operational expenses, shrinking costs and SG&A



Key operating results

	2013	2014	2015	2016	2017
Number of stores, eop	390	403	478	539	638
Selling space '000 m ² , eop	398	416	484	549	637
Net retail sales, RUB bln	111	116	130	155	187
Customer visits, mln	307	302	304	350	407

Perekrestok net retail sales by region, %



Strategic priorities for 2017

Our priorities	What we did	What we plan to do
Continue opening new stores to preserve foothold for future growth	<ul style="list-style-type: none"> • 71% of stores are located in the Central and North Western Federal Districts, the two retail markets in Russia with the highest level of modern retail • 62% of new openings were in Moscow, St Petersburg and other cities with a population of over 1 million people 	<p>Fine-tune value proposition and adapt to customer needs:</p>
Continue to refine CVP to meet demand from core customers, while expanding overall base	<ul style="list-style-type: none"> • Continued measures to adapt assortment and improve service have delivered positive results: LFL sales growth of 10.1% in 2017 was highest among X5's formats and set a new record among Russian public food retailers • Successful expansion of loyalty programme with more than 14 million customers registered • 63% of retail sales attributable to loyalty card holders as of December 2017 • Expanded private-label offering, began partnerships with suppliers to provide exclusive labels for Perekrestok customers 	<ul style="list-style-type: none"> • Maintain pace of organic growth and refurbishments with local M&A deals • Expand regional model to support ongoing growth • Further adapt assortment to meet demand of wider customer base • Develop loyalty programme and expand personalised promotions • Expand and develop online supermarket in Moscow and St Petersburg • Improve NPS
Move towards omni-channel approach, with online supermarket in core markets	<ul style="list-style-type: none"> • Successfully launched and rolled out Perekrestok Online in Moscow • Approved plan to expand online supermarket platform to St Petersburg in 2018 	<p>Improve efficiency and reduce costs:</p>
Expand and develop regional supermarket model	<ul style="list-style-type: none"> • Expanded and adapted regional supermarket model, improving quality of regional growth • All new and refurbished stores in regions were opened under the new regional supermarket concept • Developed regional logistics, including new DC in Yekaterinburg, helping to improve efficiency of regional supermarkets 	<ul style="list-style-type: none"> • Increase the share of private labels • Further develop direct imports • Further improve logistics (forecasting, stock replenishment system) • Undertake targeted and rational reinvestment of improvements in opex and purchasing terms into adapting CVP to better address customer demand
Continue to implement refurbishment programme	<ul style="list-style-type: none"> • 76 stores were refurbished in 2017, with over 73% of Perekrestok stores operating under the new concept as of 31 December 2017 • Decreased average refurbishment period from 44 days in 2016 to 41 days in 2017 	
Focus on further refining service and efficiency of operations	<ul style="list-style-type: none"> • Focused on quality of service and shelf availability • Improved opex, logistics, shrinkage costs and SG&A: staff costs, lease costs, marketing and security 	



Accelerating expansion

With 99 new stores added in 2017, last year marked our fastest-ever rate of expansion. While we continue to concentrate on Russia's largest cities, our regional model has proven to be a successful way for Perekrestok to expand into cities with populations of less than 1 million.

We have also integrated X5's GIS software into our decision-making, and we sometimes work together with Pyaterochka when selecting locations for new stores to determine which format is best-suited for a specific location.

While our primary focus remains on organic expansion, we also took advantage of an attractive M&A opportunity with the purchase of OKEY's supermarket business, which reflects X5 Retail Group's commitment to growing the Perekrestok supermarket format. Through this transaction, Perekrestok should add 32 supermarkets in 2018, 18 of which will be located in St Petersburg and four in Moscow.



Refurbishment: improving brand perception

The Perekrestok refurbishment programme remains among our top strategic priorities, as we try to ensure that each of our stores offers shoppers a modern and high-quality supermarket shopping experience. In addition to refurbishments, which have been going on since 2014, we are constantly introducing improvements to our stores, and a Perekrestok that was refurbished four years ago looks very different today as a result of everyday improvements that we have introduced.

Refurbishments include installation of state-of-the-art equipment and updates to interior and exterior store design. The new concept improves the efficiency of store layouts and upgrades the lighting, giving customers more space and light in the store for a better shopping experience. Zoning and location of promotional offers are also taken into account under the refurbishment programme. These changes to refurbished stores make it possible to increase the share of fresh goods, improve service and make goods more readily available on shelves.

Some of the programme's 2017 highlights include:

Number of stores refurbished in 2017

76

vs. 62 stores in 2016

Share of stores operating under the new concept as of 31 December 2017

73

vs. 52% a year ago

Average duration of store closure

41 days

vs. 44 days in 2016

Average sales recovery period

5 months

Average LFL sales growth after recovery period

18-19%



Perekrestok Online — moving to omni-channel sales

NPS level

73%

Availability

99.4%

Perekrestok Online was launched in Moscow in 2017. Our core audience includes active internet users who are driving the rapid growth of e-commerce across many segments of Russia's retail market. By leveraging Perekrestok's well-known brand, we aim to build an online business that integrates know-how and best practices from international leaders in the field, adapted to Russia's operating environment and consumer expectations.

Even in the short period that it has been operating, since its launch in the second quarter of 2017, we have refined and improved Perekrestok Online, and we managed to achieve profitability by the end of the year. Perekrestok Online started operations in April with 20-30 orders per day and finished the year with 800 orders on New Year's Eve.

The online service increased drops per trip from four to 12 in 2017, for example, and optimised order selection in order to decrease missing items and substitutions to just 2% of items ordered. Perekrestok Online's customers are loyal, with more than 70% of orders coming from loyal customers. Our NPS for 2017 was at the very high level of 73%. Throughout the year, the average basket for Perekrestok Online was also several times higher than at brick-and-mortar Perekrestok stores.

Following our successful launch in Moscow in 2017, we aim to expand Perekrestok Online to St Petersburg in 2018.

Private label

Perekrestok further expanded its private-label offering in 2017, introducing the new exclusive dairy brand Sarafanovo during the year. We also plan to introduce the new dairy brand Verkhovye in 2018. Both of these new brands are good examples of how our focus on private-label goods includes a significant number of goods in the medium-price segment.

In 2017, the share of private-label goods in Perekrestok’s net retail sales was 5.4%. As of December 2017, we were offering over 1,600 private-label SKUs.

We offer cross-category private labels in the low-price (Prosto) and the mid-price (Market Perekrestok) categories. We are continuing to develop our private labels in the high-price segment as well. Perekrestok is also continuing to develop several niche private labels: Bonte (confectionary), Novy Okean (seafood) and Perekrestok Chef (cookery), as well as a children’s brand and “fresh from the farm”.

Sarafanovo



	CURRENT BRANDS	NEW BRANDS
MEDIUM AND MEDIUM+	<ul style="list-style-type: none"> MARKET PEREKRESTOK SARAFANOVO 	<ul style="list-style-type: none"> VERKHOVYE UHTISHKI
FIRST PRICE	<ul style="list-style-type: none"> PROSTO 	
NICHE	<ul style="list-style-type: none"> BONTE NOVY OKEAN PEREKRESTOK CHEF 	



Loyalty programme

The updated Perekrestok Club loyalty programme has contributed to our successful growth, with 4.2 million active users in December 2017. The Perekrestok Club card offers customised promotional programmes that offer discounts to loyal customers on goods we know they buy regularly. We have also expanded the functionality of the loyalty programme's mobile app, which had been installed on 1.1 million devices as of the end of 2017.

Loyalty card holders accounted for 63% of Perekrestok's net retail sales in December 2017. The average check of a Perekrestok Club member was 38% higher than the overall average check across all Perekrestok stores.

In addition to Perekrestok loyalty cards, we entered into a strategic partnership with Alfa-Bank and began offering a co-branded MasterCard in November 2016. Three types of cards are available: reloadable prepaid cards, debit cards and credit cards. Cardholders earn points on all purchases that can be redeemed against goods at Perekrestok supermarkets (10 points for every rouble spent). Purchases made at Perekrestok stores earn additional points. As of the end of 2017, we had issued around 100,000 debit cards, as well as around 225,000 prepaid cards.



Kitchen Factory

In order to further enhance our CVP and introduce unique products available only at Perekrestok stores, we have invested in the Kitchen Factory. This facility, which will produce ready-to-eat food, will be an advanced in-house production facility that supplies ultra-fresh and ready-to-eat products to our stores.

The Kitchen Factory will help Perekrestok significantly expand the share of in-house production in total turnover. With a target output of 120 tonnes per day, the Kitchen Factory will add up to 800 new SKUs to Perekrestok's product range, becoming the largest manufacturer of ready-to-eat products in Russia and one of the major production facilities in Europe.

In the future, the Kitchen Factory's products will be supplied to Pyaterochka and Karusel stores. With construction already underway and a total planned capital expenditure of RUB 3.5 billion, the facility is due to become fully operational in 2018.