

# Pyaterochka

## proximity stores



We set new all-time records for Pyaterochka, passing RUB 1 trillion in net retail sales and adding more than 1 million square metres of new selling space for the first time in our history. With 29% year-on-year growth in net retail sales in 2017, we achieved the fastest pace of growth of any public food retail banner in Russia. Pyaterochka was operating 11,225 stores in around 2,500 cities and towns across Russia at the end of 2017.

While achieving this rapid expansion, we have maintained a focus on adapting to the needs of local customers. Russia is an economically and ethnically diverse country, and we want to meet the different needs of our customers in every store that we operate. We have successfully adjusted our operating model to enable greater localisation of assortments at the level of operational clusters, meaning we can adapt to demand more flexibly. Another constant focus has been on leveraging data analytics to offer personalised promotions for higher-quality relationships with our customers.

**Olga Naumova**

General Director of Pyaterochka





Pyaterochka is one of the top brands in Russia, and is the fastest-growing retail format in our portfolio. Our proximity stores aim to deliver a satisfactory shopping experience and offer a wide assortment of high-quality goods to consumers in Russia. Pyaterochka's highlights include convenient locations, a unique loyalty programme with personalised offers, attractive weekly promotions and reasonable prices. On average, a Pyaterochka store is 394 square metres in size, with more than 4,500 PLUs on offer.

## Performance highlights

### Record new openings

#### New stores added

**2,862**

and 1.1 million square metres of new selling space added

#### Selling space

as of 31 December 2017

**4,427**  
ths sq m

+33.0% year-on-year

#### Stores

as of 31 December 2017

**11,225**

+34.2% year-on-year

### Net retail sales

**RUB 1,001 bln**

+29.0% year-on-year

### Helping Card (Vyruchai-Karta) loyalty programme

#### Cards launched

**>45 mln**

more than 20 million active users

### Customer visits

**3.3 bln**

25% year-on-year increase in cities and towns of operation

#### Traffic penetration

as of 31 December 2017

**44%**

and 61% of retail sales attributable to loyalty card holders



## Strategic highlights

### New loyalty programme

launch and full rollout leveraging data analytics to automatically generate personalised offers for customers

### Record new selling space

and store openings underpinned by updated GIS, which helps to ensure quality openings in good locations while minimising cannibalisation

### Adapting to Russia's diverse regions:

expanded cooperation with local suppliers, with local assortment accounting for an average of 17% of our assortment in 2017, and as high as 25% in some regions

### Meeting demand at a regional level:

began "clusterisation" of assortment matrix, enabling Pyaterochka to adapt to the needs of customers on a more precise basis

### Updated organisational structure

in line with rapid business growth: Pyaterochka is now managed in 13 divisions and more than 150 clusters

### Geographic expansion:

expanded presence in Siberian Federal District, opened stores in around 500 new cities and towns

### Operational excellence:

completed five-year refurbishment programme and continued to focus on day-to-day in-store improvements

### Innovation and efficiency:

launched automated/centralised cash control monitoring system and mobile work stations for supervisors; further developed our direct import operations

### Advanced data analytics:

thanks to successful launch of loyalty programme that leverages data about customer shopping habits to automatically generate personalised offers; integrated big data analytics into decision-making and planning processes

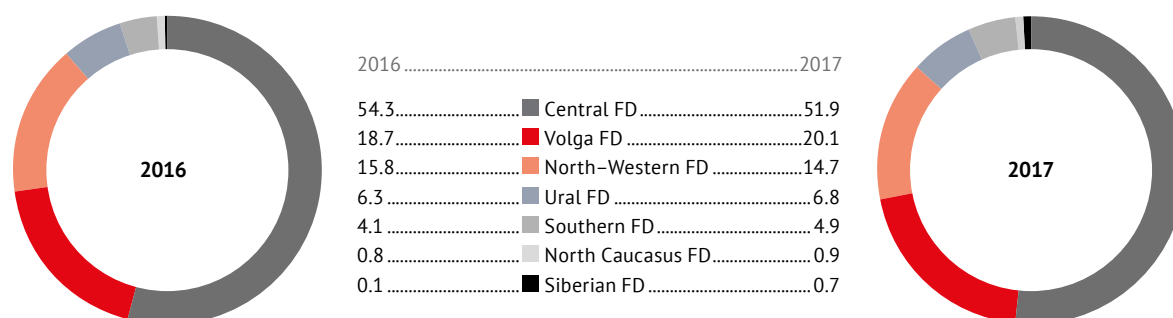




## Key operating results

	2013	2014	2015	2016	2017
Number of stores, eop	3,882	4,789	6,265	8,363	11,225
Selling space '000 m <sup>2</sup> , eop	1,414	1,754	2,423	3,329	4,427
Net retail sales, RUB bln	348	436	585	776	1,001
Customer visits, mln	1,450	1,645	1,990	2,543	3,267

## Pyaterochka net retail sales by region, %



# Strategic priorities for 2017

Our priorities	What we did	What we plan to do
Rapid, high-quality growth	<ul style="list-style-type: none"> <li>11,225 stores as of 31 December 2017, up 34.2% year-on-year</li> <li>4.4 million square metres of selling space, up 33.0% year-on-year</li> <li>Continued to enhance GIS system to support efficient decision-making and high-quality openings</li> <li>Began pilot introduction of “macrodivisions” in organisational structure to efficiently manage rapidly expanding business</li> </ul>	<p><b>Maximise the share of customers, and maximise the share of these customers’ wallet:</b></p> <ul style="list-style-type: none"> <li>Continue to enhance the current value proposition and increase ability to adapt to demand at the local level</li> <li>Focus on ensuring high-quality openings to support rapid and sustainable growth with ongoing improvements to GIS data and modelling</li> <li>Increase share of assortment from local producers in each region, as well as stores’ ability to adapt offering in response to local demand</li> <li>Further development of private label</li> <li>Improve NPS</li> <li>Further develop data analytics-driven loyalty programme and personalised promo offerings</li> </ul>
Expand to new geographies and strengthen position in existing locations	<ul style="list-style-type: none"> <li>Expanded presence in Siberia, entering 53 new cities and towns in the Siberian Federal District</li> <li>Opened stores in around 500 new cities and towns, increasing our regional coverage by 25% year-on-year</li> <li>Over 40% of Pyaterochka stores are now located in locales with populations under 100,000</li> <li>Opened new DC in Novosibirsk, providing strong support for accelerated expansion in Siberia</li> </ul>	
Continue to adapt value proposition and improve customer experience	<ul style="list-style-type: none"> <li>Completed refurbishment programme while continuing to introduce improvements at existing stores</li> <li>Regularly adapted assortment based on customer demand, including expansion of locally produced products: over 1,050 new producers from 63 Russian regions began supplying goods to X5 stores in 2017</li> <li>Started “clusterisation” of assortment, enabling Pyaterochka to adapt store contents to meet demand at the local level</li> </ul>	
Effective loyalty and promo programmes	<ul style="list-style-type: none"> <li>Rolled out Helping Card (Vyruchai-Karta) loyalty programme, which leverages advanced data analytics to automatically generate personalised offers</li> <li>Launched debit card loyalty programme in partnership with Post Bank</li> <li>Introduced advanced analytics system that enables partners to track effectiveness of promo activity on consumer behaviour</li> </ul>	<p><b>Improve efficiency and reduce costs:</b></p> <ul style="list-style-type: none"> <li>Adapt organisational structure to retain ability to effectively manage large and rapidly expanding business</li> <li>Continue to use innovative solutions to automate processes and cut operating costs</li> <li>Develop and integrate systems that enable us to maintain a lean and agile approach while continuing to grow rapidly</li> <li>Maintain focus on improvements in opex and purchasing terms, while supporting customer loyalty and maintaining margins</li> </ul>
Optimise efficiency and costs	<ul style="list-style-type: none"> <li>Negotiated improved terms with suppliers</li> <li>Made improvements to logistics: opened nine new DCs and closed five old DCs that were not meeting efficiency criteria</li> <li>Automated high-volume recruitment process with custom AI solution</li> <li>Made SG&amp;A improvements: lease costs, utilities, other store costs and other expenses</li> </ul>	





## Rapid and high-quality growth

We continued to set new records for growth in 2017, passing the threshold of 1 million square metres of new selling space added and RUB 1 trillion in net retail sales. This continued expansion is only possible with robust and effective systems in place to enable us to efficiently select locations, open stores and offer customers the best value proposition.

**GIS:** GIS has been one of the 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 improve its accuracy.

**Adapting organisational structure:** We are constantly seeking to enhance our ability to effectively manage our decentralised business, enabling Pyaterochka to adapt to local needs while maintaining a single strategic focus. As of the end of 2017, we were operating 13 divisions and 158 clusters, and we had begun piloting a new level of “macrodivisions”.

**Efficiently building an excellent team:** Recruitment plays a major role in our successful and rapid expansion. While continuing to focus on training, development and motivation for employees, we have also started automating parts of the recruitment process with advanced IT solutions that conduct online searches, analysis of CVs and even call potential applicants before requiring one-on-one human interaction.



## Refurbishment complete, increased focus on in-store improvements

We renovated just 267 stores in 2017, down from 1,185 in 2016, as we completed Pyaterochka's renovation programme. At the same time, our stores are constantly changing: a Pyaterochka renovated in 2013-2014 when we launched this programme will look significantly different today due to the day-to-day improvements we have introduced over the years.

We monitor trends and innovations, and we can rapidly introduce new practices at our stores, such as optimising the produce selling space to make it more convenient and easier for customers to get a broader range of products. These include testing of new equipment and shelves, placement of products and other innovations aimed at continuously improving the shopping experience for customers.



An aerial, isometric view of a city model. In the upper center, there is a large church with a prominent dome and a bell tower. To the left of the church is a residential area with several small, dark-roofed houses arranged in a grid. To the right and in the foreground, there are larger, multi-story apartment buildings with red roofs. A yellow line traces a path through the city, starting from the bottom right, moving left, then up, and then left again, passing between the apartment blocks and the church area. The overall scene is rendered in a muted, greyish tone with selective color for the church and the yellow line.

# **Expansion** into smaller cities

**While Pyaterochka continues to grow its share in existing markets and enter new regions, the format is expanding into smaller cities and towns, where it is the primary provider of modern retail services.**







## Effective promo and data- driven loyalty programme

One of the key achievements in 2017 was the launch and rollout of the Helping Card (Vyruchai-Karta) loyalty programme, which goes beyond offering points for purchases, using advanced data analytics based on customer behaviour to automatically generate personalised offers to encourage shoppers to choose Pyaterochka. Personalised promotions are now being rolled out across the entire Pyaterochka network in 2018, after successful testing in 2017.

In addition to Helping Card (Vyruchai-Karta), we launched a new debit card offering with Post Bank, a mobile loyalty card based on a mobile phone app, the “children’s club” add-on for parents that use Helping Card (Vyruchai-Karta), and a partnership with A-MEGA pharmacies enabling customers to collect points on their Pyaterochka card when they shop at A-MEGA.



Programme	Highlights	Customer benefits	Geography
<b>Helping Card</b> (Vyruchai-Karta) loyalty programme	<ul style="list-style-type: none"> <li>Over 45 million cards issued</li> <li>Over 20 million registered users</li> <li>44% traffic penetration</li> <li>61% retail sales penetration</li> </ul>	<ul style="list-style-type: none"> <li>Earn points for purchases</li> <li>Personalised promotions based on individual preferences</li> </ul>	<ul style="list-style-type: none"> <li>Nationwide</li> </ul>
<b>Co-branded Post Bank debit card</b> loyalty programme partnership	<ul style="list-style-type: none"> <li>Over 370,000 cards issued in 2017</li> </ul>	<ul style="list-style-type: none"> <li>Extra points for birthday purchases</li> <li>Earn points for all purchases with debit card, and 3x points for purchases at Pyaterochka</li> <li>Earn extra points for first purchase at Pyaterochka</li> </ul>	<ul style="list-style-type: none"> <li>Nationwide</li> </ul>
<b>Children's club</b> loyalty programme add-on	<ul style="list-style-type: none"> <li>Add-on programme for parents using Helping Card (Vyruchai-Karta)</li> </ul>	<ul style="list-style-type: none"> <li>Special offers and promotions for children's goods sold at Pyaterochka stores</li> <li>Earn 2x points for purchases of children's goods at Pyaterochka</li> <li>Programme website provides useful information for parents</li> </ul>	<ul style="list-style-type: none"> <li>Nationwide</li> </ul>
<b>Earning points for New Year's</b> loyalty programme promo	<ul style="list-style-type: none"> <li>Special promo run 5-17 December for Pyaterochka customers</li> </ul>	<ul style="list-style-type: none"> <li>Earn 2x points for purchases of RUB 555 and 5x points for purchases over RUB 1,500</li> </ul>	<ul style="list-style-type: none"> <li>Nationwide</li> </ul>
<b>A-MEGA pharmacy partnership</b> loyalty programme partnership	<ul style="list-style-type: none"> <li>Points partnership with pharmacy chain</li> </ul>	<ul style="list-style-type: none"> <li>Customers of A-MEGA can earn points on their Helping Card (Vyruchai-Karta)</li> </ul>	<ul style="list-style-type: none"> <li>North-Western division (with expansion planned in 2018)</li> </ul>

ELENA SMIRNOVA



- SEX: FEMALE
- AGE GROUP: 20-30
- LAST VISIT – 25 DECEMBER 2017
- AVERAGE TICKET – 560 RUB
- FREQUENCY OF VISITS - 10 TIMES PER MONTH
- PETS: CAT

#### METHOD OF PAYMENT



#### AVERAGE TICKET DYNAMICS



MOST VISITED STORES IN 2017:  
PYATEROCHKA: MOSCOW, ULIANOVA ST  
PYATEROCHKA: MOSCOW OCTOBER ST., 55 - 15%

#### TICKET BREAKDOWN



# Loyalty programme



HELPING CARD (VYRUCHAI-KARTA) LOYALTY PROGRAMME STATUS AS OF 31 DEC. 2017



OVER 45 MILLION CARDS ISSUED

44% TRAFFIC PENETRATION

OVER 20 MILLION REGISTERED USERS

61% RETAIL SALES PENETRATION

**We launched Pyaterochka's loyalty programme in 2017, our first for the proximity format.**

**Starting in 2018, we will be rolling out personalised promotions to holders of the Pyaterochka Helping Card (Vyruchai-Karta).**





## Localisation

One of the key elements of Pyaterochka's CVP is its focus on localising assortment based on customer demand and products sold by regional producers. We are working with food producers and farmers in the regions where we operate to increase the share of their goods in our stores.

In 2017, the share of local assortment offerings at Pyaterochka stores reached 17%. We plan to increase this number, and we have already achieved a 25% share of local products in some regions. Another aspect of our focus on meeting

demand at the local level is “clusterisation”. We have adapted our operations to enable aggregation of merchandising at the “cluster” level, meaning that the assortment matrix for Pyaterochka stores can be better tuned to local demand.



## Human resources and recruitment

Pyaterochka is a major employer in Russia: we employ over 160,000 people across all of the format's operations, from the head office to stores to logistics. Finding the right people to staff the stores we open is significantly more important and challenging than selecting a location and opening a store.

We pay close attention to building Pyaterochka's HR brand, and we engage in a wide range of activities to make sure our staff feel like part of the team and have opportunities to develop professionally. These include "cashier of the year" and professional competi-

tions for employees of DCs, as well as regional conferences. Conferences cover a range of topics and are one of our key forums for engaging in dialogue with our employees and sharing ways to create value for them in their professional careers with Pyaterochka.

Another area of focus is motivation, team building and developing an internal staff reserve within each format. One of the annual highlights for the Pyaterochka team is Turboliada, our annual company-wide sports competition aimed at strengthening corporate culture and team building.

### Turboliada 2017 in numbers

ТУРБОЛИАДА  
2017



**13**  
cities

**17**  
unique competitions

**25,000**  
employees and  
members of their families

**>20,000**  
km of track

**160**  
teams

**>45**  
tonnes of  
equipment

**3,200**  
athletes

**First**  
Turboliada in Novosibirsk