

Our strategy in action



We are integrating advanced data analytics and innovations at every level of our business, from strategic decision-making to tactical selection of locations for new stores, to automatic generation of personalised offers for loyalty card holders based on their shopping preferences. X5 is transforming itself into a customer-centric, data-driven, innovative company that provides modern food retail to diverse groups of customers across the regions of Russia where we operate.

As we near 2020, X5 is well on track to maintaining its position as Russia's leading food retailer and growing faster than the market and competition.

Anton Mironenkov

Director of Strategy

We strengthened our position as Russia's leading food retailer in 2017, continuing to accelerate growth, while introducing innovations and advanced data analytics, and we remain focussed on sustainability, efficiency and adapting to the changing needs of Russian consumers.

In this year's report, we have expanded the discussion of our strategy to address the integrated approach we take to measuring our performance. In addition to financial and operating metrics, which are part of our strategy to 2020, we look at health, safety and the environment as well as governance goals that X5 Retail Group's management and Supervisory Board also consider key to our long-term strategy.





Strategic progress

Multi-format operating model

Constant adaptation of value propositions

Strategic goals

- Provide diversified set of customer value propositions through portfolio of food retail formats
- Efficiently manage retail operations through Corporate Centre that creates value for business
- Grow presence across largest and most lucrative segments of the Russian food retail market
- Grow omni-channel model to address current and future consumer preferences across local markets
- Adapt each format's distinct value proposition to changing consumer needs and expectations
- Innovate and utilise advanced data analysis to unlock better and more targeted offerings
- Continuously review all aspects of CVP, including format concepts, assortment and category offerings as well as store format

What we did in 2017

- Added 2,862 Pyaterochka proximity stores, 99 supermarkets and two Karusel hypermarkets
- Launched Perekrestok Online in Moscow
- Approved new branding and commercial model for Karusel hypermarkets
- Expanded direct import operations, including opening of trading office in Hong Kong
- Introduced innovative solutions to improve our business performance, which leverage advanced data analytics
- Focused development on hypermarket, supermarket and proximity stores; announced plans to sell convenience store format
- Rolled out Pyaterochka loyalty programme that utilises big data to automatically generate personalised promotions for customers, with share of net retail sales reaching 44%
- Expanded ability to adapt assortment to local demand and worked with local producers in regions where we operate. Local assortment reached ~17% on average
- Introduced new private-label and exclusive brands
- Worked to maintain and improve NPS scores
- Continued to develop and improve Perekrestok's "regional supermarket" model

Goals for 2020

Intelligent growth

- Leverage technology to support high-quality growth
- Optimise business systems and processes to enable quick, efficient organic expansion
- Engage in M&A if and when attractive opportunities arise
- Refurbish stores in line with updated operating models, implement everyday improvements and other improvements on an ongoing basis

Excellence in operational execution

- In-store execution
- Optimise distribution centre logistics and transportation
- Improve shelf availability

- Opened the landmark 12,000th store, ending year with 12,121 stores after adding 1.2 million square metres of selling space (87% of which was organic growth)
- Increased food retail market share from 8.0% in 2016 to 9.5% in 2017
- Increased presence in new cities and towns, growing by 25% year-on-year
- Updated and enhanced GIS system to streamline store openings, reduce cannibalisation and compete effectively against nearby competitors
- Expanded presence in the Siberian Federal District
- Pyaterochka refurbishment programme completed; 73% of Perekrestok stores operating under the new concept
- Bought O'KEY's supermarket business in December 2017, which should add 32 stores in 2018 in regions with developed modern retail infrastructure
- Launched new partnership with Acmero and Marathon Group to expand food retail services to transport passengers across Russia
- Partnership with Centrosoyuz may lead to the opening of up to 1,000 new stores under the COOP-Pyaterochka brand

- Opened 10 new DCs in Moscow, Tyumen, Novosibirsk, Yekaterinburg, Ufa, Kuznetsk, Kirov, Orel and Perm
- Purchased 1,231 new trucks; increased own fleet from 2,318 as of 31 December 2016 to 3,144 as of 31 December 2017

- **Deliver strong top-line growth faster than the market and competition while maintaining margins**
- **Double the size of the business within 3–4 years after 2015**
- **Focus on organic expansion**
- **Continue to refine data-driven strategy in response to market developments**

- **Enhance customer-centric decision-making based on data analytics**
- **Support a self-regulation strategy for Russian retail**
- **Further optimise logistics and operating expenses**
- **Reduce shrinkage costs**

What we did in 2017

Our markets

Governance

- Approved and presented X5's first dividend policy
- Short-listed for best communication of investment case by UK IR Society, awarded best annual report in retail sector by Moscow Exchange

Risk management

- Established detailed risk map and risk appetite approved by the Supervisory Board
- Enhanced focus on Risk Management and Internal Control, separate from Internal Audit

Our people

Corporate culture aligned with strategic goals

- Continued training and development programmes that include support for X5 values
- Began transition to focus on culture-led development instead of strategy-led development
- Pyaterochka and Karusel updated corporate culture models

Learning and opportunities

- Continued programme of training to provide essential job and workplace skills
- Ran career advancement and staff reserve programmes to enable promising employees to develop within X5

Health and well-being

- Continued implementation and monitoring of unified Occupational Health and Safety (OHS) standards across our operations
- Conducted 3,903 store audits to ensure the quality and safety of products we sell

Our world

Environmental management

- Implemented recycling and programmes across all of our operations to reduce the waste we produce
- Purchased new, efficient trucks for our transport fleet, reducing average age of fleet to just two years
- Continued installation of energy-efficient LED lighting across all of our operations
- Installed systems to monitor refrigeration units and ensure they are operating at optimal use

Community commitment

- New programmes and expansion of existing programmes aimed at providing food support to needy people in Russia
- Leveraged Perekrestok supermarket format to encourage charitable programmes by employees

Long-term goals

- Maintain constructive dialogues with investors, analysts, regulators and other market stakeholders
 - Continuously refine X5 Retail Group's governance and investor relations in line with developing regulations and best practice
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- Maintain an appropriate balance between business growth that creates returns for shareholders and the long-term sustainability of our business
 - Ensure that our business takes the appropriate steps to mitigate risks it faces as it seeks to build value for all stakeholders
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- Ensure that employees at all levels of X5 Retail Group contribute to achieving the Company's long-term strategic goals in a productive and efficient way
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- Retain promising and talented staff with training and advancement programmes that provide rewarding career opportunities
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- Ensure that all of X5 Retail Group's workforce shares responsibility for maintaining the safety of our operations
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- Minimise X5 Retail Group's impact on the environment while improving efficiency across our operations
 - Seek to ensure that our suppliers engage in environmentally sustainable practices.
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- Contribute to the well-being of people in Russia by investing in initiatives that support sustainable development and protect those most in need