

CLIMB HIGHER!

X5 Capital Markets Day 2016
Moscow, 27 October 2016



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03/ AGENDA



Performance update and financial results Q3 and 9M 2016



X5's path to leadership in food retail



Overview by format:

- Pyaterochka
- Perekrestok
- Karusel

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Igor Shekhterman, CEO

X5 Capital Markets Day 2016

Moscow, 27 October 2016



**X5 IS COMMITTED TO ITS STRATEGY,
WITH A FOCUS ON EXECUTION**



06 / STRONG PERFORMANCE IN 9M 2016



- Revenue up **27.8%** y-o-y



- **7.7%** LFL sales growth
- **2.8%** LFL traffic growth



- EBITDA margin up **40 b.p.** to **7.6%**
- SG&A expenses improved by **87 b.p.** to **17.2%**



- **1,554** new stores
- **1,013** stores refurbished



- Net debt / EBITDA decreased to **2.15x**
- Weighted average interest rate decreased by **156 b.p.** to **11.5%**



- **692.0 th. sq. m.** selling space added, **83%** of which was organic

07/ KEY ACHIVEMENTS IN 9M 2016



- Pyaterochka added **668.1 th. sq. m.** of net selling space



- >90%** of Pyaterochka stores and **>46%** of Perekrestok stores operating under new concept



- Positive LFL traffic for Perekrestok** for three quarters in a row



- New DCs** in Moscow, St. Petersburg, Adygea and Krasnodar



- Entering **new regions**, including Siberian FD



- Continued upward trend in **customer satisfaction** (i.e. NPS)



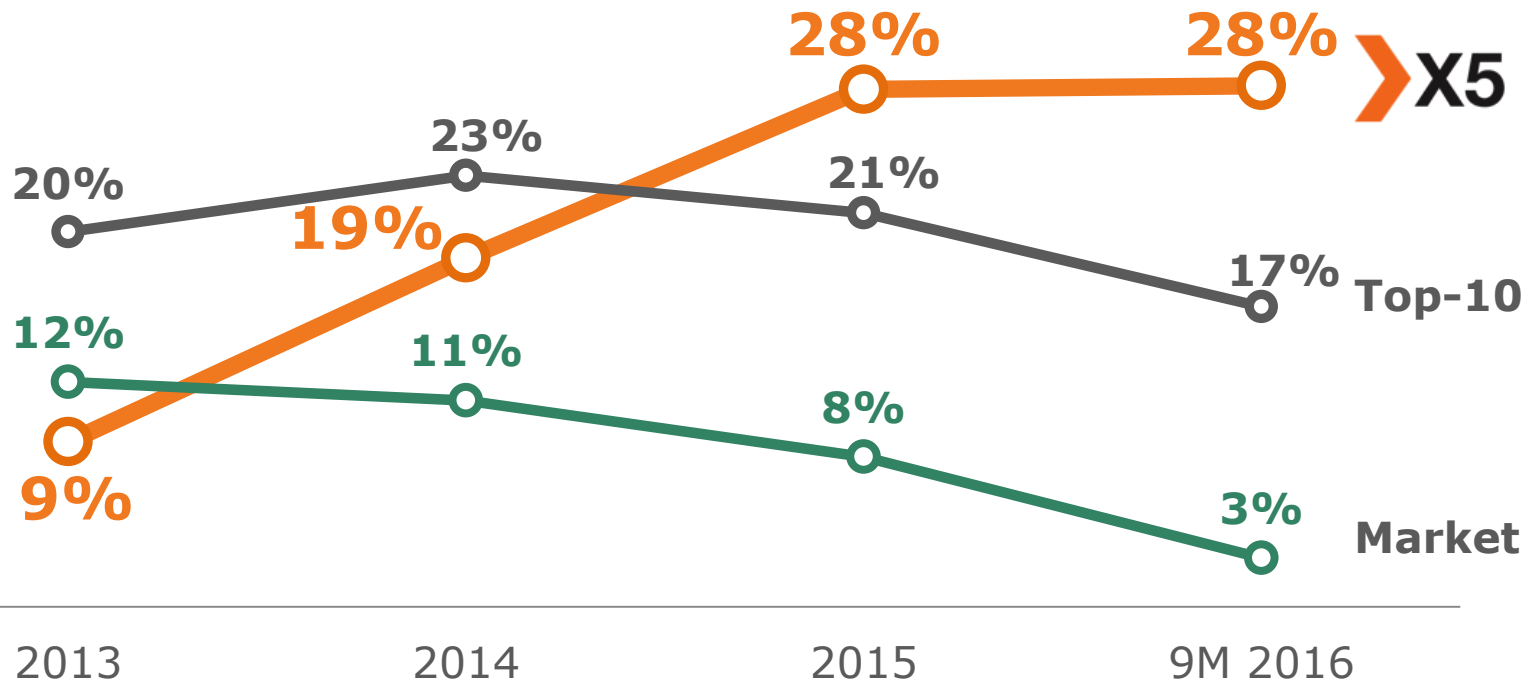
- Full **roll-out of the GIS system**



- Implementing **best practices in EDI**



08 WE ARE THE FASTEST-GROWING RETAILER IN RUSSIA

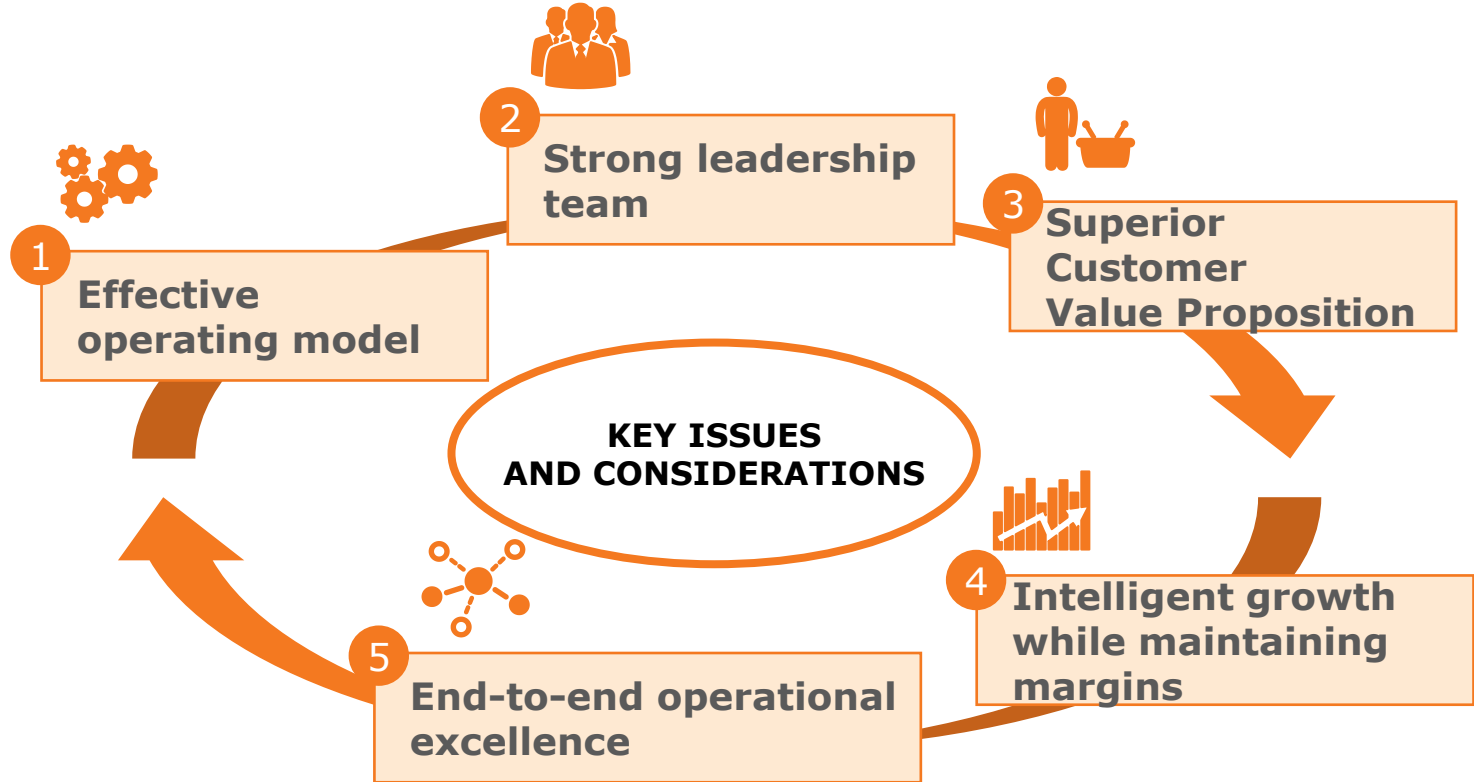


Note: revenue growth y-o-y
Source: Infoline, X5 analysis and estimates

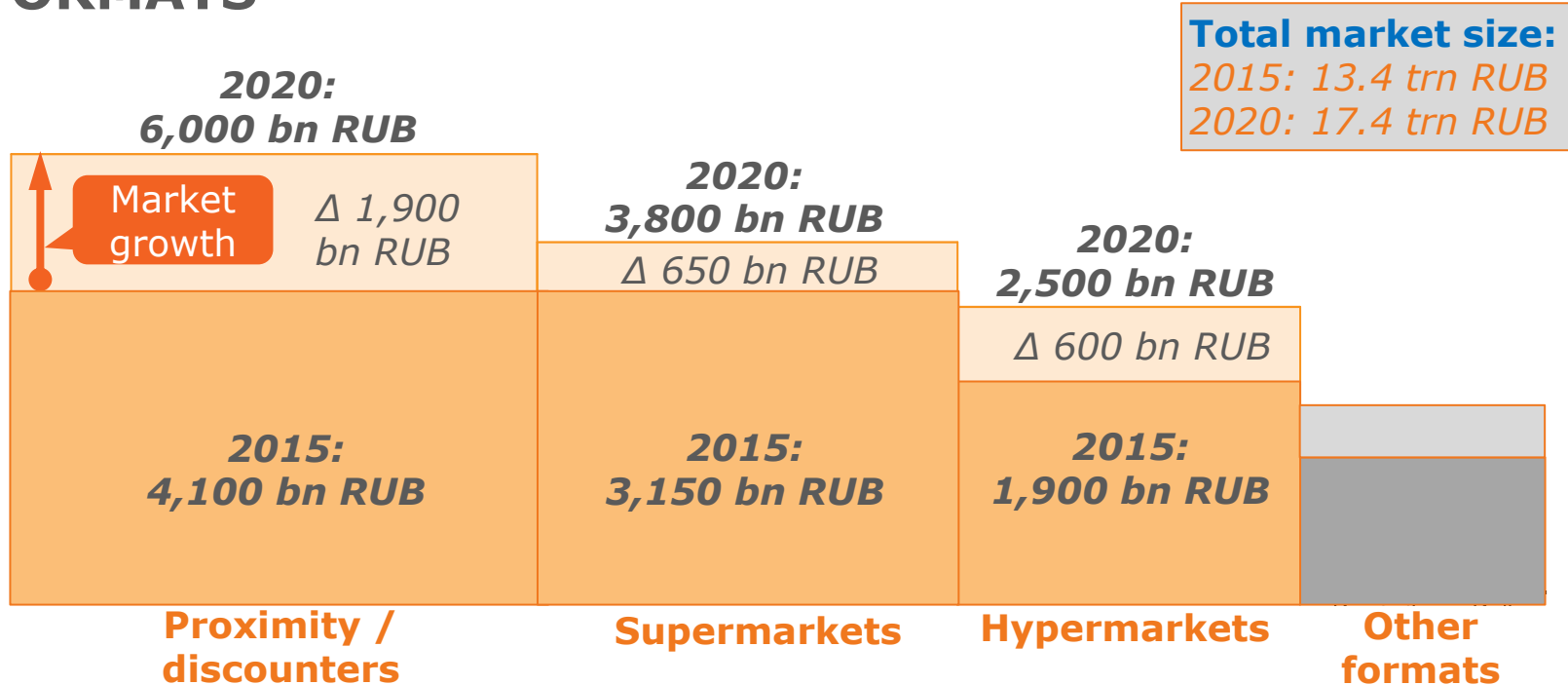


Significantly accelerated growth since 2013

09 COMMITTED TO STRATEGY, FOCUS ON EXECUTION



10 COMMITTED TO THE THREE MAJOR FOOD RETAIL FORMATS



Source: Infoline; Rosstat; Bain estimates



Substantial mid-term growth potential for all major formats

11 BUILDING LEADERSHIP: FROM #1 IN THE HEART OF CUSTOMERS TO #1 IN SHARE OF WALLET

X5

#1 in Russian grocery retail – 15% market share by 2020

Proximity



#2 → #1

- Growth above market rate
- Market leadership

Supermarkets



#1

- Further adaptation of CVP
- Enhancing regional presence with new regional model

Hypers



Growth above market average

- Team
- Restructuring
- Pilots
- Roll-out

Other formats



Express

- New CVP
- Development in Moscow

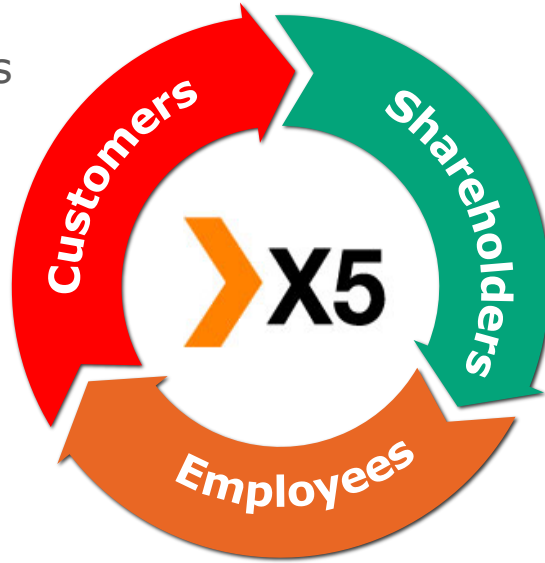


X5

X5 aims to create sustainable leadership

12/ LEADERSHIP BENEFITS ALL X5 STAKEHOLDERS!

1 **Customer perception** affects **customer satisfaction** and **loyalty**...which affects **growth & profitability**....



2 **Growth & profitability** affects **shareholder satisfaction**...which affects **company and employee satisfaction**....

3 **Employee satisfaction** affects **employee loyalty and productivity**...which affects **customer perceptions**



13/ REGULATION IS A KEY FOCUS

GOVERNMENT ACTIONS



The Government has intensified control over the retail industry



MARKET/ X5 RESPONSE

- Self-regulation approach
- Partnerships with suppliers:
From: Supplier – Customer



To: Partner – Partner



The Duma approved amendments to the Retail Law



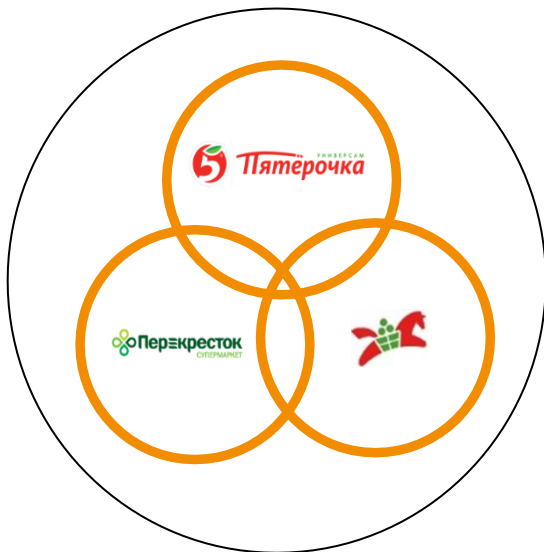
- Switch to **net-net pricing**



Excess regulation will not lead to positive changes in the industry. Market equilibrium has to be established in accordance with new rules.

14 / EFFECTIVE OPERATING MODEL ALREADY IN PLACE

X5 2005 – 2012



Not always the right focus...

X5 NOW

>X5

Strategy, Strategic marketing, Centralized commercial function, M&A / Partnerships, Legal, IT, Talent management, Finance, GR, PR, IR

Operations	Operations	Operations
Marketing	Marketing	Marketing
Category management/ Buying	Category management/ Buying	Category management/ Buying
DC Management	DC Management	
Expansion	Expansion	Expansion
HR Operations	HR Operations	HR Operations

Пятёрочка

Перекресток

гипермаркет
КАРУСЕЛЬ



Focused execution of distinct CVPs to meet all customer needs



>X5

15 KEY ELEMENTS OF RESPONSIBILITY MATRIX BETWEEN CORPORATE CENTRE AND RETAIL FORMATS

Corporate Centre	Retail formats
<ul style="list-style-type: none">✓ Business planning and control✓ Pooling of purchasing power✓ Incubator and launch of new projects✓ Exchange of best practices within X5	<ul style="list-style-type: none">✓ Implementation of format strategy according to CVP✓ Above-market growth while maintaining EBITDA margin✓ Effective operations
X5 strategy and synergies	Business execution and expansion



16/ STRONG MANAGEMENT TEAM IN PLACE...



17 / ...WITH EFFECTIVE MOTIVATION SCHEME (LTI)

- A **two-phase** programme with a drop-dead date of **December 2019** that **aligns shareholder and management interests**
- Simple metrics, well understood by management, **based on market share growth without sacrificing EBITDA margin**
- Underpinning X5's strategic goal of **market leadership** in Russian food retail



X5 IS COMMITTED TO ITS STRATEGY, WITH A FOCUS ON EXECUTION



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Dmitry Gimmelberg, CFO

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Moscow, 27 October 2016



20/ TURNAROUND IN FINANCE (1/2): *MUCH HAS BEEN DONE...*



Redesign of the financial function to align it with X5's new operating model



Implementation of an efficient investment management system that supports strong organic growth



Development of an efficient post-launch analysis of investment projects



Reducing the cost of debt and improving credit ratings



Implementation of EDI technologies



21/ TURNAROUND IN FINANCE (2/2): ...BUT STILL MUCH TO DO

Plan for 2016 – 2017



Further enhancing internal controls to support continued sustainable growth as the Company matures



Development of a roadmap to align the cost structure with global best practices:



- Logistics
- Lease costs
- Shrinkage costs
- Other opex

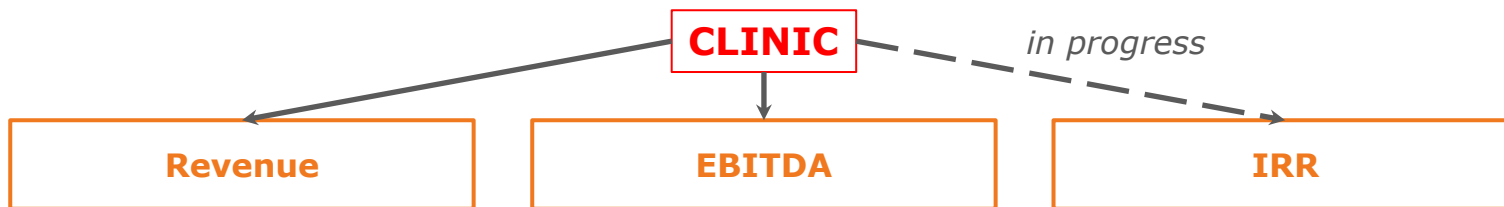


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- Implementation of renewed budgeting and internal reporting system for all retail formats
 - Redesign of budgeting process
 - Focus on returns in budgeting and internal reporting

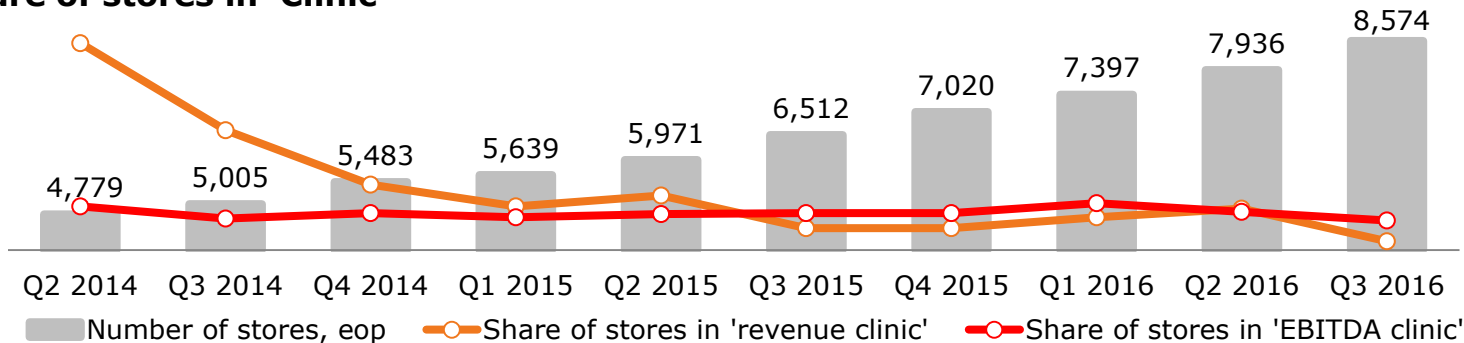


22/ STABLE SHARE OF STORES IN 'CLINIC' DESPITE ACCELERATING GROWTH

- 'Clinic' is the process of monitoring and decision-making on projects with low operating efficiency (below the business plan target)
- Key drivers behind stores' low efficiency: **location, competition, operations management**

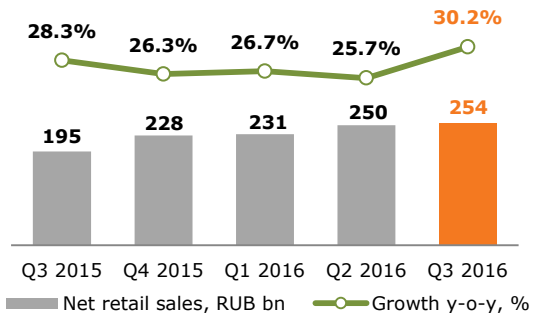


Share of stores in 'Clinic'

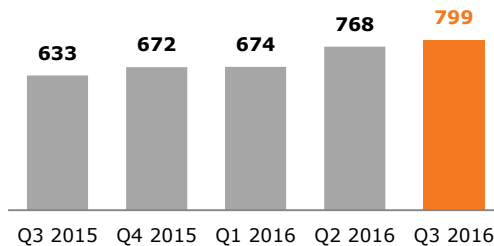


23/ Q3 2016 RESULTS: OPERATIONAL HIGHLIGHTS

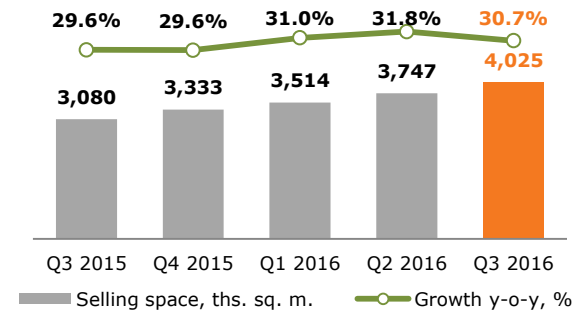
Net retail sales



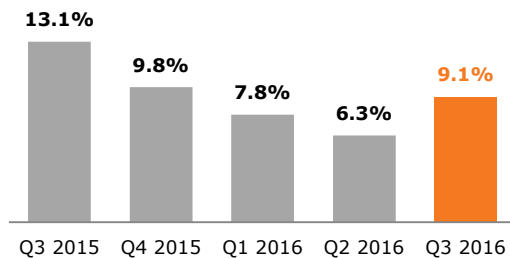
Traffic, mln customers



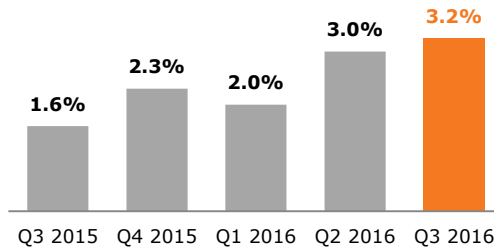
Net selling space (eop), th. sq. m



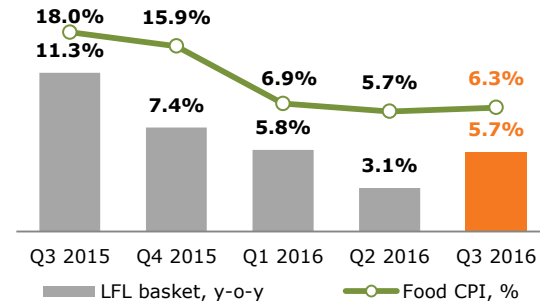
LFL sales, y-o-y



LFL traffic, y-o-y



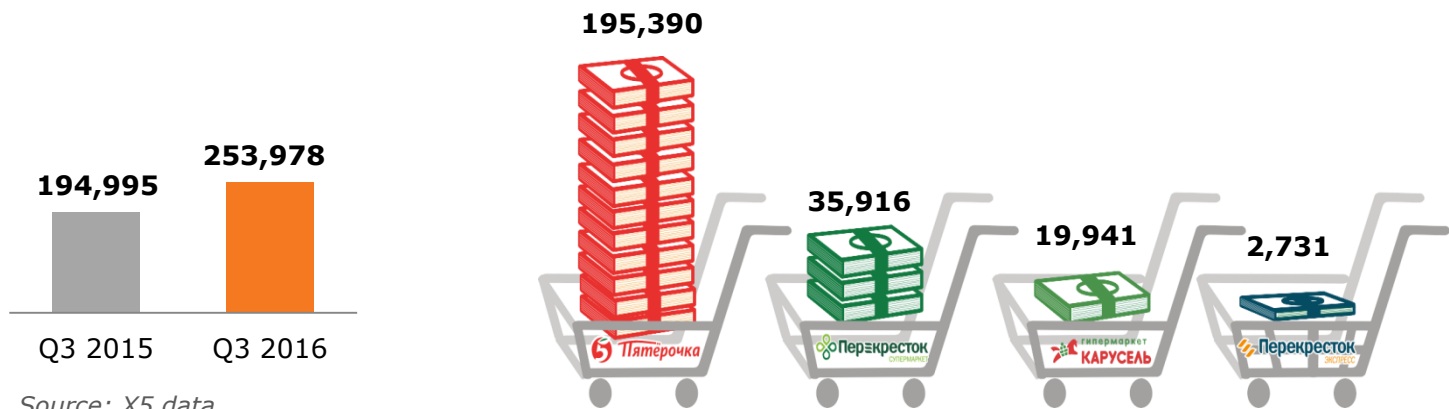
LFL basket, y-o-y



Source: X5 data

24/ Q3 2016 RESULTS: NET RETAIL SALES SUMMARY

Net retail sales breakdown by retail format, RUB mln



Source: X5 data

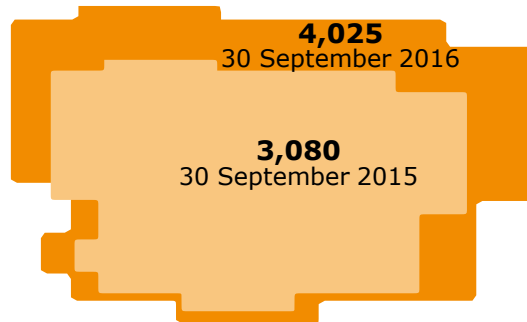
KEY DRIVERS

- Perekrestok net retail sales accelerated for the seventh quarter in a row
- Pyaterochka, which continues to meet customers' needs in a challenging macro environment, was the key driver for X5's growth thanks to:
 - Value proposition that is one of the best-adapted to Russian consumers' needs
 - Ambitious expansion programme

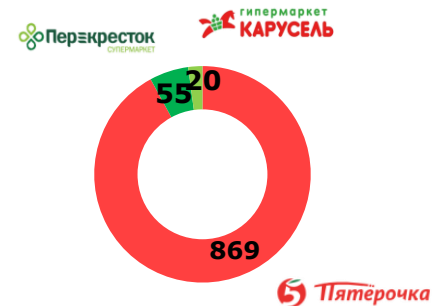
25 Q3 2016 RESULTS: EXPANSION SUMMARY

- Total store base increased to **8,574** stores as of 30 September 2016
- Continued investments into existing stores, with **284** refurbishments in Q3 2016
- Pyaterochka was the main driver for the store base increase. In Q3 2016, net added space increased by **21.5%** y-o-y

Net selling space, th. sq. m.

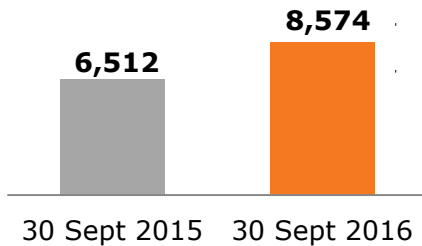


Net selling space added (last 12 months), th. sq. m.

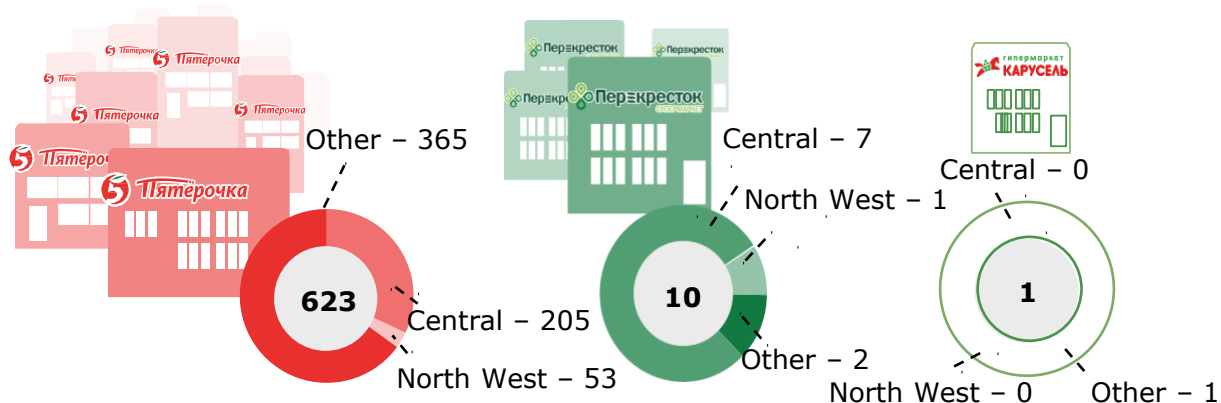


Net stores added in Q3 2016 by formats and by regions

Net stores base

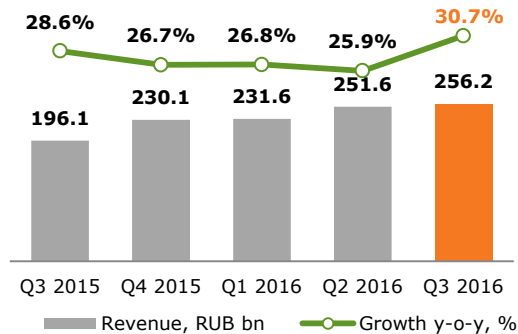


Source: X5 data

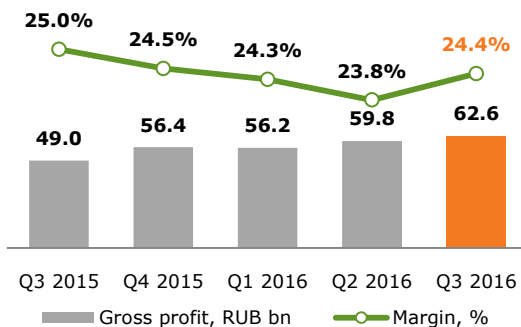


26 Q3 2016 RESULTS: FINANCIAL HIGHLIGHTS

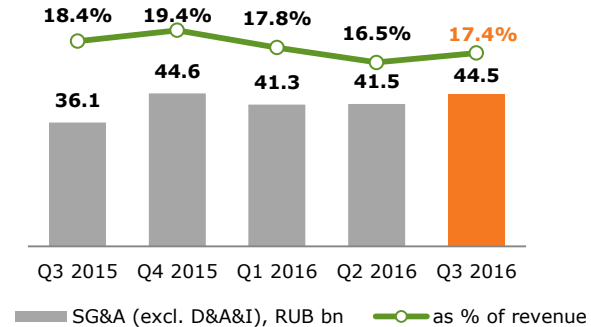
Revenue



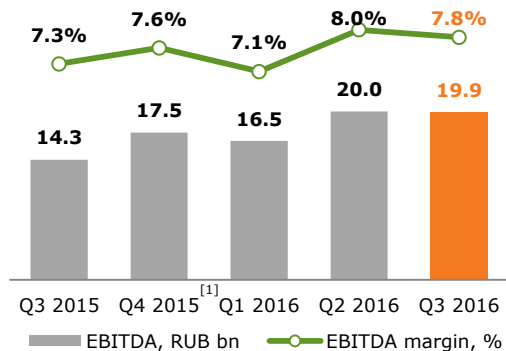
Gross profit & gross margin



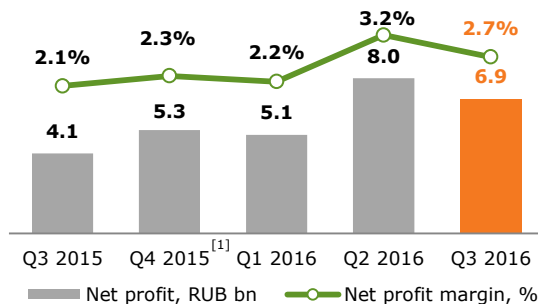
SG&A (excl. D&A&I), RUB bn



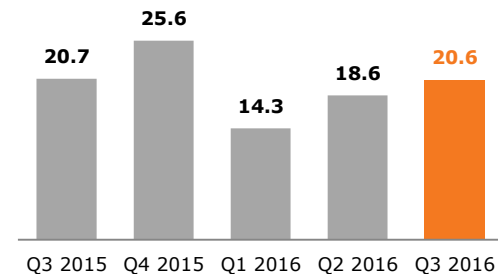
EBITDA & EBITDA margin



Net profit & net profit margin



Capital expenditures, RUB bn



[1] – EBITDA and Net profit adjusted for LTI, only for Q4 2015

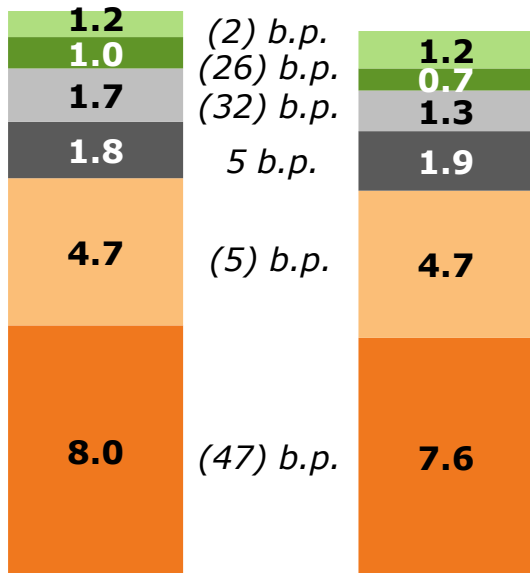
Source: X5 data

27 / Q3 2016 RESULTS: SG&A EXPENSES ANALYSIS

Q3 analysis

as percent of revenue

18.4% (106) b.p. **17.4%**



- Other expenses
- Third party services
- Other store costs
- Utilities
- Lease expenses
- Staff costs

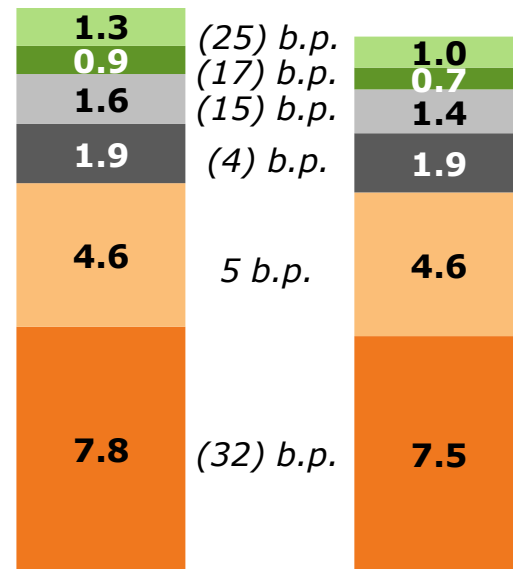
Q3 2015

Q3 2016

9M analysis

as percent of revenue

18.1% (87) b.p. **17.2%**



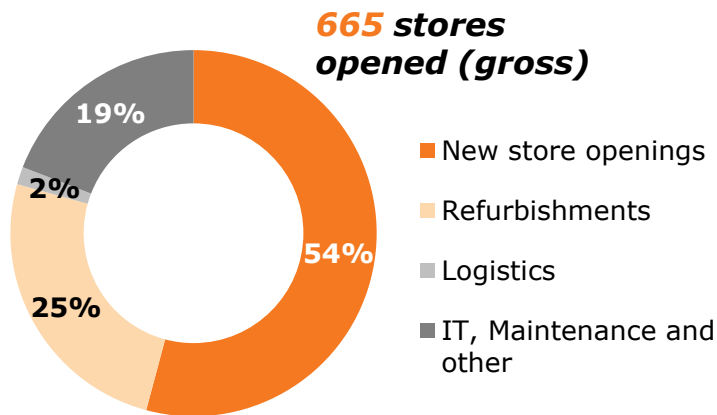
9M 2015

9M 2016

Source: X5 data

28 / Q3 2016 RESULTS: CAPITAL EXPENDITURE OVERVIEW

Capex breakdown for Q3 2016

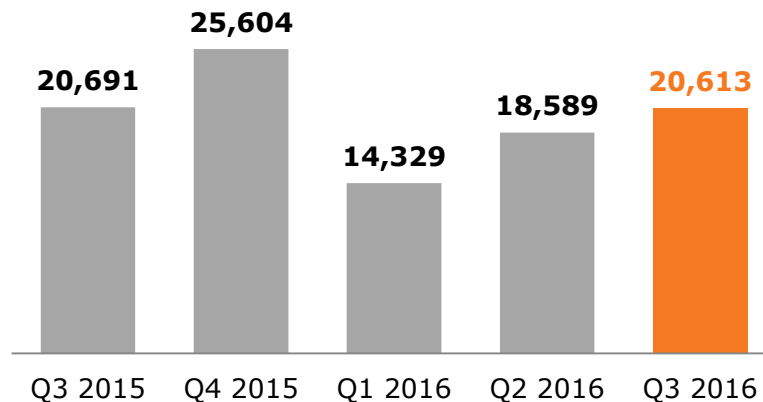


284 stores refurbished

Source: X5 data

Capex breakdown by quarter, RUB mln

Total Capex in Q3 2016: **20,613 RUB mln**



In Q3 2016, capex programme focused on organic expansion and investments in store refurbishments

29 Q3 2016 RESULTS: DEBT STRUCTURE

Debt profile

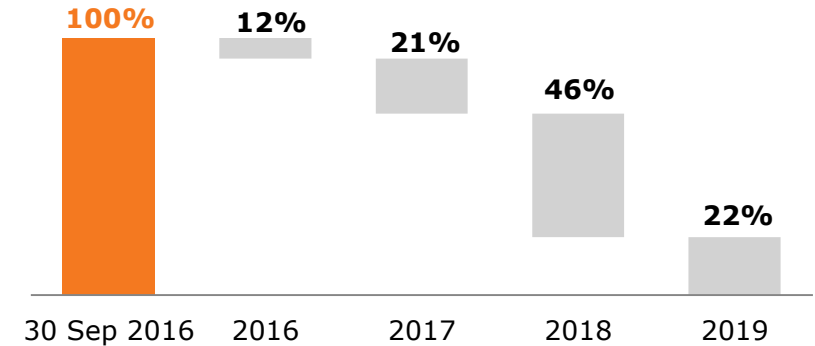
RUB mln	30 Sep 2016	30 Sep 2015
Total Debt	156,435	141,698
Short-term debt	43,281	44,220
% of total debt	27.7%	31.2%
Long-term debt	113,154	97,478
% of total debt	72.3%	68.8%
Net debt	150,417	136,857

Covenants & liquidity update

Covenant metrics & liquidity sources	30 Sep 2016	30 Sep 2015	Covenants
Net debt / EBITDA	2.15x	2.48x	< 4.00x
Cash & cash equiv., RUB mln	6,018	4,841	
Available credit limits in banks, RUB mln	239,760	116,150	

Source: X5 data

Debt portfolio maturity



Highlights

- X5's debt portfolio is 100% RUB-denominated
- The weighted average effective interest rate on X5's debt during 9M 2016 amounted to 11.5%
- In July 2016, Moody's revised its outlook on X5 from "stable" to "positive" and confirmed the Ba3 corporate credit rating
- In September 2016, X5 registered a new bonds programme in the total amount of RUB 50 bn, with a maximum tenor of up to 15 years
- In September 2016, X5 issued corporate bonds in the total amount of RUB 15 bn at a 9.45% coupon rate with a 3-year put option



THANK YOU FOR YOUR ATTENTION



31/ FINANCIAL STATEMENTS (1/3)

PROFIT AND LOSS STATEMENT

RUB mln	Q3 2016	Q3 2015	+/(-)	+/(-), %	9M 2016	9M 2015	+/(-)	+/(-), %
Revenue	256,247	196,093	60,154	30.7	739,491	578,701	160,790	27.8
Net retail sales	253,978	194,995	58,983	30.2	734,300	575,671	158,629	27.6
COGS	193,693	147,103	46,590	31.7	560,939	436,740	124,199	28.4
Gross profit	62,554	48,990	13,564	27.7	178,552	141,961	36,591	25.8
<i>Gross profit margin</i>	<i>24.4</i>	<i>25.0</i>		<i>(57) b.p.</i>	<i>24.1</i>	<i>24.5</i>		<i>(39) b.p.</i>
SG&A	51,053	40,701	10,352	25.4	144,533	117,784	26,749	22.7
EBITDA	19,863	14,263	5,600	39.3	56,361	41,780	14,581	34.9
<i>EBITDA margin</i>	<i>7.8</i>	<i>7.3</i>		<i>48 b.p.</i>	<i>7.6</i>	<i>7.2</i>		<i>40 b.p.</i>
Operating profit	13,274	9,669	3,605	37.3	39,138	28,660	10,478	36.6
<i>Operating margin</i>	<i>5.2</i>	<i>4.9</i>		<i>25 b.p.</i>	<i>5.3</i>	<i>5.0</i>		<i>34 b.p.</i>
Net profit	6,870	4,142	2,728	65.9	19,874	12,084	7,790	64.5
<i>Net profit margin</i>	<i>2.7</i>	<i>2.1</i>		<i>57 b.p.</i>	<i>2.7</i>	<i>2.1</i>		<i>60 b.p.</i>

Source: X5 data

32/ FINANCIAL STATEMENTS (2/3)

BALANCE SHEET

RUB mln	30 Sep 2016	31 Dec 2015	+/(-)	+/(-)%
Total current assets	104,187	108,705	(4,518)	(4.2)%
Cash & cash equivalents	6,018	8,958	(2,940)	(32.8)%
Inventories	64,809	57,887	6,922	12.0%
Total non-current assets	329,580	293,410	36,170	12.3%
Net PP&E	219,948	189,000	30,948	16.4%
Goodwill	79,543	75,313	4,230	5.6%
Total assets	433,767	402,115	31,652	7.9%
Total current liabilities	188,737	190,880	(2,143)	(1.1)%
ST debt	43,281	42,670	611	1.4%
Trade accounts payable	103,288	103,773	(485)	(0.5)%
Total non-current liabilities	120,424	106,517	13,907	13.1%
LT debt	113,154	101,545	11,609	11.4%
Total liabilities	309,161	297,397	11,764	4.0%
Total equity	124,606	104,718	19,888	19.0%
Total liabilities & equity	433,767	402,115	31,652	7.9%

Source: X5 data

33/ FINANCIAL STATEMENTS (3/3)

CASH FLOW

RUB mln	Q3 2016	Q3 2015	+/(-)	+/(-)%	9M 2016	9M 2015	+/(-)	+/(-)%
Net cash generated from operating	20,135	7,241	12,894	178.1	38,416	11,833	26,583	224.7
Net cash from operating activities before changes in working capital	20,050	14,458	5,592	38.7	56,860	43,415	13,445	31.0
Change in Working Capital, incl.:	6,803	(755)	7,558	<i>n/a</i>	(2,418)	(14,813)	12,395	(83.7)
Decrease/(increase) in trade and other AR	494	329	165	50.2	6,993	(1,313)	8,306	<i>n/a</i>
Decrease/(increase) in inventories	(1,839)	1,747	(3,586)	<i>n/a</i>	(6,922)	(1,438)	(5,484)	381.4
(Increase)/decrease in trade payable	4,131	(1,745)	5,876	<i>n/a</i>	(428)	(12,669)	12,241	(96.6)
(Decrease)/increase in other AP	4,017	(1,086)	5,103	<i>n/a</i>	(2,061)	607	(2,668)	<i>n/a</i>
Net interest and income tax paid	(6,718)	(6,462)	(256)	4.0	(16,026)	(16,769)	743	(4.4)
Net cash used in investing	(19,970)	(16,248)	(3,722)	22.9	(53,501)	(37,588)	(15,913)	42.3
Net cash generated from/(used in) financing	407	9,355	(8,948)	(95.6)	12,135	5,015	7,120	142.0
Effect of exchange rate changes on cash & cash equiv.	15	(39)	54	<i>n/a</i>	10	(42)	52	<i>n/a</i>
Net increase/(decrease) in cash & cash equiv.	587	309	278	90.0	(2,940)	(20,782)	17,842	(85.9)

Source: X5 data



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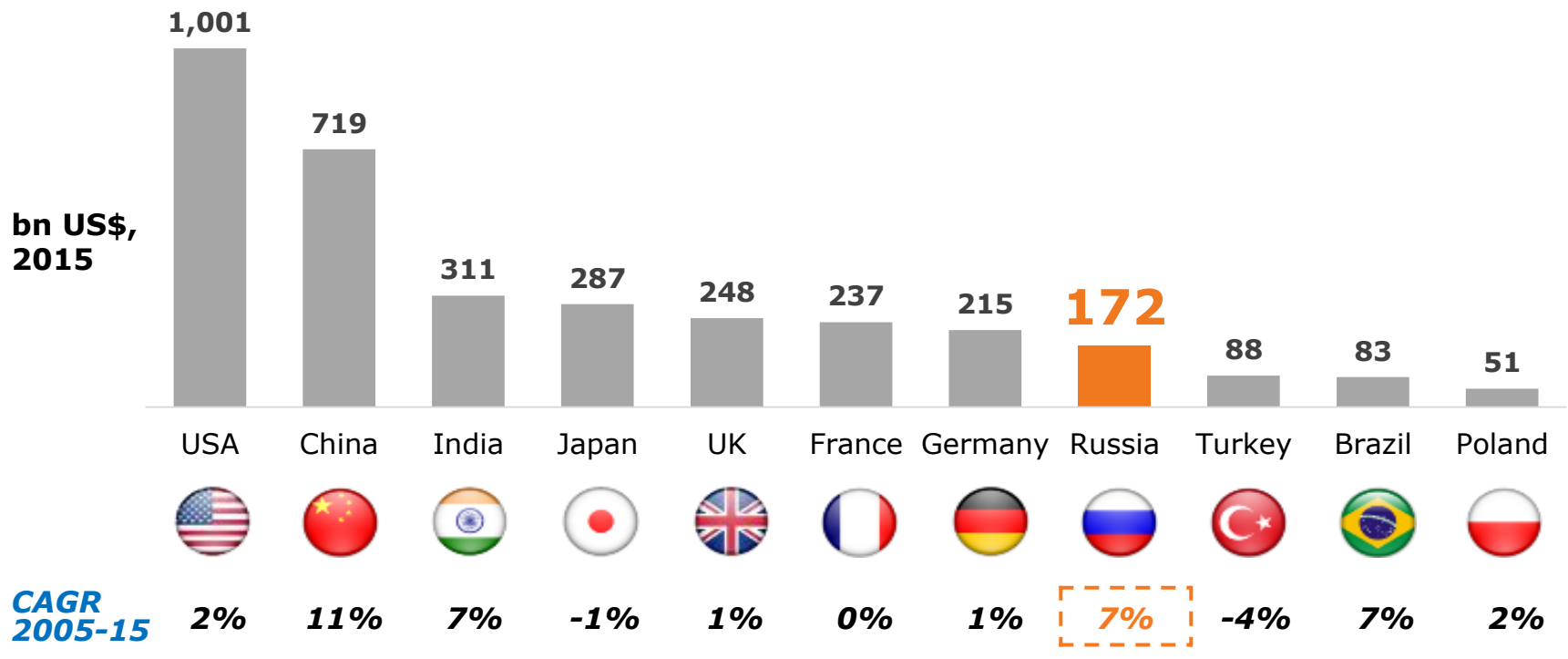
Anton Mironenkov, Head of Strategy

X5 Capital Markets Day 2016

Moscow, 27 October 2016



35/ RUSSIA IS THE 8TH LARGEST GROCERY MARKET GLOBALLY, AND ONE OF THE FASTEST GROWING



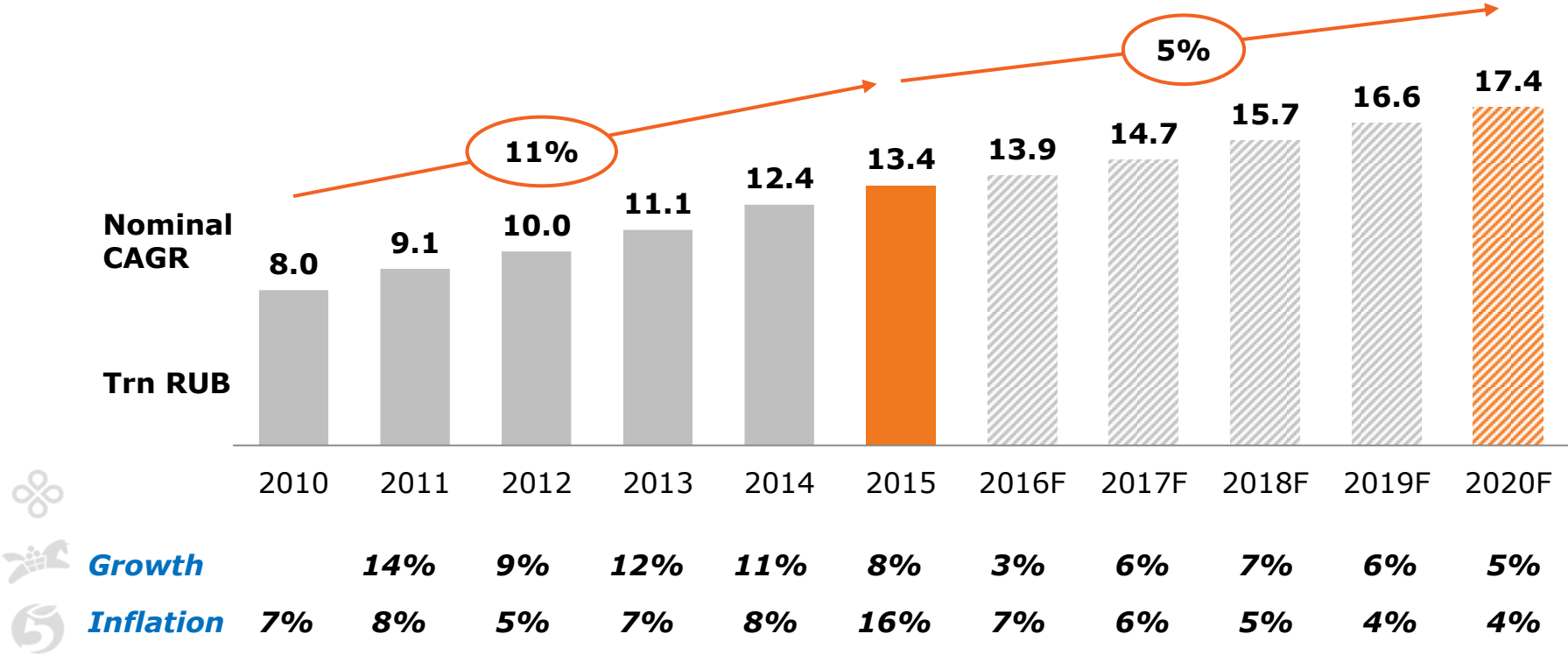
CAGR 2005-15



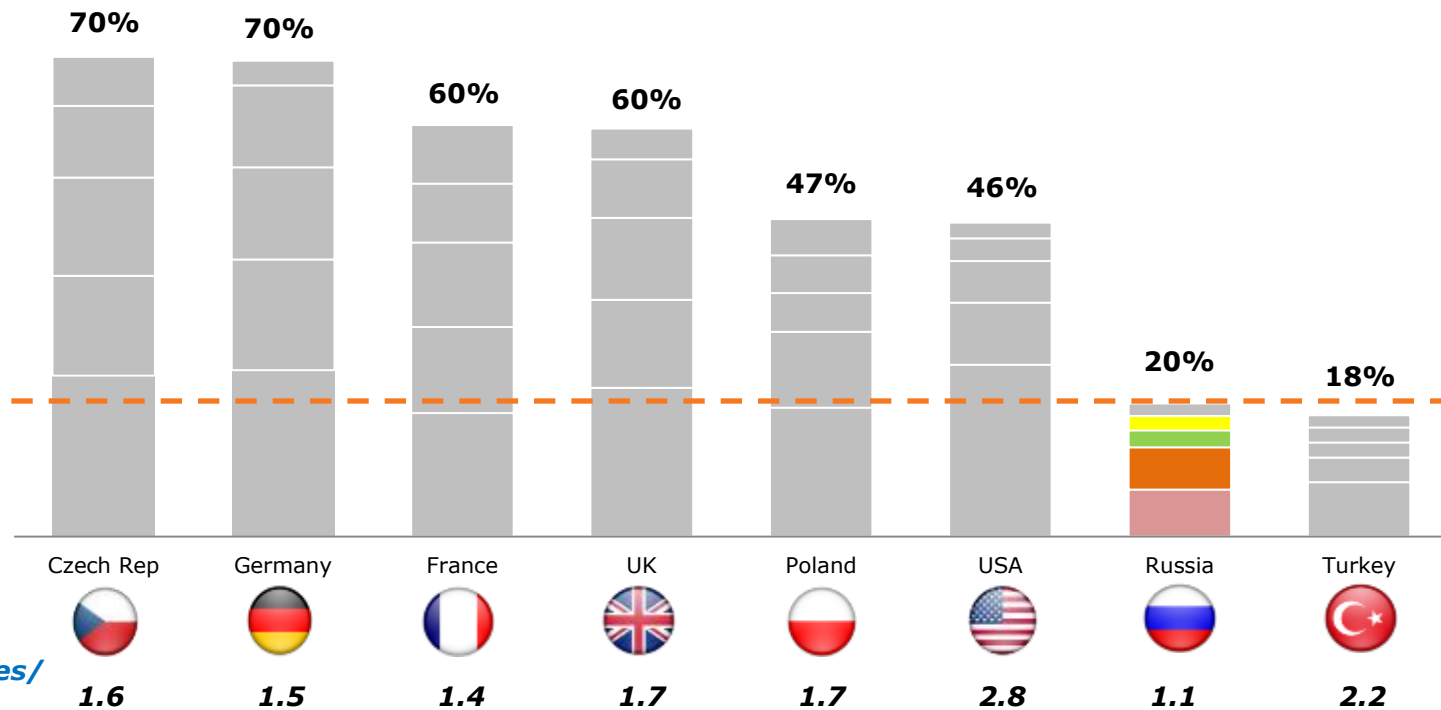
Source: Euromonitor

36 GROCERY RETAIL WILL GROW 5% P.A. MID-TERM

3% LFL AND 2% DUE TO GROWTH IN RETAIL SPACE



37/ TOP-5 RETAILERS CONTROL JUST 20% OF THE MARKET



**Leader's sales/
2nd player's
sales**

Note: Data for 2015. Federal players are Magnit, X5, Auchan, Lenta, O'Key, Dixy, 7 Continent

Source: Euromonitor, X5 analysis



The Russian food retail is still highly fragmented

38/ POTENTIAL LONG-TERM MARKET STRUCTURE

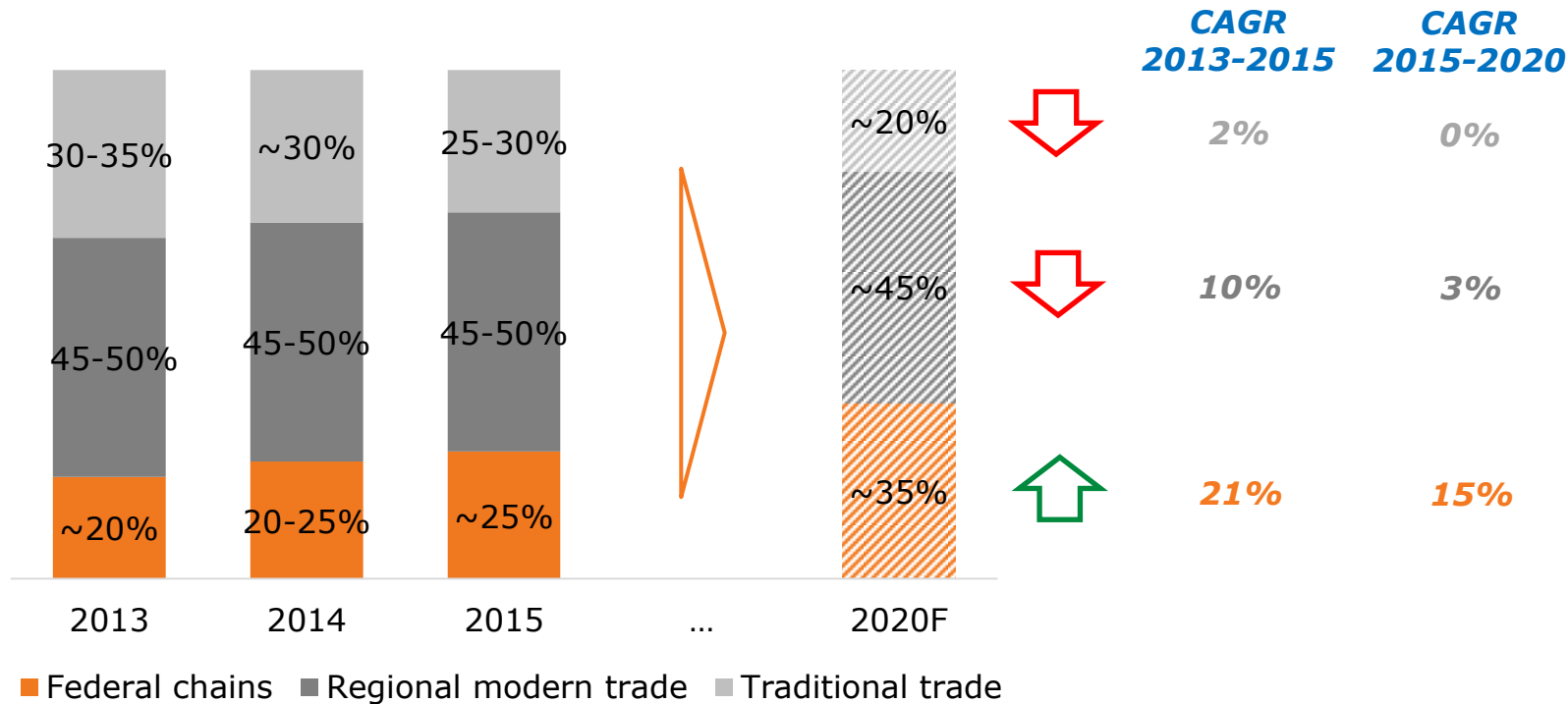


Source: Euromonitor, X5 analysis



The market leader will hold ca. 20%+ market share, while the second player – 12-17%

39 SHIFT FROM TRADITIONAL TRADE TO MODERN TRADE



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

40/ KEY MACRO TRENDS – NO MAJOR CHANGES



Russian population to grow from **146 mln** people in 2015 to **148** in 2020



Real GDP growth to increase from negative **3.7%** in 2015 to **2.2%** in 2020



Consumer price index to decelerate from **15.6%** in 2015 to **4.0%** in 2020



Real wage growth to increase from negative **9.3%** in 2015 to **2.0%** in 2020



Real income **stagnation** in 2016-2017; **unclear** 2018-2020 outlook depending on oil prices and political developments

41 RECENT MARKET TRENDS...

KEY TRENDS

DESCRIPTION

CONCLUSIONS

Changing demographics

- Growth of 60+ age population by 2-3% p.a. vs. reduction of 20-29 year group by 6% p.a.

- Growth of price-sensitive consumer segment
- Growth of proximity format popularity

Declining population income

- Increased price sensitivity and rational spending
- Growth of "cherry pickers"

- Growth in attractiveness of discounters
- Increased pressure on margins (need for opex reduction)

Growing competition

- Retail space saturation
- "Value" format development (e.g., hard discounters, dollar stores)

- Increasing pressure on LFL
- Increased pressure on margins (need for opex reduction)

Spread of new technologies

- Growth of online shopping and price transparency
- Increase in Big Data analytics

- Opportunity to improve competitiveness through service and personalization

Tightening market regulation

- Retail trade legislation (back margin constraints)
- EGAIS and other control systems
- International sanctions

- Additional costs due to new regulation
- Growing margin pressures
- Product shortages and price inflation



42 / ...AND X5'S RESPONSE...

KEY TRENDS

X5 RESPONSE

Changing demographics

- Continued expansion of proximity segment (>75% of X5 revenues)
- 5% discounts for pensioners from 9:00 until 13:00
- Focus on mothers with children

Declining population income

- Constant adaptation of value proposition to customers' needs
- Best-in-class "promo engine"

Growing competition

- Strong regional expansion with effective value proposition for small cities and towns
- Development and rollout of new regional supermarket concept
- Effective GIS system helping to find optimal locations

Spread of new technologies

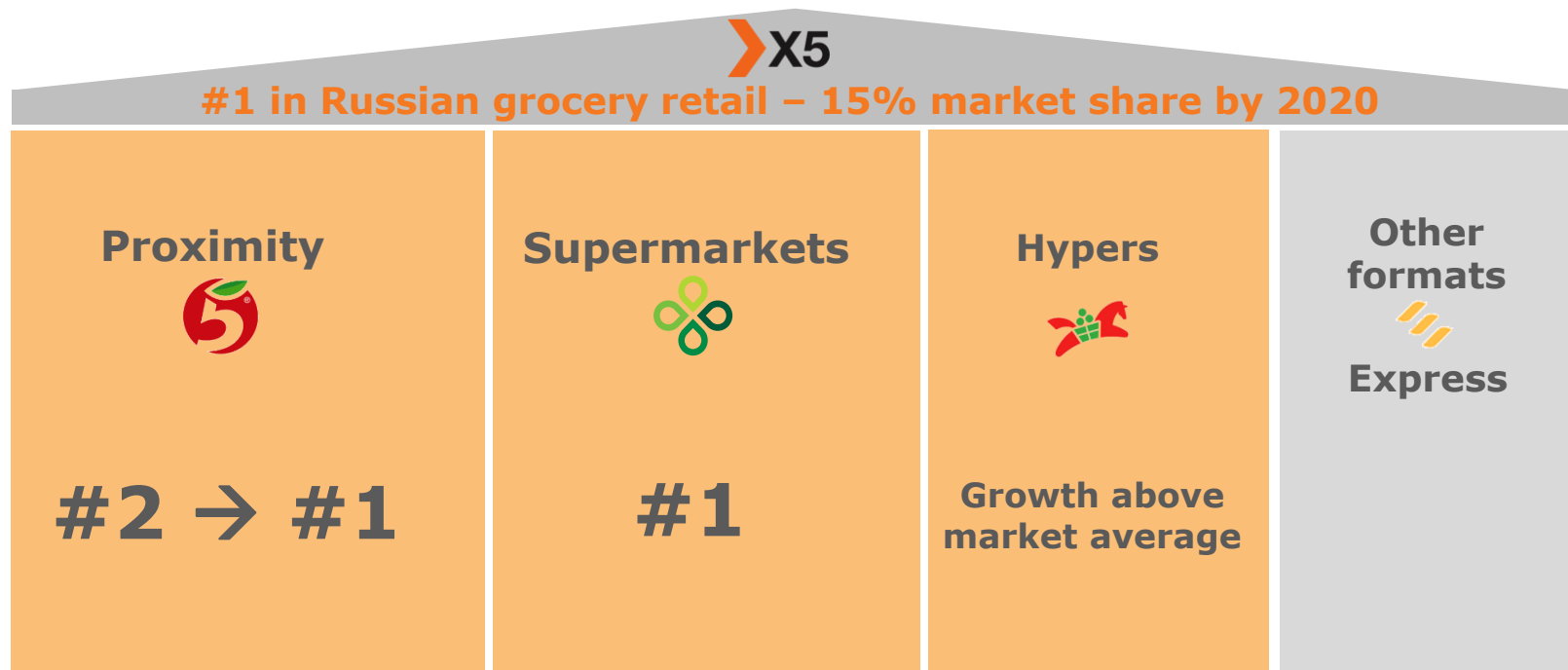
- Online retail initiative within the supermarket segment
- Successful development of loyalty programme and personalised promo in Perekrestok
- Further implementation of advanced analytics

Tightening market regulation

- Self-regulation approach
- Switch to net-net pricing
- Strategic partnerships with suppliers

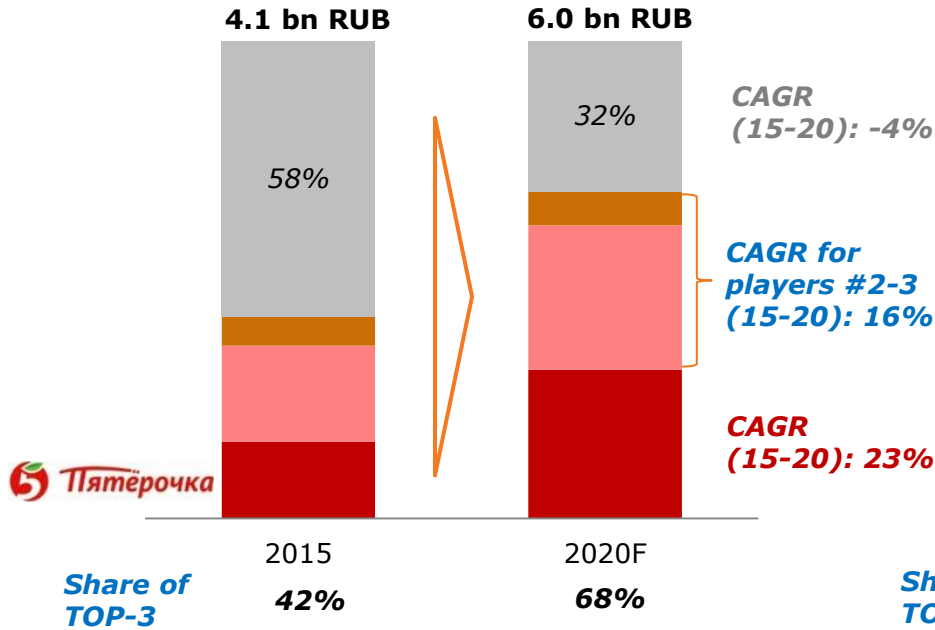


43 / ...MEANS DEVELOPMENT IN ALL MAJOR FORMATS

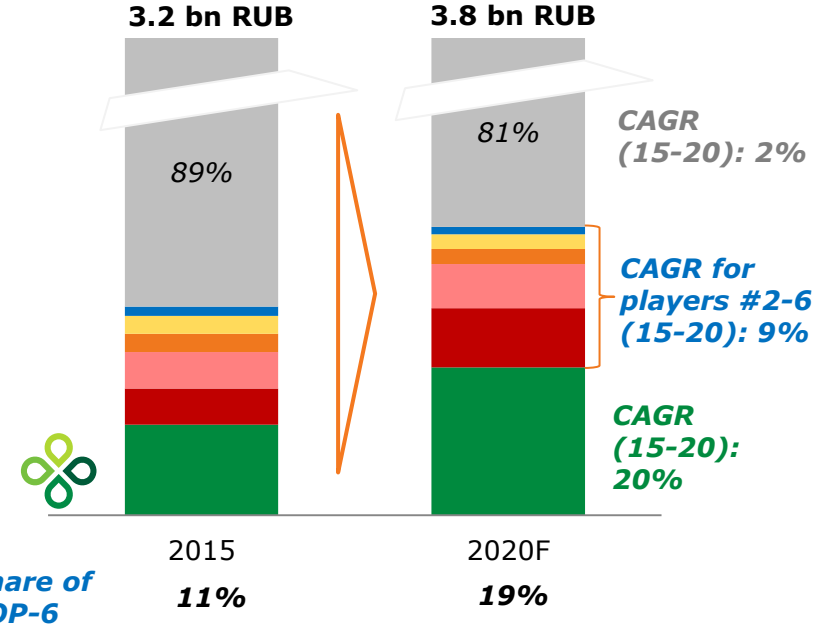


44 CONSOLIDATION ACROSS SEGMENTS: PROXIMITY AND SUPERMARKETS

Market share of proximity/ discounters



Market share of supermarkets



Note: All values and market growth rates are shown in nominal terms

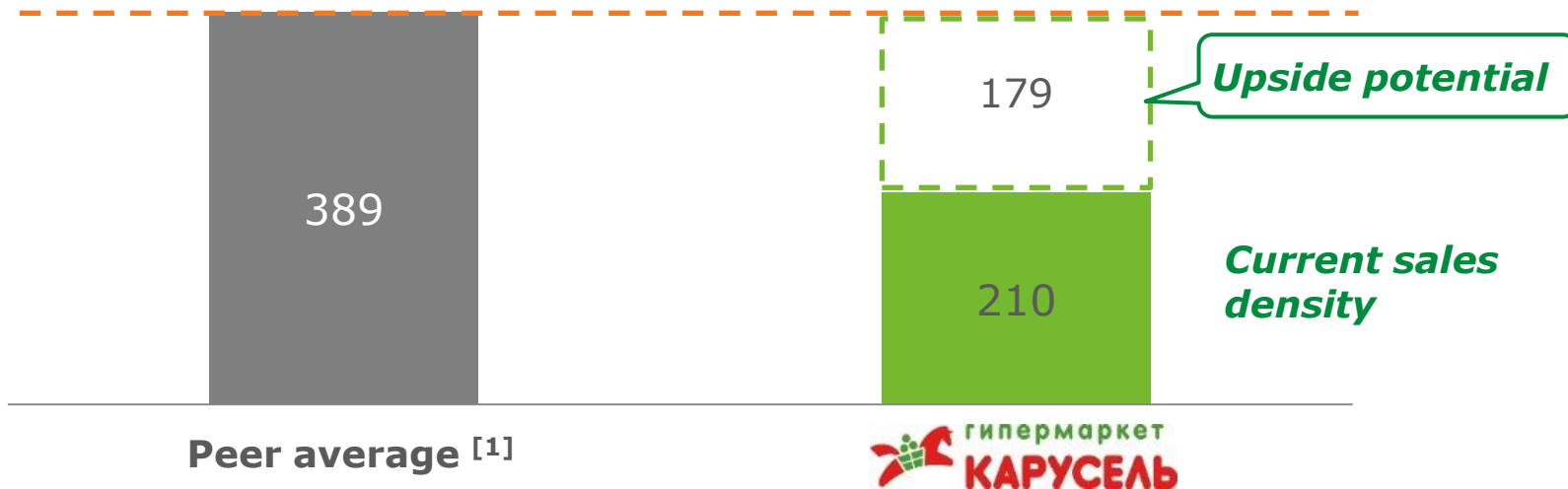
Source: Infoline, Rosstat, Bain, company reports

**Biggest growth upside is in proximity and supermarkets,
including consolidation by federal leaders**

45/ STRICT FOCUS ON INCREASING SALES DENSITIES IN HYPERMARKETS

Sales density of Russian hypermarkets

Unit: th. RUB per sq. m. per year



[1] – Average for Auchan, Lenta, Okey and Magnit

Source: Company reports, Infoline, X5 analysis

46 WHAT'S NEXT FOR X5



- Achieve market leadership in proximity format

#2 → #1

- Continue applying the current value proposition



- **Stay #1**
- Confirm and roll out the new regional supermarket model in Russia's regions



- Increase sales densities to level of peers
- Improve business model and value proposition

15% market share by 2020

While maintaining margins



THANK YOU FOR YOUR ATTENTION

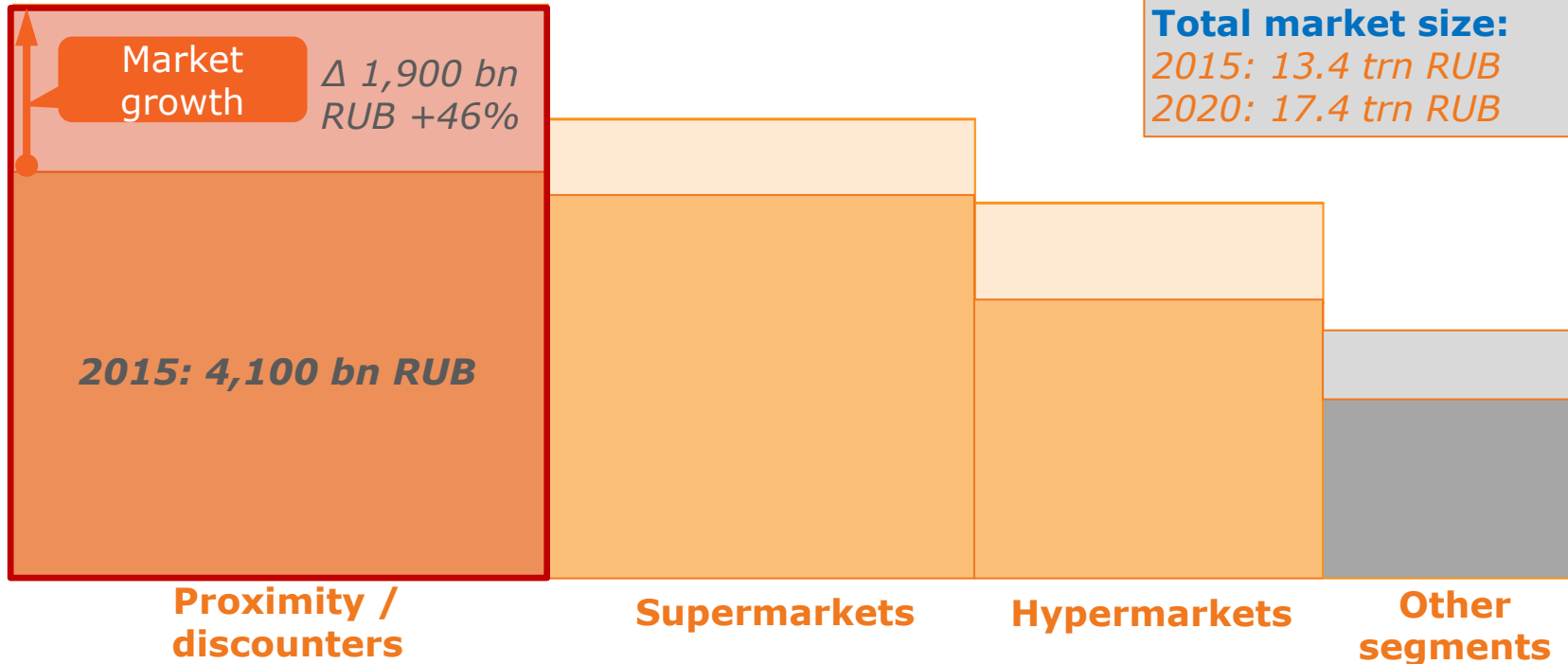


CLIMB HIGHER!

Olga Naumova,
General Director of Pyaterochka

X5 Capital Markets Day 2016
Moscow, 27 October 2016



WHERE WE ARE:*UNLOCKING THE POTENTIAL OF THE PROXIMITY SEGMENT***2020: 6,000 bn RUB**

Source: Infoline; Rosstat; Bain estimates

Proximity is the biggest segment in Russian food retail, with the highest growth potential

50 PYATEROCHKA TODAY: HIGHLIGHTS



7,787 stores as of
30 September 2016,
34.4% increase y-o-y



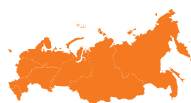
**Q3 2016 net retail sales of
RUB 195.4 bn,**
36.1% increase y-o-y



Share of X5's Q3 2016
sales: **~77%**



Average check:
RUB 335 (Q3 2016),
4.8% increase y-o-y



**3,091 th. sq. m. of selling
space** as of 30 September
2016, 39.2% increase y-o-y



667 mln customers for
Q3 2016, 29.9% increase y-o-y



Q3 2016 LFL Results

- Sales: **11.2%**
- Traffic: **4.1%**
- Basket: **6.8%**

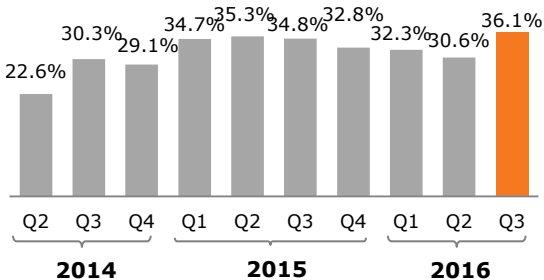


- Avg. net selling space: **397 sq. m.**
- **Formats:**
 - 250-330 sq. m. – 430-620 sq. m.
 - 330-430 sq. m. – 620+

5 BUILDING ON A SUCCESSFUL TRACK RECORD

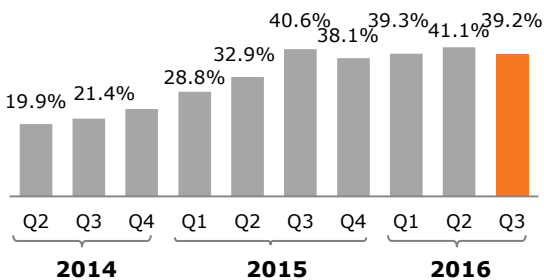
Q3 2016 net retail sales growth: 36.1% increase y-o-y

Net Sales Growth (% y-o-y)



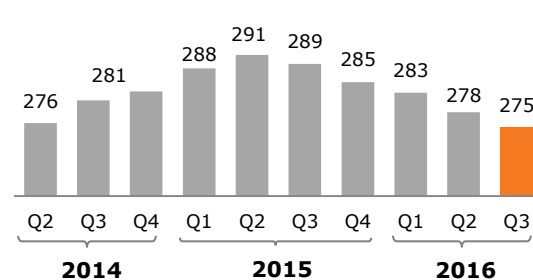
Q3 2016 selling space growth: 39.2% increase y-o-y

Net Selling Space Growth (% y-o-y)



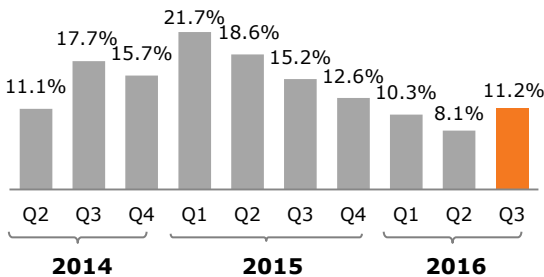
Q3 2016 sales densities: 4.8% decline y-o-y

Sales Densities Net (th. RUB/sq.m. [1])



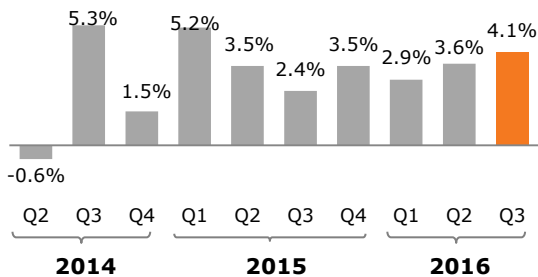
Q3 2016 LFL sales growth: 11.2% increase y-o-y

Total LFL Sales Growth (% y-o-y)



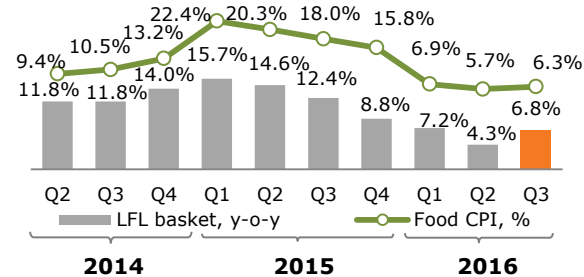
Q3 2016 LFL traffic growth: 4.1% increase y-o-y

Total LFL Traffic Growth (% y-o-y)



Q3 2016 LFL basket growth: 6.8% increase y-o-y

Total LFL Basket Growth (% y-o-y)

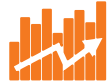


[1] – Total net sales from trailing four quarters divided by average selling space of trailing four quarters

52/ WHAT WE DID: OVERVIEW SINCE LAST CAPITAL MARKETS DAY

STRATEGIC PRIORITIES

KEY ACHIVEMENTS



Maximum sustainable growth

- **7,787 stores** as of 30 September 2016, up **34.4%** year-on-year
- **3,091** th. sq. m. of selling space, up **39.2%** year-on-year



Development in new regions with coverage of all location types

- **Entered Siberia** in Q3 2016
- Further **expansion to smaller cities** with population below 100 th. people
- Increased presence in **new cities and towns by 27%** year-on-year



Preserve current value proposition with selective improvements

- Further **adaptation of assortment:** introducing new entry-price PLUs and development of private labels
- Average number of **PLUs** is more than **4,000** items



Differentiation through promo and loyalty programme

- Piloting of personalisation mechanics based on **advanced analytics**



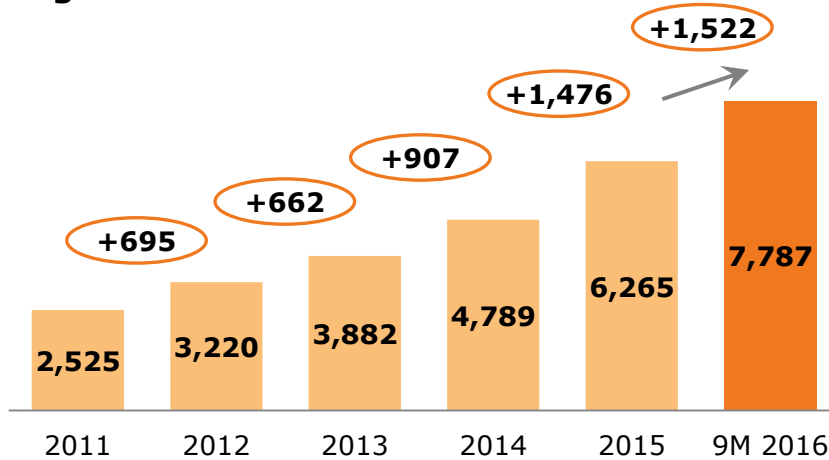
Cost optimisation

- Negotiating **improved terms from suppliers**
- **Improvements in logistics:** construction of new DCs, Best DC project
- **Improvements in SG&A:** staff costs, lease costs, other store costs

53 BUILDING SUCCESS: NEW OPENINGS

ACCELERATING THE SPEED OF NEW OPENINGS

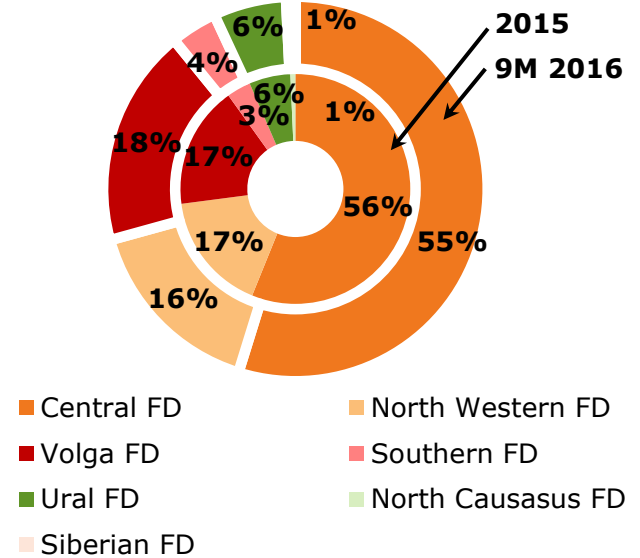
New openings



Selling space, (th. sq. m.)

Year	2011	2012	2013	2014	2015	9M 2016
Selling space	996	1,191	1,414	1,754	2,423	3,091

Net retail sales by region, 9M 2016 vs. 2015

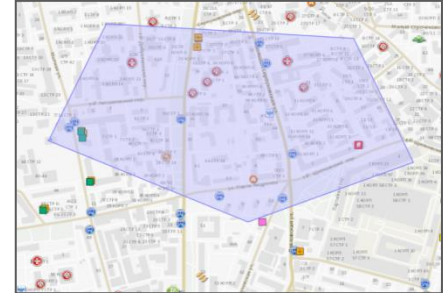


Key priorities

- Defend core regions and expand into new regions
- Focus on organic growth supported by tactical M&A with best locations
- Leverage GIS store opening software

54 / SUCCESSFUL OPENINGS EVERY TIME: ROLLOUT OF GIS

- To identify the best locations for stores, we use unique in-house GIS software
- In 2016, X5 received a “Special Achievements in GIS” award



Source: screens from GIS software

UPGRADE TO GIS

- Improved benchmarking analysis
- Advanced data-compilation tool for investment committee materials
- Heat map improvement

RESULTS

- Decision-making time related to site selection cut in half
- 2.5-times productivity increase for employees of business development units
- Number of mistakes decreased by 4 times



The full rollout of the GIS system resulted in higher-quality new openings

55 SUSTAINING GROWTH

Organisational structure

Cluster is the main Business Unit



Key organisational principles

- Decentralised organisational structure ensures:
 - Local clusters maintain a high degree of responsibility for performance
 - Business is fine-tuned for each region (best locations, consumer preferences, local suppliers)
- The organisational structure includes **11 divisions** and **130 clusters**
- Clusters are grouped into divisions
- Cluster is the base business unit responsible for P&L. Clusters are focused on implementation and control of business processes, talent development



56 BUILDING A WINNING MENTALITY: HOW TO ATTRACT AND RETAIN THE BEST TALENT

What we need



Talent



Motivation



Education



Leadership

What we do

- **How we recruit?** Wide-scale but systematic approach to recruitment. We are constantly improving the recruitment process.
- **How we train?** We are enhancing the internship process, and systems for learning and development. We frequently hold a variety of trainings, online courses and business games.
- **How we assess?** Annual review of employees in key positions to improve productivity and identify candidates for succession pool.
- **How we motivate?** We seek effective motivation – wages are linked to professional achievements; succession pool for top management positions (premier league, major league); team-building events are run across Russia (Turboliada).



57 REFURBISHMENT ANR REBRANDING PROGRAMME: 2013-2016 HIGHLIGHTS

Programme highlights for 1H 2016



Average selling space increase per store

21.4%



Average duration of store closure

11.7 days



Average capex (excl. VAT)

11.0 RUB MLN



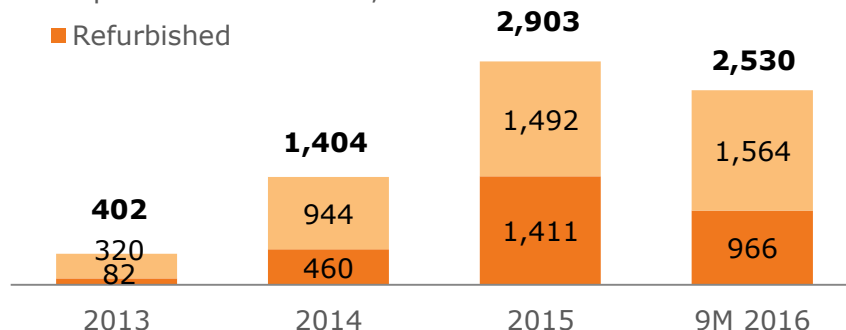
Average LFL sales growth

15%

Refurbishment programme progress

■ Opened in new format, net

■ Refurbished



Share of stores using new concept:

10%

38%

>70%

>90%

Results of the programme

- Improved brand perception
- Bringing the entire store base to new CVP
- Target audience extended
- Maximise space utilisation
- Increase in-store efficiency



58/ WHAT'S NEXT ON THE STORE LEVEL (1/3): DAY-TO-DAY IMPROVEMENTS

Before



Now



We constantly monitor new trends and innovations, analyse global best practices and roll out across our store base

59/ WHAT'S NEXT ON THE STORE LEVEL (2/3): DAY-TO-DAY IMPROVEMENTS

Before



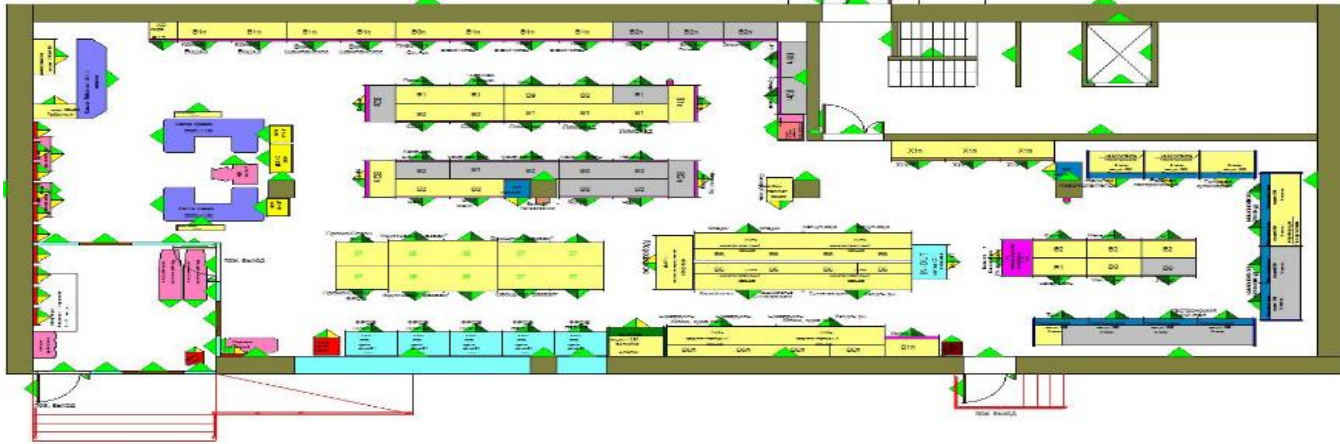
Now



- In new stores, one of the checkout lanes is equipped with a Tobacco Shop offering premium spirits as well as tobacco products



60/ WHAT'S NEXT ON THE STORE LEVEL (3/3): DAY-TO-DAY IMPROVEMENTS

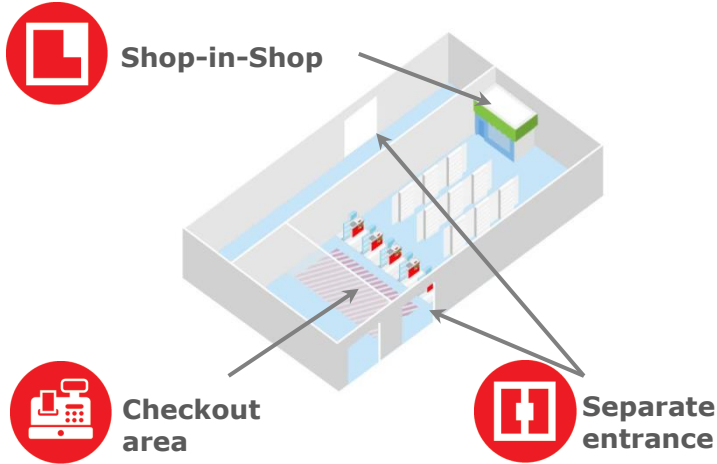


- In 2016, all planogram and layout designs have been incorporated into the JDA system
- Extra opportunities available now:
 - unique planogram designs for each store
 - access to information on potential product locations within the store
 - correct automatic delivery operations

61 EFFICIENT SUBLEASE PARTNERSHIPS

"MORE THAN A MERE SUBLEASE": HOW WE APPROACH PARTNERSHIPS

Location in store affects the rent rates



- **Main goal:** wider assortment and services
- **Win-win approach:** traffic conversion in both directions
- **Offering synergy,** high-demand services at **suitable locations**

Priority groups for partnerships

PRIORITY

GROUP OF SERVICES

High

- Mobile services
- Pharmacy
- Baby goods
- Flowers
- Cookery
- Meat and fish

Medium

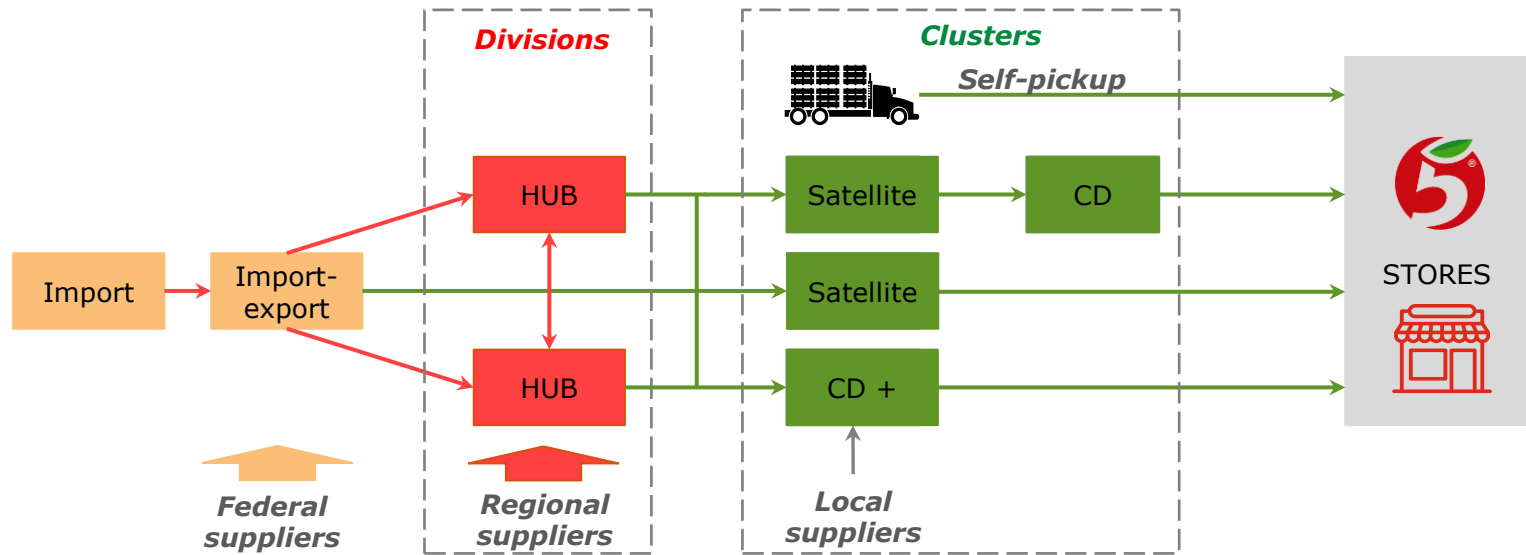
- Cosmetics
- Clothing
- Hairdressing

Low

- Insurance services
- Travel agencies
- Ticket offices

62/ EFFICIENT SUPPLY CHAIN

Efficient logistics system to ensure flexibility of supply options



Types of DCs

Name	HUB	DC	Satellite	Cross-docking +	Cross-docking
Minimum space, sq. m.	30	25	11.5-17	1	0.3
Packaging service	✓	✓	✓	✓	✗



63 PYATEROCHKA STRATEGY OVERVIEW

- **Maximise the share of customers, maximum share of these customers' wallet:**
 - Continue applying the current **value proposition**, enhancing it through implementation of new initiatives
 - Maximum **sustainable growth** with development in **new regions** (Siberia)
 - Further **adaptation of assortment**, introducing new categories, entry-price PLUs
 - Implement a **loyalty programme** and launch customised promotions
 - Further **improve NPS**
- **Improve efficiency and reduce costs:**
 - Grow the share of **private label** to >20% during the next 3-5 years
 - Increase the share of **direct import**
 - **Lean and agile** approach
 - **Reinvest** improvements in opex and purchasing terms into price



THANK YOU FOR YOUR ATTENTION

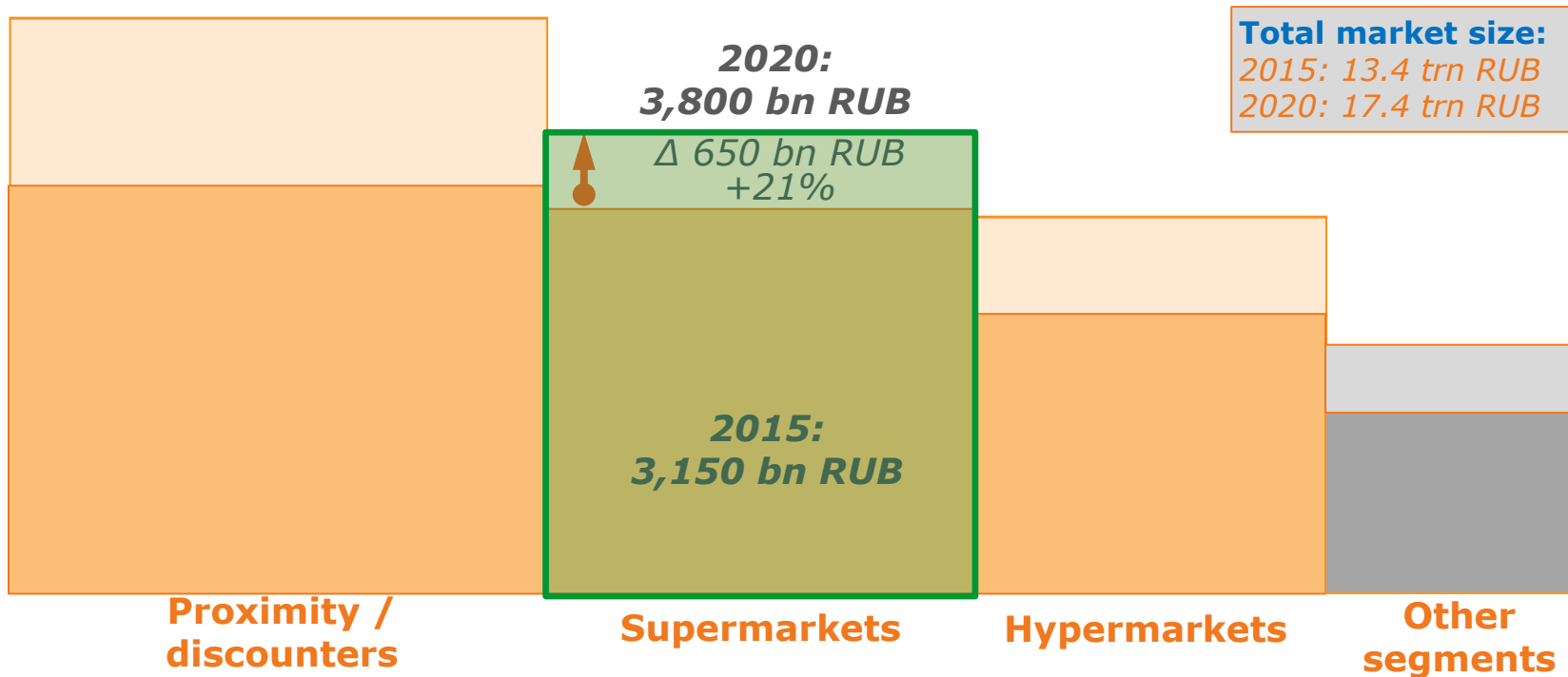


CLIMB HIGHER!

**Vladimir Sorokin,
General Director of Perekrestok**

X5 Capital Markets Day 2016
Moscow, 27 October 2016



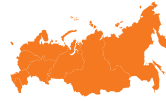


Source: Infoline; Rosstat; Bain estimates

67/ PEREKRESTOK TODAY: RUSSIA'S #1 SUPERMARKET



503 stores as of
30 September 2016,
11.5% increase y-o-y



513 th. sq. m. of selling space as of 30 September 2016, 12.0% increase y-o-y



Q3 2016 net retail sales of RUB 35.9 bn,
19.5% increase y-o-y



86 mln customers in
Q3 2016, 14.8% increase y-o-y



Share of X5's Q3 2016 sales:
~14%



Q3 2016 LFL Results

- Sales: **7.2%**
- Traffic: **2.4%**
- Basket: **4.7%**



Average check:
RUB 475 (Q3 2016)
4.7% increase y-o-y

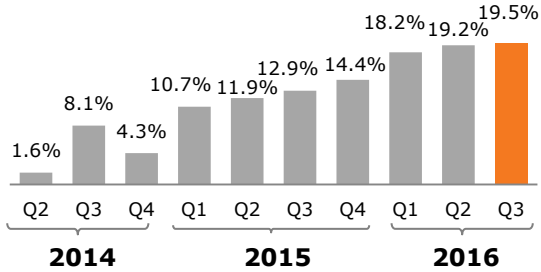


Avg. net selling space:
1,020 sq. m.

68 IMPROVING OPERATIONS: GROWING LFL AND SELLING SPACE

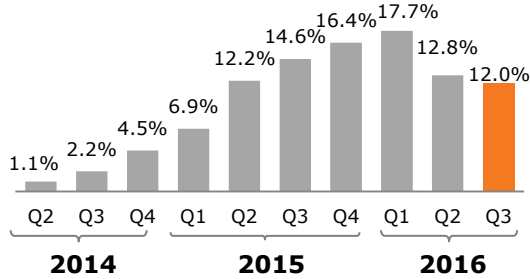
Q3 2016 net retail sales growth: 19.5% increase y-o-y

Net Sales Growth (% y-o-y)



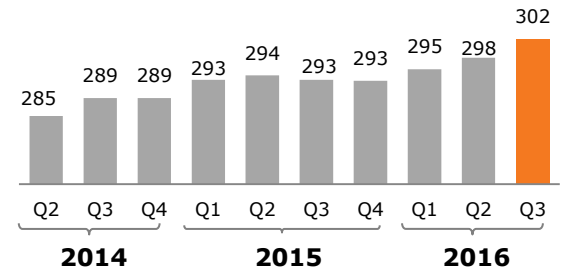
Q3 2016 selling space growth: 12.0% increase y-o-y

Net Selling Space Growth (% y-o-y)



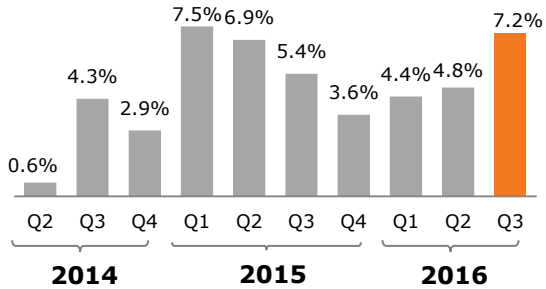
Q3 2016 sales densities: 3.1% increase y-o-y

Sales Densities Net (th. RUB/sq.m. [1])



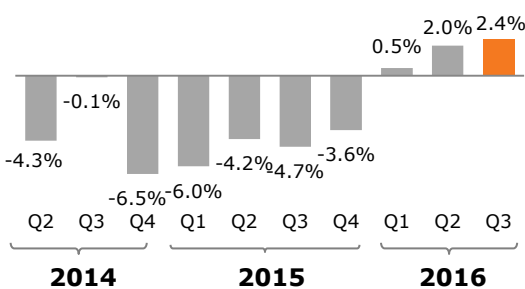
Q3 2016 LFL sales growth: 7.2% increase y-o-y

Total LFL Sales Growth (% y-o-y)



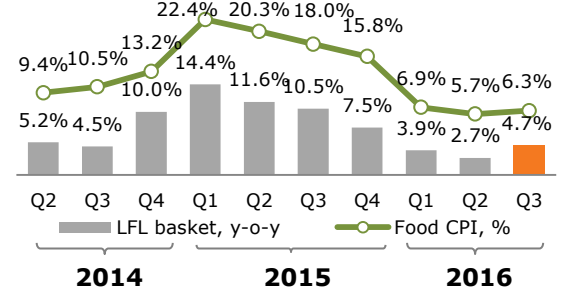
Q3 2016 LFL traffic growth: 2.4% increase y-o-y

Total LFL Traffic Growth (% y-o-y)



Q3 2016 LFL basket growth: 4.7% increase y-o-y

Total LFL Basket Growth (% y-o-y)



[1] – Total net sales from trailing four quarters divided by average selling space of trailing four quarters

69/ WHAT WE DID: PROGRESS SINCE LAST CAPITAL MARKETS DAY

STRATEGIC PRIORITIES

KEY ACHIVEMENTS



Development in Moscow and St. Petersburg, reach critical mass in cities with >1 mln population

- **50%** of new stores opened in Moscow, Moscow region, St. Petersburg and Leningrad region in 9M 2016
- **53%** of new stores opened in cities with >1 mln population in 9M 2016



New store openings to preserve foothold for future growth

- **503** stores, up **11.5%** year-on-year
- Opened more than competitors in 9M 2016
- **513** th. sq. m. of selling space, up **12.0%** year-on-year



Regional model trial in 2016, with development starting in 2017

- Piloting new regional model
- All new and refurbished stores in regions **opened using new concept**



Continue with refurbishment programme

- **45** stores were refurbished in 9M 2016 (**>46%** of stores now operating under the new concept)
- Average **refurbishment period reduced** from **52** days in 2015 to **43** days in 1H 2016



Focus on improving service and efficiency of operations

- **NPS in Moscow improved** from -5 in Q3 2015 to -2 in Q3 2016
- **Improvements** in opex, logistics, shrinkage costs and SG&A: staff costs, lease costs, marketing, security

70/ REFRUBISHMENTS: THE PATH TO BETTER BRAND PERCEPTION

Programme highlights for 1H 2016



Average share
of selling space per store

60%



Average duration of
store closure

43 days



Average recovery
period

~4-6 months



Average LFL sales
growth

14-16%^[1]

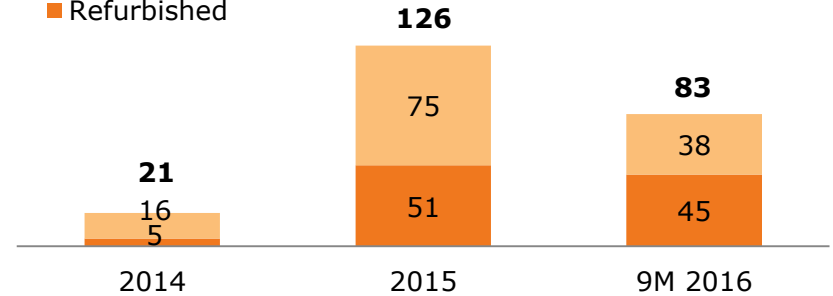


[1] – after recovery period

Refurbishment programme dynamics

■ Opened in new format, net

■ Refurbished



Share of stores using new concept:

5%

31%

>46%

Programme targets and progress

- Gaining critical mass to change brand perception
- Bringing the entire store base in line with new CVP
- Maximise space utilisation

71/ CVP EVOLUTION

FOCUS ON SUPPORTING THE CUSTOMER

WHERE WE WERE

Core audience



- Everyone who lives and works within a 1.5 km radius
- **Average or above-average** income
- Families with children
- Well-to-do men
- Elderly people, pensioners
- **Well-off** young people

Mission



- Continuous development and research of consumer tastes and preferences
- Personalised support for customers seeking **more tasty, nutritious and diverse food**

WHERE WE ARE NOW

- Everyone who lives and works within a 1.5 km radius
- **Average or below-average** income
- Families with children with average or **below-average income**
- Women in charge of the **family budget**
- Men shopping with a list or within a **limited budget**
- Elderly people, pensioners
- **Daily promotions** based on customer **spending potential** and taste research
- Personalised, **tangible** support of customers seeking food diversity



72/ REGIONAL MODEL: AFFORDABLE SUPERMARKET FOR ALL SHOPPING MISSIONS

Key components of regional model

- Assortment**
 - PLU reduction to **8-10 th. per store**
 - Focus on **local PLUs**
 - Clustering by price segment
- Layout**
 - Maximise selling space up to **65-70%**
 - 30% lower Capex** per store
- Promotion**
 - Attractive promo
 - Flexible promo** based on category and location
- Location**
 - District centre, medium and medium+ income
 - Central streets, convenient access to the mall
- Personnel**
 - Structure and headcount **adjustment to store turnover and region**
- Design**
 - Simplified** and welcoming to all
 - Easy navigation outside

Change in assortment by price segments





Чай

Конфеты

Кондитерские изделия

Конфеты весовые

СУПЕР ЦЕНА

СУПЕР ЦЕНА

СУПЕР ЦЕНА

Конфеты

ПРОДУКТЫ

ТО

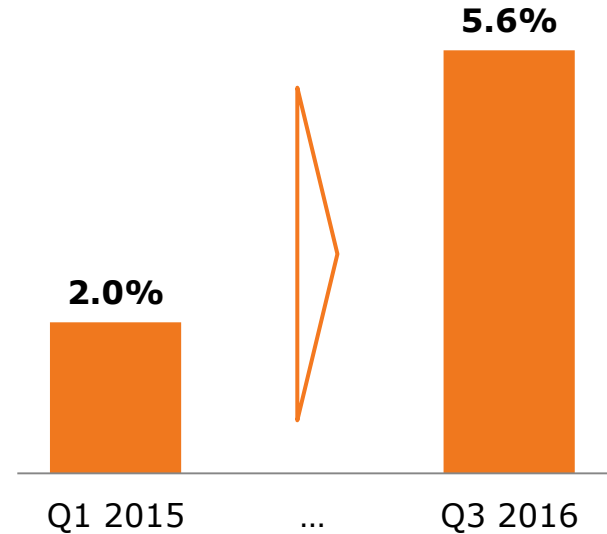
74 PRIVATE LABEL: EXPANDING IN ALL MAIN CATEGORIES

Private labels in all price segments

Segment	Current brands	New brands
High	-	In progress
Medium	<ul style="list-style-type: none"> Perekrestok-Market Perekrestok 	
First price		<ul style="list-style-type: none"> Prosto
Niche	<ul style="list-style-type: none"> Ocean (seafood) Bonte (confectionery) Perekrestok Chef (cookery) 	<ul style="list-style-type: none"> Kids brand Farming/eco food

Private label development

Share in turnover, %



75/ LOYALTY PROGRAMME: MORE THAN CUSTOMER RETENTION

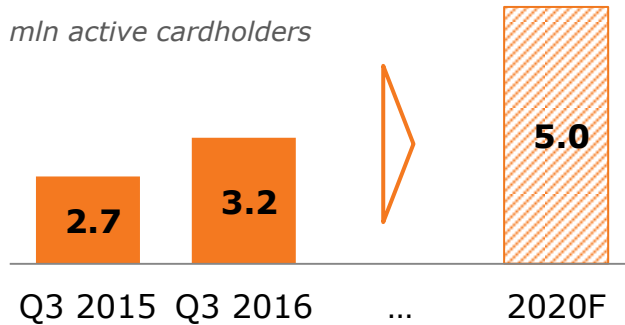
"Perekrestok Club" at a glance

- **1 point for 10 RUB**; 5 points for 10 RUB in "favorite category"
- Points can be used for payments in stores: **10 points = 1 RUB**



Active cardholders

mln active cardholders



Development plan

- Developing **personalised offering** and **personalised promo**
- Introduction of comprehensive **CRM**
- Developing **new communication channels**
- Developing **partnerships with other companies**
- **Expansion of cardholder base** using internal and external sources
- Promo mechanics to **support store ramp-ups**
- **Increase the share of loyalty card holders** in sales from **50% to 60%**

Personalised promotions is one of the key focus areas in loyalty programme development

76 ONLINE SUPERMARKET: A PROMISSING SERVICE FOR OUR CORE AUDIENCE

Perekrestok online at a glance

- Launch** ▪ Due in 2017
- Product** ▪ Broad, high-quality assortment matrix to replicate shopping for a family at a store (**10-12 th. PLUs**)
▪ **Home delivery**
- Place** ▪ **Full integration** with Perekrestok.ru
▪ Personalisation via loyalty programme and recommendation services
- Price** ▪ **Same price** in the online store and the Perekrestok chain
- Promo** ▪ Retail promotion via online store website
- Service** ▪ Full **integration with the CRM** of the Perekrestok chain



Diversification and support for Perekrestok's core audience

Product on a website and mobile application



Delivery trucks

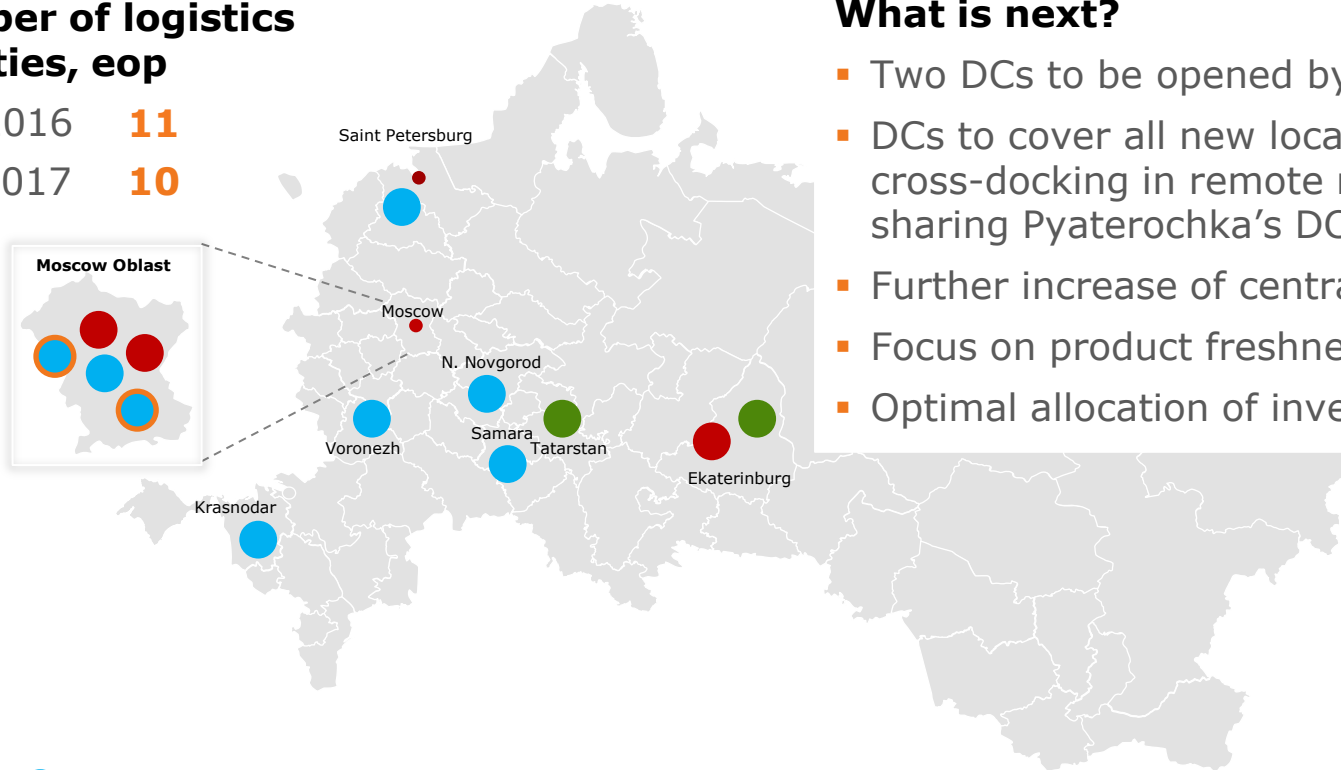


77/ EFFICIENT SUPPLY CHAIN: THE KEY TO PROFITABLE GROWTH

Number of logistics facilities, eop

Sep 2016 **11**

Dec 2017 **10**



What is next?

- Two DCs to be opened by Dec 2017
- DCs to cover all new locations, cross-docking in remote regions or sharing Pyaterochka's DCs
- Further increase of centralisation
- Focus on product freshness
- Optimal allocation of inventories



78 PEREKRESTOK STRATEGY OVERVIEW

- **Fine-tuning value proposition and adapting to customer needs:**
 - Maintaining the pace of **organic growth** and **refurbishments**
 - Confirm and roll out **regional model**
 - Further **adaptation of assortment**
 - **Increase loyalty card** penetration, and implement **personalised promotions**
 - Develop **online supermarket**
 - **Improve NPS**
- **Improve efficiency and reduce costs:**
 - Increase the share of **private label**
 - Increase the share of **direct import**
 - **Further improve logistics** (forecasting, stock replenishment system)
 - **Reinvest** improvements in opex and purchasing terms into price



THANK YOU FOR YOUR ATTENTION



CLIMB HIGHER!

Maksym Gatsuts,
General Director of Karusel
X5 Capital Markets Day 2016
Moscow, 27 October 2016



81

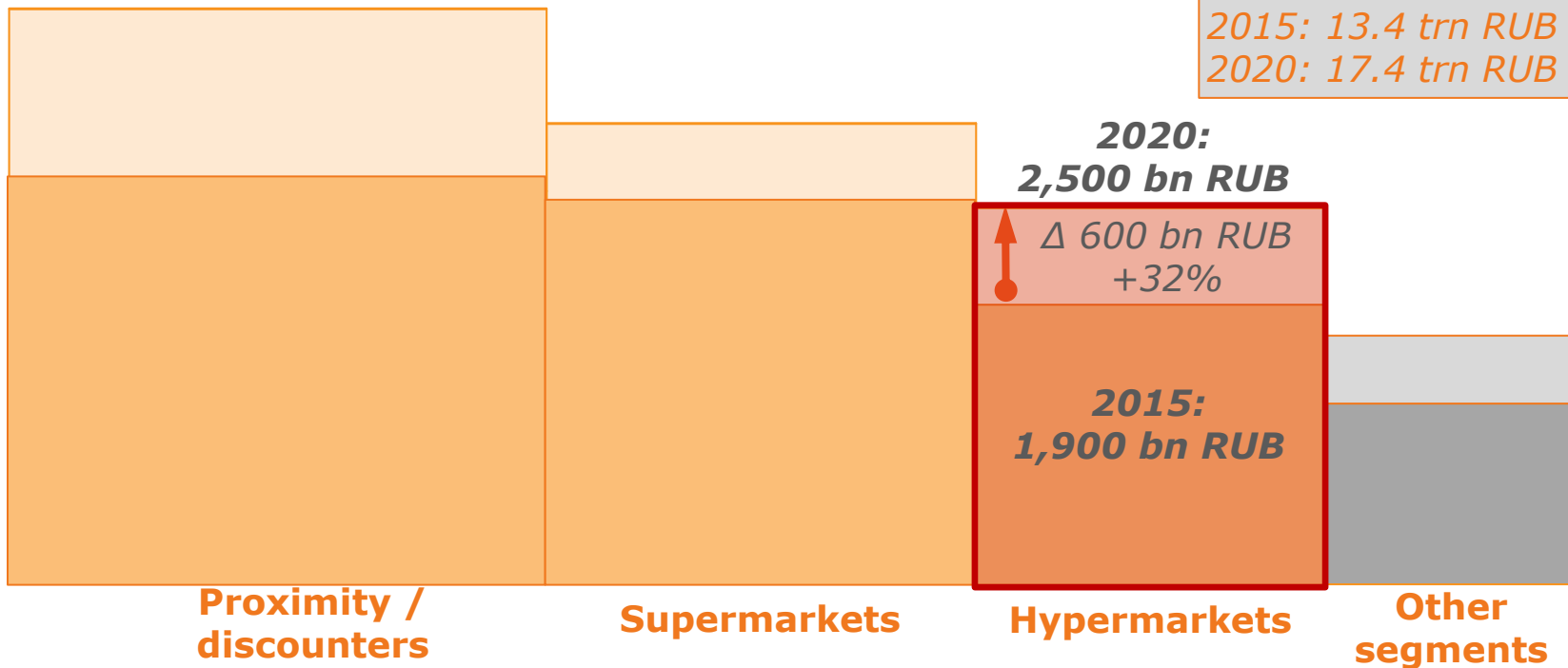
WHERE WE ARE:

HYPERS ARE A SIGNIFICANT PART OF RUSSIAN FOOD RETAIL

Total market size:

2015: 13.4 trn RUB

2020: 17.4 trn RUB



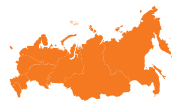
Source: Infoline; Rosstat; Bain estimates

Further potential for growth in hypermarkets, which is the third largest segment in Russian food retail

82 / KARUSEL TODAY: HIGHLIGHTS



90 stores as of
30 September 2016:
7.1% increase y-o-y



384 th. sq. m. of selling space
as of 30 September 2016,
up 5.4% y-o-y



Q3 2016 net retail sales:
RUB 19.9 bn, 6.4% increase
y-o-y



33 mln customers
in Q3 2016, 2.7% increase y-o-y



Share of X5's Q3 2016 sales:
~8%



Q3 2016 LFL Results

- Sales: **(1.7)%**
- Traffic: **(3.7)%**
- Basket: **2.1%**



Average check:
RUB 680 (Q3 2016)
3.4% increase y-o-y

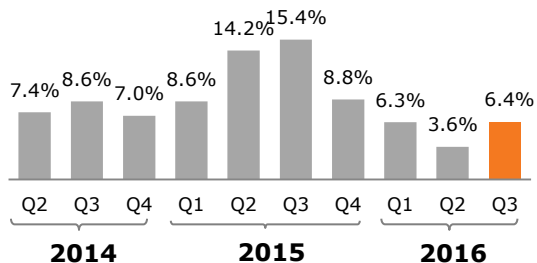


Avg. net selling space:
4,272 sq. m.

83 THE RIGHT TIME FOR RELAUNCH

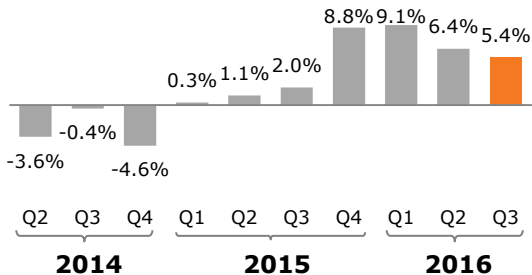
Q3 2016 net retail sales growth: 6.4% increase y-o-y

Net Sales Growth (% y-o-y)



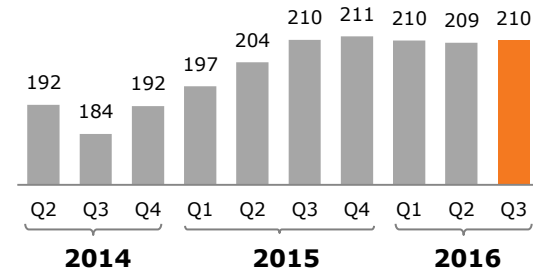
Q3 2016 selling space growth: 6.5% increase y-o-y

Net Selling Space Growth (% y-o-y)



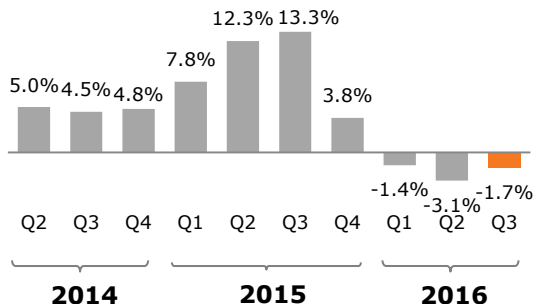
Q3 2016 sales densities are stable

Sales Densities Net (th. RUB/sq.m. [1])



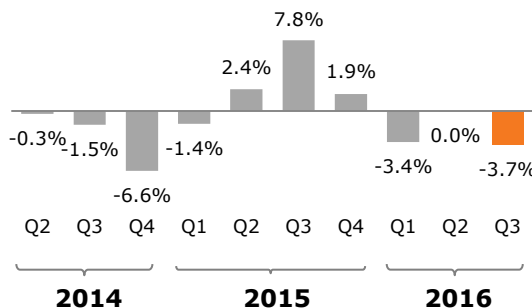
Q3 2016 LFL sales growth: 1.7% decline y-o-y

Total LFL Sales Growth (% y-o-y)



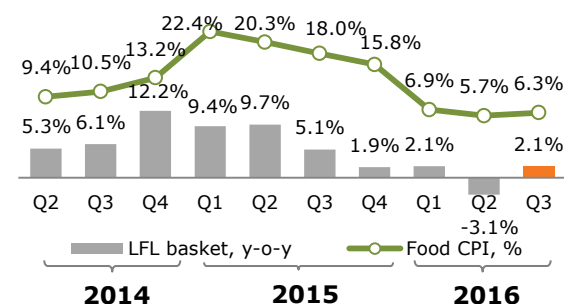
Q3 2016 LFL traffic growth: 3.7% decline y-o-y

Total LFL Traffic Growth (% y-o-y)



Q3 2016 LFL basket growth: 2.1% increase y-o-y

Total LFL Basket Growth (% y-o-y)



[1] – Total net sales from trailing four quarters divided by average selling space of trailing four quarters

84 / SHORT-TERM IMPROVEMENT PLAN

Commerce



- Basket and pricing **optimisation, benchmarking** development
- **Promo tuning**, introduction of new algorithms to boost loyalty
- Standardisation of **selling space layout** based on consumer behaviour



Efficiency



- **Better manageability**: business process review and further development of execution culture
- Improving **shelf availability**
- Strict focus on **product quality** development



Stores portfolio



- Store-by-store review and **optimisation of the store portfolio**
- Further reduction of **lease expenses**
- Search for and capture of the most promising **locations for future openings**

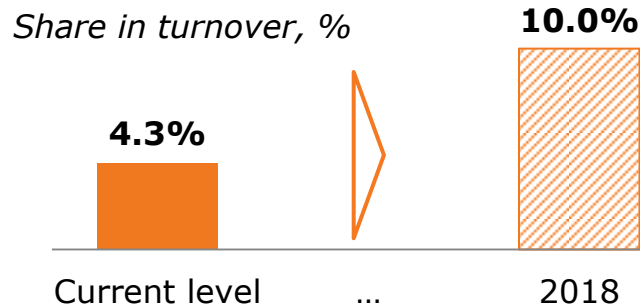


85 PRIVATE LABELS: KEY DEVELOPMENTS

Private labels in all major price segments

Segment	Current brands	New brands
Medium	<ul style="list-style-type: none"> Ampersand 	<ul style="list-style-type: none"> Riviera Pizza Pasta Vino
First price	<ul style="list-style-type: none"> Krugli god (Year-Round) 	<ul style="list-style-type: none"> Marquise des Anges Mar Adento
Non-food		<ul style="list-style-type: none"> In progress

Private label development



"Krugli god" Private label



86/ LOYALTY PROGRAMME: ONE STEP TOWARDS PERSONALISATION

Loyalty programme at a glance

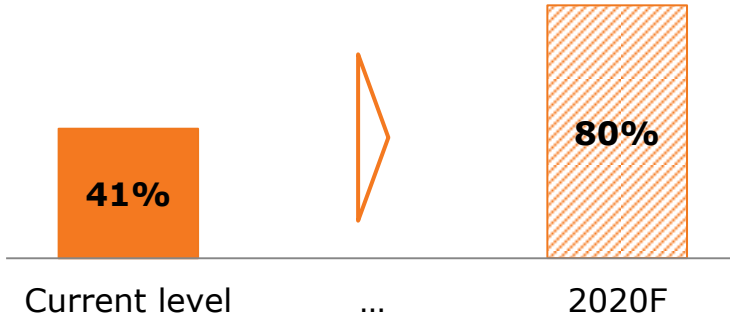
- Points collection:
10 points for 100 RUB
- Points can be used to pay for shopping:
10 points = 1 RUB
- Number of active cardholders **2.15 mln**
(**86%** of total cardholders)



Development plan

- Transition to targeted **personalised offering** and **personalised promo**
- Participation in promos **only for cardholders**
- Developing **new communication channels** (mobile application)
- Use of **most efficient communication channels**
- **Co-branded cards**
- **Data collection** about cardholders

Share of loyalty cardholders in sales



87/ FROM MODEL HYPERS TO NEW COMMERCIAL MODEL

Good results at model hypers

- Key achievements:
 - **Positive LFL traffic** in model hypers
 - Increase of **average check**
 - Improvement of **on-shelf availability**
- Results analysis
- Different instruments for model roll-out should be used

New commercial model development plan

- **Upgrade the model** of new hypermarkets
- Further **adaptation of assortment** and **pricing optimisation**
- **Increase loyalty card** penetration, and implement **personalised promotions**
- Increase the share of **private label**
- Improve **logistics**, reduce **rent costs** and **shrinkage**



THANK YOU FOR YOUR ATTENTION

