

Operational Excellence: Efficient Purchasing & Sourcing

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Strategic Objectives

Deliver **Winning Assortment** and Value for **CUSTOMERS**



Create **Winning Relationships** with **SUPPLIERS**

- Industry-Beating Assortment
- Growth of Private Label & Own Production
- Increased Purchasing Leverage
- Global, National and Local Sourcing
- Supply Chain Excellence



I. X5 Purchasing Organization

II. Winning Assortment and Value for Customers

III. Winning Relationships with Suppliers

IV. Non-Commercial Purchasing

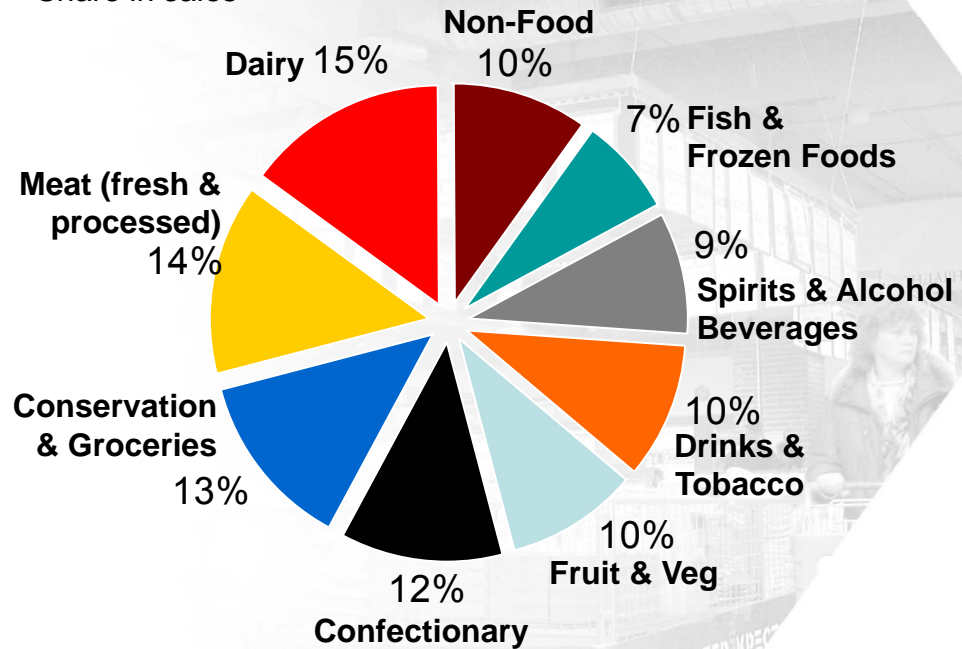




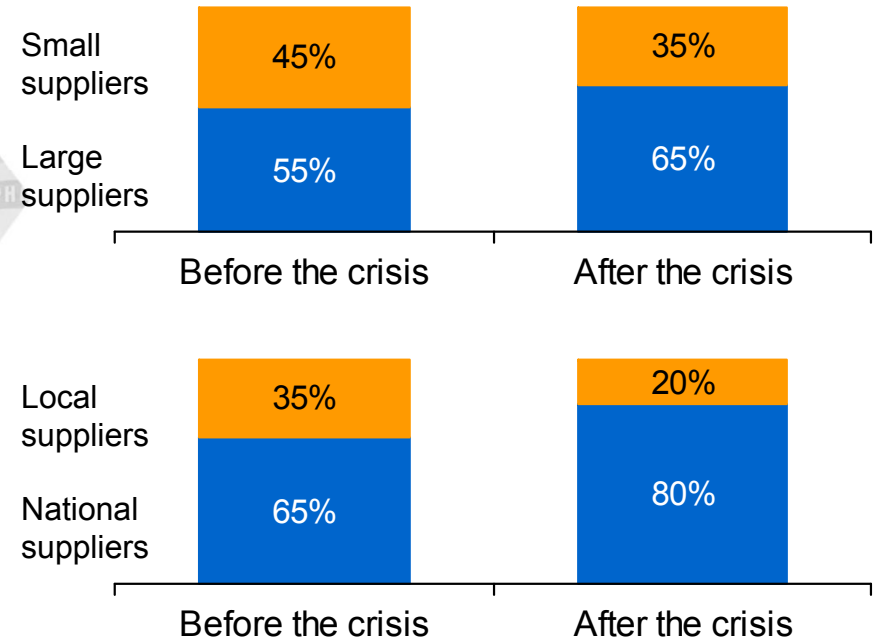
We Manage over USD 7 bln in Annualized Purchases*

**Assortment:
38,000 SKUs**

Share in sales*



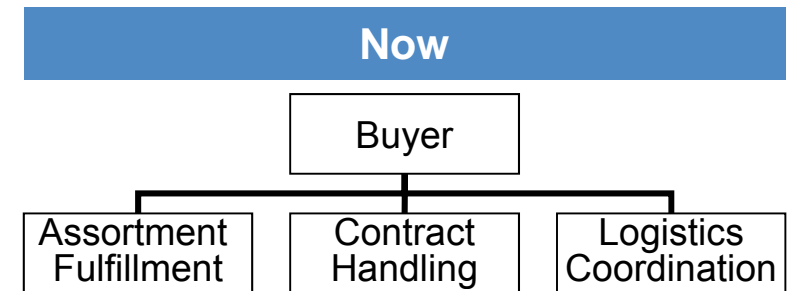
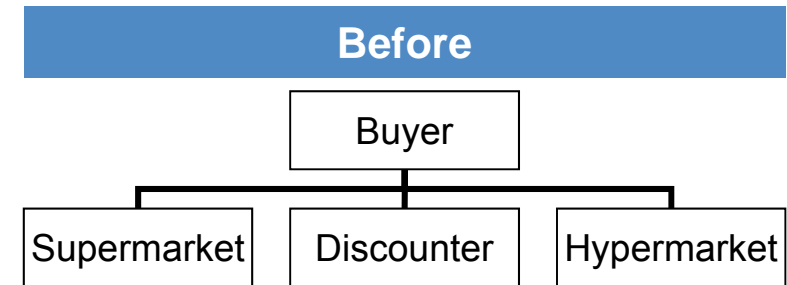
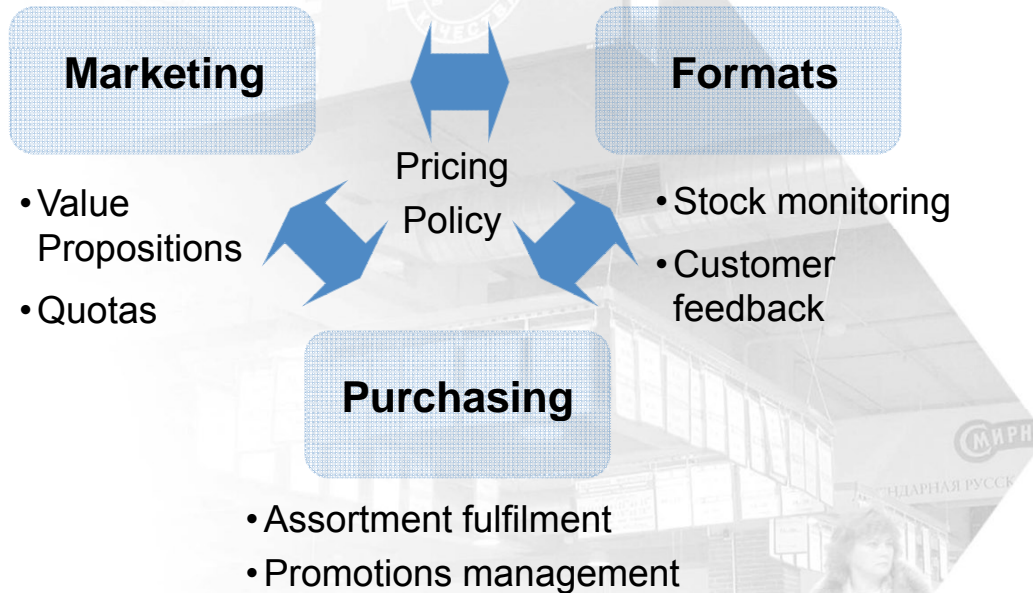
**Suppliers:
4,700 Relationships**



* As of 31 August 2009, for 12 preceding months



From Purchasing Organization to Customer Success -



- Moscow purchasing office
- Three category buyers in Fruit & Veg
- Regional buyers conferences are held on a weekly basis
- New KPI on inventory turnover introduced

- Clear, Efficient Business Processes

Our Approach:

- Reduce # of Brands, Create More Choices
- Ensure Best Assortment among Competition
- Support Price Leadership Strategy

Reducing Number of Brands while Improving Customer Choice is our Top Priority

Before

of Brands

| Supplier Needs | Low Price Segment | Medium Price Segment | High Price Segment |
|----------------|-------------------|----------------------|--------------------|
| Milk, 2.3% fat | 5 | 10 | 5 |
| Milk, 1.5% fat | 7 | 12 | 7 |

Now

of Brands

| Customer Needs | Low Price Segment | Medium Price Segment | High Price Segment |
|------------------------|-------------------|----------------------|--------------------|
| Milk, 2.3% fat | 1 | 2 | 1 |
| Milk, 1.5% fat | 1 | 2 | 1 |
| Milk, 0.8% fat | 1 | - | - |
| Milk in plastic bottle | 1 | - | - |
| Flavored milk | 1 | 1 | 1 |

Sourcing and Technology Innovation to Meet Customer Needs

- Electronic auctions for commodity products across regions and formats
- Placing orders for commodity products with excess capacity factories
- Cross – regional deliveries to enable price arbitrage between the regions
- Bread deliveries through DC
- Cross-format promotions
- Exclusive products

Non-Branded or “Commodity” Products



We Know How to Please Our Customers. Case Studies



- X5 agreed upon fish purchases “directly from the docks”
- Arranged for railway deliveries

Substantial purchase price reduction

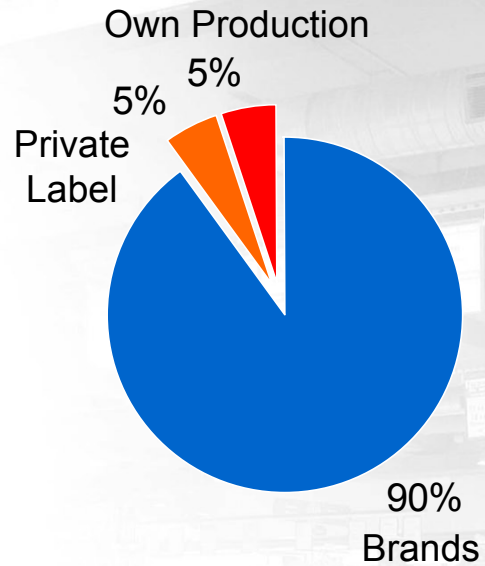
X5 offered fish 50% cheaper than our closest competitors

- X5 is # 3 Russia’s fruit&veg importer (imports account for 70% of the country’s fruit&veg sales)
- We speak directly to producers to buy
- We tender logistics providers to deliver

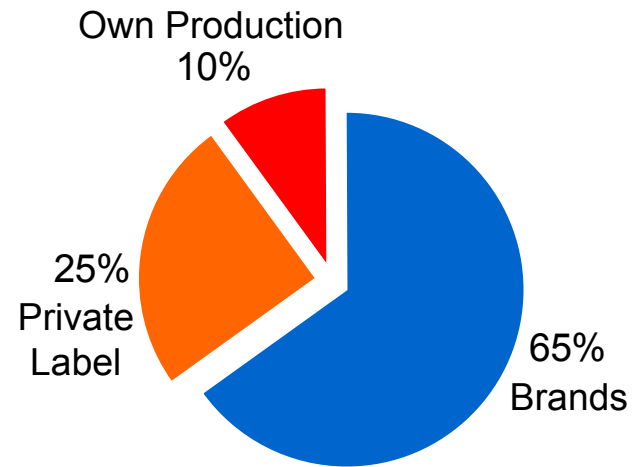


- X5 offers best price in the market
- We are in a position to make 100% of volume in certain categories (e.g. grapes in St. Petersburg)

Yesterday (2008)



Tomorrow (2011)





Private Label Strategy Execution

Concept

- New PL concept with new designs developed
- Pricing policy adopted
- Quotas for PL within each product category defined
- Exclusive PL products launched (famous characters, unusual tastes, legendary brands)

Execution

- PL production team strengthened
- Responsibility assignment between departments defined
- Regular analysis of PL KPIs and subsequent strategy adjustments

Suppliers

- Procedure to choose suppliers defined
- Mechanism of electronic auctions tested and employed

Quality

- Strict quality controls at both product launch and throughout production process
- Regular production plants audits





Enhanced Own Production Offers

Categories

- Meat
- Fish
- Salads & other ready meals
- Bakery

Focus on Centralization

- Currently offered only in supermarkets and hypermarkets
- Certain stores have production facilities
- 2011 target: 100% centralization at distribution centre level in order to
 - Improve and enhance customer offers
 - Ensure quality and availability
 - Expand to discounters
 - Improve production and logistics efficiency
 - Improve store space efficiency



Creating Long-Term Mutually Profitable Relationships

- As Russia’s leading retailer, X5 is a partner of choice to our suppliers
- Financial crisis has increased importance of X5 for suppliers and opened a door to new opportunities for generating mutual profitable growth

Key Areas for Long-Term Cooperation

- Merchandising
- Promotions
- Supply chain. Service level
- Innovation
- Customer needs
- Sales out data

Preferred Supplier Programme

- Gross profit - higher than average in a category
- Service level - no less than 95%
- Payment discipline on bonuses and marketing fees
- High level of cooperation:
 - ✓ professional, educated account managers
 - ✓ quick reaction to operational issues
 - ✓ merchandising support
 - ✓ high logistics standards
- Participation in all marketing activities
- All new SKUs to be listed for Russia – through X5 exclusive! (testing new assortment in our stores during six/12 months)
- Exclusive assortment or Private Label production
- Quarterly board meetings on top-management level
- Direct deliveries to X5 DCs (no distributors)





- **Regular business review at GM level**
 - ✓ We have regular meeting on GM level between the companies with Business Review every 3 months
 - ✓ We've set an objective to grow ahead of the market with index 160% in 2009 vs. 2008
- **Progress on Out-of-Stocks elimination**
 - ✓ Regular joint review of Shelf Out-of-Stock data and agree actions to tackle it
 - ✓ As a result significant improvement is Out-of-Stock level:
 - Pyaterochka: from 17% in Jan'09 to 4.1% in May'09
 - Perekrestok: from 17% in Jan'09 to 10% in May'09
- **Supply model optimization**
 - ✓ By Aug'09 100% of Pyaterochka, 100% of Perekrestok and 70% of Karusel volume is shipped directly
 - ✓ Service level improved from 83% to 97%, implying 1.3% of incremental volume growth during next year
- **Karusel Loyalty Cards**
 - ✓ Thanks to cooperation between the companies X5 Retail Group has issued 1300 Karusel loyalty cards
- **Joint projects on improving Shopping Experience:**
 - ✓ Align Beauty project to strengthen Karusel differentiation as the best Hypermarket to buy Beauty in Russia
 - ✓ Make Shopper-Based Planograms and modify Health & Beauty department layout to improve shopper satisfaction and closure rates in Beauty categories
 - ✓ Align Baby project "Karuselka" to increase loyalty of Families with children (the heaviest spenders on the market) to Karusel

X5 moved from #4 to #1 purchaser of XXX in Russia within 8 months





Based on the Current Draft*:

Key Provisions

- **Payment days limits:**
 - within 10 days for 10-day expiry
 - within 30 days for 30-day expiry
 - within 45 days for the rest, except for
 - alcohol, tobacco & canned goods (within 75 days)
- **Veto on bonuses/discounts other than volume**
- **Marketing, promotional and advertising services are not forbidden but require a separate agreement**

Implications and Our Actions

Implications

- Payment days limits affect only 10-day expiry products, while for the rest X5 is well within
- Separate agreement(s) needed for marketing, promotional and advertising services

Our Actions

- Renew all contracts well in advance to new regulation coming into force in order to:
 - ensure compensation of shorter payment days through better prices
 - meet the requirement on separate agreements for delivery of goods and marketing and other services



Appr. USD 120 mln in Annualized Non-Commercial Purchases

Key Accomplishments of 2009

Centralization



90% of non-commercial purchasing volumes have been **centralized**, excluding transport, spare parts, fuels and lubricants

OpEx Reduction



• 18% saving at SG&A level
• 9% saving at CapEx level } achieved year-to-date

SAP Implementation



SAP for EM will cover non-commercial purchasing. Initiation – Dec 2009, implementation – by 2011

THANK YOU!

