X5 RETAIL GROUP

Operational Excellence: Supply Chain Efficiency

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ПЕРЕКРЕСТОК ПЕРЕКРЕСТОК зелёный Пятёрочка КАРУСЕЛЬ СЕТЬ ГИПЕРМАРКЕТОВ

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Efficient Supply Chain Management

Key Objectives

- Improve **Service Level** and **Availability** to Drive **Sales**
- Improve **Product Quality Controls** to Strengthen **Customer Loyalty**
- Further Improve **Purchasing Terms** to Enhance **Price Leadership**
- Improve **Inventory Turnover** to Maximize **Cash Flows**
- Reduce **Shrinkage** to Enhance **Efficiency**
- Optimize **Operating Expenses** both Logistics-Related and at Store Level to Drive **Operational Excellence**

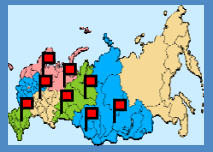
Strategic Approach

Creation of a Fully Integrated & Efficient Supply Chain

Purchasing/ Sourcing

- Assortment rationalization
- Partnerships with suppliers

Optimal DC Network Structure

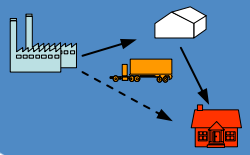


- Optimization of DC coverage & planning
- Cross-docking

Warehouse Productivity

- Warehouse Management System (WMS)
- Voice picking

Efficient Transportation



- Fleet utilization
- Transportation Management System
- Railway shipments over large distances

Efficient In-Store Logistics

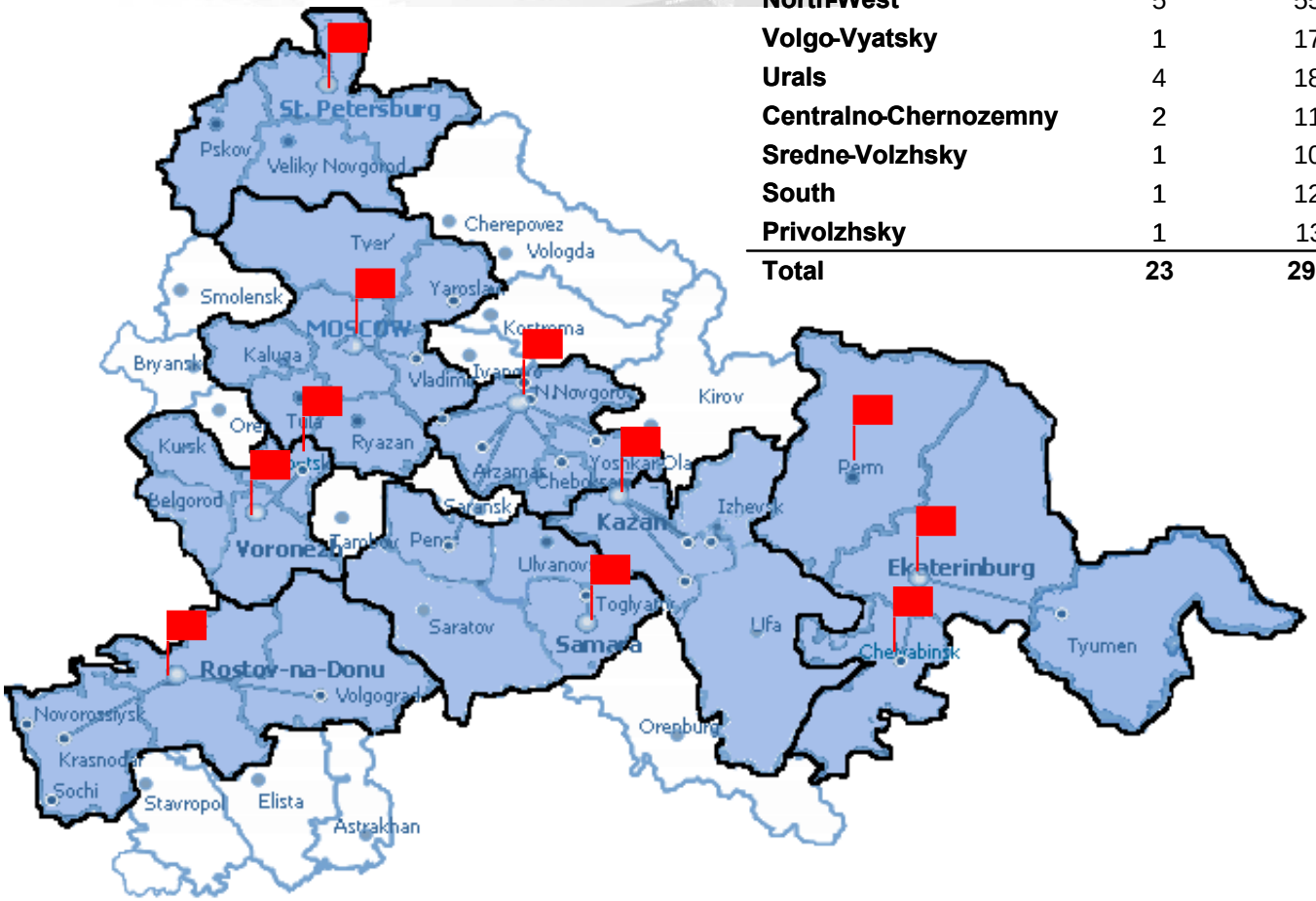
- In-store process improvement

Areas of Focus

Optimal DC Network Structure

Regional DC Coverage Has Been Substantially Improved…

DC locations as at
30 September 2009



Region	# of DCs	000 sq. m.	Dry	Fruit & Veg	Fresh	Frozen	Non-Food
Central	8	153.9	v	v	v	v	v
North-West	5	55.2	v	v	v	v	
Volgo-Vyatsky	1	17.5	v	v	v		
Urals	4	18.8	v	v	v		
Central-no-Chernozemny	2	11.8	v	v	v		
Sredne-Volzhsky	1	10.5	v	v	v		
South	1	12.6	v	v			
Privolzhsky	1	13.1	v	v	v		
Total	**23**	**293.3**					

- ✓ 23 multifunctional DCs across the European part of Russia and the Urals
- ✓ At least one DC in each region
- ✓ National non-food DC opened in Q3
- ✓ Frozen functionality to be rolled over to all regions
- ✓ Defrosting and prepacking functions to be launched in the Central and NW regions at the end of this/first half next year

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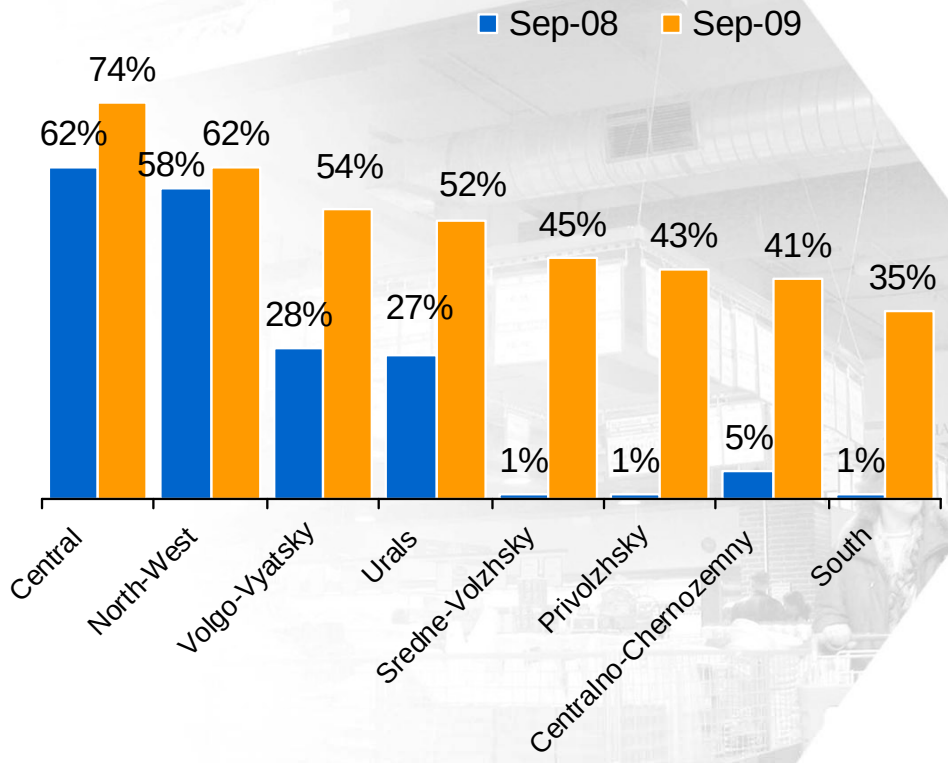
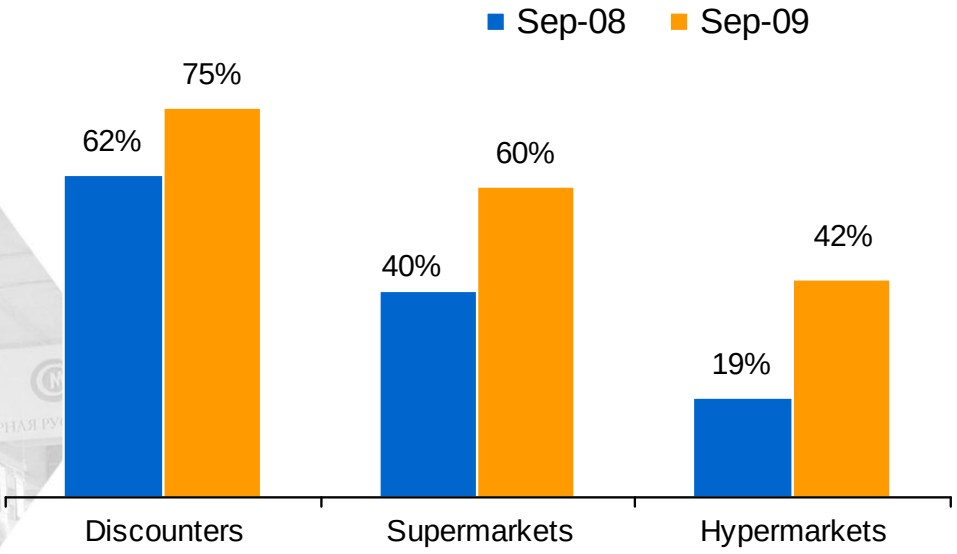
Optimal DC Network Structure

…Improving Supply Centralization Levels for every Region and Format

Supply Centralization by Region



Supply Centralization by Format



Current supply centralization level for X5 totals 59% (year-to-date) compared to 49% a year ago

First National Non-Food DC

Servicing Increased Non-Food Needs. Case Study

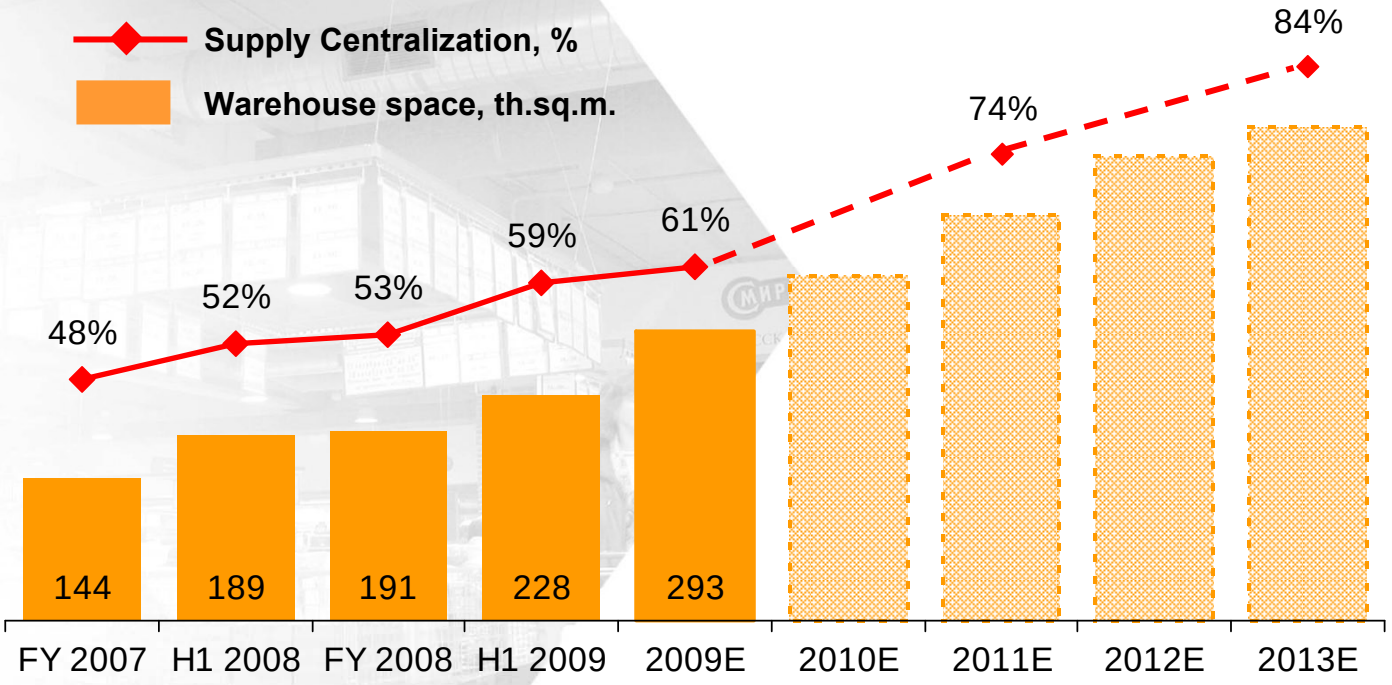
Key Deliveries

- Non-food supply centralization level to reach 46% in 2010
- Non-food sales volumes for goods that go through DC surged 150%
- Direct contracts with non-food suppliers
  - Purchasing terms improved on average by 13%

Optimal DC Network Structure

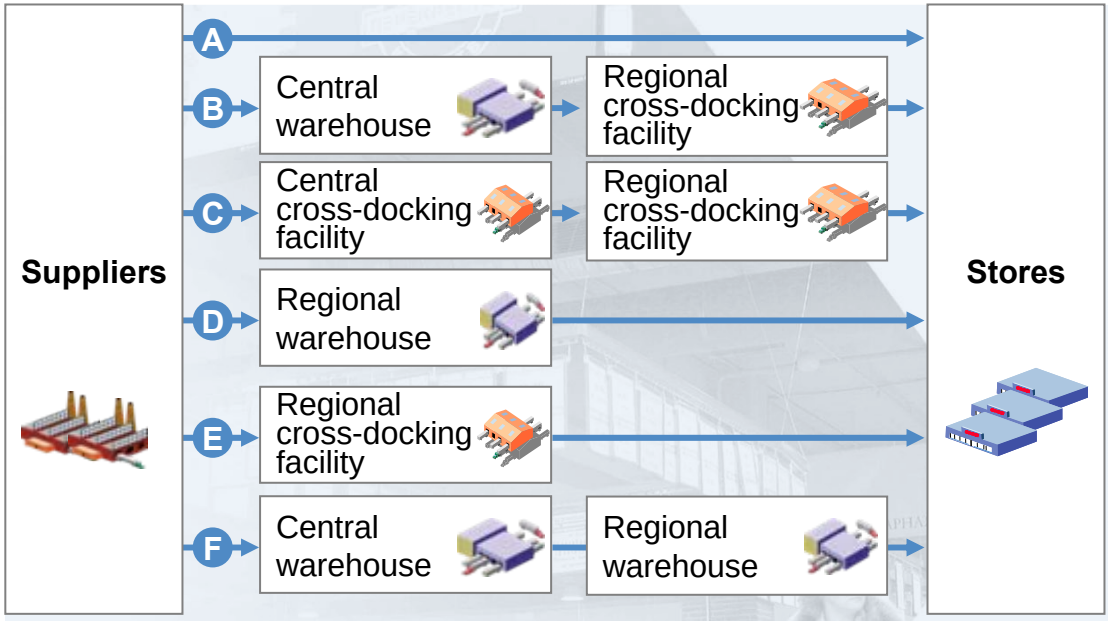
Target Supply Centralization Level for 2013 is 84%

Supply Centralization and Warehouse Space Growth



Optimal DC Network Structure

A. Determine target flow types for suppliers in 2013



- To determine most economically effective flows on all the suppliers per class and size (including shipping, keeping, processing, shrinkage costs)
- To take into account special factors, like low reliability of suppliers

B. Determine target DC network structure

- To determine optimal location of central and regional warehouses considering target flows in 2013, provided planning “from scratch”
- To adjust platform locations considering current limitations

- **Setting up national DCs for non-food (done), dry foods (2010) and fruit&veg (2011)**
- **Higher cross-docking utilization. Increase from current 3-5% of logistics turnover to 40% in 2013 should enable to:**
  - –Improve DC inventory turnover from 9-10 days to 5-6 days. Targeted overall inventory turnover improvement – to 25 days
  - –Improve productivity of each sq.m. of DC space by at least 50%

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Better Warehouse Productivity…

… through Upgrade of IT Systems and Modern Technologies Utilization

Warehouse Management System (Exceed)

- Better control over movement & storage of goods within a warehouse
- Processing of associated transactions, including shipping, receiving and picking
- Better control over expiry/shrinkage (FIFO)

- 13 DCs operate with Exceed (seven switched to Exceed this year)
- Rollout to every DC by end 2010

Voice Picking

- Voice technology utilization to improve:
  - order picking accuracy
  - productivity of warehouse personnel

- Accuracy rate of one error/1000 picks
- Pilot launch in 2009
- Rollout to every DC by end 2010

- **Warehouse staff productivity improvement by 10-15% already in FY 2011**
- **Logistics cycle reduction by at least 50% (from current 60 hours on average) for each DC that is switched to new WMS**

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Efficient Transportation…

…through Optimal Fleet Utilization, Modern Technologies and Alternative Transportation Means

Optimal Fleet Utilization	• Cost balance between own fleet (500 trucks) & third party services • Tachogram control system (prior to TMS) • Payment on delivery rather than on time basis	• No trucks purchases in 2009 • Benefits from reduced third-party pricing • No payment for demurrage
Transportation Management System (TMS)	• Route optimization • Demurrage reduction • Fuel cost savings	• Strict control over delivery schedules • Pilot launch in 2009 • Rollout to every region by end 2010
Alternative Transportation Means and Approaches	• Railway shipments over large distances • Increase in share of inter-regional deliveries	• #of inter-regional deliveries tripled since Dec 2008 • Through third party • No payment for round trip

- **20% savings on transportation costs achieved in 2009 year-to-date (Central region)**
- **TMS is expected to deliver savings on transportation costs of up to 15% in FY 2011**

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Efficient In-Store Logistics…

…through In-Store Processes Improvement

- Delivery management
- Personnel education
- Stock optimization
- Optimization of warehouse space

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Supply Chain - Determined to Deliver!

Targeted Improvements by 2013	Customer Loyalty and Sales Growth	Operating Costs Optimization	Working Capital Improvement
Product availability improvement from current 85% to 95%	✓	✓	✓
Supply centralization increase from current 59% to 84%	✓		
Improved product quality controls at DC levels	✓		
Shrinkage reduction by 20%		✓	
Logistics costs reduction by 5-10%		✓	
Inventory turnover improvement from current 30 days to 25 days			✓

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THANK YOU!

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