X5 Retail Group N.V.

Q1 2014 financial results

Conference call held on 30 April 2014

Edited transcript

Speakers:

- Sergey Piven, CFO
- Gregory Madick, Investor Relations Director

Participants asking questions:

- Marya Bersaneva, Morgan Stanley
- Victoria Petrova, Credit Suisse
- Victor Dima, Bank of America
- Sveta Sukhanova, UBS
- Christopher Koumoudos, Wood and Company
- Kalim Aziz, Armajaro

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the X5 Q1 2014 financial results conference call. At this time, all participants are in listen-only mode. There will be a presentation followed by the Q&A session, at which time if you wish to ask a question you will need to press "*1" on your telephone. I must advise you that this conference is being recorded today, Wednesday, 30 April 2014. I would now like to hand the conference over to your first speaker today, Mr Gregory Madick, Investor Relations Director. Please go ahead, sir.

Gregory Madick: Hi. Thank you for joining today's call. Before we begin, I would like to refer you to the disclaimer statement in the financial results presentation regarding forward-looking statements. During this conference call, we may make reference to forward-looking statements by using words such as "plans", "objectives", "goals", "strategies", and other similar words which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this call. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements and might have new information of future events. I will now turn the call over to Sergey Piven, CFO of X5 Retail Group.

Sergey Piven: Thanks, Greg, and thank you all for joining us to discuss X5's Q1 2014 financial results. To begin, I would like to comment on the macro environment before we get into the discussion of the Q1 financial results. Judging from the data in Q1 2014 and consensus estimates, we do not expect growth in GDP or investments to provide a boost to the consumer environment or sentiment in 2014. However, we still see some growth in both retail and food retail sales supported by increases in real wages and consistently low levels of unemployment as well as high inflation. We also feel that more than retail we'll continue to grow more rapidly than the overall retail market due to the lower levels of modern retail penetration in Russia. The RUB/USD exchange rate has stabilised but the continued weakness of the RUB is having an impact on inflation as evidenced in the m-o-m inflation since inflation increase in Q1 2014. During this period food inflation has increased y-on-y from 6.5 in January 2014 to 8.4 in March, on average 7.3 for the quarter. In terms of X5's results, we have not seen any material impact from the changing macro environment on our Q1 and current results. We have not seen so far any deterioration in our check as we continue to benefit from the positive effect of our expanded assortments, and no significant trading down trends by consumer. As I said in my comments to FY2013 results, this may be due to the fact that we are currently reaping the benefits of the initiatives we put in place last year, which started to gather momentum in Q4 and continued to negate the effect of negative macro trends on X5. From a sector standpoint, also due to the fact that food retail is usually the last to feel the impact of increased consumer-saving and negative sentiment. Also, as I said earlier, the lower level of modern retail penetration continues to provide opportunities for growth for the top retailers at the expense of traditional retail formats who can't compete in quality, assortment or price. We will continue to monitor the macro situation; however, this time it has not caused us to make any changes in our strategy as regards pricing, expansion, and the extension of our guidance to 2014. Moving on to revenues, I would like to talk briefly about the drivers behind the improvement in both our top line and LFL sales in Q1. These are largely the same as in Q4 2013, and reflect the sustainability of the marketing question that I referred to during the previous conference call, and our back-to-basics retail strategy. During the previous conference call I mentioned that we did not raise prices in Q4 last year and in Q1 2014. Consumer sentiment and overall traffic seemed to benefit from this more stable and predictable pricing environment. Also by maintaining an improved level of availability in January which historically suffered due to disruptions associated with the New Year holidays we were able to better meet post-holiday consumer demand. These factors, along with improved assortment and an increased promotion continued the trend of positive LFL results across all formats, which together with sales from new stores have also become a contributor to our total revenue increase. Looking at retail sales on the format basis, we saw the biggest impact on revenues coming from Pyaterochka, which continued to build on the results we achieved in Q4 2013. More effective promo had a positive effect on the check, as well as the increase in the number of basket items, both of which are directly related to the changes in our supply chain driven by the introduction of category management principles and improved logistics which have both positively impacted assortment, promo, and availability. At Perekrestok the increase was related to more aggressive promo and the increase in sales from fresh categories. We are currently in the process of a comprehensive category review at our supermarket format, as well as the implementation of a new organisational structure which will include a commercial department based on category management principles. This will be rolled out in phases during 2014, and we expect to have the roll-out completed in Q4. At Karusel, sales were also up on the back of the increased promo and marketing activities including sales of Sochi Olympics branded items, as well as the new store openings in 2013. We also continued to see positive effects on sales from the formats' new loyalty programme which was launched in October 2013. Overall, LFL and total sales at Karusel in Q1 have also benefited from category and pricing reviews that were carried out during 2013 which enabled us to better align these items with the formats value proposition. Finally, other income increased as a percentage of sales by c. 30bps or by c. 34% in absolute terms y-o-y in Q1 2014 primarily due to other income related to the sale of non-core assets, including Perekrestok stores in Ukraine. Moving on to margins, our gross margin in Q1 2014 was primarily impacted by a lower commercial margin due to the aggressive promo activities at Perekrestok and Karusel. The fact that we did not raise prices in Q4 which normally results in higher prices during the first part of Q1 of the following year was also a contributing factor to our lower gross margin. These were offset by improvements in the commercial margin at Pyaterochka, including better economics on promo which we attribute to the changes we have made in the format's commercial operations. We also did a better job managing shrinkage across our operations and, to a lesser extent, logistics course. They have said in the earlier calls, our commercial margin will be a product of improved terms from suppliers offset by necessary and rational investment into the customer. I would also caution against drawing any long-term conclusions based on Q1 results, especially during the ongoing transformation. Pyaterochka's results are a positive indication of the benefits of the new operational model and the effects of this model on the larger formats, especially, Perekrestok, remain to be seen. In terms of EBITDA, we finished the quarter in line with the previous period in 2013 due to our efforts to control costs at the SG&A level. The two main components of our SG&A expenses are staff costs and lease expenses. As a percentage of sales, we were able to decrease staff costs by 12bps in Q1 2014, primarily due to an increase in the operating leverage and also some employees' productivity. Y-o-y, the number of employees per store including our staffing has decreased at all of our formats, allowing us to increase compensation to retain key employees while maintaining lower costs as a percentage of sales. In terms of lease expenses, we did see an increase, and we should expect to continue to see inflation in these expenses in future periods based on changes in market conditions, competition and general inflation. In terms of the breakdown, Pyaterochka accounted for c. 65% of the y-o-y increase, while Perekrestok and Karusel accounted for c. 30% and 5%, respectively. The main driver for the increase in lease expenses was related to new stores added in 2013, primarily at Pyaterochka. We also saw an increase in lease rates at older stores due to indexation and currency-related terms. The only other notable changes in SG&A were to other expenses and depreciation. Other expense decreased due to a reduction in the accrual of provisions, the accrual and release of provisions as a part of managing and recognising potential risks will fluctuate from quarter to quarter. If we had not accrued any provisions in Q1 our EBITDA would have been significantly higher. Depreciation expense was higher due to impairments associated with asset disposals as well as the large number of stores added in Q4 2013 moving into the depreciable base in Q1 2014. Turning to our balance sheet, at the end of Q1 our Net Debt/EBITDA ratio was 2.83x compared to 2.68x at 31 December 2013. The increase was primarily due to an increase in borrowings to finance working capital shortages and capex. We are still well within our covenant limit of Net Debt/EBITDA of 4x and access to capital is not a constraint on the growth of our business. Our operating cash flow was negatively affected by working capital changes primarily due to our focus on sales and availability before and after the high seasonal demand in Q4, as well as lower purchases, which historically impacts Q1 trade payables, as demand normalises. We also saw a decrease in other accounts payable due to the fact that we did not accrue for bonuses in Q1 2014 as these were paid out during the period. In terms of receivables, the increase was primarily due to a reduction in netting of financial assets and liabilities as per the amendment to IFRS 7 which we adopted at the end of the last year. The effect was disclosed in Note 33 in our 2013 annual report and accounts. Basically, as a result we have decreased the volume of receivables that we net against payables, while the end result does not impact total changes in the working capital. We also recorded an increase in receivables from suppliers during the period. Working capital is one of our key sources of financing and an area that we remain particularly focused on. In terms of capital investments, we invested c. RUB 3bn in Q1 2014 and the majority of c. 65% went to expansion of our store base where we added c. 30,000 gross sq.m. The next largest category was store refurbishments which accounted for c. 25% of capex spent during the period. In Q1 2014, we completed the refurbishment of 28 Pyaterochka stores and at the end of the period additional 19 [stores] were still being refurbished. At Perekrestok we refurbished four stores and eight were still in progress; we also refurbished 1 Karusel during the period. The remaining capex was made up of IT, logistics and other investments. We continue to make progress on the key projects for 2014 including the logistics operation and roll-out of demand forecasting and replenishment tools at our warehouses in the larger supermarket and hypermarket formats. Currently we are on track to complete the separation by the end of 2014 – early 2015. We will continue to provide updates on our progress in this and other areas during the year. That concludes our discussion of the results. Operator, we are ready the Q&A portion of the call.

Operator: Thank you. As a reminder, if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the "#" key. So, once again: press "*1" if you wish to ask a question, and the "#" key if you wish to cancel.

The first question comes from the line of Marya Bersaneva from Morgan Stanley. Please ask your question.

Marya Bersaneva: Good afternoon. Thank you for taking the questions. My first question will be with regards to the improved product availability. In your annual report during the last conference call you mentioned the improved product availability since Q4 and as driven by improvement from logistics and store operations, and auto-ordering software roll-out. Could you please give us some examples of logistics and in-store changes that you are making which are leading to a better availability? And my second question is with regards to the trading at soft discounters, in particular. How is trading going so far in Q2, and are you still seeing stable traffic, i. e. flat traffic? Thank you.

Sergey Piven: OK. The examples of our measures on product availability. The key driver as we see it today is, of course, an improvement in the service level. That's number one. And number two, especially in Pyaterochka, is the increase in centralisation of basic flow volume which goes through our DCs vs. the volume which goes directly from suppliers to the stores. We saw an increase in both. We have recently been quite happy with the level of service, although it is still quite far from the best Western examples which routinely go over 95%, and ours are lower, but they are much better than in the previous year. So, that's the key. What we did to achieve that: as always in retail, there's no "silver bullet" but it's rather about organising a coherent and well-coordinated work of our DCs, reducing the amount of downtime, reducing the number of problems, improving the lead times for transport; numerous examples of that but regretfully no "big silver bullet". It's just (as we mentioned many times before) focusing on the basics. In this example – the basics of logistics, rather than the basics of selling goods to customers. That improved availability. We track this availability by various measures, including the shelf availability – we have special reports we introduced last year and I think they also play a role in us keeping the focus on that because you can only improve what you can measure. We are rolling out the automatic replenishment which contributed to this; however, we are now also quite educated about the downsides of this automatic replenishment – if not set up properly, it could lead to distortions in store operation. We are managing that and learning from that. There are both good results and lessons for the future setup. Improved motivation of personnel which is coming both from material motivational factors and from non-material – improved communication and improved management structure, especially In Pyaterochka; closer links between the commercial department and stores, again especially in Pyaterochka which is now a key driver of improvements because it's ahead of other formats.

Basically, nothing new from what we discussed at previous calls. We are consistent in applying all that and hope that sooner or later we'll see the results from it. The second part of the question, as far as I remember, was about the trading update for Q2. We are satisfied with it. I would not go into detail of that because we decided that we are talking about quarterly LFLs at quarterly calls simply because we think it is fairer to judge us and it is more informative to have a longer period of time for you to judge us on, basically, our performance. Also, I would not want to comment today because we have a major calendarisation shift due to our Easter holidays which were in May last year. This year they came earlier. If I just gave you numbers it would give you too positive an impression which would be then offset by the following weeks where we don't have this hike we had last year. But generally we are satisfied, especially with Pyaterochka's performance. On that, let's wait until the call on Q2 and I will give you a full update.

Marya Bersaneva: Very helpful. Just one clarification: could you maybe give us service levels and centralisation levels — what they are now and what you are aiming for, roughly?

Sergey Piven: We will follow up on that later. We are definitely looking at service levels above 90% as a target. It's important to understand why I'm a bit reluctant now to give you all the measures: internally, we have several different metrics for service levels. We have service time which includes the time of delivery; we have a general service level which just reflects the fact whether the unit was shipped or not, which is more of a warehouse internal measure; we have service levels for suppliers; we have service levels excluding shortages of products at warehouses to measure the efficiency of our operations rather than include product availability from suppliers. When I speak about the service level I comment on the trend in all of these measure metrics, which is quite positive. But speaking about one number would be a bit misleading and we would not like to go into too much detail explaining to you all of these metrics, it would take too much time. If you are especially interested in those we will be happy to answer your questions later, in a one-on-one call, following up.

Marya Bersaneva: OK, thank you. I will let my colleagues ask their questions now.

Operator: Thank you. Once again: if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. If you wish to cancel your request, press the "#" key. The next question comes from the line of Victoria Petrova from Credit Suisse. Please ask your question.

Victoria Petrova: Thank you very much for the call. Looking at your Q1 numbers I understand that you are the only company so far which invested gross margin the year over year. Also, looking at your capital statement, there's an investment in working capital. I understand that the EBITDA margin is flat but still the return on invested capital so far is down. Is it an indication that you are taking a decision to have an aggressive pricing policy? The customer will also see that. Do you have any concerns that with that you are attracting customers who you probably would not be able to sustain long-term, or is it a temporary measure to get traffic back into the stores and show that the stores are much better right now? What is the logic behind that? Are you going to change your approach to promotion campaigns with big discounts maybe vs. some more sophisticated promos? And what do you expect in relation to that? If you could elaborate. And my second question will be related to your overall full year view on gross margin dynamics. As far as I understand, you get better terms of supply, but you are investing this, and part of your back margin potentially as well, into pricing. Are you going to stick to that or not? Thank you very much.

Sergey Piven: OK. Now, it you look at our gross margin vs. Q1 of the last year, we lost about 0.4%. What needs to be remembered: a lot of the gross margin last year came from the margin from January sales. As I mentioned more than once, usually during the holiday period we raised prices, which we then reduced again. This is a major operation which can not be done in one day. Due to a holiday season, it was usually done by the end of January, so the whole January you enjoyed improved margins but at the expense of sales. When looking at the margins, you should take that into account. We did run a promo campaign. We always do, but this year, as we commented in our press release and I also commented a couple of minutes ago in my speech, we do have the effect of promos in Perekrestok and Karusel. The team took a decision to focus a lot on the fresh promo, fresh products, fruit and veg, and perishable goods, which traditionally are not compensated by any of the back margin. That is part of the value proposition of mainly Perekrestok. We are having discussion on to what extent they want to rebalance their promos and we find understanding internally on that. We have an effect of that. It is not a desperate measure to bring customers back because we want customers at all costs. Having a good fresh promo is part of the value proposition of Perekrestok. They are looking and finding their balance with gross margins. We do not expect any drastic changes in our pricing policy. We do invest in customers, but, as I said, rationally, and we always keep an eye on our bottom line. I can confirm that we are not changing our guidance for this year in terms of EBITDA. That's all I can say about this. Now, in terms of the working capital, I commented a bit on the working capital in my speech – we were so much focused as a team and as a company last year and at the beginning of this year, on bringing back sales, that this goal went above everything else. The working capital, apart from the drivers I mentioned in my speech, was also driven by stock and, to some extent, by payables. It is an area of concern for us. We have traditionally been more aggressive in managing working capital than most of our peers and competitors. We think that we came to a point this year when the Company feels strong enough to start balancing its operations. Sales remain a priority for us by all means. But we also feel strong enough to start having a more balanced view on our operations, and the working capital is growing higher on our priority list. So you can expect some measures on the working capital to be taken in Q2 and Q3. Some of them, especially on stocks, have a longer lead-time period and every retailer would tell you that. It's not simple to manage inventory without affecting sales, so we will find our balance there. But again, this is a little bit of rebalancing. If you look at our working capital, you'll see a drop in the middle of the last year but then you'll see gradual improvements. We will continue to work on that and I would actually expect some improvements in payables in the next couple of quarters and maybe, over a longer period of time, some improvements in stock. What you can be reassured of, is that this is an area of a very in-depth and serious discussion within the Company and that the management by now has got the working capital part higher on their priority list. Speaking about the cash flow: the cash flow was purely the result of the working capital. If you look at the numbers, you'll see that it was the working capital changes that drove the cash flow. I think it is covered by my comments on the working capital.

Victoria Petrova: Of course. Thank you very much and just one small additional question: you are so far doing a great job in improving your sales and obviously given that Q1 was still weaker in terms of inflation, your 10–12% revenue growth looks quite conservative. Are you revisiting that or are you leaving some security measures towards the remaining quarters if you want to get profitability or working capital back? So far I think, there should be, on the macro side, only an improvement vs. Q1, and you are already at 14%.

Sergey Piven: On the macro side, I would not be leaping to conclusions about any improvements. Let's see how it goes. The situation develops quite fast and may sometimes be unpredictable. We've just seen the Central Bank increase the interest rate again, which does affect the economy and does affect borrowing costs – and also our borrowing costs. Not fully, because we have a lot of our portfolio at fixed rates, but to some extent. As for the growth forecast, we do not change our guidance right now. We are going through a budget revision process as we speak. If we see some opportunities during that process we will reflect that in due time in our guidance, if not – we'll keep the guidance. Let's see how it works.

What you can be assured of is that in terms of our priorities, although I mentioned that we now have a more balanced set of metrics, which we track and which we give importance to, sales are still on the top. We do want to have more sales, we do work towards that and if we see any opportunities to have higher sales than we forecasted before, we will definitely use it and will then, of course, reflect it in our guidance and in our forecasts.

Victoria Petrova: Thank you very much, it's very useful.

Operator: Thank you. Once again: if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. To cancel your request, press the "#" key, and once again press "*1" to start the question. The next question comes from the line of Victor Dima from Bank of America. Please ask your question.

Victor Dima: Hi. Thank you for taking your time to answer all the questions. I have a couple of quick questions. First, on whether you've seen your competition, specifically in the discounter and the convenience format, being more aggressive in Moscow or St Petersburg. At least, Magnit may have come to invest in the price during this period. Have you seen this? Do you have plans of responding to this? It's my first question. And second, you mentioned the loyalty programme at Karusel that you recently launched. Would you be able to give a bit more colour — how does it work and what are the benefits for the consumers? Thank you.

Sergey Piven: OK. First of all, on competition in Moscow. Generally, we saw some increase in promo activities from Magnit in the beginning of the year compared to Q4 quarter of the last year. But overall, I think it's a normal competitive environment. I don't think we see any extreme measures from our competition on prices or on promo. The same is true for us. As for Moscow, I think and I'm sure our colleagues in Magnit know that there is much more competition in Moscow than pricing. In fact, it's also assortment and other things, building presence, etc. So I think here we do see Magnit having Moscow in their plans, but we do not think that some special pricing measures need to be taken just to fend them off from Moscow in the short run. I think it's a marathon, not a sprint race and, frankly, I do not think these measures would be effective because our competition is planning long-term, rather than short-term. There is no point for us starting some price war where we have so many more stores than they. I just see no reason to show a hysterical reaction to Magnit's plans to enter Moscow. We respect them very much; we know they have long-term plans; we'll wait and see. I think the best thing for us is to give the best service and the best product offer to our customers and then our customers will choose over time. That's my response to the question and it's an honest response. In terms of loyalty for Karusel: at the end of last year, Karusel introduced a loyalty card, called *Ikra*; this is a card that has a pre-reserved amount of money on it when you actually get it. We do sell it, but not for the full amount. The amount can be quite high but there are certain limitations on how you can spend it. In fact, basically to make a full use of the amount you have to go to Karusel every week because there is a limit on how much you can benefit from this apparently good amount on the card – how much you can spend every week. So if you want to spend the entire RUB 2 or 3 thousand presumably you have on the card, you actually can spend it over some period of time doing multiple visits with a big check, which you give Karusel and a good basket of products you take away home. So in this respect I think this is a quite well-structured programme, although it's new and we, being of course prudent people financially, are watching it very closely and we'll see how it works longer-term. Of course, it has side benefits we are going to explore, which is getting a better understanding of customers, especially our loyal customers, which we are very much interested in. That's a little bit on how it works.

Victor Dima: Thank you. Just to clarify in terms of the loyalty programme, how well do you think shoppers or consumers of Karusel will be covered by this; do you expect 50% to be covered, or 80% or 100%?

Sergey Piven: I can't give you the exact number right now, but in the plans there definitely were figures in the ballpark of … don't want to take the number off the top of my head, but what I remember was something around 40% in the plans.

Victor Dima: OK, thank you very much, that was very helpful.

Operator: Thank you. Once again: if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. The next question comes from the line of Sveta Sukhanova from UBS. Please ask your question.

Sveta Sukhanova: Good afternoon. Two questions from me, if I may. Sergey, the first question would be on your accounts receivable. During your speech you provided an explanation and referred to some notes in the consolidated financial statements for the full year. I actually missed the number of the note. I did not fully get why your accounts receivable collection deteriorated in Q1. If you could kindly explain it again I would much appreciate it.

Sergey Piven: Note 33.

Sveta Sukhanova: Note 33. Thank you very much. I'll have it opened and will have a look. Would it be possible to give us a simple explanation why it has changed. It has something to do with netting as far as I understood.

Sergey Piven: A simple explanation is IFRS. Standard 7, which we adopted at the end of the last year, basically tells you that you cannot net your receivables against your payables – in a simple form; in more detail you can give a call to Greg and he'll connect you to our Chief Accountant Officer and you can discuss it in as much depth as you want.

Sveta Sukhanova: Good, thank you very much, but may I ask you one follow-up question here: It means that you have adopted this from the end of last year – should it also mean that Q1 last year numbers were not revised backwards.

Sergey Piven: In Q1 last year, this rule was not adopted yet and was not reflected.

Sveta Sukhanova: OK, all is clear then. Thank you very much, now that's much-much better. My second question would be about staff costs. If you compare all listed food retailers, actually maybe excluding Lenta, your staff costs as percentage of sales look like ones of the best at 8.1%. And your sales per employee are also quite decent. My question would be: In your staff costs, do you include costs of the outsourced staff? And in the number of staff reported – I think I took it either from your annual report or presentation – do you include outsourced staff as well?

Sergey Piven: Outstaffing is, of course, included in the staff costs and also in the annual report, in the number of employees, you can find that this is also included. Don't forget that in Q1, especially in Pyaterochka, we were quite helped with the operating leverage, which affects all lines of opex, including the staff costs. The better LFL you have, then staff costs start lagging a little bit, because the growth in LFL is better.

Sveta Sukhanova: Of course, I was actually looking at FY numbers and you are still at the lowest level excluding the outlying Lenta. All is clear now, thank you very much.

Sergey Piven: Just to follow-up, one small adjustment that I need to make. Logistics staff costs, for personnel at warehouses, are included in the gross margin line. So when we compare our P&Ls to our competition, we do make this adjustment sometimes to the best of our knowledge. It's because we know that some of our competitors have it in the SG&A section. This would not affect it to a large extent but you probably should make that kind of adjustment when doing the analysis. And it's reflected in our annual report notes – you can go there and find it. OK.

Operator: The next question comes from the line of Christopher Koumoudos from Wood and Company. Please ask your question.

Christopher Koumoudos: Hi, thank you for taking the time to answer these questions. Just a quick question with regards to gross margin. I know that gross margin decreased by 40bps y-o-y, and at Pyaterochka you actually had an increase in your gross margin. I was just wondering whether you could split the gross margins from other formats and how they changed y-o-y and which were the most significant loss.

Sergey Piven: I'm sorry but we do not do that split publicly.

Christopher Koumoudos: OK. Thank you.

Operator: Thank you. Once again: if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. To cancel your request, press the "#" key, and once again it is "*1" if you wish to ask a question. The next question comes from the line of Kalim Aziz from Armajaro. Please ask your question.

Kalim Aziz: Thank you very much for doing this call. I was comparing your sales per sq. m on a global basis to inventory per sq. m. The increase in inventory per sq. m is faster than in revenue per sq. m. That tells me that the availability or the improvement is more by providing what inventory on a partial basis. I just want to understand the improvement in the availability of stock on the shelf. How much was it because you provided more inventory in the shops vs. a better information content on the logistics side?

Sergey Piven: Sorry, the last couple of words were, was it for better information...

Kalim Aziz: OK, if you have better information on the movement of stock in the shop, you can optimise inventory – not provide more inventory but keep the selves stacked properly. And the other side of the question is that if you provide more and more inventory at the shop, so that you never get them out of shelves. There are two ways of doing that.

Sergey Piven: I think there are both elements there. We do not distinguish between the two. I can't give you the exact effect of the first and the latter, so that's the answer to the question. But definitely there are two elements there, and, of course, as CFO I prefer the second one.

Kalim Aziz: The second one.

Sergey Piven: Yes, of course. But coming back to my previous comments, it was to some extent a conscious decision; it's understanding the limitations of our supply chain. We put sales on top of our priority list the whole last year and at the beginning of this year. Now, as I said, we are moving working capital, including inventory, higher up our priority list because we feel stronger, and we feel that we are more able with the team gaining experience more and more, and learning all the levers of this particular company, we are able as a team to manage in a more balanced way. Basically, I'm quoting you a discussion which we have had at our Executive Board meetings recently. Be assured that it's moving higher on our priority list.

Kalim Aziz: I was asking this question because the answer would indicate to me whether the working capital requirement is a permanent increase or is it an issue until you optimise the logistics equation of the system. So what I want to understand is…

Sergey Piven: Sorry, I started answering the question before you asked the second part.

Kalim Aziz: OK. What I want to understand is if you take, let's say, if your target is to achieve a hundred units of improvement for the full implementation of the logistics chain, and zero is the worst case scenario that you started at about a year and a bit ago, where are you between zero and hundred today, and how much more is to go, in your opinion, in optimising this?

Sergey Piven: You are asking tough questions because to me there's no limit to perfection, and you always find something to improve. People do that for many years, people like Walmart, etc., they do it every year. They seem to be perfect but every year they find something else. We are far from being perfect yet. On a modest scale, I would say we have made good progress but we have been fixing and are still fixing the basics. A leap forward is still ahead of us. We have a lot of room in technology to improve, and also in the smoothness of the goods flow. That's no secret, I think. Putting numbers on that, let's say we are in the middle, maybe 40%. The rest is still ahead of us. Just to be ambitious.

Kalim Aziz: OK, thank you very much. And the second half of the question is: is it permanent or you will be able to optimise once the information on the flow side has improved?

Sergey Piven: I want to hope and I want to think it's not permanent, that we will optimise it as we implement the set of measures which I mentioned briefly in the previous discussion. It is definitely on my priority list as CFO.

Kalim Aziz: Thank you very much.

Operator: Thank you. Once again: if you wish to ask a question, press "*1" on your telephone and the "#" key to cancel. We appear to have no further questions at this time, please continue.

Gregory Madick: Hi. That concludes the Q1 2014 financial results conference call. Thank you very much for joining us today and we look forward to speaking with you later. Bye.