X5 Retail Group Q3 2012 Trading Results Conference Call Transcript [1]

Presentation

Operator

Thank you for standing by and welcome to the X5 Q3 and nine months 2012 trading results call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session, at which time (Operator Instructions). I must advise you this conference is being recorded today, Thursday, 11th October 2012. I would now like to hand the conference over to your speaker today, Gregory Madick. Please go ahead.

Gregory Madick – *X5 Executive IR Director*

Thank you all for joining our call to discuss X5's trading results. Before we begin with the specific conference call details, I would like to refer you to the disclaimer statement in the trading results press release and 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 in light of new information or future events.

I would like to start the call by introducing our speakers today; Stephan DuCharme, acting X5 CEO, who will review recent developments, and Kieran Balfe, X5's CFO, who will walk us through the Q3 trading results. We would then be happy to answer questions – Stephan?

Stephan DuCharme – *X5 Acting CEO*

Greg, thanks very much and thank you to all of you for taking time today, be it this afternoon in Moscow or this morning in the US. Before discussing the various recent developments at X5, I would like to take this opportunity to briefly introduce myself and to share with you some of my initial observations in my current role. As you may know, I have been serving on the Supervisory Board of X5 since November of 2008 and over this period have also chaired the Board

[1] This conference call transcript was prepared by InterCall.

Nomination and remuneration Committee. In this capacity, I was quite involved in our efforts to upgrade the Senior Management Team over this period.

On July 13th of this year, I was delegated by my colleagues on the Supervisory Board to assume the functions of CFO of the Company. I have been very positively received by the Senior Management Team and I am very grateful to them for that, and by the employees in general and, as you can imagine, my first attention has been to them. Many of the members of the Senior Management Team were known to me previously as a result of my work on the Nomination and Remuneration Committee, and this has been very helpful indeed.

Before we discuss our results for the third quarter, there are a number of general messages that I would like to convey to you this afternoon. First of all, X5 is not, and has at no time been, without a CEO. There is no leadership vacuum at the Company. Second, it is not a secret that I do not have operational experience in the retail sector and that was a conscious decision on the part of the Supervisory Board in delegating me. I am not here to tell senior retailers or format heads, or supply chain managers how to do their daily job. My main focus is on stabilising and supporting the Management Team. Let us not forget that I am the third CEO at X5 in 18 months, and insuring that we are all focused on performance and execution and, more generally, on managing the process of change underway at X5.

Speaking of change, as a member of the Supervisory Board, I witnessed the unprecedented growth of the Company that took place over a period of four years, as a result of the series of mergers and acquisitions, and which propelled X5 to become the largest retailer in Russia in terms of sales. Over the 2006-2010 period, through the combination of four large retail companies, as well as significant organic growth, we effectively quadrupled the size of the Company. This rapid growth has, however, also presented us with significant challenges in terms of scale and complexity. For example, the resulting structure of X5 turned to be heavy and centralised, and we were not necessarily as responsive as we should have been to the needs of our customers. In addition, and just as critical, the Company may have grown faster than the internal development of talent needed to run it. This is, of course, not meant, in any way, to negate neither the important work that has been completed in the area of assimilation and integration, nor the many successes of X5 over this period. As you know, we have made significant progress in many areas, such as rebranding the 600+ Kopeyka stores, the completion of the SAP rollout, the reorganisation of X5 into a multi-format structure, and the devolution of responsibilities to the formats, the change and focus to a more customer-oriented assortment, the change in relationships with suppliers and last, but definitely not least, the selection of a new Senior Management Team. However, we are still in the process of learning to work under this new paradigm. We are, of course, making good progress, but this process will take time, and I prefer to be open and transparent about it.

If I had to estimate where we stand on this time-wise, I think we will need 2013 to fully complete the process of adaptation. This call is also a good opportunity to address some of the recent comments from analysts and investors regarding the changes the Company is going through and the assertion that X5 lacks a clear strategy or that we are in the midst of a Management crisis. There has been no change whatsoever to the strategy that was approved by the Supervisory Board and communicated to the market at the beginning of this year. We are focused on the consumer and on capturing a greater share of the consumer's wallet. The best way to achieve this is through a decentralised, multi-format organisational structure. The formats will continue to enjoy significant autonomy, including P&L, budgeting, assortment, and HR responsibilities, and we will capture synergies centrally by running integrated purchasing, supply chain and IT systems. We will also continue to focus on growing selling space organically by targeting expansion in our core central and northwest regions, and through continued openings in our other regions, to add value to the existing store base and to build critical mass from an operating and logistics point of view in all regions. I would like to underline that we will not grow at any cost, but rather to ensure that the new stores we'll bring online will be value accretive and provide sustainable growth. We will also make the necessary investments in Management and in store refurbishments to make sure we stay competitive in our core regions.

I would also like to address certain personnel changes that occurred during the quarter. One of these changes was to move Igor Sotnikov from the position of General Director of Supermarkets to Director of Logistics, thereby replacing Alexander Ermolenko. Igor had previously held the Direct of Logistics position for X5 in 2007 and 2008 and, at the time, he oversaw the integration of logistics for Perekrestok and Pyaterochka.

We filled the General Director of Supermarkets position internally by appointing Valery Tarakanov. Valery has been the General Director of our convenience store format since 2008 and he has extensive experience in the retail sector. While we were not unhappy, of course, with the performance of our supermarket format previously, Valery's entrepreneurial approach is already living a positive mark.

In August we also parted ways with Jan Fuchs, the General Director of hypermarkets. We have promoted the hypermarkets Finance Director, Svetlana Volikova, to the General Director position. Svetlana has been with X5 since 2007, prior to which she spent six years with Auchan. In parallel, we moved Christian Morat, who has over 20 years of international retail experience, including in Romania and South Africa, from Director of Marketing of the Discounter format to the same position at Hypermarkets, and we have provided the format with additional support by bringing in an external Operations Director, Pavel Tomanek, who has 13 years of hypermarket experience with Lenta and Tesco in Russia and the Czech Republic respectively. We can already see the improvements in the way this new team is working together, including the impact on current hypermarket operations.

The Management changes I've just mentioned were necessary to allow the team to strengthen the chemistry and working relationships necessary to start moving forward on strategy execution in a speedy and effective manner.

For the sake of completeness, I would like to add that Frank Mros, who has been General Director of our Discounter format since July, has recently strengthened his team by appointing Ange Maroz, formally with Biedronka in Poland, and Igor Pletnev, Head of our Development Division, as Operating Directors for his format.

I know that we originally planned to have analyst investor day at the end of this year, but due to the recent changes, we will have to postpone the event. I look forward to being able to introduce this team to the market sometime in the first half of 2013.

I would like to conclude my remarks with some comments on my position at X5 and on the CEO search. There is a lot of speculation in the market around who, if anyone, is leading the Company and responsible for the execution of its strategy. I can tell you in no uncertain terms that I am fully onboard and responsible for leading the Company. The Company’s Executive Board reports to me and I think recent events have shown that I am prepared to make the necessary changes to move the Company forward. I enjoy the full support of the Supervisory Board. I have access, as required, on my part to my colleagues on the Supervisory Board, including our Chairman, Hervé Defforey, with whom I have worked closely for four years, as wells as Mikhail Fridman, whom I have known since 1995. At the same time, let me be clear that it is the Executive Board which manages X5 and not the Supervisory Board.

Regarding the search for, and appoint of, a permanent CEO, the Supervisory Board does not believe that the naming of such a person will be a catalyst event for the Company. Our current main priority is to ensure the stability of the Company and its Management Team, closely followed by this Management Team working together effectively to generate the results demanded by our shareholders. A CEO search is never simple and it must be ensured that the process is not disruptive to the Company, its business, or its Management Team. Bringing in an external CEO to X5 at this particular moment, particularly an individual with no background or professional experience in the Russian Federation, carries with it additional risks. Furthermore, the profile of any CEO candidates or candidates should closely match not only the needs and requirements of the Company, but also its state of evolution and its corporate culture. The Supervisory Board is, therefore, proceeding with the appropriate mix of determination and caution as regards the CEO search in the interest of the Company and its long-term future.

Under the current circumstances at X5, the Supervisory Board is very clear that it cannot afford to make a mistake. I repeat cannot afford to make a mistake with respect to this very important appointment and I am sure that you would all agree with me on this one. We will, of course, report back to you in due course and as soon as there are developments. At the moment it is up to the current Management Team under my leadership to get on with our jobs and to generate a track record of positive, sustainable results for our customers, employees, and shareholders.

Thank you very much and I will now pass the floor to Kieran to discuss our Q3 results.

Kieran Balfe – *X5 CFO*
Thanks Stephan and good afternoon to all. Our consolidated net retail sales for Q3 2012 totalled RUR 115.9 billion, which represents a 10.4% year-on-year increase or approximately the same ratio of growth year-on-year as in Q2 of this year. As you know, the third quarter in X5 is generally influenced by seasonal factors and we saw about the same quarter-on-quarter decline this year as we did in 2011, or about 6%. The main factors driving the positive growth in Q3 sales include the Company's promotional and marketing activities, the results of the rebranded Kopeyka stores, organic expansion, and sales growth from maturing stores. We have continued to maintain the same levels of promo in Q3, as we did in Q2, and are generally pleased with the results on traffic and sales with regards to promo.

As we have stated in the past, promo is primarily a vendor-financed event and does not have a material impact on margins. In Q3, our rebranded Kopeyka stores continued to deliver growth by approximately 40% year-on-year. About 26% of this growth was in traffic and the remaining 14% was ticket growth, primarily due to an increase in traffic in the central region where the traffic growth was plus 34% and ticket was plus 13%, and to a lesser extent an overall increase in the ticket in all the regions. We also continued to increase sales through organic growth, adding 224,000 square metres year-on-year as of 30th September 2012 for an increase of 13.6%.

During the quarter we have seen definite month-on-month improvement in the sales results of supermarkets and we are also pleased with the sales results of soft discounters in several of the other regions, i.e. regions outside of Moscow and northwest where year-on-year growth averaged about 30% during the quarter and also in the central region, or the region that Moscow anchors, which grew sales by more than 17% year-on-year. We have, however, continued to see weak sales results from our hypermarkets, which decreased by 9.9% year-on-year in Q3, approximately the same year-on-year decline that we saw in Q2. I would like to note that we did see month-on-month improvements in the results as the quarter wore on.

Now, let’s drill down further into the third quarter trends. Total sales grew 10.4% in Rouble terms. This consists of an 11.1% increase in sales from new stores, which were impacted by a like-for-like sales decline of 0.7%. It’s important to understand what's going on in each of our formats and on a regional basis, so let’s take a look at the key drivers in more detail.

Starting with soft discounters, sales were up almost 16% year-on-year in Rouble terms, discounter-selling space has expanded by about 19% year-on-year, including 609 new stores. Total customer traffic increased by just over 12% at discounters to 344 million visits. Like-for-like traffic was down by 1.5%; however, the average basket increased by 4.1%, resulting in a 2.6% increase in like-for-like sales at discounters. The positive like-for-like results were primarily due to the results of the central region which recorded like-for-like results of just over 5% and were almost evenly split between basket and traffic. We did see weakness in the like-for-like traffic results in the northwest region, which resulted in the overall 1.5% traffic outflow in soft discounters during the quarter. The negative results in the northwest region are primarily due to increased competition as well as supply disruptions in this region as a result of flooding in one of our key distribution centres. We plan to target investments and store refurbishments to help support the competitiveness of our Pyaterochka stores in this region going forward. We also saw deterioration in the month-on-month results of Pyaterochka stores in Q3 2012 from 18% in July to just over 13% in September, which was primarily attributable to the reasons outlined above. We continue to maintain the level of promotional activities and are very encouraged by how customers are responding within the regions. Our focus is on winning customers and growing total and like for like sales, and we will continue to make the required investments to improve the value proposition of our soft discounter base, including investing in store refurbishments where required.

Moving to supermarkets, our sales increased by 6% year-on-year in Rouble terms this quarter. Total traffic was higher by about 3.3% year-on-year while the average ticket was up by about 2.7% year-on-year on the back of successful promotional activities. In general, we are happy with how supermarkets finished the third quarter. We saw steady improvement month-on-month in sales growth, which went from 4% year-on-year in July to 8% year-on-year in September. The main drivers of the increase were new store openings and the launch of a very successful marketing campaign in mid-August. During the quarter we opened nine supermarkets and in the last 12 months we have added 29 new supermarkets, representing a 9% year-on-year increase in selling space. I'm also pleased with the development of like-for-like sales and supermarkets during the quarter. We went from a negative 5% like-for-like sales in July to an almost flat like-for-like sales in September. The largest single contributor was improvement in traffic related to our marketing activities. We are number one in supermarkets in Russia and our strategy remains the same, and we will continue to build leadership in areas with the right demographics to support our supermarkets.

Hypermarket sales declined by approximately 10% year-on-year in Rouble terms, led by a 12% decrease in like-for-likes that was primarily due to lower traffic and which was compounded by the closure of a hypermarket store in Samara in July 2012. Our hypermarkets continue to be profitable, but sales densities reflect the ongoing transition of this format, as we re-establish its value proposition. As Stephan commented earlier, we have shaken up the management at this format and the team we have in place is working very well together. We are pleased with the month-on-month improvements that we have been able to achieve in the hypermarket this quarter in terms of total and like-for-like sales. During three months in Q3 we have just about halved the year-on-year decline in total sales, and like-for-like sales for 14% and 16% in July respectively to 7 and 8% in September respectively. I realise this is a dubious sign of success, but we are moving in the right direction. We still face several issues at our hypermarkets from increased competition and supply chain management to downsizing and standardising the store layout and size. However, I would like to reiterate that we are very pleased with the way the new team is working. We have carried out bottom-up analysis of our 76 hypermarkets and we know what the challenges are. We have rezoned approximately 16 of our hypermarkets to date and are using these tests as a result to establish the parameters of a model hypermarket going forward.

I think overall when we look at the business there are some basic things that we are doing that will continue to support sales in the future. First of all, a strong promo activity and communication with the customer is part of our day-to-day activity in all three formats; large number of new store openings, about 18% selling space growth to be added in 2012 versus 11% in 2011. We continue to see development in Kopeyka and in the second half of 212 we expect that all Kopeyka stores will show somewhere between 40 and 50% upside to their sales densities. In Q3, Kopeyka already demonstrated approximately 40% like-for-like increase year-on-year. We continued to work on the assortment and worked to make this assortment more customer oriented so as to drive traffic into our stores. Last but not least, there is the continuation of our quality programme to increase both the quality of the products and the service in each of our stores.

On the macro side, we expect to have some benefit of tailwind for sales growth coming from rising inflation on easier comps post Elections this year and escalated social spending. Regarding full year 2012 top line growth, if we take into account the 8.2% increase in net retail sales for the first nine months of 2012 and the 10% run rate that we maintained in Q2 and Q3, we expect full year 2012 net retail sales in Rouble terms to be somewhere between 7 and 9% higher year-on-year. I think we will see some pressure on the EBITDA margin in Q3, just the way we saw it in Q3 of 2011. We will update you on this and the full year forecast in our call in November. In terms of space expansion, we plan to add approximately 750 to 800 new stores or about 16 to 18% more selling space, as compared to our net selling space at year-end 2011.

Stephan and I will now be happy to take your questions and discuss third quarter developments.

Questions and Answers

Anton Farlenkov – *Goldman Sachs*

A couple of questions; well, first of all, you are saying that you are happy with the supermarkets performance but you are still losing customers, so you're minus 4.8% versus minus 4.1% in Q2, so your supers, based on my observations, started looking more like upscale Pyaterochka, which in my view has led to deterioration of traffic. Did you change your strategy and what is the action plan to move the traffic into positive territory? Honestly, I think it's not about promotion, so…or probably you have changed your strategy. Well, the same story about discounters, if you look back like a few years ago, and even a year ago, your discounters don't look the same; it looks like you've been saving quite a lot on maintenance. What is your action plan here as well, which can lead to positive traffic in the coming quarters?

Kieran Balfe – *X5 CFO*

Let me reiterate what I think Stephan said earlier, which is there has been no change in our strategy since the beginning of this year, and there has been no attempt to, in some way, convert supermarkets to discounters at X5. There are very, very different stores in terms of their size, in terms of the number of SKUs that are addressed, in terms of pricing levels etcetera, and so from that point of view they serve different audiences and will remain part…the separation between supermarkets, discounters and hypermarkets will continue to remain part of our overall multi-format strategy, which we have embarked on back in 2006 and which we believe is key in securing the maximum amount of the consumers' wallet in Russia over the coming years.

In terms of the traffic, I think addressing traffic, first of all, in supermarkets, there is no one specific item that I can call out and say that will be the traffic builder. The reality is that we are the number in supermarkets in Russia and I think substantially ahead a large distance between us and the number two player, and this is an area which we've continued to expand at pace over the years, and the proposition has continued to improve over time. I think it will remain part of our overall strategy to develop this, what I would call, upper-ended part of retail over the coming years and we will use a multi-pronged approach to generate traffic going forward, including pricing, promo, assortment, mix, advertising etcetera.

In terms of discounters, again no strategic change in terms of what we have said to you earlier this year in terms of our growth pattern. First of all, we have to integrate Kopeyka, which we successfully did during the first nine months of last year, and I am pleased to say that the Kopeyka stores are now fully converted to Pyaterochka format and are obviously performing well in line with the business case, which we outlined in 2010 when we made the purchase, so that's been a priority. I think we have seen some great growth in the regions outside of Moscow and St Pete's, which we've said at the beginning of the year would be strategically important for us. We have obviously established a bridgehead in Moscow and St Pete cities and in northwest and central regions in general, but there were questions raised at a point in time as to whether X5 had the ability, the capacity, the Management bandwidth to be able to expand into regions outside of these areas and I think the fact that 50% of our growth in this year has basically come from the regions outside northwest and central indicates that we're fulfilling our strategy to continue to grow not only in those areas which we have a strong bridgehead, but also in areas outside of that, and we continue to use the type of format that has become very successful in Russia over the years, and which has been one of the reasons that positions us as one of the leading retailers in Russia, which is a format of about 400 square metres, 3 to 3,500 SKUs, offering the best value to the consumer anywhere in Russia, so we will continue to expand our operations throughout the country and there has been no change to the strategy in that regard.

Anton Farlenkov – *Goldman Sachs*

But then why are you using Classic at supermarkets? I just…well, at least my observation is that the quality of personnel went down; it looks like you are saving on costs (a), (b) you are saving on maintenance a lot. Is it like lighting went down, there is dirty floors etcetera, just the basic stuff, and my question is whether you are going to increase maintenance expense or salary expense to supermarkets to make them…to take them back to previous levels. I have been going to…well, supermarkets for the last six years and I see dramatic shift change in the quality of services overall, so that's one of my concerns.

Kieran Balfe – *X5 CFO*

I suppose to address your concern, in terms of supermarkets like-for-like sales growth, I am looking at the traffic for the last three months, and this will be up on the site after the call, but for July, August and September, and I'm looking for the like-for-like traffic, and I can see it going from minus 6, minus 5, minus 4, and looking across kind of the overall traffic levels for traffic and basket total sales I can see supermarkets going in July plus 1, August plus 4, September plus 4, so I am not sure the situation is as dramatic as you say it is. That notwithstanding, I'd say that I think one of the things that we have been very good at doing over the last several years is purchasing and integrating companies and, as Stephan said earlier, we're about halfway through the entire process of integrating a lot of those four acquisitions, the main acquisitions, to make sure that they function seamlessly under one chapeau, but I think one of the areas where perhaps we haven't been as good is on the maintenance and refurbishment, not only in supermarkets, but also I think in discounters, and I think you will see an increased focus on that, particularly in the northwest region of the discounters and across the board where necessary in supers and hypers, as we make sure that we have positive like-for-likes going into 2013 and beyond.

Brady Martin – *Citi Bank*

A couple of questions, first I can't find the presentation on your website, so I was just wondering if you can tell us what were the monthly year-on-year growth rates? This is something you have been giving out the last few quarters. I mean I know the July number was 10% that you gave out after Q2, but I am not sure I understand a recovery really throughout the quarter, so that's the first question, just to get what are those monthly year-on-year numbers. The second question is really about the Pyaterochka performance ex-Kopeyka. I mean I recognise you're very satisfied with the Kopeyka performance, this 40% growth, 40% like-for-like growth, but the whole format is only up 2.6% year-on-year in Q3. I mean what was the Pyaterochka performance ex-Kopeyka and what is causing that what looks to be clearly a very negative like-for-like number. Is there something causing that beyond just Kopeyka stealing traffic, this recovery in Kopeyka basically stealing from Pyaterochka? Is there something beyond that like supply chain issues or something we should be aware of?

Kieran Balfe – *X5 CFO*

Brady, thank you for the question. Let me take the second one first. I think in terms of Kopeyka, I will probably disappoint you with the answer, but for us Kopeyka no longer exists as an entity and I referred to it simply because I think it's come up in some previous calls when I've referred to it, but in essence it isn't a separate entity and the impact that that entity would've had on cannibalisation and whatever, you know, has basically kicked in from last year, so I don't there being a base business with Kopeyka or kind of a historical legacy, Pyaterochka. Reality is that for over a year now there hasn't existed a single Kopeyka store in this country, not a single one, and so from that point of view I talk about those stores in the overall context of Pyaterochka and not as kind of a separate block. Overall, I think we have said to you in the past is that, you know, in terms of like-for-likes and what have you, we have like-for-likes that are positive here. Obviously, I would like them to be more positive, but at least when we took the operation from one level in 2010 to a completely different level in 2012 through the acquisition, putting out over 1,200 stores last year and putting out nearly another 500 in the first nine months of this year, you know, we expected certain cannibalisation and what have you, but we would much…we would be of the opinion that we'd prefer to do that to ourselves than have somebody else to do it for us, so all in all I am happy with the overall like-for-like situation in Pyaterochka in the sense that I think the acquisition and the legacy stuff has come together rather well.

In terms of the numbers and the growth and what have you, and I apologise that this isn't on our site at this moment, but let me just give you some breakdown of what they are. In total net sales in X5 for July, August, and September, it's plus 10%, plus 11%, and plus 10% respectively. That's broken down into discounters being plus 18 for July, plus 17 for August, plus 13 for September; supermarkets plus 4 for July, plus 7 for August, plus 8 for September; and hypermarkets went from a negative of 14 in July to a negative of 7 in September, so I hope that gives you some flavour of what's been going on throughout the quarter.

Brady Martin – *Citi Bank*

Okay, yes, I mean that's helpful, but I mean I guess I would just go and focus back on Pyaterochka. I mean as I realise these formats, Pyaterochka has been rebranded for a year, but you're still calculating…you're able to give us the calculation for Kopeyka standalone, which are quite good numbers, but that means that if we remove Kopeyka, which is 20% of that store base, the rest of the chain is doing very poorly and even on the monthly numbers you're giving us, there is a clear deterioration, as the quarter ran on, despite the fact that food inflation, according to Rosstat, was going up quite steadily and if we look at your competitors we are seeing an acceleration in their top line growth, not a deceleration, so I am just trying to figure out what's going on at Pyaterochka that I'm missing here. I don't understand why that format seems to be performing particularly poorly as the quarter went on.

Kieran Balfe – *X5 CFO*
I think coming back to what I had said in quarter two, we did expand that format dramatically between 2010 and 2012, and if you look at the numbers essentially that we put through the operation between those two, we had essentially put in about 600 stores from Pyaterochka last year and the bulk of our openings of 550 that were coming from Pyaterochka as well, so we added about 1,000 stores just in last year alone and obviously when you do that you cause a lot of things to happen for like-for-likes, because you're trying to make sure that all of those stores convert, are opened, and that the ramp-up period etcetera takes place appropriately, and that can have negative impact on your overall business for a temporary period of time. That said, I think we need to probably use this call as the last time when we really don't…when we look at the Kopeyka separately, because, you know, as we both said now in the last few minutes, it's already gone past a year, and so in essence the opening of those stores, as a unit, is probably…should not be treated separately to the organic growth we would have suffered last year.

Let's look at Pyaterochka all in all and I think if we do that we see that there has been 17% like-for-like growth in central region, which is our biggest business, for Q3. We have seen 30% growth in the other six regions that we have at X5, so that's I think healthy growth. We have seen some issues in northwest region. I think if I was to give the reasons for that, some of them are temporary like, for example, the issues we had with the flooding of one of our DCs, but being more sombre about it and being more frank about it, I would say that one of the things we did very well was doing M&A; one of the things that probably we didn't do so well was refurbishing our stores quickly enough and making sure that we were renewing those stores fast enough, as we were going through this rapid expansion that I was talking about. One of the key focuses for 2013 will be making sure that in our northwest region that that refurbishment and that we continue to generate positive traffic going forward, because that needs to be the bedrock will for our business, that Pyaterochka is the bedrock of our business at X5.

Brady Martin – *Citi Bank*
Just one final question on…just a follow-up, I mean when do you expect to start seeing better performance in that format? Is it Q4, is it too early to expect better performance there or should we be expecting more deterioration as we saw as the quarter…as Q3 went through?

Kieran Balfe – *X5 CFO*

I think it's…at this stage we have seen the growth for the last quarter and obviously, you know, I referred to a little bit earlier it is on a declining trend during the last quarter. It was 18% growth year-on-year. What I'm talking about here now is total sales in discounters, 18% in July, 17 in August, and was up 13% in September, so I don't expect a dramatic turnaround in Q4. I think, as I said to you earlier, we've got about 10%...at an X5 level we've got about a 10% top line growth in Q2, 10% top line growth in Q3, and if I look and give you a quick sneak preview for the first two weeks of October, it's running at about 10% as well, so I don't…whilst two weeks doesn't a quarter make, I don't see any great drama going on in Q4 and what I'd expect is to see, you know, a more gradual increase in the sales line across X5, including discounters, over time.

Patrick Shields – *Wood & Co*

Sorry to harp on the same subject, I mean I understand – and this is coming back to the underlying performance of the Pyaterochka banner. I mean as you've just discussed with Brady, you know, it's probably wrong to look at it on a separate basis, but you are giving us the block of the positives. There is a part of the Pyaterochka store base which is running at 30 to 40% like-for-likes, you've got some of the regional stores that are running at mid-teens like-for-likes. Clearly, in the city centres, be it Moscow or St Pete's, which appear to be the problematic regions for you, you are seeing a relatively high rate of customer attrition. Now, you've talked about the fact that you may have lost sight of the customer a little bit, but how is that manifesting itself from an operational point of view. Have you got stock-out issues, have you still got assortment issues? I mean how far…you were talking in the last conference call about the need to rationalise the assortment matrix. Can you give us some sort of colour on how far you think you are through that process, how well you are managing the supply chain or the logistics into the stores? Are you still seeing that there is room for improvement and what type of improvement are you still looking for?

Kieran Balfe – *X5 CFO*

Patrick, thanks for the question. I guess I would come back to what Stephan has said a little bit earlier, which is that, you know, when you think about what we did in Russia, it really was unprecedented. In fact, it's probably unprecedented anywhere in the world. We took four very large companies in different parts of the retail universe and we combined them, and having come from a company where, you know, I witnessed at close range the merger of two very large entities, and all the issues that are associated with that kind of thing, whether it's Procter & Gamble and Gillette or whatever, you know, you realise that putting together two companies is an enormous challenge logistically, financially, management-wise, culture-wise, etcetera. What we did in Russia was we put together four companies in the retail sector, which is an emerging sector, and I think what we're doing, and we finished that process at the end of 2010, I think what we're doing is we're digesting those four very large companies that we put together. I think Stephan had mentioned that he felt that we were about halfway through that process, so if you take that at about a three-year process, one and a half years or [audio] years to go and I think that's a reasonably good estimate in terms of, you know, the supply chain, the logistics, and assort ment issues etcetera that you've referred to. Obviously, when you move the number of stores in your network from 1,000 to 1,200 to 3,500 or something, close to 4,000, and you do that in a 24-month period, you put a lot of pressure on your logistics, your ability to be able to resupply all that kind of stuff.

I think we have managed the situation well, but not without some issues and I think, as I said, we're about halfway through the process of optimising the logistics and supply chain, whether it's from the point of view of establishing a smaller number of DCs, but more efficient DCs; whether it's the deployment of JDA software to go on the backbone of the IT we've already deployed, so as to improve our auto ordering procedures; whether it's sending our trucks overseas in order to purchase products and bring them into Russia for us, particularly on the fruit and veg side, which we discussed the last time I was on the call, and improving not only the price, but also the quality of offering to your consumer. All of these things have to be worked through in an environment where you're combing four companies together, which, as I said, I think is unprecedented anywhere in the world.

I think we are well in charge of that whole process and if you look at our EBITDA levels, they're certainly at a very healthy level compared to other retailers throughout the world, but I would say we have another, you know…until the end of next year to work our way through all those issues.

Patrick Shields – *Wood & Co*

I mean I get that and I think you've been very good at explaining that. I just wonder whether you can give us a little bit more kind of granularity on what is specifically happening in Pyaterochka, because it seems to be that many of these operational issues are actually focused on the platform that's supposed to be your growth platform and however you look at the numbers you can't get away from the fact that it appears relative to you competitors that customers are still walking out of the door on a like-for-like basis, and I wonder what you guys feel is the principal cause of that and maybe to give us some idea of how you think you're addressing that. I mean I am aware that there are several contributing factors, but I wonder what you feel that you are doing and doing well or better now that it's going to reverse that trend.

Kieran Balfe – *X5 CFO*

Yes, I suppose and probably back to what I said a few moments ago is that I think in terms of seven of the eight regions we occupy, you know, we're seeing pretty positive growth in terms of the overall growth within that format, you know. It's been double-digit all the way through. In terms of like-for-like traffic and what have you, if I look at something like July, August, and September, it oscillates somewhere between about minus 1 and minus 2% and I think we need to get at that through refurbishments, increasing the amount of fresh and dealing with the logistics issues that we have that reduces the out of stocks in those stores. But that notwithstanding, I don't think…I mean, again, like-for-likes if you strip out inflation, it oscillates somewhere around kind of, you know, plus 1, plus 2, and never much more than that, so it's not like this is something which is beyond us. I think we've got very strong growth in seven of the regions and I think we are dealing with those issues and I would look forward to positive traffic coming into those areas over the next year, but I think we do have one specific area, which hasn't been as good as we thought it should be and that was northwest and that's where we started. I think the lesson there is that we didn't spend enough time going back and refurbishing those stores and reinvesting when perhaps we should have. I think we just need to address that, but we are front and centre – that's front and centre in front of us and at the end of the day I think going into next year we will see a greater focus there and you will see that coming through in the numbers.

Patrick Shields – *Wood & Co*

Does that mean…I mean you envisage getting back to…and that you've got footfall market share to restore in those regions where it's been weak in the mix or do you think you kind of stabilise where it is now.

Kieran Balfe – *X5 CFO*

At the end of the day, you know, we've got to take the overall traffic growth in the context of the overall like-for-likes. I mean one way to restore positive traffic is to take a hit on your basket. We could do that tomorrow morning, but we've no desire to, so we are seeing positive like-for-likes, let's not lose sight of that, and the fact that the traffic growth is negative masks perhaps the overall truth, which is one of positive like-for-likes. I do accept that we have more to do in terms of bringing traffic back into our stores and making sure that that remains a constant feature of our growth going forward, because, you know, traffic is the basis of a healthy retailer, but again these are, you know, minus 1, minus 2, well within our competence to solve and I think, again, you know, this is negative traffic against a background of positive like-for-likes and in seven of those regions we have seen, I think, very healthy growth from 17 to 30% in total, but I think we've identified where the issues are in northwest and are dealing with those, and I look forward to more positive results going forward, especially given the Management Team we've deployed and the speed at which they are addressing the issues.

Patrick Shields – *Wood & Co*

Okay. I mean you put it out there that there was going to be pressure on the EBITDA margin in the third quarter. Can you articulate where that's going to come from and are you still sticking to your full year EBITDA margin guidance of 7% plus?

Kieran Balfe – *X5 CFO*

On that front is that if you look at Q3 last year, we did just north of 6% in the Q3 and I think Q3 has been traditionally a tough quarter for us, because we tend to see a decline in sales versus Q2, but the cost base doesn't tend to alter much, so you tend to see a certain amount of suffering on the EBITDA line on that quarter alone. Today, you know, I am not commenting on the EBITDA guidance for the year. I think there will be a call in November where not only will we take your through the profit and loss account for the first nine months and the quarter, but we will also give you the full year guidance for top line and EBITDA at that stage, but I think it would be premature to do that today.

Andrey Nikitin – *Alfa Bank*

The adjusted top line guidance for 2012, what implications would that have on your Capex programme for this year?

Kieran Balfe – *X5 CFO*

We had talked about, you know, Capex in the kind of 30-plus billion Roubles range and, frankly, I don't anticipate much change to that number, because in the end of the day, you know, if you look at the number of stores that we've opened so far, it's about 470 this year net and we're targeting somewhere between 750 and 800, so if you think about it, the vast majority of our store openings happen in the last quarter of the year and this has been traditional for X5 and for many other retailers for many years. You know, despite the fact that the Capex goes on, the sales probably aren't going to be materially affected and vice versa; if the sales are changing on the top line, it doesn't mean that it has any material effect on the Capex, because, to be honest, whether you invest in the Capex this year or, say, next year it's not going to make a big different to the top line. They are fairly unrelated once you get close to the end of the Q4.

Andrey Nikitin – *Alfa Bank*
Understood and perhaps you could give us more colour on the Capex composition for this year. Out of these RUR 30 billion, how much would be spent on store modernisation, maintenance, logistics and new store rollout, per se?

Kieran Balfe – *X5 CFO*
Well, I think the overall new store rollout in total is about two-thirds of the overall Capex spend with the rest being spread between logistics, IT, and the likes. In terms of maintenance and what have you, we have traditionally, at least circa since I came on board, been fairly light in terms of the refurbishments and what have you that we've done; in the nature of a couple of hundred stores and what have you. Not that that's particularly surprising, I suppose, because given the amount of stores we've added since I came here in 1st January 2011, you know, that a lot of those, or all of those, wouldn't require refurbishment at this point, but I think we probably haven't done much of the refurbishment in this year or last year versus the stores that we had in 2006/7/8/9 etcetera, and I think the focus on that will be going into next year where the Capex will be set aside to do that.

Andrey Nikitin – *Alfa Bank*
All right and just going back quickly to the new store rollout, the previous number in square metres amounted to 300,000 square metres, if I am not mistaken, and with the most recent adjustments that would be closer to, what, 250/220?

Kieran Balfe – *X5 CFO*
No. I anticipate somewhere around 260 maybe up to 270/280, depending on the acquisition and rollout, particularly of the Pyaterochka stores, which we're still, you know…we can acquire and convert rather quickly, but it's something in that region, somewhere between 16 and 18% growth, I suppose, year-on-year I think would be a good way to think about it.

Andrey Nikitin – *Alfa Bank*

Thanks and lastly, if I may ask you about some clarification questions about your accounting policies, certainly something not related to the operating results, but I guess in an environment where every single basis point counts, it's quite key for some of my colleagues I speak to. For your cost of sales, generally what does it include in addition to cost of goods sold, because it's nowhere in your notes, your financial statements?

Kieran Balfe – *X5 CFO*

Well, I mean it's basically the product, it's the store losses, and it would be the cost of logistics. They're the three big ones that were there. I think the retail policy that we'd have, the accounting policy, be relatively standard vis-à-vis other retailers around the world, and I think that pretty much all of us use that as a means of calculating our COGS.

Andrey Nikitin – *Alfa Bank*

So that would be COGS plus shrinkages plus logistics?

Kieran Balfe – *X5 CFO*

Yes, the logistics, so let me just break that down for you, so there is the cost of the individual product itself. It's in the notes to the account, but I mean it shows the…it's the cost of the products themselves that you are selling and then you have logistics cost, which will include almost all of the logistics, excluding Senior Management; it includes all of the logistics, that will be transportation, fuel, warehousing people, costs of IT, all of that good stuff, and then you've got the cost of shrinkages, which are also in the DCs,, it will be included in the logistics costs. Moving onto the next slide then, which is the losses, that essentially includes all of the losses that are in the stores, so non-DC losses and they're the three big three that go to make up your cost of goods sold, so subtract it and get your GP.

Tigran Hovhannisyan – *Uralsib Capital*

Kieran, the very first question, if you could please explain what's the difference between consolidated net retail sales and what you quoted as sales in very first two paragraphs basically on the first page?

Kieran Balfe – *X5 CFO*

Yes, it's basically…it's primarily due to the revenues or royalties that we get from franchisees. Normally it is a fraction of a percent, it really doesn't make it or break it, but we use one which is called the net retail sales, yes, which is coming through on the Q3 trading update and I think we make a note in the update itself that, you know, this includes…it's in one of the notes at the end of page, this excludes such royalties and those royalties are included in the financial update that is given in November.

Tigran Hovhannisyan – *Uralsib Capital*

So consolidated net retail sales is actually what will be proxy for the IFRS figure yes. Second question is you mentioned that the most troubled region is North West, could this have to do with Magnit's very aggressive expansion right there, if you could comment on this.

Kieran Balfe – *X5 CFO*

Let me tell you my own take on it, I think the retail law was passed in August 2010 and one of the things it did was it kept the ability of any retailer in the country to go beyond 25% share of market in the various municipalities that exist here. We had obviously started our operations in St Pete many, many years from a Pyaterochka perspective, and so we had already pretty much reached that cap by the time the legislation was passed. One of the issues we faced and we have communicated this I think on several occasions is that it is not possible for us to open new stores in that region, and so we have to rely more on refurbishment and improvement of the offering and what have you to the consumer in order to compete. Whereas in other regions we have the benefit of not only having those tools, but also having the tools of opening new stores and the excitement and what have you that that generates to the consumer. We have those tools available to us to combat competition, so I think that is probably one of the factors that is there. By no means an insurmountable factor, I mean in the end of the day it happens in all retail around the world and what we need to do is just make sure that we continue to improve our offering in St Pete, we have a very, very strong position in Pete, some great brand equity with the consumer, and we just need to make sure that that is defended appropriately going forward.

Tigran Hovhannisyan – *Uralsib Capital*

Thank you. Kieran do you have a rough number of these tasks that you would refurbish...

Kieran Balfe – *X5 CFO*

I think we will be in a position to communicate it more fully in November or towards the end of the year, but basically it will run into hundreds of stores, because I think that is kind of where... we have a significant presence in that part of the country and we will look at upgrading in that area of the world. That said it won't be restricted to North West. The reality is that we have gone through this phenomenal growth period from 2006-2010 via M&A, and I think what we're doing now is we're just doing the normal thing, which is we have bought all these stores and many of them are in terrific shape, but any of the ones that went back to the earlier times, 2008, 2007 and 2006 what have you, we just need to upgrade those, so that will be budgeted for next year and included in the Capex programme and we will disclose that to you at the time that we offer guidance for next year.

Tigran Hovhannisyan – *Uralsib Capital*

Thank you. Coming to Kopeyka which I mean you mentioned are doing great in terms of improving the like-for-like sales. Is there stillroom for them to grow up to Pyaterockha levels?

Kieran Balfe – *X5 CFO*

There is room for them to continue to grow, I mean last year we did about, and we disclosed this before about 53 billion sales and for Q3 we did about a 40% like-for-like. I think there is still opportunity for them to do more, but I think you're unlikely to hear me comment about Kopeyka going forward. At this stage I just see them as part of the overall network. I guess the point I wanted to make is that several people had questioned along the way, a natural question I guess which is, did that acquisition work out or not. The point I wanted to make and maybe today we just draw a line under it, is that I think the business case was an aggressive one, but I think we have stood up to it well. I think we have pretty much met the business case that we had laid out in 2010, and I do see further upside going forward and we're very happy that we carried that transaction out, because I think it gave us the breadth and depth that we need in a place like Central Region to continue to develop our operation here, and so I guess my message, or parting shot on that one is that it was a good transaction and well executed.

Tigran Hovhannisyan – *Uralsib Capital*

I see there was a newspaper article that you might be buying something in Siberia, is this off the agenda?

Kieran Balfe – *X5 CFO*

We had commented on it before as well, we had been in discussions with one of the major retailers in Russia about a potential deal in Siberia, and I think the last time we talked on the call I said to you that the deal was essentially not proceeding further because we couldn't agree on terms with the seller. We're at that stage now where there just isn't an alignment around the table and we had always said that we wouldn't proceed with the transactions unless it was accretive for us and unless it made sense for our shareholders. Obviously we have terrific M&A capability within the Company, clearly the number one in the industry, but we will only do M&A transactions if they make sense for our shareholders, and our main emphasis is on organic growth. We have gone on record as saying that more than 80% of our growth year-on-year we would expect to come from organic growth going forward, and so if that deal makes sense for us, either now or at a point in time then we will proceed with it, and if we can't reach accommodation with the seller than we won't, simple as that.

Tigran Hovhannisyan – *Uralsib Capital*

The last question is, sorry forgot. Thank you very much.

Kieran Balfe – *X5 CFO*

Text here…

Boris Vilidnitsky – *Goldman Sachs*

Good afternoon, thank you for your time to talk to us today, a couple of questions from my end. First of all certainly encouraging numbers from the September like-for-like, the question is about your promotion campaign. How long are you planning to continue running that and what results is you looking to see naturally in the first quarter of 2013? We're going to see significantly easier comps at least when it comes to traffic. Are you looking to just get on the positive end or do you guys have a number in mind.

Kieran Balfe – *X5 CFO*

Thanks for the question Boris. In terms of the overall, I suppose promo strategy, essentially we set our promo strategy about a year in advance of when it is actually executed, and it is done by format, by region and what have you. Promo – I guess the message I want to send to you – promo is part of the DNA of what we do. I don't have any start date or end date for promo programmes. We simply use them as a mechanism to drive traffic and we're supported very fully by our suppliers in that regard. In terms of the growth for next year and what have you, we will come to the market at the beginning of next year or thereabouts to give you some more colour in terms of how we think next year is likely to play out, top line and bottom line and what have you, but I think it is too early to comment on that at this stage.

Boris Vilidnitsky – *Goldman Sachs*
Understandable, I guess by promo I am just looking at the like-for-like ticket numbers for example, particularly in the supermarket and the discounter chains, and clearly for both of them throughout the first three quarters of the year they have been below the inflation numbers, or at least below some of the competitors, so that is essentially for me. It signifies that you guys are holding prices back to some extent.

Kieran Balfe – *X5 CFO*
Well you know at the end of the day it is always a delicate balance between the pricing and the growth and what have you that we're engaging in. We will use promo as a mechanism to drive traffic and to give excitement and what have you to our customer and generate buzz. I don't think there is any... I wouldn't like you to read into our promo strategy that somehow we are anti-passing through inflation or something of that nature. The reality is that the strategy we have now is very similar to the strategy we had last year which is that no retailer can survive long term if they're not passing through inflation, and that includes X5. As producer inflation comes to the point where it is passed through to us, obviously we will resist it as much as possible in the interest of our consumers, but when it naturally does pass through, then we have to pass it through to our consumers as well. we're not in any way holding back pricing via promos or whatever in an effort to try and build advantage, all we're simply doing is we're passing through inflation as any other good retailer will do and we will use that to protect our bottom line, this year, next year etc.

Boris Vilidnitsky – *Goldman Sachs*
Understandable, so you guys are happy at this point with the pricing strategy?

Kieran Balfe – *X5 CFO*

Yes I think so. It is something we monitor very, very carefully. It will be no great secret that in a retailer like ourselves we will be monitoring this on a store basis. It is a very sensitive issue for us, because in the end of the day we spend vast amounts of energy, money, time etc on building an image with the consumer as to who we are and what you can expect from us when you come here. Clearly a big part of that is the pricing strategy, so yes this is front and centre for us at all times. I would say we're pretty happy with the way we're positioned right now.

Boris Vilidnitsky – *Goldman Sachs*

I see. The second question is on refurbishing, you mentioned some of the stores, or most of the stores in the North West region need to be refurbished, potentially in 2013 or 2014. Any other regions that you see will need similar refurbishing in the next couple of years. I mean from what you have mentioned that the stores in the North West region you probably are a year or so later, refurbish them. Would you kind of try and get ahead of that in the other regions?

Kieran Balfe – *X5 CFO*

Well it is kind of an as-needed basis Boris. In the end of the day we started in St Pete, and so when you think about it that was always going to be the region where the refurbishment would have to kick in first, so that is going to get the first attention. I would say it would be much less of an issue in central regions, simply because we have done quite a lot of organic growth in that region together with the acquisition of Kopeyka last year, which means they're very fresh stores and you wouldn't have to go back and do a whole lot of refurbishment there, but that is not to say we will do none. We will go back and look at this stores that need refurbishment and we will do it. Again out in the regions we will do the same thing, but it really is on an as needed basis.

Elena Jouronova – *JP Morgan*

Hi good evening gentlemen, a few questions. First just to clarify Kieran, the new revenue guidance for this year, is that between 7-9% growth, did I get it right?

Kieran Balfe – *X5 CFO*

I am saying that for the annual growth year-on-year it would be 7-9% growth and that is really based on the fact that for the first nine months we have just done just north of 8%, so I think a guidance of 7-9 for the full year would be prudent.

Elena Jouronova – *JP Morgan*

Then as for the Capex, you mentioned that for this year, the Capex budget is around 30 billion, but I think you have previously guided us towards 40-45 billion. Am I wrong here or you really downgraded a bit your Capex expectations for this year?

Kieran Balfe – *X5 CFO*

I think we had talked about ranges at different points during the year. I think the last time I had talked about it, it was in the 30s and as I get closer to the end of the year we have done some... first of all your Capex budget is a derivative primarily of the number of stores that you buy versus the number of stores that you leave, because that obviously has a huge impact on that number, together with the number of DCs and what have you that you're seeking to build. In terms of those numbers we get closer to it, I get greater visibility on how much we have leased, how much we have constructed and what have you, and we're continuing with our policy of leasing a greater proportion of what we're doing and buying or constructing... certainly buying a lesser proportion of what we're doing, and that would be very typical for the industry. we had a situation or we have a situation where you know over half our stores are owned, but if you look at the industry in general it is about 30% is owned, about 70% is leased. We will continue to rebalance our portfolio to get it closer towards the industry norm, and obviously that allows a certain flexibility on Capex. It is not a question of us being able to finance or not finance, the net debt to EBITDA and what have you is well in tow. It is just a question of where we can exercise an opportunity to use leasing we do it, and where we can exercise efficiency in terms of renovation and all of that and pay less than otherwise would be, then we exercise that as well. I think we have made a lot of improvements in that regard during the course of the year.

Elena Jouronova – *JP Morgan*

Okay thank you, and now a few questions probably to both of you to Stephan and then to Kieran. Do you have any new plans with regards to how you incentivise your store managers or you're comfortable with the way that your format heads are now running the stores on a store by store basis, because I personally as a customer feel that it could be part of the problem of some of the stores, simply not having proper store managers or properly incentivised store managers in place which leads to inferior level of service. I might be wrong but I am just asking whether you plan any changes and if you see this as a potential room for improvement.

Stephan DuCharme – *X5 Acting CEO*

Elena thanks for the question. Thanks for the question. This is something we are looking at, as part of the devolution of authorities to the formats; the formats are actually receiving sub-additional powers and responsibilities on that front. They're experimenting a little on that side. This is something we're encouraging the format heads to think about and to do. They're working on this; we have implemented some experiments already for the fourth quarter of this year. I think where we had historically thought more in terms of longer cycles, it appears that at the store level depending on the type of store we might want to be thinking in terms of shorter cycles. There is work ongoing on this and this is an area where we would like the format heads with their HR directors at the formats to step up to the plate.

Elena Jouronova – *JP Morgan*

Actually can you remind us please how are the heads of formats incentivised? Do they have stock options or no?

Stephan DuCharme – *X5 Acting CEO*

The heads of formats are part of the Executive Board, the very senior management team; as such they have a package that consists of base short-term incentives and long-term incentives. The long-term incentive plan is based on growth, a very important factor, and obviously profitability.

Elena Jouronova – *JP Morgan*

The final question, Stephan you are leading the company now and you have already made some changes to the management. How much do you really give to the new management to prove that they can deliver? I really mean the heads of formats, the new director of the logistics department, some of the old managers who recently left the Company, they have worked there for 6-12 months, and I believe right now you have kind of very strict criteria and the new team cannot make mistakes. How much time do you think you will need to understand whether they're doing the right job or not. I just fear that we might have some further management reshuffling. I want to understand how fast you will be, or how prompt you will be in addressing management issues. That is my final question, thank you.

Stephan DuCharme – *X5 Acting CEO*

Thanks Elena. Let me start by saying the current management team, the senior management team has my full confidence and support at this point. We do not put people in these positions by saying to them you have two days, two months to do your job or to sort things out. Some of them have been in their positions for some time, some of them are fairly new, certain other individuals have been promoted or moved over the course of the quarter based on their capabilities, based on certain things that we need to do within the Company. The team as it stands has my full confidence, has my full support. We of course are watching things; we look at things on a daily, weekly, monthly level depending on what we are looking at. We work together as a team and I think that is the best summary of how we're going about that.

Kalim Aziz – *Armjaro Asset Management*

Good afternoon gentlemen, thank you very much for the call. Very, very briefly, just to recap what I heard, so the revenue growth or revenue forecast has been trimmed down to 7-9%. You will guide us on the EBITDA number in November, indicating at this point in time you are not prepared to make any comments on that, Capex has been cut and we are still waiting for the new CEO to be appointed. In this context where do I see the good news coming from the Company over the next three to six months? These all seem to be neutral at best and negative in the context of what we have seen in the retail space in Russia. Where do I see the good news coming from over the next three to six months? That is my first question.

The second question is that I have looked at research work done by a few analysts and what was found out specifically from store visits etc, what the logistics is still not resolved and there are lots of empty shelves and the assortment to demand is not matched. What is the cause of this, if we can figure it out? Is there any mechanism where you have realised this is case and it is being addressed. Those are my two questions.

Kieran Balfe – *X5 CFO*

Thanks very much for the question. I guess I would say a couple of things. I think we have tried to outline this afternoon, not only where the issues are but also where things are working and I think it is important to recognise both of those. When I look at – and I will start with discounters as being our biggest format – but when I look at discounters and in our major region which is central region and dwarfs everything else, to put in a 17% growth rate in the recent past and put in a 30% growth rate on top of that for the other regions, there are retailers around the world who dream or die for those kinds of figures. I think that is positive and I think the overall fact that we have like for likes being positive in our biggest format is something to be happy about. I think also something to be, I suppose, happy about is that we have identified the region where the weakness is and we have identified a plan to address that, both through additional management strengthening and through refurbishment of stores. If I was to just say two-thirds of the business right there, I think it is fair to say that objectively comparing that business to discounters around the world, I think it is a pretty decent performance.

In terms of supermarkets, again I would say that we are clearly the number one in that format and I think we have seen some fairly decent dynamics during the course of the year. I think with now leading that format, I think he brings that spirit of entrepreneurship and what have you that has the ability to even improve that format further, and even though it was prospering well during the course of this year, I think there are opportunities to improve. I think we will finish the year as we finished last year in terms of supermarkets which is being head and shoulders above any other supermarket chain in the country.

I think in terms of hypermarkets, I think we are all well aware of what has happened in hypermarkets from the time that we purchased it through to the reorganisation. I am very, very pleased to see that the management team that sis deployed there Is working very, very collegially and very fast to address the issues that we have. I have been out to the stores a lot, obviously, and seen firsthand the remodelling of the stores and the improvements that are taking place in those stores, and I know that there is some terrific stuff that we will have an opportunity to roll out during the course of next year. I am very confident again that those hypermarkets will continue to be part of our overall setup here and that we will go from strength to strength there. I suppose there is a lot to be grateful for, in terms of how things are working in the Company.

You have mentioned one particular area which is logistics and the knock-on effect to empty shelves and what have you. It is pretty clear that that is an area that we're going to have to continue to work on. We took certain measures to improve logistics last year in terms of reducing the number of DCs, purchasing our own trucks to derive a much bigger fleet which is then capable of going internationally to purchase our products which has the impact of basically reducing our cost of goods sold whilst improving the quality of the goods, particularly in the fresh area that we're bringing to store, which obviously has a knock on effect in terms of store perception and customers desire to come back to us.

I think it is not like we haven't started with the logistics and I think we again announced during the course of this year our rollout of JDA which is very sophisticated software which deals with the whole replenishment cycle, and the rollout of that will be completed basically by the beginning of

Q3 next year, and again that will improve dramatically our ability to reduce the costs of logistics and improve its efficiency. I think there is lots of balls in the air, lots of things that we're working on, but I think that is an area for further improvement, but against the background of what we have achieved so far that obviously means that when those things are rolled out, the opportunity for X5 to do an even better job going further is there.

Stephan DuCharme – *X5 Acting CEO*

This is Stephan I would like to make one additional comment on that front. I think – and it sounds a little bit of a continuation to the question that Elena asked. I think the strongest asset we have at this point is the management team, the senior management team at X5. We have a group of very experienced individuals, retailers from all over the world. The fact is and this is a bit of a soft issue, we shouldn't underestimate the fact that we brought in a lot of new people over the last 12-18 months. It also takes time for individuals, especially when you have change on that massive scale to start gelling. To be very concrete, Kieran whom you all know very well has been with the Company for less than two years, others have followed. The most tenured individual has been here for less than two years. That team is now coming together very nicely, but as I said we have individuals from a number of different corporations, from a number of countries, we have brought them onboard because of their backgrounds, their expertise, their professional experience. I think the good news going forward is that these people are and will improve in terms of how they work together, in terms of how they execute, in terms of how they co-operate and I appreciate it is a soft issue, but I think we can expect some upside from that.

Brady Martin – *Citi Bank*

I actually wanted to ask a question about the discounter format, now I am really curious about the supermarket and hypermarket performance throughout the quarter. I do see your presentation on the website so thank you for that. I guess what I don't understand is that the dynamics between Q2 and Q3 and how Q2 we had in supermarkets and in hypermarkets throughout the quarter there was a clear improvement each month and then July was a significant deterioration in performance, and then throughout Q3 there was some improvement. I am just wondering now if you can explain what happened in July to make it so weak or what happened to June to make the performance so much better. I know we did discuss this on the last call, but at that time there was some discussion of seasonality, but these are year-on-year numbers, I wouldn't think seasonality would explain the pretty significant variation on the year-on-year numbers between those two months.

Kieran Balfe – *X5 CFO*

Thanks Brady for the question. We have talked about seasonality and for those who might not have been on the last call, basically what I had said at the time was that a great part of our business is based on Moscow and St Pete, or the North Western and central regions, and the population density is such that when children get out of school and what have you, lots of folks go on holidays and leave those dense population areas, or populated areas and go on vacation elsewhere, whether it is to the Dutch or overseas or whatever. Our sales tend to be quite affected by that and that is what I think we were talking about last time in terms of seasonality.

You have asked about July, and I suppose the things that just come to mind, let me just talk to the logistics first. The logistics was not great in July. We did have an issue with one of our major warehouses where we had a flooding issue and that put our July under some fairly intense pressure as we had to reschedule quite a lot of our deliveries away from that and from other DCs in order to cover it off. If I was to look at hypermarkets, I recall that a great deal of the rezoning that we have done in this year, it was probably at its peak during July, so again we had a negative 14% growth in July and I wasn't at all surprised by that, because a great deal of the work was being done and that was having a very disruptive effect.

What I am glad you have pointed out and I think it is decent news, is that as we look at the quarter in total and we break it down month by month, we see that there has been from 4% up to 8% July versus September in supermarkets, and we have gone from a negative 14 to a negative 7 in hypermarkets for those three months as well, July through to September so the trend is going in the right direction, but again I would just repeat I guess what I said at the end of Q2 which is the trends are going in the right direction, but when you're integrating the large companies that we are doing and bringing on board the senior management and getting all those guys to gel and what have you, it would be incorrect to kind of take those trends and just continue to project them forward in a positive way. I think this is a more gradual improvement over time that we're looking at, rather than one quarter where everything turns around, and I think as we said earlier, we're about halfway through the process, and I would expect that process to be completed by the end of this year. Going in the first direction but a long way to go.

Brady Martin – *Citi Bank*

That is clear. I think the supply chain would be some explanation there. I am just wondering, should we worry about a repeat of what we saw really in the last couple of quarters. It looked there was good progression even in Q1 throughout the quarter and then a slowdown in April, now in Q2 we had the same thing. Very significant sales improvement throughout the quarter, big slowdown in July, it just seems very strange. Is there something in the incentive programme that's creating that or is it just random that the last couple of quarters we're seeing that and we shouldn't expect that say in Q4. I would hate to see Q4 now to start October suddenly top line sales is 5% and we start the cycle again.

Kieran Balfe – *X5 CFO*

I hear you; I can first of all definitely confirm it has got nothing to do with incentive programmes or anything of that nature. I think as I probably mentioned a little bit earlier we have probably got onto a trend now at least as far as I can see for top line growth. It is about 10% for Q2; it was 10% for Q3. The first two weeks of October was 10%. I am kind of at that stage of saying, okay well let's hope we continue to build on that trend, and so some of those variations that you're seeing month on month begins to disappear. Again those variations for us to take any shot at it, I would say this that there is just a lot of variables in play, and we are expanding or we continue to expand rapidly, 750/800 stores a year, we're doing that across multiple formats, across multiple areas of Russia, geographies, and we are experimenting with some of our formats as we have clearly outlined with something like hypermarkets. We really are in that period of what I would say post-acquisition, but digesting all of the integration and experimenting and finding out what is the best way to go forward. Of course you're going to see some of that kicking in, causing some erratic behaviour, maybe one month versus another, because you're doing a certain task in one month which has a negative impact or which flows out more gently for the rest of the quarter or rest of the year. I don't think you should read anything into it. There is nothing there that you should be concerned about. I just think that is part of an overall kind of thing that you would see normally when two big companies come together, much less four.

Brady Martin – *Citi Bank*

Maybe just one final question, I do realise as you just said lots of moving parts, so it is difficult to just draw conclusions on one data point, but generally we look at I think the market we follow food inflation from Rosstat, whether it is an accurate number or not, it is a good trending number. I am just curious why we don't see significantly higher food inflation in Q3 as reported by Rosstat versus Q2. It is not really reflected in your numbers and even for Q4 we would actually expect that Q4 year-on-year food inflation would be higher than Q3, but your outlook is really to not see any improvement in your top line sales growth. I guess I am struggling a little to understand that, based on that one data point, I realise there are lots of moving parts but that moving part has historically been quite significant in determining like-for-like, but seems like at X5 you're not seeing those effects.

Kieran Balfe – *X5 CFO*

As for what I would say to that is that we have seen, I am referring now here to the like-for-like dynamics in page 5 of the presentation that was posted during the call. I am looking at the supermarkets like-for-like growth it goes from negative 5 to negative 1 or basically flat at 0.5, and I am looking at hypermarkets which went from negative 16 to negative 8 and what have you. we are seeing some positive like-for-like dynamics but in the end of the day it comes down to this, I suppose Rosstat and the inflation numbers are there, but then the question is how do you react to them. I suppose as I said earlier no retailer can sustain producer inflation being passed through without ultimately passing it through to the consumer. The question is the timing of that. obviously one of the advantages of being as big as X5 is that w have a lot of power with our suppliers and that is great from a consumer perspective because it means we can negotiate with the supplier to try and hold off the impact of that inflation being passed through from the producer to us as long as possible. Obviously that allows us to have certain benefits by passing that through to the consumer, in order to try and give the best deal in town.

We don't necessarily see an exact tracking on a monthly basis or even on a quarterly basis between what is going on in Rosstat information in terms of inflation consumer-wise and what is going on in our shelves. I think if you were to take a look at that over a longer period of time, what you would definitely see for all the successful retailers in the country is that if inflation is occurring in the country, food inflation, then you will see that inflation being passed through, otherwise the bottom line would be nuked, and from our perspective we have been very good at being able to pass that through to the consumer over time, but we have always tried to delay that as much as possible so as to cut the best deal for the consumer as possible.

Brady Martin – *Citi Bank*

That makes sense. I actually look at your traffic numbers, I guess if we could exclude soft discounters which had their own issues, towards the end of the quarter, and then I think everything you said makes sense for supermarkets, hypermarkets to actually get better traffic by slowing the inflation pass through. That makes sense. Really the challenge is discounters underperformed as the quarter went on, as opposed to more than half your business. I understand you now.

Ivan Kusch – *VTB Capital*

Hello. Kieran, Stephan, a rather big picture question. If I get you right the current and continuing trading weakness of the Company including top line weakness is due to the fact that the

Company pulled four companies together in the last several years which are quite different, so to me it seems quite obvious that if you are losing traffic like 2, 3, 4, 5% every quarter, there is definitely something wrong with the stores as such. I mean if people are just running out. The question is whether this logic is shared by management or not, so if you agree or not. If you do, do you have a clear understanding internally within the Company what is wrong with the stores. Could you list like three or five or whatever reasons which are not working within the stores, why they are bad, and why people are running out. Thank you very much.

Kieran Balfe – *X5 CFO*

Thanks a lot for the question. Perhaps the simplest way of addressing it is just to go directly to slide 6 of the presentation which we posted on the net and that pretty much lays out the year-to-date total Rouble sales traffic and basket. I don't think we are in a situation where there are mass defections from our stores. I think that is a hyperbole that is probably not necessary. I think if we really look at the traffic growth, I see July, August and September being up 17, 14, and 12 in soft discounters, I see supermarkets being 1 and 4, and I see July to September going from -6 to -2 in hypermarkets. From a traffic perspective I think things are moving in the right direction, and again if I break it down to the like-for-like which is on page 7 we see in supermarkets -6, -5 and -4 and in hypermarkets -10 to -5 over the same quarter. I would agree with you that if there were mass defections from our stores on a long-term basis that we would have a problem but I don't think that is what the data says. I think if you look at the overall traffic that is appearing in our stores over the last 9 months or what have you, you see a very consistent trend northwards. This is a question as always of balancing the organic growth, versus the need to reinvest in the stores that have already been opened, and ensure that they mature appropriately and focus on the assortment and pricing and promo which is the bread and butter of all of our operations and make sure that we're providing the consumer, meeting the value proposition that we have laid out there. The fact of the matter is we're one of the leading retailers in the country and will continue to be for many, many years. I don't think that this is a case of are there things that are causing this dramatic outflow. First of all I am not seeing the outflow and secondly I think there is always room to improve, but I think it is in question of more incremental improvement rather than revolution.

I don't know whether that addresses your question or not.

Patrick Shields – *Wood & Co*

Just coming back to the promotional side, you characterised it as sort of central to your DNA. I think it was this time last year when we were talking about the first like-for-like disappointments that you said that because of the disruptive and rapid changes that the Company was undergoing that the promotional activity had more or less ground to a halt, I think is how you characterised it. are you saying that we are now up to full speed with promotional activity, and if so are you disappointed with the impact that that has had, because I think at the beginning of the year or certainly when we were talking around the fourth quarter or the first quarter the fact that you would be ramping up the promotional activity again was going to be one of the legs that was going to underpin better sales growth, accelerating sales growth, accelerating like-for-like. I just wonder whether you feel that the promotional activity is resonating as you would like it to with your customers or not or there is still some work to do.

Kieran Balfe – *X5 CFO*

Well Patrick being very honest there will always be some work to do, but let's take the question in pieces and lets go back to last year and what that meant and what have you. Last year was, if there was ever going to be a revolutionary year in X5s history it was last year because we were basically doing several things simultaneously which the Company hadn't done before. I guess when we looked at the total number of stores at the central and north-west regions and the total number in the country by the end of 2010, it was about 1,800 and when we look at it this year, by the end of Q1 it was already over 3,000 and by the end of this year it will be closer to 4,000.

What was happening was very simple that in the space of a very short period of time, basically 24 months we were doubling the size of the operation in X5, and the biggest part of that fell on 2011 where in one year we put out about 1,200 stores, over 600 of those coming through with an acquisition which was integrated within nine months which is an exceptional performance by any standards and we then put another 550 stores on that, so we were doing somewhere around 3 stores a day, four stores a day depending on the day you were looking at it. We were opening those stores, and so that was a rapid expansion which to that point hadn't been achieved in Russia by anyone. That did cause certain issues with the promo last year, and certainly by the time we had hit Q3 we had some issues. I think as we have gone into this year, what I could confirm is that the promo has become much more normalised, the plans are much more regular and there promo was set that the beginning of this year, we followed those promo plans very well, because of our increased size and what have you have received extreme, or exceptional support from our food suppliers, and so from that point of view, I think this year the promo has just worked much more smoothly than it did with the huge step up in change in terms of size that we had last year.

In terms of is there room for improvement or what do we expect or what have you, there is of course always room for improvement. Promo is really an opportunity for a supplier to showcase his or her goods and it should be neutral from a P&L point of view if done properly. I think we need to continue to ensure that the promos we do are relevant to the consumer and that they are self-financing and I think there is always more work to be done in those areas. It never really ends, because promo will, although everyday low prices is obviously very much a part of the DNA of something like our discounters, promo becomes that added benefit which you need to deliver to the consumer in order to continue to drive footfall.

I guess in summary I am happy with the promo activity for this year, much smoother than last year but there is always more work to do and that is just to make sure it is more relevant to the consumer and that it becomes always, or that it remains cost neutral for us.

Patrick Shields – *Wood & Co*
One of the things that you highlighted in the second quarter was that there was some inventory clear up going on obviously as you're addressing the issues around assortment. Was that still a feature in the second quarter or are you through that process?

Kieran Balfe – *X5 CFO*
Inventory clear up is going to be and remains a part of the issue in Russia for probably pretty much all retailers. I would say we have made some improvement in that area over the course of the year, but it remains and why is that the case? The assortment rotation changes over time, there are new suppliers entering the marketplace, stuff is being delisted, new stuff is being listed, all that kind of stuff, and inevitably when you get into that kind of situation you end up with a situation where you have to manage your matrix and stuff falls out of the matrix, probably quicker than it would in some place like Ireland or the UK. That said I don't think it has had any real negative impact on our results this year. We're well within the kinds of norms that we had expected. I can think with the investment in IT that we have completed over the last couple of years, putting in SAP, we have much greater visibility on where the issues are, and we can get to it much faster than we would have been able to, say 18 months ago. I think it is going to remain as part of the DNA of all retailers until the marketplace becomes more mature in Russia. I think that is the way I would see it.

Patrick Shields – *Wood & Co*

Maybe you could just elaborate a little bit on where you are, or where you think you are in terms of that assortment matrix. Obviously this is something that you have highlighted as being an important platform for the operating improvement that you hope to bring through, particularly in Pyaterochka, I just wonder where you feel you are. Obviously one of the key areas that you have been focusing on, or ongoing work is supply chain relationships, renegotiation, clearly those are being done in parallel or they're linked, how far down that work or down that path have you got.

Kieran Balfe – *X5 CFO*

I guess if I was to look at it from a discounter point of view I mean probably one of the areas where it is no secret we have focused a great deal over the last 18 months and we will continue to focus is on the whole areas of fresh and particularly fruit and vegetables. I think during our last call we had talked about the logistics and how that works in relation to the importation directly of goods from overseas. I think I had probably indicated at that time that this was, although it is relatively pretty much in its infancy at this point, with something that we were focusing more and more on, partly to improve profitability over time, but perhaps equally as importantly to improve the offering to our consumers because fruit and veg not only is something that people come to your stores to buy, but when they come and buy that stuff they tend to buy lots of other things as well.

I guess in terms of the assortment, probably the biggest thing for us in terms of the discounters would be the fruit and veg and we continue to make great strides in that area and I think that is very visible during the store visits and what have you.

In terms of the other assortment matrices and what have you, I think at this stage we have pretty much decides how many SKUs we need and in what areas, but we're in the start of the negotiation period typically around this time of year with our main suppliers and of course it is always a question of what makes sense for the consumer and how well the supplier is willing to meet that. The consumers need to continue to change on a quarterly basis, annual basis and what have you. The game we're in is basically going back to our suppliers and saying you need to help us to meet those consumer needs in a better way than you have in the past. We are working very closely with our suppliers to do that, but in the end of the day that causes a certain amount of assortment churn and that is something that we have to deal with, because the consumer desires that and we have to be there ultimately in the long term for the consumer.

In terms of the supply chain and what have you, I think what we said was that we have about 28 DCs at this stage and I think what we had said on the road show and earlier in the call was that we planned to reduce the number of DCs over time, and this would take two to three years to actually do, and we will build DCs where necessary and lease them where necessary. One thing we will insist on is to have a very strong IT platform governing all of our replenishment and that is the JDA software I had referred to earlier which is built on the back of an SAP backbone. I would say in terms of SAP going in we're finished that piece and the JDA software is due to be implemented fully by the end of July next year. In terms of the IT part of it I would expect it to be fully live by then and in terms of the rollout of the DCs I would expect us to do any construction we need to do over the next two to three years.

Patrick Shields – *Wood & Co*
In other words, apart from the normal assortment innovation that any good grocer is going to do, in terms of what you need to get yourselves to a point where you're happy about the competitive flexibility you have got in terms of the assortment and value offer, what is in the assortment, we're looking at still two or three quarters more work to be done.

Kieran Balfe – *X5 CFO*
What can I say, the assortment matrix itself will be a derivative of consumer's needs, and I think one of the things which folks in general underestimate, especially folks who don't live here day to day is the speed at which consumers' needs change. I would say at this point, I am an Irish national and I would firmly say that consumers in this part of the world are a lot more fussy than they are back in Ireland and probably in most of Europe. The reality is that retail is an industry where there wasn't a retail industry 15 years ago and now suddenly we have modern retail occupying 40-45% of the space in the universe. This retail continues to evolve very rapidly in Russia, and I think it is important to say if you're going to build your formats around responding to consumer needs, then you're going to have to accept that the assortment churn that takes place as a result of that; that is very likely going to be higher than in the UK, France, Germany and what you, and we will continue to deal and we will continue to deal with that level of churn because the most important thing for us is to be close to the consumer and satisfy his or her needs. That is what will happen.

In terms of when does that end, I guess that is the question you're asking, is that one quarter, two quarters, three quarters, I would say it is an ongoing process, and as the industry begins to mature more, you will see less and less churn on the assortment, but it will still be at rates higher than what you would be used to in other parts of Europe, I think for the foreseeable future, and not just in X5, but I think across most retailers.

Patrick Shields – *Wood & Co*
I think most people have faith that you're doing the right things to try and address these issues. It is just it is clear both from the historic performance hitherto and if we look around at your competitors in the market there are other people that appear to be doing it better than you. It is just trying to get a sense of when you think you're going to be on a kind of, the right operational level to be competitive in the market. At the moment you have got a very competitive market and you're having to deal with some operational issues that are specific challenges to X5 in its current state. It is just trying to understand how far down that process you are. I think you have answered that part.

Yulia Gerasimova – *Goldman Sachs*
Good afternoon, just a follow up on your new sales guidance. You said you're expecting 7-9%, I mean 9% looks reasonable, given like assuming that the trend we saw in the second and third quarter with 10% sales growth will remain stable and will continue in the fourth quarter, but if I am plugging in 7% for the full year, this means that you're kind of assuming that it could be just 4% growth in the fourth quarter. Is this something that you think really is possible and it means that you believe that like-for-like can worsen in the fourth quarter and lead to a slowdown of sales growth in the fourth quarter, or why did you say that it could be 7% then. That is my question, thank you.

Kieran Balfe – *X5 CFO*
I think in essence it is probably down to a couple of things. one, we have grown for the first nine months of this year at just north of 8%, so what I am saying is that somewhere between 7 and 9 is very likely where we're going to come out at the end of the year. If you look at the kind of 10% or double digit growth rates that we have had in Q2, Q3 and for the first couple of weeks in Q4 that would tend to lead to that conclusion as well if you project that forward. I have also looked at the seasonality and what have you of what goes on in our business here and I think if you look at Q4 versus Q3 last year you will see about a 17.5% increase quarter-on-quarter. If you plug those numbers into the model you will see that we grow in and around the 7-9% range as well. We're kind of looking at this from different angles, I don't want to try pin it down further than that

because I think it probably it wouldn’t be right to. I think there is enough evidence there at this stage to say that 7-9 is probably a prudent estimate.

Yulia Gerasimova – *Goldman Sachs*

Understood, just one final on margins, I just wanted to clarify Kieran you said that you will update us with a guidance in November, but you also mentioned like in the third quarter you saw some pressure on the margins. I can understand it would be seasonally driven because there is always a season slowdown in the margins on the profitability side in the third quarter. I just wanted to ask you, in your view what can prevent X5 from achieving your current guidance which is about 7%, do you think it is something which can prevent you or you're at this point like having information that you have on hand, you are fine with the current guidance on margin.

Kieran Balfe – *X5 CFO*

I can't and I won't comment on the full year guidance. I think I would just reiterate what I have said earlier, which is if you look back at Q3 last year, we just did north of 6%. The behaviour in the sales in Q3 this year versus Q2 this year is almost identical to the behaviour in the sales last year, i.e. we dropped about 6% quarter-on-quarter, and so you can kind of draw your own conclusions form that in terms of where the EBITDA might or might not go, in Q3. Then Q4, the difficult thing with Q4 and this applies to all retailers in Russia and probably around the world is that Q4 has a disproportionate effect on the overall results for the year. We have seen a fair amount of volatility in our results over the last year or thereabouts, starting Q3 last year and into Q3 this year. This has been commented on quite a bit, so Q4 has a disproportionate effect and obviously it has to go off smoothly for us to go where we want to go and it Is never very clear because there is various variables that can influence that, not only just internally to the company but we’re operating against a macro environment which by definition is not within our control.

At this stage I would be comfortable saying look we will update you in November in terms of the EBITDA for the quarter and our feeling for where it is coming out for the year, but I think it would be premature to do that at this stage.

[No further questions]

Gregory Madick – *X5 Executive IR Director*

Thank you for joining us today. We look forward to updating you on our future results on subsequent calls, thanks.