

**X5 Retail Group N.V.**  
**2020 CMD held on 27 October 2020**  
**Edited transcript**

**Speakers:**

- Igor Shekhterman, CEO
- Vladimir Salakhutdinov, Director of Strategy
- Svetlana Demyashkevich, CFO
- Sergey Goncharov, General Director of Pyaterochka
- Vladislav Kurbatov, General Director of Perekrestok
- Leonid Dovladbegyan, Director of Perekrestok Vprok
- Vitaly Dyrdasov, Director of 5Post
- Vladimir Kholyaznikov, X5 FoodTech Director

*Natalia Zagvozdina:*

Ladies and gentlemen,

On behalf of X5 Retail Group, I would like to welcome you to the annual Investor Day, which X5 is holding online for the first time.

Looking back at the past 12 challenging months, the Company has much to be proud of, and we also have new strategic plans to share with you today.

At X5, we view challenges as new opportunities. And the COVID-19 pandemic was, of course, such a challenge. However, it is the online format of this event that made it possible to invite a lot more investors than usual this time. As you know, over the last two years, since we listed X5 depositary receipts on the Moscow Exchange, tens of thousands of domestic retail investors have joined our investor pool, and more than 700 participants are registered at this event.

Ladies and gentlemen, please take note of the disclaimer on the screen.

We are sharing with you today both the management presentations and short videos to sustain the interest of such a wide audience. We intend to spend about three hours with you, and we will split the event into two parts, with a 30-minute Q&A session at the end of each. I will facilitate those Q&A sessions together with my IR colleague, Andrey Vasin.

In the first part we will cover the new strategy and discuss the financial results published yesterday, and in the second part, the heads of our formats and new businesses will speak about the things we do that are propelling us forward into a new-generation retailer. You can submit your questions via the webinar interface, and as much as possible limit yourselves to two questions per person, since we have such a big audience.

*Igor Shekhterman:*

Good afternoon, ladies and gentlemen, colleagues. Thanks for joining us at our traditional Capital Markets Day. This is the first time we have had to hold it online. I hope next year we will be able to meet in person, which, I have to admit, is more to my liking.

An essential part of our meeting will be the presentation of our new 2023 Strategy.

We will discuss the results of the new concepts of Pyaterochka and Perekrestok, which we presented to you a year ago, as well as our digital businesses: Perekrestok Vprok, express delivery, 5Post.

Let me introduce our speakers' team in the studio:

- Vladimir Salakhutdinov, Director of Strategy
- Svetlana Demyashkevich, CFO
- Sergey Goncharov, General Director of Pyaterochka
- Leonid Dovladbegyan, Director of Perekrestok Vprok
- Vitaly Dyrdasov, 5Post Director

Vladislav Kurbatov, General Director of Perekrestok, and Vladimir Kholyaznikov, X5 FoodTech Director, are joining us online.

Two years ago in London we presented the Company's development strategy for 2018–2020. There is a good saying: "Respect the past, but create the future." We have a lot to respect and to be proud of, so I would like to sum up what has been done.

The focus of the 2018–2020 strategy had three components: strengthening the existing business, digital transformation and building the basis for a new generation of retail. I will cover the key achievements in each of the three areas.

In strengthening the core business, we managed

- to keep the EBITDA margin above 7% throughout the period.
- 9M profitability was 7.8%.
- Strengthening the core business was also driven by higher operational efficiency, including a 69 bp shrinkage reduction over the last two years.
- We managed to significantly improve key personnel turnover, which dropped to 40% in 2020 against 69% in 2018; this led to higher LFL and NPS figures.
- LFL grew largely on the back of the deployment of new formats. Sergey and Vlad will talk about that in more detail.
- Our stronger customer focus is reflected in NPS growth: we have surpassed our main federal competitors – the new Pyaterochka format's NPS rose by 50% to 53%.
- We are successfully implementing a private-label programme (the share of private labels for X5 grew to 17%; at Pyaterochka, to 18%; at Perekrestok, to 14.5%).
- We continue the transformation of the Karusel hypermarket format; we are following market trends and developing digital services and online businesses.

We have achieved a lot in the digital transformation of our business:

- We developed and automated decision-making algorithms for key processes in pricing, assortment management and demand forecasting (this year the EBITDA effect will be RUB 6.7 billion).

- X5.ID was launched, which will improve the whole customer journey and provide access to customer data for all X5 businesses and platforms, regardless of which X5 business initiated the customer interaction.
- When the entire digital transformation programme is implemented, we expect the total EBITDA effect to exceed RUB 20 billion per year starting from 2021.
- We created an innovation centre that has become a benchmark for the industry: 32 pilot-based solutions have already been implemented. For example, we developed our own self-service cash registers, which save about RUB 200,000 per unit compared to the average market prices for comparable equipment sets, and more than 3,500 self-service cash registers were installed in 1,186 X5 stores. The total capex savings this year alone will exceed RUB 900 million.

We successfully implemented the first stage of our new-generation retail development programme:

- In April 2020, for the first time we became the leader of the domestic e-grocery market. This was driven by the successful development of the Perekrestok Vprok online hypermarket and the explosive development of express delivery.
- In October we delivered 20,000 orders per day via express delivery. In 2021 Perekrestok Vprok will reach positive EBITDA.
- Our logistics platform 5Post – a parcel delivery service – has more than 14,000 pick-up points in our stores and handles over 700,000 parcels per month.
- This attracts customers to our stores, and it is in line with our concept that a store is a hub where a guest can get the maximum number of services. And, of course, it creates additional traffic.

This year put us all in a new reality, and I can't but dwell on the pandemic.

I am grateful to our team, which has faced all the challenges of this period with dignity. I am especially thankful to our sales associates, drivers and distribution centre staff, to all those who cannot work remotely because of the nature of their work, and who are every single day exposed to the risk of getting sick.

Since the very onset of the pandemic, all our systems have been working smoothly. When the lockdown was imposed in Moscow at the end of March, we were among the first large companies to transfer 90% of our office staff to a home-office mode; this was made possible by our digital transformation. At the moment 95% of our Moscow office staff are working remotely.

During the lockdown, a large number of new customers came to our stores. People's mobility was restricted, and this made proximity stores the first and sometimes the only choice. We maintain a strong focus on the safety of our employees and guests.

During the pandemic, digital services grew explosively. We quickly scaled up the express delivery service and enabled contactless purchases during these hard times. Now, during COVID-19's second wave, Pyaterochka and Perekrestok are helping customers to receive groceries safely

from the comfort of their homes through the express delivery service in Moscow, St Petersburg, Kazan, Krasnodar, Rostov-on-Don, Nizhny Novgorod, Ekaterinburg and Voronezh. Just the other day we launched it in Novosibirsk.

The pandemic is a crisis, but it is also a new development opportunity for the companies that are quickly adapting to new realities. Companies that have built the infrastructure for the development of online services are well positioned to accelerate growth, and in our case, to strengthen leadership.

As to our strategy, designing the strategy for the next three years, we certainly analysed consumer trends. The scale and pace of change over the past five years have created a completely different competitive environment and are quickly forging a new type of consumer with higher expectations. We can no longer say that food retail has separate online and offline segments. Neither can we say that there are separate markets for food retail and catering. All this is becoming a single food market.

Consumer behaviour is changing before our eyes. I would like to show you a short video with key consumer trends that we incorporated in our new strategy.

(Consumer trends video)

*Igor Shekhterman:*

Where did we start with our new strategy? We looked at the entire customer journey, which more and more often begins in the digital environment long before the customer comes to our store. And if we are to have more customers at our stores, it's vital that we are at the very beginning of that journey. It's important to be with customers before they even show up in our stores.

Nowadays, more than 64% of consumers decide to buy already at the planning and selection stages, which start digitally. Digital resources are still at a very early stage and are probing ways to connect directly with retailers. But these resources – aggregators and price comparison services – at the selection stage determine the customer's further journey. Only after the choice is made does a purchase take place at a store. And so far, this is the only step of the client journey within X5's control. But even today we are already competing not only with food retailers but also with restaurants and cafes, as well as delivery services. After buying and receiving food, the client journey is not over. Our digital competitors offer the customer related services – for example, payment services or subscription services that generate new purchases.

The presence of X5 at most stages of the customer journey represents a strategic opportunity that our new strategy will help us to tap into.

In the next three years our main focus will be on strengthening our business in the food market. We will expand our presence in all segments. Our strategy leverages our competitive advantages as the country's largest food retailer, such as our strong purchasing power and millions of loyal customers. It is important for us to create digital infrastructure for our customers to be present at

all stages of the customer's journey in food. And this will be our advantage, both in competing with traditional retailers and with new ecosystem players.

Technological leadership is becoming the most powerful driver for us and part of our competitive edge. The growth strategy of our core business is largely related to digital transformation. Eighty per cent of our investments in digitalisation are channelled to the automation of our core business processes.

We understand that achieving our goals is impossible without transforming our culture. In a fast-changing business environment, the key success factors are speed, the ability to delegate and to make decisions in a high-uncertainty environment, and to build partnerships. Our new management model will focus on efficiency and decision-making speed.

The new strategy will allow us to maintain our leadership position. The 2023 strategy will define the Company's development for the next three years, but we are convinced that during these years we will lay the foundation for X5's development for the next five to ten years.

Our main goal is to create value for shareholders and the larger society by advancing and evolving our technology and competitive strategies and to remain the top choice in the food market. And the new strategy offers all the necessary tools to achieve this goal.

The implementation of Strategy 2023 will secure X5's presence at all stages of the client journey and build the necessary competencies in media, finance and e-commerce. We will create full-fledged services that cover most essential human needs. We can build these new businesses either by ourselves or through partnerships.

A presence at all stages of the customer journey will let us strengthen our core business, attract more guests and provide them with a full range of services.

The key priorities in achieving our new strategic goals are:

- Leadership in the food market. We will focus on three key areas: leadership in key client missions, best client experience and services at all stages of the customer journey. By 2023, our share in the food retail market should be at least 15%, up from 11.5% in 2019; and in the e-grocery market, we plan to increase our share to 20% by 2023.
- The second priority is to secure technological leadership. Our goal is to achieve industry leadership in digitalisation through the best mobile interfaces in the retail market, as well as end-to-end digital services.
- Internal processes at the store level and supply chain management:
  - By 2023 the share of digital businesses in X5 revenue should be at least 5%, and 20% by 2030;
  - The total MAU of digital channels and mobile applications by 2023 should reach 38 million users – this will be a critical mass of users for completing our transformation into a digital company; currently, X5's MAU is 12 million.

We are well aware of how important sustainable development and social responsibility are for society and investors today. For the first time, measurable sustainable development goals have become an essential part of our strategy. One of the indicators for the new LTI programme we are starting next year will be ESG-related KPIs. All the parameters of the new LTI programme will be announced next March, after the final approval by the Supervisory Board.

And last but not least, another priority is to create value for shareholders through increased earnings per share. We will do our best to boost shareholder value through effective management and use of development opportunities, and maintaining high dividend payouts.

And now Vladimir Salakhutdinov, Director of Strategy, will speak about the main features of our strategy in more detail.

*Vladimir Salakhutdinov:*

Ladies and gentlemen, colleagues! Good afternoon. I will outline a few key priorities that Igor spoke about.

Let's start with the first priority, leadership in the food market. This consists of three main components: the first is leadership in key client missions, and here we really aim to strengthen our position, our leadership in all key client missions in food retail. Most of the initiatives here are related to the development of our formats' CVPs, and we have an absolutely clear plan of initiatives for the next few years, which allows us to make very solid progress in this area.

This includes the development of new concepts, the development of the assortment, including the private-label programme, and the development of ready-to-eat food. I will describe this in more detail. Of course, the central element here is introducing digital solutions and, above all, AI-based automated decision-making, in particular commercial decisions on pricing, assortment, promo management.

We have already started these projects and we see a great return on investment, and they significantly improve our offering to the customer.

But that's not all, colleagues. In the same block we will present a new format, which we will also talk about a little later today, a new format of hard discounter stores. I will cover the details later.

Another priority within our leadership in the food market is achieving a better customer experience. In fact, in the last year or so, we have created quite an effective feedback collection platform. Now we already receive information about the wishes, preferences and experiences of our clients from more than 15 different channels. This gives us a unique chance to look at our business through the eyes of our customers, which means building all our solutions, processes and projects based primarily on our clients' interests. In fact, this is not just the use of new information in our solutions. It's a change of model and partially even the culture of our business; this is why we call it CX transformation (an acronym for customer experience). It does not matter in which channel the customer gets a service, whether it is a remote digital channel or a brick-

and-mortar store, we're aiming for the customer experience in X5 stores and in digital channels to be the best-in-class.

Another important development is that the information we have enables us to deal with promos in a very different way. Now we know for most of our customers what exactly we need to offer them.

This enables us to shift away from mass promo and to start moving towards personalised promo, which we actually also do at the next physical horizon.

And the third important priority in the food market leadership block is the infrastructure around the client journey. Igor spoke about this in detail. I will not cover it now, but there will be a separate slide, and I will elaborate on it a little more there.

Here I would like to present some key points that form the vision of what X5 will be like on the next strategic horizon.

First of all, the structure of our formats. We have three brick-and-mortar formats and one digital. You know Pyaterochka and Perekrestok; you are also familiar with one digital format, Perekrestok online, that we have renamed Perekrestok Vprok. And here we are unveiling a new format, the hard discounter, and today we are announcing its name for the first time – Chizhik. I will tell you more about it later.

Importantly, we already have a significant position in the digital world: our express delivery services. In fact we now have three: direct delivery from Pyaterochka and Perekrestok as part of these chains' CVPs, as well as the Okolo aggregator, which will include not only our own formats but also those of other players and suppliers, including restaurants, QSRs and adjacent store segments, such as drogerie and many others. I will give more colour on that when we discuss the architecture of our businesses.

Now with regard to our CVP, I would like to present the target picture that we want to achieve by 2023. It is this distribution of our three retail formats' CVPs by main features that maximises our coverage of various client groups and allows us to capture maximum market share.

For each format there is a specific set of initiatives, which are clearly scheduled for the very near future and which bring us to this state. We believe that such a mix of formats provides the best diversification, a clear understanding for our customers of which offering belongs to which format, and, once again, it will maximise our success and our market share.

As I said before, big data analytics is starting to play an essential role in all our initiatives, and I would like to show a short video on how we leverage big data to strengthen the CVPs and develop our chains.

(Big data video)

*Vladimir Salakhutdinov:*

Colleagues, it is important, as you have seen, that many of the analytics services that we use are also available to our partners and suppliers, which of course creates one of our competitive advantages.

And now, ladies and gentlemen, I would like to introduce for the very first time our new brand, Chizhik hard discounter stores, which we will start opening this week. The first store will open on Thursday, the day after tomorrow, at 11a Dolgoprudnaya Street. Everyone is welcome to see it.

We will open only a few pilot stores this year, and next year we are planning to open up to 40–50 stores as the first stage, and we will start to develop this format on a larger scale.

And why Chizhik? Actually, we were thinking about what our new store and our new brand should be like. This really matters because we are creating it for our customers, so it should be friendly, positive, and it should evoke positive emotions. Chizhik is a bird that is fast and very friendly, and Ch-i-Zh is also an acronym for the words “black” and “yellow” in Russian, and those are the colours of the store’s format that we would like to introduce. Please remember this name. I think very soon it will become as well known as Pyaterochka and Perekrestok.

And now over to the store itself. It is a hard discounter with quite a limited total assortment of up to 800 SKUs. In the target model private labels are expected to come to 60% of the assortment. That will not be the case from the very start, but medium-term we will get to these figures. These are quite small stores with a sales floor of 200–250 square metres. Due to the effectiveness and a completely different approach to the assortment, more efficient logistics processes and management model, these stores will offer a completely different price level.

Talking about what was at the heart of this store format: we took the best from what we consider to be the classic models of hard discounters operating abroad, and we added all the latest technological advances that we have in X5, designed this format and are absolutely convinced that it will get a very meaningful position in the retail market. Once again, the key advantage of this store will be the price. We are inviting everyone to come and check it out.

And another significant point that I have already made, but would like to highlight again – what we see now as a serious recent trend which will continue – is extremely rapid growth in the ready-to-eat segment, and we certainly cannot ignore this trend. Moreover, we are absolutely convinced that this is exactly what our customers need. That is why our new strategy implies a very large shift, a leap, if you will, in the development of ready-to-eat food sales.

Our current ambition is for Pyaterochka to get around 4% and for Perekrestok above 8% of their total turnover from ready-to-eat food. This is a really ambitious task, and we know how to tackle it. As you know, we have our own production capacity, and besides we’re already lining up and running negotiations with various partners to accommodate this fast-growing need.

Now I would like to speak in more detail about the customer journey. Both Igor and I spoke about it before: we are going to be present at all the stages of the customer journey. Indeed, the customer journey starts long before a customer enters the store. We said that more than 60% of customers already know what they want to buy long before they enter the store. And the answer to the question of where exactly they made a decision brought us to the business architecture that we are presenting in this slide.

This is what X5's architecture will look like. What does it consist of? First of all, we are addressing the start of the customer journey, which nowadays often takes place in digital media. Social media channels, other information, food-related websites, blogs, information, podcasts: all of these forge our customers' preferences. So, we have to be there next to our customer at the start of their journey. This is why we will have our own media platform with a set of information and entertainment resources about food and everything around it. This will be the most important stage at the start, where we will set up relations with our customers, but that's not all.

We know that apart from the planning itself the customer faces the choice of where exactly a particular need should be satisfied. One such selection tool available in the market is aggregators. An aggregator is not just an app for buying; it is also a selection tool, and the same is true for price comparison services. We understand how it works, and we decided that we are going to build an aggregator of our own, Okolo, as well as a price comparison service of our own. Okolo is the brand we announced before.

We were asked whether it means that we are starting to compete against other aggregators in the market that you are familiar with, our digital competitors' aggregators. And the answer is both yes and no. On the one hand, definitely just like them we will offer various services, including our own formats', as well as other services, including quick-service restaurants, drogerie, as well as products and services from other vendors. But the difference is that we are not aiming to maximise our profit from the aggregator itself. This is a tool to attract traffic to our core business; this is why our task is for our customers to get maximum choice while staying within the X5 perimeter. We will do this with the Okolo aggregator, which we have already announced, but we will launch the full application in mid-November. You will see it soon, and we have high hopes for it.

I would also like to say a few words about Perekrestok Vprok. Today it is essentially an online hypermarket with a gradual expansion of the non-food category. We understand that in order to compete successfully inside Perekrestok Vprok we have to cover adjacent needs. What does this mean for us?

Essentially, this means that Perekrestok Vprok is evolving on the next strategic horizon into an FMCG marketplace, and Leonid Dovladbegyan will tell you a bit more about this today. This is quite an important step, which brings a completely different scale and different horizons to this business segment.

This also means that we still continue to focus on our core business – we talked about this. I'll say it again: everything within the orange box on a slide is the “why” for building this infrastructure. We are maximising the attraction of clients in our core business, and this is our main objective at all stages of the client journey.

What else is important here? We will have a portfolio of different businesses, each of them communicating with the client, and our task is to make sure that these communications do not start from scratch every time. We need a single approach and a single login, if you will, for all our services. So, we are creating a single platform called X5 ID. On the one hand, this is a single authorisation centre for all our applications and customer records; on the other hand, an opportunity for us to offer different services in different channels and, in fact, to unite all customers in different X5 services into a single whole.

In particular, this will result in the creation of a subscription service, which we are planning to launch next year.

And last but not least, it is important for us here that the buyer remains within our service loop as much as possible. Any purchase involves payment one way or another, so creating a payment service within X5's infrastructure is also one of the tasks that we set for ourselves on the next strategic horizon.

Next, I would like to move on to the second important priority that Igor identified: this is leadership in digital transformation. In fact, digital transformation is really the key factor for success on the next strategic horizon, and it's not just about technologies that provide us with additional opportunities.

There is another very important aspect to this. The retail industry is rapidly transitioning to digitalisation. Generally, at the time of digitalisation, an industry gets more competitive, the entry barriers get lower, and the question arises as to how effective the incumbent players remain.

For us, the key aspect is to improve our internal efficiency, and digital transformation allows us to significantly change our internal processes. Igor spoke about this, but once again, we expect an effect of RUB 20 billion on our EBITDA by 2023 due to our transformation initiatives, so this will allow us to run a large-scale investment programme and nevertheless maintain the same levels of profitability and fulfil our promises to shareholders.

Here I would rather not talk about our projects in detail but let you watch a video about the things we are doing.

(Digital transformation video)

*Vladimir Salakhutdinov:*

In this slide you can see the digital maturity index, or digitalisation index, which is 50%. This is very important, and I will explain later what this means. It is very important, but before I do, I would like to highlight another important aspect.

Of course, digital transformation also affects the way we communicate with our customers. And here I would like to present what we are going to be like in the mobile sphere in the next three years. Our four formats will have their own applications with additional services, including delivery services. And separately the Okolo aggregator, which we will announce in more detail in the near future, will have its own app.

And finally, the digital maturity index. This is very important because, undertaking a digital transformation, we are definitely facing the task of setting goals. By now we have learned to quantify the degree of digitalisation for each business, each function, with our unique methodology. And what is important is that we can set measurable goals for ourselves, and at present digitalisation goals are part of X5's management KPIs. We want to be at 50%, while we are at 39% now. Improving this index ensures the very RUB 20 billion effect on EBITDA we expect to have according to our strategy.

Dear colleagues, ladies and gentlemen, these were two key priorities, but there is definitely another one, which is about the community, sustainable development, and I would like to ask Igor to tell you more about it.

*Igor Shekhterman:*

Thank you, Vladimir.

In December 2019, X5's Supervisory Board approved an ESG long-term sustainable development strategy and specific goals that are set until 2023 and included in the new X5 strategy.

I would like to underscore that the ESG programmes and required investments are integrated into the strategic programmes of our business development.

We would like to show you a video that reflects the progress made over the past year in key areas of sustainable development.

(ESG video)

*Igor Shekhterman:*

And now over to our Chief Financial Officer, Svetlana Demyashkevich. Svetlana will speak about our financial results and our forecasts.

*Svetlana Demyashkevich:*

You know, as I was listening to you I was recalling our investor day in London last year – a warm evening, a delicious dinner. Unfortunately, we will not have any of this today, but I really want you to somehow feel our warmth, our drive, our energy, which is also reflected in our new strategy.

I will start my presentation with a brief overview of the market we operate in. The Russian grocery retail market still has significant growth and consolidation potential, especially for major players like X5.

We expect that in 2020 the turnover of Russian food retail will be RUB 16.7 trillion. X5 is and will remain the largest food retailer in Russia by revenue. And according to the latest data – and this was a surprise for us – our 9M market share came to 13%, up from 11.5% at the start of the year. That is, we have already grown by 1.5 percentage points and are planning to maintain this market share.

The market remains highly fragmented, and the top five players account for 29% of the market, and the top 10 for only 33%, so we certainly see great opportunities for further consolidation, in which we are going to lead. Now we see that 50%–60% of our store openings are replacements of inefficient small retailers. In addition to moderate growth in our main offline market, we are also actively participating in the online market, which in 2020 will amount to RUB 145 billion, up from RUB 43 billion in 2019.

Since April 2020, X5 has been a leader in this online segment, showing 320% year-on-year growth in total online sales, which is 260 times faster than the growth rate of the offline market. Further, I will share our views on the development of market segments.

We expect the convenience format to continue its victorious progress; we expect the supermarket format to continue its development, while the hypermarket segment will be further reduced. We expect quite rapid development on the part of hard discounters, and as Vladimir said today we will also actively develop this format, and we will launch pilot stores this year.

We also understand that the penetration of modern retail will increase, and by 2023 we will reach penetration on a par with developed European countries, above 80%.

We expect the offline food retail market to grow by approximately 20% by 2023.

As to online food retail, we expect it to grow more than fourfold by 2023 to RUB 600 billion in 2023.

Meanwhile, express delivery will grow rapidly, and it will have a leading position alongside online hypermarkets.

Now I will briefly focus on the main macro trends. Clearly, after 25 years of operating in Russia, we do not rely on macro to help us. The main thing is that it should not prevent us from working better. I believe, from where we are now, 2020 and 2021 look positive enough based on the scenarios we saw in April and May.

We understand that the fluctuations in the dollar rate do not affect us much, as we have a structural hedge – both our revenue and financing are 100% rouble-denominated. We understand that current food inflation is now 3%–4%, which is positive for us. It gives us flexibility in pricing, but it does not put excessive pressure on consumer incomes.

Unfortunately, of course, we have seen a slight decline in disposable income of 1.5% in 2020, while we expect a recovery next year.

There are also optimistic data. For example, according to surveys of the largest Russian companies, nominal salaries are to increase by about 7%, and we expect the wage increase for employees of the largest companies to continue in 2021 as well.

As to projections for 2021, of course, a lot will depend on further trends related to COVID and the inflow to food retail from HoReCa. Clearly, there are certain risks of stagnation, but our base case scenario is that the market will grow in line with the rate of food inflation, i.e., about 3%–4%.

Before going on to discuss our 9M results, I would like to show you a slide that we're really very proud of, because total shareholder return and its dynamics is one of the key indicators that our team is constantly monitoring, and we believe that a return of 91% in dollar terms, including two dividend payouts over two years, is a strong result above both the Russian consumer stock market and the Russian equities market as a whole. I think this is really impressive, and I thank you for helping us achieve these results.

Most importantly, we believe this trend is sustainable with the implementation of our 2023 strategy, and we are confident that we will be able to demonstrate comparable dynamics in total shareholder returns.

I will now move on to an overview of our key results for the first nine months of 2020:

- The Company's revenue grew by 14.6%, driven by both a 10% sales space expansion and 5%–6% LFL sales growth. In Q3, LFL sales growth was even higher at 6.9%, and at Pyaterochka proximity stores, LFL sales grew 8.5%, which is one of the best results in our history.
- 9M gross margin increased by 14 bp year-on-year to 24.9% due to lower shrinkage, improved logistics and commercial terms, optimisation of promos.
- 9M EBITDA totalled RUB 112.5 billion, a 20% year-on-year increase.
- EBITDA margin was up 35 bp year-on-year to almost 8%, driven by a higher gross margin and a lower cost share as a percentage of revenue.
- We expect that our efficiency improvement projects aimed at further automation and digitalisation of various business processes will enable us to increase X5 EBITDA. Vladimir and Igor spoke about the total effect of the digital transformation, and I can tell you that in 2020 alone we are already getting an effect of RUB 10 billion. The main projects are the ones within our commercial department, such as pricing, assortment, promo and freshness. All of them drove market capitalisation, which increased 45% year-on-year. As I said before, this figure is to increase.

And now a few slides which will, hopefully, give you more comfort concerning how we will continue to make money and sustain our margins and returns on investment.

In this slide I want to show you the evolution of our revenue split. As you can see, the share of our most profitable format, Pyaterochka proximity stores, is increasing while the share of the least profitable format, hypermarkets, is shrinking, because we decided to transform Karusel

hypermarkets. The new Perekrestok Vprok and 5Post business lines are expected to reach positive EBITDA in 2021.

Now let me tell you about new store openings and the return on investment there.

We still see very positive dynamics: the average return on investment for new stores opening is more than 30%, while the threshold set by X5 is 19%. This applies to both Pyaterochka and Perekrestok, both in Moscow and St Petersburg and beyond. Despite the fact that half of our new stores that opened in 2019–2020 are located within 500 metres of existing stores, we still see positive ROIC dynamics. Why? Because we are able to offset traffic cannibalisation through our process optimisation and higher productivity on the part of our employees. We are increasing sales density in all retail chains and even in stores within 500 metres of each other. This is why the EBITDA break-even time in the renovated stores remained unchanged and is still four to five months for Pyaterochka proximity stores and four to six months for Perekrestok supermarkets.

On the graph you can see an important indicator: the stores in the so-called clinic. We use this term for stores with EBITDA below our expectations, and we take the required action to bring them up to the planned numbers. As you can see, the share of such stores is steadily shrinking, which in fact shows that the quality of our portfolio is consistently rising.

Yet another important point is that we clearly see a positive correlation between our increased market share and the profitability of our business in different regions. As you can see, the regions where our market share is above 10% show significantly higher margins and return on capital, while at present our market share exceeds 25% in only 17% of the municipalities where we are present and where we are constrained by FAS expansion limits. As for large regions and cities, we have reached the anti-monopoly threshold only in St Petersburg and the Leningrad Region, while our market share in Moscow is less than 14%–15%. Thus, we can continue openings in Moscow for many years to come, since usually we increase our market share in Moscow by 1%–1.5% per year in this dynamic market.

Next, I would like to focus on the capex structure in the last nine months. In absolute terms, capex increased by 12% year-on-year, and structurally the main investments are going into the store refurbishment programme: the format renovation programme was launched this year. New store openings amount to 50% of capex: 11% is spent on maintenance and renovation, and just 7% is spent on IT, although as you will see, we are actively investing in big data, digital transformation and our new online businesses.

IT 9M expenses were RUB 4.5 billion: those are investments in 33 digital transformation projects. The return on digital transformation projects currently stands at 143%, which is substantially higher than our standard operational efficiency project returns.

In conclusion, I would like to tell you a bit more about our October numbers, our plans for 2021 and our mid-term plans until 2023 from a financial perspective.

In October, we continue to grow quite rapidly. Revenue growth is 13.8%, and LFL sales growth is 5.5%. Meanwhile, we still see the trading-up effect, i.e. the average check is growing, and most of the growth is driven by the average check.

Our online services are also growing very rapidly. The share of online services is already 0.8% of revenue in 2021.

What do we expect in 2021? Of course, we are now used to living in a very fluid environment, and we are quickly adapting to market realities.

We expect to do openings and renovations at roughly the same pace with a bigger focus on renovations, because we see excellent results from the new concepts of Pyaterochka and Perekrestok.

We are achieving strong margins and ROIC, which we intend to sustain and hopefully even exceed.

As we said before, we are planning to pay quite hefty dividends in 2021 for 2020. As you remember, our dividend payout for last year was RUB 30 billion. Next year we think that we will be able to increase this amount by at least 50%.

As to the medium-term perspective, along with the development of our strategy, we also set financial goals for ourselves for 2021–2023. What's important to us is that, first and foremost, we are very confident that we will continue to grow rapidly, and we see opportunities for this. We expect our growth to be over 10% a year. We are definitely well positioned to sustain and even enhance our margins and return on investment, and we will keep our EBITDA margin above 7%. I would say that the level of anxiety has gone down lately.

In the meantime, we are becoming a digital company. We are investing in new businesses, and we are doing this as you can see in a smart, thought-out, thorough way, without undermining our core performance and with the ability to continue making very good dividend payouts. We will increase our absolute dividend payments in both roubles and dollars, and do so mainly through our operational free cash flow.

I would like to stop my presentation here. Thank you very much for listening to us for so long. Now we are ready to answer your questions.

*Natalia Zagvozdina:*

Thank you very much, Svetlana, Igor and Vladimir. We are now moving on to the Q&A session.

*Natalia Zagvozdina:*

Since we have a lot of participants today, I will be assisted by Andrey Vasin, my IR colleague. Many of you know him very well. I will probably start with the first question, which I think is addressed to Igor. It is on our growth strategy: Please summarise once again the sources of

further business growth in the next three to five years, considering the deceleration in retail space growth, and whether the Group sets itself market share targets and for which year?

*Igor Shekhterman:*

Thank you for the question. We said this already in the presentation, but once again: our target is to have at least 15% market share in Russian food retail by 2023. We believe this goal is achievable. Moreover, we are setting ourselves a target to have at least 20% market share by 2029. How can we achieve that? First of all, through organic growth, through higher sales density at our existing stores. Definitely we can also achieve that through our new business lines that we are launching – for example, express delivery, which is a digital service and also a customer acquisition tool. For example, at Pyaterochka express delivery around 50% of all customers are brand new. Definitely, the Okolo aggregator, which we discussed today, will also become a new traffic driver. Besides, our new parcel service 5Post generates both new and additional traffic for our stores. And as Svetlana said, we are planning to grow by at least 10% per year until 2023.

Long-term we also expect LFL growth and higher sales density thanks to strong dynamics in Pyaterochka's and Perekrestok's new concepts, the results of which will be covered by Vlad and Sergey later. We also expect major opportunities from further sector consolidation, since some inefficient players will be exiting the market.

*Natalia Zagvozdina:*

Thank you, Igor. The next question is for Svetlana. Although you already spoke about dividends, what is a more specific dividend outlook for 2020 given such strong 9M results?

*Svetlana Demyashkevich:*

We see we are overshooting our plans and our budget for the year both in revenue and in EBITDA margin. Right now, our debt/EBITDA ratio is around 1.5x, which is below our typical target. Usually, as you remember, our target debt/EBITDA ratio is between 1.8x and 2x. This is why we definitely have room for paying dividends, and I expect that this amount will be at least 50% than the amount we paid this year for 2019.

*Natalia Zagvozdina:*

Thank you, Svetlana. Vladimir, the next question is to you. Can you assess the impact on the core business of X5 of its own e-commerce operations and your online competitors'?

*Vladimir Salakhutdinov:*

This is a great question. The purpose of building our digital infrastructure is to drive our core business. We see how the external environment is evolving. We see that digital ecosystem players are emerging with a wider range of services and support at all stages of the customer journey. We are now entering the same race. We want to meet our customer at the beginning of the customer journey and offer them all the services adjacent to the food market. For us this means that we can try not only to keep our customers within the X5 loop but also to attract new

ones. The solutions that we discussed today, such as the aggregator and the digital media platform, are about strengthening our core business, and we definitely expect a positive effect from them. Moreover, we already see that the development of digital businesses creates positive dynamics for our core business.

*Andrey Vasin:*

Thank you, Vladimir. The next question is for Igor, and it is about the KPIs. What are the short- and long-term KPIs? We said that we were going to announce the LTI metrics next March, and we announced that ESG would be one of the LTI components. And what about STI? What are the metrics now, and what are we to expect next year?

*Igor Shekhterman:*

Let me start with the LTI programme. Let me remind you about the current programme expiring at the end of this year. We have two main metrics there: multiple leadership and revenue leadership. We also have two triggers there: one is EBITDA and the other is the debt/EBITDA ratio.

I partially touched upon the new LTI programme, which is subject to final approval by the Advisory Board this December. We will be able to tell you more about the LTI parameters next March, but I can tell you that multiple leadership will remain one of the key metrics in the new LTI programme. As I said before, there will also be an ESG metric, plus another indicator, which is currently under discussion and subject to Advisory Board approval this December. We expect the two current triggers to stay: both EBITDA and the debt/EBITDA ratio.

As to the STI for this year, our STI programme has both financial and non-financial metrics. Financial metrics are 50% – for example, our ROE as an important indicator for investors. As to the non-financial indicators, they include NPS, LFL, etc.

*Andrey Vasin:*

Thank you, Igor. Vladimir, the next question is for you, probably. Colleagues are asking you about hard discounters. What do you think about cannibalisation between Chizhik and Pyaterochka, and about the price difference between the two formats.

*Vladimir Salakhutdinov:*

We showed in our presentation a very clear differentiation between a hard discounter format, Chizhik, and our other formats, Pyaterochka and Perekrestok. Hard discounters will have the best price offer. As to cannibalisation, the answer is quite simple. Today a customer shops at five to six stores on average, especially in big cities. So by expanding our presence in different price segments and in different formats, we maximise our customer base. And here we can see that adding the hard discounter format will ensure higher total customer flow and total customer base.

*Andrey Vasin:*

The next question is for you about COVID-19. What have the total additional expenses been for the Company related to COVID-19 year to date, and what do you expect until the end of the year?

*Svetlana Demyashkevich:*

We believe it comes to about RUB 4 billion, primarily spent on facemasks, gloves that we use in our stores, offices and distribution centres. It also includes disinfection and more stringent safety measures that we introduced in March and will continue at least until the end of the year. They have become part of our business models, and it is our priority to ensure the safety of our customers. Speaking of our results for the year, the overall COVID-19 effect has been positive despite the expenses that we incurred.

*Natalia Zagvozdina:*

With the restrictions imposed because of the pandemic, it is clear that Perekrestok and Pyaterochka, with their wide presence, were able to gain a lot of new clients. What are the chances for X5 to keep those clients as loyal customers?

*Igor Shekhterman:*

Let me start and Vladimir will continue. Looking at the numbers, we know that a lot of customers who first joined us in spring through express delivery stayed with us and have become our loyal customers. They like the CVP of our existing formats, and they enjoy the new concepts of Pyaterochka and Perekrestok stores. Our main task is to retain them within our loop. As to our strategy, I am sure that implementing it will enable maximum monetisation as well as providing services that are relevant for our customers.

*Vladimir Salakhutdinov:*

In essence Igor has answered the question. Our delivery service has a unique retention rate of 80%: most of those who have used the service have remained our loyal customers because it is convenient, and an absolute majority of those who started buying with us during the lockdown stayed on with us, and we can see this from our numbers.

*Natalia Zagvozdina:*

Svetlana, we have two questions. Could you repeat the following: what are our results in October, and what factors are driving higher sales density in the regions where we have a higher market share? I don't know which is the chicken and which is the egg, but probably you could elaborate on that a bit more.

*Svetlana Demyashkevich:*

As to October results, our sales grew 13.1%, our revenue grew 13.8%, our LFL was 5.5%, primarily driven by a bigger basket. We still see trading up. Shelf inflation is around 3.8%. We

are still seeing an inflow of customers from HoReCa, and we expect this trend to last until the end of the year. Online businesses' growth is accelerating; online businesses' share of October revenue is 0.8%.

As to why we have higher margins and return on equity in the regions where our market share is above 10%, this is an effect of economies of scale that we can directly calculate. It comes from optimised logistics: as soon as the number of stores goes up and the share in the region is above 10%, we also get higher store personnel productivity numbers, which we measure.

We also understand that in the regions where we have been operating for a longer time, we have more experienced teams, which know local customers, or our guests, as we call them, and so they can better accommodate local tastes and preferences, which creates additional sales density in these regions.

*Andrey Vasin:*

What exactly within the digital transformation will add RUB 20 billion to EBITDA starting from 2021?

*Vladimir Salakhutdinov:*

This is a cumulative effect from the digital transformation projects that are currently under way. I will mention a few examples from our presentation today. This is a different approach to pricing. Now up to 90% of pricing is done by algorithms, not human beings. This is a different approach to the store assortment, which today is based on two factors: our customers' preferences and expectations, and the financial effect from a particular product. This is also a contribution from the significant automation of our stores. For example, today Igor mentioned self-service cash registers. Using them helps us handle 25% of all checks, which means that store employees get more time to work with the shelves and the guests, and that also creates a positive effect. This is why we put these projects in a single programme which we call X5 digital transformation. For many projects the expected effect is even more ambitious, but RUB 20 billion is the number we are able to validate through our pilots.

*Igor Shekhterman:*

I would also add here the feedback project. This will be covered in more detail later by our format heads. The feedback project is one of the projects that enables us to get feedback from our customers through a digital platform, to respond faster to their wishes by making changes in the assortment. It definitely leads to higher sales density and a higher commercial margin, which is already visible in our numbers.

*Svetlana Demyashkevich:*

Let me add a few financial metrics on the topic. As I said before, return on investment in the digital transformation project is 143%, which is very high. As you recall, our stores have an ROI of 30%, while the minimum is 19%. So, these are really profitable investments. How do we know

this? Internally we have developed a system for measuring these effects: when we enter a project and allocate financing, we set specific success criteria and measures that we expect to improve, and we track them throughout the project. Then we run a pilot and agree in which stores and which client groups, during which period, in which region this will be run and measured. The effect is then measured by two independent teams – the Big Data and Risk teams – and then we validate the actual effects and incorporate them into our budgets.

When we are talking about higher IT capex, 80% of this is investments in internal automation, which creates such tangible results, because we can further optimise all our core processes, and this is a gold mine. We still have a lot of potential for making all our processes more efficient and up to date. Just 20% of the IT capex is investments in our new online businesses, and in absolute terms those are not really big amounts, but the impact on the market is huge, as you can see. Since April we have been the leader in Russian e-grocery, although the investments for us were not all that significant.

*Igor Shekhterman:*

As Svetlana mentioned, we see huge potential in the project we are currently implementing at Pyaterochka and Perekrestok – CVM (customer value management). We already see a certain result for the reduction of promo because, through this project, we are switching to individual communications with our customers. Full implementation of this project, which is planned for this and next year, will allow us to significantly reduce the share of promo and switch to individual communication with our customers, which will result in a higher commercial margin and EBITDA.

*Andrey Vasin:*

What adjustments to the Company's strategy do we consider necessary based on 2020 results?

*Igor Shekhterman:*

The trends we have seen in the Russian market are related to changes in consumer priorities. Undoubtedly, the pandemic has shown that consumers are more focused on safety and healthy lifestyles. Of course, this is a recession that we are now seeing, as the price is becoming a major and very important factor for our consumers. There has been explosive growth in digital sales, which was caused by the pandemic. I'm very glad that last year we were able to create the right digital platform for our express delivery service very quickly. All this formed the foundation for our strategy, which we talked about today.

*Andrey Vasin:*

Could you provide more detail on 2021–2023 on top of what you discussed in your presentation?

*Svetlana Demyashkevich:*

I think we will invest in the areas where we really see an effect. We will do this in a smart way, so there should be no big fears that we will dump money. We see opportunities for this growth in organic development, in market consolidation and in the refurbishment of our stores.

The new concept is performing really well: LFL in the new concept of Pyaterochka has reached 10%, and NPS is also increasing significantly.

So we will continue to invest in these areas, and we believe that capex in the medium term will not outpace revenue. We understand what tools we can use to contain capex. For example, when we considered different development scenarios at the beginning of the year, we acted very quickly to curb capex, which among other things enables us to pay higher dividends for 2020 than initially planned.

*Natalia Zagvozdina:*

I suggest we stick to the schedule and limit ourselves to the last round of questions in this session; we will have another one. Another question: how does the Company approach capital allocation, and is the planned or potential increase in dividend payout by 50% this year seen as a sustainable trend?

*Svetlana Demyashkevich:*

We expect that in the medium term, every year we will see a higher – both rouble- and dollar-based – absolute dividend payout. We are going to maintain a debt/EBITDA ratio below 2x. We believe that with the growth of our business and the improvement of our business profitability structure, we will definitely see more opportunities to generate free operating cash flow, which will also enable us to pay more dividends.

*Natalia Zagvozdina:*

There are a lot of questions about the Chizhik hard discounter stores. Can we add any granularity here? Will these stores be in the vicinity of Pyaterochka stores? What will be the first cities or regions of presence? What other hard discounter chains are there in Russia, and how will we position ourselves against them?

*Vladimir Salakhutdinov:*

A lot of questions indeed; I will try to answer some of them. First, are there any other representatives of the hard discounter format in Russia? Yes, there are, but in our opinion, none of them uses the model that will be implemented at Chizhik. On the one hand Chizhik is a value store, and on the other hand, the target model of Chizhik is about a very sizable share of private labels of high or decent quality. That's why, probably, we can't be compared with any other hard discounter players; they use a promotional model, offering various goods at reduced prices. But nevertheless, the main proposition of the Chizhik format will be an attractive price.

As for the geographical foothold, first of all we are going to open Chizhik stores this year in Moscow and the Moscow Region, new Moscow. Next year we are going to enter several regions, although I will not give any names yet, as this is still under discussion. As to the upside, we believe that it would be absolutely logical for us to look at federal coverage. It may become a

fairly large chain comparable to our existing formats. And in case of a successful pilot and with appropriate model refinement, we are going to roll it out.

*Igor Shekhterman:*

I would like to add that we are planning to open 45 pilot stores next year, so by the end of next year we will have a full picture regarding the format model. We will understand how we will scale up this format from 2022 onwards.

We expect that the opening capex of the hard discounter stores will be quite modest. More importantly, the stores will have quite low opex, which in terms of ROE makes this model quite attractive.

As to private labels, our strategy at Chizhik is to ensure the quality of our private labels in each category on par with the brands available in the market, but with a 15% lower price.

*Natalia Zagvozdina:*

And the last question in this session: what is the status of the hypermarket transformation programme? We are talking a lot about the brand-new store format, but we are still in the transformation process for one of the previous formats.

*Igor Shekhterman:*

Since the beginning of 2020 we have handed over 24 Karusel hypermarkets to the Perekrestok brand, nine were closed and one was sold. The remaining hypermarkets will be under our operational management until 2022. And based on the results of 2022, the Executive Board and the Supervisory Board will decide on further functioning of this format.

*Natalia Zagvozdina:*

I would like to thank the speakers in our first part and everyone participating in our CMD.

We're taking a break, and we are looking forward to seeing you here in 15 minutes. Thank you.

*Natalia Zagvozdina:*

So, we are back on air after a short break. We are moving on to the second block of presentations, which I'm sure will be just as exciting, as they will be presented by the heads of formats – Pyaterochka, Perekrestok – and business lines – Vprok, 5Post, FoodTech. We would like to start now with Sergey Goncharov, the head of the Pyaterochka federal chain.

*Sergey Goncharov:*

Good afternoon, ladies and gentlemen! Let me share with you our team's accomplishments and plans.

A year ago, we presented to you our updated CVP. We have achieved impressive results in each of its components. Our priority is continuous, systemic improvements in stores, greater sales density and better perception of a brand that every Russian is already aware of, increasing

efficiency at all stages of our logistics network up to the store and down to the shopping trolley. All of these are part of our true priority to win the trust of our guests and society at large, to be a company they can rely on. And our sales and profitability figures will reflect this level of trust.

How can we earn our guests' trust? Through leadership in convenience, freshness and quality, care for the community and low prices. To achieve this, our employees must see that they are working for the best employer, and our processes should be effective.

Now the proximity store format is better adapted to the current situation. There is a shopper inflow from more premium formats such as supermarkets, as well as traditional retail, due to lower prices and a better-quality CVP.

Customers with mid-income and above used to avoid Pyaterochka even after the last wave of the chain upgrade in 2014–2017. However, during the lockdown, when a trip to the nearest store became the only option for many, they discovered that our stores are clean, the staff is friendly, prices are low, there are a lot of goods and they are fresh. Pyaterochka was able to bring them around, and it is not about trading down. It has to do with a fundamental revisiting of our place in society for a company with more than 16,000 stores and 14 million Russians entering our doors every single day. More than 1,600 of these new concept stores now always smell of freshly baked bread and freshly brewed coffee, so that everyone – a teenager or an adult, a person at any income level – feels good there.

Here are some of the outstanding results we were able to achieve over the past few years.

- Pyaterochka is the largest federal grocery retail chain from the revenue perspective.
- More and more Russians like our stores. Over the past two years, customer confidence in Pyaterochka has risen by 9% and is at an all-time high.
- The launch of product ratings through a mobile app allows us to improve analytics and act on customer feedback. The number of the app's unique users per month is 6 million, which is a threefold increase year-on-year.
- Employees used to be perceived as a source of problems and an opportunity to reduce costs. Now they are becoming front-office workers and our internal customers: during the renovations, the back-room facilities were improved, and compensation and benefits were expanded. We have invested a lot in our staff over the past two years, and it has become easier for us to hire people. We are registering increased employee engagement. As a result, the perception of politeness is rising, and shrinkage is falling. Staff turnover has halved in the last two years while productivity has increased by 8%.
- According to the results of the annual producer survey conducted by the Advantage international consulting company, Pyaterochka has risen from fourth to third place compared to last year and is among the top three best partners for suppliers out of the 15 largest food chains.
- Pyaterochka generates more than 80% of X5 Retail Group's consolidated sales and is the main driver of the Company's profitability uplift. LFL sales growth for 9M 2020 was 6.9%, which is a

very high growth rate in the challenging pandemic environment. Meanwhile, the Russian food retail market dropped 4.8% year-on-year, reflecting the macro headwinds. Proximity stores definitely enjoy a more favourable position compared to other formats. We continue to implement initiatives to improve operational efficiency, which have resulted in a 0.9% shrinkage reduction over the past two years.

Over the past two years, according to IPSOS, we have improved Pyaterochka's position in each of the 10 priority criteria by which shoppers rank retail chains.

On this slide, you can see that in the eyes of our guests, the perception of Pyaterochka has improved in the last two years in three major indicators:

1. Availability of online services: thanks to the launch of Pyaterochka delivery we were able to adequately support our guests during the pandemic. This is, undoubtedly, a significant leap forward, and we expect further improvements.
2. Polite staff in our stores; here the results are phenomenal.
3. We also climbed up in the rating of product quality and freshness without losing leadership in price perception.

Improved quality and freshness are also reflected in the reduction of shrinkage.

We have come close to the top retailers in terms of customer feedback, saving the time of our guests, while maintaining a high ranking in price to value.

We are also proud that our consumers recognise Pyaterochka as one of the leaders in caring for the community. We are already in the top three retailers on this criterion and intend to advance forward both through our community initiatives and through pursuing sustainable development in general.

The COVID-19 pandemic certainly was a challenge for Pyaterochka. But now we see that we managed to use it as an opportunity to strengthen our leadership. According to the consumer survey done jointly by BCG and Romir, Pyaterochka was named the favourite brand in Russia during the COVID-19 pandemic among all categories – surpassing not just competitors in the same retail format but also such local and international giants as Sberbank, YouTube, Google, KFC, McDonalds.

Since the launch of the new renovation programme, Pyaterochka has opened 1,252 stores in the new concept and refurbished 591 more. Thus, the share of stores in the new concept has already exceeded 10%.

The purpose of the concept renovation is not only about changing the appearance of the store, but it is also about improving the quality of our guests' experience. NPS in the new concept is 60% higher than in the previous one. Besides, the level of customer satisfaction in the new concept has increased significantly compared to the old concept. According to loyalty cards data,

new-concept Pyaterochka stores are more attractive for a younger audience – the share of guests under 25 is 13%, compared to 11% in the previous concept.

After the renovation, the LFL revenue growth rate in the new-concept stores exceeds 10%.

- EBITDA in new stores is higher than in the old-concept stores.
- However, the opening capex is almost the same as in the old concept. We are constantly making changes to reduce capex without losing the essence of the concept. We are using simpler but more durable materials and equipment and improving our guest experience through a better assortment, convenience, etc. In general, the format concept is continuously improving.
- The equipment and cost per store depend on a number of factors, including the specific features of the region, the store environment and the needs of guests. We also believe that in Russia's regions we also need beautiful stores which from the customer perspective are attractive and fully in line with our new concept.

We are extremely satisfied with the results of the new concept. All new stores will be opened and renovated in the new format.

Now we can confidently say that the new Pyaterochka is a world-class store: the flagship store of the new concept in Moscow, on Filevskaya Street, was named one of the 29 best stores in Europe by *European Supermarket Magazine*. The IGD agency has included this store on its list of the top 30 world stores to visit in 2020.

This is what we are doing at Pyaterochka to ensure long-term leadership in convenience: we provide convenience both in our stores and through the express delivery service, customer feedback and a wide assortment of "convenient" food.

As to convenience in stores:

- We managed to reduce the number of queues by 26% year-on-year. For example, four self-service cash registers of our own design: with a floorspace of one standard cash register they handle up to 40% of all traffic and our guests are happy to use them even in the most remote regions. Our research shows that the traffic uplift in some pilot stores was 7% thanks to higher checkout speed.
- We have about 13,000 parcel lockers and pick-up points in our stores. We are also piloting additional services at the pick-up points, including fitting, partial purchase, order verification, simplified returns, delivering oversized and large goods.
- According to our data, stores with pick-up points enjoy 3%–4% higher traffic.
- Express delivery from Pyaterochka is an extension of our proximity store format in terms of CVP and customer journey. We will continue to expand the geographic coverage of our delivery service by leveraging existing stores. We will also open more dark stores in areas with a high demand for delivery. Besides, we will continue to improve the quality of service and reduce delivery time to the customer by optimising both processes in the store and courier services.

- A valid question might be, How many stores will we need to fully meet the need for express delivery across all our geographic locations? In Moscow, for instance, with 150 stores we make express delivery available to 100% of households. This is just 13% of our total store count in Moscow.
- I consider it encouraging that 60% of Pyaterochka express delivery users are our new unique guests, who will hopefully become our loyal customers. As to loyal customers, they keep frequenting our stores – they enjoy it – and we do not see any significant cannibalisation there.
- In total, more than 320 thousand customers have used our express delivery services since we launched them in December 2019. We expect this customer base to grow as we cover other localities. Chelyabinsk, where we launched the service the other day, is the twelfth city of presence for our delivery service.
- As to feedback, it is important to highlight the Pyaterochka mobile app as part of the Company's external digitalisation. In total, this application has been downloaded 23 million times since its launch.
- The number of unique users per month has reached 6 million, and there are 50 million product reviews per month.
- We are learning to both listen to and hear our customers through launching rating of goods in the mobile app, deep parsing in social media, feedback analytics and follow-up on all feedback about the cleanliness, responsiveness and professionalism of our staff. We can see where we can get better than our competitors.

As to being the leader in convenience, in our new concept the share of ready-to-eat/food-to-go has increased tenfold, but it is still small. The most important thing for us now is to offer high-quality products at affordable prices. With this in mind, we partner with producers and develop products for Pyaterochka through our kitchen factory. Our new stores have bakeries and coffee machines for our guests' convenience.

Now let us watch a short video on how feedback is treated in our company.

(Feedback video)

*Sergey Goncharov:*

And now let me tell you about the Freshness and Quality initiatives we launched over the past 18 months.

- We see globally that freshness level is one of the most important factors in selecting a store. We know that a customer satisfied with freshness spends 25% more on the fresh category and goes to such a store 9% more frequently.
- Our goal is to improve the perception of freshness by our customers: we set ourselves a goal of increasing the share of customers who believe that Pyaterochka has fresh and high-quality products from 31% in 2020 to 55% in 2023.

- The Freshness project is being scaled up, and the perception of freshness has improved by 14 points since the beginning of the project, according to our customer polls. All our processes between purchasing from the supplier to storage to store delivery should aim to avoid freshness deterioration.
- We are changing our approach to private-label development by prioritising quality. We are actively developing the private-label category, and we expect the share of private labels as a percentage of sales this year to be 18%, and we intend to reach 28% by 2023.

We involve producers in improving the quality and variety of private-label products. By ranking private-label products, our guests can determine the assortment on the shelves of their stores.

The key project areas within private labels are:

- Digitalisation: the product life cycle management and the supplier portal;
- Guest feedback, which involves private-label product ratings;
- Quality assurance, which includes implementation of regular quality-control processes, tasting kitchens and depositories of samples/product standards.

To become the leader in this essential part of our CVP, we are developing social and charity programmes, providing a sense of safety in our stores, trying to make sure our guests leave our stores in a better mood – in particular, through enhanced politeness and friendliness on the part of our employees.

While Pyaterochka is the largest retail chain nationwide, it strives to remain a local community store. The Company takes care of everyone and of the community at large. We have a number of initiatives in three main areas:

- Supporting local communities through social investments and charitable projects;
- Promoting healthy lifestyles;
- Promoting responsible resource consumption.

Let me tell you about our key initiatives.

**Basket of Kindness.** Guests at X5 stores can buy products and give them to those who need them the most. This year alone more than 100 tonnes of products have already been distributed.

**Island of Safety.** Any person who gets lost can go ask for help at the nearest Pyaterochka store. During this year alone we have helped 500 people to get home faster and we saved 15 lives. The project is implemented jointly with the search-and-rescue team Liza Alert, which this year is celebrating its 10th anniversary.

Promotion of healthy lifestyles includes the expansion of the healthy-lifestyle assortment, and dedicated healthy-lifestyle areas in stores. The share of the healthy-lifestyle assortment will increase from 6% in 2020 to 20% in 2023.

To promote rational use of resources, Pyaterochka uses shopping baskets made of recycled plastic, and recyclable packaging is used in half of our private-label products. At the moment 94% of recyclable waste is sent for recycling.

We continue our work on reducing waste generation ratios through better planning and replenishment algorithms, and through all the initiatives within the Freshness project.

Pyaterochka will continue to take care of the world around it, developing existing initiatives and offering new ones.

It might sound surprising that I'm not starting with our initiatives aimed at ensuring low prices, but we do see that our guests' satisfaction is no longer ensured by a low price alone, although the price, especially in economically challenging times, remains a very important factor for our guests.

We are deploying advanced automatic pricing systems based on big data, competitors' prices and purchasing power. We are optimising the cost of private-label products by developing them together with suppliers. We are also personalising pricing and promo by introducing CVM systems, and we are gradually replacing mass promo with personalised attractive offers for guests with loyalty cards.

One of the key areas in pricing is the use of big data-driven algorithms and predictive analytics, which helps us to improve accuracy and objectivity.

The pilot project, with almost 800 stores in Moscow and in the Urals, achieved a front margin increase of 1.0% in absolute terms, which is equivalent to more than RUB 4 billion per year while maintaining sales and traffic.

The key principles of the Pricing Management System include initiatives like:

- automatic calculation of prices offered, where pricing is guest-centred, and prices are calculated on the basis of the family grocery budget and monitoring competitors' prices.
- Prices vary between stores depending on whether there are competitors nearby, which competitors and what the profiles of the guests are.

For now, promo remains the key tool for price motivation management. We base our promo strategy on a combination of mass promo and personal promo, aiming to increase the attractiveness of the promo for the client while ensuring product availability.

We aim to gradually reduce the share of mass promo, and by 2023 the share of mass promo is expected to be below 30%.

Our focus is on outpacing the Russian convenience store segment through our revenue growth while steadily sustaining profitability.

This slide shows our strategic priorities. To summarize, they include:

- Our focus is enhancing the trust and loyalty of our customers.
- But I would also like to emphasise our focus on using innovative solutions based on predictive analytics and big data to improve the quality of decision-making on pricing, assortment and promotion with a positive effect on revenue and gross profit.
- And further digitalisation and application of omnichannel solutions.

Thank you.

*Natalia Zagvozdina:*

Sergey, thank you so much for the presentation. We now move on to the presentation of Vladislav, who heads the Perekrestok federal chain. Vladislav Kurbatov will connect to us online and take us through Perekrestok's results and its key strategic objectives.

*Vladislav Kurbatov:*

Good afternoon, ladies and gentlemen! On my own behalf and on behalf of the Perekrestok team, let me thank those of you who are our customers. You are the people we are working for!

I would like to start my presentation with a few key figures.

- This year Perekrestok is celebrating its 25th anniversary.
- Perekrestok still remains the leader of the supermarket segment by market share, and today more than 900 of our supermarkets delight customers in many Russian cities.
- Over the last five years we have doubled our store count, while our revenue has increased by 150%. Our LFL sales have grown five years in a row.

We operate our stores in the interests of our customers, employees and shareholders. The stores we do are "about people", "for people" and "through people's eyes".

The loyalty and satisfaction of our customers are steadily rising, while our staff turnover is steadily decreasing.

Despite the challenges posed by the pandemic, we are pleased with this year's results, and we set forth ambitious plans for the next year.

Now let me focus on the key components of our updated CVP, which we introduced a year ago.

First of all, we offer an emotionally appealing assortment with an emphasis on fresh fruits and vegetables, ready-to-eat food, a wide range of PL and healthy-lifestyle products. This assortment ensures the best choice and meets any need – from a brief snack to stocking up to shopping for a special event.

We are introducing open kitchen areas, where customers can buy delicious ready-to-eat food and watch the cooking process. Hot bread, tandoori flatbread, pizza, sushi, or a stir-fry can be grabbed on the way home or eaten in with a sip of hot, freshly brewed coffee in our cosy cafe on the shopping floor.

An essential part of our commercial strategy is localisation: offering local products, tailoring the assortment to local tastes and needs in particular regions.

Price remains one of the key store selection factors for customers, and we ensure that customers of different financial means can afford to shop at our stores with reasonable and fair prices that match the product quality and the service level. We also offer attractive promotions so that our customers can buy the best.

The service level is one of the key advantages of Perekrestok, and we are planning to strengthen and develop it in the future.

The key factor of our leadership in client experience is Perekrestok's employees. Trust between a customer and a store is impossible without trust between a store and its employees. Therefore, the internal atmosphere and feedback from our employees matter in Perekrestok.

We strive not only for a pleasant atmosphere and new emotions but also convenience.

That is why Perekrestok uses a lot of technological functional solutions for customers. Our stores have self-service cash registers, scan & go services, electronic price tags, and shoppers can pay via a mobile app.

We launched the delivery service Perekrestok Bystro this April, at a time when our customers needed it the most, and we did it much earlier and faster than we had initially planned. The service immediately showed amazing growth dynamics. Express delivery in 60 minutes is available in nine cities where we deliver more than 6,000 orders per day. We also offer click & collect services at supermarkets.

We are continuously developing our digital services. In October we released an update of our mobile app My Perekrestok, with both loyalty card and express delivery service available. This is yet another compelling step towards Perekrestok becoming more and more omnichannel.

Our updated CVP has a strong focus on sustainable development. We feel responsible for the environment and are happy that our customers support our aspirations and take a great interest in environmental issues and social responsibility.

Our special focus is the health and safety of our customers and employees, and social and environmental initiatives such as:

The Safe Store programme, which includes providing stores with antibacterial lamps and PPE, contactless payment and online buying facilities, as well as a system of quality assurance throughout the supply chain.

Our resource management initiatives include plastic collection, container cashback, eco-packaging, eco-consumer education, energy reduction in our stores and DCs. Our shopping bags contain 35% recycled materials.

Perekrestok is also actively involved in community care and charitable programmes, such as volunteer food deliveries to the elderly, charity within our loyalty programme and special needs facilities at our stores.

Starting in 2020 we are opening almost all Perekrestok supermarkets in the new concept, and now it is almost 10% of our chain. In our opinion, the new concept fits modern trends better. We see that customers appreciate our new stores. The concept update is not only about changing the store appearance but also about enhancing our guests' customer experience. The level of

customer satisfaction in the new concept has gone up significantly, and the NPS in the new concept stores is on average 7 points higher.

We launched the new concept in an atmosphere of pleasure and emotion, and we have developed convenient navigation routes in stores, varying by customer mission.

In the new concept, about half of the sales floor is dedicated to fresh products, fruits and vegetables, as well as ready-to-eat, bakery and cafes.

We use wider counters to create an open-air market feel with an emphasis on an emotional perception of freshness and quality.

In addition, the new concept has a dedicated healthy-lifestyle area, where the assortment has been extended, including our Green Line private label.

All key business indicators of the new CVP are significantly above the chain average. LFL revenue in stores renovated according to the new concept exceeds 10%, and EBITDA in absolute terms is higher than in the previous concept.

Meanwhile, opening capex for the new concept now is almost the same as in the previous one. We are continuously working on reducing capex by using simpler and more durable materials and equipment without compromising the appeal of the stores.

Just like our colleagues at Pyaterochka, we are satisfied with the new-concept results. Therefore, all the openings and renovations will leverage the new concept.

Ready-to-eat is a differentiator versus our competitors. In our stores one can buy our own products as well as dishes from famous restaurants and cafes.

Our new business unit, X5 Ready-to-Eat, will be a focal expert partner of X5 retail chains for joint development of the segment.

We are developing the production of our Smart Kitchen, expanding the product range, increasing capacity by 15% through technical upgrading of the factory.

By attracting new partners in the ready-to-eat category, we are making our offering for customers even more unique. Cooperation with Novikov Group and other well-known brands allows us to offer restaurant-quality food at affordable prices and at our customers' doorstep. We intend to increase the share of ready-to-eat in our sales from 3.2% this year to 8.5% in 2023.

Our healthy-lifestyle and private-label assortments are a differentiating factor for Perekrestok. We offer healthy choices to all interested customers. We are going to expand the offer of healthy-lifestyle products from 1,500 items now to almost 3,000 in 2023, which should contribute about 16% of our sales (it is about 9% now).

This year we increased the share of private labels in our sales to 14.5%. The key initiatives for the development of the private-label portfolio include:

- Management of the private-label portfolio on the basis of our customers' feedback;

- Improving the product development process, fostering strategic partnerships in each category;
- Relaunch of key PL brands and development of individual brand promotion;
- Automation of private-label pricing;
- Market leadership in innovative products with a focus on healthy lifestyles.

We look to increase the share of private labels to 22% by 2023. Within private labels we intend to develop products for medium and high price segments, as well as secure NPS leadership versus competitors in private-label price/quality perception.

Our business is built on trust. We are striving to evolve from a client-centric into a human-centric company. Most of our solutions are based on feedback from customers, employees and our partners.

The NPS of Perekrestok has climbed up 44 points in the last five years, including 7 points in the last year to the current 28%.

We see higher staff engagement, and as a result, the politeness perception by customers in our stores is growing, shrinkage is sliding down and productivity is rising. Our eNPS, employee satisfaction index, increased by 2.8 times year-on-year to 54%.

According to the annual producer survey conducted by the Advantage international consulting company, Perekrestok was for the first time named the best partner for suppliers among the 15 largest food chains in Russia, and maintaining this trust and high level of recognition is among our top priorities.

Perekrestok is continuously analysing the needs and moods of customers. With our updated feedback product, we are shifting from collecting feedback to full management of the customer experience through a system where processes start and end with feedback and feedback-driven action.

Through smarter feedback, we are improving our customer knowledge base. To date, we have received more than 2 million requests and reviews from customers.

As part of our digital transformation, we are continuously automating feedback processing, launching chats and messengers, and adding rating functionality in the mobile app. New technologies have helped to speed up the response, and now it takes us from 3 minutes to 24 hours to respond to customer requests, while in the very recent past it took us a few days.

More than 285,000 customer product ratings have been received in our mobile app this year, and more than 1,000 product quality improvements have already been implemented following this customer feedback.

The average product rating today is 4.7, with 83% of customers giving the highest score of 5.

Thanks to our handling of customer feedback, the number of complaints about the quality of service has dropped by 38%.

We want customers to feel heard and be aware that we are continuously changing for the better: by 2023, our goal is for at least 60% of customers to agree with the statement that "Perekrestok reacts to customer complaints and promptly acts on them".

As I said before, our employees are the key factor for leadership in terms of client experience. We want Perekrestok to be a convenient and reliable space for our employees.

With a 20% year-on-year decrease in staff turnover, we achieved a 15% increase in productivity, which has a positive impact on the level of service and EBITDA in our stores.

These are our key initiatives aimed at increasing staff engagement:

- We are implementing an in-store workforce planning and management system, as well as an employee mobile workstation, a programme that will allow us to more efficiently manage the time and workload of retail employees and specify the tasks of each store employee.
- For the convenience of store employees, a new format for workspace – more convenient, with a pleasant design – and a new canteen format and locker rooms for staff have been introduced.
- We are continuously improving store operational processes. One example is the Planogram Generator, which creates individual planograms at the store level based on inventory turnover. The programme has already been launched in Moscow stores, and in 2021 we will launch it for the entire network.
- We are automating basic HR processes on the WebTutor platform: an information system that promotes training and professional development of employees, while identifying and developing employees with high potential and ambitions for career growth.

I would like to emphasise once again that the loyalty and trust of our employees, our clients and our partners is the main priority for Perekrestok.

One of the key tasks for us is continuous improvement of operational efficiency, which has allowed us to reduce losses and staff costs in the past nine months.

We are continuing the digital transformation of Perekrestok, and here are our ongoing initiatives:

- Digitalisation of key business processes;
- End-to-end store process digitalisation;
- Supplier automation;
- Digitalisation of private-label management;
- CVM – a system for managing the launch of targeted marketing campaigns – was developed and put into test operation;
- Increased accuracy and automation of forecasting and restocking;
- HR process automation.

The expected EBITDA effect from these initiatives is expected to be RUB 3.8 billion in 2021.

In conclusion, I will focus on our strategic priorities.

- Our aim is the further growth of our business and our market share, with clear objectives for ROI.
- We will continue to roll out the new chain concept, and we expect that above 50% of our chain stores will operate in the new concept by the end of 2023.
- Our goal is to be the No. 1 choice for customers in the ready-to-eat, healthy-lifestyle and private-label categories.
- Our focus on improving service levels and customer experience remains unchanged, and it will be based on improved customer feedback in the decision-making process. We will judge our success by the dynamics of NPS and eNPS.
- We are keeping the focus on operational efficiency and digitalisation.
- Last but not least, we take care of the community, and we are focused on the sustainable business development of Perekrestok.

*Natalia Zagvozdina:*

Thank you, Vladislav. I would like to give the floor to Leonid Dovladbegyan, who heads our Perekrestok Vprok service.

*Leonid Dovladbegyan:*

Today I would like to tell you about Perekrestok Vprok. This is the first and the biggest X5 unit in e-commerce. But first I would like to say a few words about the e-grocery market.

So, on the right you see the data for 2019. This is the share of e-grocery, and the largest markets for e-grocery. A very interesting pattern that you can see is that the penetration of e-grocery is strongest in the countries with a larger territory and compact, affluent populations, the likes of South Korea, China, etc. In Russia, the share of e-grocery is still quite small, but in 2019, as you can see on the left side of the slide, this market is growing a lot. Obviously, in 2020, lockdowns and COVID-19 have become important drivers of this market.

In addition, we believe that e-grocery is the fastest-growing market in the entire e-commerce space; it will grow manyfold and become a driver of both the food market and e-commerce. The client mission split is changing, and express delivery is becoming quite large. Thus, we see changes in the behaviour patterns of clients due to COVID-19, and the fact that big players have entered the market.

As to the mission, all you need to know about the e-grocery market is that in essence there are two main client dimensions: the delivery speed and the assortment. In this regard, the online food market is very similar to the offline market, which has the proximity format nearby with a limited assortment, and a rather distant hypermarket, which carries a bigger assortment. Online essentially works the same way. From this we can conclude that online food markets are about two businesses and two client missions. We call them "replenishment" and "stocking up".

If you look at the replenishment market, it is about express delivery services that deliver a few products in a short time so that the client or guest can use them right away. Buying for future

consumption, or stocking up, is classic e-commerce, in which, from the customer journey perspective, there are rather large interfaces with filters and a convenient choice of goods. Most of the classic players operate there.

The presence of X5 in two market segments, and the digital transformation of X5 started long before the lockdown, which allowed us to become the e-grocery market leader in the first half of 2020, playing in both segments.

Now I will describe the Perekrestok Vprok business model. It is X5's largest and first business line in e-commerce. Perekrestok Vprok has an independent infrastructure that starts, in terms of the customer journey, in our applications or on the website. Then the order gets to a dark store; our dark stores are large, DC-like facilities of 18,000–20,000 square metres in our target model. Further, the order is delivered by our own trucks to the client. At the moment we carry 42,000 SKUs, which means that we are servicing the stocking-up mission; we are an online hypermarket. We have our own logistics infrastructure, which enables us to build our own assortment while negotiating with suppliers using the purchasing power of X5. Our NPS is very strong, and quite a lot has been done to streamline the client journey. At 80% our NPS is among the best in the market, and this allows us to attract the right cohorts and enjoy high user engagement.

As to our operational numbers, at the moment, we deliver more than 12,000 orders per day, and we are growing very aggressively. While in 2019 we grew by 230% year-on-year, in 2020 we are seeing threefold growth year-on-year. Notably, we ensure balance between aggressive growth and operational efficiency. Thus, in May, we showed positive EBITDA. COVID-19 had a mixed effect: our dark store utilisation improved, but we incurred certain costs related to safety. The results show that we have a working model in place, and we already have about 3,000 employees. Now we are operating five dark stores in Moscow, St Petersburg and Nizhny Novgorod.

To strengthen our CVP and this model in the eyes of the customer, we launched the new Perekrestok Vprok sub-brand within the Perekrestok umbrella brand. We renamed Perekrestok Online as Perekrestok Vprok, and as my colleagues said, this further highlights the mission of our online hypermarket.

What does Vprok mean? It conveys the message that this purchase is quite big, and secondly, that it is quite cheap, because people don't stock up on expensive products or buy too few items. This is what we are communicating with our brand to our customers – households – stocking up weekly or bi-weekly, planning ahead for the whole family.

We strive for excellent service with hypermarket-like prices.

To extend our client touchpoints, to communicate better with the clients we launched a new mobile app, which quickly enough became one of the top apps for IOS/Android, and we also launched a new Vprok.ru website, where we recently migrated.

The last and most important thing is our strategy for next year. We are going to develop our Vprok brand CVP, strengthen our online hypermarket and transform our model into an FMCG marketplace. We are announcing the launch of an FMCG marketplace, which is a marketplace built around the need for fresh food and complementary categories. We believe that there are a number of success stories in the market where marketplaces started from a niche. Besides, this model is less risky than going into general merchandise. Therefore, starting from the food niche, which provides good shopping frequency, very good performance, we are building around this niche complementary categories that can fully meet the needs of a household for a two-week stock-up: all sorts of home products, baby products, pet products, household chemicals and other household goods. This is how we approach building our marketplace. We expect to launch it next year as an extension and development of the Perekrestok Vprok CVP.

*Natalia Zagvozdina:*

Leonid, thank you. The prospects for Perekrestok Vprok sound impressive. At this point I would like to give the floor to Vitaly Dyrdasov, Director of 5Post.

Vitaly, please!

*Vitaly Dyrdasov:*

Ladies and gentlemen, 5Post is a logistics platform for the X5 marketplace and e-commerce in general. We provide end-to-end delivery services – from our online store to parcel recipients – using X5’s logistics infrastructure and X5 stores as order pick-up points.

Our main advantages and success factors are as follows:

- low delivery costs, primarily due to leveraging X5 logistics and operations;
- high quality of the last mile, including the quality of our locations;
- flexible, multiservice parcel delivery model – Sergey spoke about this;
- X5’s extensive loyal customer base;
- access to existing X5 logistics infrastructure;
- our partnership with the X5 marketplace, Perekrestok Vprok.

We are working with the leading Russian marketplaces and online stores. First of all, I would like to mention our cooperation with market leaders, such as the AliExpress, Wildberries and Ozon marketplaces, as well as more than 50 other partners, including marketplaces and online stores.

We started operating as an independent business unit in 2019. We are an established logistics operator recognised by the market, and we provide parcel delivery services to more than 80% of X5 stores. We continue to develop 5Post logistics infrastructure, but one of our main priorities is the cost-effectiveness of our business model. So, by the end of 2021, we expect to break even on the operational level. Our goal is to become one of the market leaders in e-commerce delivery, and we hope that in 2023 more than 80 million Russians will be able to receive parcels at all X5 stores, and that the number of 5Post delivered parcels will exceed 32 million.

*Natalia Zagvozdina:*

Thank you very much, colleagues! We are moving on to the final presentation, by Vladimir Kholyaznikov, who heads X5 FoodTech and is joining us online.

*Vladimir Kholyaznikov:*

Dear colleagues, it is great that today we have discussed the express delivery service a lot and received a lot of questions. Hopefully, I will answer some of them during my presentation.

We are a new business line: early this year, we launched our first express delivery initiative. By express delivery we mean order execution based on hyperlocal infrastructure. In our case, the main advantage is a huge store network nationwide, which actually gives us endless opportunities for geographical expansion in the long run.

For us express delivery is a mobile-first business. At the moment we operate in and interact with clients through a set of mobile applications. We have both a stand-alone delivery application and express delivery integration in the apps of our retail chains. We interact with clients and focus on the development of the mobile channel, because we see that this is where Internet traffic is migrating.

All the orders we get are currently processed on the basis of the delivery network, which includes about 550 stores in 13 Russian cities. The automatic load balancer distributes orders to the nearest store. In most cases, our stores have staff that are involved in the processing of online orders. In some cases, we can use dedicated employees in locations where we reach peak loads.

We aim to deliver orders within 60 minutes. About 40% of orders in the closest vicinity have a click-to-delivery time of 30 minutes. All deliveries are now done by third-party courier service providers.

We are leveraging our federal store network, mostly delivering from operating stores, and we are piloting deliveries from small dark stores. At the moment we have seven small Pyaterochka dark stores with a total space of about 300 square metres each. These stores were converted into dark stores for two main reasons: they were in the "clinic", a turnaround category, and secondly, they are located in areas with a lot of online orders and express deliveries.

Long-term, we will continue our focus on the development of delivery, leveraging X5's store base. We will keep piloting mini dark stores, tracking their performance. We see that the sales density of such stores is outperforming traditional stores that had previously operated there. It is still too early to say what the target format will be on a four- to five-year horizon.

What differentiates us from the major players in the market is our assortment – and this is reflected in our commercial numbers. About 75% of Pyaterochka's assortment and about 80% of Perekrestok's assortment are available for express delivery through the mobile app. This secures quite a high average check and purchase frequency. In addition, we actively use our loyalty programme in both retail chains in order to communicate with customers, to build their

knowledge of the service. This generates a sizable part of the traffic necessary for the development of this service.

As to our results, the service has grown a lot since the beginning of the year. The main leap was during the first COVID-19 wave and the lockdown, in late March to early April, when the service grew by a factor of 12 against the daily numbers in the first quarter.

During the summer months we saw lower interest in express delivery services, but since about 60% of all express orders are made with the loyalty cards of our retail chains, we saw these users actively flowing into our offline formats. We believe that the development of omnichannel offering on the part of our chains by providing additional online services is leading to more user activity and a bigger loyal customer base. We see a significant increase in total spend per customer. Since the end of September, we have seen a step-up in express delivery services, largely due to changes in weather conditions. In October, the average daily orders exceed 20,000, getting to 25,000 on peak days. The average delivery check is RUB 1,500 at Pyaterochka and RUB 1,700 at Perekrestok. These are quite large orders compared to our major peers in delivery services that we track in the market. Our customers buy on average 14–15 SKUs per order at either Pyaterochka or Perekrestok. The orders are quite heavy, 10 to 12 kilograms per delivery. Customers order for the whole household; they see the advantage of our online service as a way to have heavy or bulky goods delivered. We are providing this service in 10 cities, and last week we launched several more cities in pilot mode. By the end of the year, we will be delivering from 700+ stores in 13 cities.

At the moment, the delivery rate is flat – RUB 99. We do not differentiate or give free delivery above a certain threshold, although we use free delivery in advertising campaigns and promotions. So far, we see that the delivery market this year is developing extensively, and in fact, we see a significant number of people willing to pay for this service.

Let me also say a few words about how we are expanding our set of experiments. X5 FoodTech is a business unit that creates a single platform, firstly, an IT platform; secondly, it is also an operating platform for express delivery services. Pyaterochka and Perekrestok delivery services are running on a single central platform using shared components. First of all, these are components for integration with each specific retail store, such as the pick-up app, courier app, CRM and administrative dashboard and, besides, integration gateways.

Therefore, from the service point of view, we have a central operational IT back end, where we can place several front ends and where we can test different business formats.

We believe that Pyaterochka and Perekrestok delivery services have proved successful this year, and now they are an integral part of our formats' CVPs.

In order to expand our participation at other stages of the customer journey, we have thought about ways to give more choice to our customers, and we arrived at the delivery aggregator model, which will enable us to create the first cross-format apps inside X5, in which a customer

can order products from Pyaterochka, Perekrestok and even Karusel in a convenient native form. In addition, the application will feature our partners' formats. We already have a set of partners with whom we already have agreements. We will make announcements later. In the first quarter we will have quite a big launch of several new segments, and we will explore how such a wide choice will affect our interactions with clients.

To visualise a little bit how we see the development of hyperlocal services and our Okolo app, we have prepared a short video.

(Okolo aggregator video)

*Natalia Zagvozdina:*

All speakers in the second block have completed their presentations. We now move on to the Q&A session. Andrey Vasin will assist me. We will start with questions for our CEO.

A further decline in disposable personal income is forecast, and X5 seems to be present in all regions. Is there still room for expansion and growth?

*Igor Shekhterman:*

Let's start with our strategy, which we discussed with you back in 2018. We promised then that we would strengthen our current business, we would start a digital transformation, and we would start building a new-generation retailer. Looking back, not only did we deliver on our promises, we exceeded them. When today we talked about our new strategy and our desire to be present at all stages of the customer journey, I am sure that we have already built part of this. We just talked about the aggregator, we talked about Vprok, we talked about our digital services, we also talked about new concepts for our formats today.

So, given where our customer is with personal income shrinking, we are bracing for a recession, and the customer is becoming more discerning: for him or her it is important to choose the stores and the services that are most fitting and exciting. I am sure that our strategy at X5, which we have told you about, and our push to be at all stages of the customer journey will allow us to attract the maximum number of Russian customers in our stores.

Secondly, I believe that today X5 has the most important asset – the strongest team in the food market. I am sure that this will impact our performance in LFL, NPS and revenue.

I think that we have quite a lot of potential. There are a lot of things we haven't fully tapped in yet.

*Natalia Zagvozdina:*

What is your estimate of the number of calories that you received from the HoReCa segment this year because of the pandemic, and do you have a plan in place to ensure that you capture them?

*Sergey Goncharov:*

During the COVID-19 outbreak, indeed, some additional traffic that we got was HoReCa-related. This was about one quarter to one fifth of the total new inflow. We also got a lot of traffic from traditional retailers and some from our format competitors. Returning to the previous question, I would like to note that despite the progress and success that we as a company have achieved in the last few years, our market share is still 11%–12%.

We have set ourselves an ambitious long-term goal to grow to 15%–18% market share; given the 25% market share cap, there is still a huge amount of business to take over. The value proposition that each of our retail chains has and those businesses that we build in addition to them have phenomenal growth potential, measured in trillions of roubles.

*Natalia Zagvozdina:*

During the pandemic, price competition was sidelined. As we return to life as usual post COVID-19, do you expect price competition to escalate among market leaders?

*Sergey Goncharov:*

During the pandemic, the main focus has been on safety, on supplying our stores, guests, employees with personal protective equipment. We have focused on the safety of our distribution centres, but price competition has not vanished. Instead of seven stores on average, our guests have started visiting four or five stores, which they compare. Price competition is still there. We do not feel a lot of price competition now, and we do not see any price competition from our format competitors, although the pandemic has not eliminated price competition.

*Natalia Zagvozdina:*

Does Vladislav have anything to add to Sergey's answer?

*Vladislav Kurbatov:*

I will support Sergey. Price competition has not disappeared. People are still sensitive to prices, they are sensitive to promo. They react to all of those. The only thing is that because of the pandemic waves, people react more to the closeness, proximity of the store, to the assortment that they can buy there. That is why price competition is out of focus: people care more about additional components besides the price.

*Andrey Vasin:*

In the COVID-19 environment, is it the right time to invest in the development of ready-to-eat in our formats?

*Igor Shekhterman:*

We clearly understand that COVID-19 will end sooner or later. But if you look at the food market in Europe, 30% of the population eats out, while in Russia eating out is still relatively low and it is

picking up. And this interest in eating out includes not only physically eating out at our stores and restaurants but also buying ready-to-eat.

We witnessed fast growth of ready-to-eat categories in our stores pre COVID-19, then during the outbreak this growth slowed down when people were in lockdown and preferred to cook. Then post lockdown, in summer we registered uplift in ready-to-eat again. And we are sure that this category will grow in the Russian market just as it is growing elsewhere. Our strategy in this category is to satisfy our customers' ready-to-eat and ready-to-cook needs.

*Vladimir Salakhutdinov:*

The pandemic may have temporarily halted the growth rate of this segment of ready-to-eat, but it certainly will not change the trend. In our opinion, one of the reasons why ready-to-eat has such a small share of the food market, among other things, is the lack of decent supply of such products. We will work on this. The segment of ready-to-eat is quite popular in express delivery services, which enhances its growth potential.

*Sergey Goncharov:*

It seems to me that because of COVID-19 ready-to-eat food in stores will be in greater demand. If you look at it rationally, it was impossible to visit restaurants during the lockdown. Now, with the opening of restaurants, we see that some clients are returning to HoReCa, but still, they have not recovered to the pre-lockdown level. According to forecasts, HoReCa will not be back yet – this is the first factor. The second is that disposable income is shrinking; they cannot afford going to a restaurant, but they will come to food stores anyway, because they are the main place to buy food. When there is quality ready-to-eat available in stores, there will be demand. We now see it in our numbers. The main challenges here are around availability of quality products in sufficient quantities for our stores.

*Andrey Vasin:*

The next question is about renovations, which we have already discussed for 2021–2023: what are the renovation plans? How long will it take us to renovate the entire store network, and what is the difference between the regional concept and the metropolitan model?

*Sergey Goncharov:*

For example, a Pyaterochka located in downtown Moscow was not very different from a Pyaterochka located, say, somewhere in the Samara Region; by and large, Pyaterochka was the same store. So, for example, in Moscow, it was undershooting guests' needs, while in a small locality it was overshooting, which involved unjustifiably high capex. But with the new concept, we have changed this approach, and thus we have six different varieties of Pyaterochka store – economy, standard, etc. – so that for each location we can offer the relevant variety.

But when guests enter a store, they see the same Pyaterochka, although some options might be different, some materials are different – somewhere cheaper, somewhere more expensive – but as for the look and feel of the stores, guests see the very same Pyaterochka everywhere.

As to renovations, now about 1,800 stores – that is, 10% of stores – are operating in the new concept; that includes renovations and new openings. We do not plan to slow down, and our plans include a complete renovation of all the stores within the next five to six years.

*Igor Shekhterman:*

We see great potential in further roll-out of Pyaterochka's new format. We see further potential for LFL growth, as well as for attracting new customers. As we said, only 10% of stores are operating in the new concept so far. We are renovating Pyaterochka in a new format, as we see great potential in further renovations for our organic growth.

*Andrey Vasin:*

The supermarket format's EBITDA margin is still below Pyaterochka's. What is the key factor behind the lower profitability of supermarkets as compared to proximity stores? How do you view Perekrestok's EBITDA margin in the next two to three years?

*Vladislav Kurbatov:*

I would like to stress that both Perekrestok and Pyaterochka have unique complementary value offers. With Pyaterochka in the proximity segment and Perekrestok in the supermarket segment, we are able to capture a much larger share of customer demand in today's market. As for profitability, this year Perekrestok faced a big challenge of COVID-19-related restrictions. Some of our stores are located in shopping malls and some of them were closed for a long time. But any crisis is an opportunity, and this year, of course, we worked really well with our operating costs and shrinkage. I think that our EBITDA this year is a great success. Our goal is not to catch up with Pyaterochka's EBITDA but to sustain a certain supermarket profitability, which is strong and has been growing steadily for the last five years. In the next two to three years, we will continue efforts to improve our EBITDA, among other things, by raising sales density and reducing opex. We don't have a goal to catch up or outperform Pyaterochka in EBITDA; our goal is to ensure gradual improvement of our performance.

*Natalia Zagvozdina:*

The next question is about the express delivery business: is it profitable on a stand-alone basis, and to what extent does it help the core business to ensure sales growth?

*Vitaly Dyrdasov:*

I think that our business is the most profitable among logistics operators, because we rely on the existing X5 logistics infrastructure; we are just increasing its utilisation rate. Our supply chain does not have all those costs that a logistics operator faces if it starts from scratch and develops

its own infrastructure. As to our impact on the overall X5 results and traffic, 5Post's presence in stores, according to our estimates, results in a traffic uplift of 3%–4%.

*Natalia Zagvozdina:*

How do you solve the problem of customer traffic cannibalisation between Pyaterochka and Perekrestok when opening new stores? Is there a universal optimal solution in place?

*Sergey Goncharov:*

There are several rules, several approaches, a clear guideline on store opening in either format. We have some potentially overlapping stores, but it is a very, very small part of the total store openings, about 4%–6%. In such cases, Perekrestok and Pyaterochka teams discuss it and decide which chain has more potential in a particular location.

*Vladislav Kurbatov:*

I would like to add that I think we complement each other. If we have stores nearby, there is a certain flow movement from store to store, since our guests at Perekrestok want a wider choice, for example, so we do not compete with each other, we complete each other. If there is a question regarding a specific location, we periodically discuss with Pyaterochka which store opening will benefit the Company the most, and we make a joint decision.

*Igor Shekhterman:*

I would like to add that it is important for us that the flow moves between our formats, rather than leaving for the competition. We try to make sure that our customers flow from one format to another, from one digital service of ours to another, while always staying within the X5 loop. This is our new challenge, and it is part of our new strategy.

*Svetlana Demyashkevich:*

I will add a couple of technical points. We have a GIS information system, which already has statistics for many years about how stores perform, including all data on the infrastructure around the stores, including our X5 format stores, and all the stores of competitors. By constantly analysing the current statistics, we see that the quality of opening is improving all the time. Potential cannibalisation is considered when building an opening business model. The comfort level now is better than it was three to five years ago. We see that the quality of planning is steadily improving.

*Natalia Zagvozdina:*

Are you going to focus on improving the supply of produce supplied to Perekrestok? So far, the quality is inferior to farmers markets.

*Vladislav Kurbatov:*

We are definitely working on it. We strive to be better-quality than farmers markets. The issue is that we want to ensure this in 900 stores at the same time. We have launched the Freshness

programme, which should help us improve the quality of products on the shelves. I am sure that within six months we will dramatically improve the quality of fruits and vegetables on our shelves.

*Igor Shekhterman:*

As to vegetable and fruit quality at both Pyaterochka and Perekrestok, for the last two years we have been actively increasing direct imports. We have a company of our own which does that – it is called RVI. We see how the increase in direct imports improves the quality of goods on the store shelf. Next year we expect to increase direct imports of fruits and vegetables, which should dramatically improve the quality of products on the shelf.

*Andrey Vasin:*

Is Magnit's renovation programme affecting any of your stores? What improvements have you made to increase your competitiveness against specialised competitors like VkusVill and Red and White?

*Sergey Goncharov:*

As for our renovations, this is what we see when we open a new-format store: the more competitors there are operating in the area, the better our new-concept stores perform. This shows that the new store concept is really well received by our guests, and the more competition there is, the better our differentiation from the format competitors. As to innovations that we have implemented, we not only scan Russian competitors, like VkusVill, but we look at best practices globally and we apply them in practice. This is recognised by international publications that new-format Pyaterochka is a world-class store. As to Magnit's renovations, we are not feeling the effect in our stores yet.

*Andrey Vasin:*

We have a question about the development of our online businesses. Is there any cannibalisation between these two online businesses? If the pandemic is over, what will happen to the growth rate?

*Leonid Dovladbegyan:*

I think that this word – cannibalisation – is not applicable here. Our two online businesses operate in two different formats. Vprok is about stocking up, while the service of express delivery from our retail chains is part of their omnichannel model, an extension of their brands and audience.

Perekrestok Vprok has a much wider assortment, slower delivery, it's a completely different business. It is more like a classic e-commerce operator in terms of the interface. This is why we announced the launch of our marketplace today. We need to be present in all missions – offline and online – so that our customers don't move on to our competitors. From the point of view of user experience, I know a lot of people who use express delivery from Pyaterochka or Perekrestok when something is urgently missing, and they use Perekrestok Vprok to stock up on

household chemicals, home care and utensils biweekly. So, there is no cannibalisation; these businesses are complementary.

If you look at the experience of other countries post lockdown, in particular China, there is no decline in delivery service; it a really convenient service. It shows people that they can spend more time on themselves and their families rather than carry heavy bags from the stores – and so people continue to use the services after the lockdown. In China, even after the lockdown, this is the only part of the restaurant business, for example, that did great during the lockdown and is performing well after it.

*Igor Shekhterman:*

We want to be in every part of the food market: we want to cover all customer missions around food through stocking up at Perekrestok Vprok, express delivery or a direct trip to the store. We have offers for each of these client missions. Our task is to accommodate all of them within the perimeter of X5. We are not looking at our businesses through the lens of cannibalisation but rather through the customer satisfaction lens. As far as Perekrestok Vprok is concerned, we do not believe the hypermarket segment can survive offline; it will go online, and we are entering this online hypermarket segment.

*Vladimir Kholyaznikov:*

Getting back to the numbers: last year the whole e-grocery market was about RUB 40 billion. This year it will be RUB 145 billion. But if we try to single out anyone in the market who has grabbed a significant part of the RUB 100 billion growth, we will not see anyone in particular. The absolute majority of services that have actively invested and managed to cope with the growth have really grown. In fact, the e-grocery market resembles a burning fire, which is burning and you just need to bring firewood – that is, services and the ability to execute orders. We do not see any cannibalisation between our own services. We are analysing where clients are shopping, and we don't see any significant outflow to competing services, because this is an extensive industry development. We have a long-term strategy for integration between our e-grocery services. We see that we can cross-sell services to the active users of Vprok and express delivery, leveraging our multiple touchpoints with them. For example, if customers cannot use the express delivery yet at a particular address, we suggest customers use delivery from Vprok.

The COVID-19 pandemic has shown that when new industries or businesses are created, it is always about ways of turning services into a habit for people, because the main marketing money, subsidised deliveries, coupons and promotions are targeting creating habits. Express delivery services or e-grocery as an industry were not a habit for people a year or two ago. The pandemic meant a big leap forward for us. The lockdown taught people to use different forms of food delivery. People tried the service and found it convenient, so they will keep using it. There is no doubt that the business volume will only grow. We saw a slight decline in demand in the summer after the first wave, but we believe it is due to seasonality, because our loyal customers

love to go to our physical stores; this is part of their life, part of the pastime. But there are also high seasons in delivery too.

*Andrey Vasin:*

By how much can we increase our dividends, and where will the money come from?

And longer-term until 2023, what can drive our profitability and dividends?

*Svetlana Demyashkevich:*

We expect that every year from 2021 to 2023 the revenue growth rate will be above 10%. This means that it is very likely that the revenue will outpace cost. That is, we will have structural factors that have a positive impact on profitability. In addition, as we have shown in detail, we are achieving economies of scale in regions where we have a bigger market share with our core formats; we are generating higher margins. Moreover, we do not see major price pressure and are moving to personalised promotions, which will put less pressure on the commercial margins. Besides, we are optimising by reducing shrinkage, by getting better supplier terms, and by building new relationships with suppliers, and by data analytics, which helps our efficiency in pricing, promo and investments through better decision-making. All of this contributes to our EBITDA margin.

Thus, with a significant increase in revenue and profitability, we will have the space to pay dividends. The dividend paid this year for 2019 was RUB 30 billion. Next year we expect to pay 50% more – i.e., RUB 45 billion – but I believe we potentially could pay more. This will be decided by the Shareholders Meeting. We as the management will make our recommendations.

*Natalia Zagvozdina:*

This completes our event today. I would like to thank all the speakers and everyone who was with us on the other side of the screen. I would also like to thank my PR colleagues for all their efforts in preparation. Thank you all and see you next year!