

# Operational Excellence: Valuing Our People's Potential

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**X5 Employs over 61,000 People and Creates New Job Opportunities Every Day**

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**We Pay Competitive Wages and Motivate, Measure and Reward Performance**

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**We are Targeting Significant Improvements in Employee Productivity**

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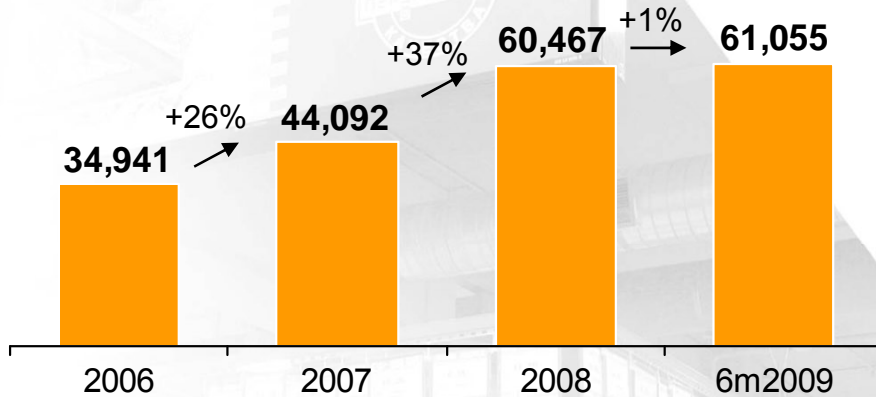
**Our Training & Development Programs Drive Quality, Service and Efficiency**

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**X5 is Engaging Employees Every Day to Build a Strong Corporate Culture:**

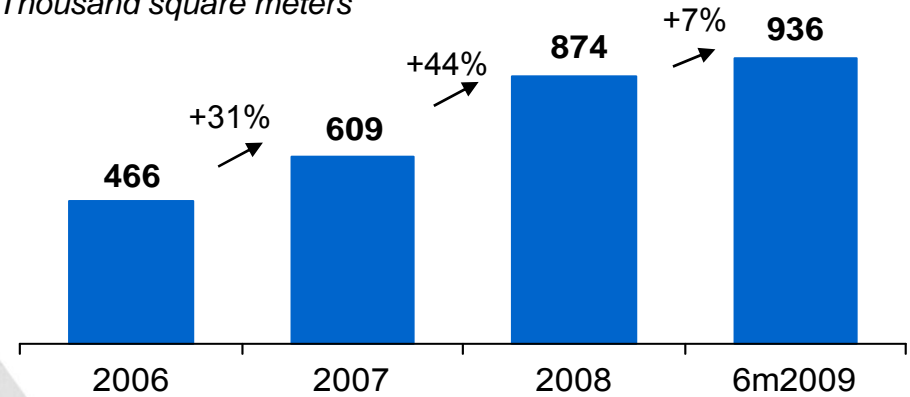
- ✓ **Company Pride**
- ✓ **Business Ethics**
- ✓ **Respect for People**

**Headcount (EoP)**

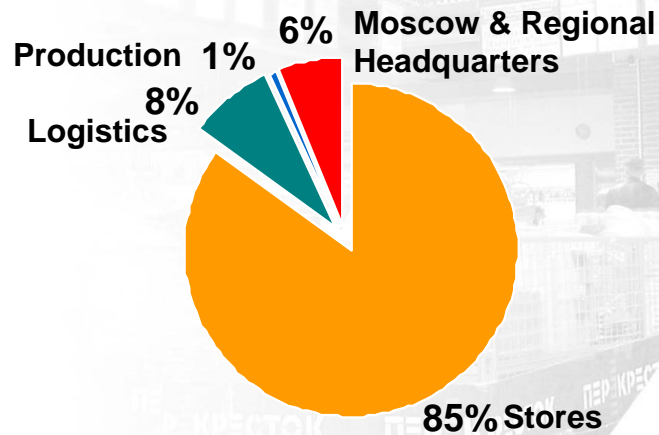


**Selling Space Growth**

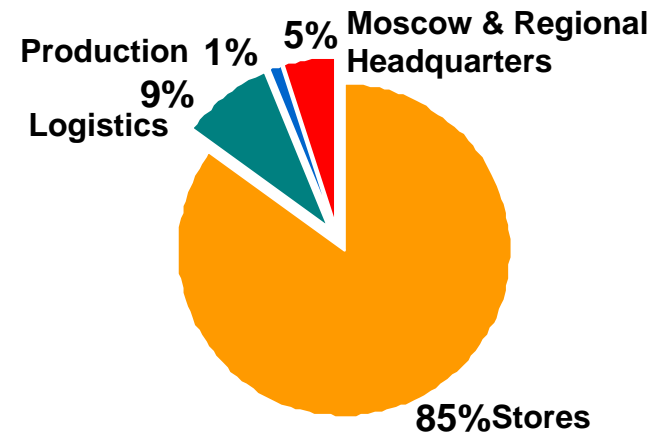
Thousand square meters



**2008 Headcount by Function**



**6M 2009 Headcount by Function**



## X5's Compensation and Benefits Policy is Directly Linked to the Company's Strategic Goals

**Fight for Talents...**  
...to Deliver Growth & Long-Term Leadership

**Return on Human Capital Invested...**  
...to Achieve Operational Excellence



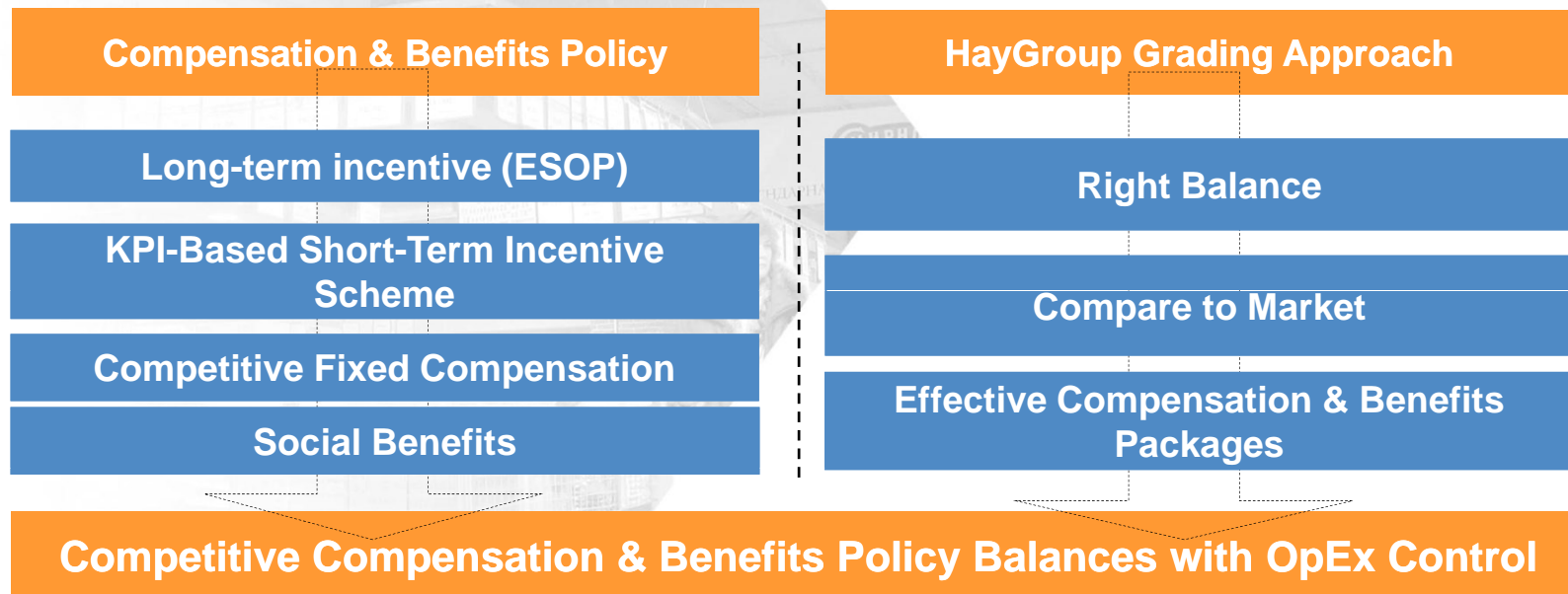
**X5's Reward Strategy**

**Correlation of key managers' compensation proposed by the Company and other employers directly affects our ability to attract and retain best professionals who drive Company's success and long-term leadership**

**Compensation and benefits policy with respect to line managers ensures right balance between competitive situation in the labor market, employees' performance and control over staff costs**

X5 applies HayGroup job grading approach, which enables us to:

- Find a right balance between each grade’s value to the Company and mark-to-market results
- Ensure competitive fixed compensation levels
- Align grades with short-term (bonuses) and long-term (ESOP) incentive schemes
- Align grades with social packages
- Efficiently manage staff costs



**Performance-Based Short-Term Incentive Scheme**



- Corporate budgets and objectives
- Key managers' targets
- Approval by Management, Executive and Supervisory Boards

**Key Performance Indicators:**

- Corporate
  - Sales
  - EBITDA
  - Corporate Culture
- By function (examples)
  - Gross profit
  - Expansion (sq.meters)
  - Revenue, margins for formats

- Monthly financial reports (management accounts)
- Quarterly reviews
- Presentation to executive committees
- Interim assessment and adjustment

**End of year**

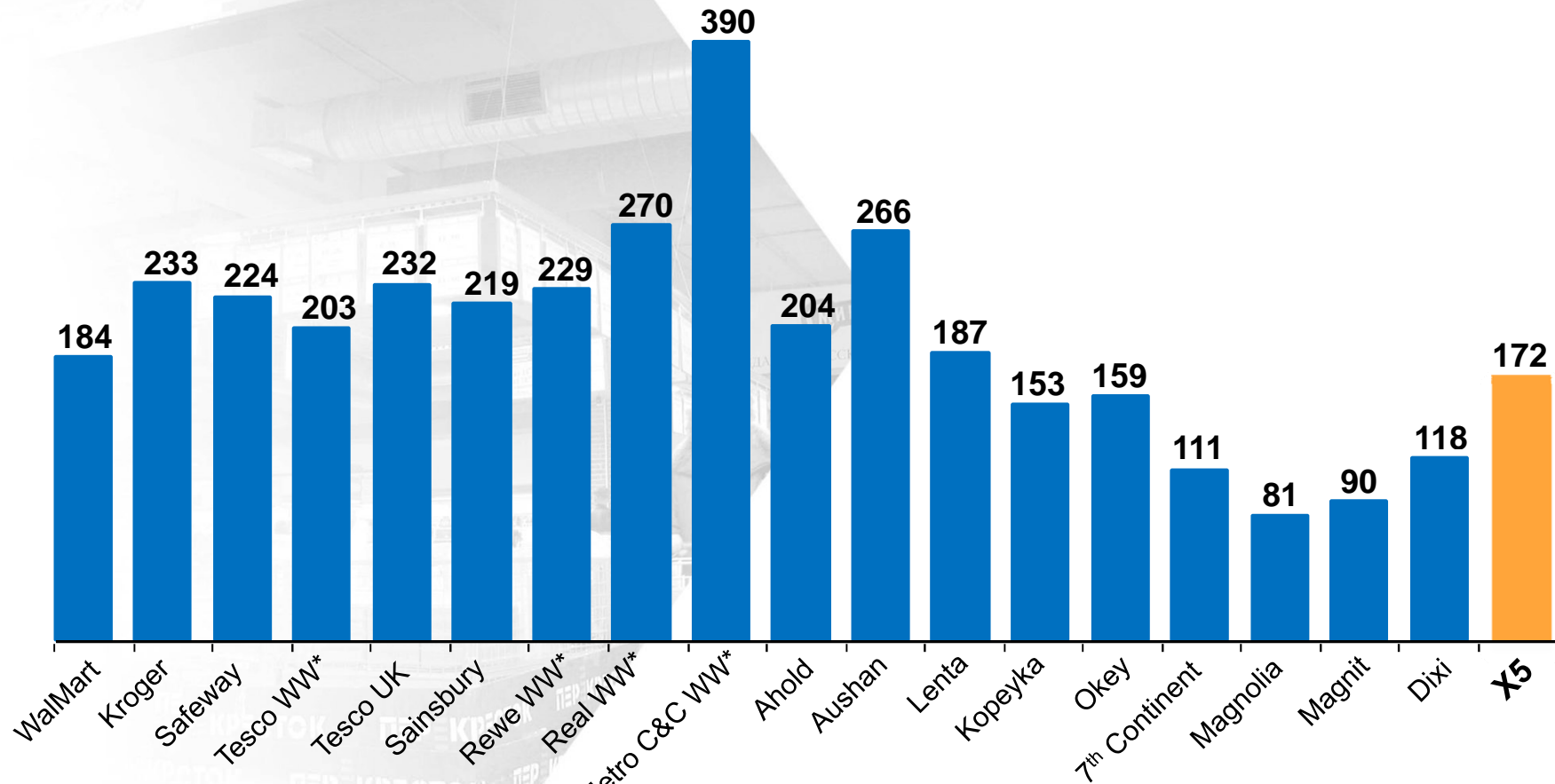
- Managers perform appraisal of subordinates, who also conduct self-appraisals

**Performance appraisals:**

- A – outstanding
- B – excellent
- C – good
- D – satisfactory
- E – unacceptable
- Appraisals delivered to HR
- Annual bonus pool proposal for the employees is determined based on the results

**X5 Outperforms Most Russian Competitors in Terms of Sales per Employee, but has Significant Potential to Drive further Productivity Improvements**

**Sales per Employee, USD'000 (2008)**



Source: Consensus (McKinsey, Accenture)  
 Note: \* World Wide data



**We Have Conducted a Comprehensive Analysis to Reveal Areas for In-Store Productivity Improvement**

- ✓ Bottom-up and top-down approaches were used
- ✓ Bottom-up analysis enabled to assess the efficiency of working time spent by staff in stores
- ✓ Top-down analysis enabled to assess maturity of our business-processes, their impact on staff productivity and to identify areas for improvement



Format	Working Time Utilization	
	Efficient	Inefficient
Discounter	76%	24%
Supermarket	82%	18%
Hypermarket	85%	15%

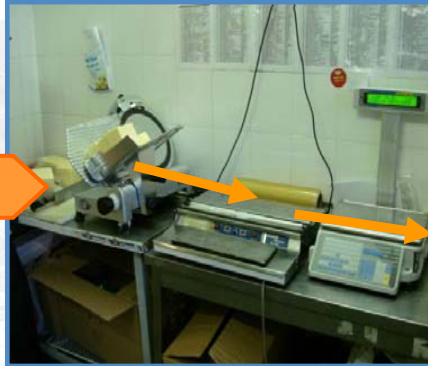
Bottom-Up Analysis Identified >20% Scope for Improving In-Store Staff Efficiency by Introducing Best Practices and New Technologies

Inefficient workspace

Optimal workspace

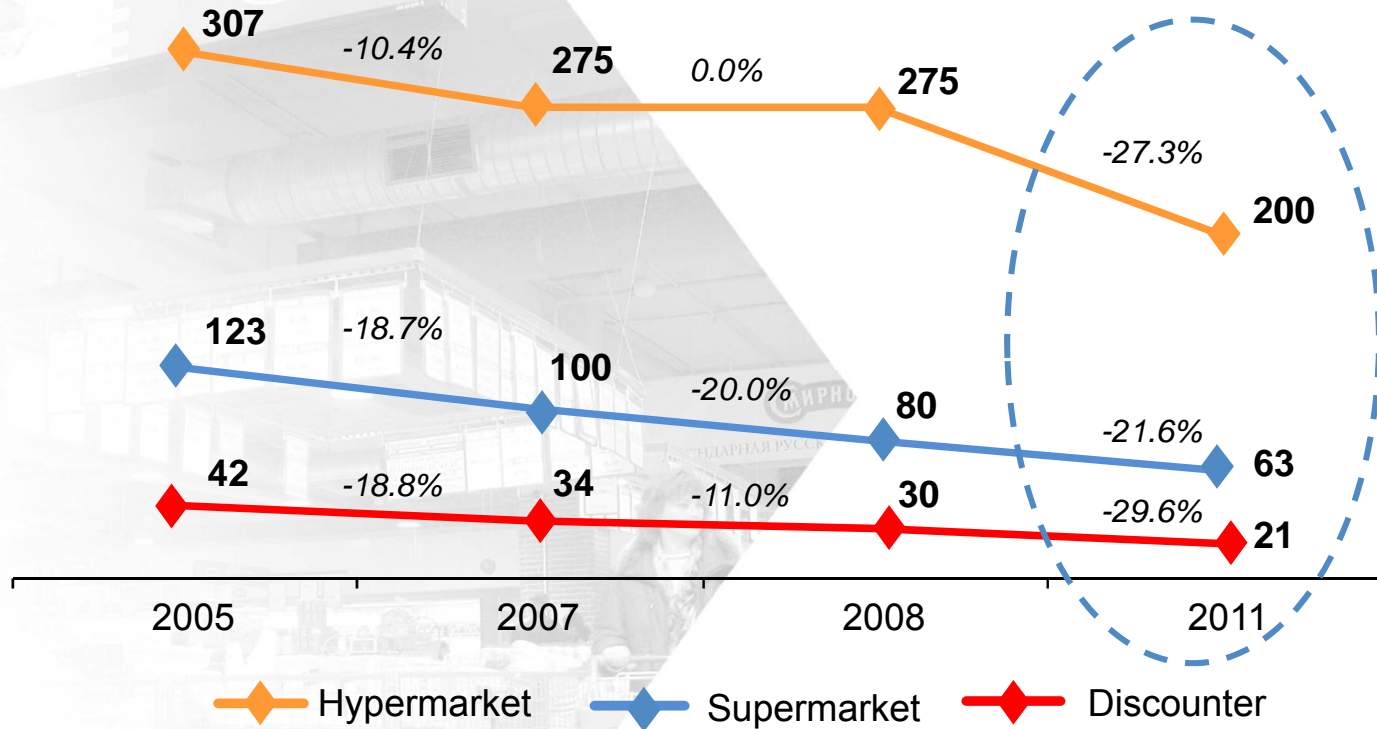
Inefficient re-stocking

Optimal re-stocking





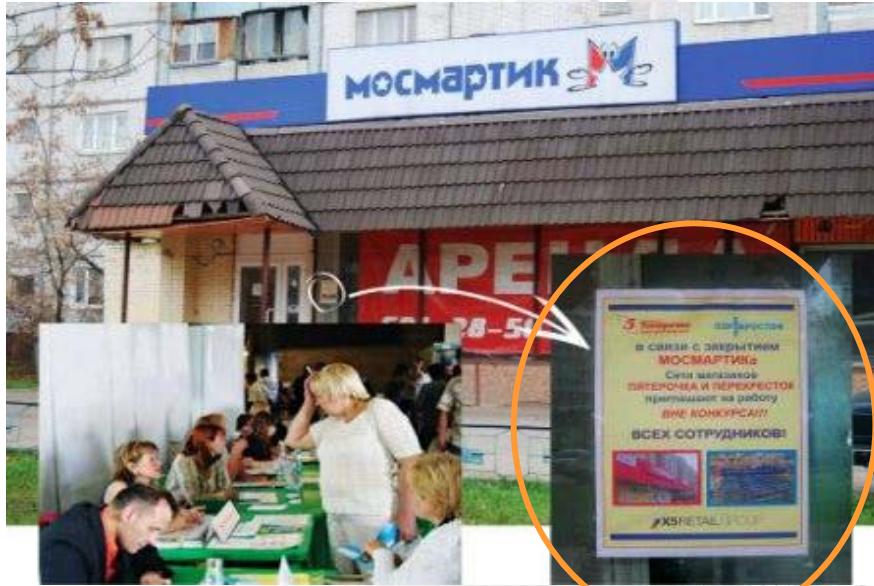
## Average Headcount Per Store by Format



We Target Material In-Store Personnel Optimization Through Application of New Technologies and Process Optimization



## Macro Economy Creates Opportunities to Improve Staffing and Workforce Quality



- Filling vacancies via open and transparent internal competition
- Independent search and recruitment of candidates
- Introduction of a comprehensive adaptation system for employees

Format	Staffing level		
	2007	2008	H1 2009
Hypermarket	94.0%	98.3%	98.3%
Supermarket	97.0%	97.6%	97.4%
Discounter	90.0%	95.8%	97.3%

Format	Turnover		
	2007	2008	HQ2009
Hypermarket	45.0%	47.1%	19.6%
Supermarket	64.0%	58.8%	21.6%
Discounter	68.0%	68.7%	28.1%

**Corporate T&D Centers in Key Regions of X5's Presence – Unique Advantage in the Framework of Fast Growth and M&A Activity**

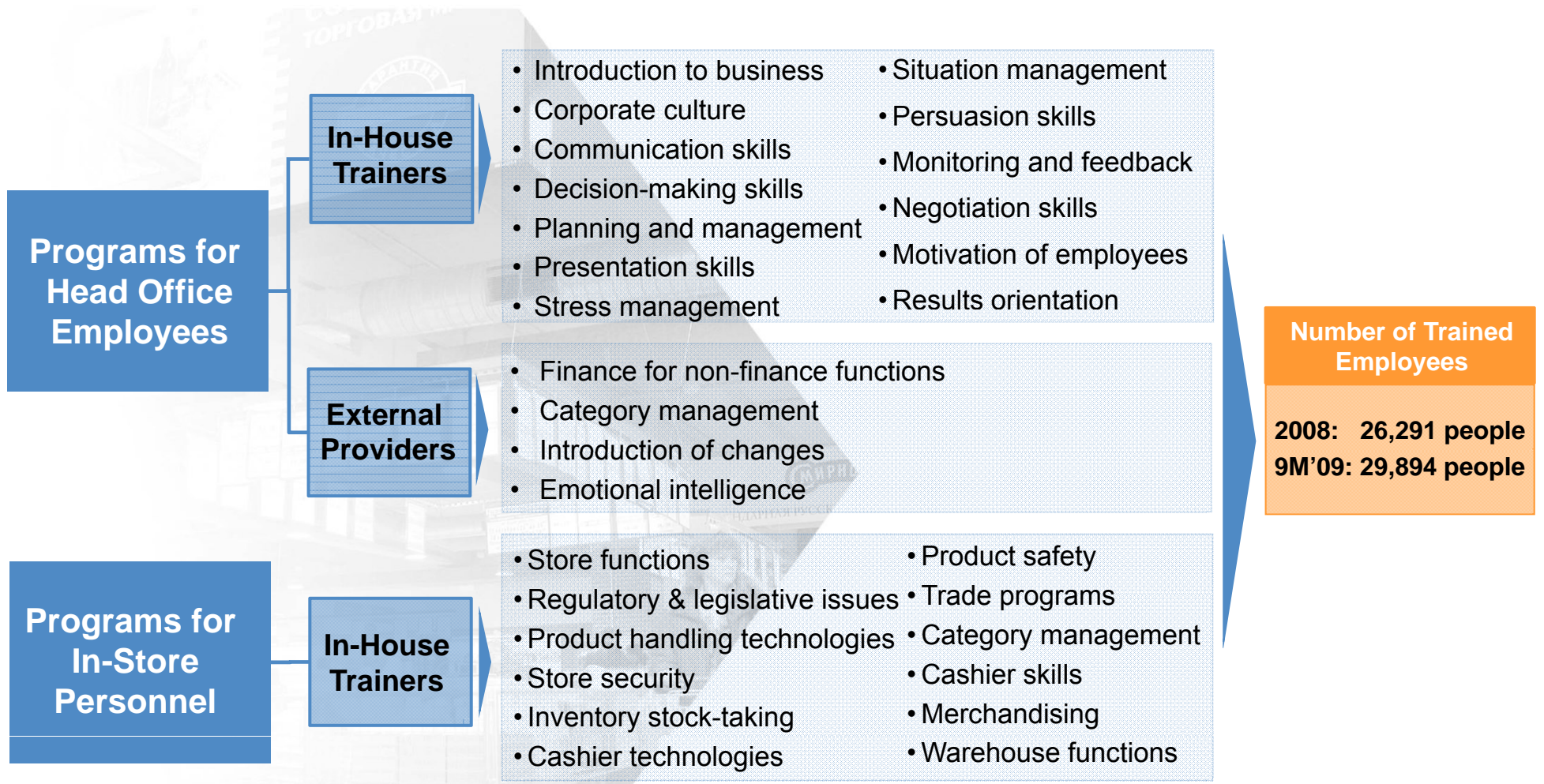
**Corporate T&D Centers**

- ✓ Moscow
- ✓ Saint-Petersburg
- ✓ Nizhniy Novgorod
- ✓ Kazan
- ✓ Lipetsk
- ✓ Samara
- ✓ Krasnodar
- ✓ Rostov-on-Don
- ✓ Ekaterinburg
- ✓ Chelyabinsk



X5 Retail Group trained in total c.4,000 employees of newly acquired companies at Corporate T&D Centers in 2008

	# of Employees
Karusel	3,254
Korzinka	360
Strana Gerkulesiya	336



**Programs for New Employees**

**All Head Office Employees**

**Supermarket Staff**

**INTRO COURSE**

- Company's history
- Corporate management
- Organizational structure
- Corporate Culture
- Key business processes
- Competence model

**TWIST INTERNSHIP**

- Store structure of all the formats
- Layout of goods in the store area
- Private production technology
- Work at the counter
- Orders generation
- Service zone work

**'AGITBRIGADA' TRAININGS**

- Changes in the format functioning
- Motivation
- Client oriented approach
- High level of service

**'SHOPPER' PROGRAM**

- Quality of store functioning
- Customer service level
- Layout of goods and assortment inventory
- Store staff work









**THANK YOU!**

