

EUROTOrg ANNOUNCES 1Q 2018 OPERATING RESULTS

25 May 2018

Eurotorg LLC (“Eurotorg” or the “Company”), the largest food retailer in Belarus, announces its unaudited operating results for the three months ended 31 March 2018 (1Q 2018).

Operating highlights

- Net retail sales¹ increased by 11.4% year-on-year (“y-o-y”) and reached BYN 934 mn (net retail sales in USD terms increased by 8.0% y-o-y and amounted to USD 473 mn²).
- As of 31 March 2018, the Company operated 520 stores with total selling space of 280.5 thousand square metres (“ths sqm”).
- In 1Q 2018 Eurotorg added 20 net new stores with 2.0 ths sqm of selling space.
- In 1Q 2018 the Company further expanded its regional presence, entering 14 new cities and towns across Belarus (156 cities and towns covered as of 31 March 2018).
- Like-for-like (“LFL”) sales significantly improved from 0.9% in 1Q 2017 to 7.1% in 1Q 2018. This was driven by a substantial improvement in LFL traffic (-0.5% in 1Q 2018 vs. -9.3% in 1Q 2017) and high, albeit slightly slower, growth in the LFL average ticket (7.6% in 1Q 2018 vs. 11.3% in 1Q 2017).

Strategic highlights

- In 1Q 2018, Eurotorg continued its capex-light expansion and added 20 net new stores, all of which operate in leased premises.
- The Company began actively expanding in rural areas, with 10 of the 20 new stores opened during 1Q 2018 in such locations. Management sees high potential for growth in these areas, as more than 20% of the country’s population³ are rural residents with no or very limited access to modern retail formats.
- In 1Q 2018, Eurotorg updated its approach to the brands and positioning of its formats. Management believes that the new banners and brand book are more closely aligned with the Company’s segmentation of its customer value propositions for different formats and will contribute to stronger communication with consumers. The new Eurotorg brand book places a greater emphasis on green colours in order to give customers a deeper association with the fresh and healthy assortment of products that the Company offers. The new approach also reflects Eurotorg’s development strategy, which is focused primarily on expansion of the convenience format. (See “New format classification” section below for more details.)
- In 1Q 2018, the Company further crystallised the positioning of its recently-launched Brusnichka banner after carefully monitoring its performance during the first six months of operations. Brusnichka stores demonstrated the best performance in highly-competitive environments (especially with large-format competitors) due to strong price-leadership communication and a more focused product range. The current positioning implies that the Brusnichka banner will be entirely focused on such locations, while some stores in less competitive areas reverted back to the Euroopt banner in 1Q 2018.

1. Retail sales represent revenue from grocery stores operating under the Euroopt and Brusnichka banners, net of VAT. This number differs from consolidated IFRS revenue, which also includes proceeds from wholesale, lease, and subsidiaries (Status Bank and others), and other revenue. In 2017 net retail sales of Eurotorg’s grocery stores represented 91% of its consolidated IFRS revenue.

2. Average exchange rate for 1Q 2018: 1.974 BYN per 1 USD; 1Q 2017: 1.9132 BYN per 1 USD.

3. Source: National Statistics Committee of the Republic of Belarus.

Eurotorg CEO Andrei Zubkou said: “We are very pleased with both the like-for-like sales performance of existing stores, as well as with the pace of expansion of our retail operations in 1Q 2018. We delivered strong operating growth in the first quarter of 2018, with net retail sales for our grocery retail business improving by 11.4% year-on-year to BYN 934 million and like-for-like sales up by 7.1% in the period. At the same time, we continued to implement key strategic initiatives, opening 20 new stores in leased premises and expanding into new, rural areas that previously had limited access to modern food retail. Looking ahead, we plan to continue to maintain our strategic focus on opening smaller stores in leased space, including in underserved small towns and settlements across Belarus.”

New format classification

- The Company introduced new approach to differentiate its formats beginning on 1 January 2018. Previously, Eurotorg used E-mini, E+, E++, E+++ and E++++ under the Euroopt banner, and one format under the Brusnichka banner. The new approach to format segmentation is as follows:
 - ✓ The Company has refocused on the development of smaller-format stores and has divided its convenience format division into three banners: E-minimarket, E-market and Brusnichka.
 - ✓ **E-minimarket** is the convenience format covering rural areas.
 - ✓ **E-market** (formerly E-mini and part of E+) includes convenience stores in urban areas with a standardised assortment and selling space of up to 600 sqm.
 - ✓ **Brusnichka** convenience stores operate in highly-competitive locations and differ from the core Euroopt banner by their more aggressive price positioning, lack of promo and more limited assortment, with a higher share of private label and a focus on high-turnover products in the low- and medium-price segments.
 - ✓ The Company’s supermarkets and hypermarkets have been consolidated under the **E-Super** (formerly larger E+ and E++ stores) and **E-Hyper** (formerly E+++ and E++++) banners.
- A detailed explanation of the new format classification is set out in the table below:

Classification	New banner	Avg. selling area, sqm ⁴	Location	% of net retail sales ⁴
Convenience stores	 евроопт МИНИМАРКЕТ	94	Rural territories with a population of less than 2,000	46%
	 евроопт MARKET	248	Urban areas, within walking distance for target buyers	
	 бруснічка	297	Urban areas with high competition from large-format stores	
Supermarkets	 евроопт SUPER	930	Dense residential districts within city boundaries	21%
Hypermarkets	 евроопт HYPER	2 865	Close to transport hubs in urban areas with >50,000 people	33%

Selling space and stores, by format

	1Q 2018	1Q 2017	Change	4Q 2017	Change
Number of stores, end of period ("e-o-p")	520	456	14.0%	500	4.0%
<i>E-minimarket</i>	23	4			
<i>E-market</i>	268	324			
<i>Brusnichka</i>	118	-			
<i>E-Super</i>	73	90			
<i>E-Hyper</i>	38	38			
Store openings, net	20	3	6.7x	34	-41.2%
<i>E-minimarket</i>	12	-			
<i>E-market</i>	24	3			
<i>Brusnichka</i>	-19	-			
<i>E-Super</i>	3	-			
<i>E-Hyper</i>	-	-			
Selling space, ths sqm, e-o-p	280.5	271.5	3.3%	278.5	0.7%
<i>E-minimarket</i>	2.2	0.5			
<i>E-market</i>	66.5	81.3			
<i>Brusnichka</i>	35.1	-			
<i>E-Super</i>	67.9	77.1			
<i>E-Hyper</i>	108.9	112.6			
Selling space added, net, ths sqm	2.0	0.8	2.5x	8.0	-74.7%
<i>E-minimarket</i>	0.9	-			
<i>E-market</i>	7.0	0.8			
<i>Brusnichka</i>	-8.8	-			
<i>E-Super</i>	2.9	-			
<i>E-Hyper</i>	-	-			

Key factors affecting development of the retail chain

- In 1Q 2018, net new openings increased to 20, from three in 1Q 2017.
- Half of the new stores (10 out of 20) were opened in small settlements, in line with the Company's focus on development in underpenetrated rural areas.
- The Company's strategy of developing smaller formats contributed to moderate selling space growth of 2.0 ths sqm in 1Q 2018, as the average space of newly-opened stores decreased from 266 sqm in 1Q 2017 to 101 sqm in 1Q 2018.

Sales performance, by format

	1Q 2018	1Q 2017	Change
Retail sales⁵, net, ths BYN	933,526	837,664	11.4%
<i>E-minimarket</i>	4,619	1,248	
<i>E-market</i>	263,870	314,975	
<i>Brusnichka</i>	160,299	-	
<i>E-Super</i>	198,913	217,038	
<i>E-Hyper</i>	305,826	304,403	

5. Retail sales represents revenue from grocery stores operating under the Euroopt and Brusnichka banners, net of VAT.

	1Q 2018	1Q 2017	Change
Retail sales, net, ths USD	472,911	437,834	8.0%
<i>E-minimarket</i>	2,340	652	
<i>E-market</i>	133,673	164,633	
<i>Brusnichka</i>	81,205	-	
<i>E-Super</i>	100,767	113,442	
<i>E-Hyper</i>	154,927	159,107	

Sales & traffic density

	1Q 2018	1Q 2017	Change
Sales per 1 sqm per month, net, BYN	1,113	1,030	8.1%
Sales per 1 sqm per month, net, USD	564	538	4.8%
Traffic per 1 sqm per day, tickets	3.14	3.08	2.0%

LFL performance⁶

	1Q 2018	1Q 2017	Change
LFL sales growth	+7.1%	+0.9%	+6.2 pp
LFL traffic growth	-0.5%	-9.3%	+8.8 pp
LFL average ticket growth	+7.6%	+11.3%	-3.6 pp

Key drivers of 1Q 2018 operating performance

- Double-digit y-o-y growth of retail sales in 1Q 2018 (up by 11.4% in BYN) was driven by both accelerated new store openings and strong LFL sales growth of 7.1%.
- Significant LFL sales growth in 1Q 2018 was supported by the improvement in customer traffic and moderate growth in private consumption.
- In 1Q 2018, LFL traffic improved significantly by 8.8 pp y-o-y. Management considers consumer behaviour in 1Q 2017 and 1Q 2018 to be comparable, as the marketing campaigns around the “Udacha v pridachu” lottery and Bonsticks collectibles have had an impact since the beginning of 2017. At the same time, when making y-o-y comparisons to periods earlier than 1Q 2018, it is necessary to take into account that consumer behaviour in periods prior to 2017 was not influenced by the marketing campaigns encouraging customers to purchase more per visit.
- Growth in the LFL average ticket slowed in 1Q 2018 compared to 1Q 2017, due to further y-o-y deceleration of food inflation to 4.1% in 1Q 2018 (vs. 8.6% in 1Q 2017). The y-o-y change in LFL average ticket dynamics was also influenced by the fact that the base for 1Q 2017 was materially different compared to 1Q 2016 (when there was no influence from the marketing activities referenced above).

6. As of 31 March 2018, the LFL base included 445 stores.

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About Eurotorg

Eurotorg is the largest grocery retail chain in Belarus, with a market share of 19% in food retail sales (2017). The Company's business was established in 1993 in Minsk. As of 1 January 2018, Eurotorg operated 500 stores under the Euroopt and Brusnichka banners in different formats (hypermarkets, supermarkets and convenience stores).

The Company's strategy, based on offering a focused assortment of high turnover products at market-leading prices, delivers a value proposition that is well-tuned to the needs of Belarusian consumers. Every day about 900,000 customers make purchases at Eurotorg stores across 143 cities and towns in Belarus.

In 2017, the Company reported revenue of BYN 3.93 bn under IFRS (USD 2.04 bn based on the average National Bank of Belarus exchange rate for 2017). In 2017, net retail sales of the grocery stores accounted for BYN 3.57 bn (USD 1.85 bn) with the share of 91.0% in total revenue under IFRS.

A brief video about Eurotorg's business can be viewed [here](#).