

# Leadership In Russian Retail

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*UBS 2008 Annual Investment Conference  
Russia/CIS: to prosperity through partnership*

Moscow, October 2008



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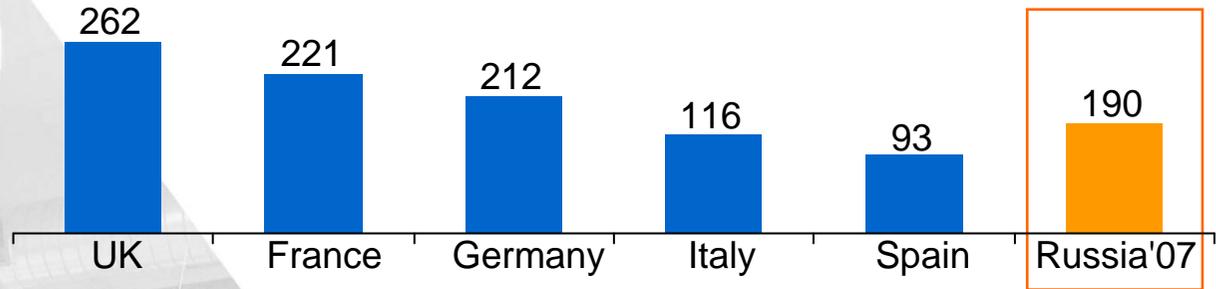
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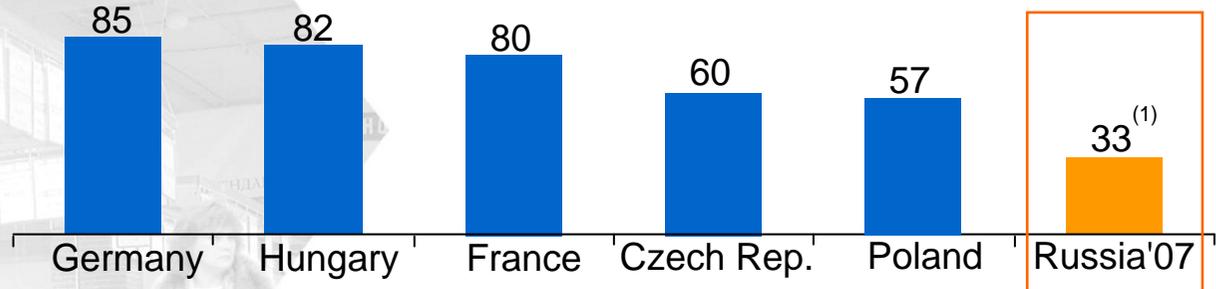
Is Amongst the Largest Food Retail Markets in Europe...

Total Food Retail Market Size in 2007, USD bln



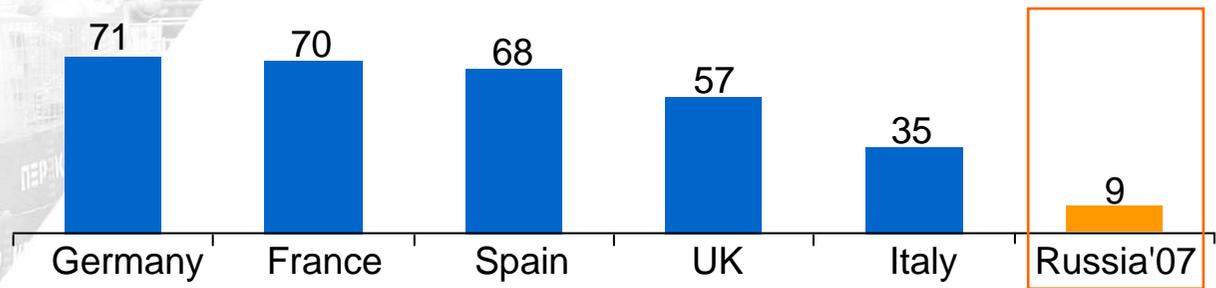
...But Remains Extremely Un-Organized...

Modern Formats as % of Total Food Retail Market



...And Very Fragmented

Top 5 Players as % of Total Food Retail Market



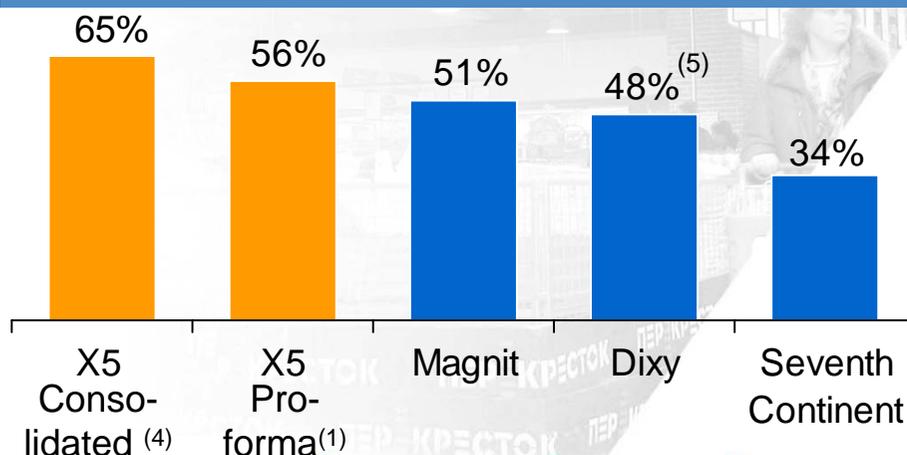
Sources: Business Analytica, Planet Retail, Rosstat.  
 (1) In cities with population of above 100,000 inhabitants only



**... an Unrivaled Leader in Russian Retail...**

- 2007 pro-forma<sup>(1)</sup> net sales - USD 6,151 mln
- 9M 2008 pro-forma<sup>(1)</sup> net retail sales - USD 6,479 mln
- 1,027 company-managed stores in Russia and Ukraine<sup>(2)</sup>
- 684 stores operated by X5's franchisees across Russia<sup>(2)</sup>
- Over 823 thousand sq. m. of net selling space<sup>(2)</sup>
- Over 645 million customer visits to X5 stores in 2007
- Over 592 million customer visits in 9M 2008

**9M 2008 Retail Revenue Growth**



| #            | Company                     | FY 2007 Sales (USD mln) | % in Top-10   | % in Total Market |
|--------------|-----------------------------|-------------------------|---------------|-------------------|
| 1.           | X5 + Karusel <sup>(1)</sup> | 6,151                   | 24.7%         | 3.2%              |
| 2.           | Metro <sup>(3)</sup>        | 3,888                   | 15.6%         | 2.0%              |
| 2.           | Magnit                      | 3,677                   | 14.7%         | 1.9%              |
| 4.           | Auchan                      | 3,200                   | 12.8%         | 1.7%              |
| 5.           | Lenta                       | 1,560                   | 6.3%          | 0.8%              |
| 6.           | Kopeyka                     | 1,490                   | 6.0%          | 0.8%              |
| 7.           | Dixy                        | 1,430                   | 5.7%          | 0.8%              |
| 8.           | Seventh Continent           | 1,275                   | 5.1%          | 0.7%              |
| 9.           | Viktorija                   | 1,156                   | 4.6%          | 0.6%              |
| 10.          | O'Key                       | 1,115                   | 4.5%          | 0.6%              |
| <b>Total</b> |                             | <b>24,942</b>           | <b>100.0%</b> | <b>13.1%</b>      |



Sources: Business Analytica

(1) Including Karusel on pro-forma basis from 1 January 2007 and 2 008; (2) As at 30 September 2008; (3) Including Metro Cash & Carry and Real, excluding Media Markt and Saturn

(4) Including Karusel on consolidation basis from 1 July 2008; (5) for 8 months 2008



**... of Operating Performance...**

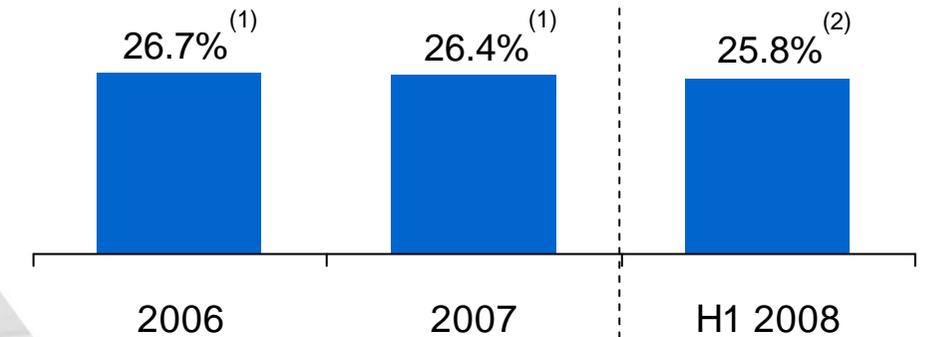
**LFL**

Based on RUR-denominated gross sales



**Gross Margin**

% of net sales



**Number Of Stores**



**Net Selling Space**



(1) Calculated on a pro-forma basis, i.e. by including acquired Pyaterochka stores for the full year in each of 2006 and 2007,  
 (2) Calculated on a pro-forma basis, i.e. by including acquired Karusel stores from 1 January 2008



| USD mln                            | H1 2008 <sup>(1)</sup> | H1 2007 <sup>(1)</sup> | % change, y-o-y |
|------------------------------------|------------------------|------------------------|-----------------|
| <b>Net Sales</b>                   | <b>4,325.8</b>         | <b>2,690.8</b>         | <b>61%</b>      |
| Retail                             | 4,301.6                | 2,674.2                | 61%             |
| <b>Gross Profit</b>                | <b>1,114.9</b>         | <b>700.5</b>           | <b>59%</b>      |
| % Gross Margin                     | 25.8%                  | 26.0%                  |                 |
| <b>EBITDA</b>                      | <b>387.5</b>           | <b>241.0</b>           | <b>61%</b>      |
| % EBITDA Margin                    | 9.0%                   | 9.0%                   |                 |
| <b>Operating Profit</b>            | <b>265.8</b>           | <b>149.0</b>           | <b>78%</b>      |
| % Operating Margin                 | 6.1%                   | 5.5%                   |                 |
| <b>Net Profit</b>                  | <b>152.9</b>           | <b>42.8</b>            | <b>257%</b>     |
| % Net Margin                       | 3.5%                   | 1.6%                   |                 |
| <hr/>                              |                        |                        |                 |
| <b>Net Debt</b>                    | <b>1,941.1</b>         | <b>1,381.2</b>         | <b>41%</b>      |
| Net Debt / EBITDA<br>(rolling 12m) | <b>2.8x</b>            | <b>3.2x</b>            |                 |



## ... Is Well Designed to Adapt to Changes in Market Environment

### Multi-Format Exposure

- Multi-format exposure enables the Company:
  - to continue capturing every potential target audience
  - to quickly adjust to any change in consumption pattern

### Diversified Geographic Presence

- Leadership in Moscow and St Petersburg – the most resilient markets
- Growing presence in the regions with high levels of income per capita (European part of Russia and Urals)

### Continuous Focus on Best-In-Class Execution

- Strong competitive advantage due to smart pricing, strong relationship with suppliers, assortment optimization opportunities

### Increased Focus on Operational Efficiency

- Substantial breakthrough in logistics infrastructure development
- Cost cutting initiatives

### Prudent Financial Management

- CapEx revision
- Gradual reduction of short-term debt



**... Enables Quick Reaction to Changes in Consumption Patterns**

**Soft Discount Stores**



As at 30 Sep 2008

- 794 stores
- Total net selling space – 404,320 sq. m.
- Sales per sq.m. – USD 14,412

**Supermarkets**



As at 30 Sep 2008

- 191 stores
- Total net selling space – 207,595 sq. m.
- Sales per sq.m. – USD 16,505



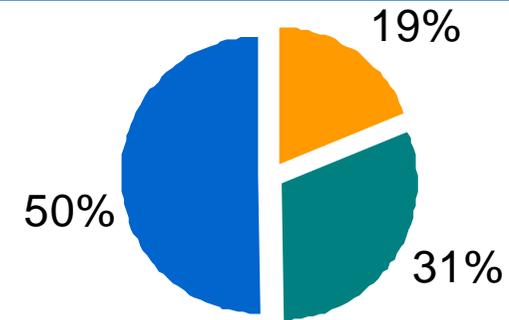
**Hypermarkets**



As at 30 Sep 2008

- 42 stores
- Total net selling space – 211,101 sq.m.
- Sales per sq.m. – USD 10,925

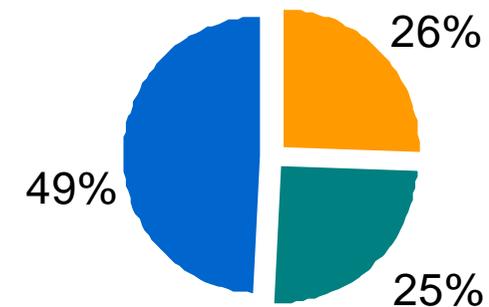
**9M 2008 Net Retail Sales Break Down by Format (1)**



■ Hypermarkets ■ Supermarkets ■ Soft Discounters

Total net retail sales including Karusel(1) – USD 6.5 bln

**9M 2008 Selling Space Break Down by Format**



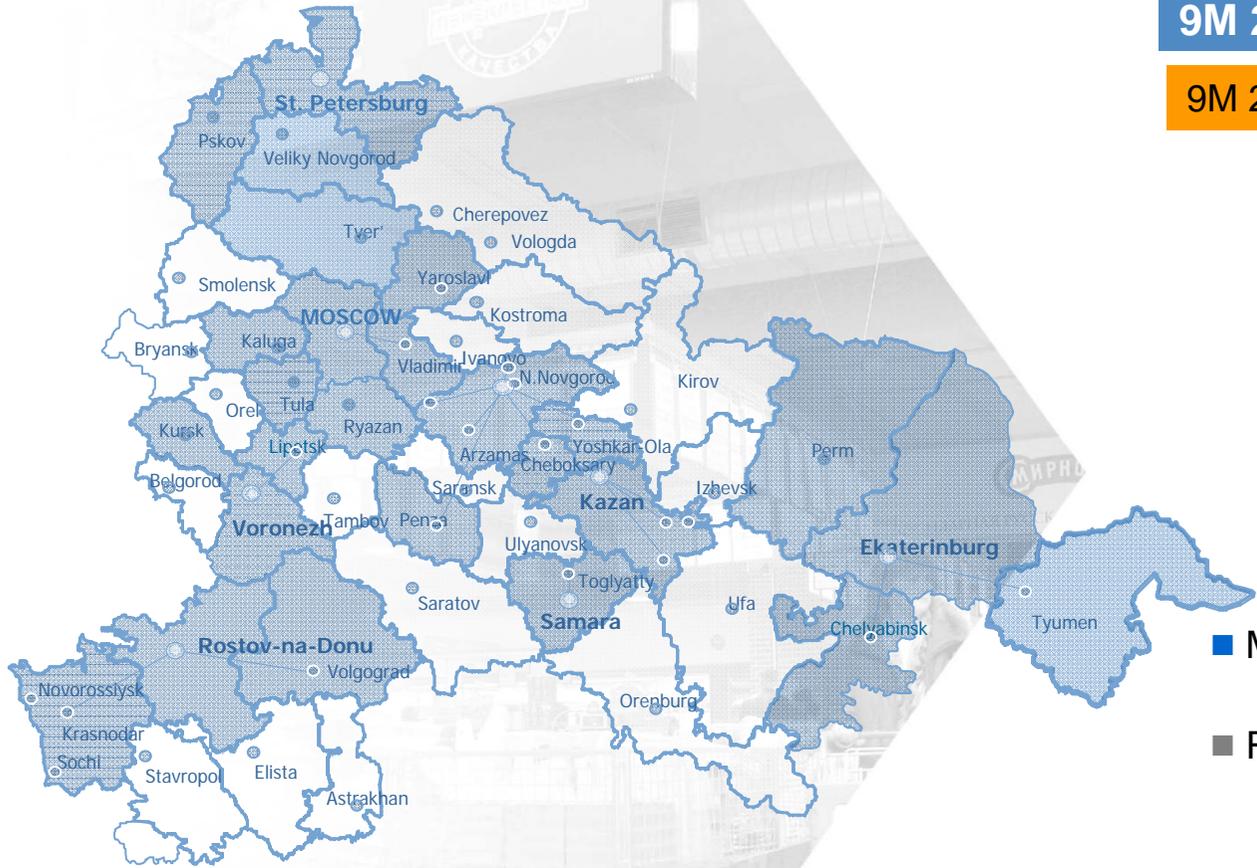
■ Hypermarkets ■ Supermarkets ■ Soft Discounters

Total selling space – 823,016 sq. m.



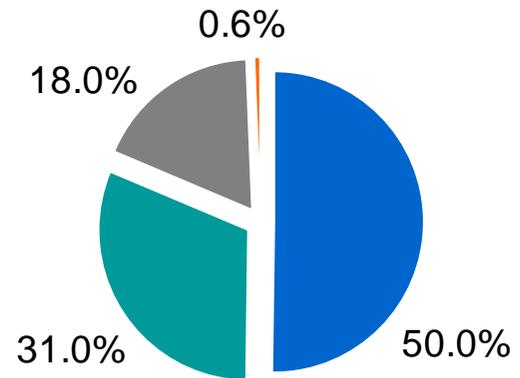
(1) Including Karusel on pro-forma basis from 1 January 2008;

**... Ensures Exposure to the Most Resilient Markets & Continues to Offer Growth Opportunities**



**9M 2008 Net Retail Sales by Region (2)**

**9M 2008 Net Retail Sales of USD 6,479 mln<sup>(2)</sup>**



- Moscow<sup>(3)</sup>
- St. Petersburg
- Russian Regions
- Ukraine

■ X5 Existing Operations<sup>(1)</sup>



Source: Business Analytica, Rosstat

(1) As at 30 September 2008; (2) Including Karusel on pro-forma basis from 1 January 2008; (3) Includes City of Moscow, Moscow and Yaroslav regions



**... Is Crucial**

**Pricing Initiatives**

- Highly competitive front-basket pricing
  - Will enable X5 to remain the leader among modern retailers and...
  - ...ensure competitive advantage over non-organized retail, including open markets
- Adjustment of back-basket pricing
  - X5 decided to cut prices on 30% of back-basket SKUs in Perekrestok stores (in excess of 20% in some product categories)

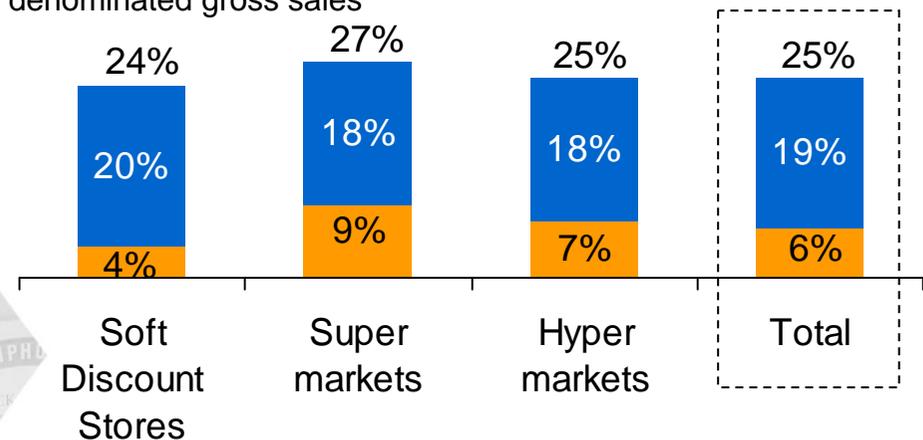
**Supplier Relationships**

- Historically strong relationship with suppliers
- In current liquidity-constraint environment X5 is a preferred partner, as the Company:
  - Pays strictly in accordance with the pre-agreed terms, but increases payment terms to suppliers who raise prices

**9M 2008 LFL Performance (1)**

Based on RUR-denominated gross sales

■ Basket ■ Traffic



**Assortment**

- Potential assortment optimization to improve efficiency and help margin
- Opportunity to increase private label sales
- Low exposure to non-food, which will suffer first from the crisis consequences

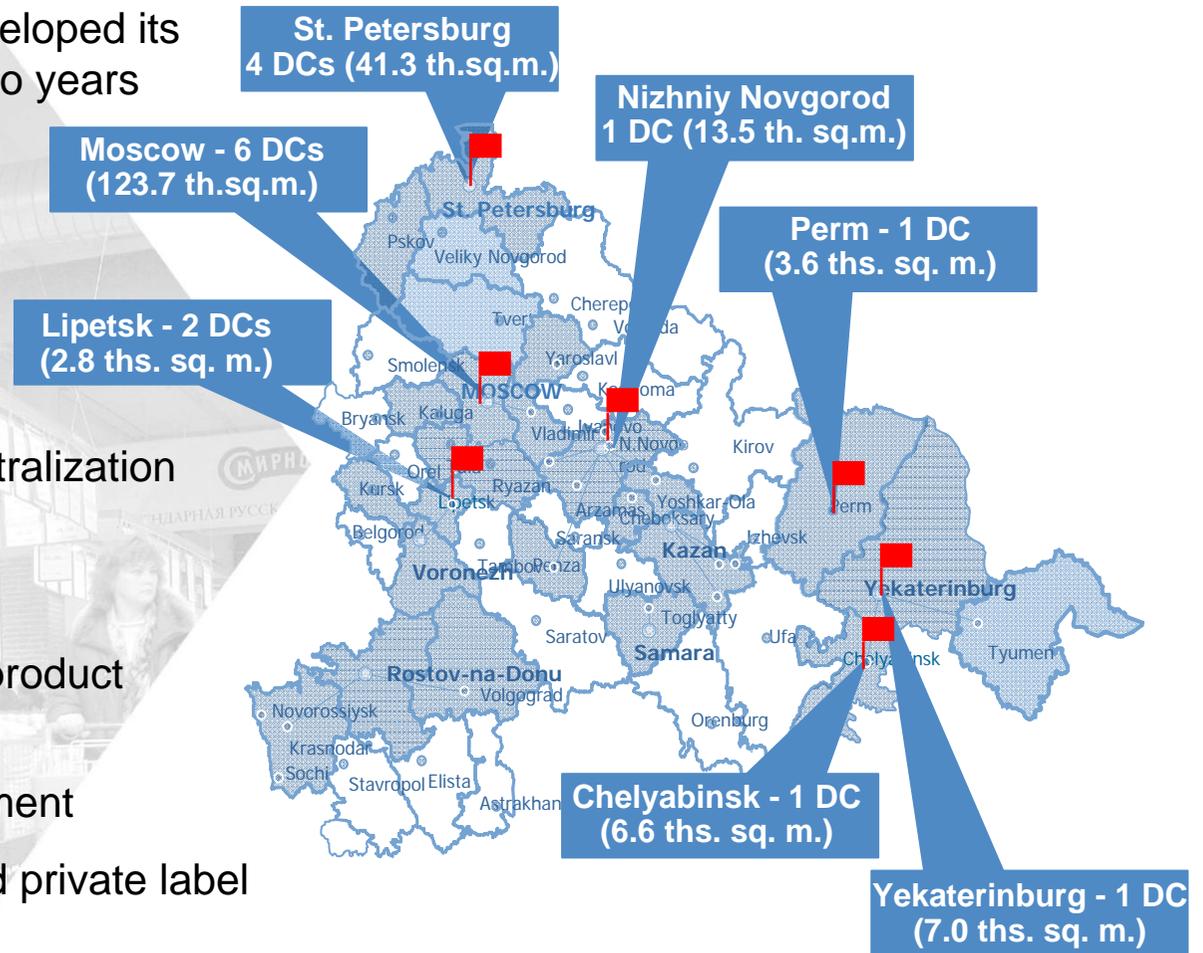


\* Including Karusel on pro-forma basis from 1 January 2007 and 2008



## ... Is Supported by Developed Logistics Infrastructure

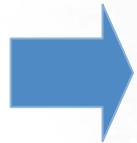
- The Company has substantially developed its logistics infrastructure in the past two years
- Total DCs area operated by X5 at 30 September 2008 was appr. 199 thousand sq.m.
- The Company operates fleet of over 450 trucks
- Current average level of supply centralization is appr. 50%
- As a result, we have achieved:
  - Higher levels and control over product availability
  - Better working capital management
  - Support for promo activities and private label development



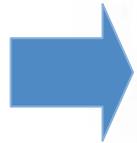


**... is a Natural Reaction to Financial Crisis**

- The strongest and the smartest will not only live through the crisis but also further strengthen their positions
- Key steps that X5 undertakes to implement further cost controls



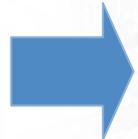
- Strict control over operating expenses at every level of operations



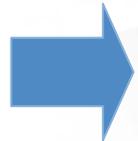
- Staff costs optimization at head offices level
  - Head office and regional offices staff reduction by up to 30% (except for operations)
  - New hire freeze (except for store personnel)
  - Wage freeze (except for store personnel)



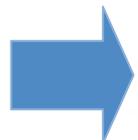
**... Aimed at Short-Term Liquidity Enhancement**



- Focus on working capital management



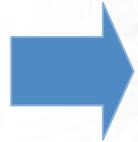
- Stricter approach towards investment projects and scale down of CapEx
  - 2008 CapEx revised from USD 1.4 to USD 1.0 bln
  - Higher returns & shorter payback period required when approving new store openings
  - Deferral of long-term capital intensive projects
  - Shift from hypermarkets and supermarkets to discounters
  - Shift from freehold to lease
  - Real estate purchase only at distressed prices



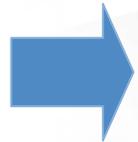
- Gradual reduction of short-term debt



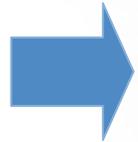
## ... Extraordinary Opportunities



- Accelerated consolidation of the industry and highly attractive M&A opportunities



- Purchase of commercial real estate at distressed prices

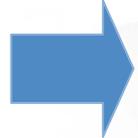


- Further strengthening of competitive positions due to
  - Stronger partnership with suppliers – X5 has the key competitive advantage today – the Company does pay for the delivered products
  - Traffic inflow from troubled retailers
  - Competitive pricing compared to non-organized retail, including open markets

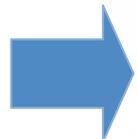


## ... Can Ease Short-Term Liquidity Concerns & Provide Long-Term Stimulus to the Industry Development

The Government Has Acknowledged that Retail Is of Strategic Importance and Considers a Number of Measures:



- Financial assistance to large Russian retailers on
  - Refinancing of short-term debt
  - Stabilization of payments to suppliers
  - Bail-out of distressed retailers



- Long-term support to the retail market, including changes in tax regulation
  - Deferral of VAT payments
  - VAT reimbursement
  - Recognition of shrinkage for tax purposes
  - Assistance in streamlining legal structures for tax optimization purposes





**FY 2008E**

|                             | <b>X5</b>                    | <b>Pro-Forma</b>           |
|-----------------------------|------------------------------|----------------------------|
| Sales Growth (excl. FX)     | ~ 40%                        | ~ 40%                      |
| LFL Sales Growth (excl. FX) | ~20%                         | ~ 20%                      |
| Gross Margin                | 25.8% - 26.2%                | 25.5% - 25.9%              |
| EBITDA Margin               | 8.8% - 9.0%                  | 8.4% - 8.6% <sup>(1)</sup> |
| Net Selling Space Growth    | 120,000 sq.m. <sup>(2)</sup> |                            |
| <i>New hypermarkets</i>     | 5                            | 7                          |
| DC Area Growth              | >60,000 sq.m.                |                            |
| Capital Expenditure, incl.  | ~USD 1,000 bln               |                            |



(1)  
(2)

Including Karusel on pro-forma basis from January 1, 2008;  
Excluding 132 thousand sq.m. of 23 acquired Karusel stores operational at the time of the acquisition



**...Of Small Chains and Successful Franchises in Attractive Regions of European Russia and Urals**

**Rationale:**  
getting strong presence in a new region, establishing platform for further organic development

| Date    | Company    | Region  | EV (USD mln) | EV/Sales | # of Stores | Selling Space (sq. m.) | Real Estate in Ownership (sq.m.) |
|---------|------------|---------|--------------|----------|-------------|------------------------|----------------------------------|
| June-08 | Franchisee | Urals   | 11 (24%)     | 0.4x     | 83          | 31,100                 | 14,700                           |
| Mar-08  | Franchisee | Perm    | 18           | 0.3x     | 28          | 9,300                  | 1,900                            |
| Dec-07  | Korzinka   | Central | 109          | 0.7x     | 22          | 20,000                 | 12,352                           |
| Jan-07  | Franchisee | Urals   | NA           | NA       | 40          | 13,800                 | 3,700                            |

**Rationale:**  
obtaining high-quality locations in the areas with limited real estate availability

|        |                   |        |     |      |                   |        |          |
|--------|-------------------|--------|-----|------|-------------------|--------|----------|
| Dec-07 | Strana Gerkulesia | Moscow | 63  | 0.8x | 26 <sup>(1)</sup> | 11,700 | >11, 000 |
| Oct-06 | Mercado           | Moscow | 200 | NA   | 17                | 14,000 | 50,600   |



(1) 26 stores were operational at the date of the transaction, three additional stores were in the process of construction and were opened in 2008