

**X5**

## Winning Customers With The Power Of 5

### **2008 Third Quarter Performance 2009 Business Outlook**

*Presentation and Conference Call for Investors  
and Analysts*

Moscow, 1 December 2008



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1. Introduction – Anna Kareva, IR Director
2. Source of Strength in Russian Retail - Lev Khasis, CEO
3. Q&A Session
4. Q3 2008 Financial Performance & Liquidity Update – Evgeny Kornilov, CFO
5. Q&A Session





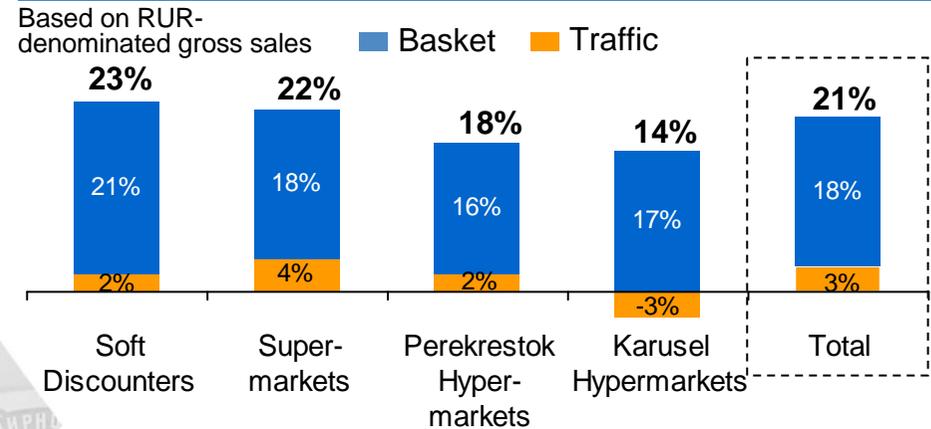
1. Introduction – Anna Kareva, IR Director
2. **Source of Strength in Russian Retail - Lev Khasis, CEO**
  - Retail Environment and Consumer Trends
  - Power of 5 Go-To-Market Strategy
  - Strong Positions in the Most Resilient Regions
  - Purchasing Power & Assortment
  - 2009 Preliminary Guidance
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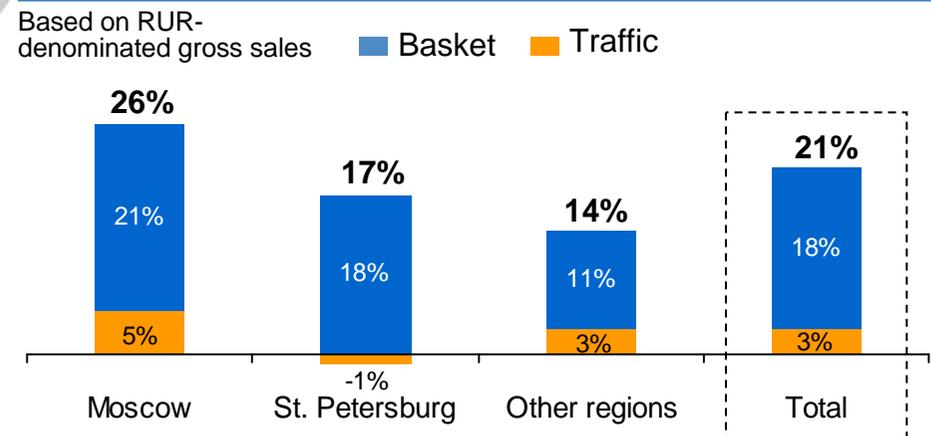
**... Was Strong Across Formats & Regions...**

- Positive traffic and basket growth well in excess of inflation
- No sign of trading down yet
- Karusel hypermarkets' performance affected by 3-4 day closings for IT platform replacement (4% revenue loss in Q3)
- St.Petersburg market – challenging for discounters (2% decline in traffic) ...
- ...while supermarkets delivered 25% LFL sales growth in St. Petersburg (+5% traffic; +20% basket)

**Q3 2008 LFL Performance by Format\***



**Q3 2008 LFL Performance by Region\***

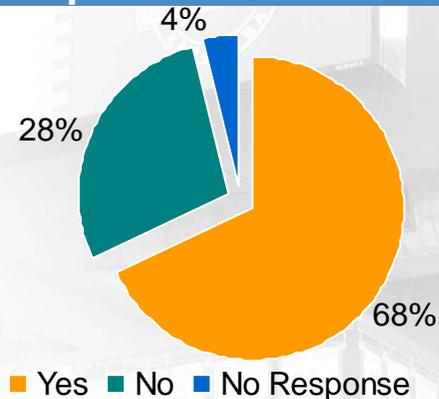


\* Calculated on a pro-forma basis, i.e. by including Karusel stores from 1 January 2007 and 2008, respectively



**... Is Changing...**

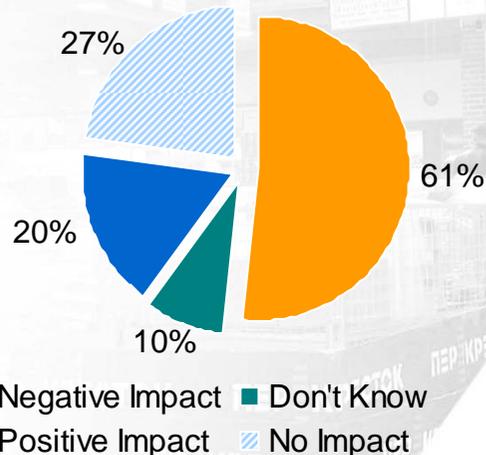
**Russian Population Sees Financial Crisis**



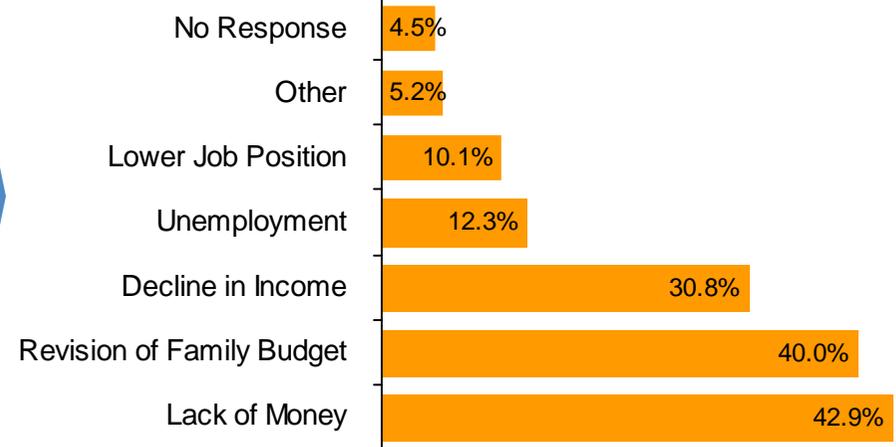
Sampling: 4166 respondents (Moscow, St. Petersburg, Samara)

- Almost two thirds of consumers (irrespective of income level) believe there is a financial crisis
- More than one third of respondents believe that the crisis will impact them negatively
- People are mostly concerned about lacking enough money and the need to cut back on family spending

**Public Opinion About Financial Crisis Impact**



Sampling: among those who admit the crisis, 2140 respondents



Source: Romir, crisis perception research, Moscow, St. Petersburg, Samara, October-November 2008



## ... Should Result in...

### Trading Down by Consumers...

- On the back of...
  - slower income growth...
  - ...higher unemployment...

### ...However....

- Impact on food retail will be limited as...
  - ...people will continue buying staples...
  - ...food represents mainly non-discretionary purchasing

### Financial Constraints...

- Pressure on average ticket...
- ...shift in demand for lower-margin products...
- ...resulting in pressure on gross margin
- Limited access to financing will affect expansion (resulting in either slower pace or adjusted approach)

### ...Opportunities for X5

- Attracting additional traffic from troubled retailers & non-organized trade
- Maximizing efficiency of existing store portfolio
- Further optimizing cost base
- Support to EBITDA due to...
  - ...lower pressure on staff and lease expenses
- More efficient CapEx due to...
  - ...higher internal return requirements...
  - ...lower cost of expansion...
  - ...lower maintenance costs

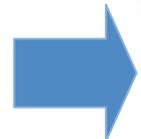
## Providing Short-Term Liquidity and Long-Term Sector Stimulus

RF Government has designated Retail as a strategic sector to ensure a well-functioning supply chain and efficient market for servicing consumer needs



- Financial assistance to large Russian retailers on

- Refinancing of short-term debt
- Stabilization of payments to suppliers
- Acquisitions of distressed retailers



- Long-term policies to support sector development, including tax incentives

- Decrease of corporate income tax from 24% to 20% (not only retail)
- Deferral of VAT payments
- VAT reimbursement
- Recognition of shrinkage for tax purposes
- Assistance in streamlining legal structures for tax optimization purposes



**... Enables Quick Reaction to Changes in Consumer Spending**

**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*



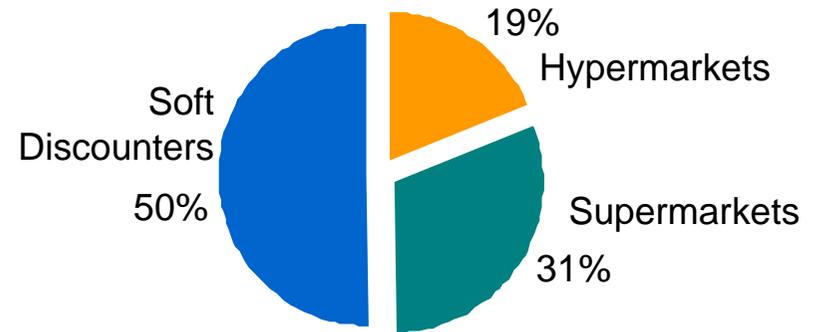
- 191 stores
- Total net selling space – 207,595 sq. m.
- Sales per sq.m. – USD 16,505

**Hypermarkets**  
*As at 30 Sep 2008*



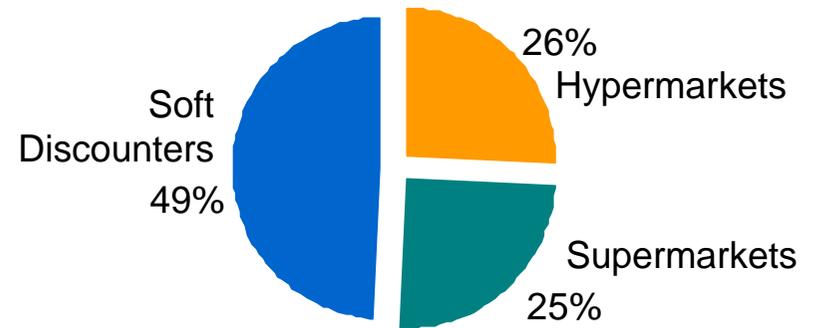
- 42 stores
- Total net selling space – 211,101 sq.m.
- Sales per sq.m. – USD 10,925

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



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

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



Total selling space – 823,016 sq. m.



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



**X5's Soft Discounters – Positioned for Trading-Down Trends**



**Value Proposition**

- Price leadership
- Convenient location
- Attractive assortment

**Strengths**

- High brand recognition
- Basic assortment at lowest price on the market
- Low cost operations
- Cheap & quick expansion potential
- Significant opportunities for private label development
- High quality store portfolio

**Opportunities**

- Attracting new customer categories on the back of trading down
- Traffic inflow from non-organized retail
- Traffic inflow from troubled competitors

**Focus in 2009**

- Strengthening the image of price leader
- Ensuring product availability
- Capitalizing on private label opportunities
- Limiting expansion to X5's core regions to maximize value





**X5's Supermarkets – Best Value for Money**

**Value Proposition**

- Quality & Convenience
- The best supermarket in promotions
- The best supermarket in fresh

**Strengths**

- High brand recognition
- The most attractive price in supermarkets
- Efficient promotions, strong customer response
- Strong loyalty program
- Opportunities for private label development
- Concentration in cities/regions with highest incomes
- High quality store portfolio

**Opportunities**

- Attracting new customers from premium supermarkets
- Retaining existing customers through smart pricing
- Traffic inflow from troubled competitors

**Focus in 2009**

- Rationalizing assortment
- Enhancing strength in fresh
- Facilitating promo activities
- Enhancing private label sales
- Improving service
- Limiting expansion to cities with over 1 mln of population





**X5's Hypermarkets – Better Alternative to Open-Air Markets**

**Value Proposition**

- Everything under one roof
- Low price
- High quality of goods
- Good location and convenient access

**Strengths**

- Premium locations
- Two formats – compact & full-size
- Basic assortment at lowest price available in the market
- Supplemental services and attractions
- Efficient promos
- Opportunities for private label development
- Limited exposure to non-food

**Opportunities**

- Capturing all possible consumer segments for week-end shopping
- Providing an attractive alternative to open-air markets
- Traffic inflow from troubled competitors

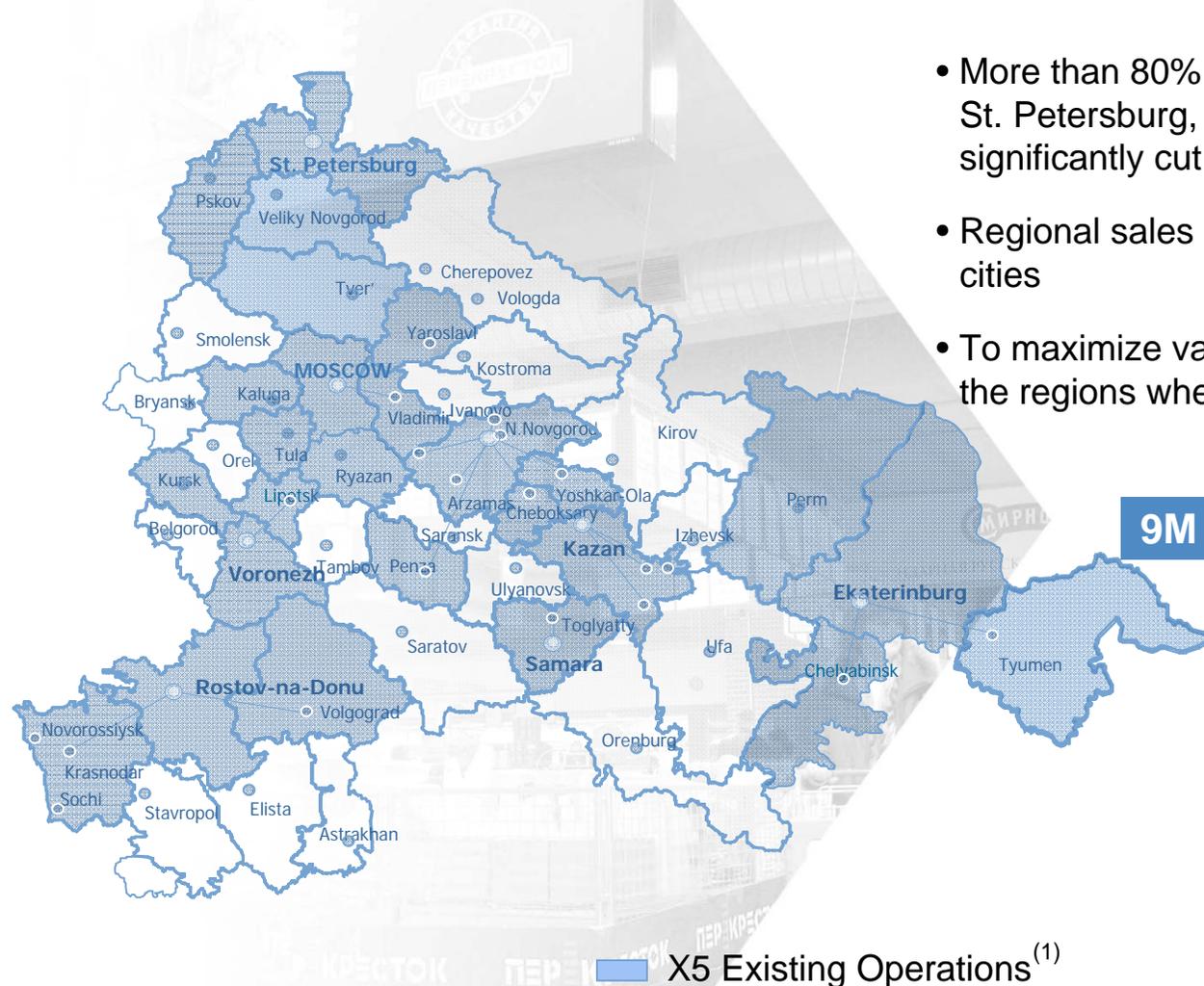
**Focus in 2009**

- Rebrand all hypermarkets to Karusel by March 2009
- Strengthen “everything under one roof” image
- Develop private label
- Non-food focused on fast-moving goods
- Expansion: only selective projects in best locations with outstanding economics



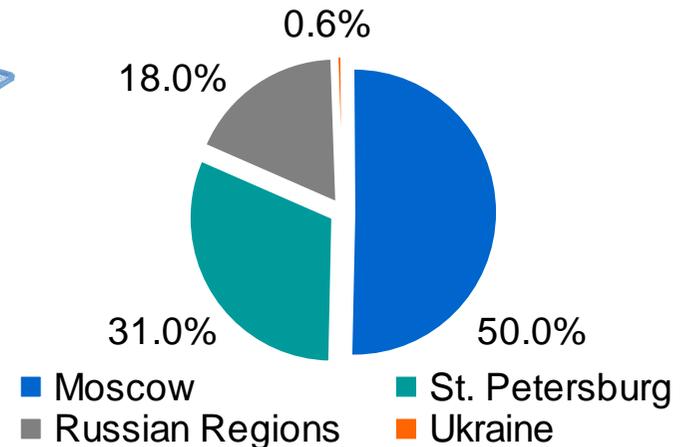


**... In the Most Defensive Markets**



- More than 80% of X5's sales are generated in Moscow & St. Petersburg, where consumers are unlikely to significantly cut spending on food
- Regional sales (18% of total) are mainly generated in big cities
- To maximize value, in 2009 expansion will be focused on the regions where X5 already has strong positions

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



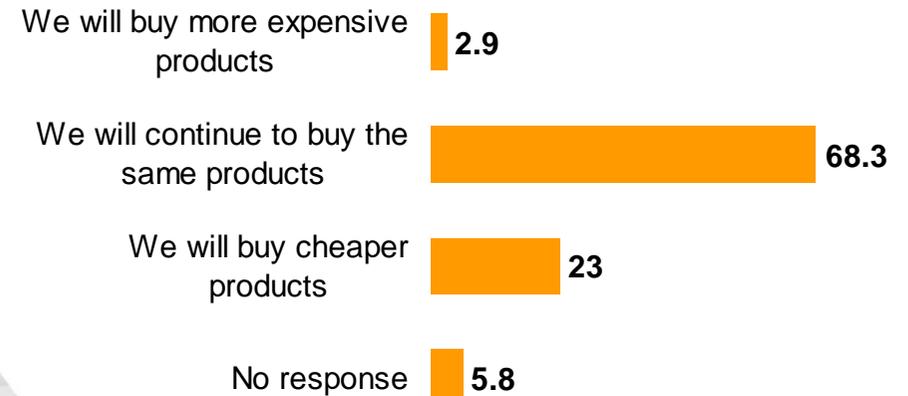
Source: Business Analytica, Rosstat  
 (1) As at 30 September 2008; (2) Including Karusel on pro-forma basis from 1 January 2008



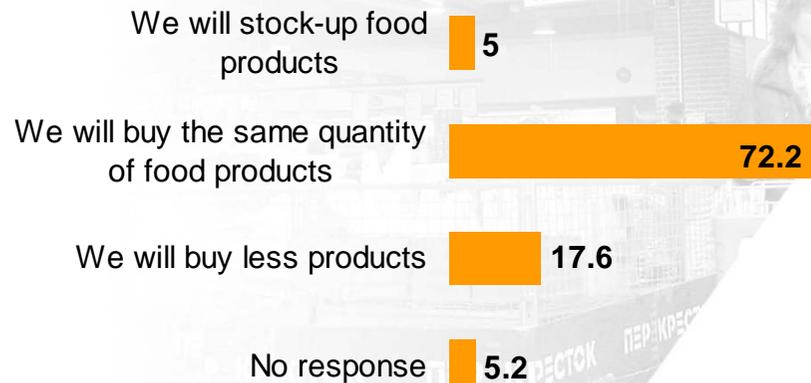
... Are the Most Resilient in the Changing Market Environment

- 68% of respondents have not changed their pricing preferences
- 72% of respondent plan to buy the same quantity of food items
- 51% of respondents do not plan to stop buying or replace usual product categories

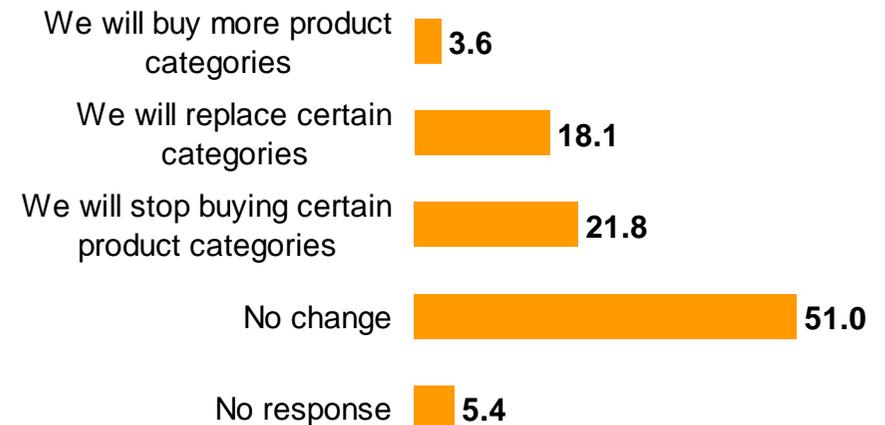
PRICE



QUANTITY



PRODUCT CATEGORIES



Source: Romir, random search of 4166 people, Moscow, St. Petersburg, Samara, October-November 2008



## ...Is Stronger than Ever....

- Purchasing power further grows with market leadership
- Suppliers need and want to do business with X5 due to...
  - increasing volumes
  - guaranteed payment
- Enhanced opportunity to balance margin and cash flow (payment terms)
- Expected increase in efficiency of supply chain

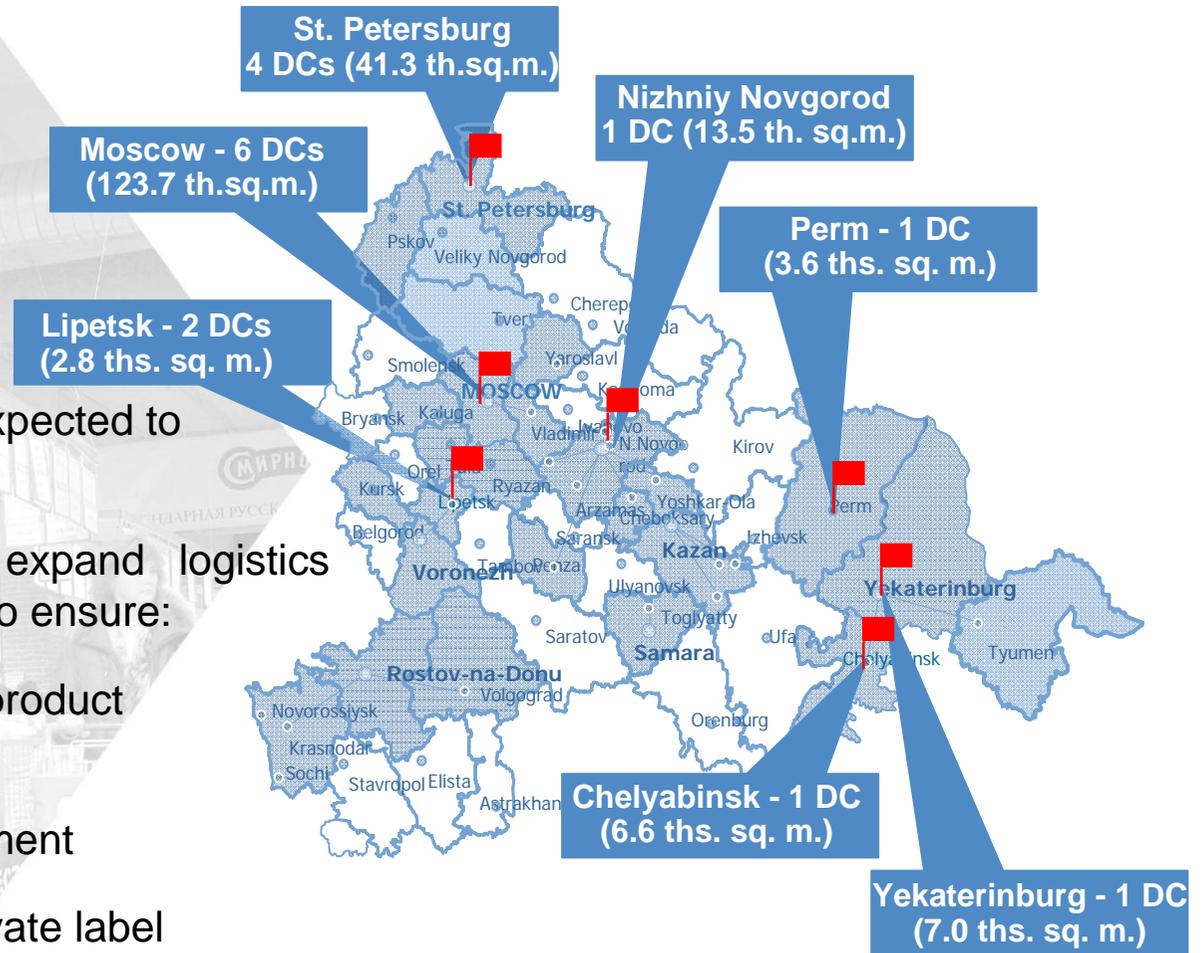
**Even Stronger Pricing Advantage over Competition**





## ... Is Supported by Developed Logistics Infrastructure

- 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% and is expected to go up to 57% by end of 2009
- The Company will continue to expand logistics infrastructure in 2009 (lease&3PL) to ensure:
  - Higher levels and control over product availability
  - Better working capital management
  - Support for promotions and private label development





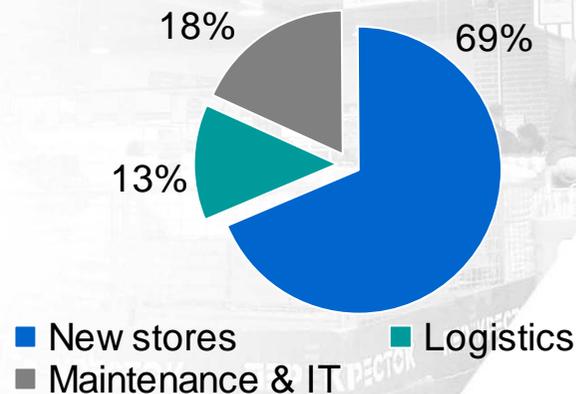
## Rationalization of Assortment & Private Label Development Should Enhance Appeal to Consumers and Support Margins...

- Financial crisis triggers rationalization of supplier base....
- ...category leaders will have priority
- Focusing on food (90% of total Group's sales today) and only fast-moving categories in non-food
- Private label development will become an increasingly attractive option for:
  - Consumers – because of price
  - Retailers – as traffic generators and margin support
  - Suppliers – guaranteed volume and payment by large, stable customer



	2008E	2009E
Sales Growth (in RUR)	~40%	>25%*
LFL Sales Growth (in RUR)	~20%	15-17%*
Capital Expenditures	~USD 1,000 mln	Up to USD 500 mln

## 2009 Preliminary CapEx Breakdown



## Key Rules for Expansion in 2009

- Higher returns and shortest possible paybacks required
- Priority given to
  - discounters versus other formats
  - leased properties versus ownership
  - regions with already strong presence of X5
- CapEx may be adjusted in response to financial market changes



\* Based on management's current estimates of 2009 inflation (of around 12%) and may be adjusted in future based on actual inflation trends



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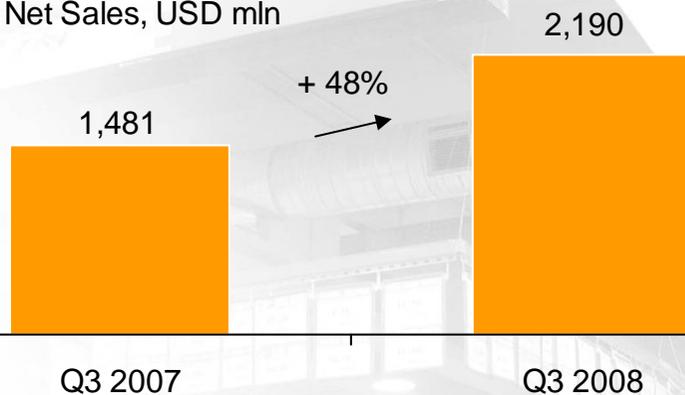
- Solid Revenue Growth
- Higher Profitability before FX Revaluation Effects
- Strong Cash Generation from Operations
- Financial Position Provides Room for Maneuver and Deleveraging



## Solid Financial Results

### Net Sales

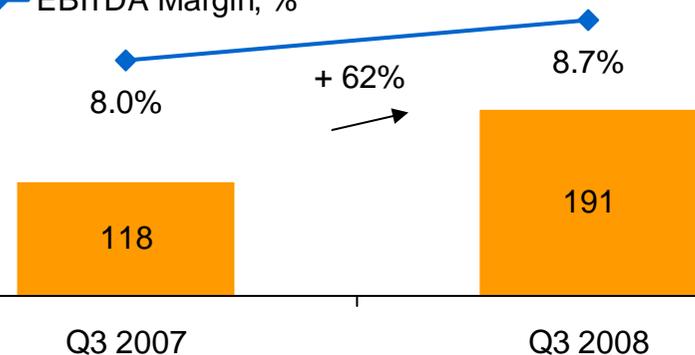
■ Net Sales, USD mln



### EBITDA

■ EBITDA, USD mln

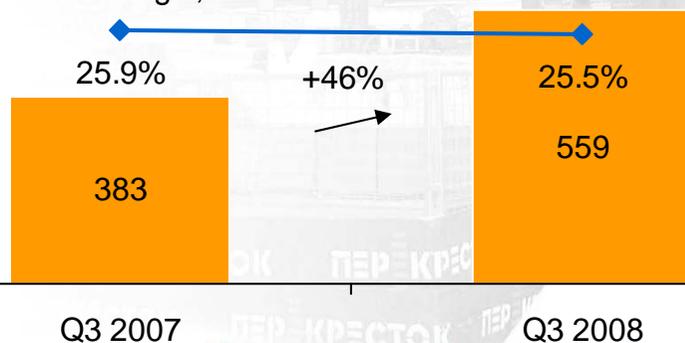
◆ EBITDA Margin, %



### Gross Profit

■ Gross Profit, USD mln

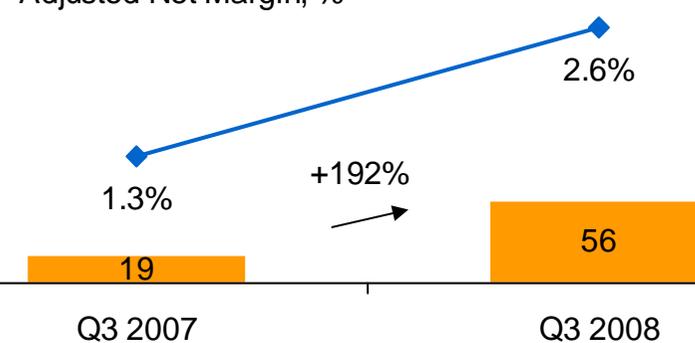
◆ Gross Margin, %



### Adjusted Net Profit excl. FX Revaluation\*\*

■ Adjusted Net Profit, USD mln

◆ Adjusted Net Margin, %



\* All P&L numbers in this presentation are provided on pro-forma basis, i.e. including Karusel results from 1 January 2007 and 2008 respectively.

\*\* Excluding FX gain/loss and adjusted for respective tax

USD mln	Q3 2008	Q3 2007	% change, y-o-y	9M 2008	9M 2007	% change, y-o-y
<b>Net Sales</b>	<b>2,190.3</b>	<b>1,480.6</b>	<b>48%</b>	<b>6,516.1</b>	<b>4,171.3</b>	<b>56%</b>
incl. Retail	2,177.0	1,470.2	48%	6,478.7	4,144.3	56%
<b>Gross Profit</b>	<b>558.8</b>	<b>382.9</b>	<b>46%</b>	<b>1,673.7</b>	<b>1,083.4</b>	<b>54%</b>
Gross Margin, %	25.5%	25.9%		25.7%	26.0%	
<b>EBITDA</b>	<b>190.5</b>	<b>117.7</b>	<b>62%</b>	<b>578.0</b>	<b>358.7</b>	<b>61%</b>
EBITDA Margin, %	8.7%	8.0%		8.9%	8.6%	
<b>EBIT</b>	<b>127.4</b>	<b>68.0</b>	<b>87%</b>	<b>393.3</b>	<b>217.0</b>	<b>81%</b>
EBIT Margin, %	5.8%	4.6%		6.0%	5.2%	
Finance costs (net)	(44.5)	(48.0)	-7%	(117.6)	(111.1)	6%
Net FX gain/(loss)	(84.9)	1.8	n/a	(40.0)	11.7	n/a
<b>Profit before tax</b>	<b>(2.1)</b>	<b>22.2</b>	<b>n/a</b>	<b>235.6</b>	<b>118.1</b>	<b>100%</b>
Income tax expense	(12.6)	(4.4)	187%	(97.5)	(57.5)	69%
<b>Net Profit (Loss)</b>	<b>(14.7)</b>	<b>17.8</b>	<b>n/a</b>	<b>138.2</b>	<b>60.6</b>	<b>128%</b>
Net Margin, %	n/a	1.2%		2.1%	1.5%	
<b>Adjusted Net Profit excl. FX Revaluation effects**</b>	<b>55.9</b>	<b>19.2</b>	<b>192%</b>	<b>165.9</b>	<b>53.6</b>	<b>210%</b>
Adjusted Net Margin, %	2.6%	1.3%		2.5%	1.3%	



## Strong Cash Generation from Operations

USD mln	For the nine months ended 30-Sep-08	For the nine months ended 30-Sep-07	% change
Net Cash from Operating Activities <sup>incl.</sup>	259.8	95.7	171%
<i>Net Cash from Operating Activities before Changes in Working Capital</i>	554.7	354.1	57%
<i>Change in Working Capital</i>	21.1	(106.3)	n/a
<i>Net Interest and Income Tax Paid</i>	(316.0)**	(152.0)	108%
Net Cash Used in Investing Activities	(1,524.2)	(508.8)	200%
Net Cash from Financing Activities	1,318.3	364.2	262%
Effect of Exchange Rate Changes on Cash	(9.1)	7.5	n/a
<b>Net Increase /(Decrease) in Cash</b>	<b>44.7</b>	<b>(41.4)</b>	<b>n/a</b>

\* Cash Flow numbers are provided on consolidation basis, i.e. including Karusel from 30 June 2008 (excluding Karusel in 2007)

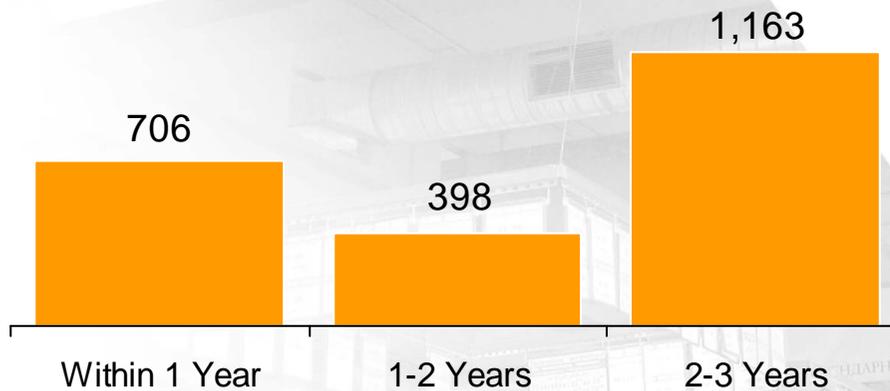
\*\* Strong cash generation from operations was to a large extent offset by advance income tax payments, which should result in lower tax to be paid in the fourth quarter 2008

USD mln	30-Sep-08	30-Jun-08	31-Dec-07	% change vs 31-Dec-07
<b>Non-Current Assets, incl.</b>	<b>7,592.8</b>	<b>7,881.8</b>	<b>5,688.4</b>	<b>33%</b>
PP&E & investment property	3,693.4	3,708.4	2,119.6	74%
Goodwill	3,230.7	3,477.6	2,955.6	9%
<b>Current Assets, incl.</b>	<b>1,212.5</b>	<b>1,533.7</b>	<b>861.2</b>	<b>41%</b>
Cash	224.2	377.0	179.5	25%
<b>ASSETS</b>	<b>8,805.3</b>	<b>9,415.5</b>	<b>6,549.6</b>	<b>34%</b>
<b>Total Equity</b>	<b>4,585.7</b>	<b>4,963.5</b>	<b>3,243.7</b>	<b>41%</b>
<b>Non-Current Liabilities, incl.</b>	<b>1,929.0</b>	<b>2,032.9</b>	<b>1,725.7</b>	<b>12%</b>
Long-term borrowings	1,561.3	1,605.3	1,464.7	7%
<b>Current Liabilities</b>	<b>2,290.6</b>	<b>2,419.2</b>	<b>1,580.2</b>	<b>45%</b>
Short-term borrowings	706.0	712.7	253.7	178%
<b>Total Liabilities</b>	<b>4,219.6</b>	<b>4,452.1</b>	<b>3,305.9</b>	<b>28%</b>
<b>EQUITY AND LIABILITIES</b>	<b>8,805.3</b>	<b>9,415.5</b>	<b>6,549.6</b>	<b>34%</b>
<b>Net Debt</b>	<b>2,043.0</b>	<b>1,941.1</b>	<b>1,538.9</b>	<b>33%</b>
<b>Net Debt/EBITDA</b>	<b>2.7x</b>	<b>2.8x</b>	<b>3.2x</b>	
<b>Net Working Capital</b>	<b>(372.1)</b>	<b>(172.8)</b>	<b>(465.3)</b>	<b>-20%</b>

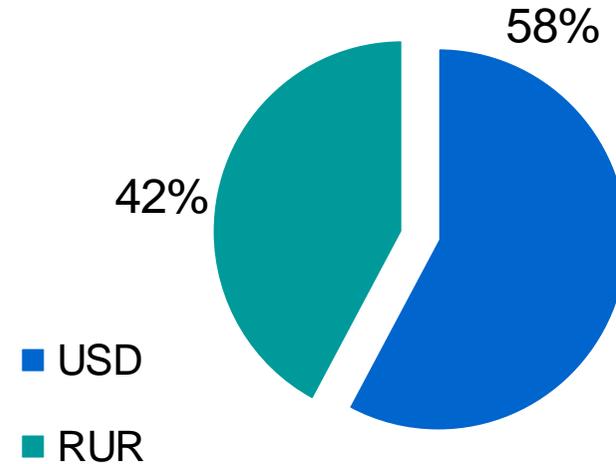


## Debt Maturity Profile

■ Total Debt, USD mln



## Debt Currency Profile



- Approximately 70% of X5's debt is long-term, represented mainly by RUR 9 bln bonds with put option in July 2010 and USD 1.1 billion syndicated loan maturing in December 2010
- Over 65% of debt is not exposed to interest rate fluctuations (long-term debt with fixed or hedged interest). Refinancing or new short-term borrowings are undertaken on fixed-rate basis
- No margin call risk on X5's debt



## Liquidity Position

- USD 706 mln of short-term debt maturing by 30 September 2009
- The Company will use strong cash-flow generation in Q4 2008 to reduce the level of short-term debt
- Appr. USD 590 mln available for refinancing
  - USD 334 mln of undrawn credit lines
  - USD 255 mln of new credit line with VTB
- Further negotiations with state and other major banks on obtaining additional credit facilities
- Refinancing with the aim to move maturities to Q3 & Q4 2009, when cash generation is strong
- Expected free cash flow generation in 2009 should enable further deleveraging
- Over 80% of planned 2009 CapEx is fully discretionary and can be adjusted in response to market conditions

## FX Exposure

- No material FX risk in operations
- FX risk mainly arises on USD 1.1 bln syndicated loan maturing in December 2010, however:
  - Exposure on revaluation of principal is non-cash
  - Limited cash flow exposure as the facility has a very attractive interest rate (fixed at appr. 5% p.a.), which minimizes potential cash FX losses on interest payments
- Low risk of breaching covenants even in very doomsday scenario
- Hedging is prohibitively expensive
- Refinancing in RUR would negatively affect not only P&L but also cash flow, as X5 would commit to much higher interest payments
- To mitigate FX risks, X5 undertakes new borrowings primarily in RUR



1. Introduction – Anna Kareva, IR Director
2. Source of Strength in Russian Retail - Lev Khasis, CEO
3. Q&A Session
4. Q3 2008 Financial Performance & Liquidity Update – Evgeny Kornilov, CFO
- 5. Q&A Session**

