

Q2&H1 Financial Results

Conference Call Presentation

27 August 2009



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I. X5 Retail Group – Profitable Growth and Long-Term Leadership

II. Q2 & H1 Financial Review





- Build multi-format success
- Strengthen value propositions
- Drive LFL and top line growth

Customer Focus



Operational Excellence



Financial Discipline

Profitable Growth & Long-Term Leadership



X5 Operates Stores for Every Lifestyle and Family Budget

Soft Discounters



900 stores
53% of sales

Net selling space: from 300 to 800 sq.m.
Average assortment: 3,000 SKUs
Pricing policy: Lowest price in the market on 100% of assortment
Format strengths: Price and convenience



Supermarkets



211 stores
28% of sales

Net selling space: from 800 to 1,500 sq.m.
Assortment: 8,000 – 15,000 SKUs
Pricing policy: Best price in supermarkets
Format strengths: Wide choice, focus on fresh



Hypermarkets



53 stores
19% of sales

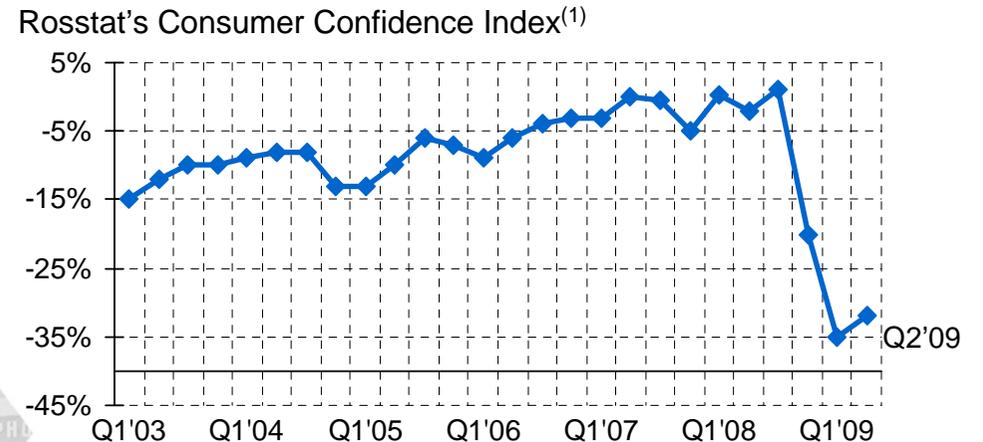
Net selling space: from 4,000 to 10,000 sq.m.
Assortment: 30,000 – 50,000 SKUs
Pricing policy: Lowest price in the market on basic assortment, super offers for card holders on the rest
Format strengths: Wide choice at low price, ideal place for w/e & family shopping



...Was Substantially Affected by the Economic Crisis

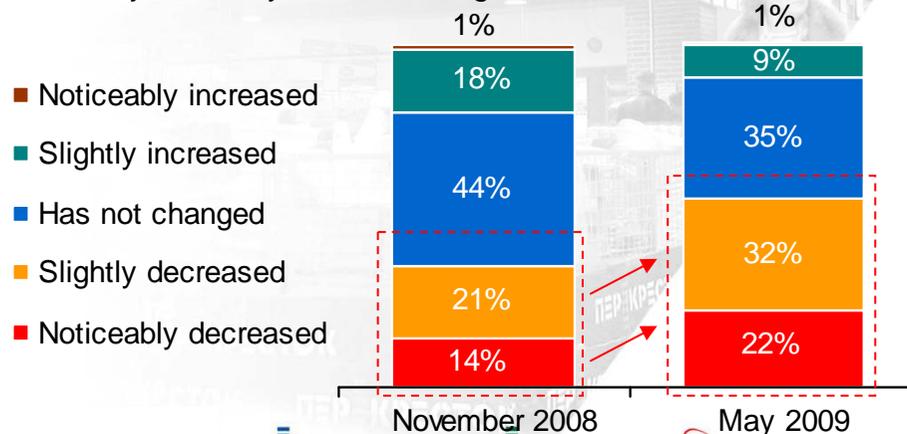
- Russian consumer confidence index (CCI) dropped to -35% in Q1 2009
- It is the lowest level of CCI since Q4 1999
- In Q2 09 the index marginally recovered, but it is too early to call it a trend

Consumer Confidence at Lowest Level Since '99



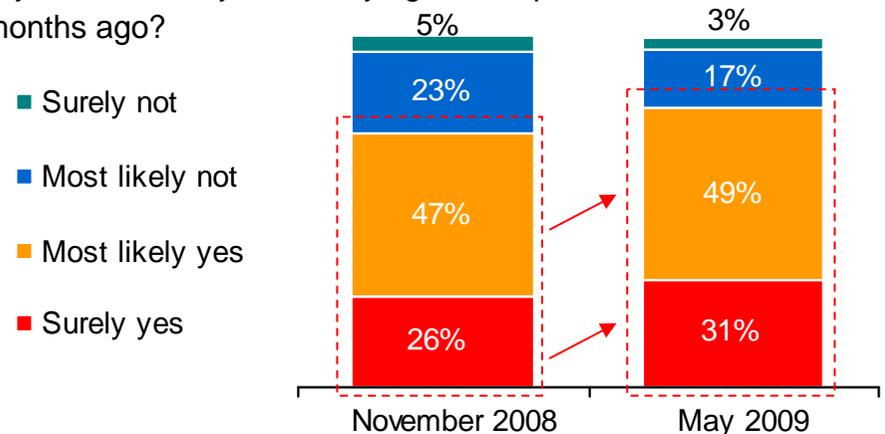
On the Back of Declining Incomes⁽²⁾ ...

How has your family income changed over the last 3 months?



...Forcing Trading Down Behavior⁽²⁾

Are you more thrifty when buying FMCG products now than 3 months ago?



Source: (1) Rosstat; (2) Nielsen, Shopper Trends 2009, 25 August 2009, 500 respondents in Moscow, Samara, Yekaterinburg, Novosibirsk, Rostov-on-Don, Nizhny Novgorod and Samara



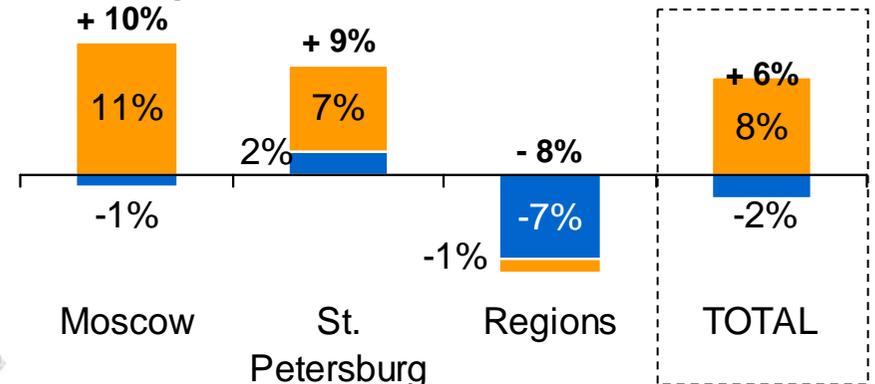
... was Reflected in X5's H1 2009 Operating Results

- Performance in Moscow & St. Petersburg – X5's home markets – was strong across the formats
- Soft Discounters - clear winners in the trading down conditions
- Supermarkets performance underscores relative resilience of Moscow and St. Petersburg and reflects weaker consumer confidence in the regions
- Hypermarkets concept fine-tuning and promotion in progress. Key task is to educate consumer and build brand loyalty

Supermarkets' H1 '09 LFL Performance

Based on RUR-denominated gross sales

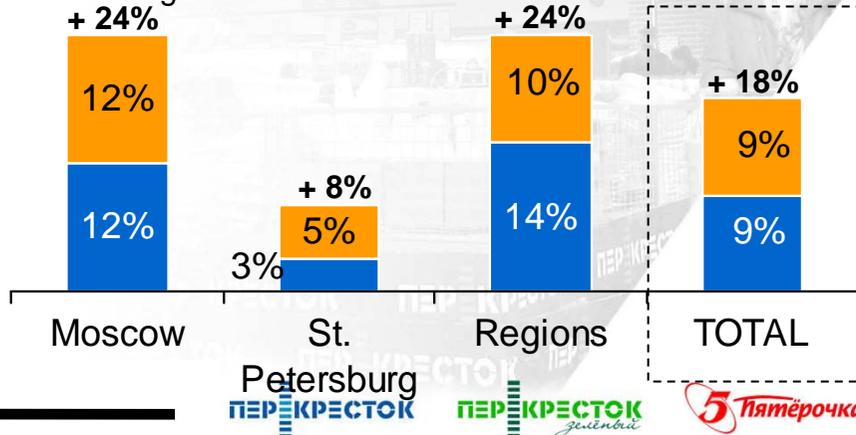
■ Traffic ■ Basket



Discounters' H1 '09 LFL Performance

Based on RUR-denominated gross sales

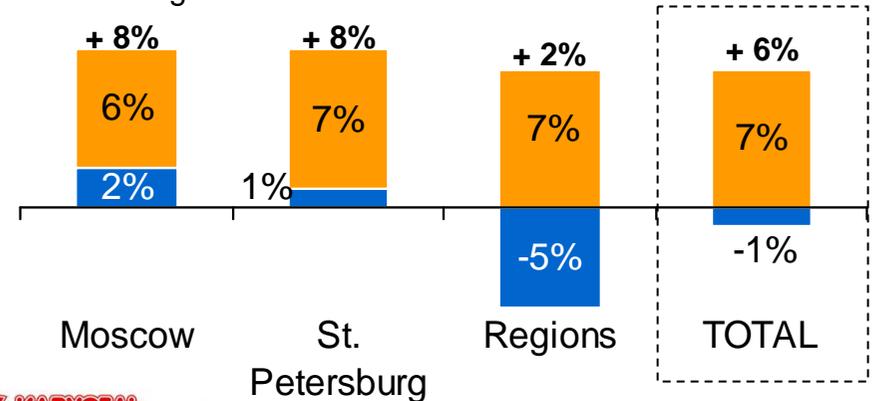
■ Traffic ■ Basket



Hypermarkets' H1 '09 LFL Performance

Based on RUR-denominated gross sales

■ Traffic ■ Basket

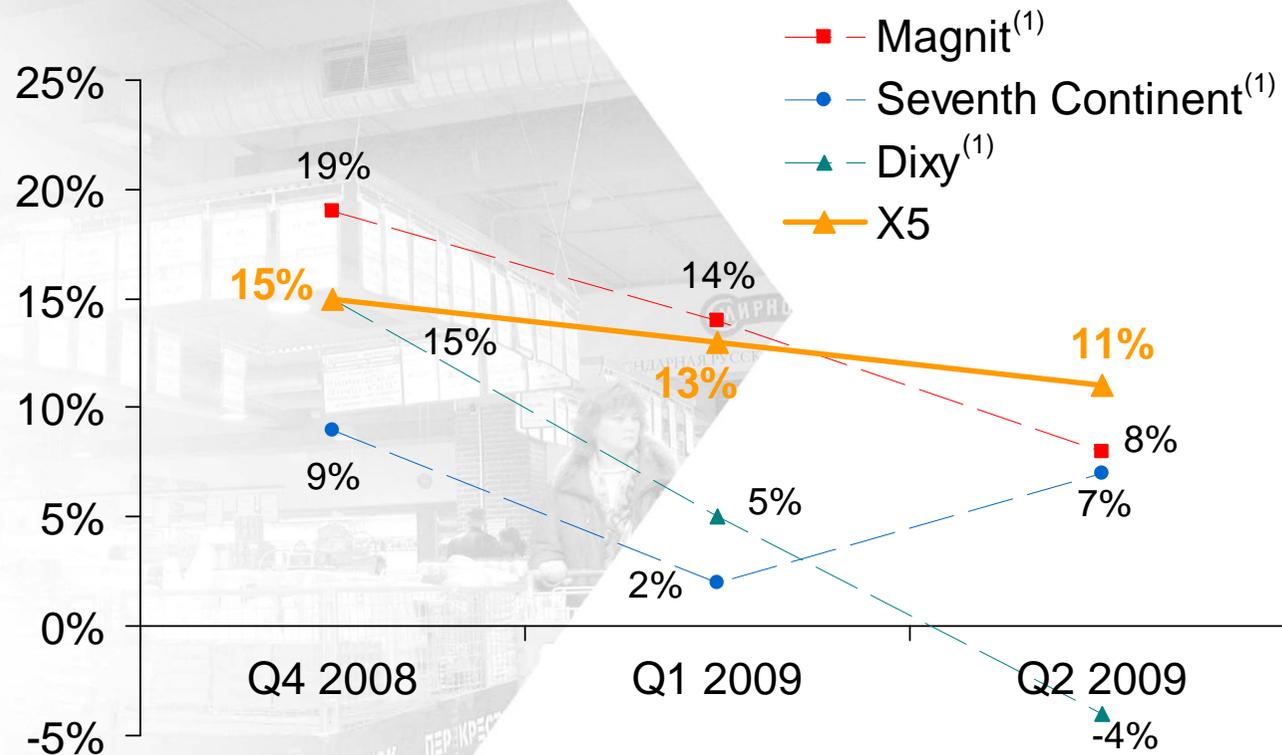




X5's LFL Performance is Stable vs Competition Thanks to Multi-Format Approach

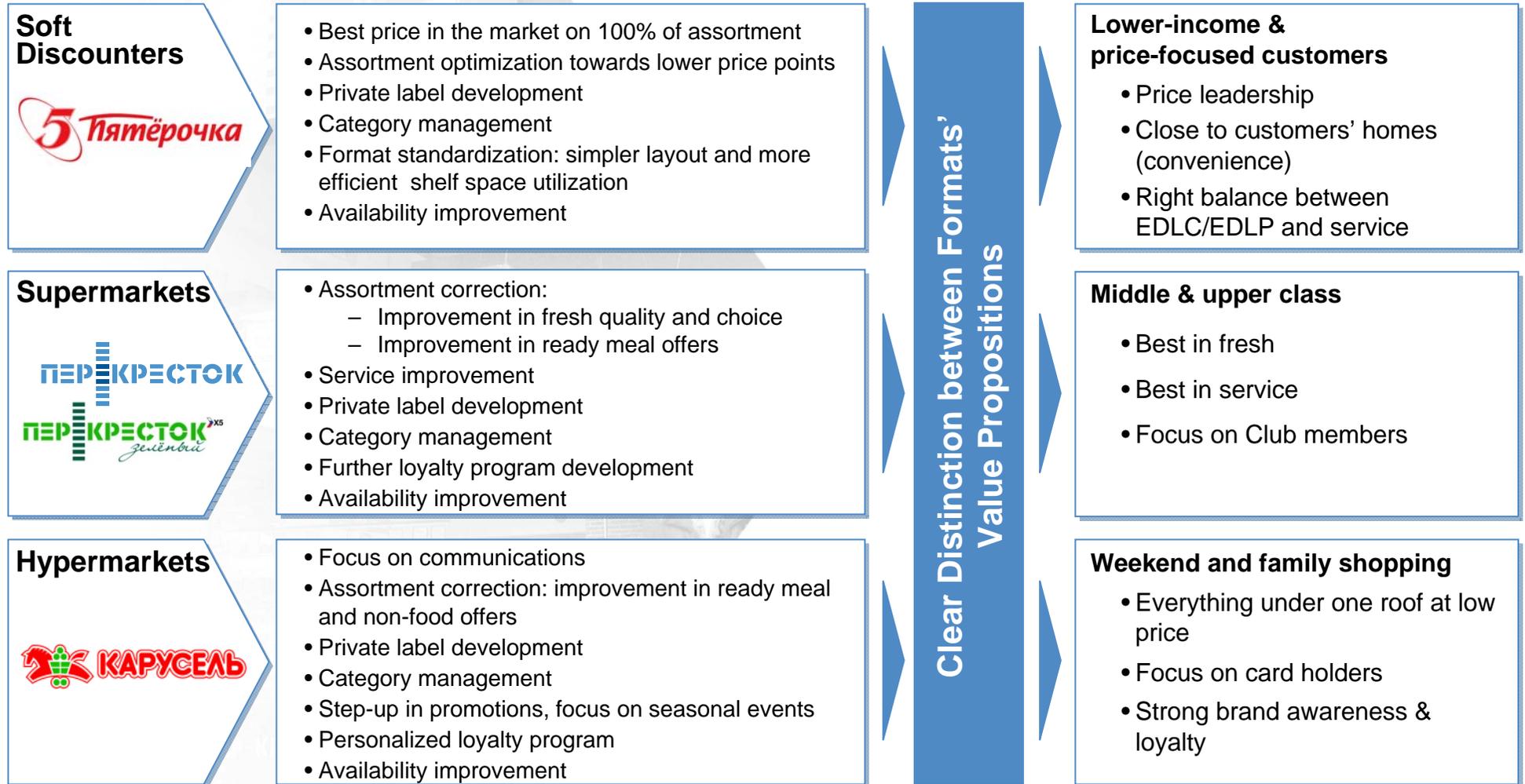
X5 LFL Performance vs Competition

LFL Sales Growth

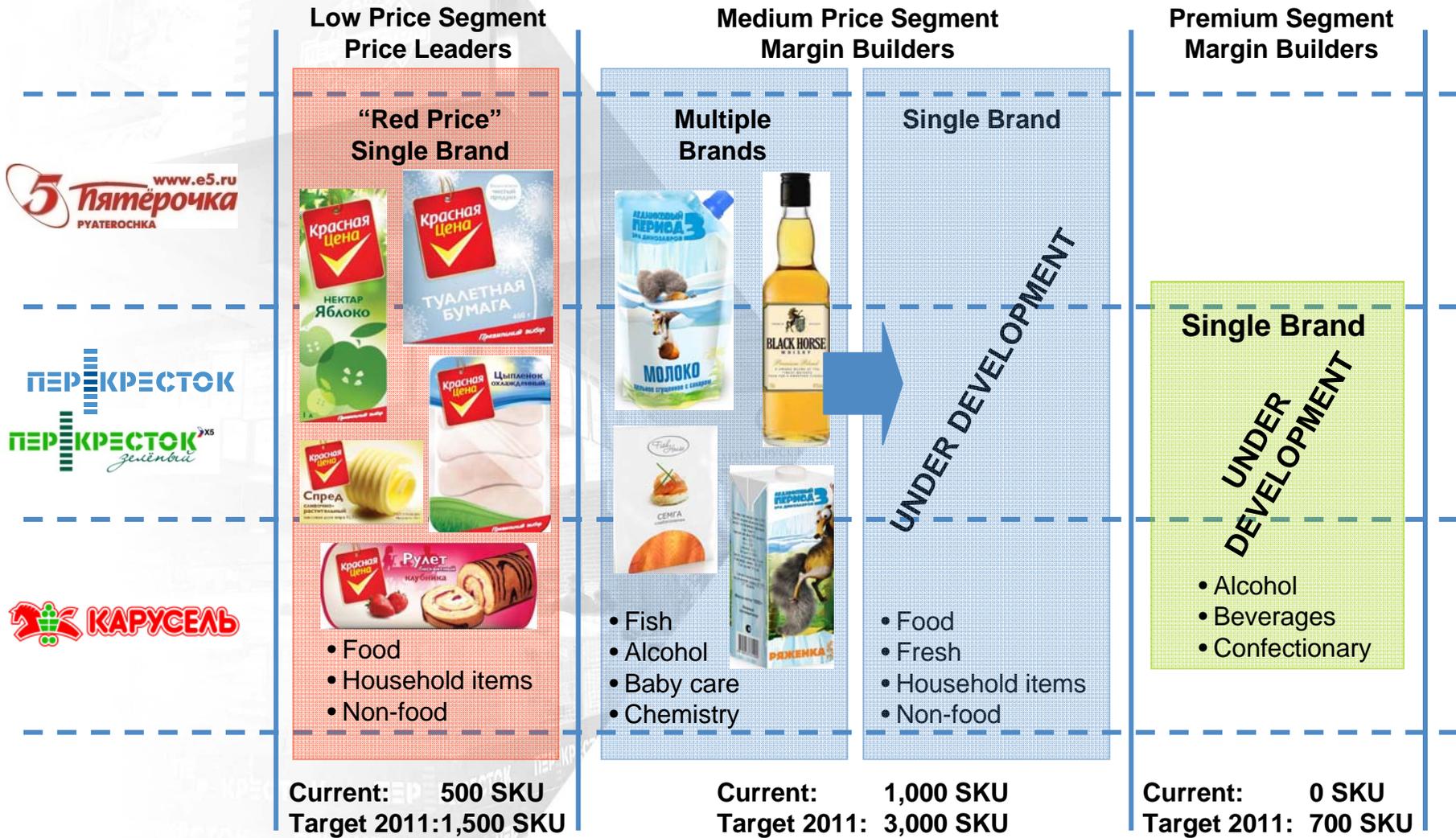


(1) Based on analysts' estimates as the companies report their LFL on cumulative basis, i.e. for H1, 9m and FY

Fine-Tuning of Formats' Value Proposition to Match Long-Term Leadership Goal



Aligning Private Label Strategy to Enhance Multi-Format Leverage and Margins





Customer
Focus

- Build supply chain advantages
- Drive efficiency and margins
- Ensure support for long-term growth

Operational
Excellence



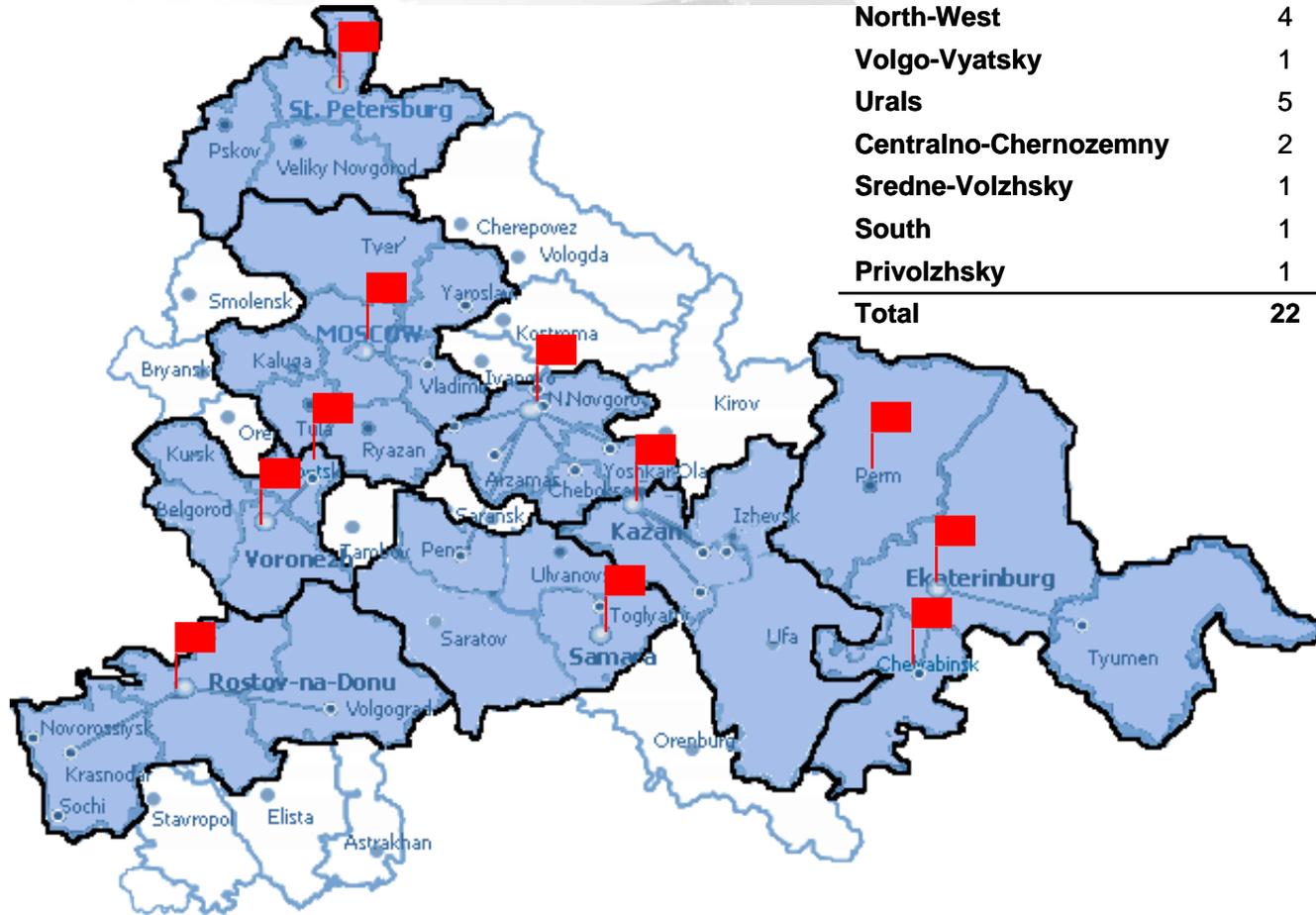
Financial
Discipline

Profitable Growth & Long-Term Leadership



... Has Been the Company's Focus since 2007...

DC locations as at 30 June 2009



Region	# of DCs	000 sq. m.	Dry	Fruit & Veg	Fresh	Frozen
Central	7	112.1	v	v	v	v
North-West	4	44.5	v	v	v	v
Volgo-Vyatsky	1	17.5	v	v	v	
Urals	5	18.2	v	v	v	
Centralno-Chernozemny	2	10.7	v	v	v	
Sredne-Volzhsky	1	9.6	v	v	v	
South	1	8.1	v	v		
Privolzhsky	1	7.0	v			
Total	22	227.7				

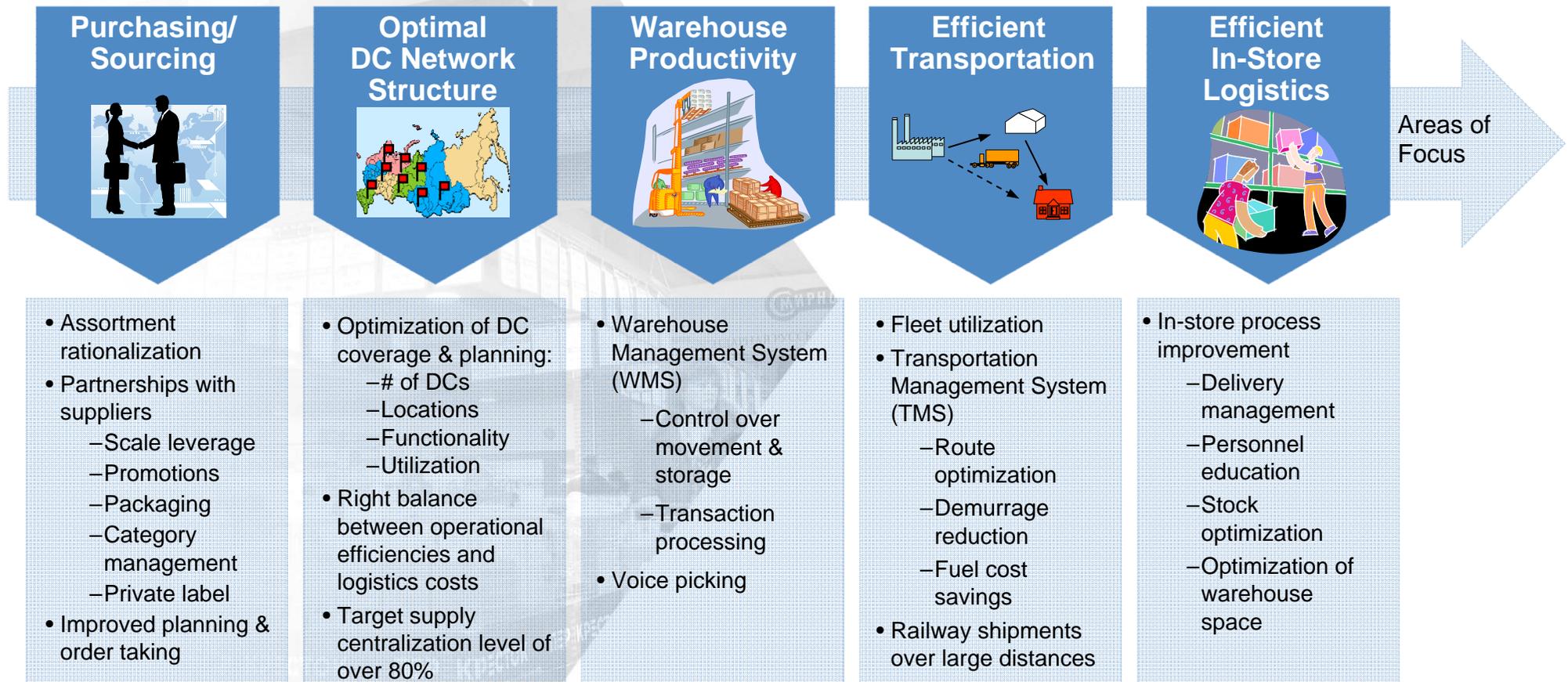
- ✓ 22 multifunctional DCs across the European part of Russia and the Urals
- ✓ First non-food DC opened in Q3
- ✓ Fleet of 500 trucks under management
- ✓ Current supply centralization level is 59%





... Now We are Bringing It to a New Level...

... to Create a Fully Integrated & Efficient Supply Chain



... Supporting Company-Wide Efficiency and Scalable Growth with Integrated ERP Platform

Current Status

In-Store:

- Unified IT platform at supermarkets and hypermarkets, different platform at discounters

Logistics:

- Several warehouse management systems (WMS)

Head office:

- 1C for finance and HR, a number of database management systems, Excel

2012 IT Infrastructure

In-Store:

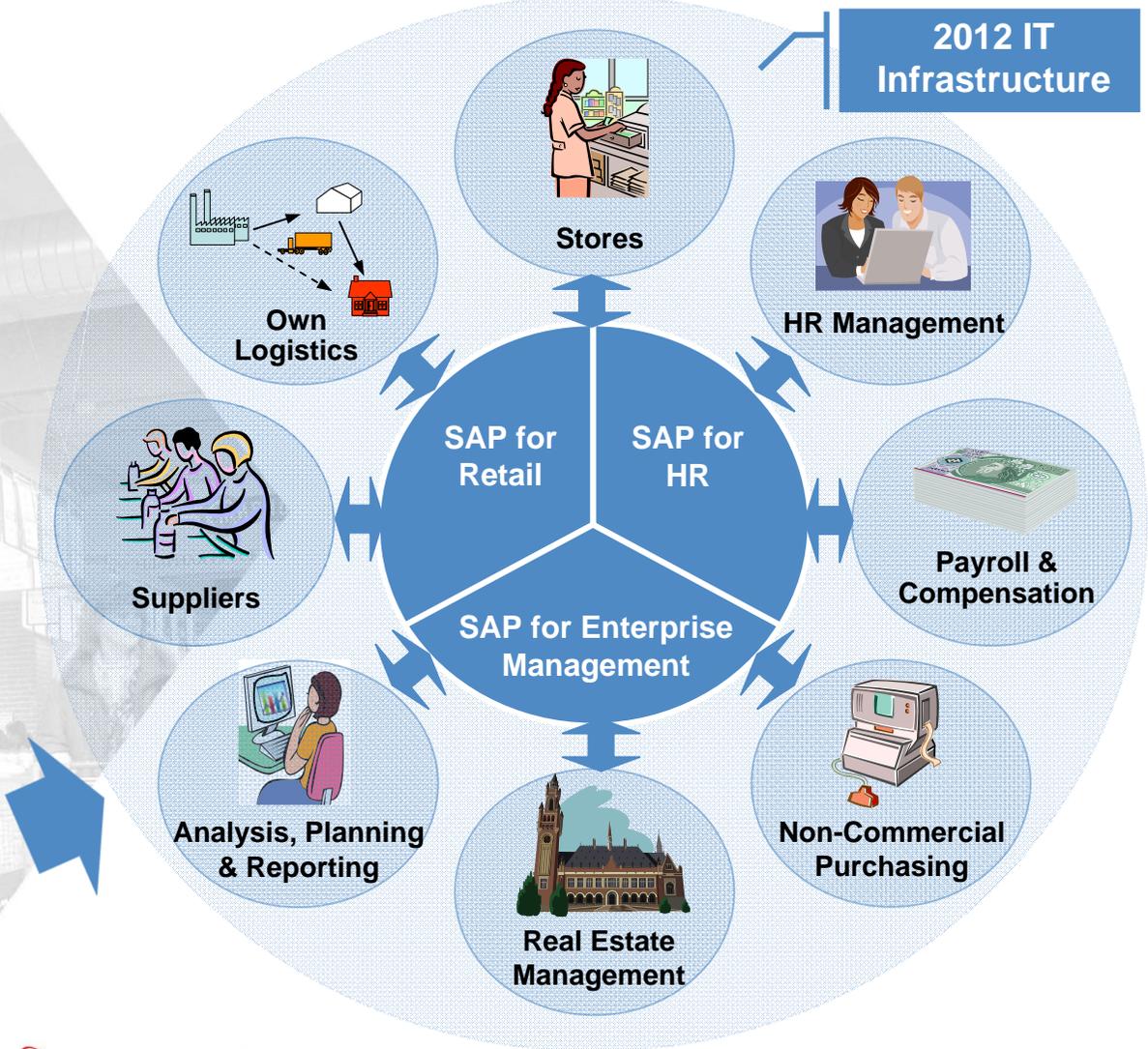
- Unified IT platform across formats, scalable and fully compatible with SAP

Logistics:

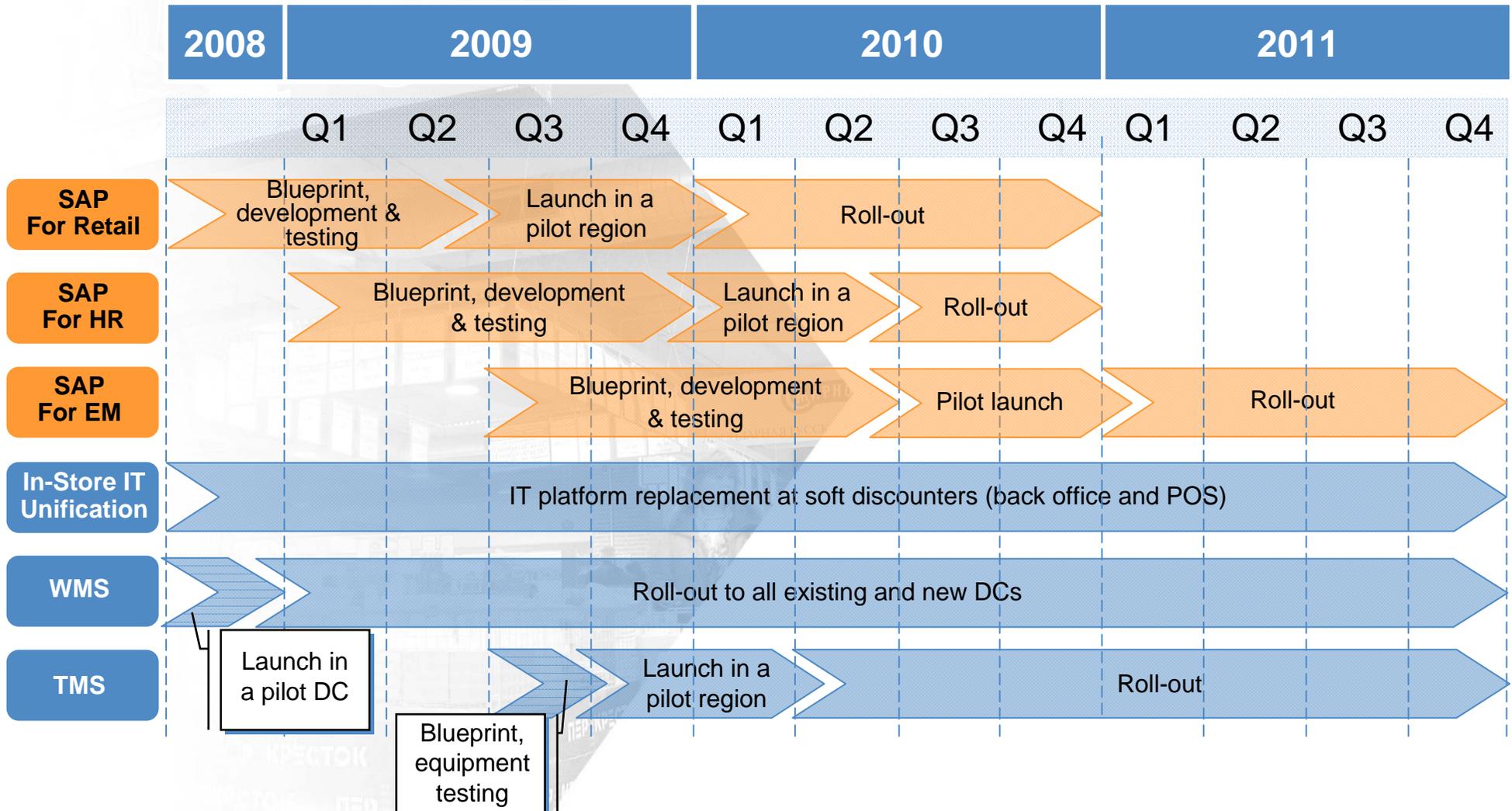
- Single WMS, complemented by voice picking, fully compatible with SAP (Exceed)
- Transportation management system (Oracle), fully compatible with SAP

Head office:

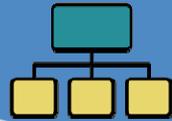
- SAP for HR, SAP for EM



Roadmap



Legal Structure Optimization



Transformation into aligned, efficient and agile organization:

- Single operating company
 - Stores
 - Logistics
- Reduced # of real estate companies
- Reduced # of financial companies
- Holding structure optimization

Regional Branches' Processes Standardization



Standardization and simplification of business processes across formats:

- In-store operations
- Logistics
- Offices
- Document flow
- Human Resources
 - Headcount (manning tables)
 - Incentive management (KPIs)
- Shared Services Center functionality enhancement

Areas of Focus

... Can be Substantially Enhanced through Improving Efficiency of...



Targeted Improvement of In-Store Labour Productivity is 10-12%

Energy Efficiency



Improved Leasing Terms



Areas of Focus

Stage I: Diagnosis & “Quick Wins” (2009)

- Audit & optimization:
 - energy consumption meters
 - tariff structure
 - energy consumption per store/DC/office
- Adjustment of requirements to new stores/DCs
- Energy saving lighting
- Staff education and incentives

Stage II (2009 - 2011)

- Best industry practice analysis
- Own KPIs development
- Analysis and potential application of existing energy saving equipment/technologies
- Further staff education and incentives adjustment

New Lease Contracts

- Capitalizing on current macro environment to obtain better rental terms and lock in landlords for longer periods

Existing Lease Contract Renegotiation

- More than 50% of existing contracts have been renegotiated
- >USD 10 million of annualized savings achieved

Sublease Management Improvement

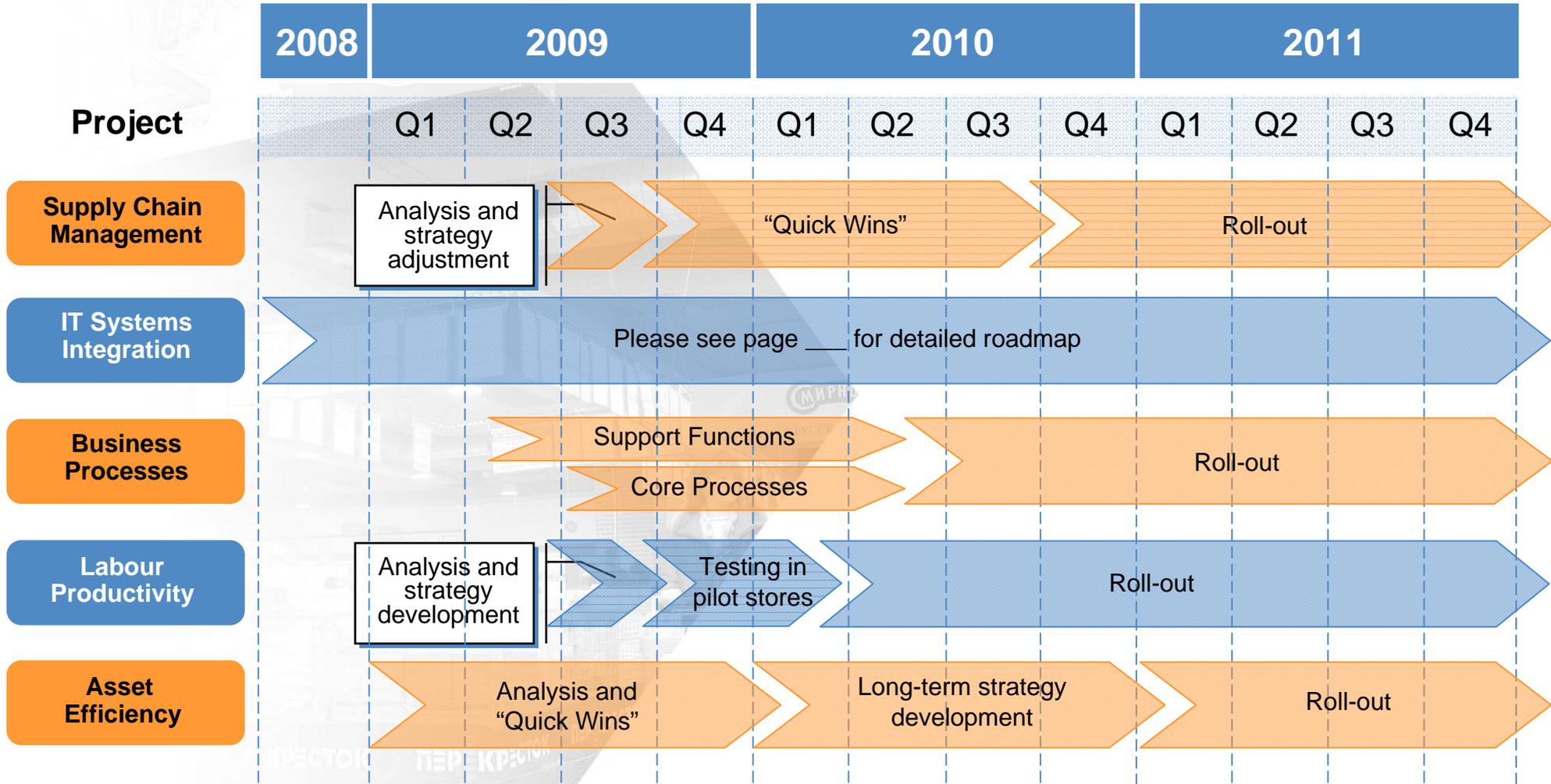
- Sublease agreement standardization
- Sublease area utilization improvement



...will Impact Every Area of X5's Business

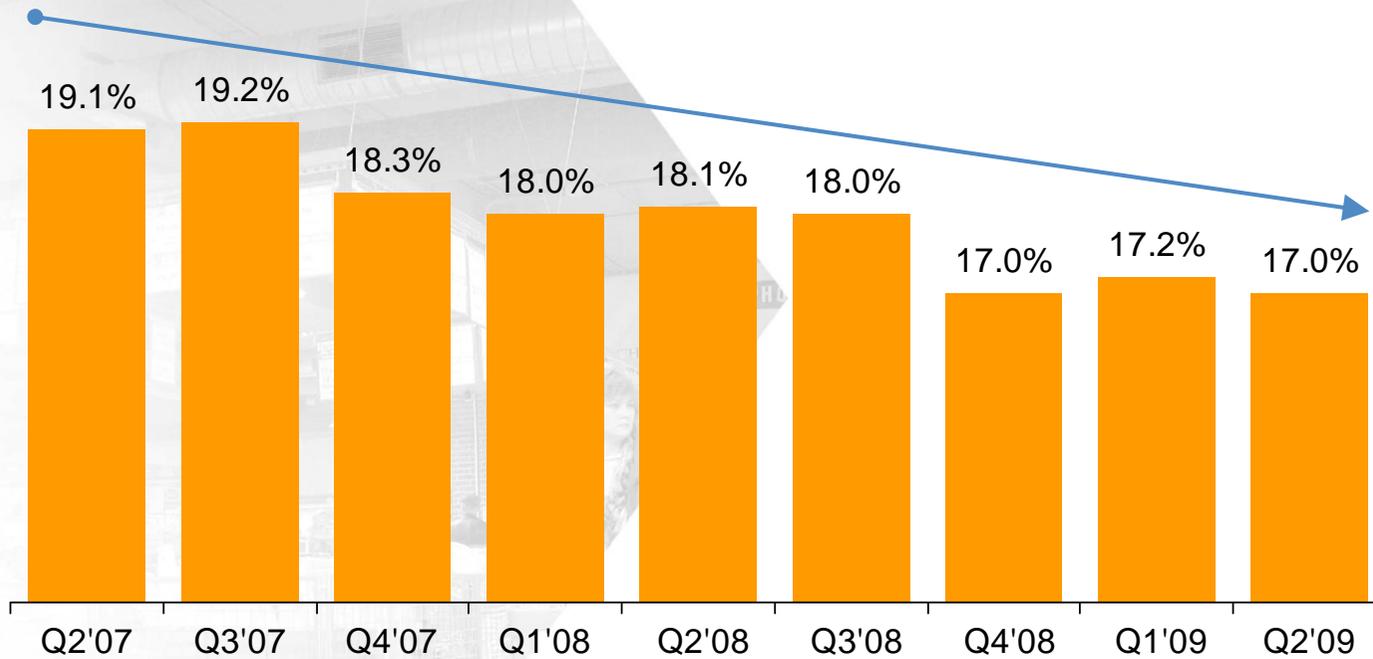
Project	Support of Long-Term Scalable Expansion	Sales Growth	Cost Savings	Working Capital Improvement
Efficient Supply Chain Management				
IT Systems Integration				
Business Processes Improvement				
Labour Productivity Improvement				
Efficient Asset Employment				

Roadmap



...is Multi-Year but We Are Already Delivering Results

SG&A⁽¹⁾ as % of Sales



(1) Excluding Depreciation and Amortization



Customer
Focus



Operational
Excellence

- Cash generation
- Disciplined growth
- Liquidity management

Financial
Discipline

Profitable Growth & Long-Term Leadership



Cash Generation From Operations



- Ensure sustainable operational performance
- Capture cost saving opportunities
- Optimize gross margin / EBITDA balance for each format
- Efficiently manage working capital

Disciplined Growth



- Focus on discounters, primarily rented
- Capitalize on lower construction/repair and rental costs
- Look for outstanding hypermarket and supermarket locations
- Deliver substantially better returns vs pre-crisis

Liquidity Management



- Optimize debt structure with focus on maturity profile improvement
- Ensure sufficient access to credit facilities to finance operations and investment activities
- Ensure timely refinancing of the USD 1.1 bln syndicated loan

Areas of Focus

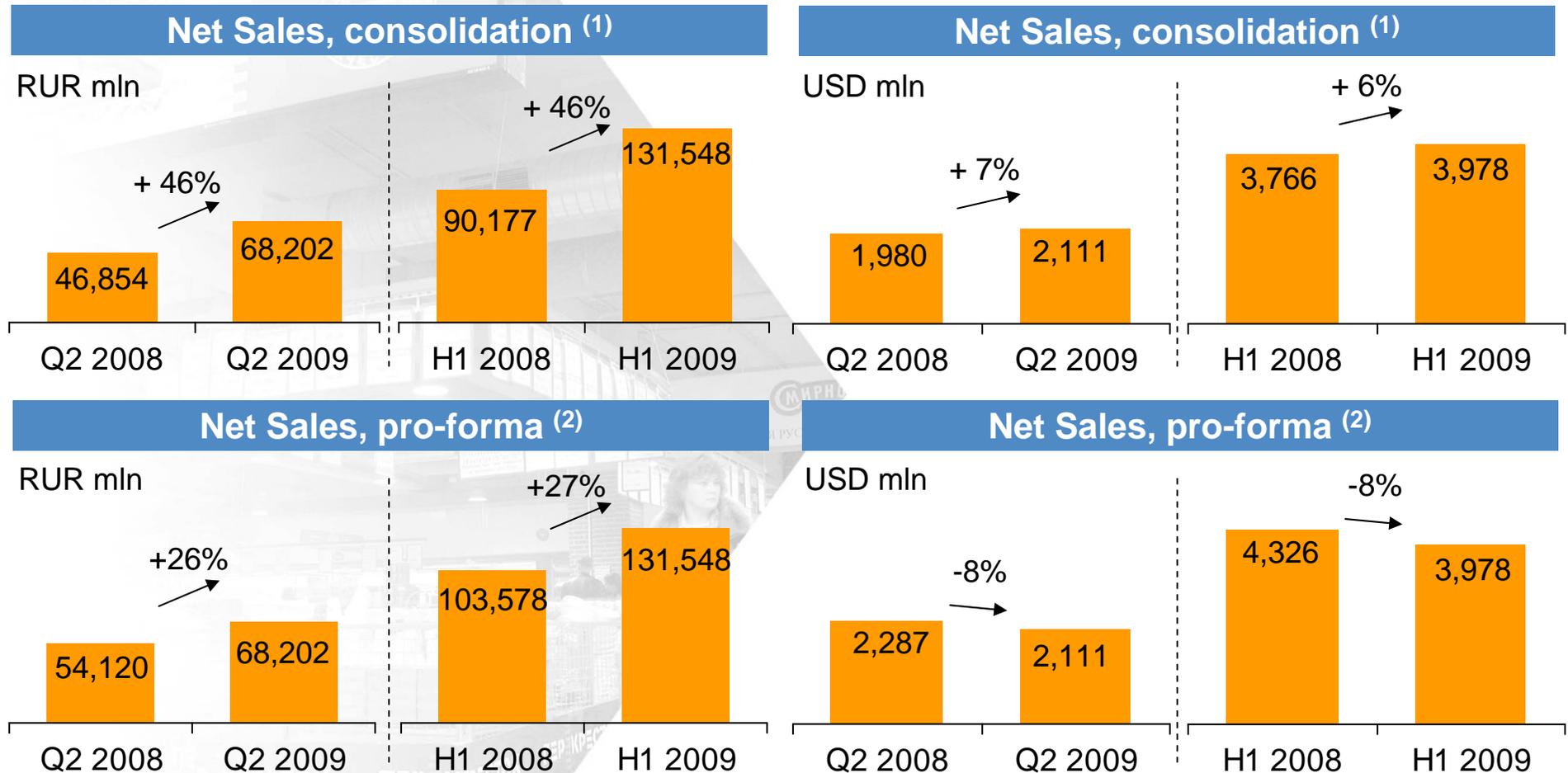


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II. Q2 & H1 Financial Review

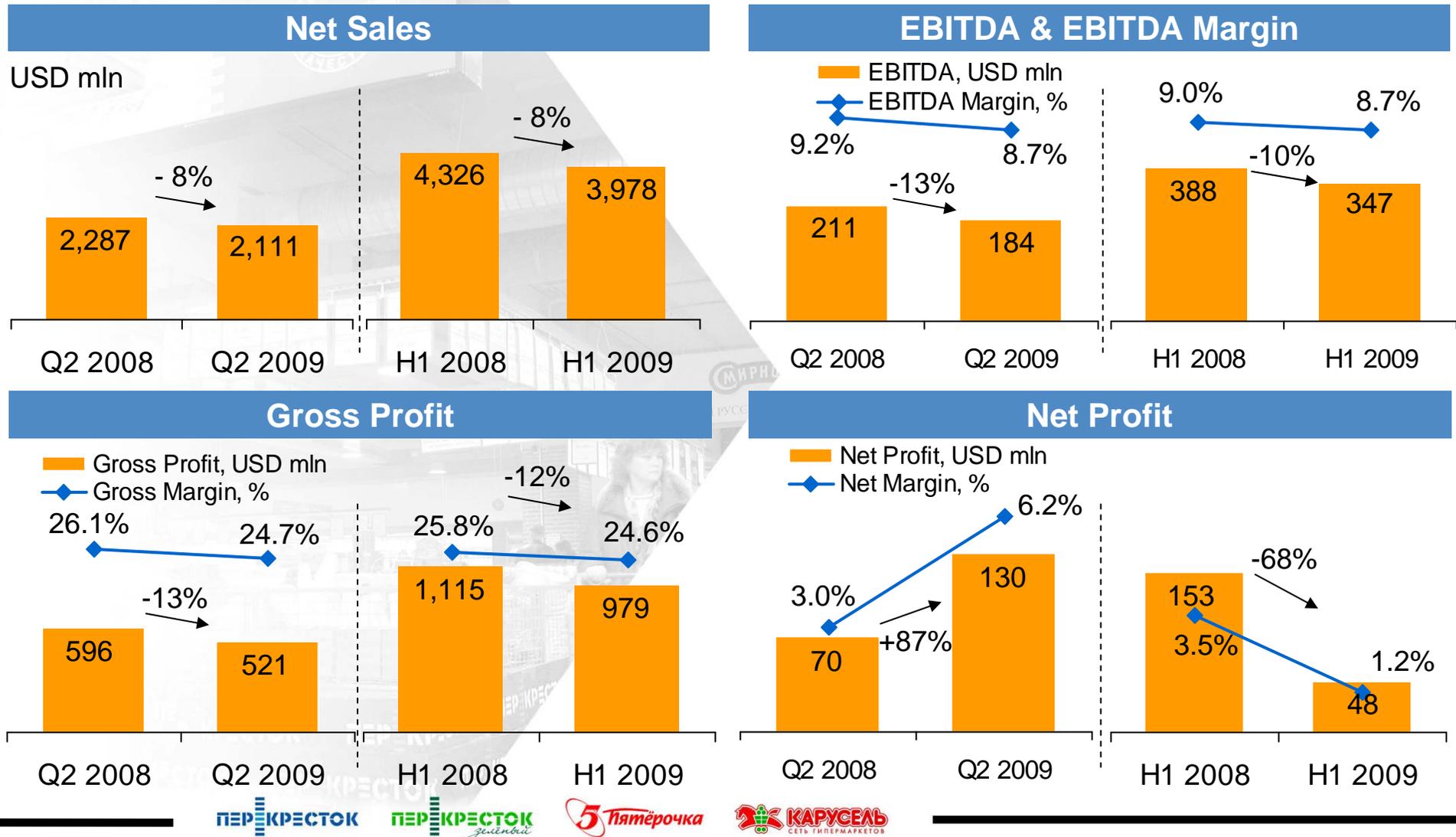


... Was Solid Despite Tougher Macro-Economic Environment



(1) Consolidated sales figures include acquired Karusel's business in Q2&H1 2009 and exclude it in Q2&H1 2008.
 (2) Pro-forma sales figures include acquired Karusel's business in both Q2&H1 2008 and Q2&H1 2009.

EBITDA Margin Supported by Strong Cost Controls



(1) All P&L numbers are provided on pro-forma basis, i.e. including Karusel results both in Q2&H1 2008 and Q2&H1 2009

USD mln	Q2 2009	Q2 2008	% change USD	% change RUR	H1 2009	H1 2008	% change USD	% change RUR
Net Sales	2,111.2	2,287.2	(8%)	26%	3,978.1	4,325.8	(8%)	27%
incl. Retail	2,099.6	2,274.2	(8%)	26%	3,959.0	4,301.6	(8%)	27%
Gross Profit	520.8	596.0	(13%)	19%	979.0	1,114.9	(12%)	21%
Gross Margin, %	24.7%	26.1%			24.6%	25.8%		
SG&A (excl. D&A)	(358.0)	(414.0)	(14%)	18%	(678.2)	(780.0)	(13%)	20%
% of revenue	17.0%	18.1%			17.0%	18.0%		
EBITDA	184.3	210.8	(13%)	19%	347.0	387.5	(10%)	24%
EBITDA Margin, %	8.7%	9.2%			8.7%	9.0%		
Operating Profit	129.1	142.7	(10%)	23%	246.0	265.8	(7%)	28%
Operating Margin, %	6.1%	6.2%			6.2%	6.1%		
Net FX Result	86.0	2.4	3425%	6538%	(77.8)	44.9	n/a	n/a
Profit before Tax	174.6	110.2	59%	125%	89.8	237.7	(62%)	(48%)
Income Tax Expense	(44.2)	(40.6)	9%	53%	(41.5)	(84.8)	(51%)	(32%)
Net Profit	130.4	69.6	87%	167%	48.3	152.9	(68%)	(56%)
Net Margin, %	6.2%	3.0%			1.2%	3.5%		



- Q2 2009 **gross margin** declined 140 bp year-on-year, resulting in H1 2009 gross margin decline of 120 bp year-on-year to 24.6%. The decline is attributable to continuous investment in prices across formats, including change in Pyaterochka's pricing policy to offer lowest price in the market on 100% of assortment; a managed reduction in Karusel's gross margin, and the impact of trading down trends (change of product mix in favour of staples)
- **SG&A** declined as % of revenue by 150 bp year-on-year in Q2 2009 and by 120 bp in H1 2009 (from 20.8% in H1 2008 to 19.6% in H1 2009) as a result of strong cost controls and first results on the efficiency program implementation
- Q2 2009 **EBITDA margin** totaled 8.7% - a 50 bp decline year-on-year and stable quarter-on-quarter (8.7% for H1 2009) as most of decline in gross margin was compensated by cost saving on SG&A level
- USD 78 million **FX loss** reported for H1 2009 is a result of RUR depreciation in Q1 2009 followed by partial RUR recovery in Q2 2009. FX loss is primarily non-cash, resulting from long-term U.S. dollar-denominated debt revaluation
- H1 2009 **net profit** totaled USD 48 mln

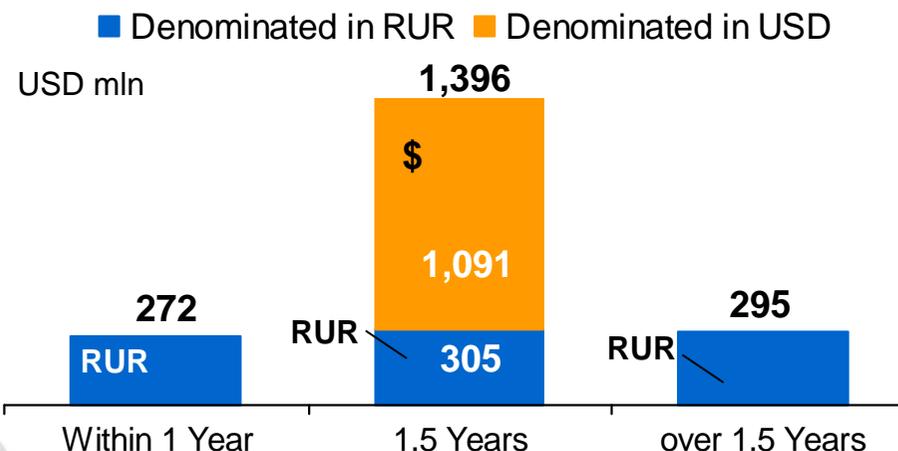
Strong Cash Generation from Operations Offset by Working Capital Seasonality

USD mln	Q2 2009	Q2 2008	% change USD	% change RUR	H1 2009	H1 2008	% change USD	% change RUR
Net Cash Flows from Operating Activities	77.9	77.8	0%	41%	39.5	112.1	(65%)	(51%)
<i>Net Cash from Operating Activities before Changes in Working Capital</i>	210.2	200.2	5%	44%	380.1	369.8	3%	42%
<i>Change in Working Capital</i>	(56.1)	(9.1)	514%	774%	(182.9)	(69.6)	163%	263%
<i>Net Interest and Income Tax Paid</i>	(76.2)	(113.2)	(33%)	(9%)	(157.8)	(188.1)	(16%)	16%
Net Cash Used in Investing Activities	(55.8)	(1,074.6)	(95%)	(93%)	(99.0)	(1,226.7)	(92%)	(89%)
Net Cash (Used in/Generated from Financing Activities)	23.9	1,221.6	(98%)	(97%)	(61.4)	1,299.8	n/a	(107%)
Effect of Exchange Rate Changes on Cash	17.3	5.7	201%	n/a	(11.0)	12.3	n/a	8,577%
Net Increase/(Decrease) in Cash	63.2	230.6	(73%)	(67%)	(132.0)	197.5	n/a	(181%)

In H1 X5:

- Completely eliminated its short-term FX exposure by repaying short-term USD-denominated debt
- Placed 7-year RUR 8 bln corporate bonds with a put option in 2 years. Proceeds were used for repayment of short-term obligations, which decreased from USD 441 mln as at 31 March 2009 to USD 272 mln as at 30 June 2009.
- As at 30 June 2009 X5 had access to RUR-denominated credit facilities of over RUR 23 bln (USD 700 mln), out of which RUR 15 bln (appr. USD 484 mln) are available undrawn credit lines.

Debt Maturity Profile as at 30.06.09



USD mln	30-Jun-09	% in total	31-Mar-09	% in total	31-Dec-08	% in total
Total Debt	1,962.4		1,863.9		2,059.4	
Short-Term Debt	272.1	14%	440.7	24%	578.4	28%
Long-Term Debt	1,690.3	86%	1,423.2	76%	1,481.0	72%
Net Debt	1,817.6		1,782.2		1,782.60	
Denominated in USD	1,061.8	58%	1,081.5	61%	1,170.0	66%
Denominated in RUR	755.8	42%	700.7	39%	612.6	34%
FX, EoP	31.3		34		29.4	
Net Debt/EBITDA	2.38x		2.26x		2.22x	