

# Profitable Growth & Long-Term Leadership

*Investor Presentation*  
January 2010



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

- **X5's Strategic Priorities**
- **2009 Performance**
- **2010 Growth Outlook**

## **II. Q3 & 9M 2009 Financial Highlights**

### ***Appendices***





## X5 Retail Group today

- 2009 net retail sales - USD 8,675 mln; growth on 2008 of 25% on pro-forma basis <sup>(1)</sup> in RUR terms, 33% on consolidation basis <sup>(2)</sup> in RUR terms
- Market position: # 1
  - #1 position in Moscow and St. Petersburg
  - Leading positions in 5 other cities with population of ≥ 500,000 people
  - Presence in 45 cities of European Russia and the Urals
- 1,372 company-managed stores in Russia and Ukraine <sup>(2)</sup>
- Three complementary formats:
  - ✓ Discounter (1,039 stores)
  - ✓ Supermarket (275 stores)
  - ✓ Hypermarket (58 stores)
- 1,063 thousand sq. m. of net selling space <sup>(2)</sup>
- Approximately 1 billion check-out transactions per year
- Over 63,700 employees <sup>(3)</sup>

## Russia's leading food retailers

#	Company	FY 2008 Net Retail Sales (USD mln)	% in Top-10	% in Total Market <sup>(4)</sup>
1.	X5 <sup>(1)</sup>	8,844	26.1%	4.0%
2.	Magnit	5,326	15.7%	2.4%
3.	Metro	5,077	15.0%	2.3%
4.	Auchan	4,983	14.7%	2.2%
5.	Lenta	2,040	6.0%	0.9%
6.	Dixy	1,923	5.7%	0.9%
7.	Kopeyka	1,890	5.6%	0.9%
8.	Seventh Continent	1,549	4.6%	0.7%
9.	Viktoriya	1,228	3.6%	0.6%
10.	O'Key	1,053	3.1%	0.5%
<b>Total</b>		<b>33,913</b>	<b>100.0%</b>	<b>15.3%</b>



(1) Including Karusel on pro-forma basis from 1 January 2008; (2) Including Karusel on consolidation basis, i.e. from 30 June 2008; (3) As at 31 December 2009; (4) As at 30 September 2009; (5) Based on estimated gross sales; total market size – USD 252 bln;



- 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



1,039 stores  
54% 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



275 stores  
27% 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



58 stores  
19% of sales

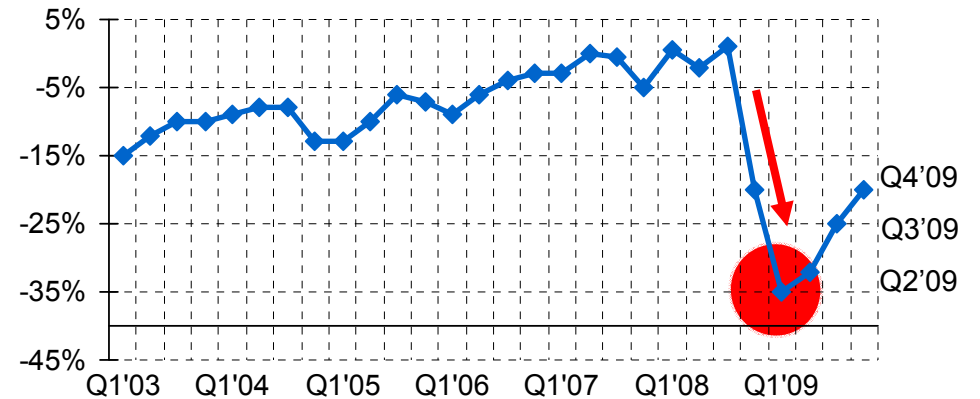
Net selling space: from 4,000 to 10,000 sq.m.  
Assortment: 30,000 – 50,000 SKUs  
Pricing policy: Lowest price in the market on basic assortment, super offers for card holders on the rest  
Format strengths: Wide choice at low price, ideal place for w/e & family shopping





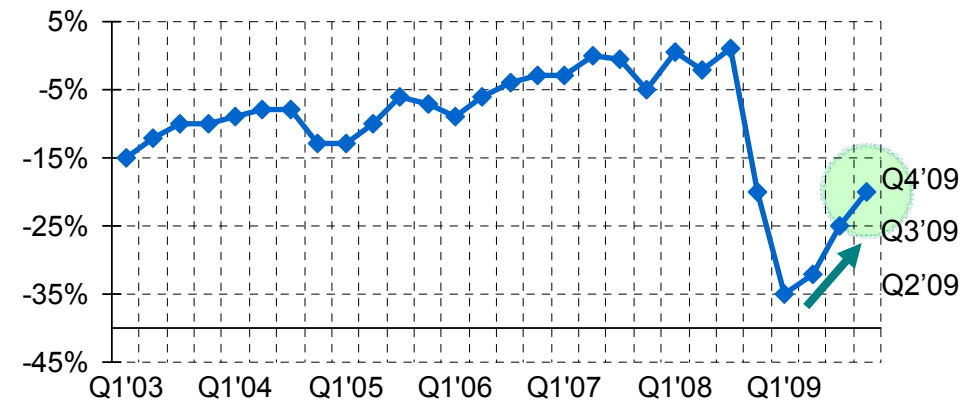
**...was Substantially Affected by the Economic Crisis at the Beginning of 2009...**

- Russian consumer confidence index (CCI) dropped to -35% in Q1 2009...
- i.e. its the lowest level since Q4 1999



**...However Began its Recovery in Q2 2009**

- In Q2-Q4 2009 the index recovered from -35% in Q1 2009 to -20% in Q4 2009...
- ...indicating that a growing number of Russians believe the economy will improve in 2010

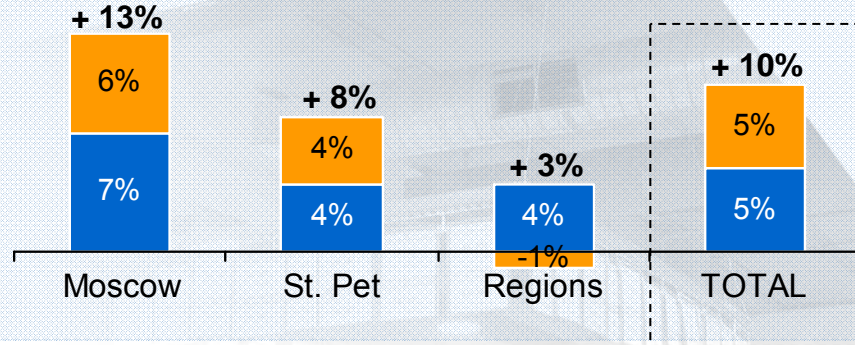


**... Stable LFL Performance Despite Persistent Trading Down Trends**

**X5's 2009 LFL Performance by Region**

Based on RUR-denominated gross sales

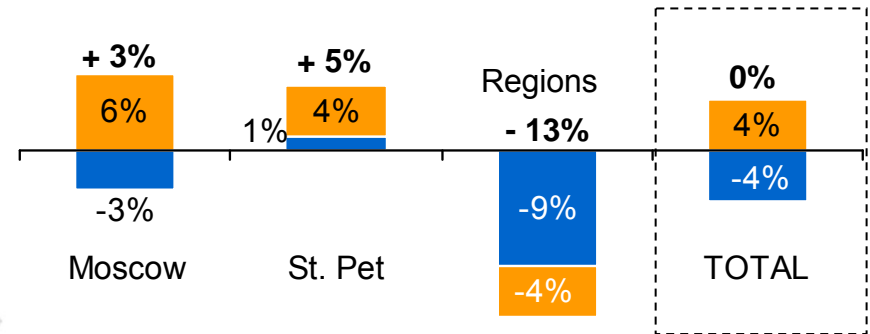
■ Traffic ■ Basket



**Supermarkets' 2009 LFL Performance**

Based on RUR-denominated gross sales

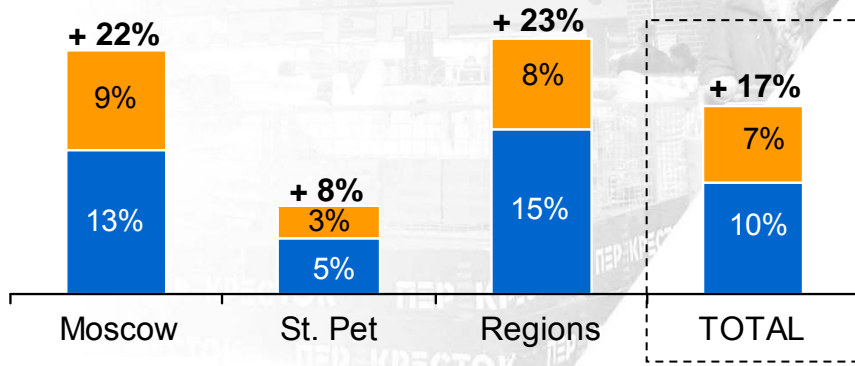
■ Traffic ■ Basket



**Discounters' 2009 LFL Performance**

Based on RUR-denominated gross sales

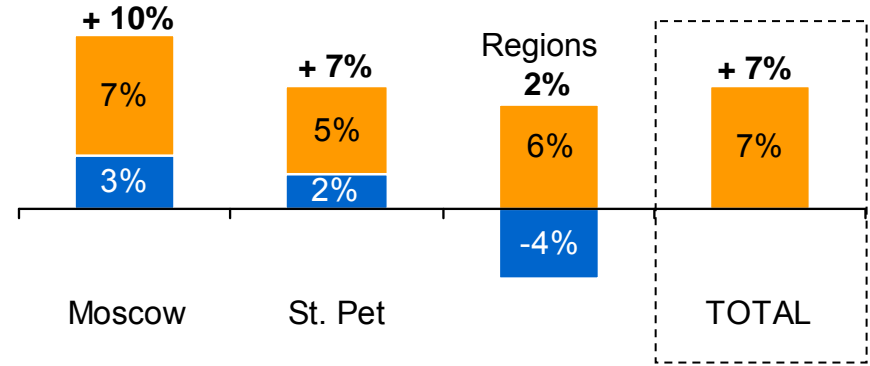
■ Traffic ■ Basket



**Hypermarkets' 2009 LFL Performance**

Based on RUR-denominated gross sales

■ Traffic ■ Basket

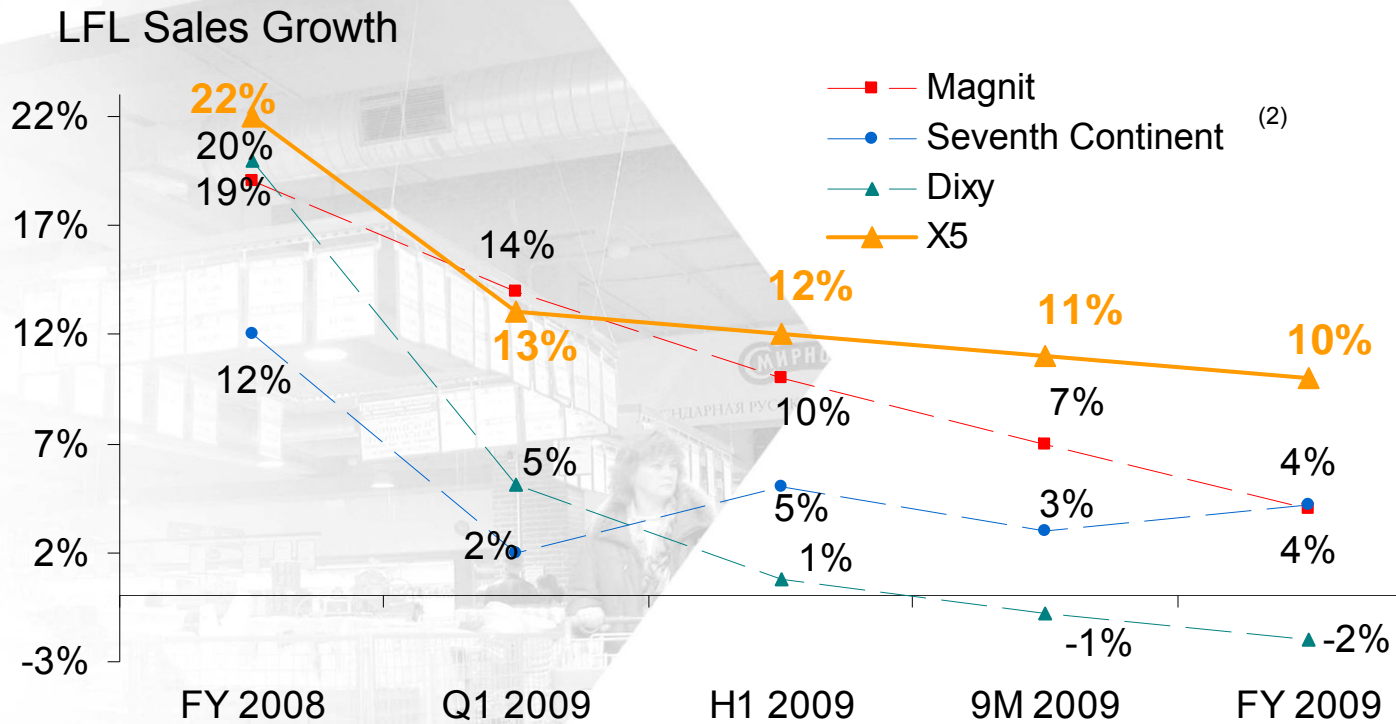






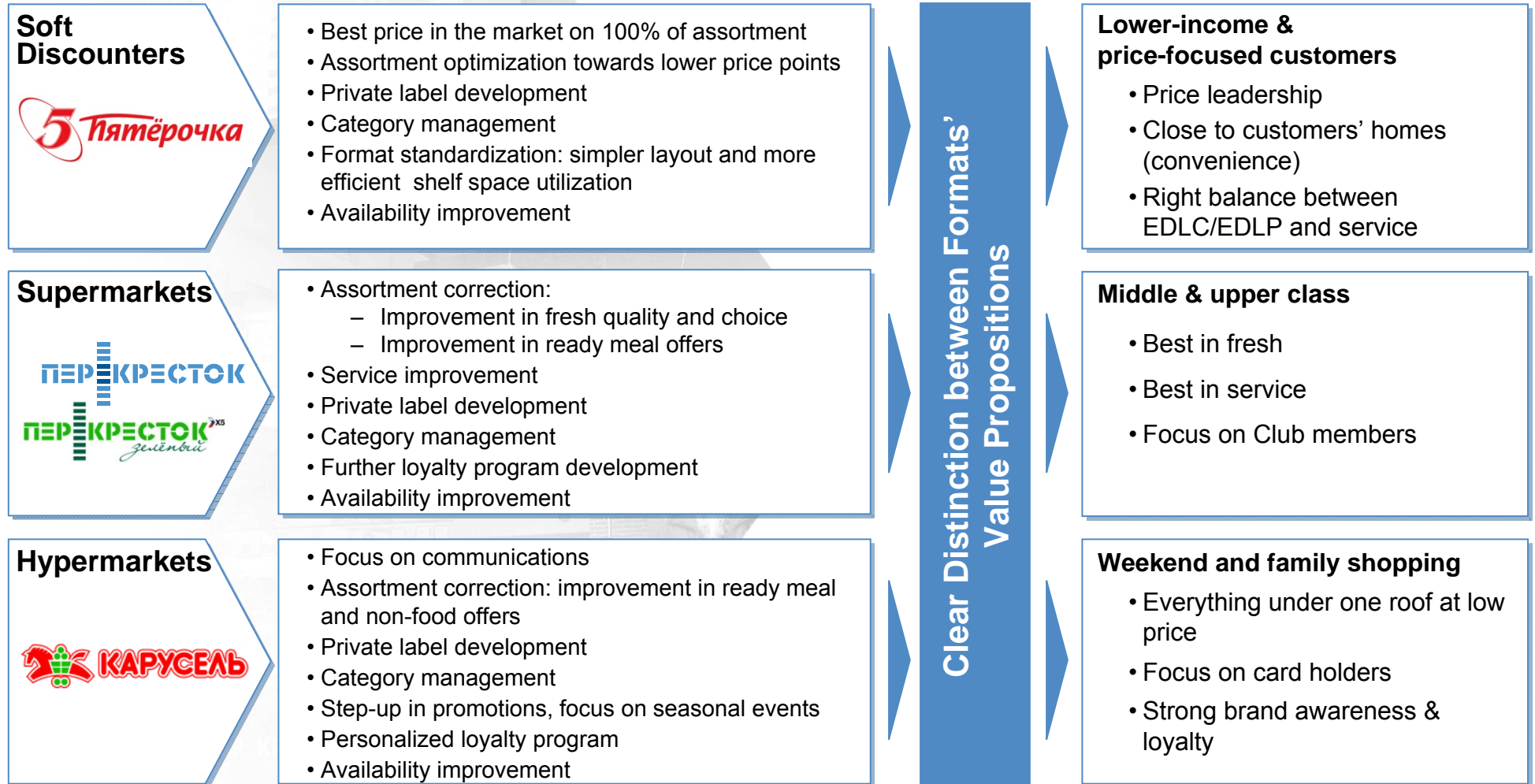
**...Further Strengthened Since the Beginning of the Crisis**

**X5 LFL Performance vs Competition<sup>(1)</sup>**

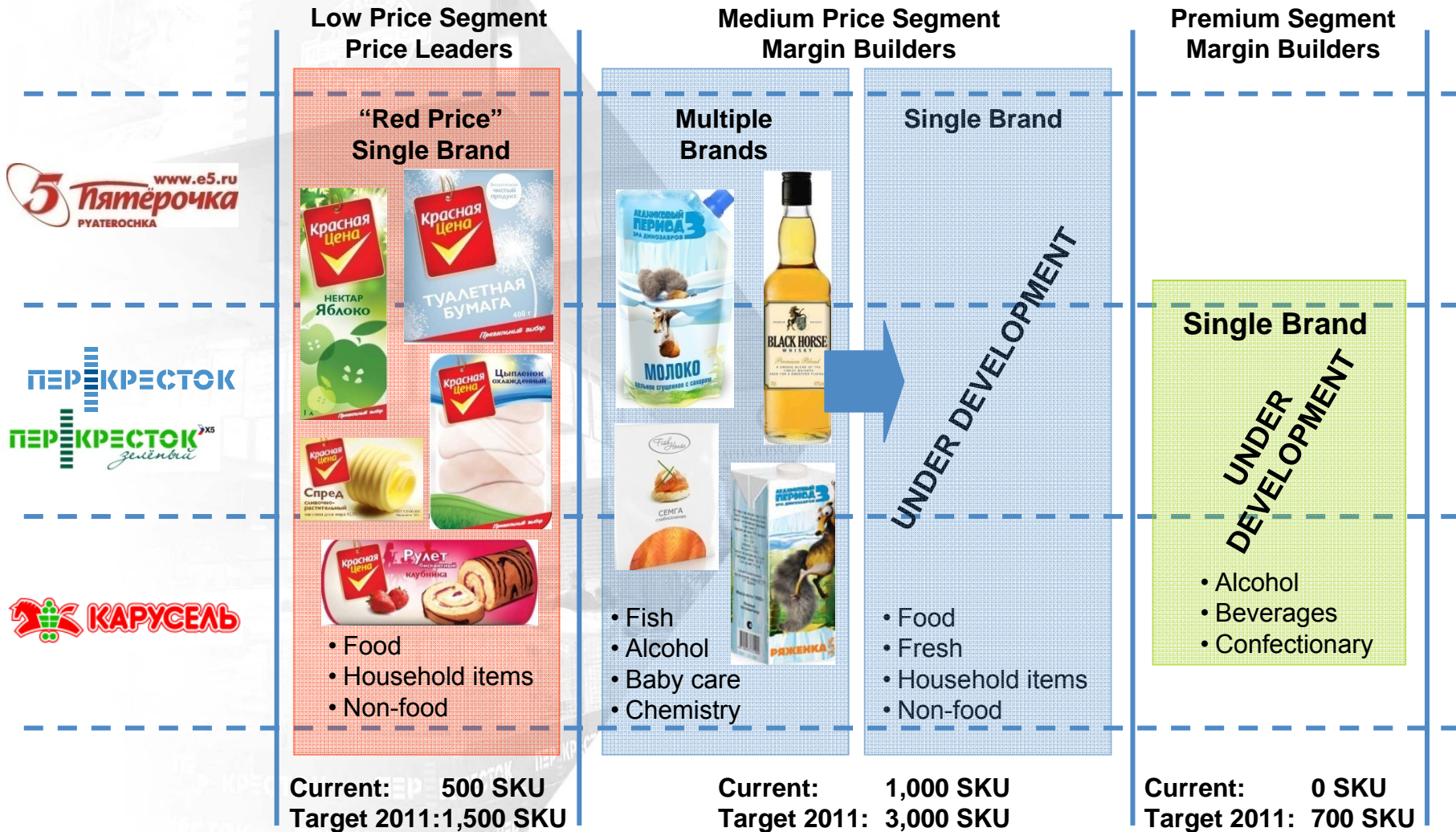


(1) While some of X5's Russian peers may use a more conservative LFL calculation approach, this does not have impact on quarter-on-quarter or cumulative LFL evolution since the beginning of the year; (2) Seventh Continent's FY 2009 numbers have not been published yet

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

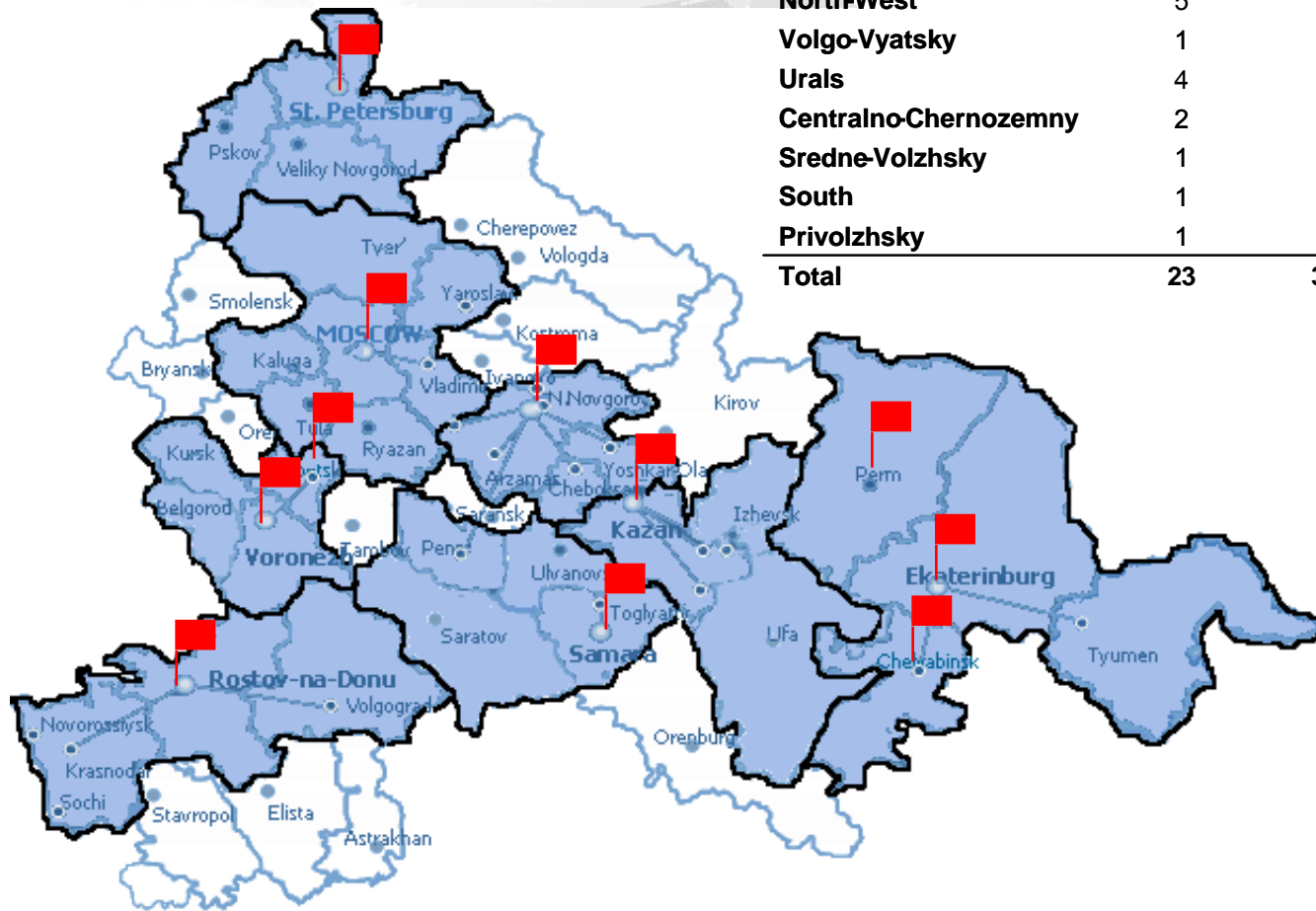
**Profitable Growth & Long-Term Leadership**





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

DC locations as at 31 December 2009



Region	# of DCs	000 sq. m.	Dry	Fruit & Veg	Fresh	Frozen	Non-Food
Central	8	153.9	v	v	v	v	v
North-West	5	65.1	v	v	v	v	
Volgo-Vyatsky	1	17.5	v	v	v		
Urals	4	21.8	v	v	v	v	
Centralno-Chernozemny	2	11.8	v	v	v		
Sredne-Volzhsy	1	13.4	v	v	v		
South	1	12.6	v	v	v		
Privolzhsky	1	13.1	v	v	v		
<b>Total</b>	<b>23</b>	<b>309.1</b>					

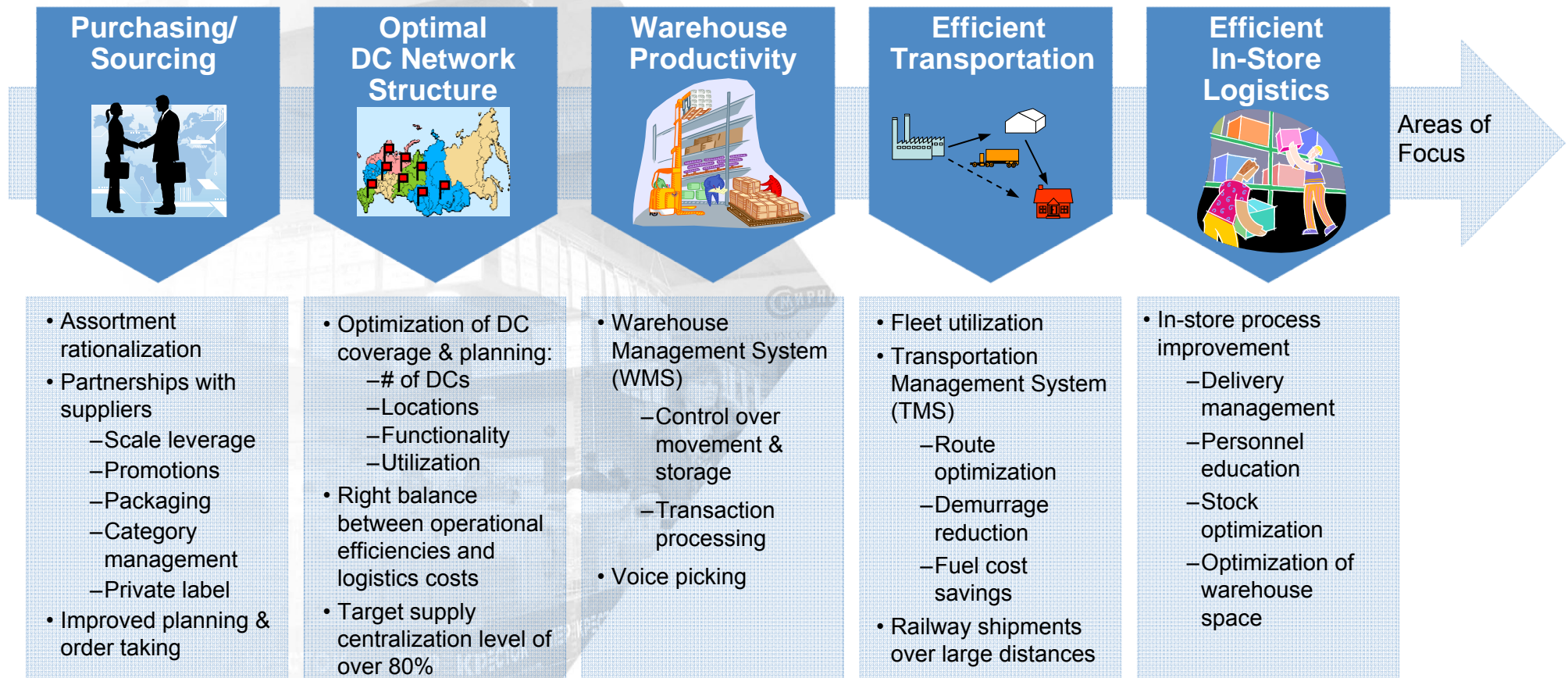
- ✓ 23 multifunctional DCs across the European part of Russia and the Urals
- ✓ At least one DC in each region
- ✓ National non-food DC opened in Q3
- ✓ Fleet of over 600 trucks under management
- ✓ Supply centralization level of 61%





... 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:**

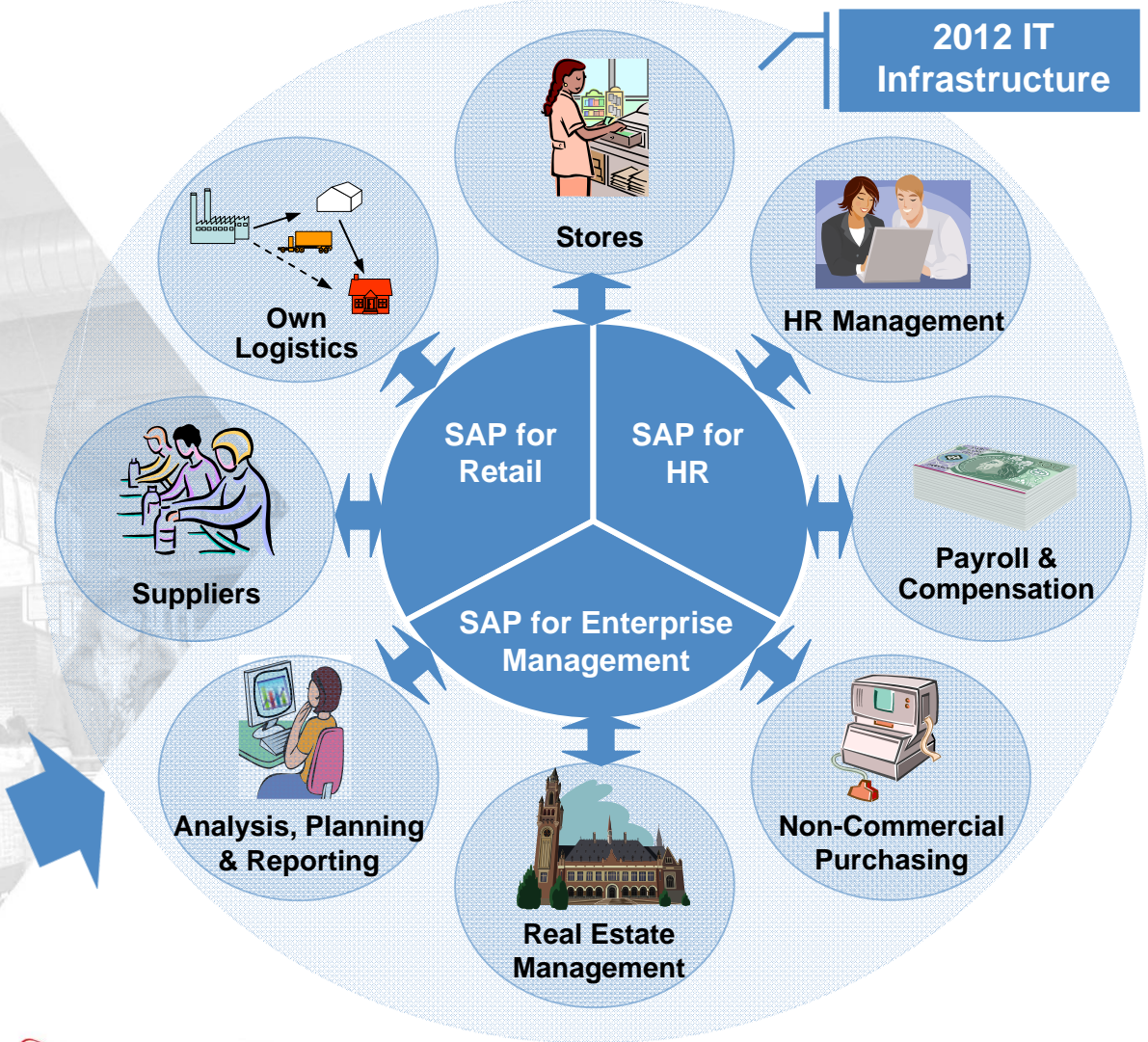
- Unified IT platform across formats, scalable and fully compatible with SAP

**Logistics:**

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

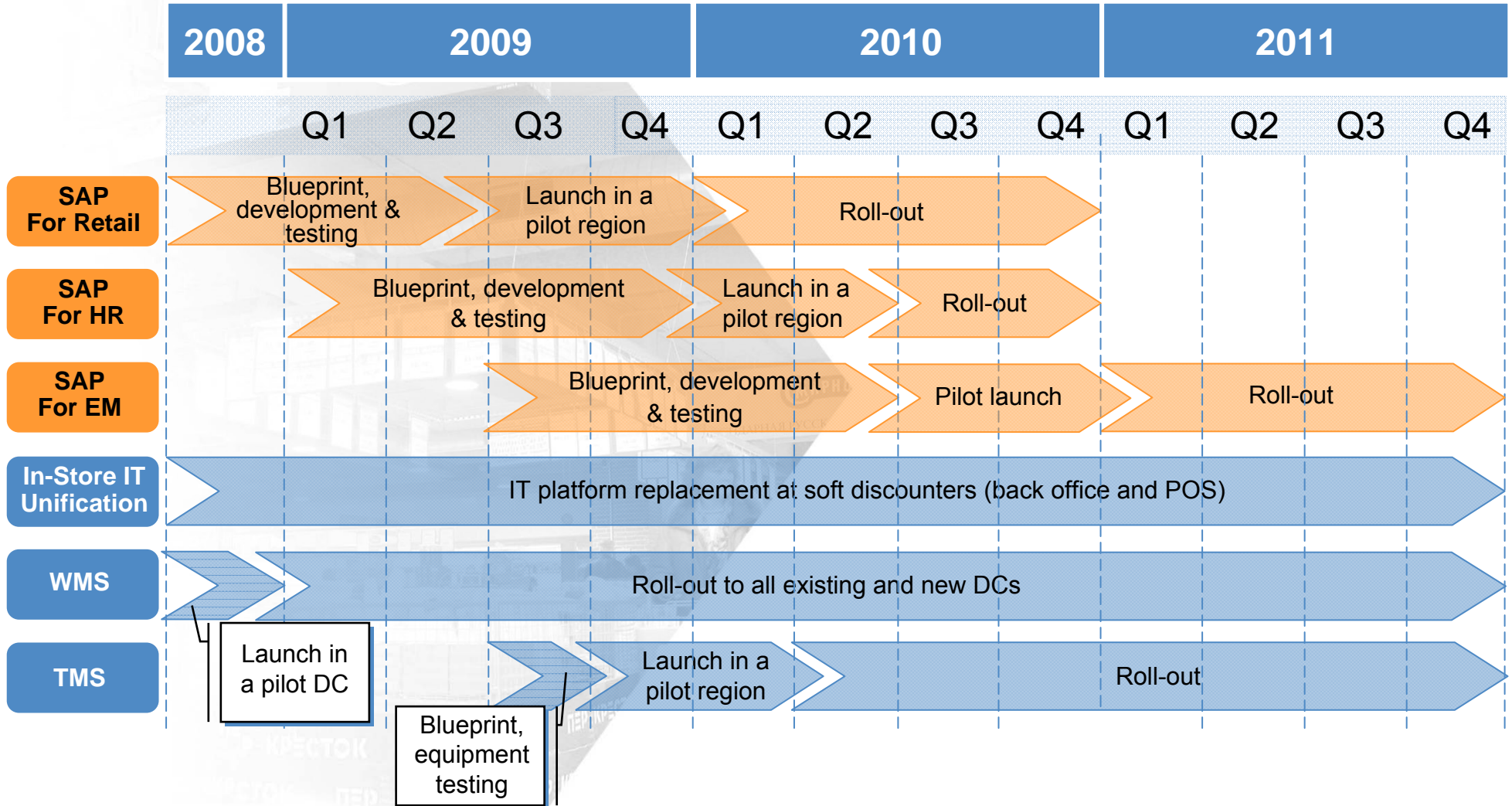
**Head office:**

- 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

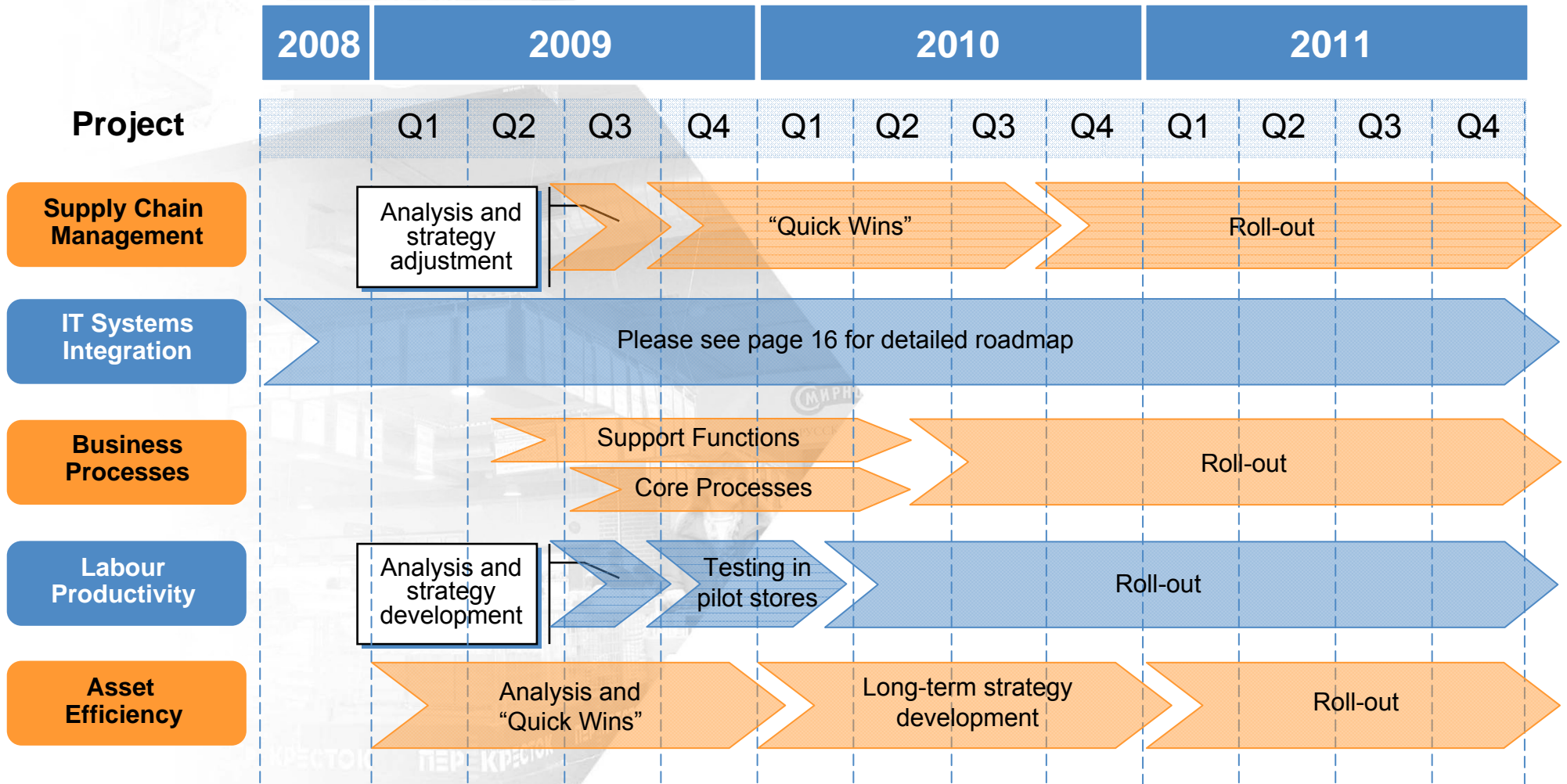


...will Impact Every Area of X5's Business

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				

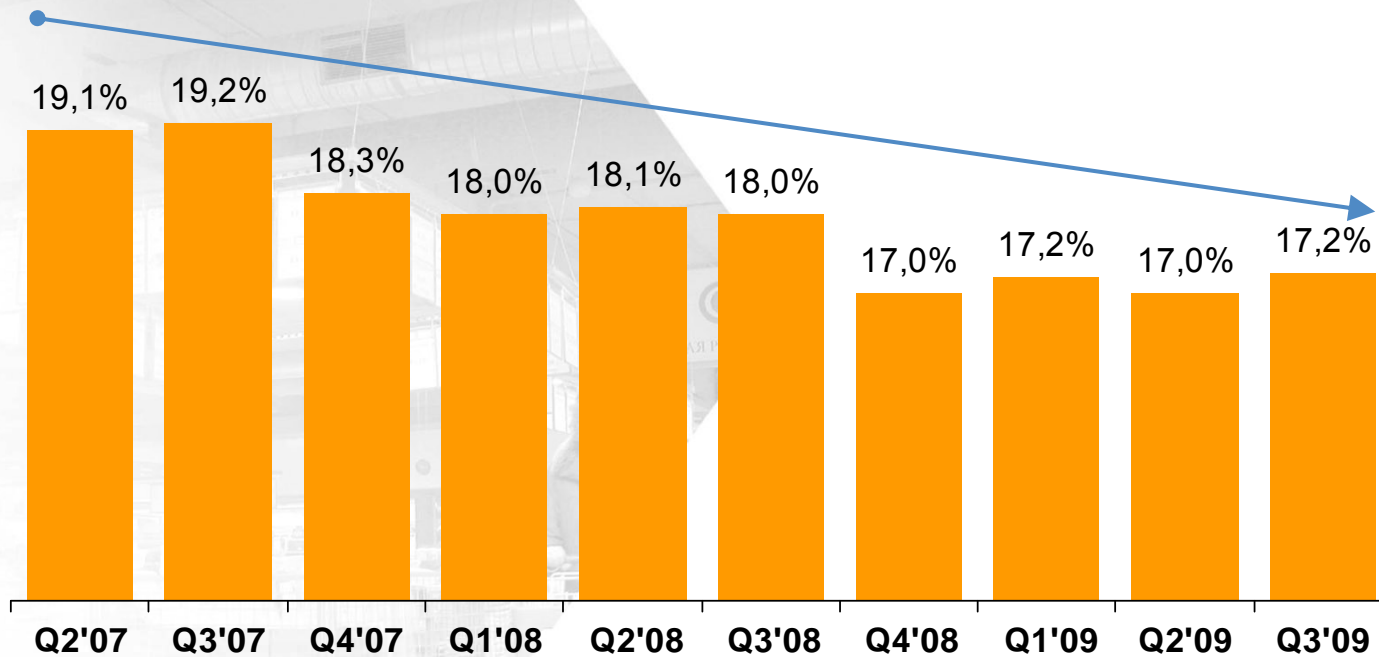


## Roadmap



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

**SG&A<sup>(1)</sup> 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

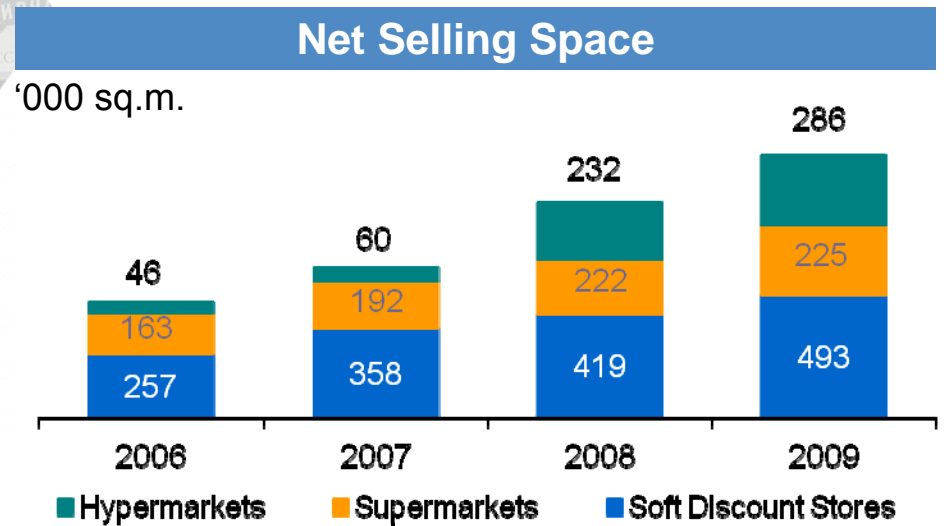
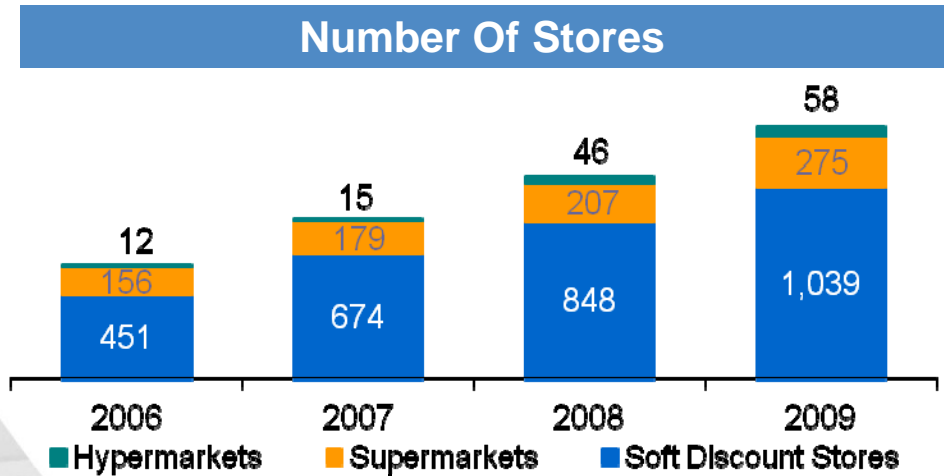
Areas of Focus

**... was Focused and Selective**

- 271 stores or 189 th. sq.m. of selling space added in 2009 on net basis:
  - Organically X5 added 126 th.sq. m. or 189 stores, substantially exceeding its initial expansion plan while staying well within its FY CapEx limit...
  - ...CapEx savings allowed X5 to finance acquisition of Paterson retail chain (82 stores of 63 th. sq.m.) from its operating cash flow

• At 31 December X5 had 1,372 stores (1,063 sq. m. of net selling space) under management:

- 1,039 soft discounters
- 275 supermarkets
- 58 hypermarkets



**... Provides X5 with Strong Value Enhancement Opportunities**



**Business Rationale**

**Strategic Fit**

- Reinforces X5 positions in supermarkets...
- ... by securing high quality locations...
- ...in key geographical markets

**Operational Fit**

- Most Paterson stores are fully compatible with X5's requirements:
  - Operationally – as supermarkets or discounters
  - Geographically & logistically...
- ...offering opportunity of leverage X5's operational scale & supply chain infrastructure

**Financial Upside**

- Substantial upside potential in sales per square meter
- Margin upside by raising performance towards X5 levels
- Attractive valuation and cash generation potential

**Potential Impact**

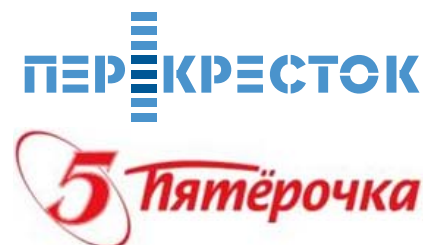
- ~20% increase in Moscow & the region supermarket count
- ~40% increase in St. Petersburg supermarket count
- Share in Top-5 supermarket players' sales to reach nearly 60%

- 57 stores to be integrated as supermarkets, 25 stores as discounters<sup>(1)</sup>
- Complementary to X5's geography
- Paterson's supply centralization level improvement from 0% to over 50%

- Potential to improve sales density to X5's levels
- Substantial EBITDA margin enhancement opportunities
- Total expected annualized synergies of approximately USD 50 mln annually starting from 2011<sup>(1)</sup>



(1) Based on current assumptions



	12 Months to Sep-09 <sup>(1)</sup>	2010	2011
<b>Net Sales</b> <i>(RUR mln)</i>	<b>10,968</b>	<ul style="list-style-type: none"> <li>▲ Early benefits of re-branding</li> <li>▲ Competitive pricing to drive sales density</li> <li>▼ Short-term closing of stores for re-branding, integration and IT upgrade</li> </ul>	<ul style="list-style-type: none"> <li>▲ Sales per sq.m. normalizing at Perekrestok and Pyaterochka levels</li> </ul>
<b>Gross Margin</b>	<b>27.9%<sup>(2)</sup></b>	<ul style="list-style-type: none"> <li>▼ Margin investment in customer loyalty, to retain customers and support stores re-launch</li> </ul>	<ul style="list-style-type: none"> <li>● Gross margin dynamics in line with Perekrestok and Pyaterochka</li> </ul>
<b>EBITDA Margin</b>	<b>7.4%<sup>(2)</sup></b>	<ul style="list-style-type: none"> <li>▲ Opex optimization and post-integration synergies</li> <li>▼ Short-term closing of stores for integration</li> <li>▼ One-off integration costs</li> </ul>	<ul style="list-style-type: none"> <li>▲ Full impact of synergies</li> <li>▲ EBITDA margin at Perekrestok and Pyaterochka levels</li> </ul>

▪ Paterson performance can be substantially improved by raising sales density and EBITDA margin through rebranding, integration and application of X5's efficiency programs



(1) Q4 2008 + Q1 to Q3 2009; (2) Adjusted in line with X5's reporting policy  
Source: company data: RGAAP financial statements, management accounts



## Description

- Acquisition of 100% ownership of Paterson retail business and property

## Transaction Value

- Equity value: USD 189.5 mln
- Net Debt: no more than RUR 2,467.5 bln (approximately USD 85 mln)
- Enterprise Value: USD 275 mln

## Transaction Structure

- 100% cash payment for equity
- 100% assumption of debt

## Approvals

- Unconditional consent from Russian Federal Anti-Monopoly Service (FAS) received 27 October 2009
- Approved by Supervisory Board of X5 Retail Group

## Timing

- Deal was completed on 4 December 2009
- Integration to be finalized by mid-2010

## Funding Structure

- Deal was financed from operating cash flow

**2010 Outlook**

- Assuming stabilisation of the macro-economic environment, in 2010 X5 expects to deliver net sales growth comparable to 2009 pro-forma level<sup>(1)</sup>. Actual top line performance will depend on inflationary trends and the timing of a recovery in the consumer spending;
- Net new store addition:
  - Hypermarkets: 7-10 stores;
  - Supermarkets: ~15 stores;
  - Discounters: 200-250 stores.
- Capital Expenditures of up to RUR 18 bln.

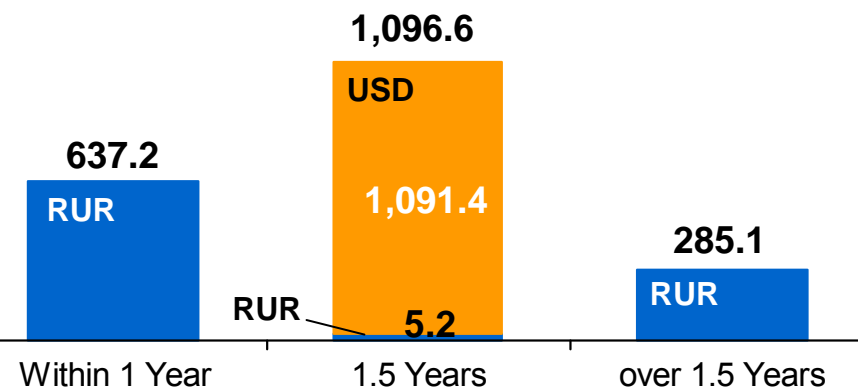
## Key Highlights

- In June '09 X5 placed 7-year RUR 8 bln corporate bonds with a put option in 2 years. Proceeds were used to reduce short-term debt
- As at 30 Sep '09 X5's short-term debt increased versus 30 Jun '09 as the Company's RUR 9 bln bonds issued in July '07 with a put option in July '10 were reclassified as short-term
- As at 30-Sep-09 X5 had access to RUR-denominated credit facilities of c.RUR 24.9 bln (c.USD 825 mln), out of which RUR 15.3 bln (c.USD 508 mln) were available undrawn credit lines
- In Nov '09 X5 and Sberbank agreed on a "forward-start" ruble-denominated committed credit line for refinancing of USD 1.1 bln syndicated loan. Credit line is open for 5 years and can be utilized in several tranches with varying maturities. Interest rate will be set as a spread of 400 to 650 basis points over the 3-month MosPrime rate, depending on the maturity of each tranche

## Debt Maturity Profile as at 30.09.09

USD mln

■ Denominated in RUR ■ Denominated in USD



USD mln	30-Sep-09	% in total	30-Jun-09	% in total	31-Dec-08	% in total
<b>Total Debt</b>	<b>2,018.9</b>		<b>1,962.4</b>		<b>2,059.4</b>	
Short-Term Debt	637.2	32%	272.1	14%	578.4	28%
Long-Term Debt	1,381.7	68%	1,690.3	86%	1,481.0	72%
<b>Net Debt</b>	<b>1,742.1</b>		<b>1,817.6</b>		<b>1,782.6</b>	
Denominated in USD	1,064.6	61%	1,061.8	58%	1,170.0	66%
Denominated in RUR	677.6	39%	755.8	42%	612.6	34%
FX rate, EoP	30.09		31.29		29.38	
<b>Net Debt/EBITDA</b>	<b>2.37x</b>		<b>2.38x</b>		<b>2.22x</b>	



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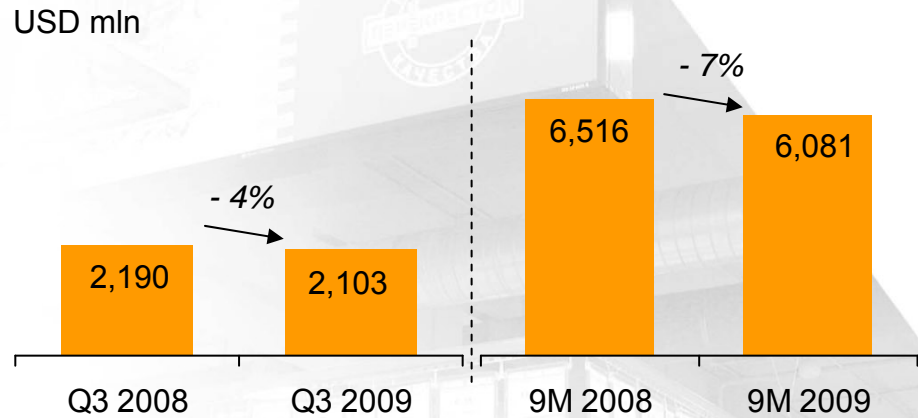
**II. Q3 & 9M 2009 Financial Highlights**

***Appendices***

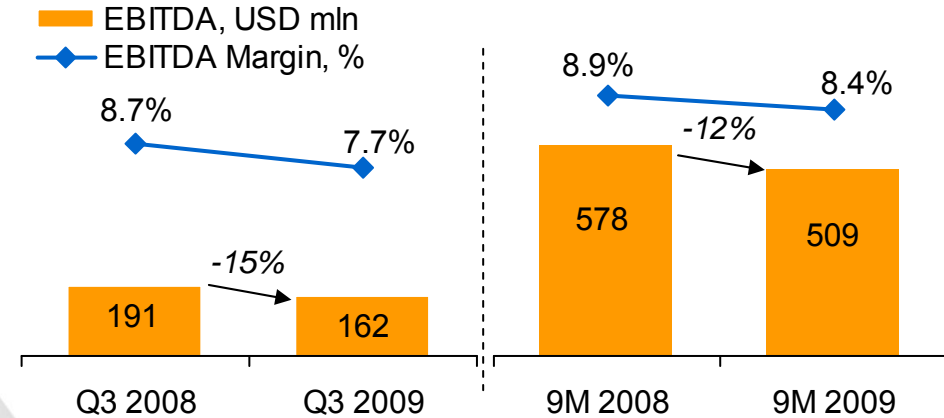




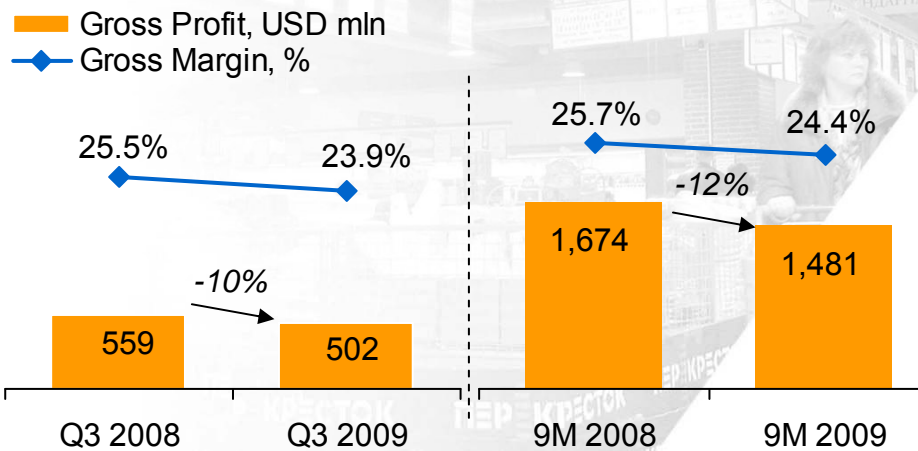
**Net Sales**



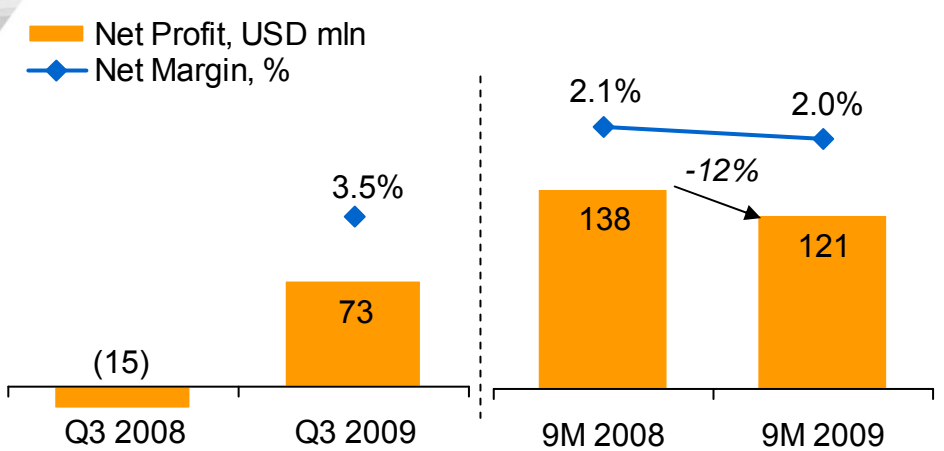
**EBITDA & EBITDA Margin**



**Gross Profit**



**Net Profit**



(1) All P&L numbers are provided on pro-forma basis, i.e. including Karusel results both in Q3&9M 2009 and Q3&9M 2008

USD mln	Q3 2009	Q3 2008	% change USD	% change RUR	9M 2009	9M 2008	% change USD	% change RUR
<b>Net Sales</b>	<b>2,103.1</b>	<b>2,190.3</b>	<b>(4%)</b>	<b>24%</b>	<b>6,081.2</b>	<b>6,516.1</b>	<b>(7%)</b>	<b>26%</b>
incl. Retail	2,094.2	2,177.0	(4%)	24%	6,053.2	6,478.7	(7%)	26%
<b>Gross Profit</b>	<b>501.8</b>	<b>558.8</b>	<b>(10%)</b>	<b>16%</b>	<b>1,480.8</b>	<b>1,673.7</b>	<b>(12%)</b>	<b>20%</b>
Gross Margin, %	23.9%	25.5%			24.4%	25.7%		
<b>EBITDA</b>	<b>161.8</b>	<b>190.5</b>	<b>(15%)</b>	<b>9%</b>	<b>508.8</b>	<b>578.0</b>	<b>(12%)</b>	<b>19%</b>
EBITDA Margin, %	7.7%	8.7%			8.4%	8.9%		
SG&A (incl. D&A)	(417.0)	(456.6)	(9%)	18%	(1,196.2)	(1,358.2)	(12%)	19%
% of revenue	19.8%	20.8%			19.7%	20.8%		
ESOP expense <sup>(2)</sup>	(26.3)	10.0	n/a	(456%)	(31.6)	0.0	n/a	n/a
% of revenue	1.3%	(0.5%)			0.5%	0.0%		
<b>Operating Profit</b>	<b>107.5</b>	<b>127.4</b>	<b>(16%)</b>	<b>8%</b>	<b>353.5</b>	<b>393.3</b>	<b>(10%)</b>	<b>21%</b>
Operating Margin, %	5.1%	5.8%			5.8%	6.0%		
Net FX Result	39.7	(84.9)	n/a	n/a	(38.1)	(40.0)	(5%)	29%
<b>(Loss)/Profit before tax</b>	<b>108.9</b>	<b>(2.1)</b>	<b>n/a</b>	<b>n/a</b>	<b>198.7</b>	<b>235.6</b>	<b>(16%)</b>	<b>14%</b>
Income Tax Expense	(36.0)	(12.6)	185%	266%	(77.5)	(97.5)	(20%)	7%
<b>Net Profit</b>	<b>72.9</b>	<b>(14.7)</b>	<b>n/a</b>	<b>n/a</b>	<b>121.2</b>	<b>138.2</b>	<b>(12%)</b>	<b>18%</b>
Net Margin, %	3.5%	(0.7%)			2.0%	2.1%		

- Q3 2009 **gross margin** totaled 23.9% - a 160 bp decline year-on-year, resulting in 9M 2009 gross margin decline of 130 bp year-on-year to 24.4%. This decline is in line with the management's expectations and is attributable to our continuous investment in prices across formats, including:
  - ✓ New Pyaterochka's pricing policy to offer lowest price in the market on every item launched in Mar-09
  - ✓ A managed reduction in Karusel's gross margin
  - ✓ The impact of trading down trends (change of product mix in favour of staples)
- **SG&A** decline as a % of revenue was achieved as a result of strong cost controls and implementation of X5's strategic efficiency programs
  - ✓ Q3 2009 SG&A expenses including ESOP<sup>(1)</sup> declined as % of sales by 100 bp year-on-year to 19.8%. Net of ESOP, SG&A costs declined as % of sales by 270 bp year-on-year to 18.6% of sales
  - ✓ 9M 2009 SG&A expenses including ESOP declined as % of sales by 110 bp to 19.7%. Net of ESOP, SG&A costs decreased as % of sales by 160 bp year-on-year to 19.2% of sales
- Q3 2009 **EBITDA margin** of 7.7% (100 bp decline year-on-year) was affected by ESOP cost of USD 26 mln on the back of strong GDR price growth in Q3 2009. 9M 2009 EBITDA margin totaled 8.4%, including ESOP expense of USD 32 mln
- X5 reported an **FX gain** of USD 40 mln in Q3 2009 and an **FX loss** of USD 38 mln for 9M 2009 as a result of sharp RUR devaluation in Q1 2009 followed by partial RUR recovery in Q2&Q3 2009. FX loss is primarily non-cash, resulting from long-term USD-denominated debt revaluation

## Strong Cash Generation from Operations Offset by Working Capital Seasonality

USD mln	Q3 2009	Q3 2008	% change USD	% change RUR	9M 2009	9M 2008	% change USD	% change RUR
<b>Net Cash Flows from Operating Activities</b>	151.0	147.7	2%	37%	190.5	259.8	(27%)	(1%)
<i>Net Cash from Operating Activities before Changes in Working Capital</i>	191.8	184.8	4%	34%	571.9	554.7	3%	39%
<i>Change in Working Capital</i>	0.0	90.7	n/a	n/a	(182.9)	21.1	n/a	n/a
<i>Net Interest and Income Tax Paid</i>	(40.8)	(127.9)	(68%)	(60%)	(198.5)	(316.0)	(37%)	(15%)
<b>Net Cash Used in Investing Activities</b>	(50.1)	(297.5)	(83%)	(79%)	(149.1)	(1,524.2)	(90%)	(87%)
<b>Net Cash (Used in)/Generated from Financing Activities</b>	13.9	18.6	(25%)	0%	(47.6)	1,318.3	n/a	n/a
<b>Effect of Exchange Rate Changes on Cash &amp; Cash Equivalents</b>	17.2	(21.5)	n/a	513%	6.2	(9.1)	n/a	n/a
<b>Net Increase/(Decrease) in Cash</b>	<b>131.9</b>	<b>(152.7)</b>	<b>n/a</b>	<b>n/a</b>	<b>0.0</b>	<b>44.7</b>	<b>n/a</b>	<b>n/a</b>



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

- **X5's Strategic Priorities**
- **2009 Performance**
- **2010 Growth Outlook**

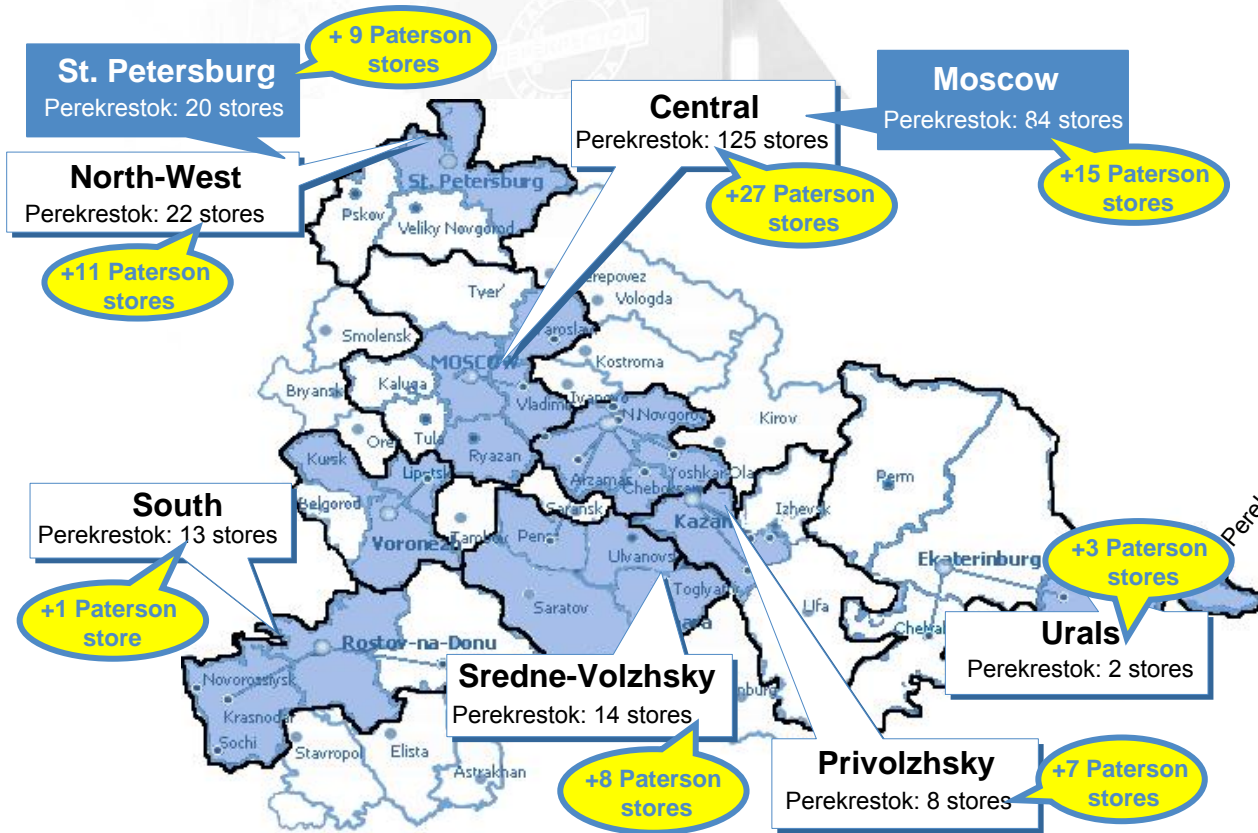
**II. Q3 & 9M 2009 Financial Highlights**

*Appendices*

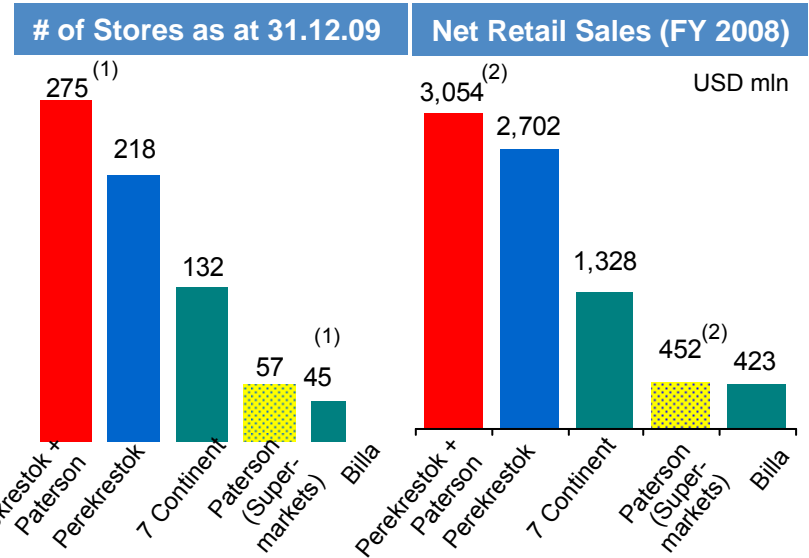




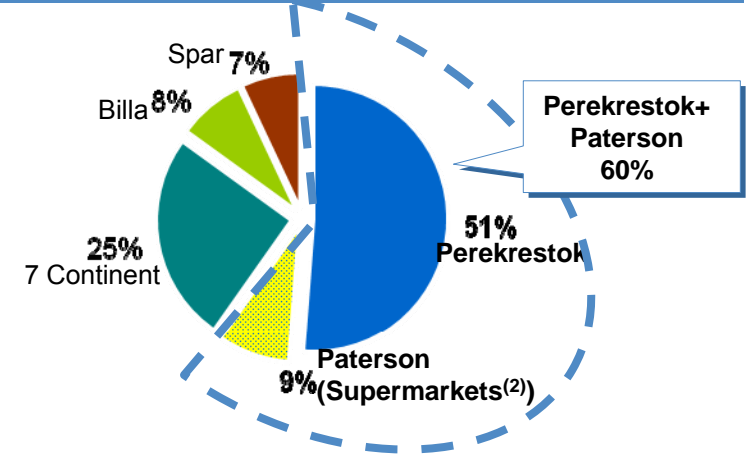
## ... Strategic Step Up in Supermarkets in Key Geographic Markets<sup>(1)</sup>



- ~20% increase in Moscow & the region supermarket count
- ~40% increase in St. Petersburg supermarket count
- Share in Top-5 supermarket players' sales to reach nearly 60%



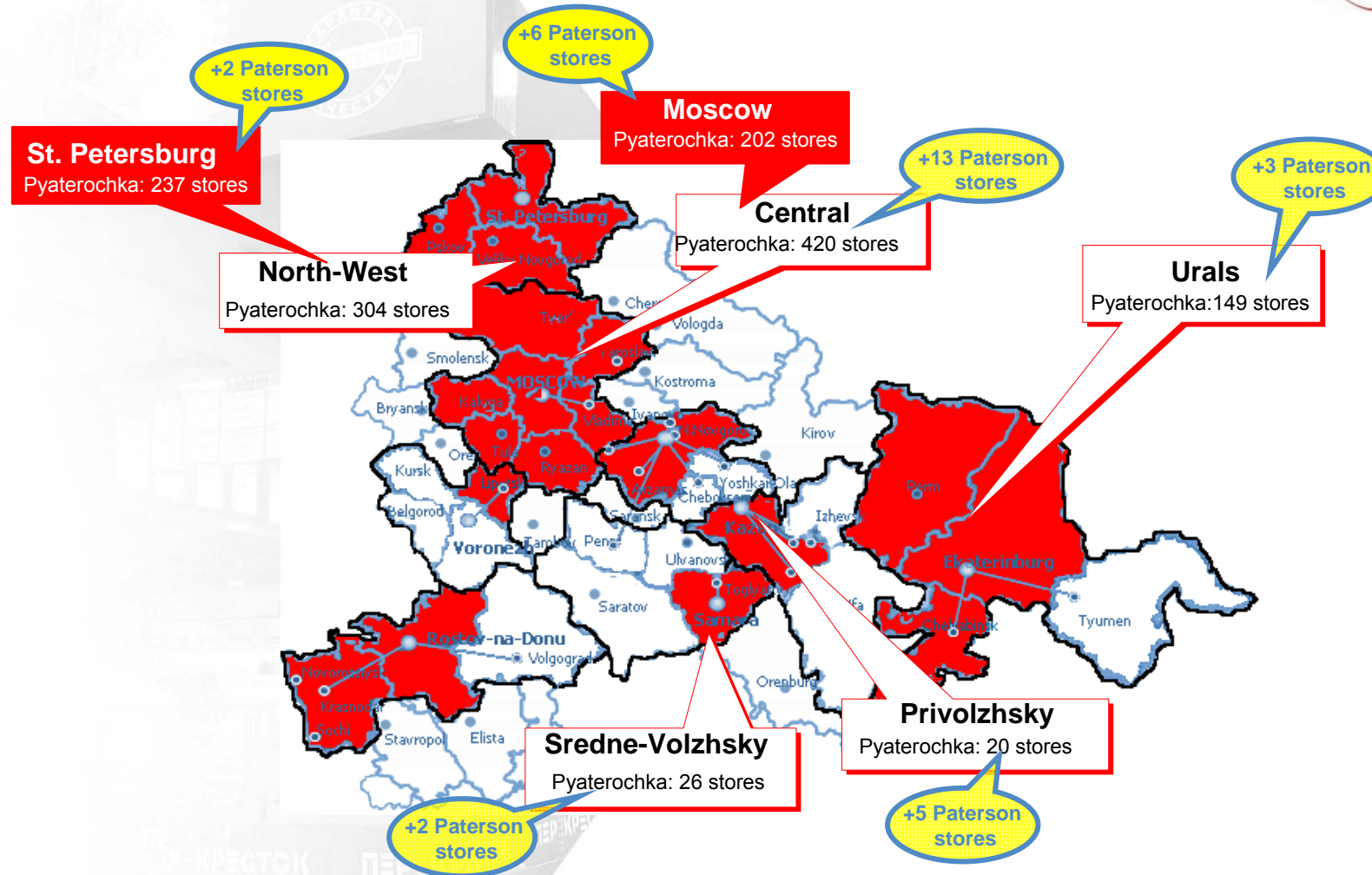
### Share in Top-5 Supermarket Sales (FY 2008)



(1) Based on current assumptions of integrating 57 Paterson stores as supermarkets; (2) Based on 57 stores' performance



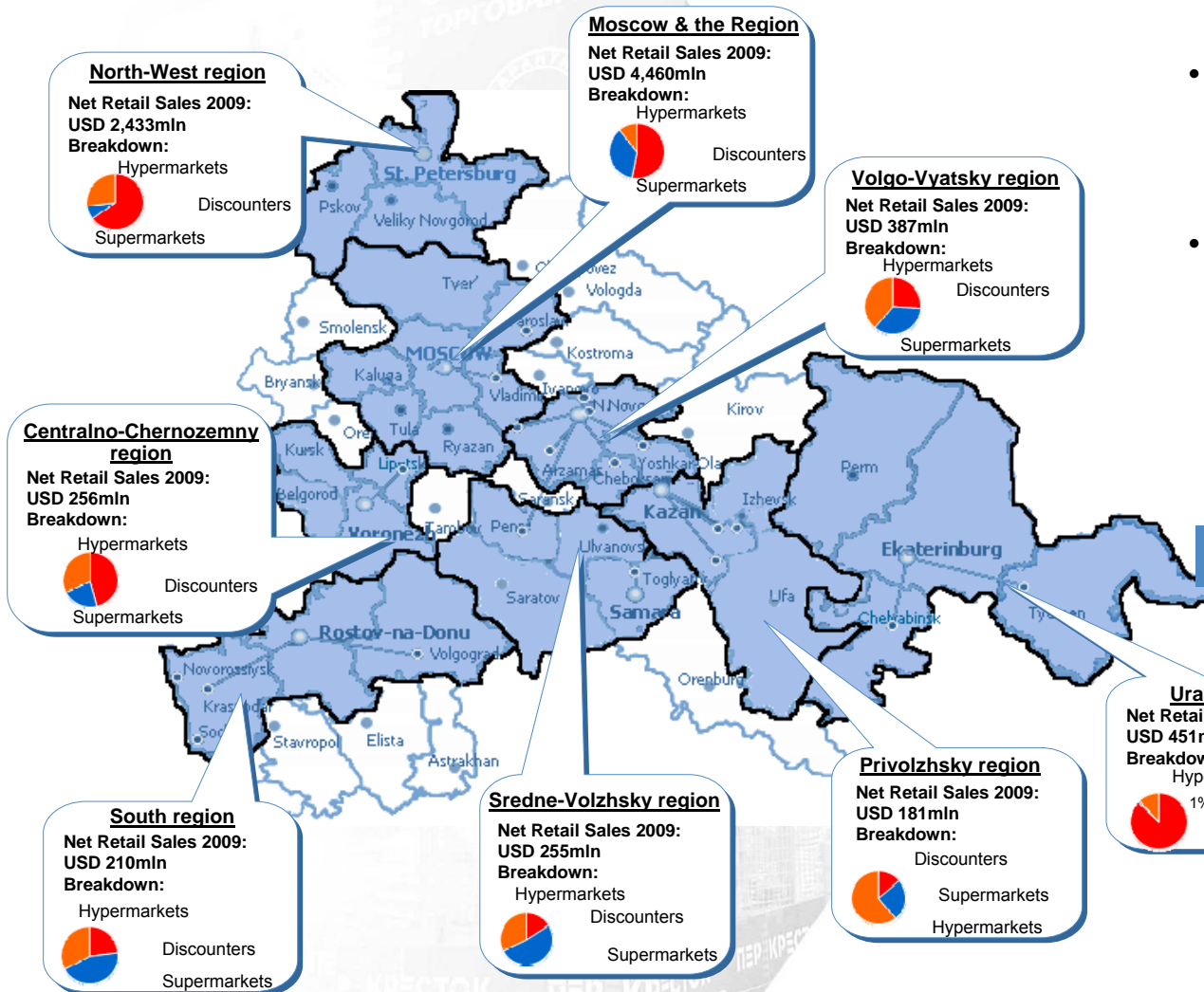
## ... Complementary Addition of Discounters(1)



Regions of Pyaterochka operations (as at 31 December 2009)

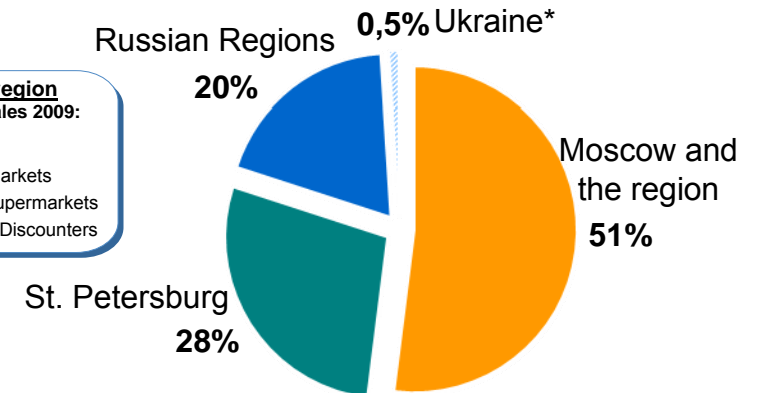


(1) Based on current assumptions of integrating 25 Paterson stores as discounters



- As at 31 December, X5 was present in 45 cities of European Russia and the Urals, and also in Ukraine
- In addition to Moscow and St. Petersburg, a leading position secured in 5 large regional cities: Nizhny Novgorod, Lipetsk, Samara, Chelyabinsk and Perm

## 2009 Net Retail Sales by Region

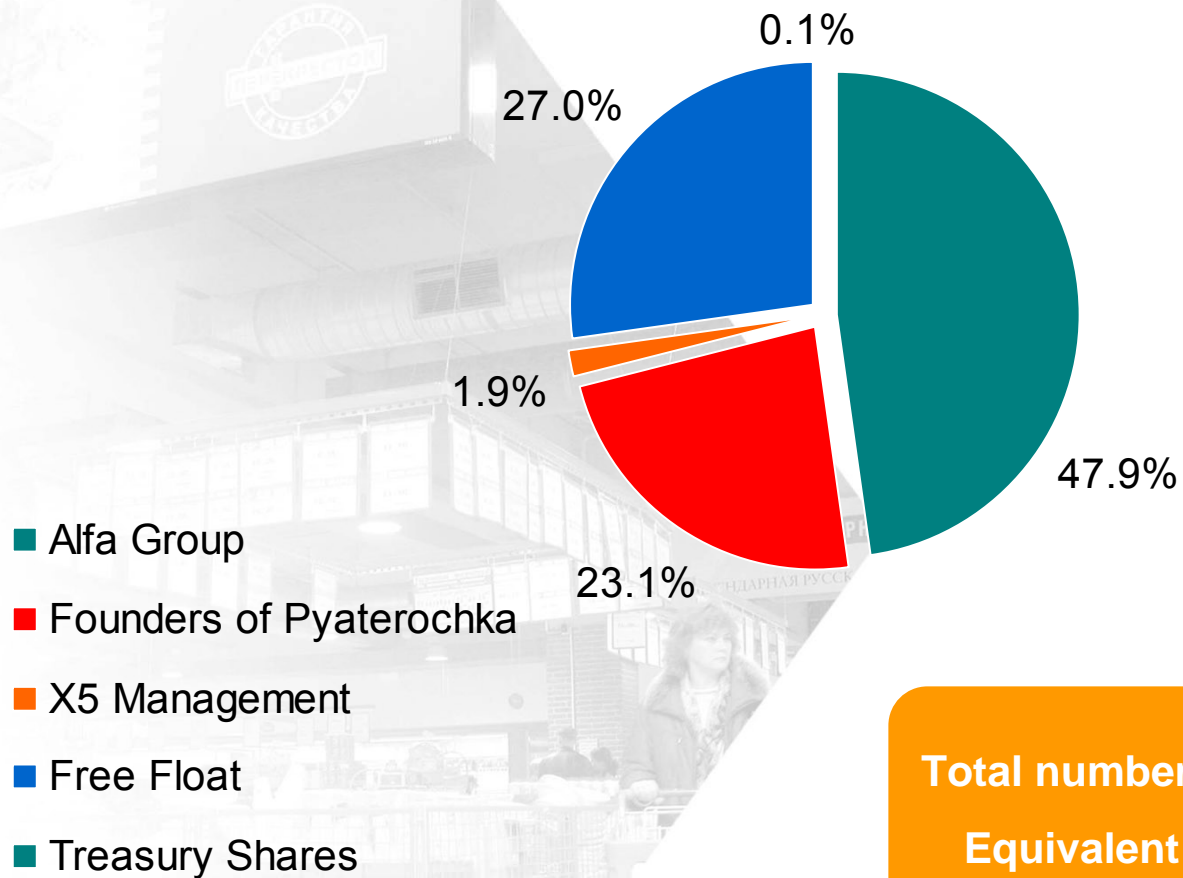


X5 Existing Operations as at 31 December 2009



\* 2009 Net retail sales totaled USD 40 million





Total number of shares – 67,893,218  
Equivalent of 271,572,872 GDRs



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