

# Acquisition of Paterson Supermarket Chain

25 November 2009





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**Paterson Acquisition Provides X5 with Strong Value Enhancement Opportunities**

**Strategic  
Fit**

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

**Operational  
Fit**

- Most Paterson stores are highly compatible with X5's requirements:
  - Operationally – as supermarkets or discounters
  - Geographically & logistically...
- ...opportunity to 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



**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
- All typical guarantees and warranties, including equity value adjustment for fluctuations in actual net debt and/or working capital versus pre-agreed levels
- 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

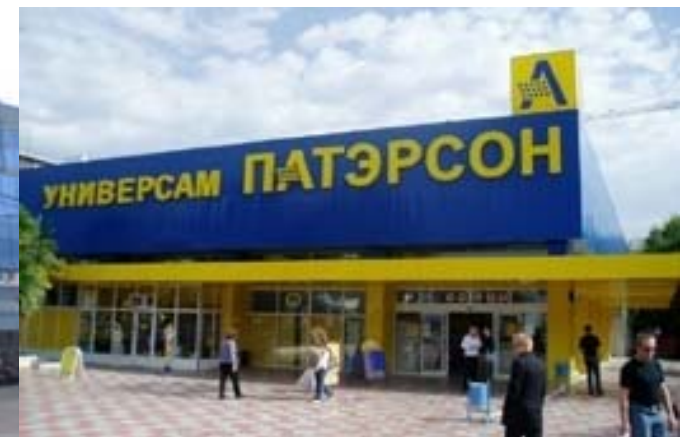
**Timing**

- Deal completion and settlement expected by mid-December 2009
- Integration to be finalized by mid-2010

**Funding Structure**

- To be financed from operating cash flow





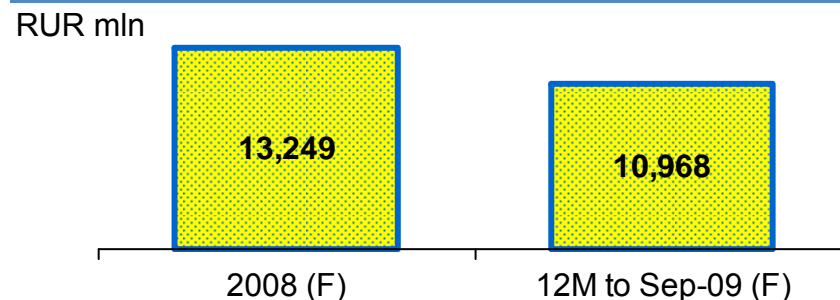
## Business Highlights

- Privately-owned company founded in 1997
- Majority of stores located in the Central region of Russia
  - As at 30 September 2009, Paterson operates 82 stores, including:
    - Moscow and the region: 37 stores
    - St. Petersburg: 11 stores
    - Tatarstan: 9 stores
    - 25 remaining stores located in cities of European Russia and the Urals
- 13 stores owned, 69 – leased; average duration of outstanding lease agreements – c.5 years
- Net selling space – c.65 thousand sq.m., total space of c.145 thousand sq.m. (c.20% owned)
- Pipeline of four committed stores with preliminary signed lease agreements, one land plot in long-term lease
- 18 additional stores operate under franchising agreement in Siberia  
*(franchisee's revenues are not consolidated, only royalty payments are reflected in P&L)*
- No logistics infrastructure
- Total headcount of approximately 3,800 employees: 90% store personnel, 10% headquarters

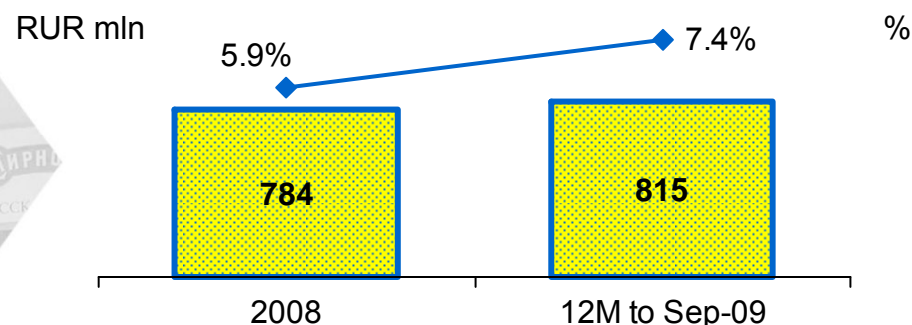
Financial Highlights

- **Net Sales<sup>(1)</sup>:**
  - 2008: RUR 13.2 bln
  - 12M to Sep-09<sup>(2)</sup>: RUR 11.0 bln
- **Adjusted EBITDA<sup>(3)</sup>:**
  - 2008: RUR 784 mln (EBITDA margin 5.9%)
  - 12M to Sep-09: RUR 815 mln (EBITDA margin 7.4%)
- **Liquidity (at signing)**
  - Total Debt : c.RUR 2.7 bln (c.USD 93 mln)
  - Net Debt: c.RUR 2.5 bln (c.USD 85 mln)
  - Net Debt/EBITDA' 12M to Sep-09 = 3.0x

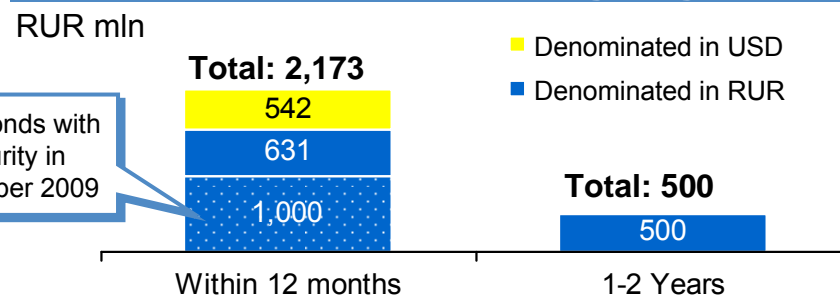
Net Sales



EBITDA & EBITDA Margin<sup>(3)</sup>



Debt Profile (at signing)



(1) Excluding VAT; (2) Q4 2008 + Q1 to Q3 2009; (3) Adjusted in line with X5's approach  
Source: company data: RGAAP financial statements, management accounts

**Paterson Stores are Highly Compatible with X5 Requirements**

**Estimated Format Split for Paterson Stores Integration<sup>(1)</sup>**

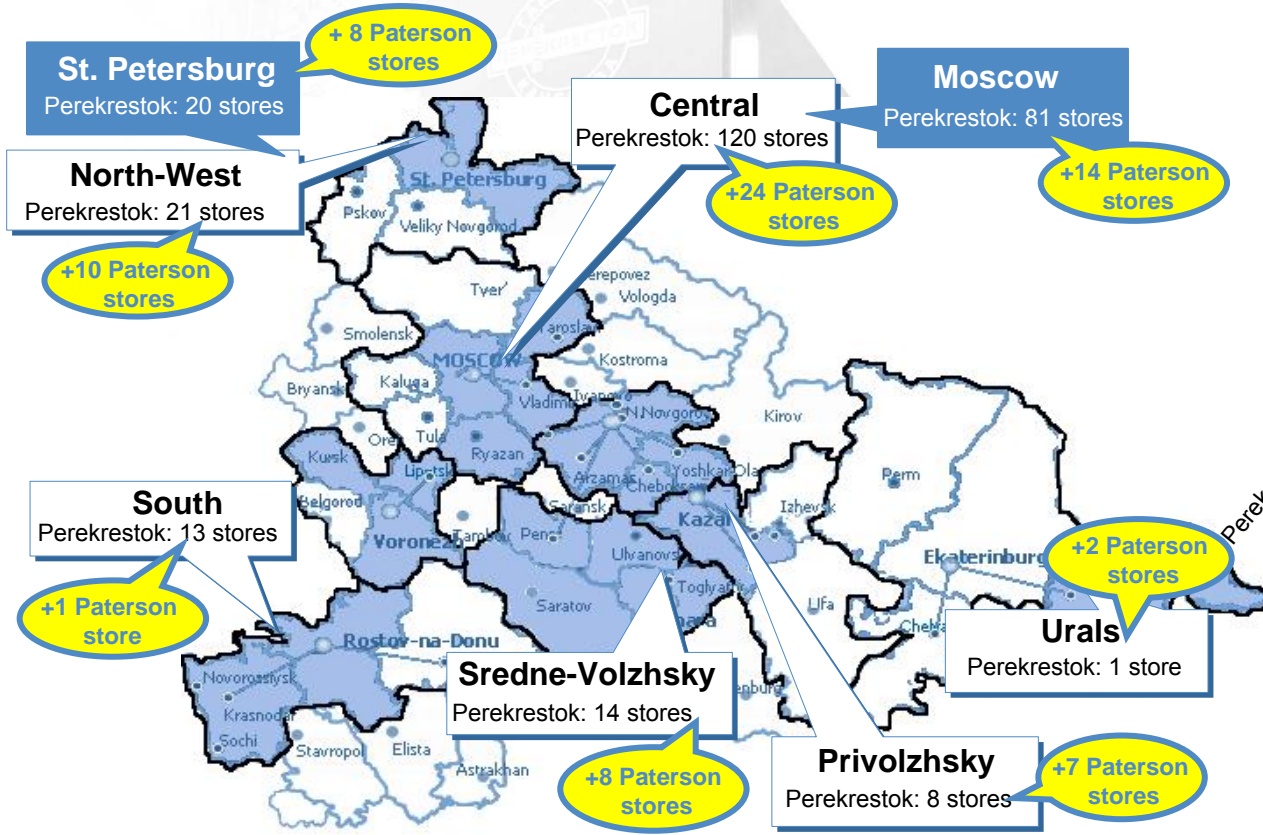
Location	ПАТЭРСОН СЕТЬ УНИВЕРСАМОВ		ПЕРЕКРЕСТОК Supermarkets		5 Тятёрочка Soft Discounters	
	# of Stores	Selling Space, sq.m.	# of Stores	Selling Space, sq.m.	# of Stores	Selling Space, sq.m.
Moscow & the region	37	27,406	23	20,570	14	6,836
St. Petersburg	11	10,512	8	8,251	3	2,261
Tatarstan	9	7,493	4	4,245	5	3,248
Chelyabinsk & the region	6	5,208	2	1,555	4	3,653
Penza & the region	6	4,323	6	4,323	-	-
Samara	4	3,989	2	3,086	2	903
Ufa	3	1,942	3	1,942	-	-
Arkhangelsk	2	1,015	2	1,015	-	-
Kostroma	2	980	-	-	2	980
Tver	1	1,259	1	1,259	-	-
Sochi	1	1,206	1	1,206	-	-
<b>TOTAL</b>	<b>82</b>	<b>65,333</b>	<b>52</b>	<b>47,452</b>	<b>30</b>	<b>17,881</b>

- An estimated 52 stores to be integrated as supermarkets, 30 smaller stores as discounters<sup>(1)</sup>
- Several stores are under review with regard to their non-compliance with X5's operational and financial criteria

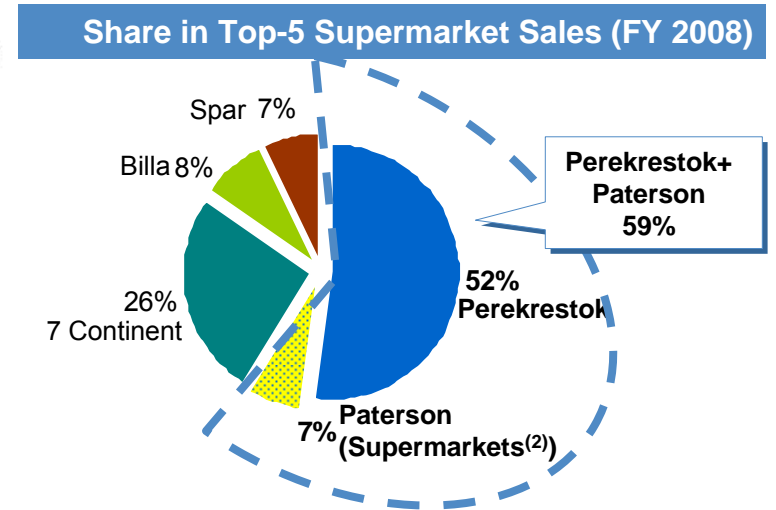
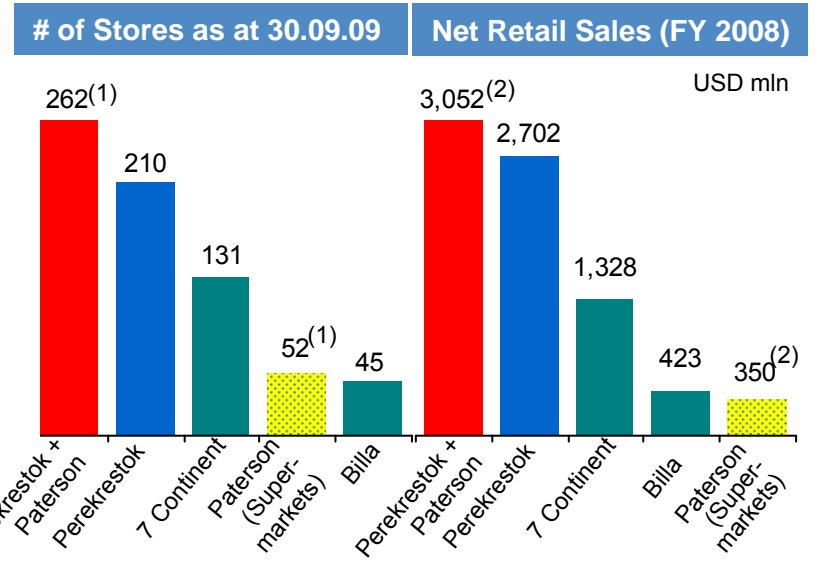
(1) Preliminary assumptions. Actual breakdown between supermarkets and discounters may differ and will be determined after X5 finalizes its integration plan



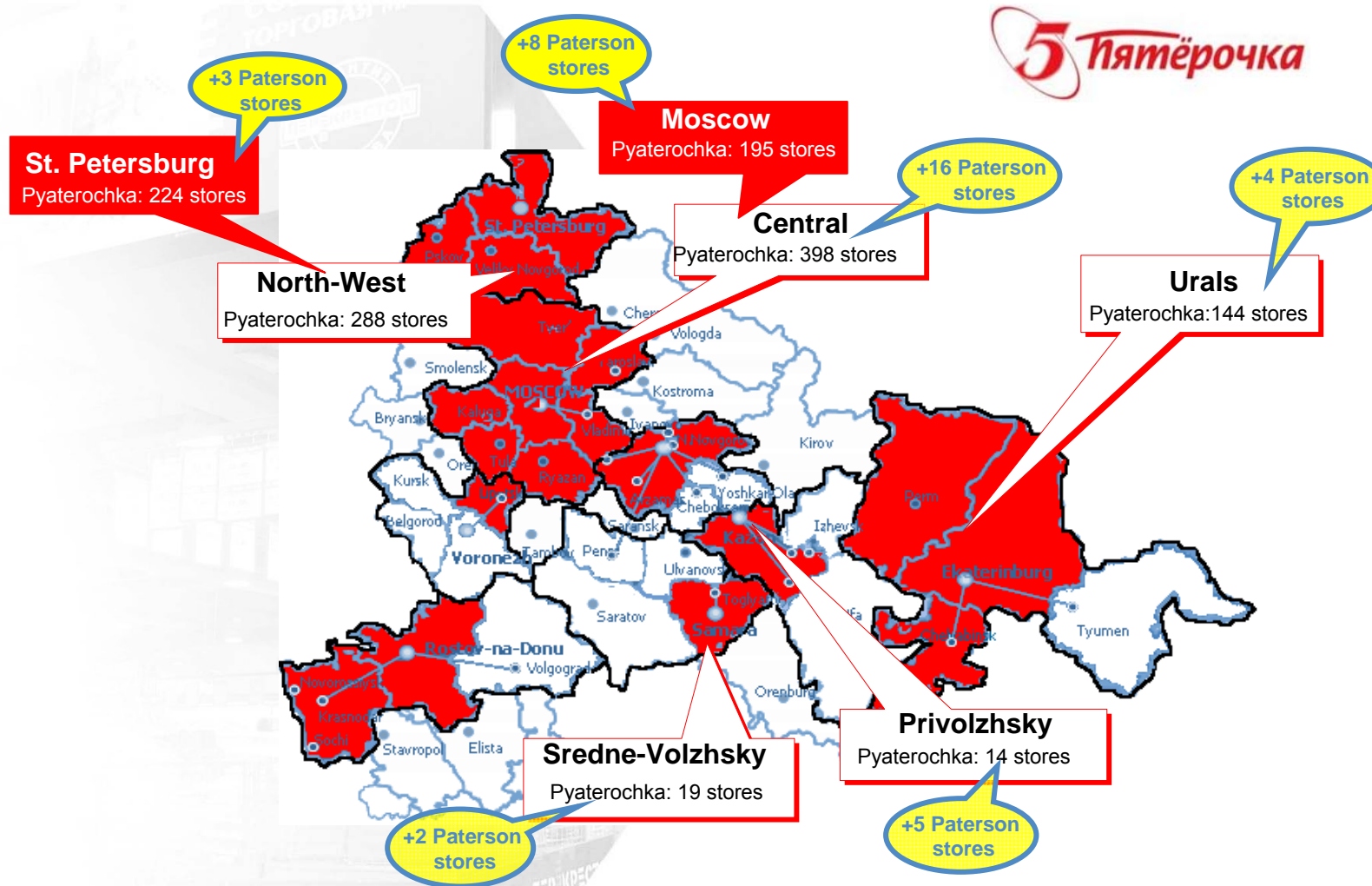
**... in Key Geographic Markets<sup>(1)</sup>**



- ~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%



(1) Based on preliminary assumption of integrating 52 Paterson stores as supermarkets; (2) Based on 52 stores' performance



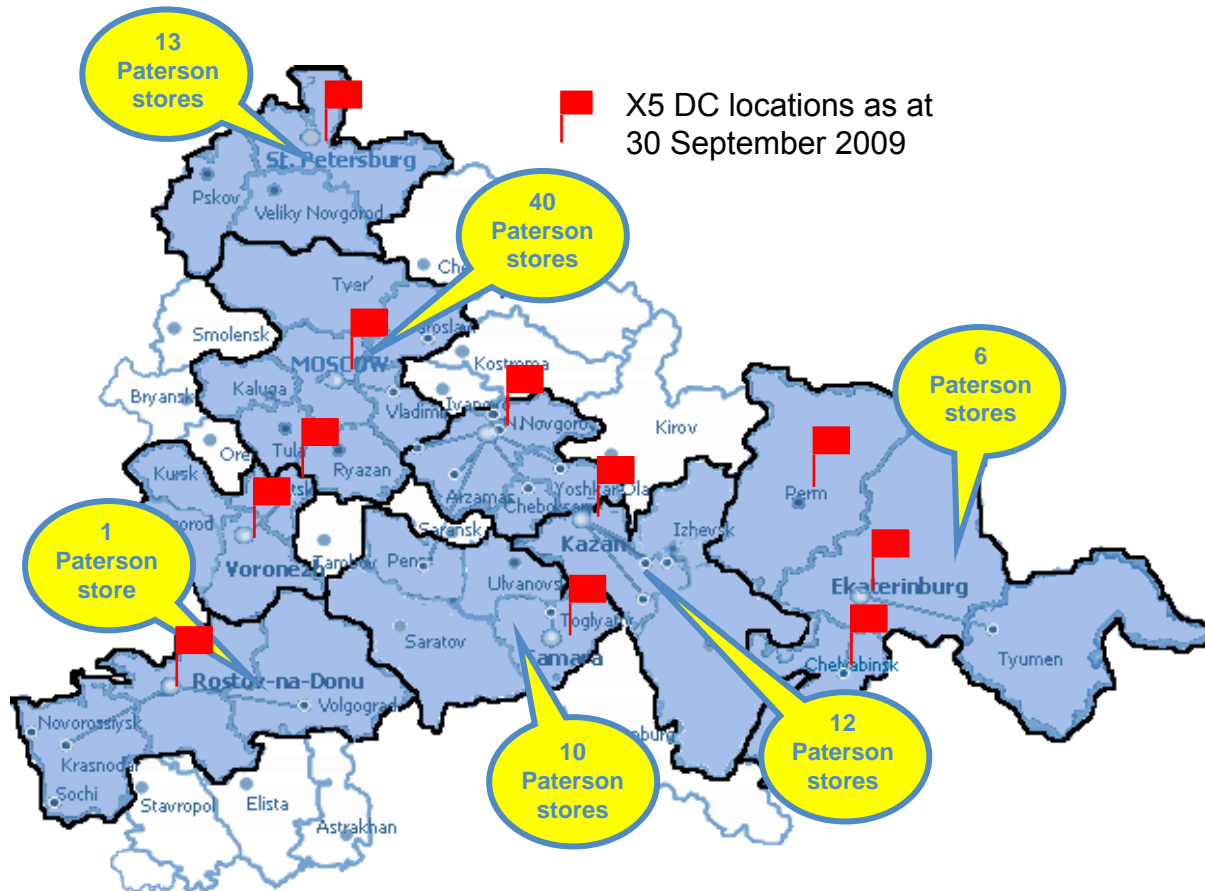
Regions of Pyaterochka operations (as at 30 September 2009)



(1) Based on preliminary assumption of integrating 30 Paterson stores as discounters



Opportunity to Leverage X5's Scale, Operational Excellence and Supply Chain Infrastructure



- Virtually all Paterson stores are reachable by X5 logistics infrastructure - supply centralization to improve from 0% to over 50% after integration
- Paterson will benefit from improved purchasing terms thanks to X5's market leading sales volumes
- X5 expects rapid integration of vital functions in supply chain management, IT and HR
- X5's efficiency programs should drive significant improvement in Paterson's financial performance



Area of Focus	Expected Synergy Benefits
Sales	<ul style="list-style-type: none"> <li>▪ Improvement in sales per sq.m of existing Paterson stores through                             <ul style="list-style-type: none"> <li>— Rebranding, including layout and equipment upgrades, publicity campaigns &amp; promos</li> <li>— Change in pricing and assortment policies in line with Perekrestok and Pyaterochka</li> </ul> </li> </ul>
Gross Margin	<ul style="list-style-type: none"> <li>▪ Integration of purchasing and logistics functions</li> <li>▪ Improvement in supply centralization level from 0% to over 50% in 2010</li> </ul>
EBITDA	<ul style="list-style-type: none"> <li>▪ Optimization of management and administrative overheads</li> <li>▪ Retail operating expense leverage through economies of scale</li> </ul>
<ul style="list-style-type: none"> <li>▪ Total annualized synergies expected to positively impact cash flow by approximately USD 50 mln annually starting from 2011<sup>(1)</sup></li> </ul>	

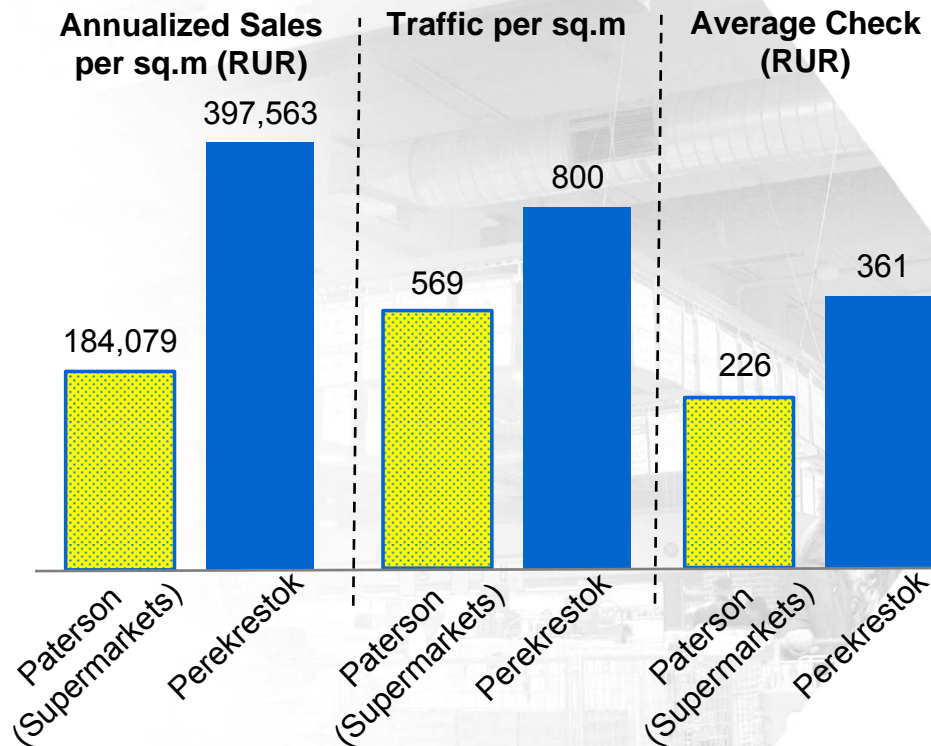


(1) Based on preliminary assumption of integrating 52 Paterson stores as supermarkets and 30 stores as discounters

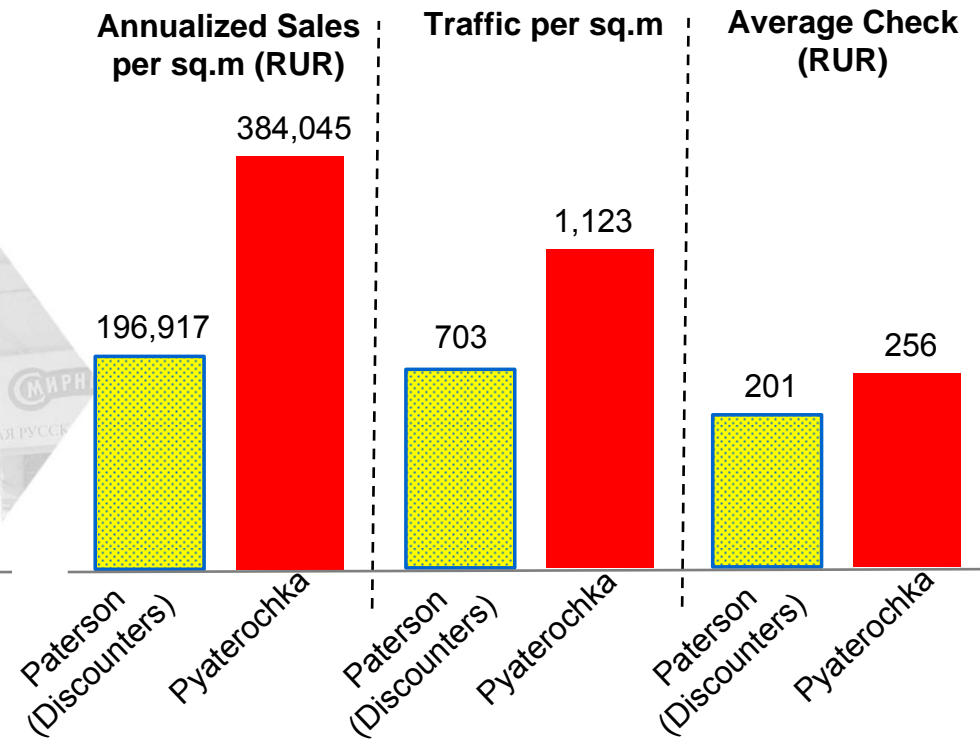


**... in Sales per Square Meter**

**Paterson Supermarkets<sup>(1)</sup> vs Perekrestok**



**Paterson Discounters<sup>(1)</sup> vs Pyaterochka**

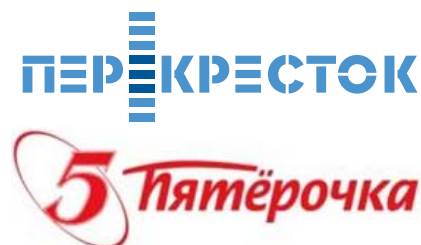


- Substantial upside potential in sales density...
- ... through both traffic and ticket improvement



(1) For mature (LFL) stores, 12 months to 30 September 2009

Source: company data, X5 analysis

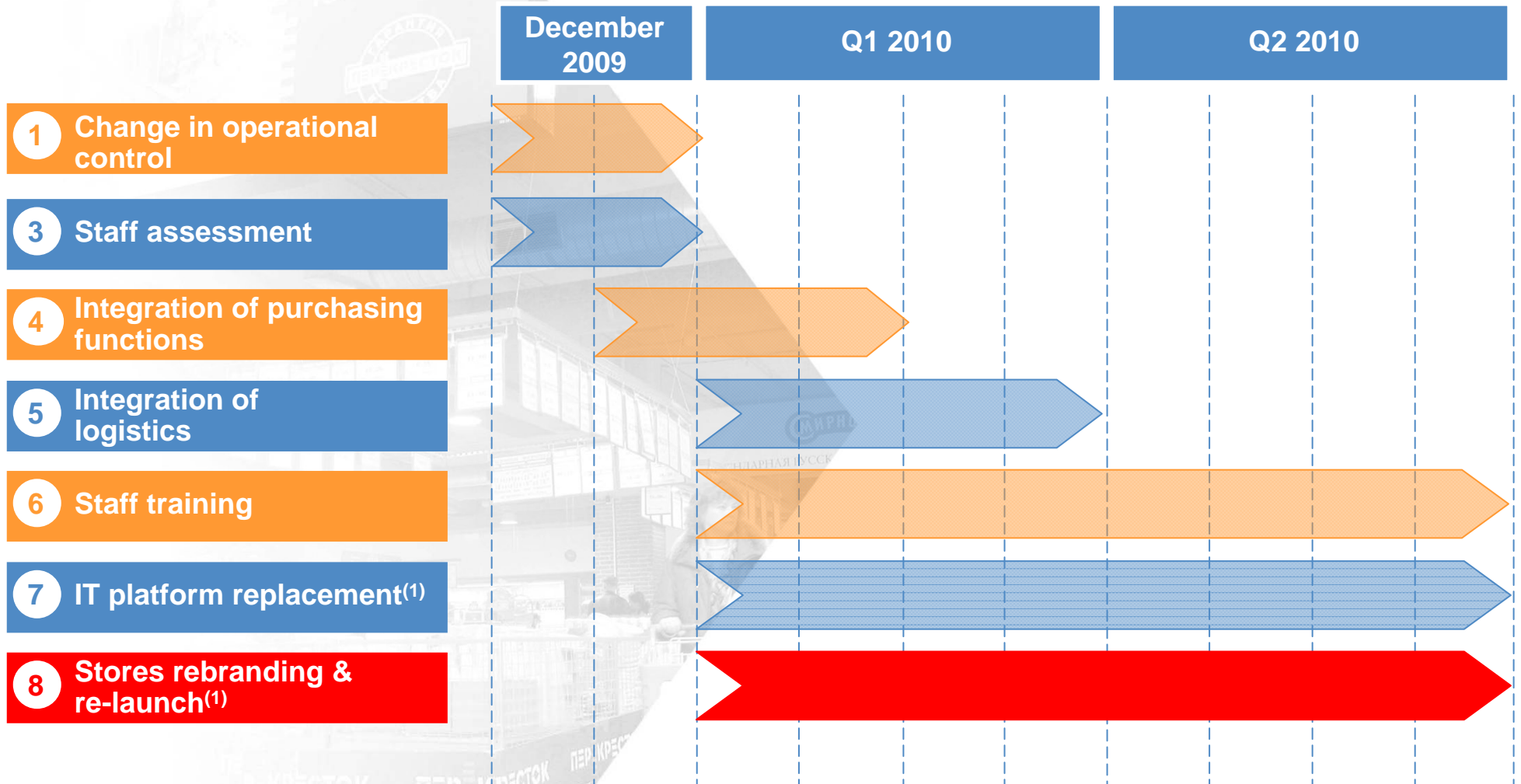


	12 Months to Sep-09 <sup>(1)</sup>	2010	2011
<b>Net Sales (RUR mln)</b>	<b>10,968</b>	<ul style="list-style-type: none"> <li>▲ Early benefits of re-branding</li> <li>▲ Competitive pricing to drive sales density</li> <li>▼ Short-term closing of stores for re-branding, integration and IT upgrade</li> </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

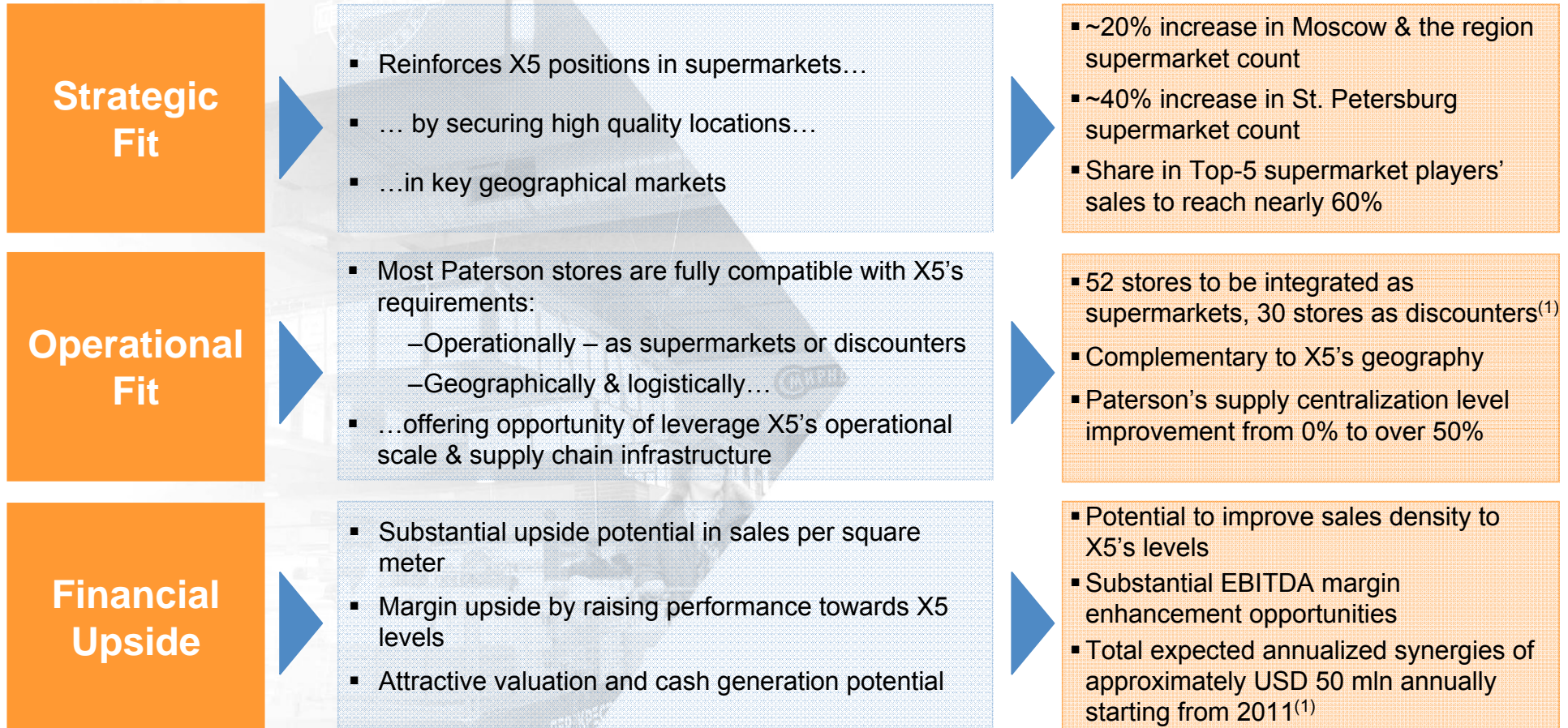


(1) Q4 2008 + Q1 to Q3 2009; (2) Adjusted in line with X5's reporting policy  
 Source: company data: RGAAP financial statements, management accounts



(1) May require up to 4 weeks closings

**Paterson Acquisition Provides X5 with Strong Value Enhancement Opportunities**



(1) Based on preliminary assumption of integrating 52 Paterson stores as supermarkets and 30 stores as discounters