

**X5** RETAIL GROUP

**X5 + Karusel**

**Transforming the Russian  
Food Retail Landscape**

11 April 2008





**Significant Step-Up in Scale of X5's Business**



**Immediate Position as a Leading Hypermarket Operator**



**Excellent Geographic Fit**



**Acquisition of High Quality Assets**



**Financially Compelling Acquisition**



## Transaction Structure

- Acquisition of 100% of shares in Formata Holding BV, owner of the Karusel Hypermarket chain

## Transaction Value

- Value determined by formula in the Option Agreement<sup>(1)</sup>
- Equity value: USD 920 - 970 million
- Includes estimated value of Karusel land and real estate under construction

## Considered Funding Structure

- Up to 25% of equity value can be paid in X5 shares to current shareholders of Karusel
- Remainder in cash, potentially funded through equity financing

## Approvals

- Transaction approved by the Supervisory Board on 10 April 2008
  - Subject to satisfactory due diligence and Federal Antimonopoly Service (FAS) approval

## Timing

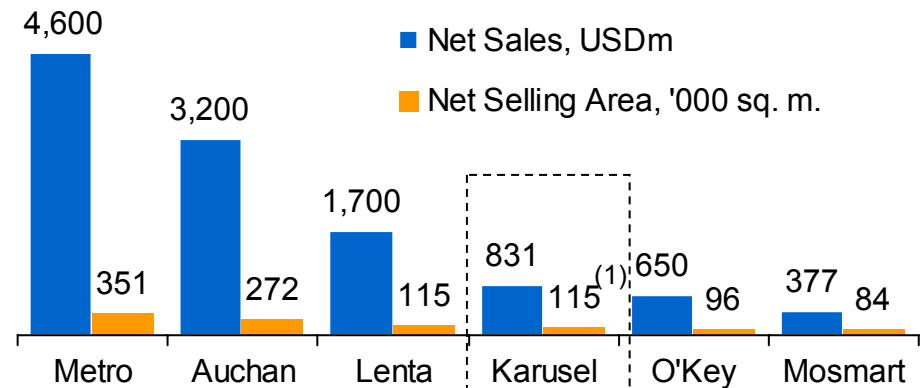
- Final purchase price dependent on valuation of real estate and to be determined by May 2008
- Closing expected on 1 July 2008



### Business Highlights

- #4 hypermarket operator in Russia both by sales and net selling area as at 31 December 2007
- Strong presence in key markets
  - 23 stores located in St. Petersburg & North West region, Moscow region, Nizhny Novgorod & Dzerzhinsk, Volgograd, and Izhevsk
- Extensive real estate portfolio and land bank
  - All existing hypermarkets as at 31 March 2008 are owned
  - 3 stores under construction
- Strong historical revenue growth and attractive margin structure

### # 4 Hypermarket Operator in Russia



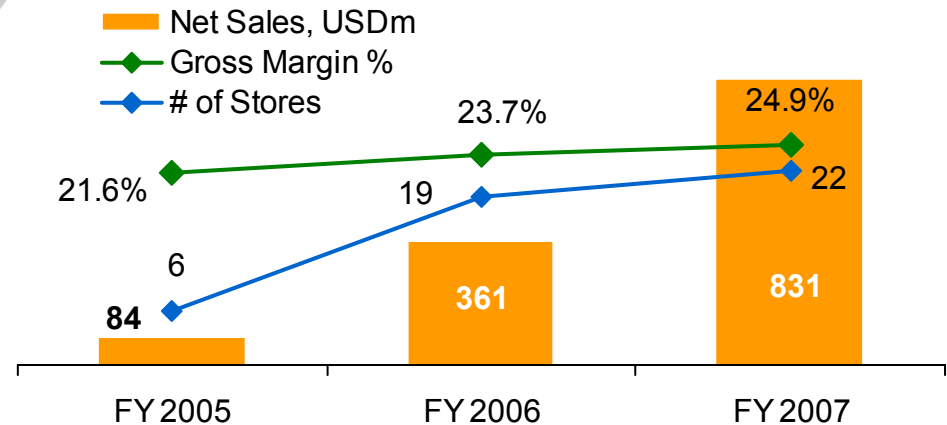
Note: Figures as at 31 December 2007

### Cumulative Store Opening Schedule



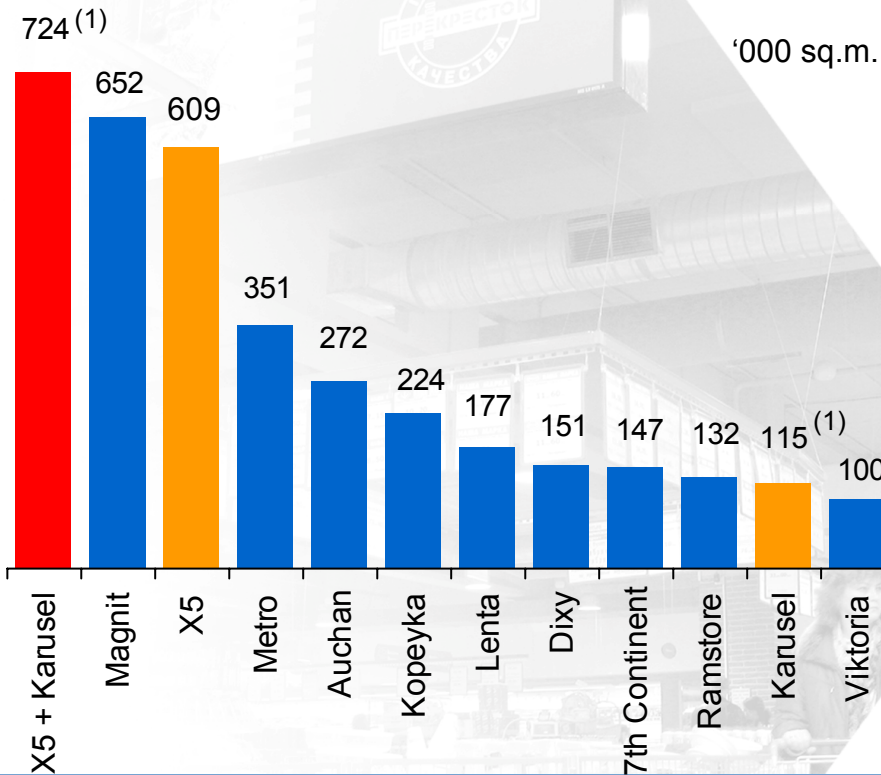
Sources: Karusel public data, Company filings and websites, Business Analytica and X5 estimates

### Net Sales, Margins & Store Count

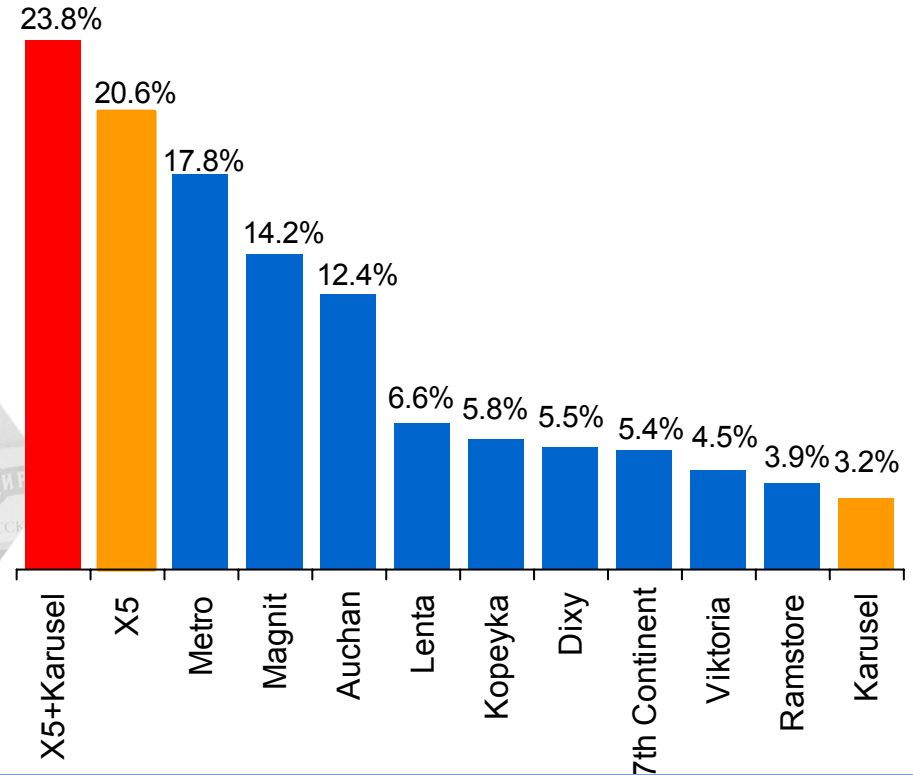


(1) Karusel estimated 2007 net selling area from public sources

**EOP 2007 Net Selling Area**



**2007 Share in Top-10 Retailers+Karusel<sup>(2)</sup>**



- The combined X5 and Karusel entity would have market share of 23.8% in the Top-10 Russian food retailers + Karusel, which translates into 3.2% market share in the total food retail market of Russia<sup>(3)</sup>
- Significant lead ahead of its closest competitors – over 30% gap in terms of sales

Sources: Company filings, Business Analytica

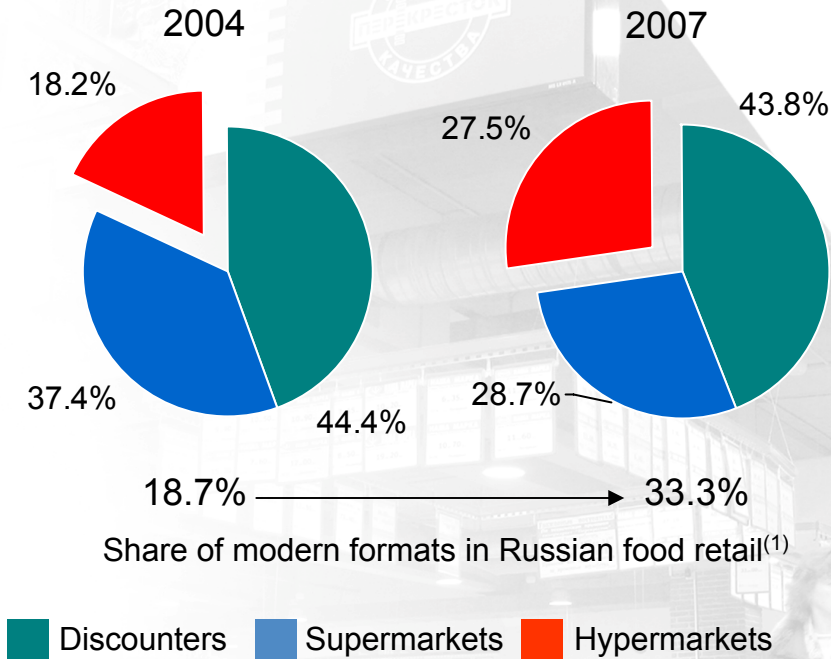


(1) Karusel estimated 2007 net selling area from public sources

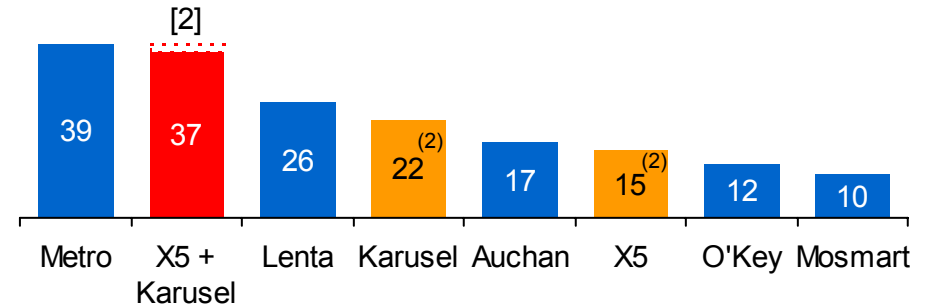
(2) Share of top 10 food retailers and Karusel in Russia in 2007

(3) In accordance with Business Analytica report, in 2007 the size of the total food retail market of Russia amounted to USD 190 bln

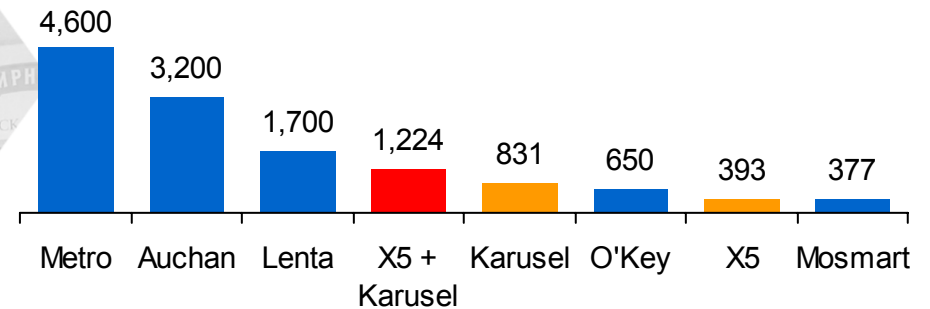
**Evolution of Russian Modern Food Retail<sup>(1)</sup>**



**Russian Hypermarket Operators Store Count**



**Russian Hypermarket Operators Sales<sup>(3)</sup>**



Note: Figures as at 31 December 2007

- Significant enhancement of presence in hypermarkets - the fastest growing format in the Russian Food Retail Market
- The acquisition of Karusel would result in a portfolio of 39<sup>(2)</sup> hypermarkets for the X5 Group

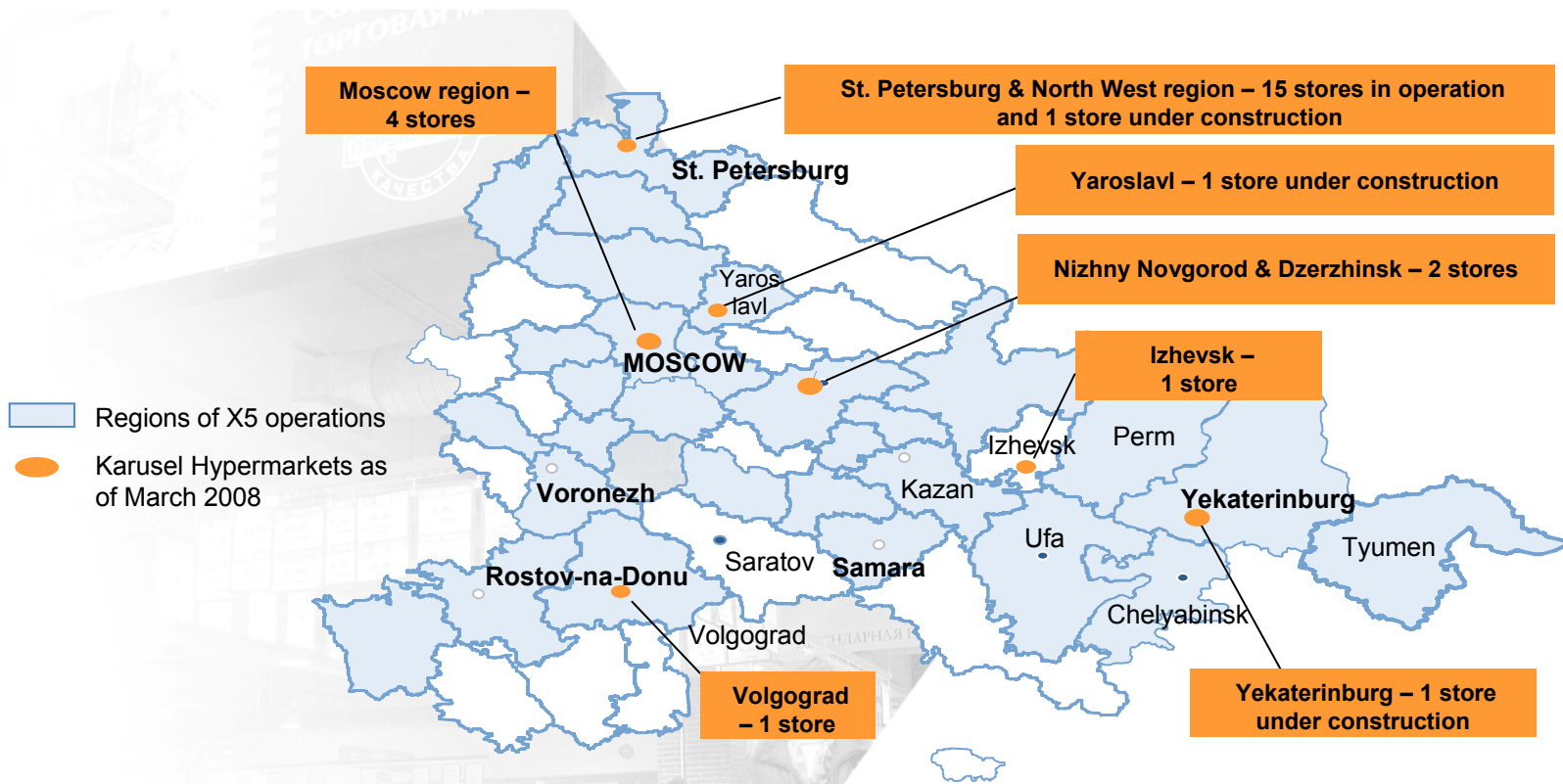
Sources: Business Analytica



(1) For cities above 100,000 inhabitants

(2) One additional Karusel hypermarket was opened in March 2008, one additional X5 hypermarket was opened in February 2008

(3) Based on net sales



- Almost 20% addition to X5 net selling area
- Karusel stores complement existing X5's existing regional presence, maximizing efficiency
- X5 asset base will be enhanced through the addition of high quality locations and ownership of Karusel stores



Source: Karusel filings, Karusel website



Synergies	Sources	
Sales	<ul style="list-style-type: none"> <li>■ Improvement in sales per sq.m of existing Karusel stores through                             <ul style="list-style-type: none"> <li>- Rebranding</li> <li>- Layout improvement</li> </ul> </li> <li>- Improvement in assortment</li> <li>- More competitive pricing &amp; active promotions</li> </ul>	
Gross Margin	<ul style="list-style-type: none"> <li>■ Enhancement of X5-Karusel combined purchasing power &amp; better purchasing terms/contracts</li> <li>■ Leveraging of X5 logistics infrastructure</li> </ul>	
EBITDA	<ul style="list-style-type: none"> <li>■ Optimization of management &amp; administrative overheads</li> <li>■ Retail operating expense leverage – economies of scale</li> <li>■ Better non-commercial purchasing</li> </ul>	
<ul style="list-style-type: none"> <li>■ Total annualized synergies expected to positively impact cash flow by USD 70 mln after full integration and re-styling into Mercado concept</li> </ul>		<ul style="list-style-type: none"> <li>■ Total integration costs expected to be USD 150 mln in 2008 and 2009</li> </ul>





Layouts, Racking & Equipment	Communication	Assortment Strategy	Pricing & Promotions
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- Improved Non-Food display
- Increased Dry Food space allocation
- Consolidated Fresh areas
- Improved overall ambience

- Mercado Supercentre brand
- Strong price communication, use of bright colours
- Mercado advertising leaflets emphasizing Food & Fresh
- Stronger price image in TV campaigns

- Focus on Fresh
  - Wider choice
  - Better availability
- Local assortment
- Better Food/Non-Food balance
- Focus on household in Non-Food
- Private label

- Great prices & strong promotions
  - Image of very low prices through promotions
  - Campaigns & seasonal planning
  - Aggressive advertising in neighborhoods





<b>Sales</b>	Rebranding, change in layout, improvement of assortment and introduction of X5's pricing policy	<b>End of 2008</b>
<b>Purchasing</b>	Centralisation of purchasing function (X5 & Karusel)	<b>End of 2008</b>
<b>Logistics/Supply</b>	Integration of Karusel stores into X5's logistics	<b>End of 2008</b>
<b>IT</b>	Replacement of Karusel's systems with X5 IT platform	<b>End of 2008</b>
<b>Overheads</b>	Integration of Karusel stores into X5's regional offices	<b>End of 2008</b>
<b>Advertising</b>	Launch of a unified advertising campaign for the Mercado brand	<b>Q3 - Q4 2008</b>



	2007	2008	2009
<b>Net Sales</b> (USD m)	<b>831</b>	<ul style="list-style-type: none"> <li>▲ Full year contribution of stores opened in 2007</li> <li>▲ One new store opened in March</li> <li>▲ Early benefits of Mercado 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>▲ Opening of two new stores currently under construction</li> <li>▲ Like-for-Like normalizing at Mercado level</li> <li>▲ Significant benefits of Mercado re-branding</li> </ul>
<b>Gross Margin</b>	<b>24.9%</b>	<ul style="list-style-type: none"> <li>▼ Limited margin investment in customer retention and store re-launch</li> </ul>	<ul style="list-style-type: none"> <li>● Normalizing at Mercado level</li> </ul>
<b>EBITDA Margin</b>	<b>8.4%</b>	<ul style="list-style-type: none"> <li>▲ Synergies enhancement</li> <li>▼ Short-term closing of stores for integration</li> <li>▼ One-off integration costs</li> </ul>	<ul style="list-style-type: none"> <li>▲ Start of synergies enhancement</li> </ul>

- Mercado normalized performance expected to achieve margins above Karusel historical levels in 2009
- Synergy and scale benefits further underpin attraction of the transaction



- X5's Supervisory Board has approved the transaction on the 10th April 2008, subject to satisfactory completion of the due diligence (at X5 Retail Group's discretion), and FAS antimonopoly approval
  - X5 expects FAS Antimonopoly approval in April 2008, which may be subject to specific conditions
- From 1 January 2007, Karusel is obliged under the Call Option Agreement, to conduct operations “in the ordinary and usual course”; working capital and net debt levels must also be maintained at a level consistent with the previous 12 month from 1 January 2006 onwards
- The final Option Price is expected to be determined at the end of April – in early May 2008 following receipt of real estate valuation report and determination of Sales and EBITDA figures
- Transaction expected to be completed on 1 July 2008
- Lack of cooperation by the Seller may result in delays in integration and additional costs



### The Acquisition of Karusel Offers a Compelling Investment Proposition:

#### Significant Step-Up in Scale of X5's Business

- Unrivalled #1 Position in Russian Food Retail - Increased Lead over Closest Competitor

#### Immediate Position as a Leading Hypermarket Operator

- Leading Position in the Fastest Growing Food Retail Format in Russia

#### Excellent Geographic Fit

- Complementary to Existing Regional Presence - Opportunity to Leverage on Existing Operations

#### Acquisition of High Quality Assets

- Owned Stores at High Quality Locations

#### Financially Compelling Acquisition

- Significant Synergy Benefits





The amount payable by X5 Retail Group for the exercise of the Option (the Option Price) is the aggregate of:

- (a) the lesser of:
  - (i) 1.1 multiplied by consolidated net sales of Formata; or
  - (ii) 14.5 multiplied by the greater of
    - i. EBITDA; or
    - ii. 5% of consolidated net sales of Formata; plus
- (b) the value of the land and other real estate in the course of construction (where business is not carried out as at 31 December 2007), as determined by an independent real estate valuer; less
- (c) the aggregate amount of Formata's net debt,

In each case calculated by reference to Formata's audited consolidated IFRS accounts for the year ended 31 December 2007

The Call Option Agreement provides that, at the Company's discretion, up to 25% of the Option Price can be satisfied by newly issued X5 Retail Group shares ("Share Consideration"). The Share Consideration is based on the volume weighted average price of an X5 ordinary share for the 30-day period immediately prior to the date of the Option Notice.

The Option Notice was sent to Formata shareholders on 2 January 2008.

Income Statement			
	FY2006	FY2007	% Growth
<b>Revenue Net of VAT</b>	<b>360.6</b>	<b>831.1</b>	<b>130.5%</b>
Cost of sales	(275.1)	(624.4)	127.0%
<b>Gross Profit</b>	<b>85.5</b>	<b>206.7</b>	<b>141.8%</b>
<i>Gross Margin</i>	23.7%	24.9%	
Rental income	6.4	11.3	76.6%
SG&A	(74.2)	(172.4)	132.3%
<b>EBITDA <sup>(1)</sup></b>	<b>28.5</b>	<b>70.2</b>	<b>146.3%</b>
<i>EBITDA Margin</i>	7.9%	8.4%	
<b>Operating Income</b>	<b>17.7</b>	<b>45.7</b>	<b>158.2%</b>
Other non-operating gains (losses)	0.8	(1.5)	(287.5)%
Net finance costs	(8.5)	(12.3)	44.7%
Foreign exchange (loss)/gain, net	3.5	(0.1)	(102.9)%
<b>Profit Before Interest &amp; Tax</b>	<b>13.5</b>	<b>31.8</b>	<b>135.6%</b>
Income tax	(3.6)	(12.0)	233.3%
<b>Net profit</b>	<b>9.9</b>	<b>19.9</b>	<b>101.0%</b>
Basic and diluted EPS (USD)	1.64	1.92	17.1%

Balance Sheet			
	FY2006	FY2007	Change
<b>Non-current Assets</b>			
Property plant and equipment	377.5	509.3	+131.8
Long-term prepayments	9.5	17.1	+7.6
Long-term loans	10.7	0.2	(10.5)
Deferred tax assets	3.2	7.7	4.5
	<b>400.9</b>	<b>534.1</b>	<b>133.2</b>
<b>Current Assets</b>			
Inventories	62.7	92.5	29.8
Receivables and prepayments	82.5	63.0	(19.5)
Non-current assets classified as held for sale	20.8	-	-
Other current assets	6.7	13.4	+6.7
Cash and cash equivalents	29.0	110.0	+81.0
	<b>201.7</b>	<b>278.5</b>	<b>+76.8</b>
<b>Total Assets</b>	<b>602.5</b>	<b>812.6</b>	<b>+210.1</b>
<b>Shareholders Equity and Liabilities</b>			
<b>Shareholders' Equity</b>	<b>218.7</b>	<b>252.7</b>	<b>+34.0</b>
<b>Non-current liabilities</b>			
Long-term borrowings	198.5	108.1	(90.4)
Deferred tax	2.7	9.8	+7.1
	<b>201.2</b>	<b>118.0</b>	<b>(83.2)</b>
<b>Current Liabilities</b>			
Trade accounts payable	108.3	231.3	+123.0
Short-term borrowings	30.8	139.4	+108.6
Current income tax payable	0.2	0.3	+0.1
Other payables and accrued expenses	43.4	71.1	+27.7
	<b>182.7</b>	<b>442.0</b>	<b>+259.3</b>
<b>Total Liabilities</b>	<b>602.5</b>	<b>812.6</b>	<b>+210.1</b>

Cash Flow Statement			
	FY2006	FY2007	Change
<b>Beginning Cash</b>	<b>20.3</b>	<b>29.0</b>	<b>+8.7</b>
<b>Operating Activities</b>			
<b>Profit Before Interest and Tax</b>	<b>13.5</b>	<b>31.8</b>	<b>+18.3</b>
Depreciation of PPE	10.6	24.1	+13.5
Amortization	0.2	0.4	+0.2
Net finance costs	8.5	12.3	+3.8
Increase in inventories	(45.8)	(29.8)	+16.0
Decrease/(increase) in receivable and prepayments	(56.1)	19.9	+76.0
Increase in trade accounts payable	76.6	123.0	+46.4
Others	(0.2)	(12.8)	(12.6)
<b>Net cash provided by operating activities</b>	<b>7.3</b>	<b>169.0</b>	<b>+161.7</b>
<b>Investing Activities</b>			
Purchase of PPE	(173.5)	(124.4)	+49.1
Purchase of long-term leasehold property assets	(0.3)	(8.0)	(7.7)
Others	(0.7)	25.1	+25.8
<b>Net cash used in investing activities</b>	<b>(174.5)</b>	<b>(107.3)</b>	<b>+67.2</b>
<b>Financing Activities</b>			
Repayment of short-term borrowings, net	(9.0)	(26.1)	(17.1)
Proceeds from long-term loans	71.6	43.4	(28.2)
Proceeds from bonds issuance	113.5	-	(113.5)
<b>Net cash provided by financing activities</b>	<b>176.1</b>	<b>17.3</b>	<b>(158.8)</b>
Effect of exchange rate changes on cash	(0.3)	2.1	+2.4
<b>Net increase in cash &amp; cash equivalents</b>	<b>9.0</b>	<b>79.0</b>	<b>+70.0</b>
<b>Ending Cash</b>	<b>29.0</b>	<b>110.0</b>	<b>+81.0</b>





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