

МАГНИТ



9M 2012 Results

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ГИПЕРМАРКЕТ

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Table of Contents

1. Magnit at a Glance
2. Strategy
3. Operational Overview by Format
 - Convenience Store
 - Hypermarket
4. Financial Overview
5. General Business Overview
6. Summary Conclusions

Appendix

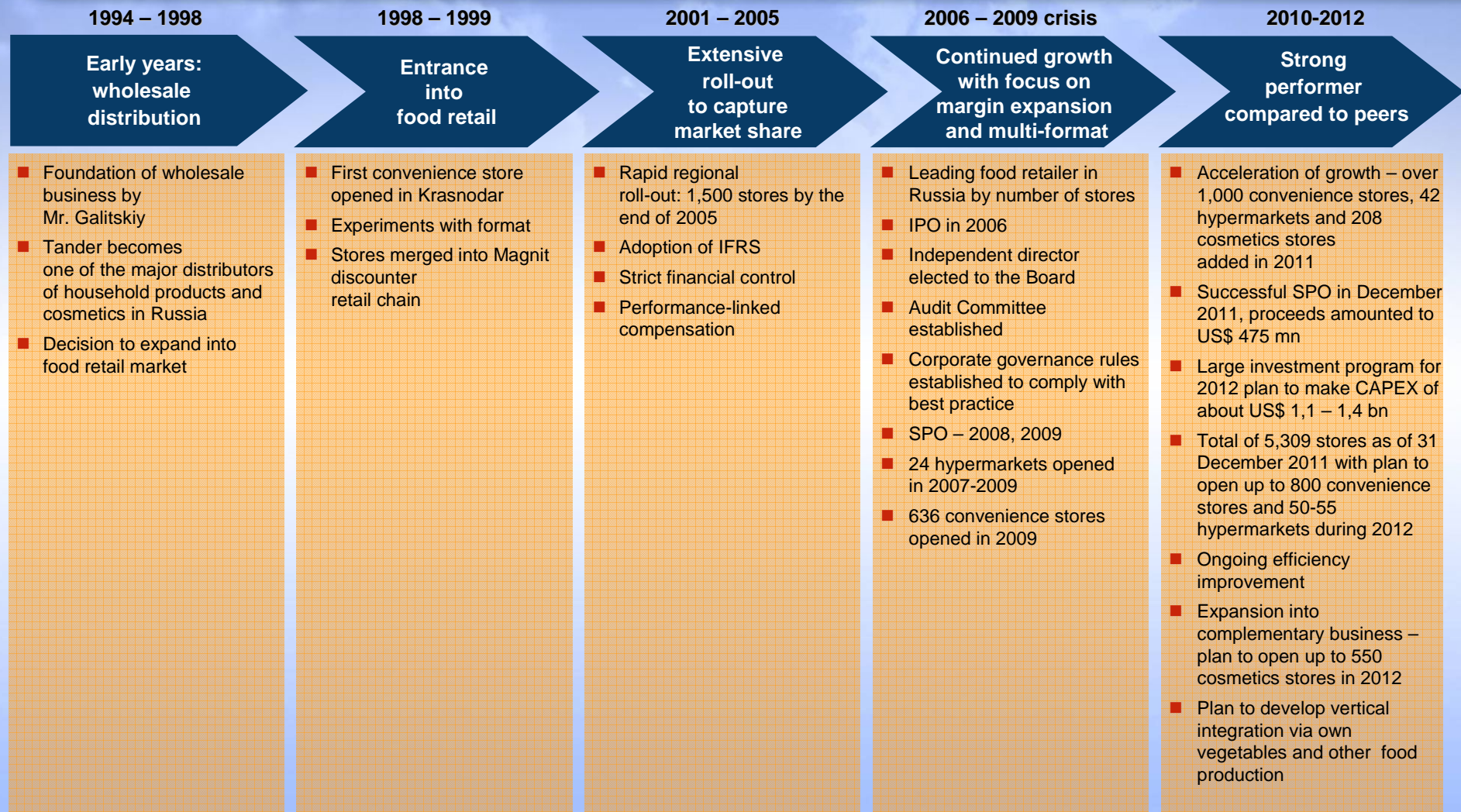


1. Magnit at a Glance



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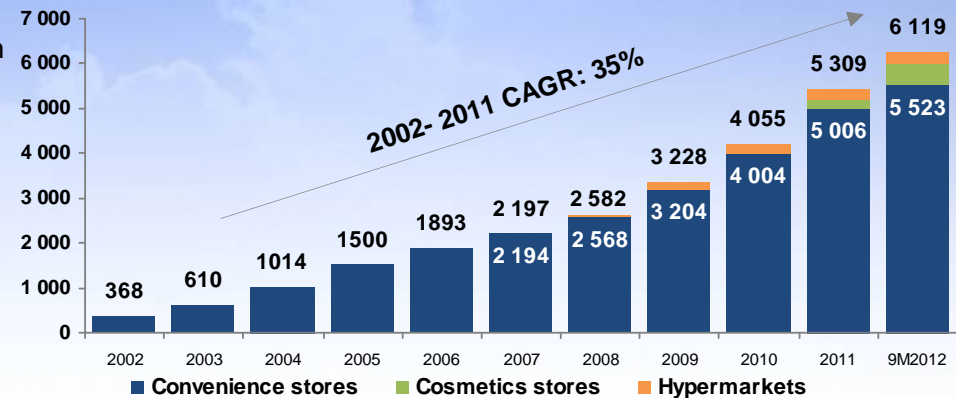
Our History



Magnit Today

- #1 Russian food retail chain in terms of number of stores
- Broad geographic coverage with focus on cities and towns with population under 500,000 people
- Strong platform for rapid hypermarket operations expansion
- Efficient logistics system
- Sophisticated IT systems
- Experienced management team
- Strong financial performance

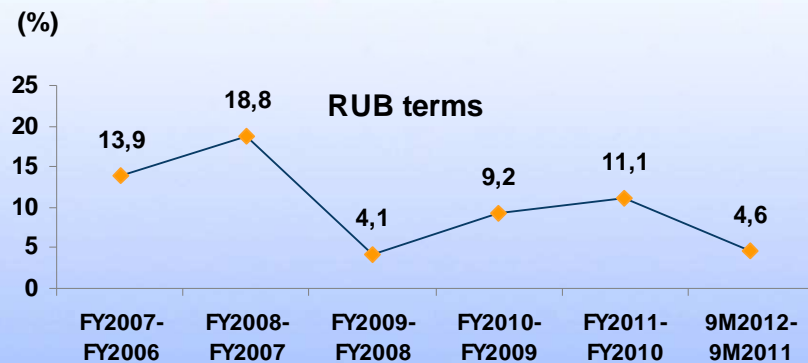
Number of Stores, eop



Source: Company

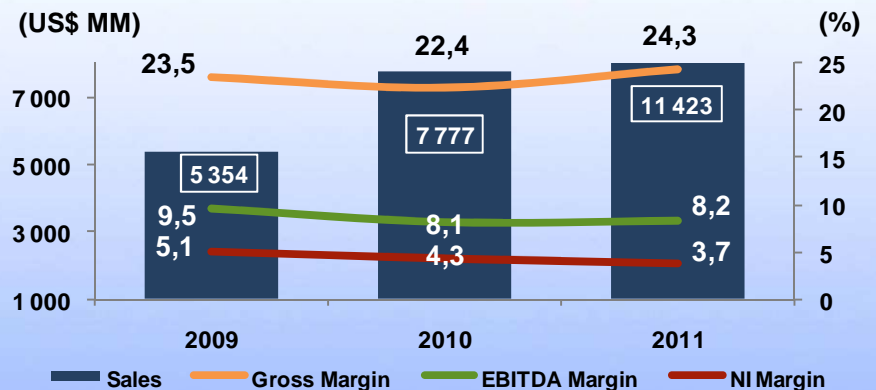
Note: Convenience stores in 2010 include 2 cosmetics stores

Sales, LFL Growth (RUB terms)



Source: Company

Financial Performance



Source: Company, IFRS accounts



2. Strategy



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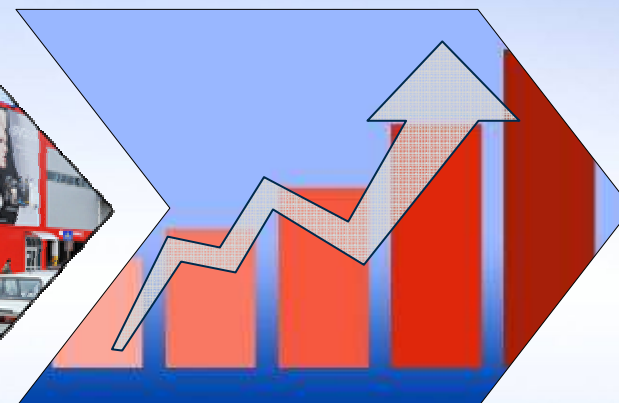
Strategy at a Glance



Further expansion
of convenience
store operations



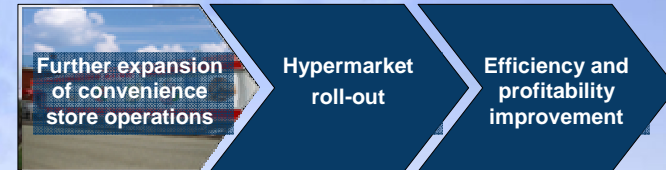
Hypermarket
roll-out



Efficiency and
profitability
improvement



Further Expansion of Convenience Store Operations



Further penetration in existing regions

- Areas with low modern format penetration
- Expansion into towns with population as low as 5,000 people
- Expansion into new locations within regions where Magnit is already present

Adjusting format to customers' needs

- Flexible SKU matrix adjustable to consumers' disposable income
- Gradual shift to larger convenience store size to improve store attractiveness
- Promotion of one-stop shopping concept for everyday needs

Store opening decision factors

- Proximity to existing distribution centres
- Ability to find suitable retail space
- Level of modern format penetration and consumer disposable income

Medium term plans

- High level growth of convenience store operations
- Plan to add 1000 convenience stores, up to 500 cosmetics stores and 50-55 hypermarkets in 2012
- Acquisition of land plots and premises to secure pipeline for future stores



Hypermarkets Roll-Out

Further expansion
of convenience
store operations

Hypermarket
roll-out

Efficiency and
profitability
improvement

Roll-out plan

- Locations are chosen on the basis of competition from other hypermarkets in the area, the strongest growth of disposable income of the population and minimum negative impact on existing Magnit convenience stores
- In small towns hypermarkets will be located in central locations which will give advantage of targeting consumers who do not own cars
- Hypermarkets' total selling space ⁽¹⁾ will vary from 2,000 to 12,500 sq. m. depending on availability of land plots

Target locations

- Low or limited competition from other hypermarkets or modern retail formats
- Relatively low prices of land plots for hypermarket construction in towns with population of 50,000 to 500,000 people
- Benefiting from strong growth of disposable income and consumer spending in the Russian regions

Strong operational platform

- Strong brand name recognition and customer awareness generated by a large regional network of convenience stores
- Economies of scale in purchasing and efficient logistics system capable of supporting both formats in existing and new locations
- Existing retail expertise strengthened by a team of hypermarket specialists brought in to manage execution risks
- Increasing number of owned stores

Note: (1) Including selling space designated for leases to third parties



Efficiency and Profitability Improvement



Increase the share of products distributed through own logistics system

- Efficient utilisation of in-house logistics system
 - Increase in the share of goods distributed through the company's distribution centres from c. 83% of cost of goods sold in 9M2012 up to 90-92% ⁽¹⁾ in the long term
 - Reduction of third party logistics costs

Improve the product mix

- Further growth of the share of high margin products, including fresh food products, ready-made meals and private label
- Fresh food products and ready-made meals are expected to motivate customers to shop at our stores more frequently

Achieve synergies

- Synergies arising from operation of neighboring hypermarkets and convenience stores, allowing to increase the economies of scale

Increase purchasing power

- Increasing the penetration of convenience store operations in areas of presence with relatively low market share, which is expected to result in greater purchasing or negotiating power vis-à-vis local suppliers and landlords

Optimise labor productivity

- Investing in various technologies that have significant potential for productivity increases
- Measures to improve retention rates for employees and management, that will reduce costs associated with losing experienced employees and recruiting and training new ones

Note: (1) For convenience stores



3. Operational Overview by Format



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A Shift to Multi Format

Convenience Store



Hypermarket



Cosmetics store



Number of stores	<u>5,523</u>	<u>105</u>	<u>480</u>
Average store size	<ul style="list-style-type: none"> Total space: 465 sq. m. Selling space: 328 sq. m. 	<ul style="list-style-type: none"> Total space: 7,390 sq. m. Magnit selling space ⁽¹⁾: 3,092 sq. m. 	<ul style="list-style-type: none"> Total space: 296 sq. m. Selling space: 227 sq. m.
Product range	<ul style="list-style-type: none"> 3,020 SKUs on average Private label – 14.8% of retail sales 	<ul style="list-style-type: none"> 14,486 SKUs on average (may vary by format) Private label – 7.3% of retail sales 	<ul style="list-style-type: none"> 6,909 SKUs on average Private label – 2.5% of retail sales
Positioning (format)	<ul style="list-style-type: none"> Walking distance from home Ground floor stores or freestanding Open 12hrs/7 days 	<ul style="list-style-type: none"> All hypermarkets are built in convenient locations All easily accessed by public transport 	<ul style="list-style-type: none"> Walking distance from home Ground floor stores or above the convenience stores
Target group	<ul style="list-style-type: none"> People living within 500 meters from the store 	<ul style="list-style-type: none"> People living within 15 minutes by car / 30 minutes by public transport from the store. Effective radius – 7 km 	<ul style="list-style-type: none"> People living within 500 meters from the store
Ownership	<ul style="list-style-type: none"> 30.38% owned / 69.62% leased 	<ul style="list-style-type: none"> 87.62% owned / 12.38% leased 	<ul style="list-style-type: none"> 31.25% owned / 68.75% leased
% in total revenue	82.0%	16.4%	1.1%

Notes: September 30, 2012

(1) Excludes selling space designated for leases

0.5% of sales is accounted for Magnit Family stores



Magnit Family

Magnit Family is a new format introduced in May 2012 as a hybrid of a hypermarket and a convenience store

- One of the reasons to expand into this format is to meet the needs of customers in wider assortment and aggressive pricing in premises which are not suitable for a standard hypermarket due to technical features
- As of September 30, 2012 there were 11 Magnit Family stores located in Krasnodar, Magnitogorsk, Nizhny Novgorod, Gelendzhik, Pavlovo, Kirov, Stavropol, Temryuk, Togliatti, Ulyanovsk, Zernograd.

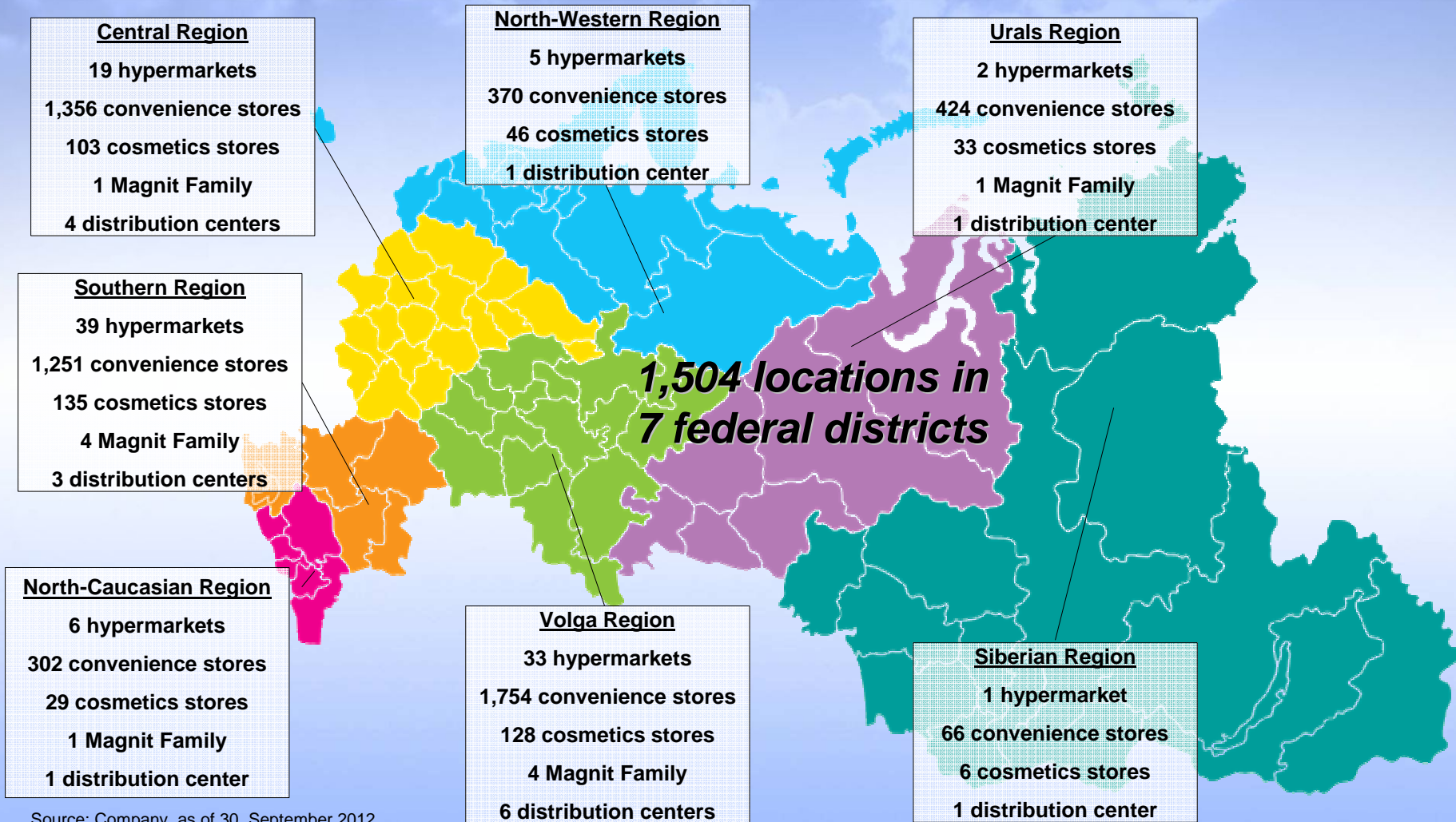


Format Highlights

- Selling space of up to 1,500 sq. m.
- Assortment of more than 6,000 SKUs
- Expanded fresh zone
- Limited non-food assortment (<10%)
- Own production facilities (ready meals)
- Main technologies of the hypermarket format
- Pricing of the hypermarket format
- Location primarily in the leased premises of the shopping and entertainment malls



Geographical Coverage



Source: Company, as of 30 September 2012



Convenience Store



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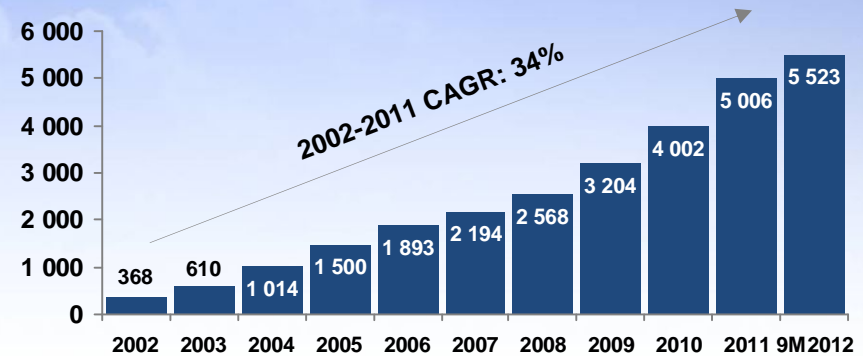
Format Description



Format Highlights

- Low prices
- Convenient locations
- Carefully selected product mix
- Standardised exterior and car parking
- Functional interior design
- Attention to customers
- Increasing customer convenience
- Main target group: all consumers living within 500 m radius

Number of Convenience Stores



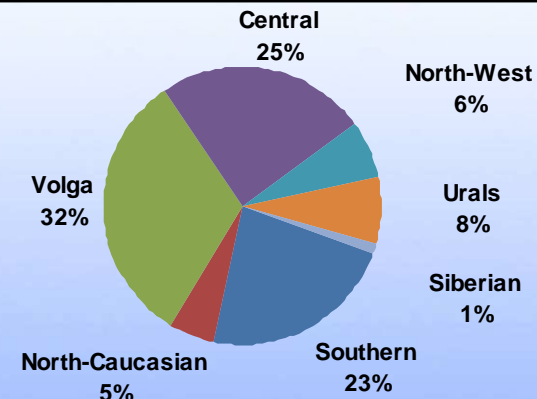
Source: Company

Operating Statistics (sales / sq. m. / year)



Source: Company

Geographical Breakdown (% of total stores)



Source: Company



Store Opening Dynamics



Hypermarket

	2003	2004	2005	2006	2007	2008	2009	2010	2011	9M 2012
Southern	387	550	684	783	888	1,005	1,153	1,075	1,198	1,251
North-Caucasian								260	289	302
Central	100	224	379	461	545	638	802	951	1,204	1,356
Volga	114	214	368	536	628	743	950	1,235	1,580	1,754
North-West	9	26	61	84	88	115	160	215	320	370
Urals			8	29	45	67	139	245	359	424
Siberian								21	56	66
Total	610	1,014	1,500	1,893	2,194	2,568	3,204	4,002	5,006	5,523
New openings	259	438	550	513	409	452	702	863	1,085	586
Closings	17	34	64	120	108	78	66	65	81	69
Net openings	242	404	486	393	301	374	636	798	1,004	517

- 1,948 convenience stores launched in 2010-2011 and 517 in 9M 2012, over 450 to be added in 4Q 2012
- 69 convenience stores were closed in 9M 2012
 - 10 due to poor performance
 - 43 were relocated to better locations
 - 16 were shut due to disagreements with landlords

Source: Company

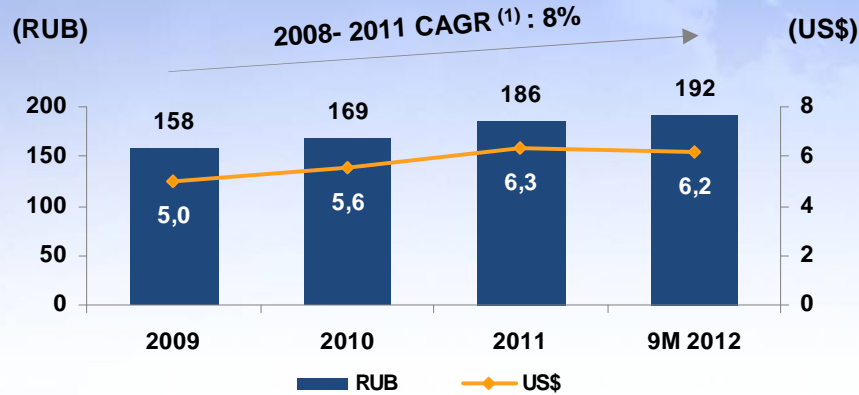


Key Operating Statistics



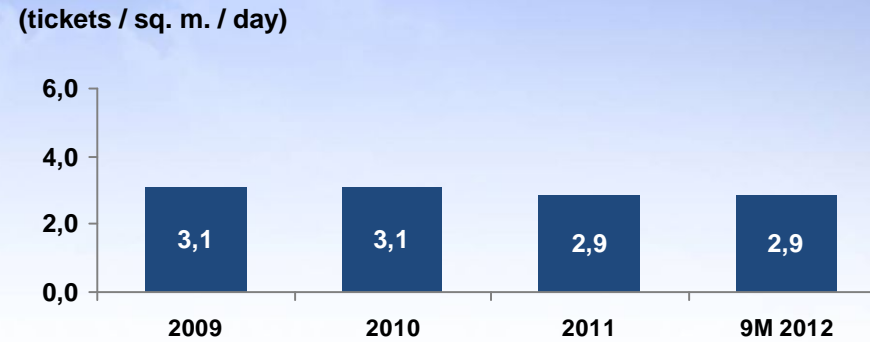
Hypermarket

Average Ticket



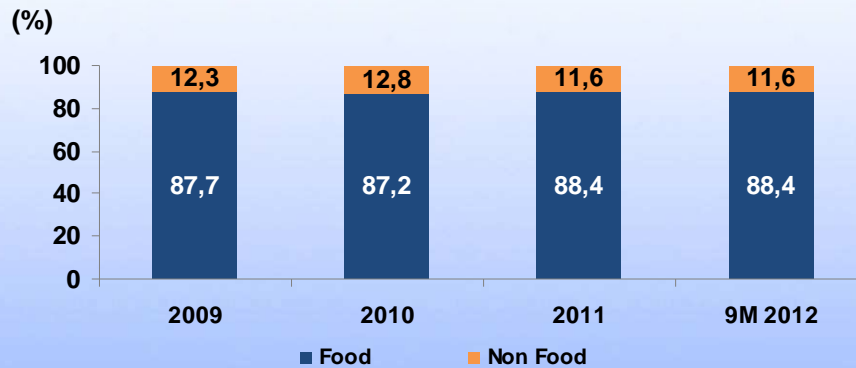
Source: Company

Traffic



Source: Company

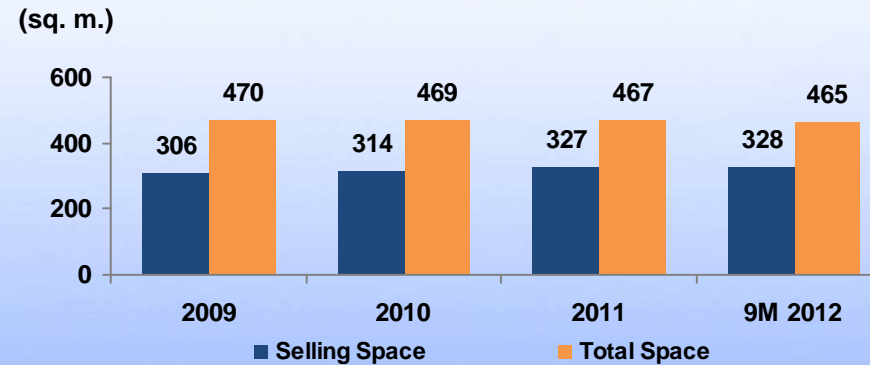
Sales Mix



Source: Company

Note: (1) In RUR terms

Average Floor Size



Source: Company

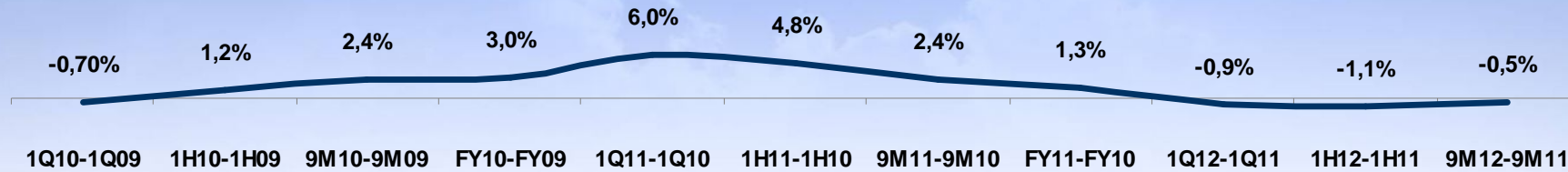


LFL Sales Growth Analysis

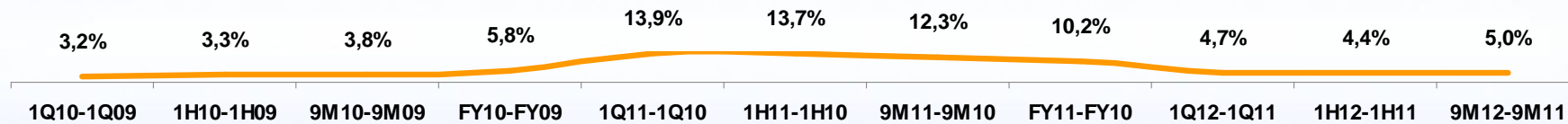


Hypermarket

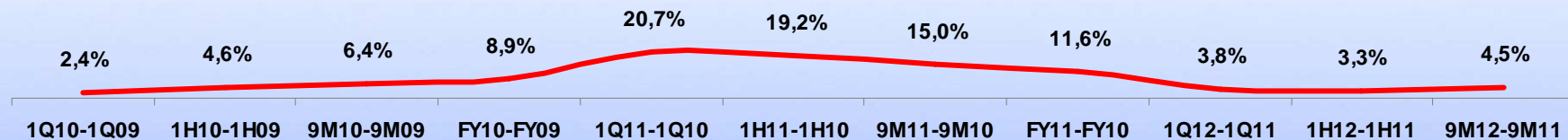
Traffic Growth, LFL



Average Ticket Size Growth, LFL (RUB Terms)



Sales Growth, LFL (RUB Terms)



Note: LFL analysis is based on the result of convenience stores that had been operating for not less than six months and have achieved a mature level of sales
Source: Company



Hypermarket



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Format Description

Convenience store

Hypermarket

Format Highlights

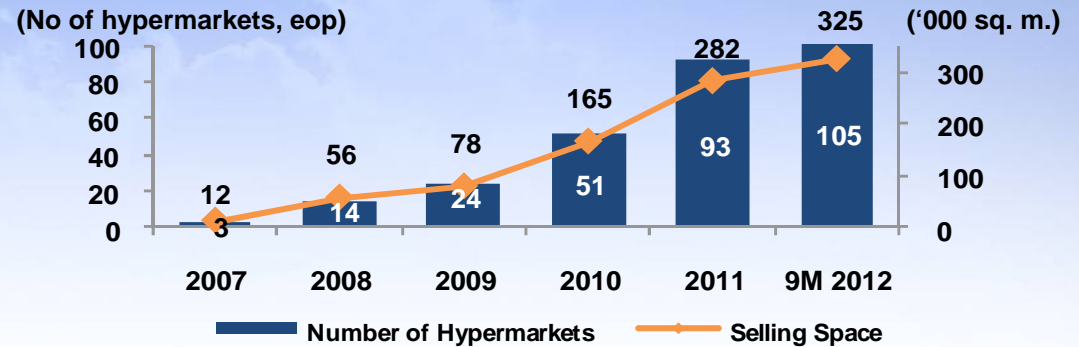
- 3 principal hypermarket sub-formats
 - **Small:** selling space ⁽¹⁾ of up to 3,000 sq. m.
 - **Medium:** selling space ⁽¹⁾ of 3,000 – 6,000 sq. m.
 - **Large:** selling space ⁽¹⁾ of over 6,000 sq. m.

- The decision with regards to hypermarket format principally depends on the following factors:
 - Consumer disposable budget of the region
 - 5-7 year budget forecast
 - Percentage of the consumer budget, attributable to hypermarket
 - Population of the region
 - Competition

Source: Company

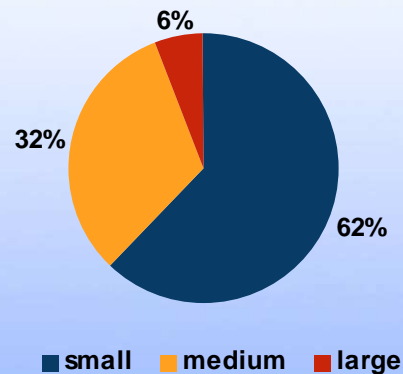
Notes: (1) Excluding rental space; (2) Based on selling space

Number of Hypermarkets and Selling Space



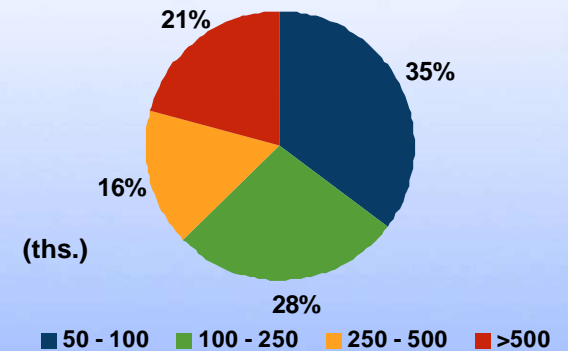
Source: Company

Breakdown by Sub-format ⁽²⁾



Source: Company

Breakdown by Population



Source: Company

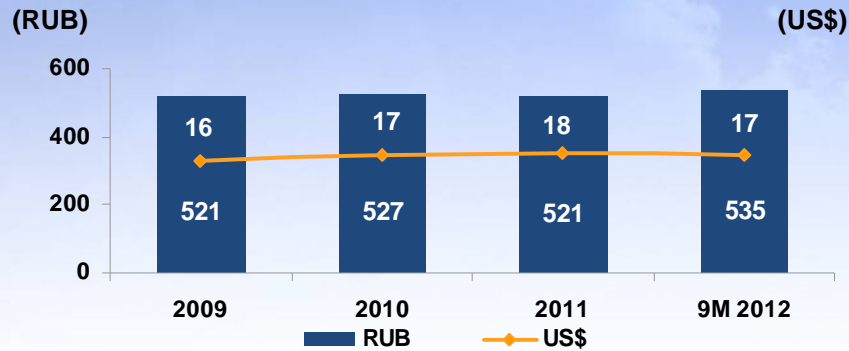


Key Operating Statistics

Convenience store

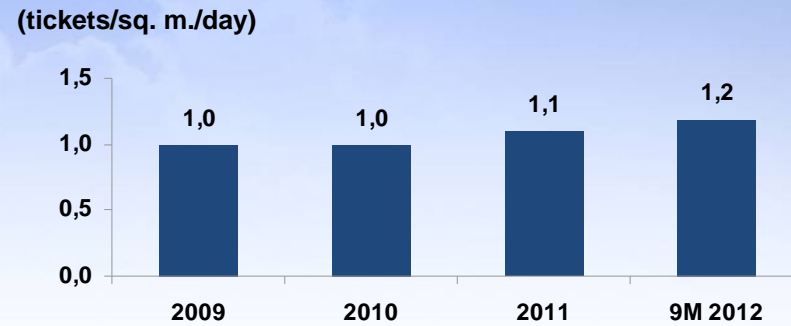


Average Ticket



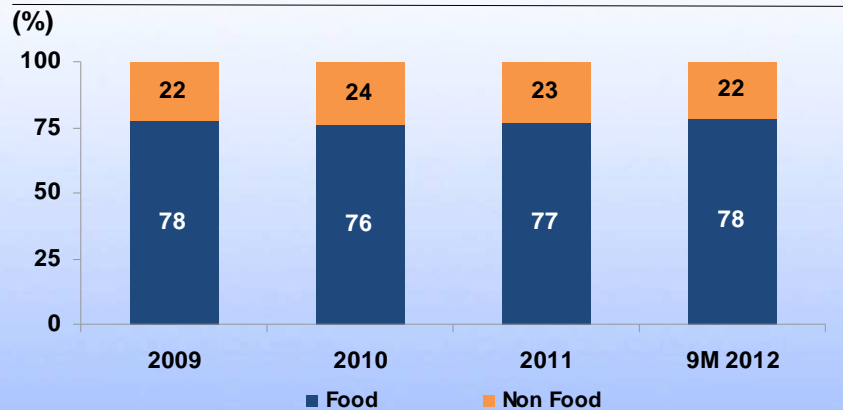
Source: Company

Traffic



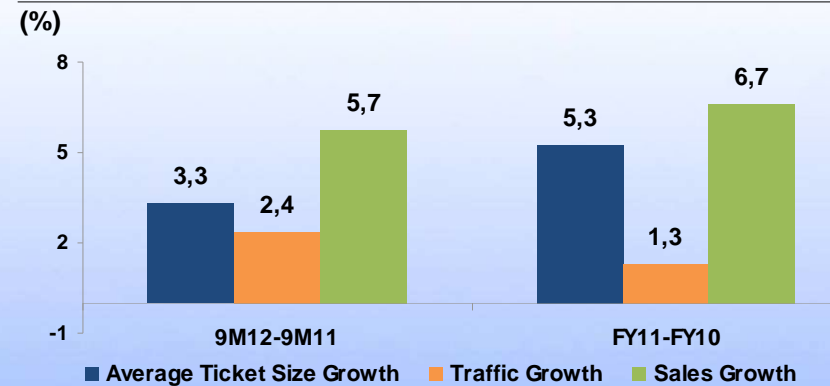
Source: Company

Sales Mix



Source: Company

LFL Analysis (RUB Terms)⁽¹⁾



Note: (1) Based on hypermarkets that had been operating for not less than 8 months and have achieved a mature level of sales

Source: Company



4. Financial Overview



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Summary P&L

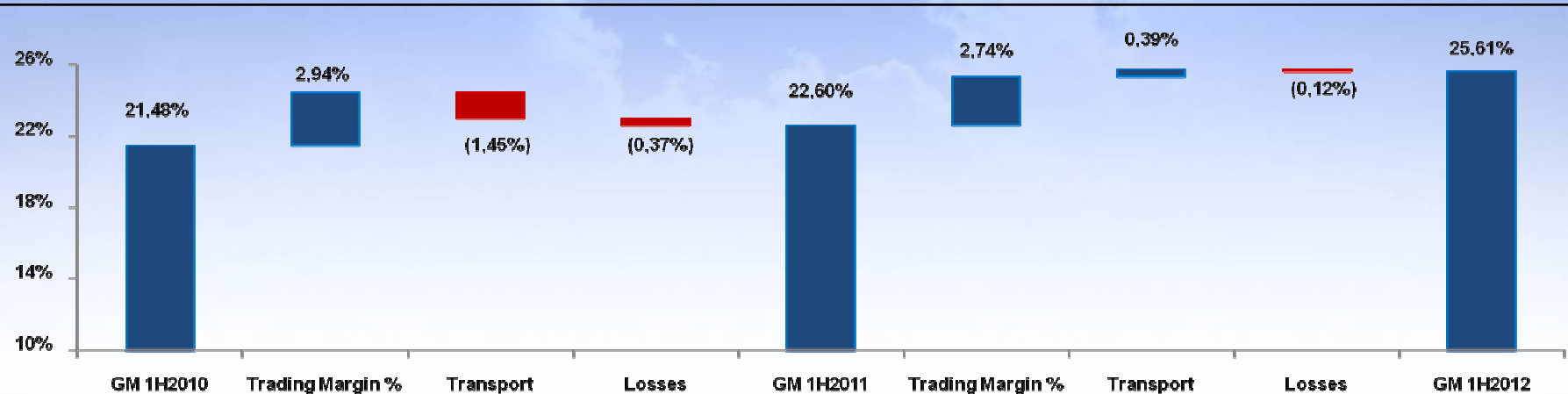
US\$ MM	1H 2011	2011	1H 2012	1H 12 / 1H 11 Y-o-Y Growth
Net sales	5,470.7	11,423.3	6,775.8	23.9%
Cost of sales	(4,234.5)	(8,644.4)	(5,040.2)	19.0%
Gross profit	1,236.2	2,778.9	1,735.5	40.4%
<i>Gross margin, %</i>	22.6%	24.3%	25.6%	
SG&A	(907.2)	(1,882.6)	(1,079.7)	19.0%
Other income/(expense)	30.0	43.1	14.7	
EBITDA	359.0	939.3	670.6	86.8%
<i>EBITDA margin, %</i>	6.6%	8.2%	9.9%	
Depreciation & amortization	(122.5)	(271.5)	(171.8)	40.3%
EBIT	236.4	667.8	498.8	111.0%
Net finance costs	(43.7)	(106.6)	(55.0)	25.9%
Profit before tax	192.7	561.1	443.7	130.3%
Taxes	(52.4)	(142.5)	(103.9)	98.3%
<i>Effective tax rate</i>	27.2%	25.4%	23.4%	
Net income	140.4	418.7	339.9	142.2%
<i>Net margin, %</i>	2.6%	3.7%	5.0%	

Source: IFRS accounts

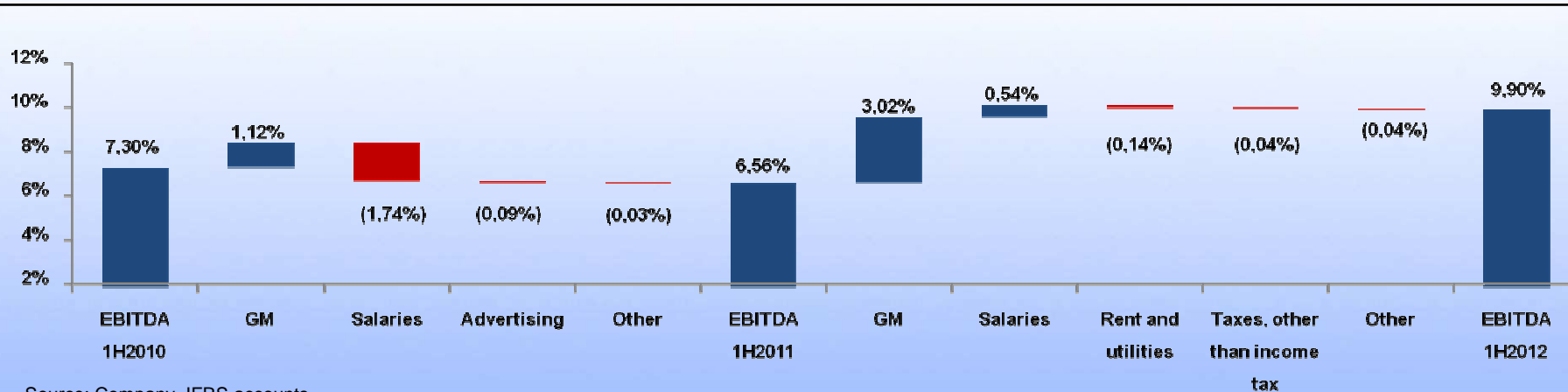


Gross Margin / EBITDA Margin Bridges

Gross Margin Bridge (as % of Sales)



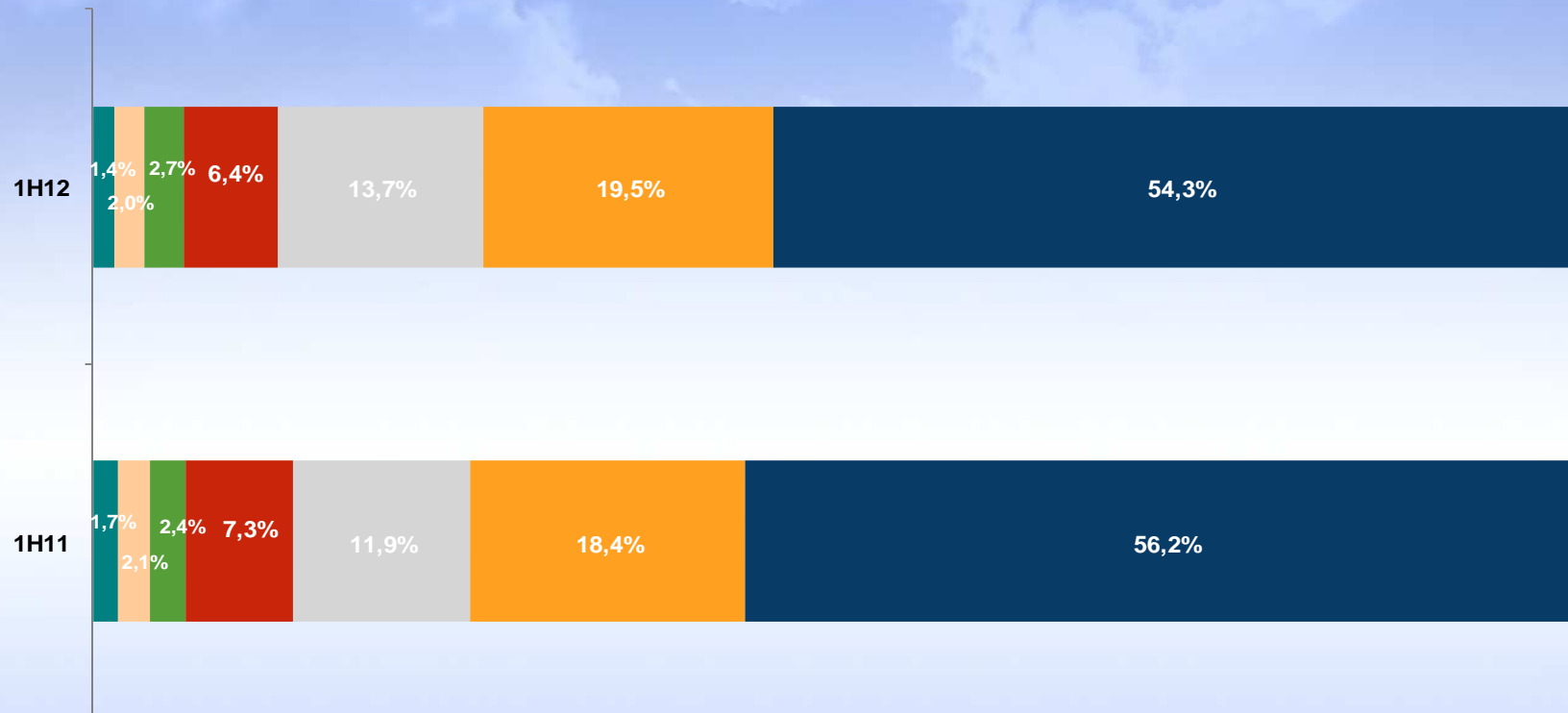
EBITDA Margin Bridge (as % of Sales)



Source: Company, IFRS accounts



SG&A Expense Structure



- repair and maintenance
- packaging and raw materials
- taxes, other than income tax
- other expenses
- depreciation & amortization
- rent and utilities
- payroll and related taxes



Balance Sheet

US\$ MM	2010	2011	1H 2012
ASSETS			
Property plant and equipment	2,651.1	3,816.4	4,203.9
Other non-current assets	61.0	100.4	108.3
Cash and cash equivalents	132.6	534.4	128.3
Inventories	659.8	905.2	958.6
Trade and other receivables	20.6	16.5	17.0
Advances paid	69.2	55.9	55.1
Taxes receivable	54.7	1.2	6.2
Income Tax receivable	4.0	-	-
Short-term financial assets	28.9	5.4	0.1
Prepaid expenses	7.1	11.8	10.1
TOTAL ASSETS	3,689.0	5,447.3	5,487.5
EQUITY AND LIABILITIES			
Equity	1,722.7	2,444.3	2,652.0
Long-term debt	810.3	1,424.5	1,392.3
Other long-term liabilities	66.4	129.1	152.8
Trade and other payables	782.4	1,042.6	936.9
Short-term debt	196.8	192.2	106.9
Dividends payable	-	-	-
Other current liabilities	110.4	214.8	246.7
TOTAL EQUITY AND LIABILITIES	3,689.0	5,447.3	5,487.5

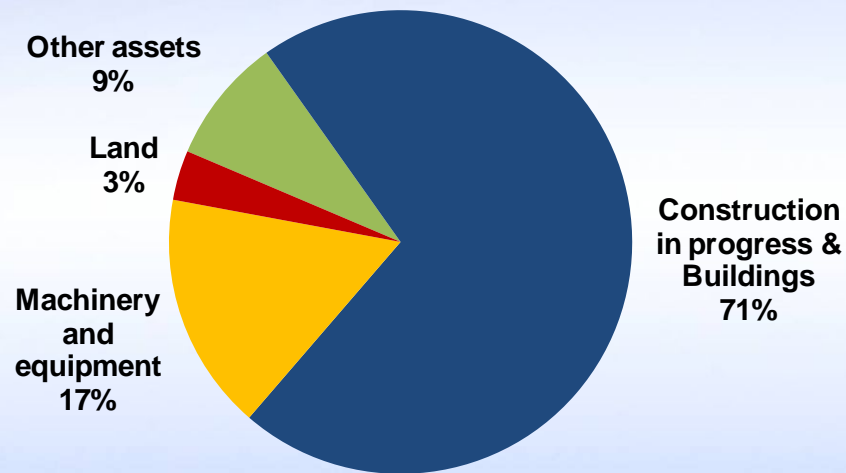
Source: IFRS accounts



1H 2012 Capex ⁽¹⁾ Analysis

Capex Breakdown

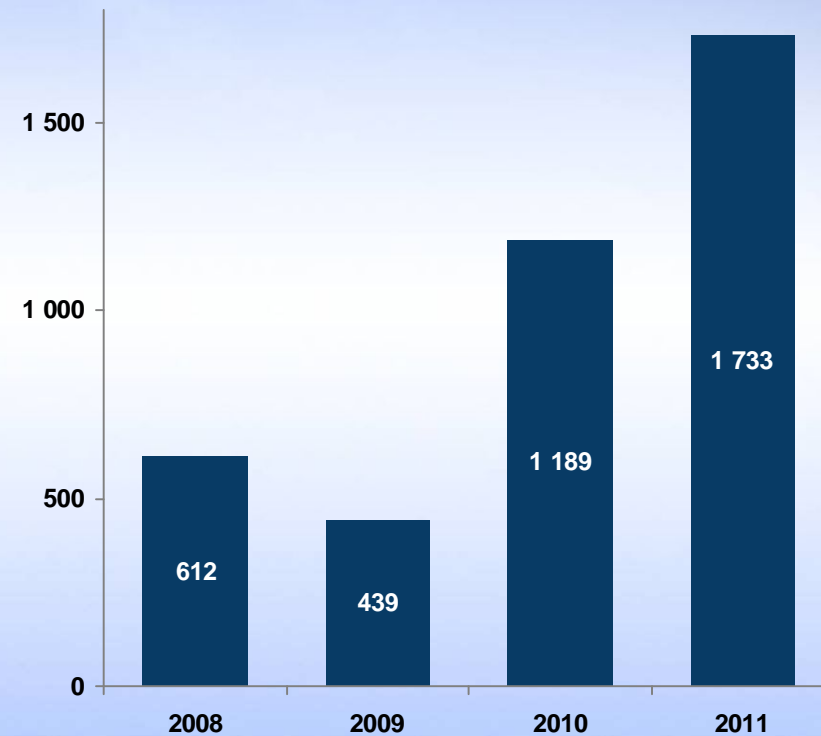
(US\$ MM)



Total: US\$ 688 MM

Capex Dynamics

(US\$ MM)



Note (1) Capex calculated as additions + transfers of PP&E during the respective period
Source: IFRS accounts



Cash Flow Statement

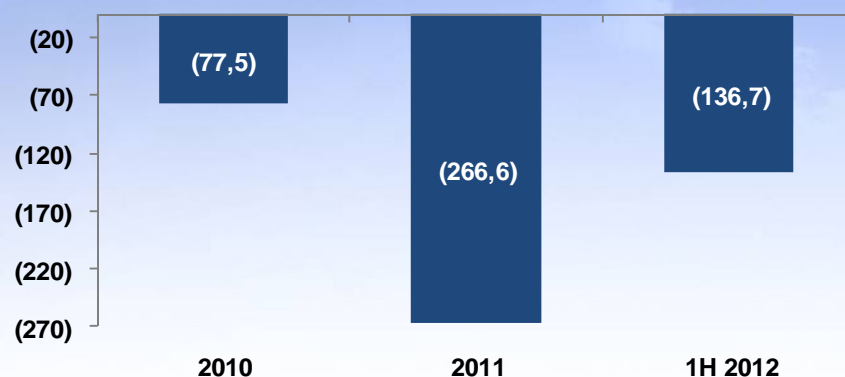
US\$ MM	2010	2011	1H 2012
OPERATING ACTIVITIES:			
Operating cash flows before movements in working capital	634.1	927.9	675.8
Net cash generated from operating activities	430.3	949.1	403.3
INVESTING ACTIVITIES:			
Net Cash used in investing activities	(1,231.5)	(1,713.9)	(670.1)
FINANCING ACTIVITIES:			
Net cash generated from financing activities	565.2	1,150.1	(148.3)
Effect of foreign exchange rates on cash and cash equivalents	(2.3)	16.4	9.1
Net increase/decrease in cash and cash equivalents	(238.4)	(401.8)	(406.0)
Cash and cash equivalents, end of period	132.6	534.4	128.3

Source: IFRS accounts



Working Capital and Leverage Analysis

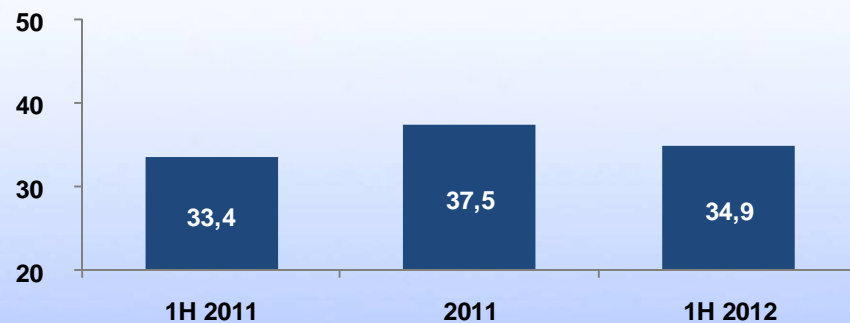
Working Capital (US\$ MM) ⁽¹⁾



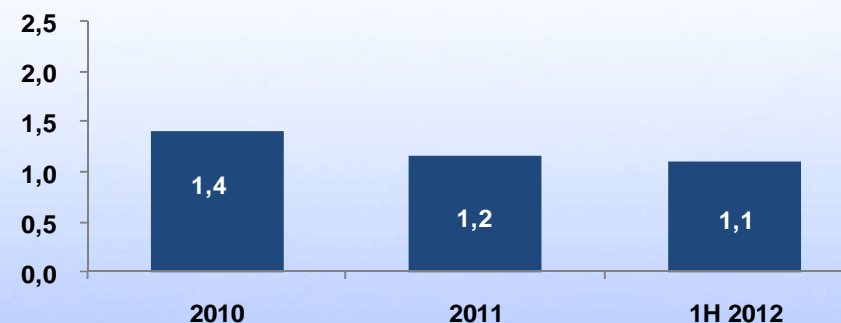
Inventory Management Days ⁽²⁾



Trade Accounts Payable Days ⁽³⁾



Net Debt ⁽⁴⁾ / LTM EBITDA (x)



- Notes: (1) Current assets (less C&CE and short-term investments) – current liabilities (less short-term debt)
 (2) $360 / (\text{Cost of sales/period average inventory})$
 (3) $360 / (\text{Cost of sales/period average trade accounts payable})$
 (4) Net debt = long / short-term bonds and borrowings + finance lease liabilities – cash and cash equivalents

Source: Company, IFRS accounts



5. General Business Overview



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Suppliers, Purchasing and Private Label

Magnit is the largest buyer for many domestic and international FMCG producers

- Weekly Assortment Committee approves the assortment and suppliers
- Direct purchasing and delivery contracts
- Economies of scale and wide geographical presence enable low prices and favorable contract terms
 - Volume discounts
 - Compensation of external and internal logistics costs
 - Average credit term in 2011 was 37 days
 - Contract term is typically 1-year
 - Often can be unilaterally terminated by Magnit with no penalties
- Supplier bonuses criteria is based on
 - Meeting sales targets
 - Store promotions
 - Loyalty

Private label products are designed to replace the cheapest SKUs to maximise returns on each meter of shelf space

- 650 private label SKUs
- Private label products accounted for 13,4% share of retail revenue in 9M2012
- Approximately 88% of private label products are food
- Share of non-food products in private label is expected to increase

Share of Private Label Products in Revenue



Source: Company



Logistics System

As of September, 2012 approximately **83%** of COGS vs. 57% in 2005 were distributed through the company's distribution centers and the long-term target is to increase this share up to **90-92%** for convenience stores and up to **80%** for hypermarkets (vs. 64% today)

At the moment the Company's logistics system includes:

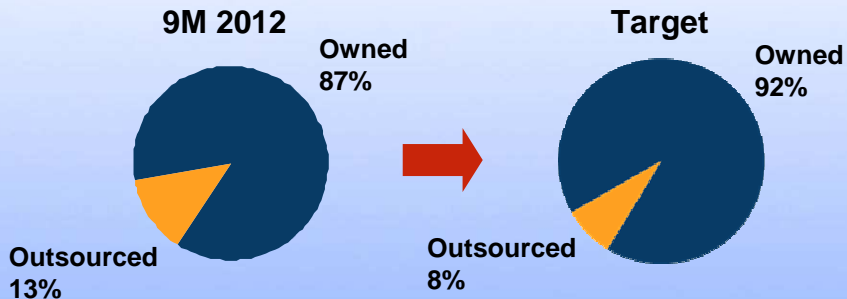
- Automated stock replenishment system
- 17 distribution centers with approximately 409 398 sq. m. capacity
- Fleet of 4,082 vehicles

	City	Federal District	Effective Space sq. m.	No. of Serviced Stores
1	Bataysk	Southern	17,407	405
2	Kropotkin	Southern	30,048	401
3	Lermontov	North-Caucasian	34,503	309
4	Slavyansk-on-Kuban	Southern	20,496	308
5	Engels	Volga	19,495	359
6	Togliatti	Volga	19,157	388
7	Erzovka (Volgograd)	Volga	26,074	375
8	Dzerzhinsk	Volga	30,523	366
9	Izevsk	Volga	34,141	439
10	Sterlitamak	Volga	22,043	379
11	Tver	Central	15,726	234
12	Oryol	Central	14,326	347
13	Tambov	Central	26,733	401
14	Ivanovo	Central	52,929	690
15	Veliky Novgorod	North-Western	21 060	267
16	Chelyabinsk	Urals	17,623	368
17	Omsk	Siberian	7,114	83
	Total		409 398	6 119

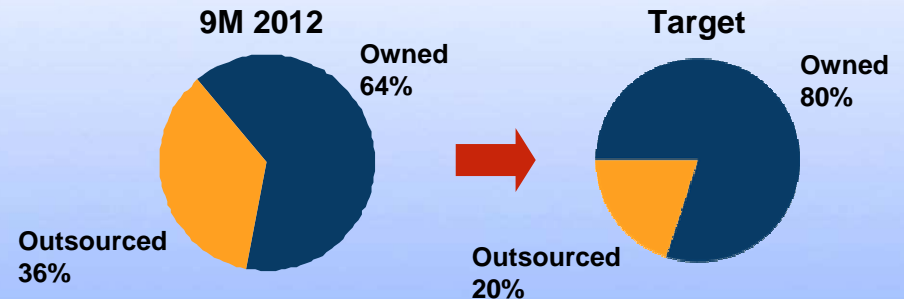
Source: Company

DC Processed Goods

Convenience stores



Hypermarkets



Source: Company

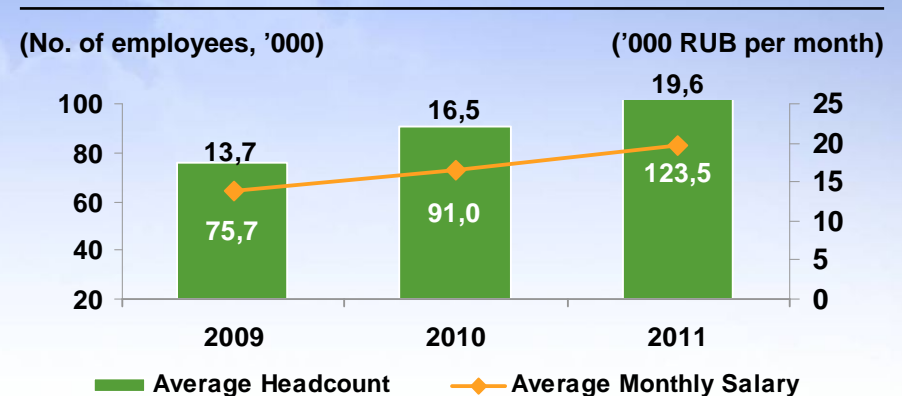


Well-Trained Dedicated Personnel

- The **average number of employees** ⁽¹⁾ in the Group amounted to **135,209** during 9M 2012:
 - 92,992 in-store personnel,
 - 27,200 people engaged in distribution,
 - 10,312 people in regional branches,
 - 4,705 people employed by head office
- The average age of our employees is approximately 25 years
- The gross **average monthly salary** in 2011 was RUB **19,560** (c. US\$666⁽²⁾) per month of which approximately 75% was basic salary
- Special performance-linked bonuses and incentives help to motivate the employees at all levels
- Key members of the Management hold Company's shares
- Performance monitoring and evaluation on a regular basis
- Career development programs for all levels to ensure
 - Lower staff turnover
 - Increased motivation
 - Higher productivity
- Personnel training
 - 174 classrooms for trainings at all levels
 - Regular meetings and seminars between mid-level managers to exchange best practices
 - Coaching for top-management
- Strong corporate culture aimed at development of loyalty of employees
 - The Company publishes a corporate newspaper every two months
 - Team building events to ensure integrity of the team

Notes: (1) Total number of employees as of September 30, 2012 is 162,894
 (2) Converted to US\$ using average exchange rate for 2011 of 29.3874 RUB/US\$ (CBR)

Average Number of Employees vs. Average Salary, 2009-2011



Source: IFRS accounts



6. Summary Conclusions



МАГНИТ

Summary Conclusions



Leading Russian retailer: broadest geographic coverage with 6,119 stores (as of 30 September 2012) in more than 1,504 cities in seven out of eighth federal districts in Russia



Strong foothold in Russia's cities and towns with population under 500,000 people: first mover advantage (first retailer in many locations to establish a modern format); low competition from other chains outside of Russia's large cities



Further organic growth of store operations: continued roll-out of established business model in existing markets and selective expansion into new geographic areas



Expanding hypermarket operations: leveraging strong existing platform (operations, logistics, brand, scale) to develop a leading hypermarket chain in the European part of Russia



Additional measures to improve profitability: enhancing product mix, shifting to direct import contracts, increasing private label and increasing distribution through own logistics system to achieve margin improvements and cost savings



Financing of expansion program: implementation of the Company's mid-term strategy will be executed through a mix of operating cashflow and debt (bank loans and bonds)



Appendix



МАГНИТ

Typical Convenience Store Opening Process

- Considerable experience of store openings
- Acquisitions and construction are preferred in existing markets with already high penetration
- Key store opening criterion is payback period of not more than 3 years if leased; 4 – 6 years if owned
- Average total cost of a new convenience store is US\$800 – 2,500 per sq. m. of total space (excl. VAT)
- New stores reach their average traffic and sales target within 6 months from opening
- Rationalisation of store portfolio

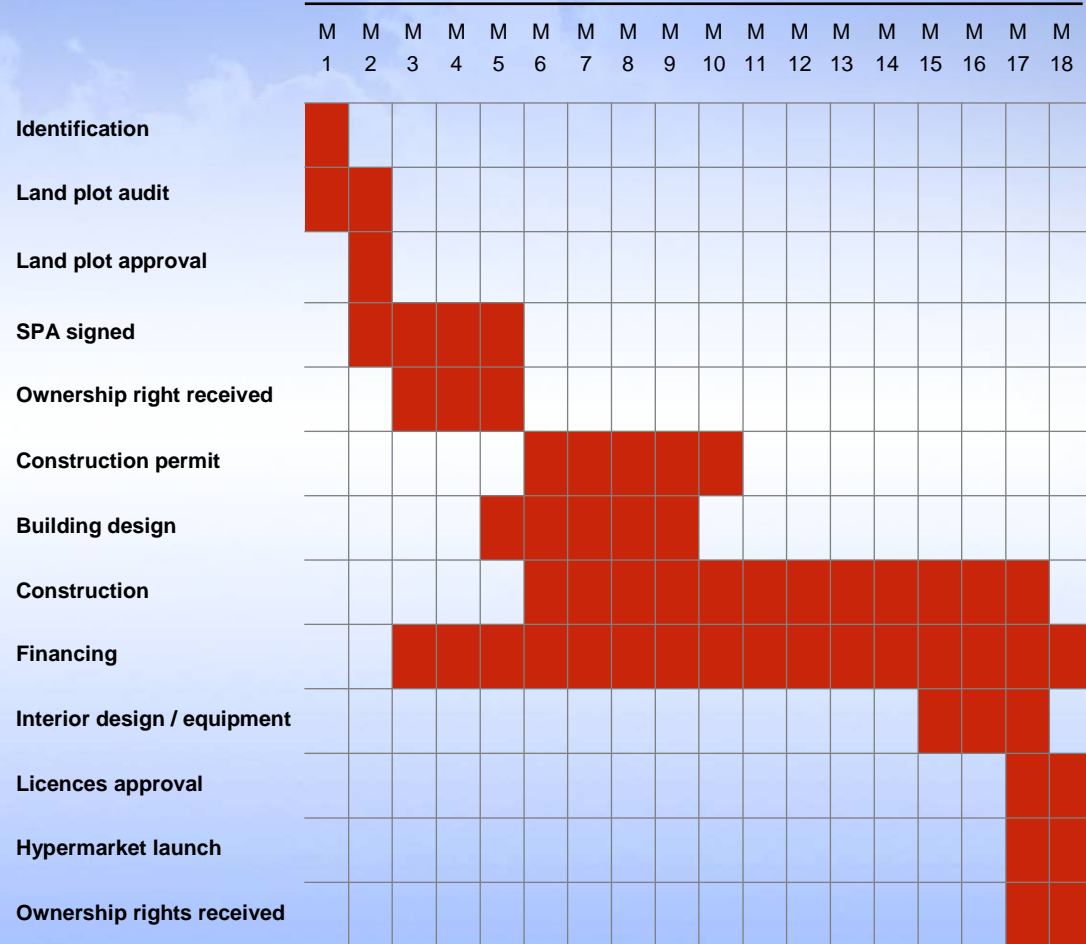
Identification of a property or a land plot
Feasibility report and opening budget prepared
Approval by the regional director and branch director
MOU signed with landlord
Legal due diligence
Technical due diligence
Approval by Committee on Store Openings
Lease agreement or SPA signed
Repair and maintenance
Purchasing and installation of equipment
Personnel hiring and training
Sublet agreements signed
Store opened

	Month 1				Month 2				Month 3			
	W	W	W	W	W	W	W	W	W	W	W	W
	1	2	3	4	1	2	3	4	1	2	3	4
Identification of a property or a land plot	■											
Feasibility report and opening budget prepared	■	■										
Approval by the regional director and branch director		■										
MOU signed with landlord		■										
Legal due diligence	■	■										
Technical due diligence	■	■										
Approval by Committee on Store Openings			■									
Lease agreement or SPA signed			■									
Repair and maintenance			■	■	■	■	■	■	■			
Purchasing and installation of equipment							■	■	■	■		
Personnel hiring and training						■	■	■	■	■	■	
Sublet agreements signed									■			
Store opened											■	



Typical Hypermarket Store Opening Process

- Key store opening criterion is payback period from 6 to 9 years
- Average total cost of a new hypermarket varies between US\$1,500 – 3,500 per sq. m. of total space depending on format (excl. VAT)
- Expected store maturity pattern: 8 - 15 months from opening

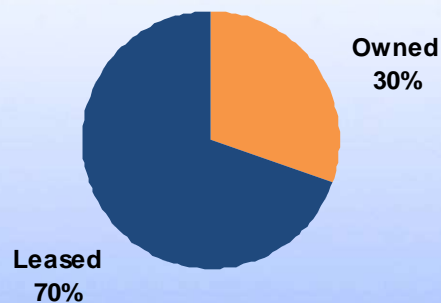


Store Ownership Structure

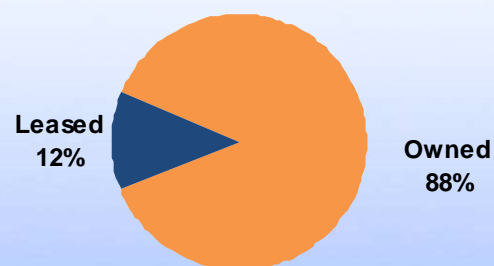
- As of 30 September 2012 the Company owned 1 678 convenience stores, 92 hypermarkets and 150 cosmetics stores and leased 3 845, 13 and 330 correspondingly
- Store ownership is gained on the basis of the following documents:
 - Sale-purchase agreements
 - Lease agreements with redemption rights
 - Construction share holding agreements
 - Investment contracts

Store Ownership Structure

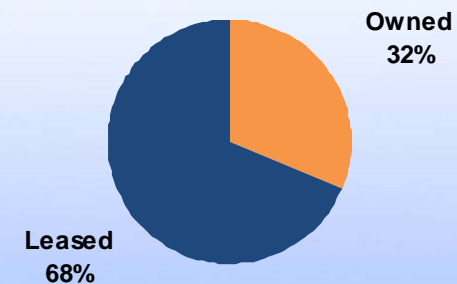
Convenience stores



Hypermarkets



Cosmetics stores



Source: Company (as of 30 September 2012)

