


9M 2008 Results

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Our History

1994 – 1998
Early years: wholesale distribution

- Foundation of wholesale business by Mr. Galitskiy
- Tander becomes one of the major distributors of household products and cosmetics in Russia
- Decision to expand into food retail market

1998 – 1999
Entrance into food retail

- First convenience store opened in Krasnodar
- Experiments with format
- Stores merged into Magnit discounter retail chain

2001 – 2005
Extensive roll-out to capture market share

- Rapid regional roll-out: 1,500 stores by the end of 2005
- Adoption of IFRS
- Strict financial control
- Performance-linked compensation

2006 – 2007
Continued growth with focus on margin expansion and multi-format

- Leading food retailer in Russia by number of stores
- IPO
- Started building hypermarkets
- Independent director elected to the Board
- Audit Committee established
- Corporate governance rules established to comply with best practice
- 3 hypermarkets opened in 2007
- 14 hypermarkets under construction

2008 – YTD
Active hypermarket roll-out program going forward

- 2,428 convenience stores and 11 hypermarkets as of 31 October 2008
- In 10M08 net store openings amounted to 242 stores, including 8 hypermarkets (against 195 convenience stores and 1 hypermarket in 10M07)
- 10M08 total selling space increased by 27% vs. 10M07 and amounted to 766 thousand sq. m.
- 10M08 net sales increased by 49.79% (compared to 10M 2007) and amounted to US$ 4,312 MM [(1)]

Note (1) 9M 2008 sales are provided from management accounts



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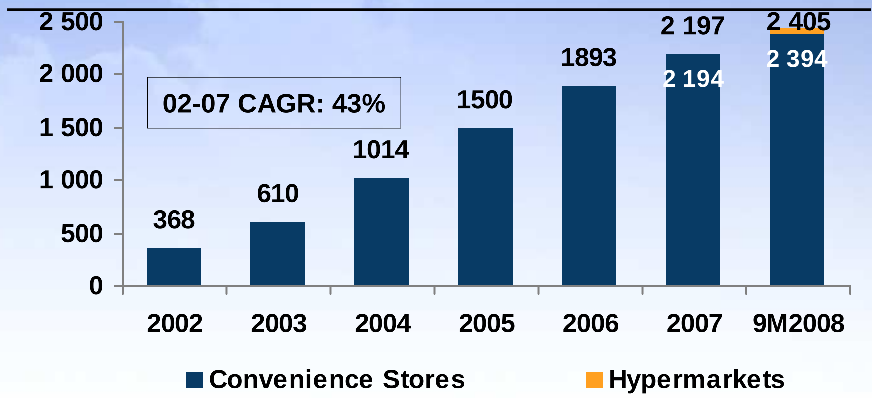
Magnit Today

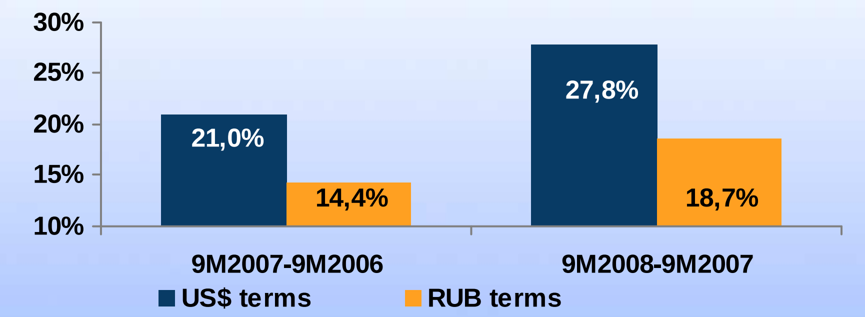
- Leading market position with broad geographic coverage
- Focus on cities and towns with population under 500,000 people
- Strong platform for rapid hypermarket operations expansion
- Efficient logistics system
- Sophisticated IT systems
- Experienced management team
- Strong financial performance

Number of Stores, eop



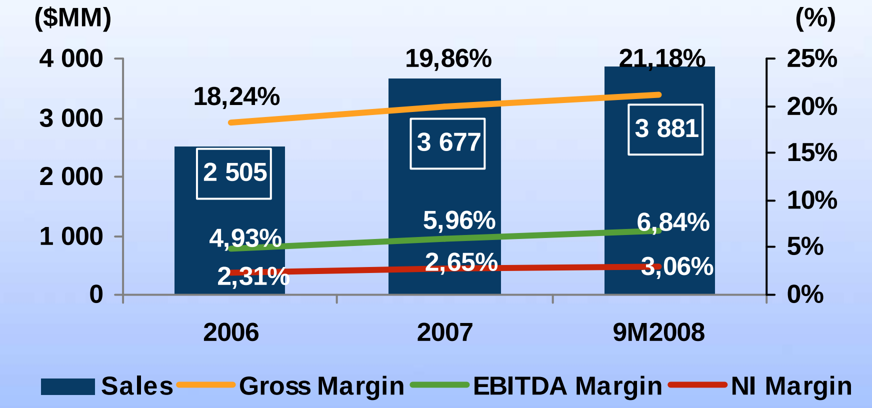
Source: Company

Sales, Lfl Growth



Source: Company

Financial Performance



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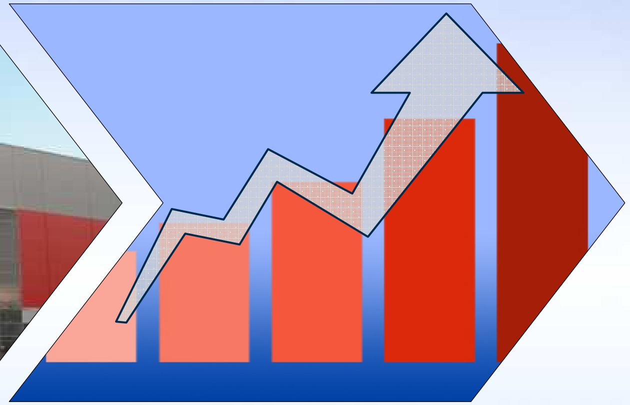
Strategy



Further expansion of convenience store operations

Hypermarket roll-out

Efficiency improvements

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Further Expansion of Convenience Store Operations

Further expansion of convenience store operations → Hypermarket roll-out → Efficiency improvement

Further penetration in existing and expansion into new 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	■ Higher share of fresh food products and ready-made meals offering to stimulate frequency of shopping ■ 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 200 – 400 convenience stores annually ■ Acquisition of land plots to secure pipeline for future stores

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Hypermarkets Roll-Out

Further expansion of convenience store operations → Hypermarket roll-out → Efficiency 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 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.(2) 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 spendings 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

Note (1) Including selling space designated for leases to third parties
(2) For hypermarkets currently under construction



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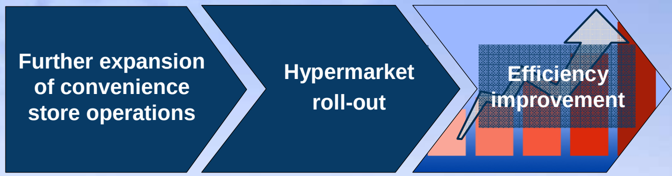
Efficiency Improvement



Plans to improve profitability	■ Efficient utilization of in-house logistics system – Increase in the share of goods distributed through the company’s distribution centres – Reduction of third party logistics costs ■ Further improvement of purchasing terms from suppliers
Benefits from multi format structure	■ Higher adaptability to any future changes in customer needs and demographic trends ■ Substantial synergies from own production facilities at hypermarkets
Product mix development	■ 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

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Business Overview

A Shift to Multi Format

	Convenience Store	Hypermarket
Number of stores	**2,394** as of 30 September 2008	**11** as of 30 September 2008
Average store size	■ Total space – 454 sq. m. ■ Selling space – 297 sq. m.	■ Total space: 9,860 sq. m. ■ Magnit selling space [1]: 3,976 sq. m.
Product range	■ 3,400 SKUs on average ■ Private label – 12.77% of retail sales	■ Up to 13,400 SKUs on average ■ Private label – 5.13% of retail sales
Positioning (format)	■ Walking distance from home ■ Ground floor stores or freestanding ■ Open 12 hrs/7 days	■ All hypermarkets are built in convenient locations ■ All easily accessed by public transport
Target group	■ People living within 500 metres from the store	■ People living within 15 minutes by car / 30 minutes by public transport from the store. Effective radius – 7 km
Ownership	■ 29.3% owned / 70.7% leased as of 30 September 2008	■ 100% owned

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

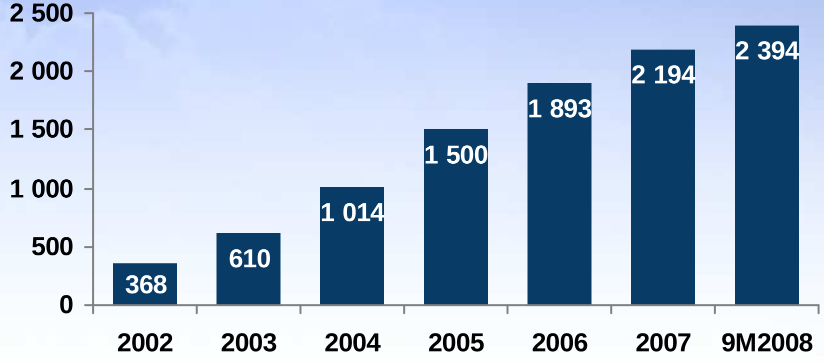
Convenience Format

Format Description

Format Highlights

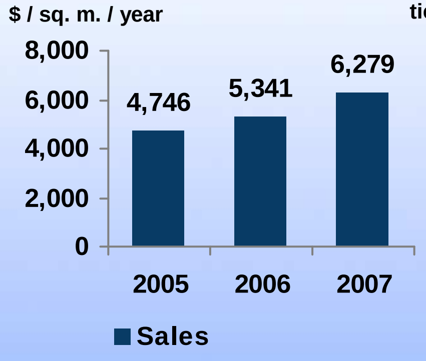
- Low prices
- Convenient locations
- Carefully selected product mix
- Standardised exterior and car parking
- Functional interior design
- Attention to customers
- Increasing customer convenience
- Main target group: mid-income consumers
- Target locations: towns with potential high growth of disposable income of population

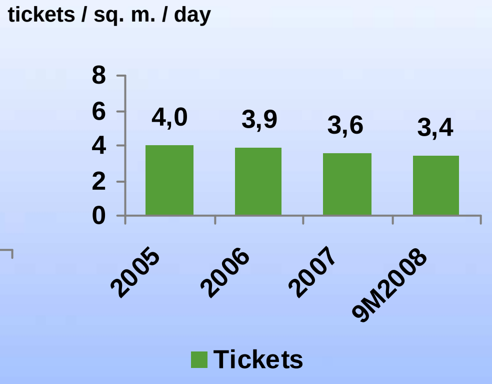
Number of Stores, eop



Source: Company

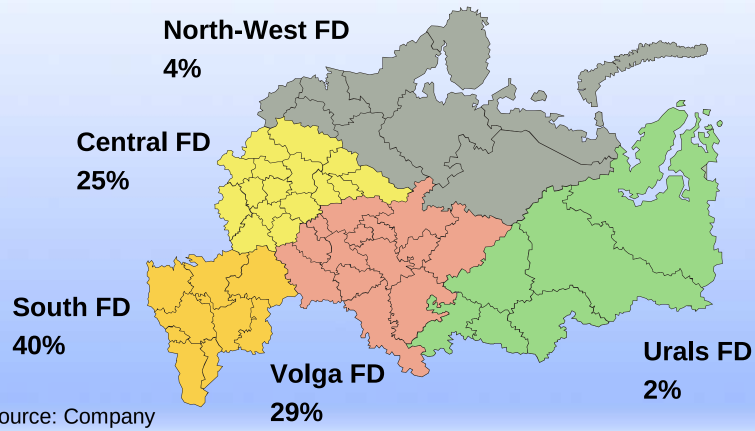
Operating Statistics





Source: Company

Geographical Breakdown (% of total stores)

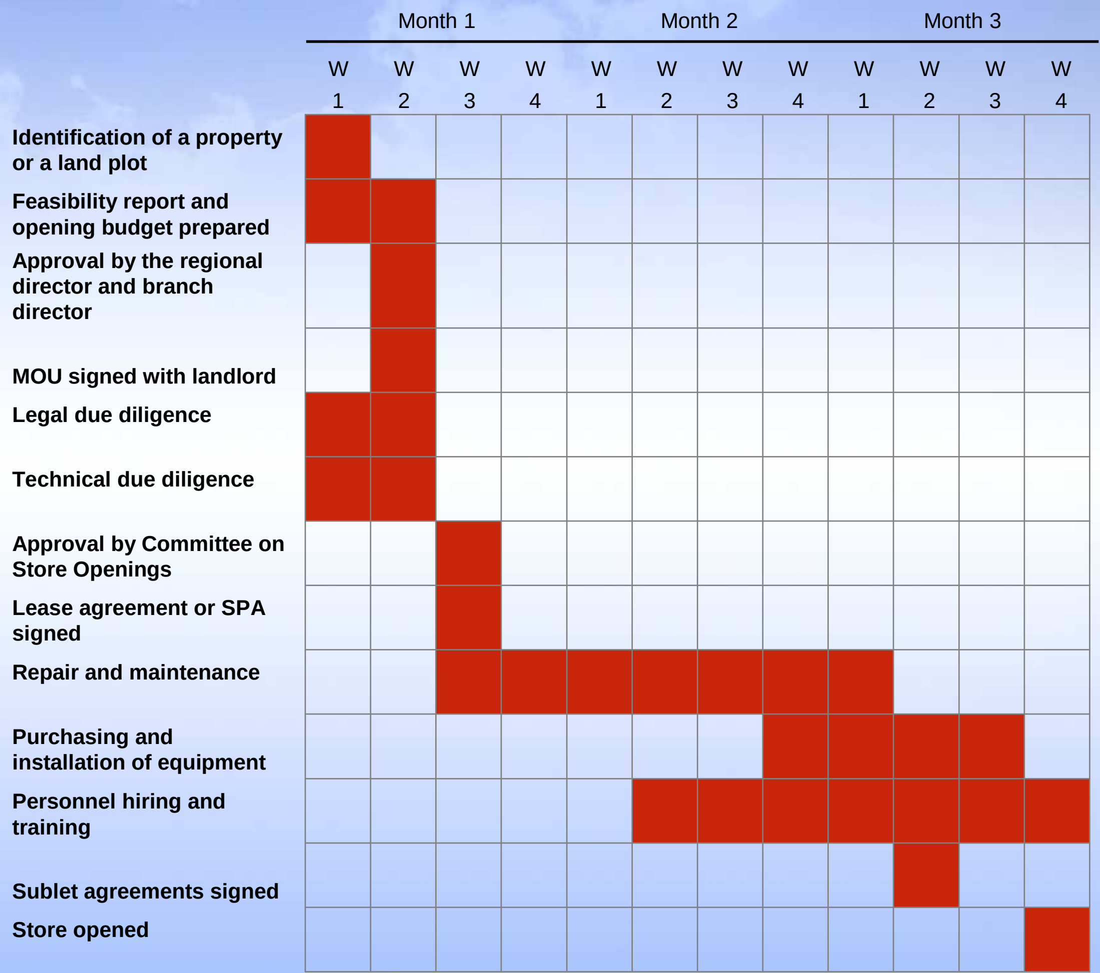


Source: Company



Typical Store Opening Process

- Considerable experience of store openings
- Preference given to leased store due to quick roll out in new markets
- 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; 6 – 7 years if owned
- Average total cost of a new outlet is USD165,000 (excluding cost of inventory and real estate, but including US$95,000 cost of equipment)
- Stores reach traffic comparable to their average levels within 6 months from opening
- Rationalisation of store portfolio



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Store Opening Dynamics

- 108 / 64 convenience stores were closed in 2007 / 9M2008
  - 39 / 22 due to poor performance
  - 31 / 19 were relocated to better locations
  - 38 / 23 were shut due to disagreements with landlords

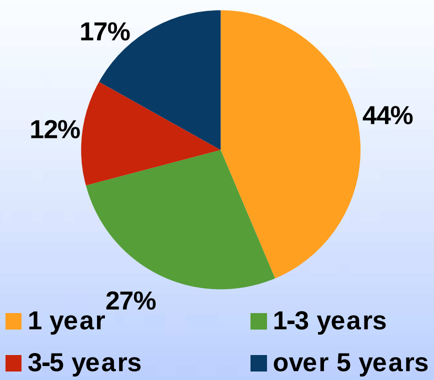
	2003	2004	2005	2006	2007	9M08
Southern	387	550	684	783	889	959
Central	100	224	379	461	546	600
Volga	114	214	368	536	628	686
North West	9	26	61	84	89	105
Urals			8	29	45	55
Total	**610**	**1,014**	**1,500**	**1,893**	**2,197**	**2,405**
New openings	259	438	550	513	412	272
Closings	17	34	64	120	108	64
Net openings	242	404	486	393	304	208



Store Ownership Structure

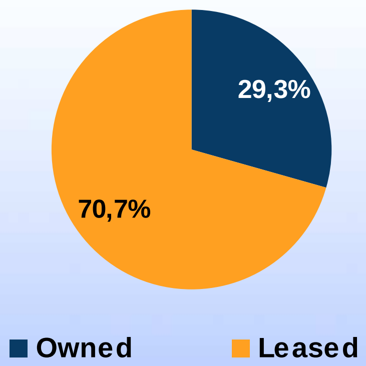
- As of 30 September 2008 the company owned 702 stores and leased 1,692
- Store ownership is gained on the basis of the following documents:
  - Sale-purchase agreements
  - Lease agreements with redemption rights
  - Construction share holding agreements
  - Investment contracts

Lease Maturity Profile



Source: Company

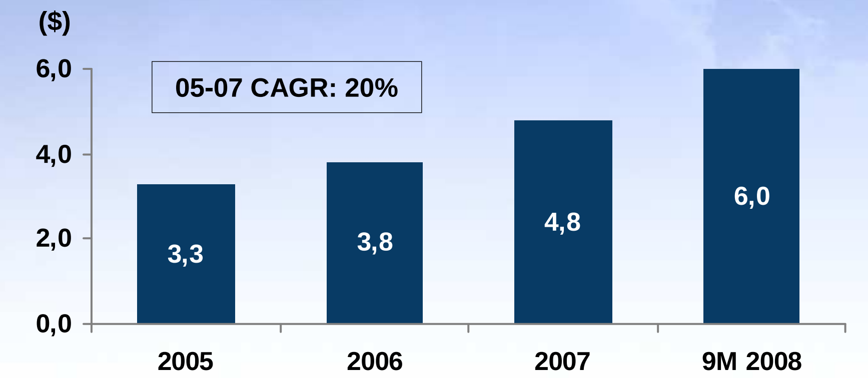
Store Ownership Structure



Source: Company as of 30 September 2008

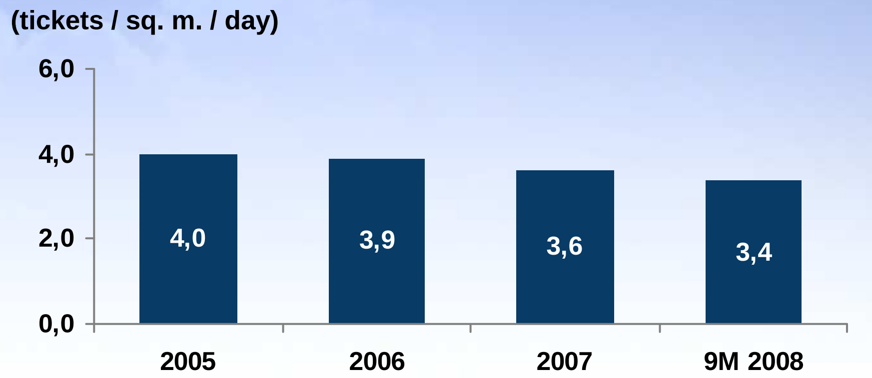
Key Operating Statistics

Average Ticket



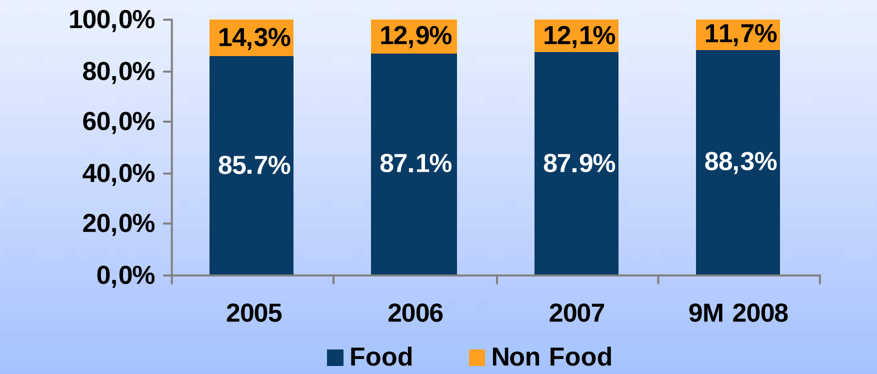
Source: Company

Traffic



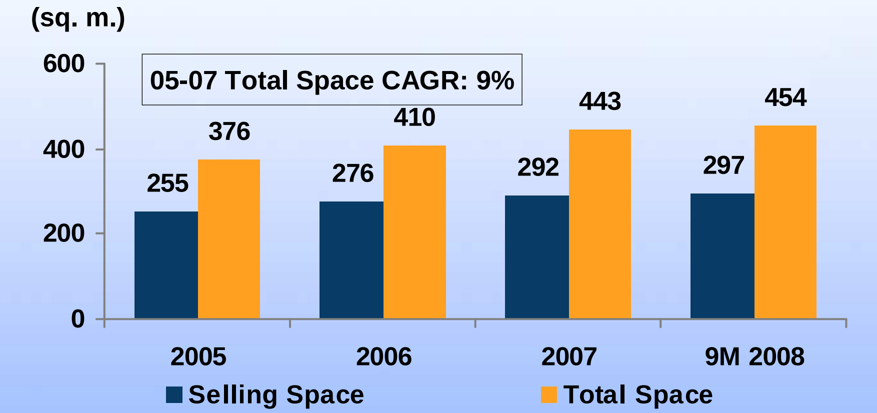
Source: Company

Sales Mix



Source: Company

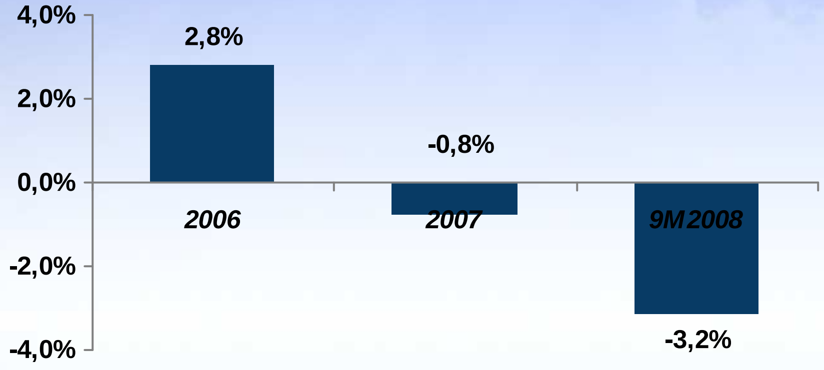
Average Floor Size



Source: Company

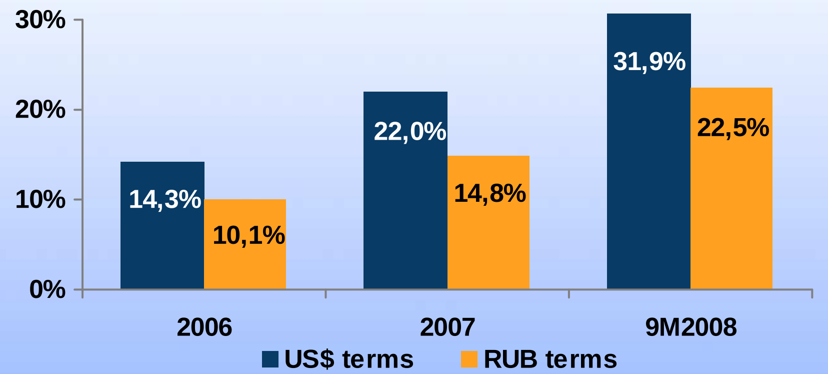
Lfl Sales Analysis

Traffic, Lfl



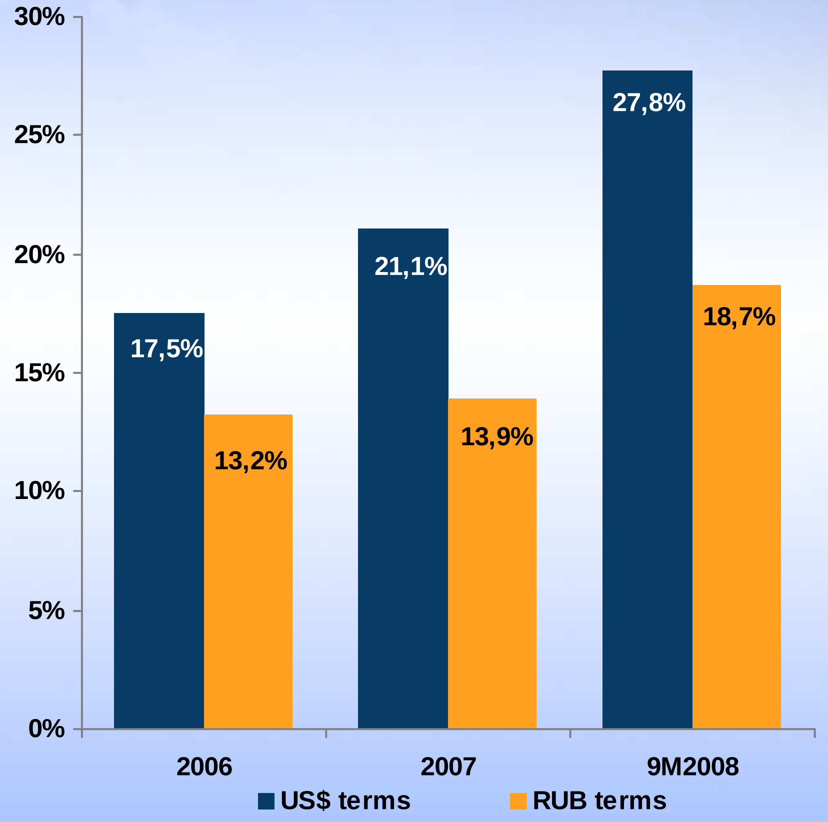
Source: Company

Average Ticket, Lfl



Source: Company

Sales, Lfl



Source: Company

Hypermarket Format

Format Description

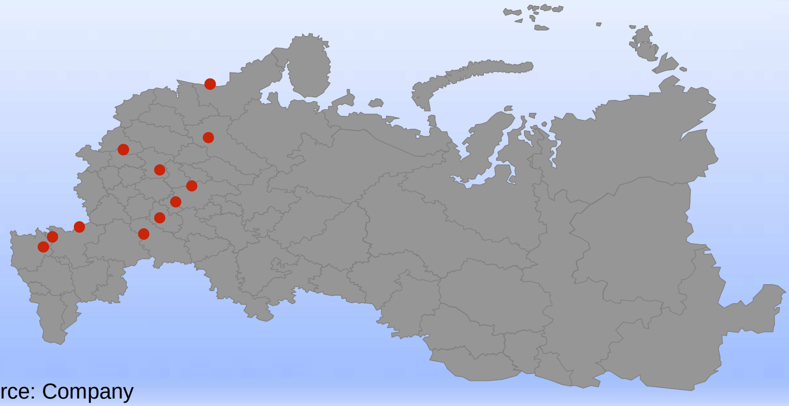
Format Highlights

- 3 principal hypermarket sub-formats
  - **Small:** total space of 3,200 - 4,700 sq. m., selling space (2) of 2,000 - 2,500 sq. m.
  - **Medium:** total space of 11,100 - 11,700 sq. m., selling space (2) of 6,000 – 8,100 sq. m.
  - **Large:** total space up to 21,000 sq. m., selling space (2) up to 12,500 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 budget, attributable to hypermarket
  - Population of the region
  - Competition

Notes (1) Selling space designated for leases to third parties
(2) Including selling space designated for leases to third parties

Existing hypermarkets

Location	Population	Total Space, sq. m.	Magnit Selling Space, sq. m.	Sub-Leased Space (1), sq. m.
Krasnodar	800,000	11,283	4,200	3,000
Kingisepp	52,000	6,264	2,790	445
Solnechnogorsk	57,600	11,655	4,600	2,650
Kamyshin	131,000	11,200	4,200	2,800
Bataysk	107,000	11,200	4,200	2,800
Anapa	63,000	8,270	4,550	90
Volgodonsk	178,900	10,200	4,200	2,662
Volgograd	987,000	4,787	2,400	0
Bryansk	420,000	11,200	4,200	2,800
Tambov	293,658	11,200	4,200	2,800
Saratov	900,000	11,200	4,200	2,800

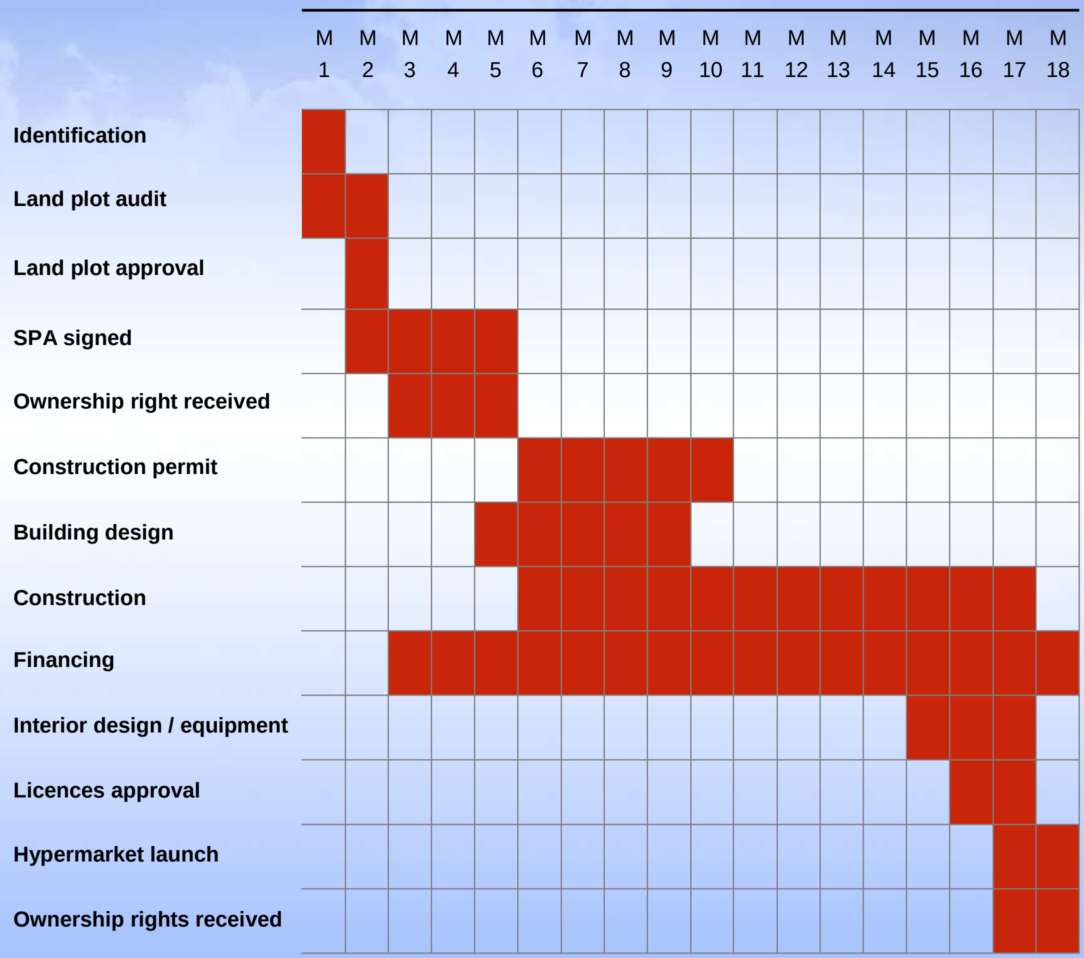


Source: Company



Typical Store Opening Process

- Key store opening criterion is payback period of not more than 6-7 years
- Average total cost of a new outlet (based on hypermarkets launched in 2007) varies between US$12.0 – 23.5 MM depending on format (excluding cost of inventory and real estate, but including US$ 1.3 – 3.1 MM cost of equipment)
- Expected store maturity pattern: 9-12 months from opening
- Capex per sq. m. (incl. land) – US$ 1,861 – 2,098 depending on format



General Overview

Target Audience

Families (30 – 60 Years Old)

Priorities

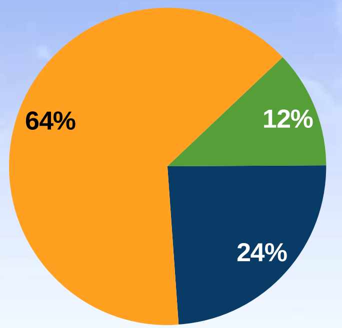
- Location
- Assortment
- Price
- Comfort

Key Features

- Time is of greater value than for other groups
- Growing car ownership
- High level of responsibility for quality of purchased food and family budget

Key Focus Areas

- Increased share of fresh dairy, semi-prepared products and ready meals
- Ensure quick shopping, avoid bottlenecks in rush hour
- One stop shopping: ATMs, pharmacies, payment of mobile phone bills, etc
- Building more parking spaces at the stores



Youth (Up to 30 Years Old)

Priorities

- Assortment
- Location
- Comfort
- Price

Key Features

- More open to western lifestyles and oriented towards modern retail formats

Key Focus Areas

- Offering product categories appealing to young audience

Shopping Motivation

Convenience Stores

- Daily fresh shopping
- First need products

Hypermarkets

- Weekly shopping

Pensioners (60+ Years Old)

Priorities

- Price
- Location
- Assortment
- Comfort

Key Features

- Shopping habits formed in Soviet time
- Conservative shoppers
- Most are low income

Key Focus Areas

- Increased offering of Private Label products to reduce prices for essential goods



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Pricing Model

Mark-Up Criteria
Overall necessity of a product
Target audience for a product
Purchasing frequency of a product
Share in consumer basket

- Price assessment for convenience stores is based on an every day product basket (bread, milk, etc…)
- Hypermarket pricing model focuses on SKUs needed on a weekly basis
- Each product category is assigned a certain mark-up
- Revised every 4 months

Mark-up for a given product

Mark-Up Adjustments
Target weighted average mark-up for the Group
Competition in the area
Geographical location (urban / rural matrix)
Seasonality

- Weighted average mark-up is established at the Group level based on the monitoring of competitors' prices for 200 key SKUs
- Mark-up monitored on a daily basis using the powerful MIS
- Revised on a bi-weekly basis
- Can be changed within several hours

Centralised matrix-based pricing system

Suppliers, Purchasing and Private Label

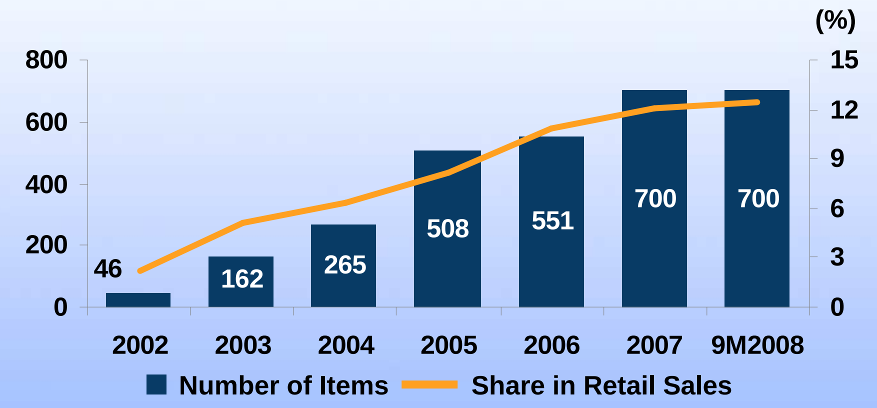
Magnit is the largest buyer for many domestic and international FMCG producers

- 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 2007 was 45 days and could be up to 60 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 metre of shelving space

- 700 private label SKUs
- Private label products accounted for 12.77% (convenience format)/5.13%(hypermarket) share of retail revenue in 9M 2008
- Approximately 85% of private label products are food
- Share of non-food products in private label is expected to increase

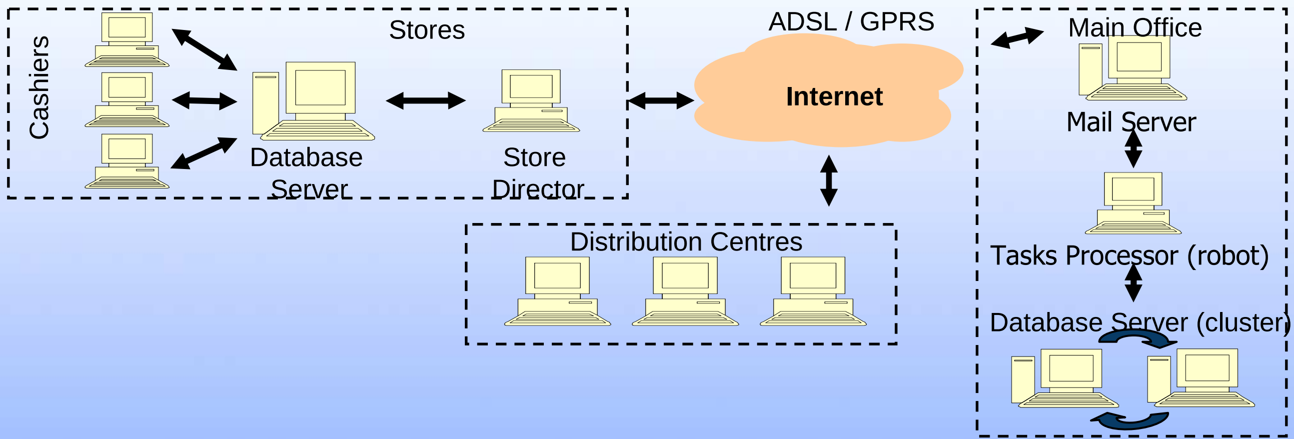
Share of Private Label Products in Revenue



Source: Company

2006-2007 IT Systems Update

- Transport management system
  - Optimal route planning
  - All cars are equipped with GPS locating systems
- Warehouse management systems
  - Introduction of WiFi operated data collection terminals
  - Warehouses are customised to work with hypermarket product traffic
- Oracle IT platform introduced to convenience store format
- New price management system introduced to both formats
- Electronic document traffic system with suppliers
- Introduction of Corporate Information System based on 1C platform



Logistics System

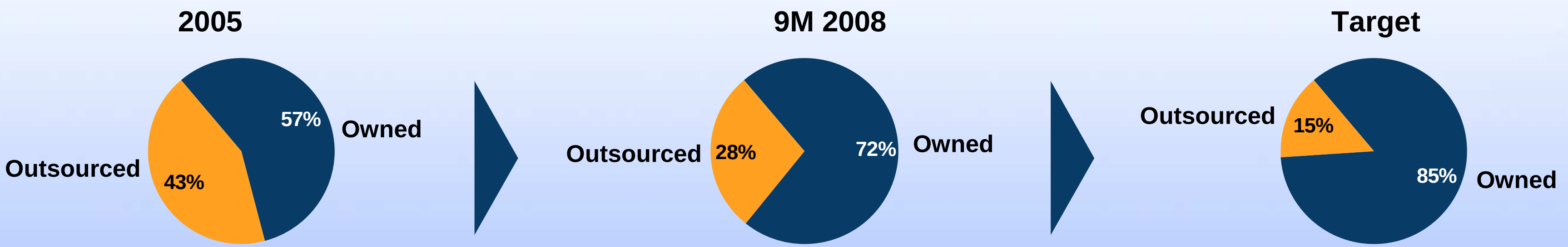
In 9M 2008 approximately 72% of COGS were distributed through the company's distribution centers and the long-term target is to increase this share up to 85%. At the moment Company's logistics system includes:

- Automated stock replenishment system
- 8 distribution centers with approximately 155,424 sq. m. capacity
- Fleet of 1,133 vehicles

City	Federal District	Warehousing Space sq.m.	Number of Serviced Stores	Leased / Owned
Bataysk	Southern	16,138	292	Owned
Kropotkin	Southern	30,048	525	Owned
Engels	Volga	19,495	348	Owned
Togliatti	Volga	8,379	255	Leased
Tver	Central	10,714	190	Owned
Oryol	Central	12,472	363	Owned
Ivanovo	Central	42,026	299	Owned
Chelyabinsk	Ural	16,152	133	Owned
Total		**155,424**	**2,405**	

Source: Company

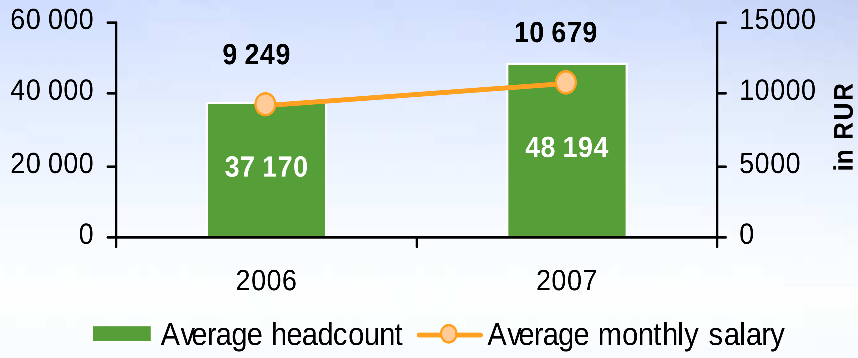
DC Processed Goods



Well trained dedicated personnel

- The **total number of employees** in the Group exceeded **57,000** as of September 2008:
  - **43,511 in-store personnel,**
  - **7,667 people engaged in distribution,**
  - **4,129 people in regional branches and**
  - **1,716 people employed by head office**
- The average age of our employees is approximately 25 years
- The gross **average monthly salary** in 2007 was RUR **10,679** 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
  - 107 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

Average number of employees vs. average salary, 2006-2007



Source: Audited IFRS Financial Statements

Financial Overview

Summary P&L

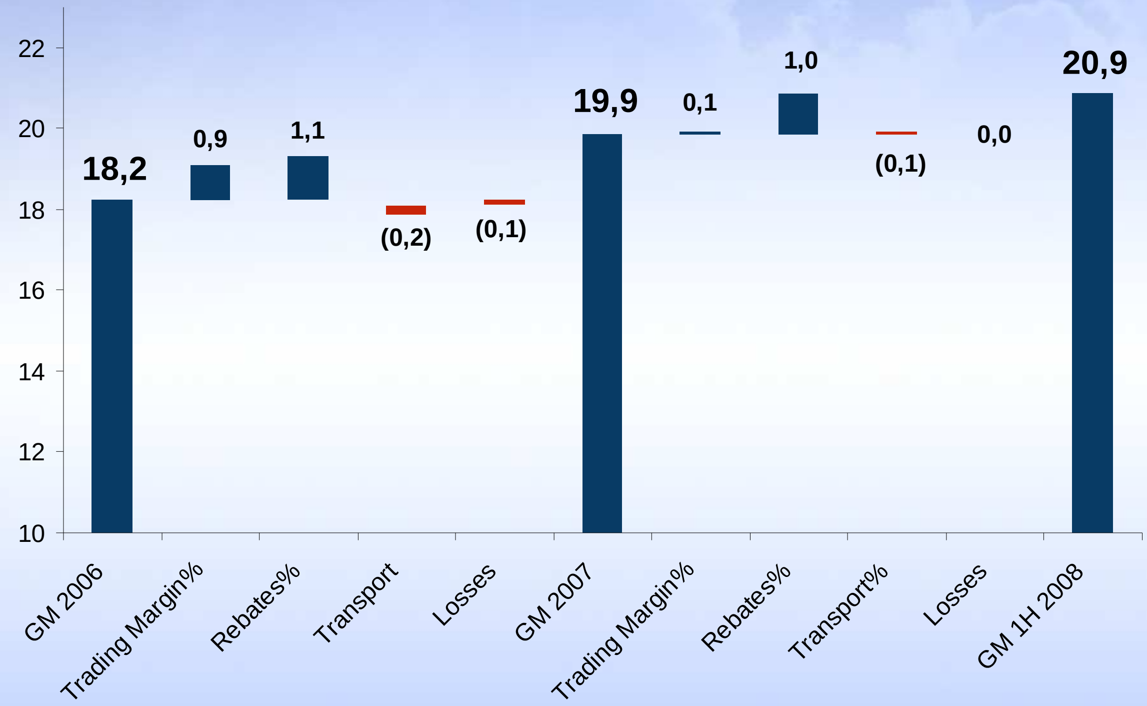
In US$ MM	2006	2007	1H2008	2007 / 2006 Y-o-Y Growth	1H08 / 1H07 Y-o-Y Growth
Net sales	**2,505.0**	**3,676.6**	**2,469.9**	46.77%	50.77%
Cost of sales	(2,048.0)	(2,946.5)	(1,954.8)	43.87%	47.00%
Gross profit	**457.0**	**730.0**	**515,1**	59.74%	67.01%
Gross margin, %	18.24%	19.86%	20.85%		
SG&A	(332.2)	(513.2)	(362.2)	54.46%	60.52%
Other income/(expense)	(1.2)	2.4	4.7		
EBITDA	**123.6**	**219.2**	**157.6**	77.40%	90.22%
EBITDA margin,%	4.93%	5.96%	6.38%		
Depreciation	(29.1)	(53.7)	(39.8)	84.50%	65.66%
EBIT	**94.5**	**165.6**	**117.8**	75.22%	100.24%
Net finance costs	(13.0)	(35.5)	(26.8)		
Profit before tax	81.5	130.1	91.0		
Taxes	(23.5)	(32.7)	25.1		
Effective tax rate	28.85%	25.15%	27.55%		
Net income	**58.0**	**97.4**	**65.9**	68.02%	75.34%
Net margin, %	2.31%	2.65%	2.67%		



Source: IFRS accounts

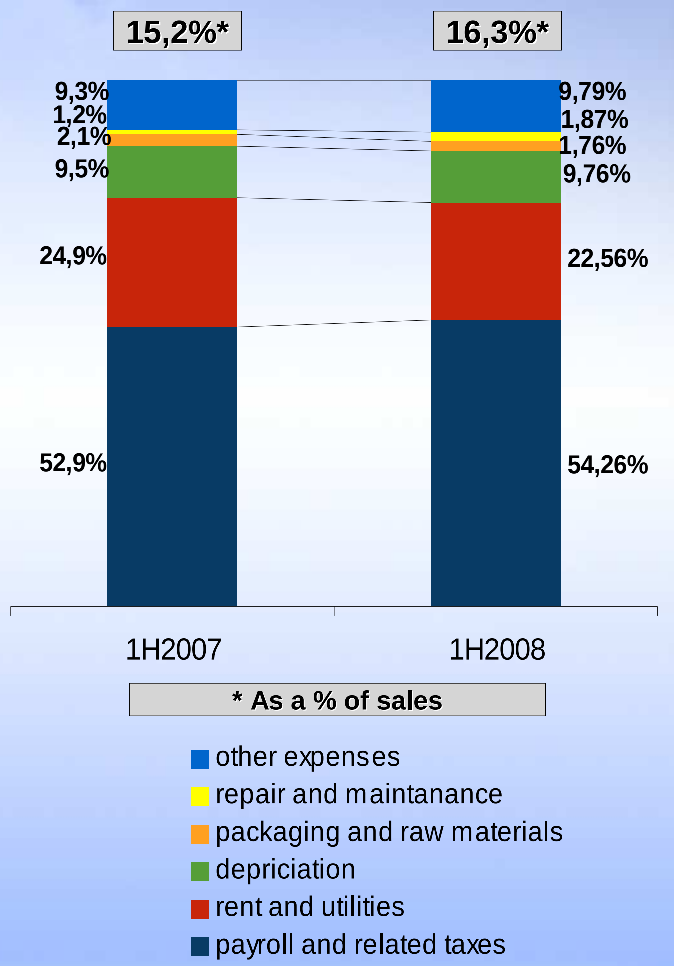
Gross Margin Bridge / SG&A Expense Structure

Gross Margin Bridge



As % of Sales

SG&A Expense Structure

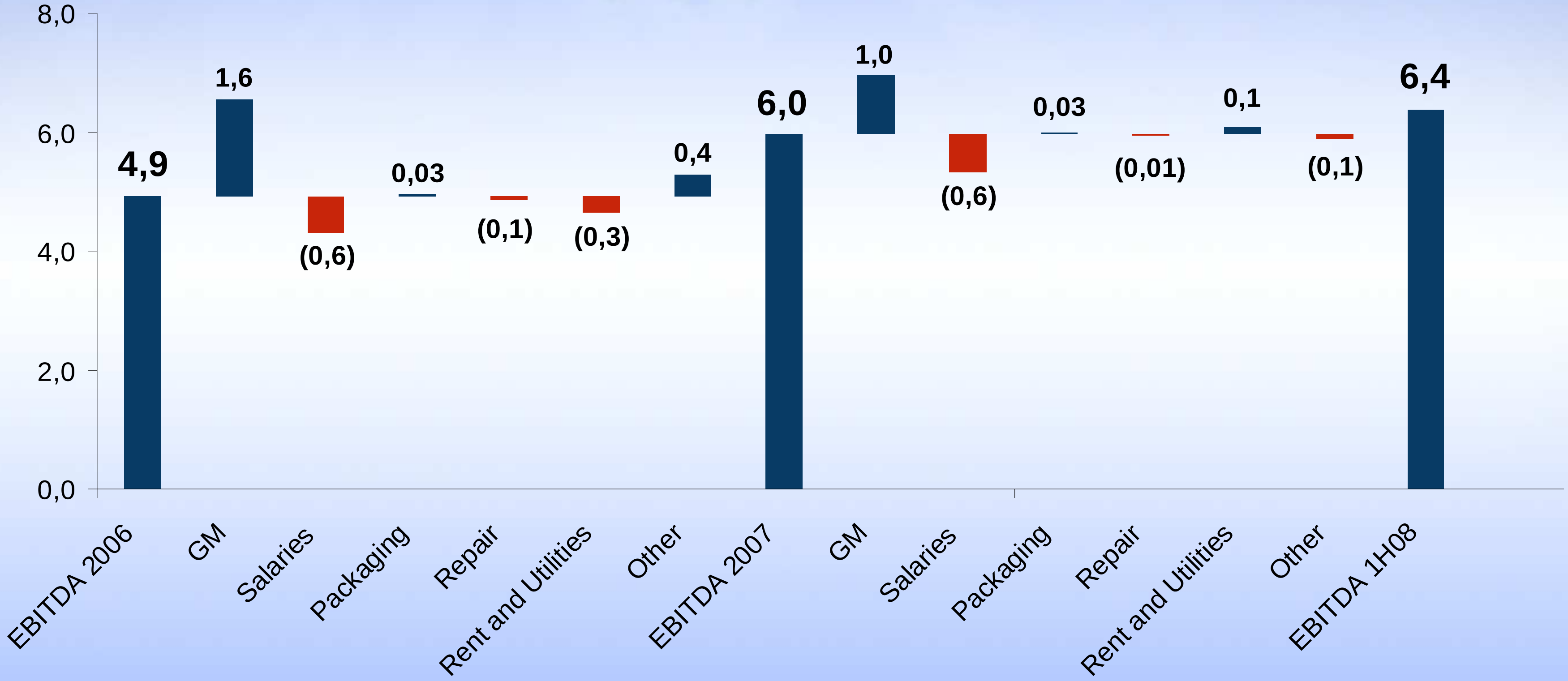


Source: Company, IFRS accounts

EBITDA Bridge

EBITDA Bridge

As % of Sales



Source: Company, IFRS accounts

Balance Sheet

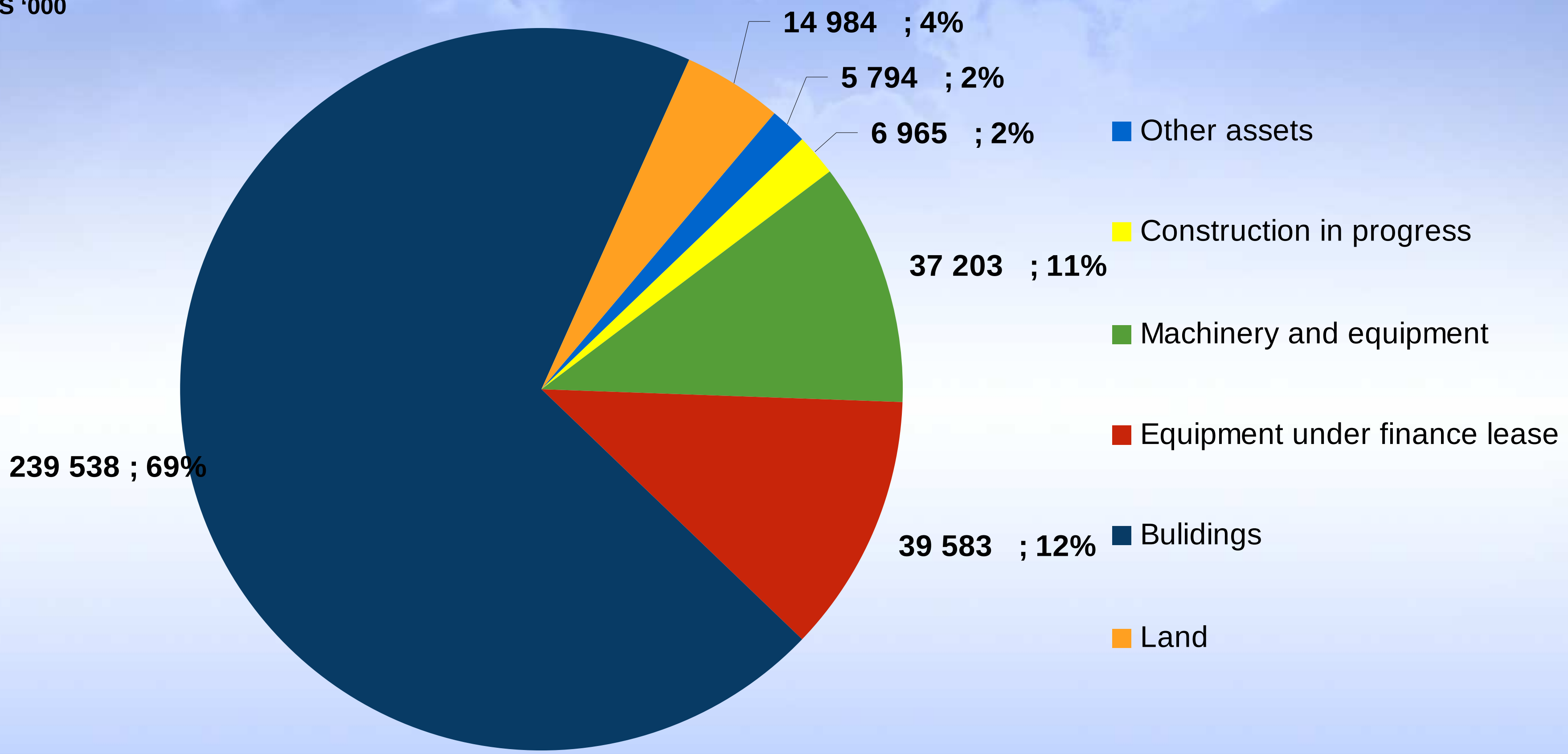
’000 US$	2006	2007	1H2008
ASSETS			
Property plant and equipment	468,401	1,074,248	1,433,312
Other non-current assets	1,487	1,330	2,024
Cash and cash equivalents	89,789	120,959	74,867
Trade accounts receivable	5,344	2,415	1,732
Merchandise	247,466	330,409	355,191
Other current assets	77,717	90,659	124,051
TOTAL ASSETS	**890,204**	**1,620,020**	**1,991,177**
EQUITY AND LIABILITIES			
Equity	305,239	428,347	980,364
Long-term debt	89,346	183,444	207,172
Other long-term liabilities	14,714	15,811	19,268
Trade accounts payable	281,401	437,643	463,388
Short-term debt	167,135	509,190	240,119
Other current liabilities	32,369	45,585	80,866
TOTAL EQUITY AND LIABILITIES	**890,204**	**1,620,020**	**1,991,177**



Source: IFRS accounts

1H 2008 Capex (1) Analysis

US '000



Total as of June 30, 2008: **$344 mn**

Source: IFRS accounts

Notes (1) Capex calculated as additions + transfers of PP&E in each period

Cash Flow Statement

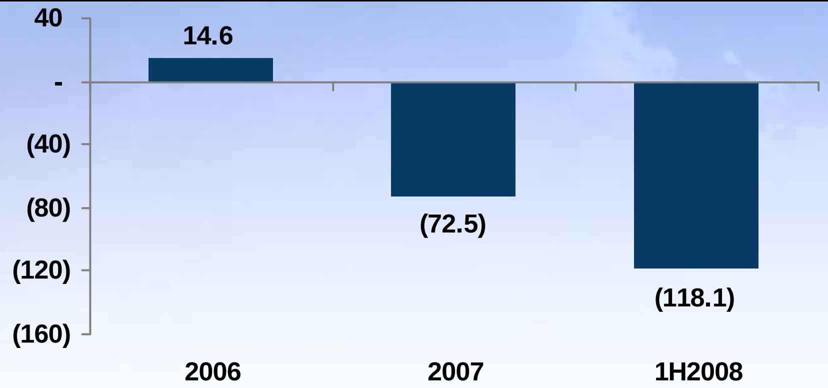
'000 US$	2006	2007	1H2008
OPERATING ACTIVITIES:			
Operating profit before movements in working capital	124,785	219,054	158,227
Net cash generated from operating activities	85,983	242,355	153,319
INVESTING ACTIVITIES:			
Net Cash used in investing activities	(301,552)	(568,698)	(346,520)
FINANCING ACTIVITIES:			
Net cash generated from financing activities	258,712	354,832	143,555
Net increase in cash and cash equivalents	43,143	28,489	46,092
Cash and cash equivalents, end of period	89,789	120,959	74,867



Source: IFRS accounts

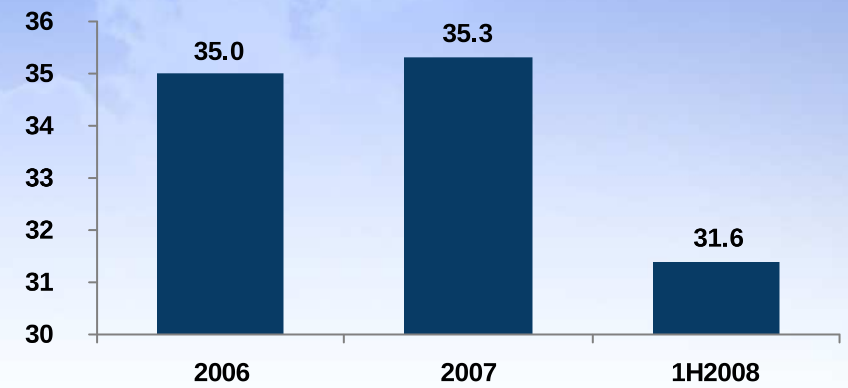
Working Capital Analysis

Working Capital (1)



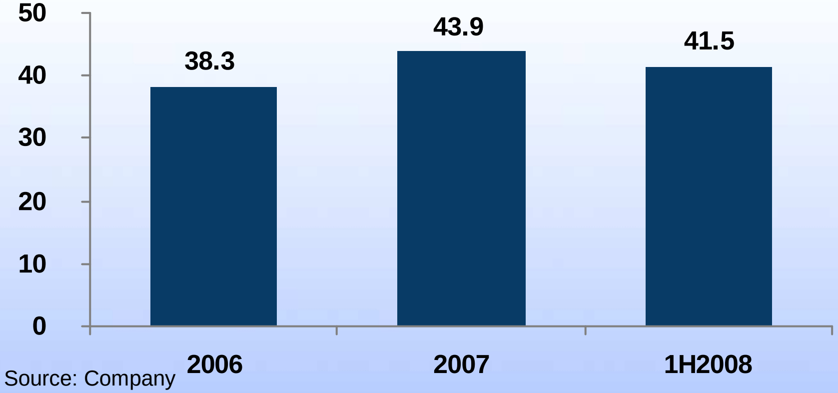
Source: Company

Inventory Management Days (2)



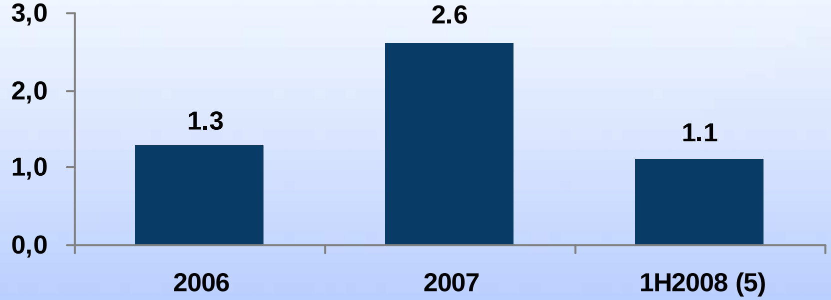
Source: Company

Trade Accounts Payable Days (3)



Source: Company

Net Debt (4)/ EBITDA

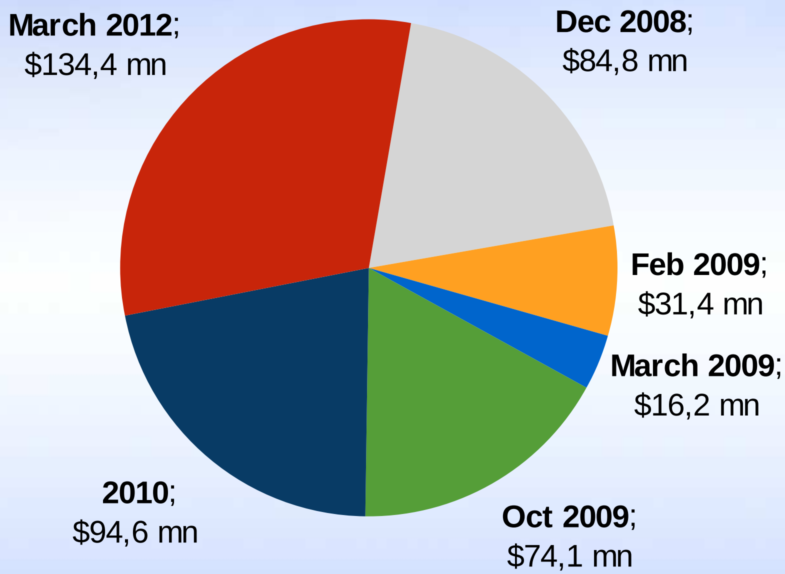


Source: Company, IFRS accounts

Notes: (1) Current assets (less C&CE and short-term investments) – current liabilities (less short-term debt)
(2) 2006-2007: 360 / (Cost of sales/year average inventory), 1H2008: 180 / (Cost of sales/half year average inventory)
(3) 2006-2007: 360 / (Cost of sales/year average trade accounts payable), 1H2008: 180 / (Cost of sales/half year average trade accounts payable)
(4) Net debt = long / short-term bonds and borrowings + finance lease liabilities – cash and cash equivalents
(5) Company's estimates

Debt Structure

Debt Maturity Profile



TOTAL as of November 18, 2008 **$435,5 MN**

Note: excl. financial leasing; calculated as 27Rub/$

- All debt obligations of the Company are ruble denominated
- Loans are granted by Sberbank, BSGV, Unicredit Bank

Financial Leasing Payments*, US$ mn

2008	3,96
2009	25,47
2010	23,39
2011	14,50
2012	1,21
Total	**68,54**

* Payments are equally scheduled monthly

Summary Conclusions

Summary Conclusions

- **Leading Russian retailer:** broadest geographic coverage with 2,405 stores (as of 30 September 2008) in more than 796 cities in five out of seven 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, 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 debt and equity raisings

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