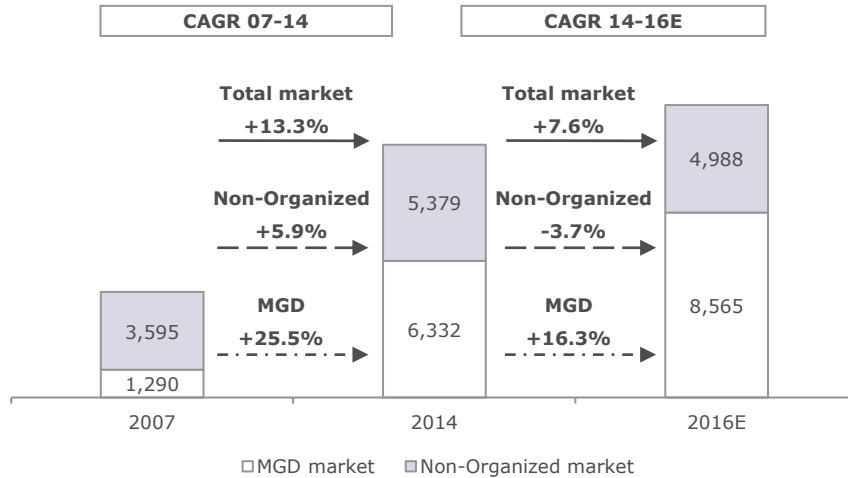




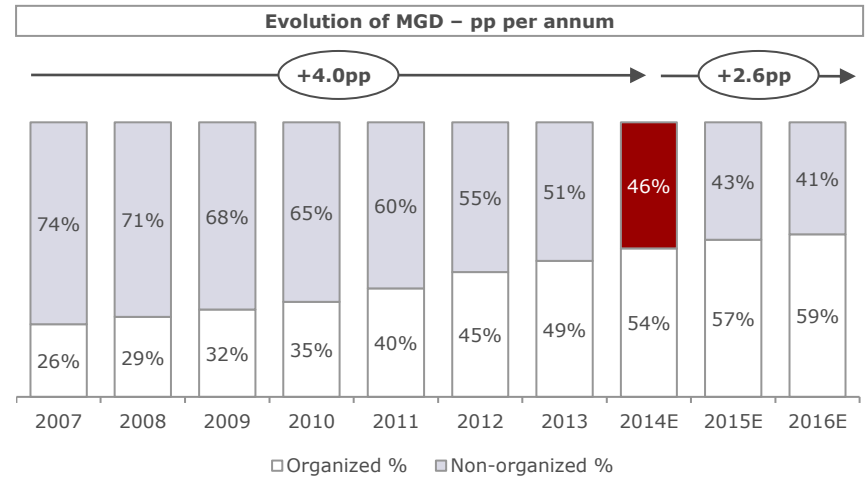
## Russian Food Retail Market Overview

# Accelerated MGD Growth

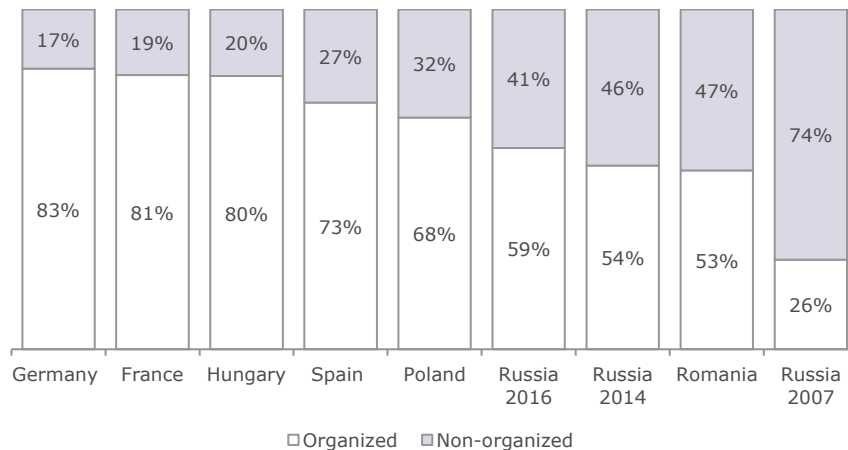
Organized vs. traditional retailers – market evolution 2007-2016E – RUR bn



Organized vs. traditional retailers – market evolution 2007-2016F – %



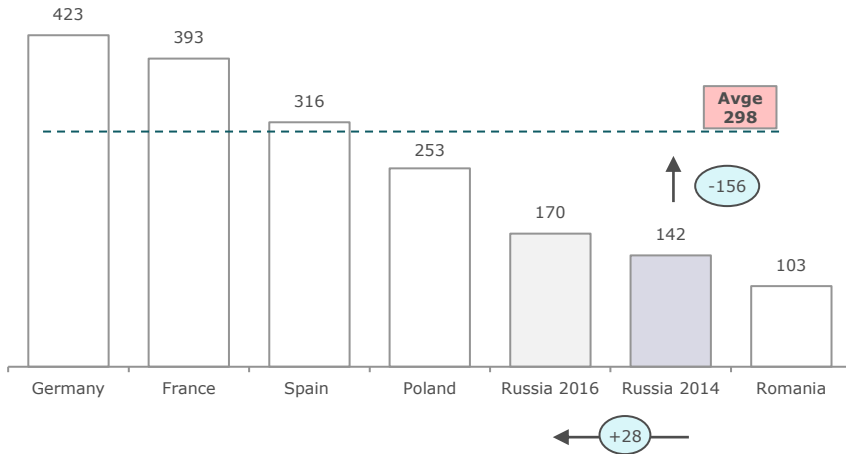
Organized vs. traditional retailers market – benchmark



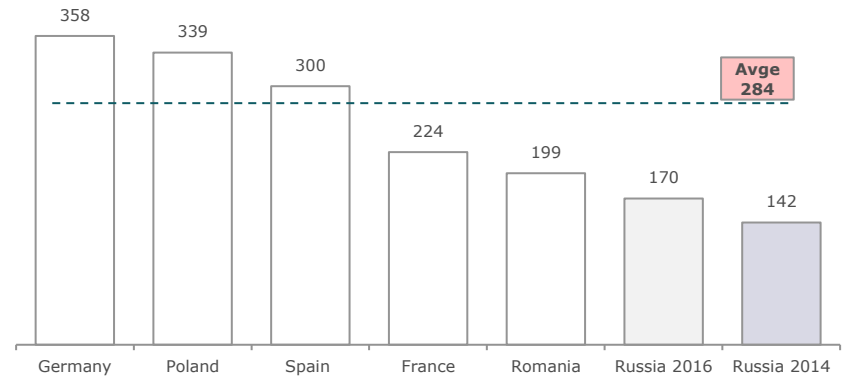
- **MGD market has been progressing at an accelerated pace** during the last years (**25.5% CAGR 2007-2014 vs. 13.3%** of the **total food retail market**), based on:
  - **Shift from traditionals** (which have reduced their participation in the market from **74% in 2007 to 54% in 2014**). The **decline of the share of traditionals in 2014** (c.5pp) is one of the reasons **supporting double digit LFL sales of organized players** (despite the market only growing by 10%).
  - **Accelerated expansion pace imposed by leading retailers** (especially Top5 and proximity players).
- While there is **still space for further decline of non-organized players**, Russia is approaching CEE peers and thus we envisage a **slowdown on the MS reductions of traditionals** (2.6pp per annum 2015-2016 vs. 4pp in 2007-2014).

# A benign competitive situation – Market still underpenetrated

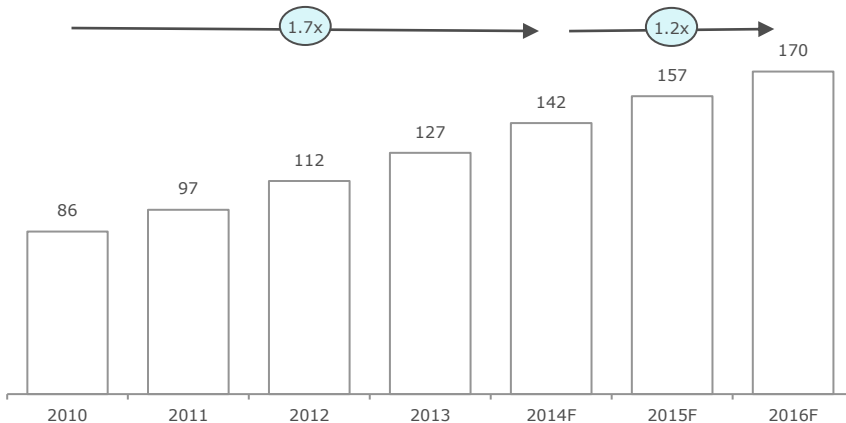
SQM per 1,000 inhabitants – Benchmark – 2013(\*)



SQM per 1,000 inhabitants – Grocery pc adjusted benchmark – 2013(\*)



Russia – SQM per 1,000 inhabitants – evolution 2010-2016



- **Despite the strong progression of the MGD sqm density (+1.7x in the period 2010-2014) Russia still lags behind the average of our benchmark** (both in nominal and adjusted terms) being also below top CEE peers (Poland and Rumania).
- This fact indicates that **competitive pressures are still moderate in the Country** and will **keep increasing** in the next years.

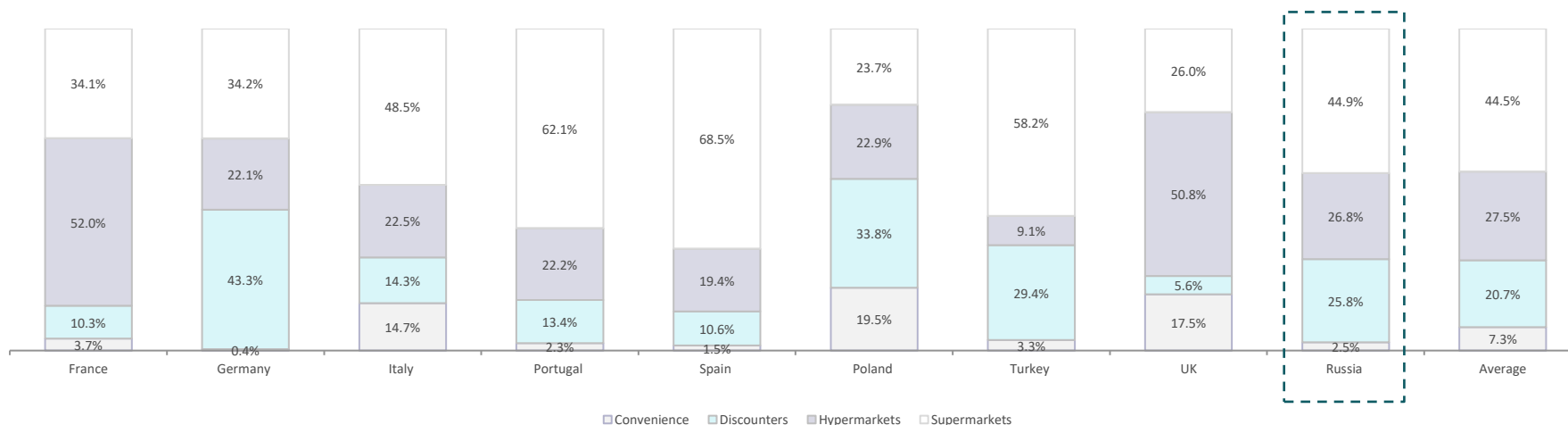
Note: (\*): Average excluding Russia.

# Food retail segments – international benchmark

In line with most Western countries, supermarkets in Russia have the highest share of sales of the market. However, it is worth noting that Russia also has one of the highest shares of discounters (only below Germany, Poland and Turkey)

% market share by segments in sales – international benchmark – 2013 (\*)

	France	Germany	Italy	Portugal	Spain	Poland	Turkey	UK	Russia	Average
Convenience	3.7%	0.4%	14.7%	2.3%	1.5%	19.5%	3.3%	17.5%	2.5%	<b>7.3%</b>
Discounters	10.3%	43.3%	14.3%	13.4%	10.6%	33.8%	29.4%	5.6%	25.8%	<b>20.7%</b>
Hypermarkets	52.0%	22.1%	22.5%	22.2%	19.4%	22.9%	9.1%	50.8%	26.8%	<b>27.5%</b>
Supermarkets	34.1%	34.2%	48.5%	62.1%	68.5%	23.7%	58.2%	26.0%	44.9%	<b>44.5%</b>
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



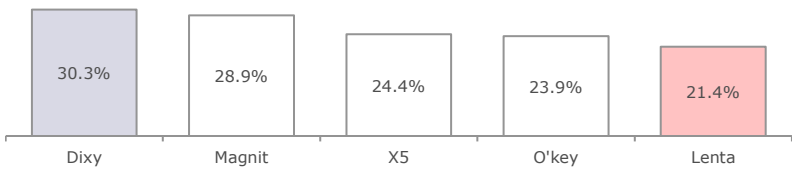
Note (\*): Discounters (Magnit, Dixy, Pyaterochka, Monetka, Holdi...), Convenience (Perekrestok Express, Krasnoe & Beloe...).

# High margins in the sector

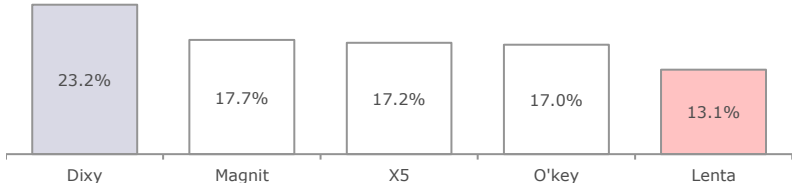
	Benchmark	Russia	Dif. pp
GM	24.1%	27%	+2.9pp
Opex	17.5%	17.8%	+0.3pp
EBITDAR	9%	12.6%	+3.6pp
EBITDA	6.4%	9.2%	+2.8pp

**The still benign competitive situation** allows Russian retailers to **operate with higher EBITDA margins** supported by **higher GM and same OPEX structure** (despite the lower average salaries) compared to Western retailers

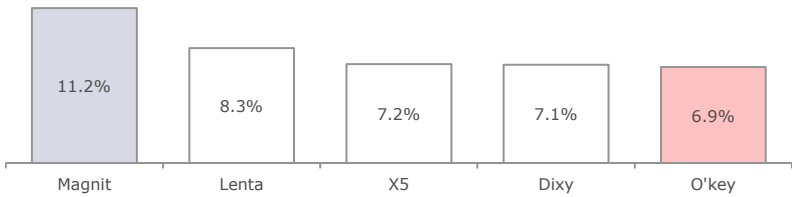
**GM benchmark – % sales – 2014(\*)**



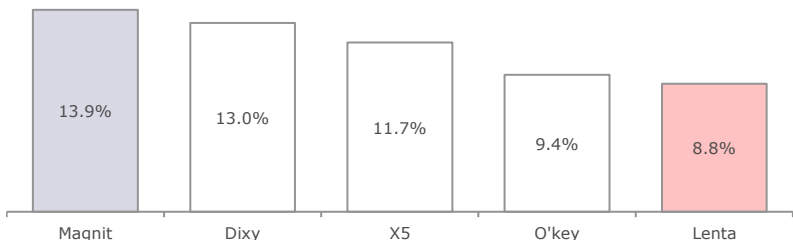
**OPEX benchmark – % sales – 2014(\*)**



**EBITDA margin benchmark – % sales – 2014(\*)**



**EBITDAR margin benchmark – % sales – 2014(\*)**



Note: (\*): Magnit: Full year 2014; X5, Dixy and Okey: 9M2014; Lenta: 6M2014

## However, the sector is not increasing its profitability

Top players continue to compensate higher OPEX with GM increases while EBITDA margins remain virtually flat

Average financials of listed Russian food retail companies – 2012-2014\*

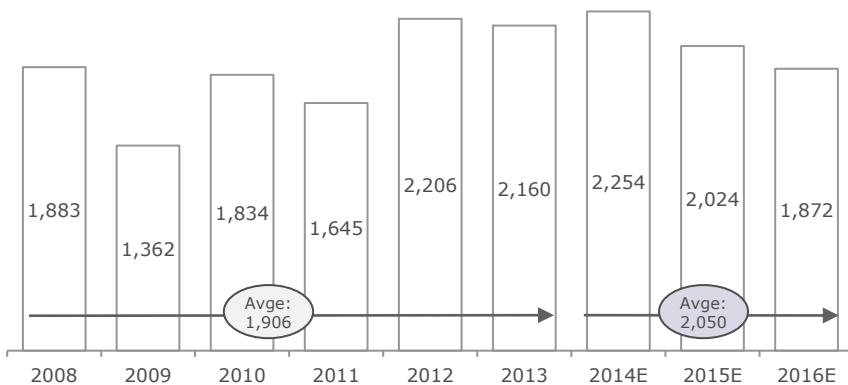
	2012	2014*	Dif. pp
GM	25.9%	27%	+1.1pp
Opex	17%	17.8%	+0.8pp
EBITDAR	12.4%**	12.6%	+0.2pp
EBITDA	8.9%	9.2%	+0.3pp

Note: (\*): Magnit: Full year 2014; X5, Dixy and Okey: 9M2014; Lenta: 6M2014

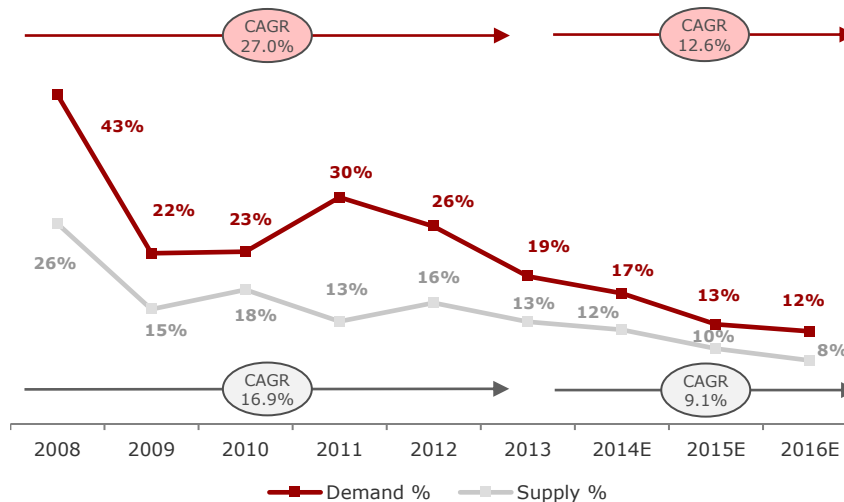
Note (\*\*): Not taking into account X5

# Supply demand balance starting to be unfavourable

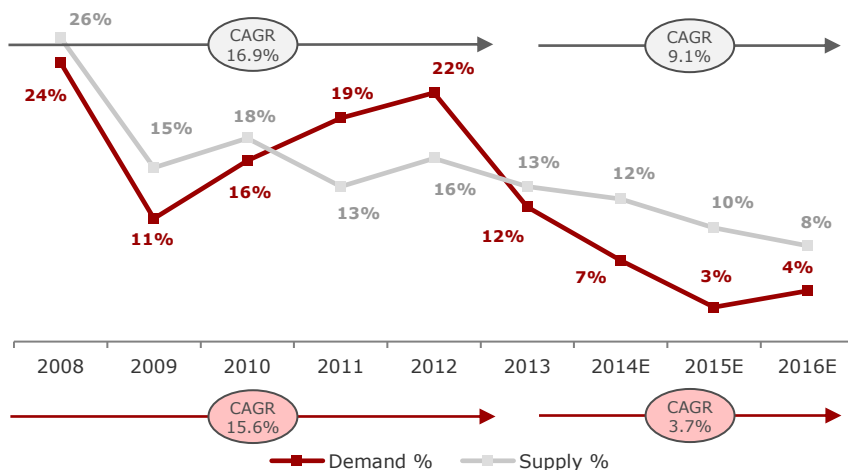
New openings of MGD sqm - 2008-2016E - sqm th



Supply and demand analysis - 2008-2016E evolution - % nominal terms















Supply and demand analysis - 2008-2016E evolution - % constant prices



- Demand in nominal terms has been progressing significantly above supply in 2008-2013 (27% CAGR vs. 16.9%) despite the strong opening pace of MGD players (c.1.9 mn of new sqm p.a).
- We envisage this trend will continue in the next two years but with a narrower gap, due to a decline in the growth of the food retail market, the slowdown of the shift from traditional and the still strong opening pace of modern players.
- However, in real terms (excluding inflation), supply and demand had been balanced until 2013 and started to diverge in 2014: in the period 2014-2016 supply will be progressing above demand in real terms indicating declining LFL volumes, which will affect the weakest and least price oriented retailers.

# Differentiation factors in food retail – Russia vs. Western Europe

	LOW	Importance as a differentiation driver	HIGH	Benchmark
Price		 		<ul style="list-style-type: none"> <li>Price is a <b>key element of competition</b>, a <b>'must' to survive in the long term</b> and has to be <b>consistent with the value proposal</b> of the Company. However, <b>except in HD, it is not a differentiation factor</b>.</li> </ul>
Private Label				<ul style="list-style-type: none"> <li>PL is substantially underdeveloped in Russia both in penetration and quality terms.</li> </ul>
Fresh produce				<ul style="list-style-type: none"> <li><b>Fresh is a key element of differentiation</b> (especially for proximity players). <b>In Russia</b>, given the overall low level of quality and poor execution, <b>it becomes even more important</b>.</li> </ul>
Rest of assortment				<ul style="list-style-type: none"> <li>In <b>Russia the proper development of certain categories (Health and Beauty)</b> can be <b>substantially differential</b>.</li> </ul>
In-store ambiance				<ul style="list-style-type: none"> <li><b>Lay-out, decoration and other elements of the in-store ambiance</b> are currently a <b>differentiation factor in Russia</b>.</li> </ul>
Others: loyalty, additional services...				<ul style="list-style-type: none"> <li><b>Loyalty schemes are quasi-commodities in WE</b> (with few exceptions). <b>In Russia a good and innovative system can create some additional differentiation</b>.</li> </ul>

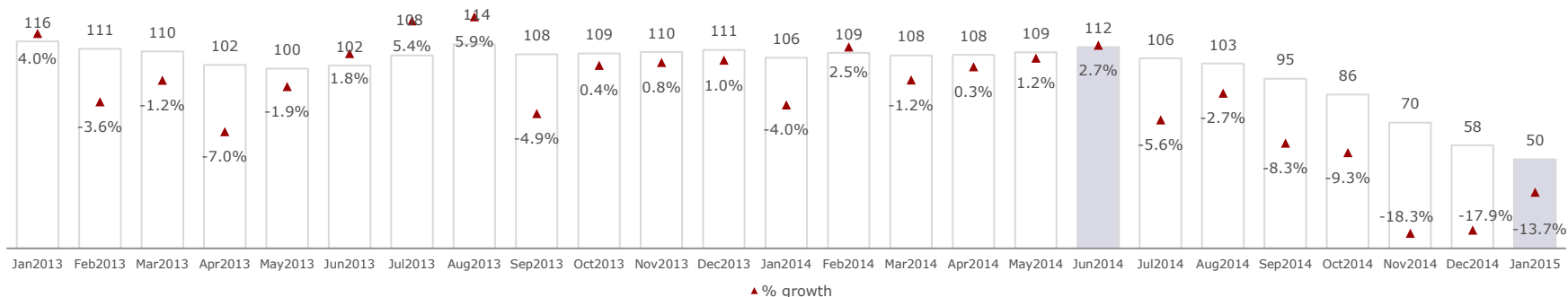
In the current state-of-the art of the retail segment in Russia, there are two differentiation drivers with significantly higher importance than in more developed markets: Private Label and in-store ambiance (shopping experience). However, value proposals in Russia remain undifferentiated.



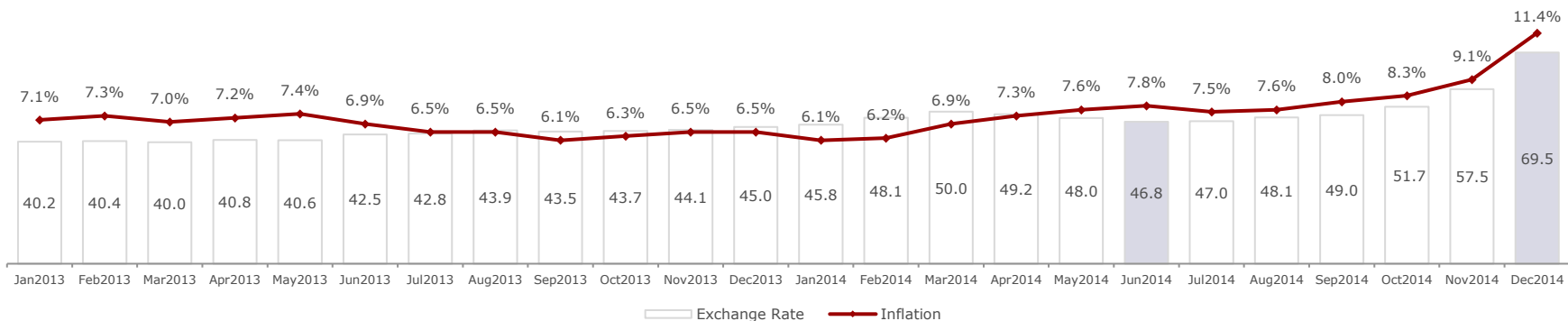
# Oil prices and currency exchange rate

The combination of the impact of the ban on EU food imports and the plunge of the oil price (Brent barrel has dropped by 55% in January 2015 vs. June 2014) have provoked a strong depreciation of the Ruble (-50% in December 2014 vs. June) which has pushed CPI up to 11.4% YoY in December

Brent Oil Historic data, USD/bbl. – 2013 and 2014



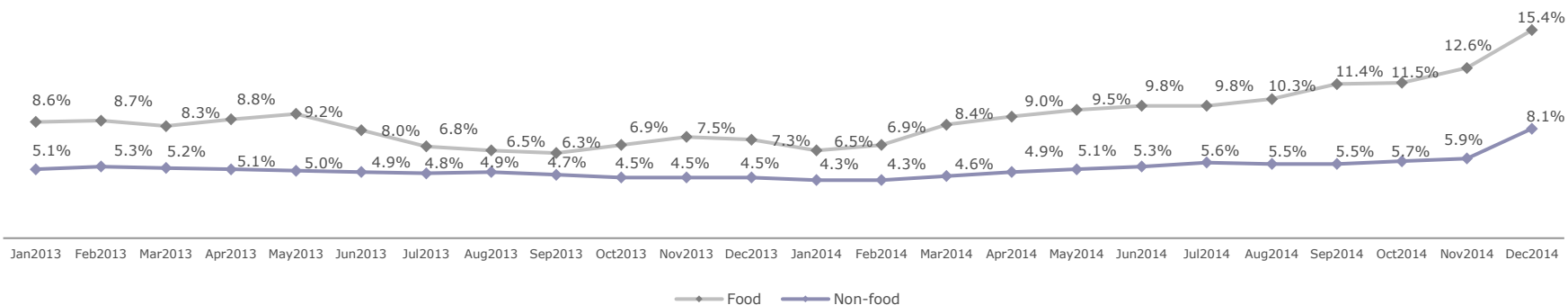
Average exchange rate EUR-RUR vs. Inflation – 2013 and 2014



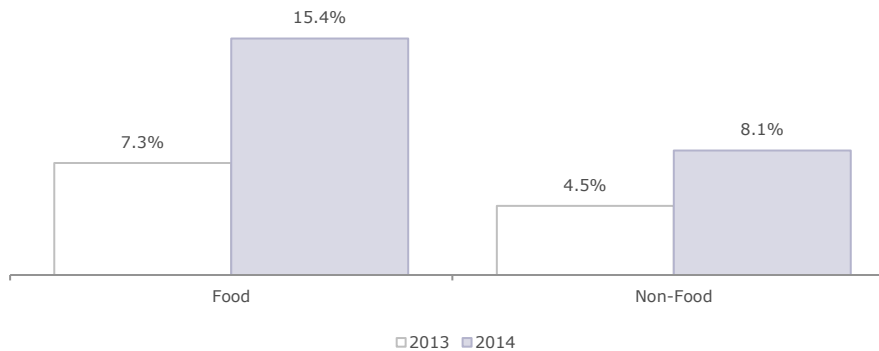
# Inflation in Russia – Food and Non-Food

The inflationary impact has been very strong in food: 15.4% YoY in December 2014 compared to 7.3% in December 2013

Inflation in Russia – Food and Non-Food – In % to the corresponding period of the previous year



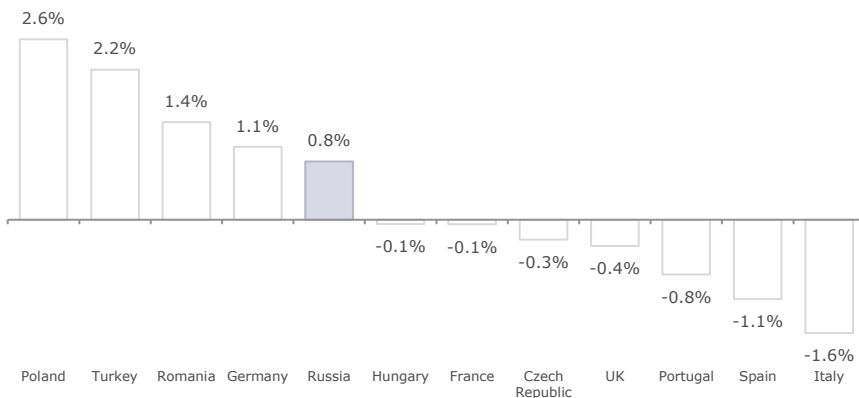
Food and Non-Food inflation in Russia – 2013-2014 – In % to December of the previous year



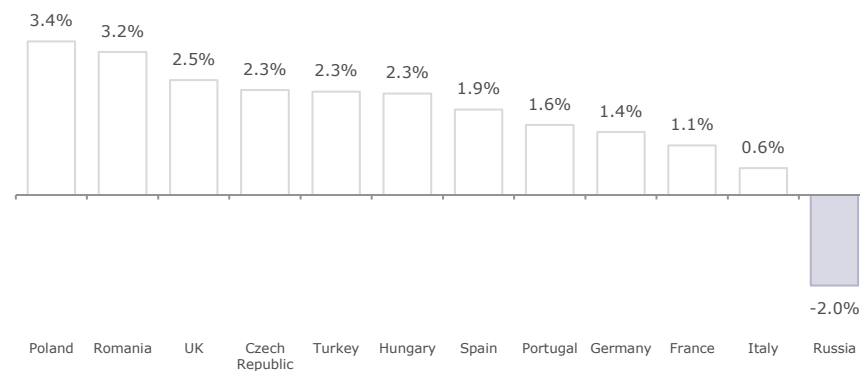
# GDP per capita – recent evolution and prospects

The current political and economic situation has substantially damaged the GDP prospects: according to IMF, between 2014-2016F the Russian GDP per capita will show a significant slowdown (CAGR -2% 2015-2016 compared to 3-4% in the period 2010-2013)

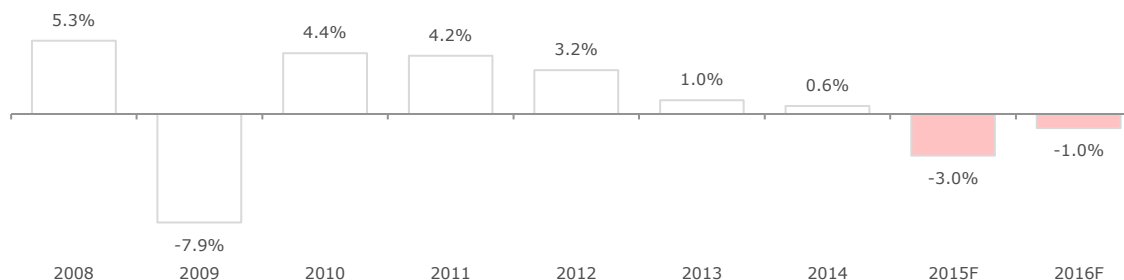
GDP per capita evolution – 2008-2014 CAGR – Constant prices – Benchmark (\*)



GDP per capita evolution – 2014-2016F CAGR – Constant prices – Benchmark (\*)



Evolution of Russian GDP per capita – 2008-2016F – Constant prices (\*)



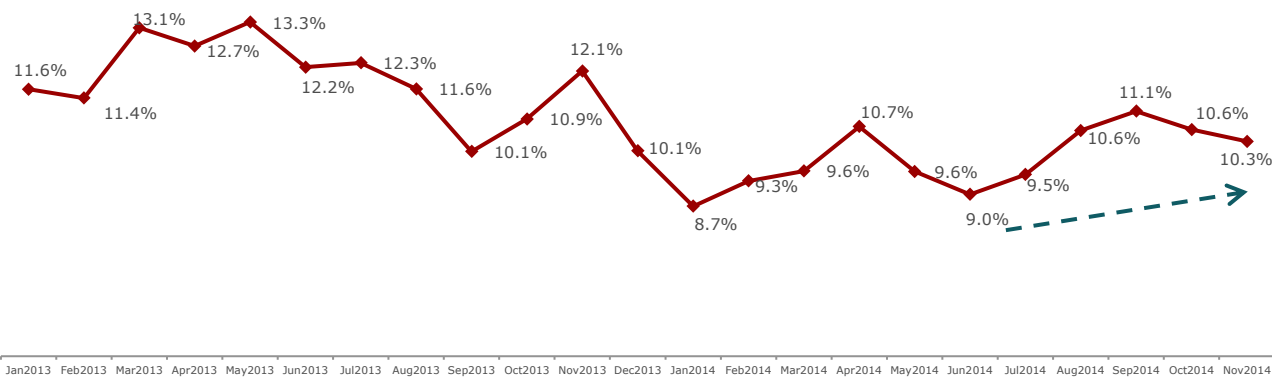
Note (\*): GDP per capita in national currency.

Note: Data for Germany, Russia, France, UK, Spain and Italy for the period of 2014-2016 from IMF January 2015

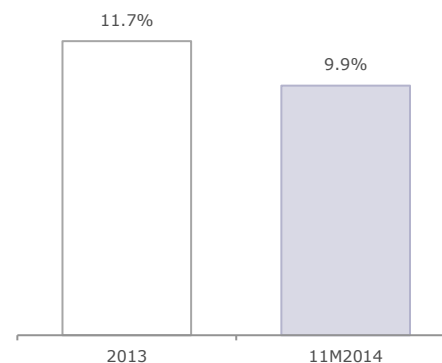
# Consumption in Russia

Both food and non-food markets are performing strongly, however, it seems that the devaluation of the Ruble has initially impacted more favorably non-food due to the anticipation of consumers to the loss of value of their savings

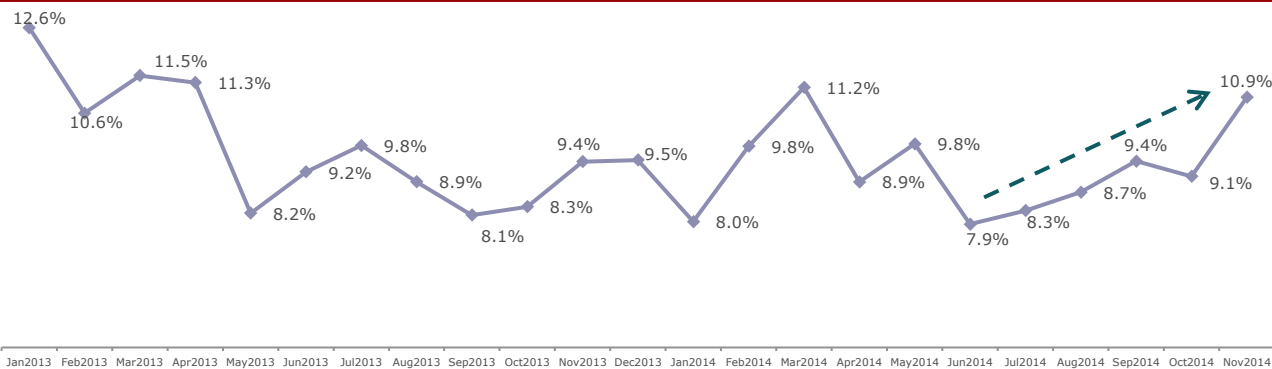
Consumption – Food – YoY growth, % – 2013 and 2014



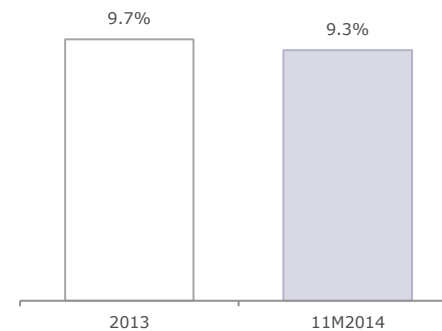
Food consumption – Average growth, %



Consumption – Non-Food – YoY growth, % – 2013 and 2014



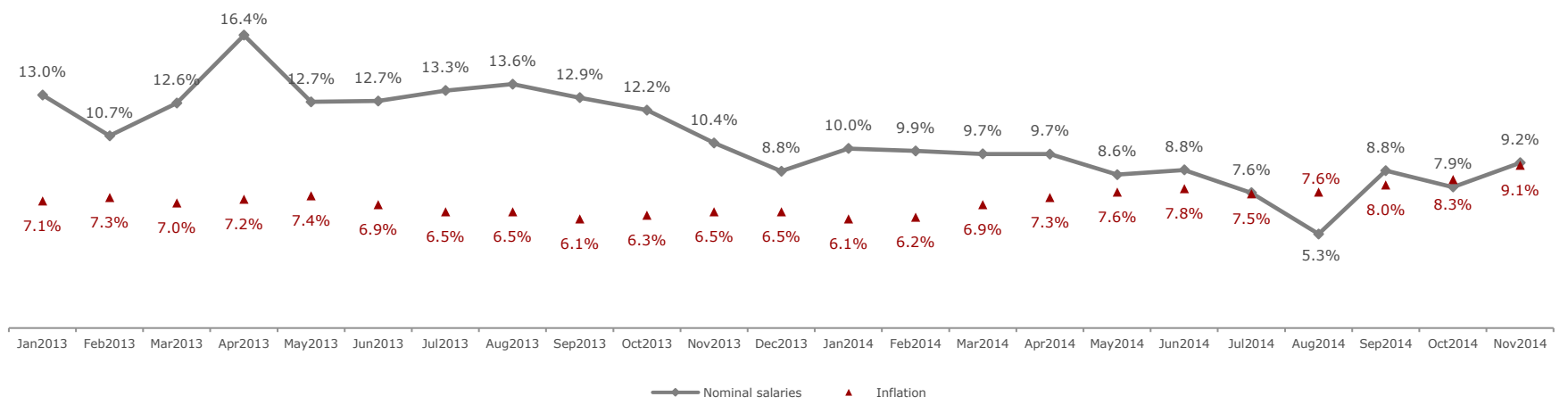
Non-Food consumption – Average growth, %



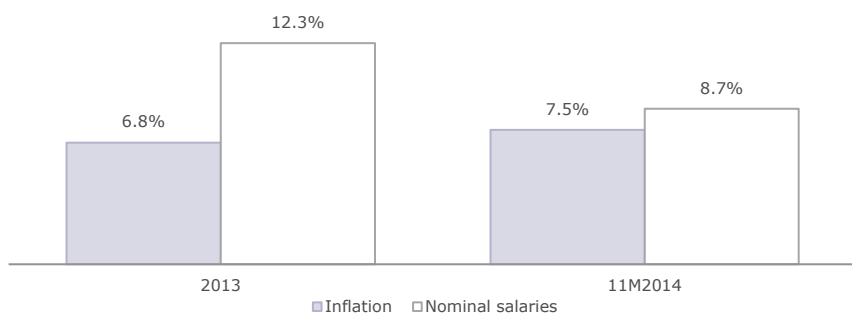
# Nominal salaries vs. inflation

**Nominal salaries have been progressing above inflation during 2012 and the first half of 2014. Currently they are growing in line or slightly below CPI indicating that households have stopped gaining purchasing power**

**Inflation in Russia and nominal salaries evolution – YoY %**

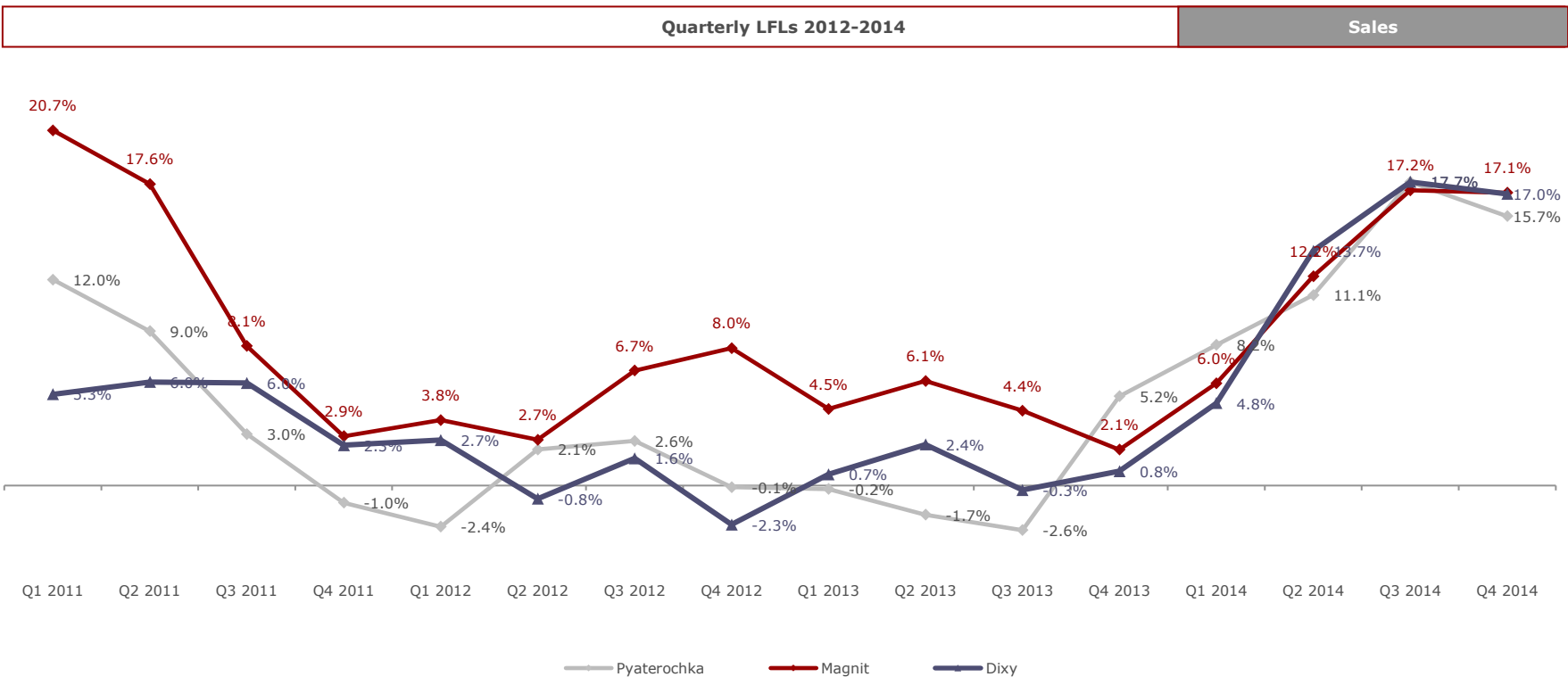


**Inflation in Russia and nominal salaries evolution – average %**



# High inflation is equaling proximity retailers performance

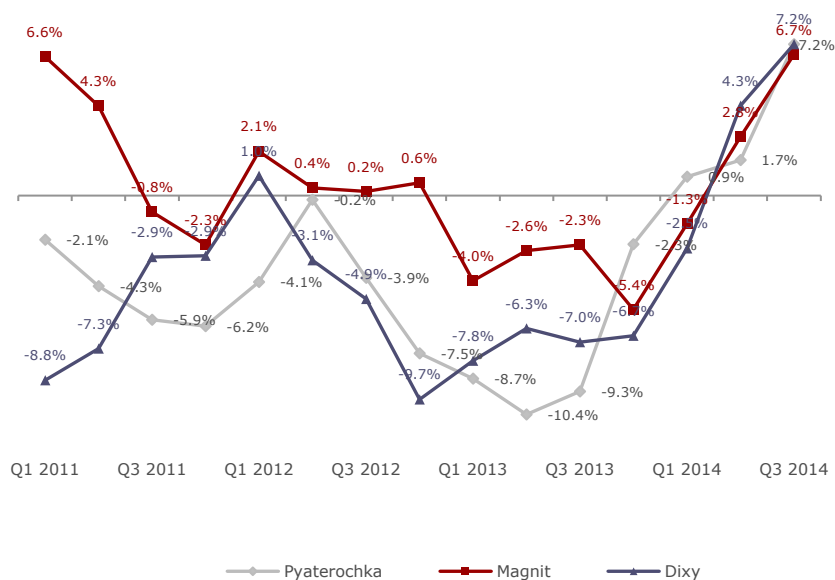
While in 2011-2013 Dixy and Pyaterochka were massively underperforming Magnit's LFLs, current economic situation and high food inflation are boosting sales of proximity players. This fact was not seen in 2011 where FPI also reached double digit figures.



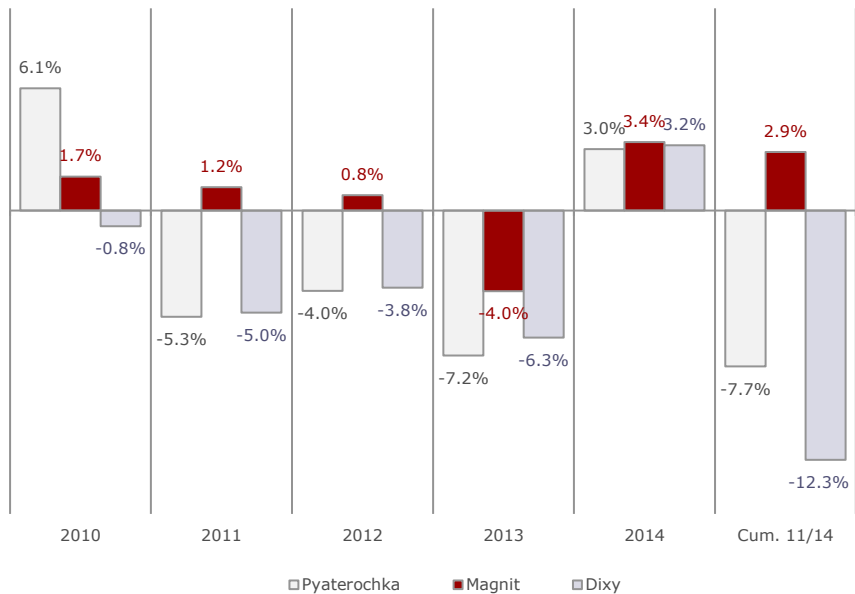
# Volumes are positive for first time in the last 5 years

Top proximity players have posted positive volumes in 2014 for the first time (except for Magnit) in the last 5 years. In the period 2011-2014 only Magnit gained volumes while Pyaterochka (-7.7%) and Dixy (-12.3%) performed negatively

Quarterly LFL volumes 2013-2014 – proximity players



Quarterly LFL volumes 2010-2014 – proximity players



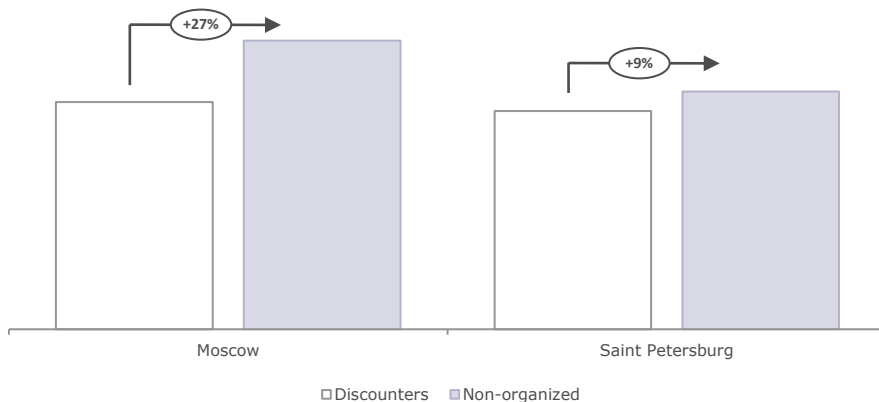
Volumes: Sales growth ex-food inflation

# Magnit remains the price leader in the market

According to BofA, when considering the total basket, Magnit is the cheapest player amongst Russian discounters, in both Moscow and Saint Petersburg. However, while the Company enjoys a substantially higher price advantage in the capital, both Pyaterochka and Dixy show a similar price level in Saint Petersburg

Discounters	Moscow				Saint Petersburg			
	Magnit	Dixy	Pyaterochka	Non-organized	Magnit	Pyaterochka	Dixy	Non-organized
Basic basket	0%	17%	12%	33%	1%	4%	0%	20%
Fresh basket	0%	24%	37%	58%	12%	50%	0%	23%
Non-food basket	0%	12%	4%	15%	0%	15%	31%	33%
Value-adding basket	0%	9%	14%	46%	21%	0%	24%	15%
<b>Total basket</b>	<b>0%</b>	<b>14%</b>	<b>15%</b>	<b>39%</b>	<b>0%</b>	<b>1%</b>	<b>2%</b>	<b>10%</b>

Price gap between organized and non-organized discounters – Moscow and St P



There is a **strong price disadvantage of non-organized retailers** which **anticipates further decline of this segment** during the foreseeable economic downturn in the next years

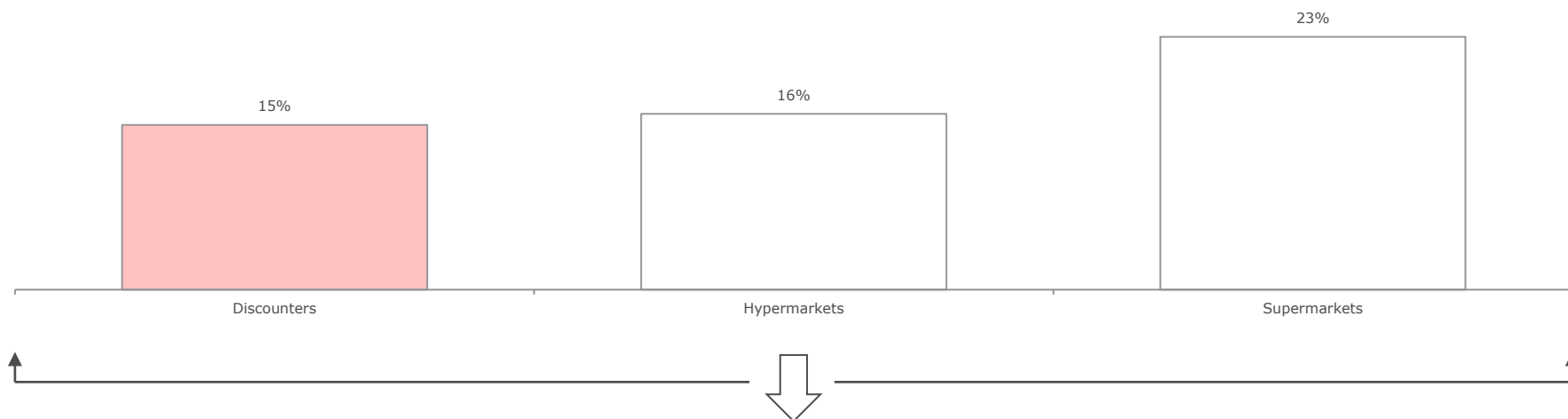
Note: The tables represent a summary of relative basket prices for each format (discounter, hypermarket and supermarket) in 4Q14. 0% is the cheapest product offered which was used as a base.



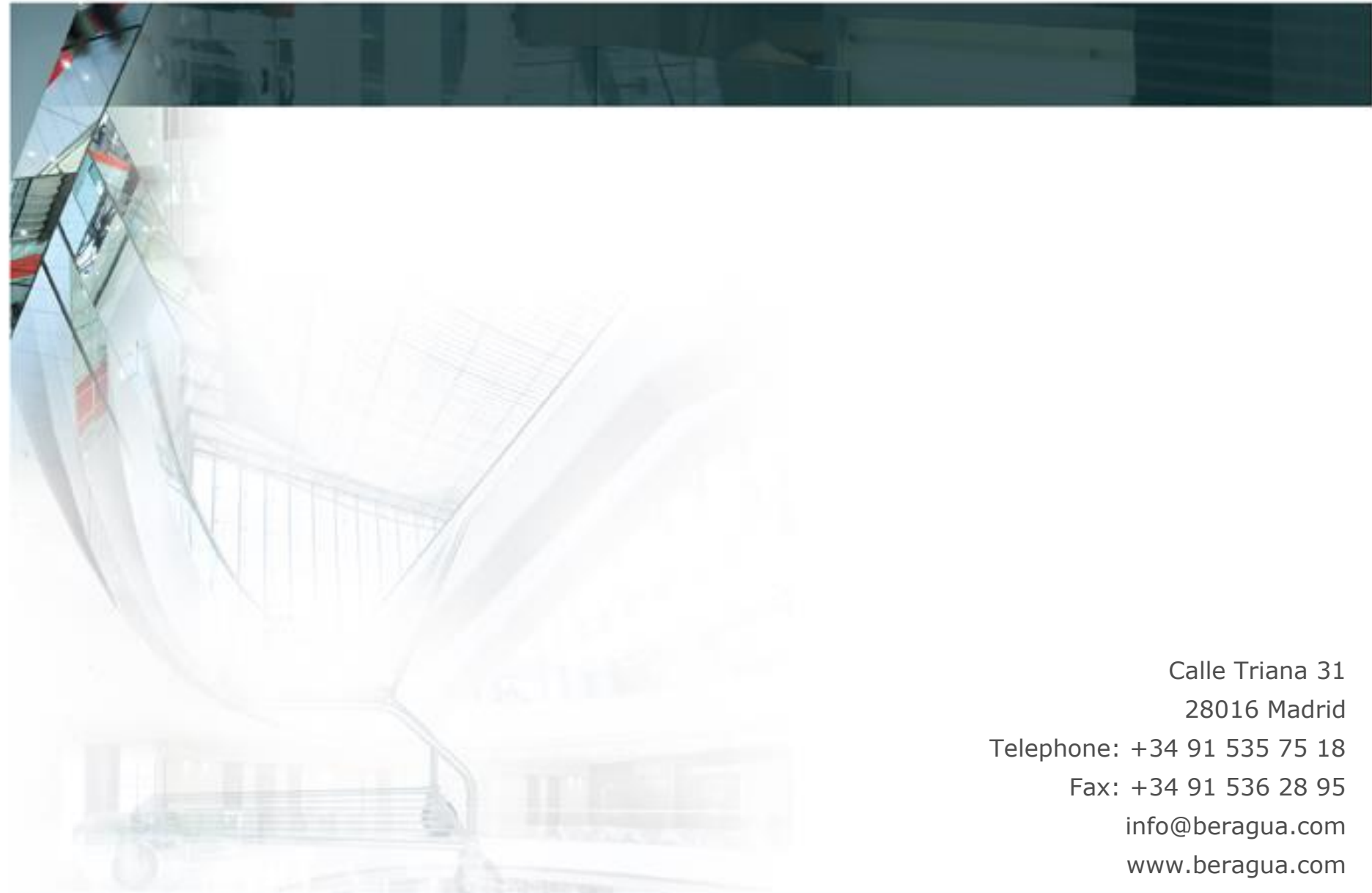
## Price changes – Q42014/Q32014

The strong food inflation in Russia has led to significant price increases (between 15%-23% YoY) amongst the main modern food retail formats in 4Q2014.

Average price increase 4Q2014 YoY by format - %



However, discount players have shown the lowest increase in prices (c.8pp lower than supermarkets) which explains (along with increase bias towards proximity) their outperformance in terms of LFLs



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