



# **Conference Transcription**

**Date of conference : 12 July 2011**  
**Conference title : Goldman Sachs**  
**Russia - OKEY**  
**GROUP S.A.**  
**Unaudited**  
**Operating Results**  
**for 2Q&1H 2011**

# CONFERENCE DETAILS

Conference Date:	12 July 2011
Conference Time:	16:00 Moscow, Saint Petersburg - Russia
Conference Duration:	Approximately 49 minute
Chairperson:	Ekaterina Evdokimenkova
Speakers:	CEO - Patrick Longuet Executive Director - Sebastien Verhaeghe Head of IR - Maksim Kravtsov

<b>KEY:</b>	
<b>words in bold</b>	Unsure if words heard correctly - please check
??	Words could not be distinguished
(Inaudible - ....)	Words that are entirely inaudible for the specified reason

## **ACT Operator**

Ladies and gentlemen, thank you for standing by and welcome to the O'Key Group S.A. Unaudited Operating Results for 2Q&1H 2011 conference call on today, 12 July 2011. Throughout today's presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press \*0 on your telephone for operator assistance.

I will now hand the conference over to our host, Mr Maksim Kravtsov, Head of IR for the O'Key Group S.A. Please go ahead, sir.

## **Maksim Kravtsov**

Good time of the day, ladies and gentlemen. Welcome to our conference call. Today we are going to go through our operating results for the second quarter and first half of 2011. I would like to start by saying that in the second quarter of 2011, our operation showed significant improvement on the like-for-like basis supported largely by the recovery which took place in Saint Petersburg. In terms of the second quarter performance, we have regained the level of customers, so we have the customer base in SPB which is comparable to the second quarter of 2010 on the like-for-like basis. That fact gave support to the overall result for the quarter of 7.2% like-for-like revenue growth.

As for our other regions, we continue to grow operating results there. In terms of the overall revenue growth we increased our total retail revenue in the second quarter by 12.6%. The increase is following the growth in trading space of almost 10%. Total revenue growth is in line with the selling space growth if you consider the impact of Ozerki store on the trading space.

Now in terms of the openings in the second quarter and first half of 2011, in the second quarter we opened no stores, so in the first half we are still with the two openings, one hypermarket and one supermarket. Total selling area is at 293,000 square metres. The overall revenue growth for the first half is 12.1% and this growth was based on the like-for-like growth of 4.8%. In the first half like-for-like results significant impact is still coming from the first quarter where we had the accident.

In terms of the development for the future we are on track with our expansion programme for the year. All the stores which are to be opened this year are in construction and some stores for 2012 are also in the process of being constructed. In terms of the target for the year it remains the same: we are planning to increase our selling space by 30%. The openings are going to come mostly in the fourth quarter of 2011. We are going to open two more stores in the third quarter and then the rest of the openings is going to come in the fourth quarter.

And now I would like to open the floor to Patrick Longuet, our CEO who will comment further on the results of the second quarter and first half.

## **Patrick Longuet**

Hello, good afternoon, **gentlemen**. I will speak French and Sebastien Verhaeghe will translate for you.

**Sebastien Verhaeghe**

Good afternoon.

**Patrick Longuet**

*(Translated text)* First, a few comments on the market conditions overall – today the market is not very good in particular for retail activities. During the first half of the year we have seen that our customers mainly buy food rather than non-food. With the background of high inflation prices have gotten higher while **salaries** have been following behind. Today we are not in the best condition to make good progress in the hypermarket business and it benefits on the short-term supermarket activities.

As for the like-for-like, the second quarter coming at 7% is what we expected for this quarter. And after I would say recovering from the exceptional situation we had in the first quarter due to the accident of the Ozerki hypermarket and with the current trends, we expect that the overall year like-for-like will be slightly above 7% and may be to the same level as last year. As mentioned earlier, we only opened one hypermarket and one supermarket so far during this year and in addition we closed one of the store due to the accident at the end of January.

Now, the challenge for the year is to realise all the opening which are positioned at the end of the year in the last quarter mostly. In the third quarter, we will open one hypermarket, one supermarket and all the rest is coming in the very last months of the year which influences very slightly – I mean “not very much” - the overall sales progress of the year. If we are on target with the opening schedule, we expect to achieve total year turnover around RUB99 billion without tax which today matches the lower range of what covering analysts have been publishing. We are more optimistic about second half of the year, hoping that the market trends improve and are beneficial for the hypermarket business.

**Maksim Kravtsov**

Operator, now we would like to open the floor to the questions.

**ACT Operator**

Thank you, sir. If any participant would like to ask a question, please press \*1 on your telephone. To cancel this request, please press \*2. Your questions will be polled in the order they are received and there will be a short pause whilst participants register for a question.

Thank you. And the next question comes from Natasha Zagvozdina from Renaissance Capital. Please go ahead with your question.

**Natasha Zagvozdina – Renaissance Capital**

Thank you very much. I have a terrible echo. I hope you hear me well, gentlemen.

**Maksim Kravtsov**

We hear you, Natasha.

**Natasha Zagvozdina – Renaissance Capital**

Good. I have first a question about the actual number of hypermarket and supermarket opening targets for the full year. We do understand you will open only two stores in third quarter and majority of openings will be in the fourth quarter, so we would like to get an update from the company for the openings.

And second question is since you suffered some like-for-like decline in the first quarter of the year and majority of new openings will be skewed towards the end, are you revising your EBITDA margin guidance for the year?

**Sebastien Verhaeghe**

In terms of the number of openings for the year, we are planning to open this year 11 hypermarkets and in terms of the supermarkets, we are planning to open around 10 stores which would give us 30% selling space increase in total.

**Natasha Zagvozdina – Renaissance Capital**

Thank you. And the margin?

**Patrick Longuet**

*(Translated text)* Taking in account what we already said, the accident and all the other events, today we reiterate the 8% level of EBITDA margin for the year, may be slightly under 8%, but it remains our target.

**Natasha Zagvozdina – Renaissance Capital**

Can I please ask a follow-up question on the margin? You will be releasing the first half numbers in late August or early September, right?

**Sebastien Verhaeghe**

Yes, at the end of August.

**Natasha Zagvozdina – Renaissance Capital**

End of August. By that time, you will have third quarter half way through. Do you feel that the third quarter is progressing better in terms of margins versus the second? Are you going to – are you seeing the 7.5%, 7% EBITDA margin at the moment or you are hoping that the fourth quarter will be better? What is the visibility of your slightly under 8% margin forecast or expectation?

**Patrick Longuet**

*(Translated text)* Historically, we have always had higher EBITDA margin at the end of the year, especially in the last quarter, so there is always a significantly lower EBITDA margin in the first half than in the second. That's typical. It was already the case in the previous year. This year was of course a bit more affected on the first quarter with Ozerki accident but we will see a third and fourth quarter having better EBITDA margin naturally than the first half.

**Natasha Zagvozdina – Renaissance Capital**

Can you give us first half 2010 EBITDA margin now or shall we wait till you release this?

**Maksim Kravtsov**

No.

**Natasha Zagvozdina – Renaissance Capital**

I was asking about the last year.

**Maksim Kravtsov**

No, we are just in the closing process now so –

**Natasha Zagvozdina – Renaissance Capital**

All right. Thank you. That was all my questions.

**ACT Operator**

Thank you. And the next question comes from Maria Kolbina from VTB Capital. Please go ahead with your question.

**Maria Kolbina – VTB Capital**

Yes, good afternoon. I actually have two questions. One is regarding yesterday news in RBK Daily that you plan to tap the development of hard-discount format in Saint Petersburg and Northwest region. Can you please comment how serious are your plans and how are you planning to proceed with or is it still like sort of like rumour at this point of time? That's my first question.

**Patrick Longuet**

*(Translated text)* Yesterday there was in fact this article saying that we are developing a project of supermarket in Moscow and this comes apparently from one of the real estate agent that is searching for land plots. It is a fact that we have decided to buy several land plots for our development in Moscow including supermarkets because we want to secure our positions and as the market today is supplied by offer in rental we decided to acquire several land plots. Considering the cost of the land in Moscow, we believe that we might need to do some smaller stores than what we typically do with our supermarkets, O'Key Express in St. Petersburg. In order to make those stores effective on the smaller size, we are considering to work with a smaller range of product than we typically do in classical supermarkets which is less products and naturally technically more sales per reference and per item.

**Maria Kolbina – VTB Capital**

OK. And how small – first of all, how many land plots have you acquired here to date, how small are the stores and will they actually – even if the size is small, is it going to work as a supermarket or you actually perceive sort of like a discount model that was mentioned in the newspaper with significant chunk of private label products?

**Patrick Longuet**

*(Translated text)* To date what is a fact is that if we work on smaller size, we will have to operate with a smaller range of product and we are looking at the different solutions to do that. It will be stores operating under the discount principle in general. The notion of our discount has been out there but there is no decision made on this.

**Maria Kolbina – VTB Capital**

How many land plots have been acquired already or like signed a lease contact?

**Patrick Longuet**

*(Translated text)* We are just starting so –

**Maria Kolbina – VTB Capital**

OK. Got you.

**Patrick Longuet**

*(Translated text)* We have target to buy land plots we can I would say supply our expansion plans till the end of 2017.

**Maria Kolbina – VTB Capital**

But does that mean that you plan also to enter into the development of logistics because if you started **entering** small format that subsequently leads to the question, to the bottleneck of lacking logistics? So do you have at this point of time any plans towards more aggressive logistic development?

**Patrick Longuet**

*(Translated text)* Patrick said in earlier conference that we have to plan to set up a cross-docking platform for Moscow. It's clear if it's required to support those supermarkets, it could be useful.

**Maria Kolbina – VTB Capital**

Sebastian, sorry I just want to clarify. You mentioned that by 2017 you plan to have like you said a number of discount or did I miss something that you –

**Sebastian Verhaeghe**

We said we are in the process of acquiring land with a perspective to have enough land plots overall for development until 2017, that's –

**Maria Kolbina – VTB Capital**

OK.

**Sebastian Verhaeghe**

The target that the people searching the land plots have today.

**Maria Kolbina – VTB Capital**

OK, but still hypermarket is going to be like the most important segment for you followed by supermarkets and then comes discounted so that's actually –

**Patrick Longuet**

*(Translated text)* Yes, definitely. Hypermarkets remain the main driver and the supermarkets today and in the coming years will remain not so significant in the overall turnover.

**Maria Kolbina – VTB Capital**

Actually do you think that by the time of the next conference call which presumably will be scheduled early September when you report your margins for the first half you will be able to provide some precise like more concrete data on this format, land plots, number of SKUs, your plans or you think it's more a longer-term prospect?

**Patrick Longuet**

*(Translated text)* It is more a longer-term issue. I would say it falls into the general consideration we have to increase our 30% square metres per year. I would say there is nothing so specific so far about it. The only difference is that before where we said we will develop supermarkets exclusively in rent except in some very particular case. Well it happens that for Moscow considering the lack of rented supermarket offerings, we decided to buy more land.

**Maria Kolbina – VTB Capital**

OK. Thank you very much. My second question will be shorter. Actually can you provide – are you happy with the results of the store that were opened in the second half of last year? I mean the sales growth of 12% is like – actually we have expected much higher number even with like accident and all the other things. Can you provide an update how successful you are with regards to maturity profiles? Have there been any other changes because we have expected that sales growth for the second quarter would be higher just for the sake of maturity effect of the store that were opened in the second half of 2010?

**Patrick Longuet**

*(Translated text)* For us maturity in the hypermarket is reached by the third year. Store by store some of them reached this maturity level faster and some slower so we have very different presence from store to store during the year one, two and three.

Now as Maksim mentioned earlier, if we look at the growth of square metres overall and the growth in like-for-like, this is roughly in line with total revenue growth because we have 9.7% plus square metres on the first half. If you remove Ozerki that was closed, that's about 7.6% and if you add 7.6% to the 4.8% of like-for-like for the first half, you have 12.4%. That's in line with the overall growth of 12.1%. OK, so there is no issue on our side regarding the new store openings.

**Maksim Kravtsov**

And the another thing to note about the second quarter of 2011, during the second quarter of 2010 alone we have opened three hypermarkets. At the end of the first half of 2010, we already opened four hypermarkets out of seven in total for the year which means that for the second half of the year only three hypermarkets were left. That is why the proportion, I would say, the addition to the total revenue from new stores in the second quarter is different from what you saw in the first quarter because in the first quarter we had seven stores that were contributing to the revenue of non-like-for-like stores and in the second quarter this number dropped down to three hypermarkets.

**Maria Kolbina - VTB Capital**

OK, thank you very much.

**ACT Operator**

Thank you. The next question comes from Svetlana Sukhanova from UBS. Please go ahead with your question

**Svetlana Sukhanova – UBS**

Good afternoon, gentlemen. First of all, my congrats with your very strong Q2 which came ahead of my expectation. My related question would be around that Q2. What is the risk that such strong Q2 growth have come at the expense of margin? In other words, what are the risks that you had to invest heavily into the promotion in Q2 to restore trust in post-Ozerki incident?

**Sebastien Verhaeghe**

No, the Q2 results are not the results of a particular intensification of promo actions that would be linked with reduced margins and that you would be afraid to lose later on. Remember that in the first quarter when Ozerki had the accident, we closed most of the stores in Saint Petersburg and that affected like-for-like revenue above pure effect of Ozerki accident, so that was the first quarter.

The second quarter, if you look for more insight on the results, if you analyse it you will see that it is driven by the average ticket growth, whereas last year it was driven by the ticket growth and rather low average ticket increase. Today, we have recovered our traffic in Saint Petersburg that we had lost during the first quarter and we are back into the positive zone on traffic. And for the rest, what we see is lot of inflation in the prices. So, as Patrick said, it's not some great result and we believe that it would come better because we are still under inflation on the ticket growth. But it's a result that we expect to grow and to develop in the second half, so we are confident for rest of the year.

**Svetlana Sukhanova – UBS**

Thank you very much. That was actually very clear and thanks for the comment. I have another question which is about your expansion. What is the risk – you have your expansion is very back loaded in the second half of the year and especially in December and we all understand how tough a task it's sometimes to get approval from the government authority to open and especially ?? Ozerki hypermarket I believe you will be getting much – you currently should be getting more pressure from the authorities. What's the risk of the openings of the hypers in December could be delayed until 2012 and how much hypers could be delayed, if you can quantify that?

**Patrick Longuet**

*(Translated text)* As of today we have no reason to think that any hypermarket should be delayed. It's true that the concentration on the end of the year naturally increases the risk of delays. If there would be stores delayed, they will open in January or in February at the latest and they will add up to the programme of development we have for next year. We will execute our plan of 30% square metres growth also in 2012 and more if by bad luck some stores would be delayed.

**Svetlana Sukhanova – UBS**

That was again very clear and helpful. And then you mentioned 2012, could you kindly help us what's your store opening plan for 2012?

**Sebastien Verhaeghe**

The store opening plan for 2012 - 30% growth in square metres.

**Maksim Kravtsov**

Which would mean 13 hypermarkets and we are more flexible on the number of supermarkets but the target is still 30% so the difference is going to be covered by supermarkets. Approximately, it should be the same as this year's openings so the number of supers should be between ten and 13.

**Svetlana Sukhanova – UBS**

OK, sorry Maksim, one more follow-up question. Have you said ten supermarkets in 2011, how much – what was the guidance on the supermarkets?

**Maksim Kravtsov**

Yes, I said ten.

**Svetlana Sukhanova – UBS**

Ten, because I had – earlier in your guidance you said 13 so you slightly decreased it. Is it right?

**Maksim Kravtsov**

Yes, but we have a target on the selling space extension and we always said that we are more flexible on the supermarket openings. The target for us is 30% growth in total and not a particular number of supermarkets.

**Svetlana Sukhanova – UBS**

OK, that was clear. It was just clarification from my side. That's pretty much all the question from me. Thank you very much.

**Maksim Kravtsov**

Thank you.

**ACT Operator**

Thank you. The next question comes from Oleg Galbur from Raiffeisen Centrobank. Please go ahead with your question.

**Oleg Galbur - Raiffeisen Centrobank**

Yes, good afternoon. Actually it's Raiffeisen Centrobank not Control Bank. I have one question regarding the like-for-like performance. I don't understand that you still do not report the like-for-like performance per segment for supermarkets and hypermarkets separately. But still could at least – could you please provide some hints with respect to the performance on hypermarkets and especially in Saint Petersburg region because just by looking at how your competitors did in Saint Petersburg for example in ?? specifically refers to X5, actually the like-for-like performance of the hypermarket segment was negative. Was it the case for O'Key as well or the like-for-like growth in your case was in a positive territory? Thank you.

**Maksim Kravtsov**

In terms of like-for-like growth in the second quarter, in Saint Petersburg the situation is slightly different from the overall like-for-like growth in terms of the number of ticket growth. What happened in Saint Pete is that by the end of April, beginning of May we have recovered from the accident in terms of traffic. For the quarter in total our traffic in Saint Pete on the like-for-like basis was slightly above zero. Now in terms of the overall like-for-like growth in Saint Pete, it was driven exclusively by the average ticket increase. The cause of like-for-like growth there was inflation. We can say that Saint Pete results on like-for-like were slightly below the company average.

Could you please repeat the second part of your question.

**Oleg Galbur - Raiffeisen Centrobank**

Actually, yes. I wanted to find out the like-for-like growth in Saint Pete was negative or positive. I understand it was slightly above zero, right?

**Maksim Kravtsov**

In terms of traffic, yes; and ticket of course was growing in line with the company average. It was still driven by the same factor – inflation.

**Oleg Galbur - Raiffeisen Centrobank**

OK, thanks. That exactly was it.

**ACT Operator**

Thank you. The next question comes from Natasha Zagvozdina from Renaissance Capital. Please go ahead with your question.

**Natasha Zagvozdina - Renaissance Capital**

Thank you very much, gentlemen. Can you repeat what was your previous revenue expectation for the year which you brought down to RUB99 billion? It was in excess of RUB100 billion, RUB105 billion, RUB107 billion?

**Maksim Kravtsov**

Before we didn't give any particular guidance for the total revenue for the year. We said that following the accident we expect a decline on the top line. It goes to 5% but we were referring to the I would say market averages for the revenue. We didn't give any particular guidance.

**Sebastien Verhaeghe**

We just mentioned the reference that the analysts have given so far.

**Natasha Zagvozdina - Renaissance Capital**

Thank you.

**ACT Operator**

Thank you. And the next question comes from Maria Kolbina from VTB Capital. Please go ahead with your question.

**Maria Kolbina - VTB Capital**

Yes, my third question actually concerns your regional performance. Can you provide some highlight how regions are doing? I know that you don't give any numerical numbers but still just how traffic and ticket or like maturity profile differ in between Saint Pete and the regions. And I am particularly interested in stores in Krasnodar which is quite a difficult market to work and the one in ???. Can you provide some highlights with regards to these regions? Thank you.

**Maksim Kravtsov**

Yes, we can provide a little bit of insight on the regional performance. In line with what we said in the first quarter when we mentioned that Krasnoyarsk and Moscow were bringing good results in terms of the like-for-like revenue, it still remained the case in the second quarter of 2011. So the highest growth we got to is coming from Moscow and Krasnoyarsk stores. In terms of the situation in Krasnodar in particular, Krasnodar indeed is extremely competitive market and our operations there, if you look at the like-for-like results, I would say are quite difficult. The progress in there is very slow. But at the same time if you look at the total results from Krasnodar, the growth is quite strong. The total revenue growth is significant with the increase of stores that we had. We doubled the number of stores there. Traffic generation and revenue generation in the city as a whole is progressing at a high pace. But LFL store performance is more difficult. The stores that we had initially in Krasnodar are suffering from the new stores, so the cannibalisation effect that started in the fourth quarter of 2010 is still there. Stores are recovering slowly from this effect but you can still feel the progress.

**Maria Kolbina - VTB Capital**

OK, thank you very much. A follow-up question on the new format. Sebastien, do you think it's actually the right timing for the company to start dipping completely a new format? Do you think it's the right timing in terms of rental market, in terms of the company's ability overall like to develop? Maybe it's – I don't know, just wanted to get your view on that?

**Sebastien Verhaeghe**

So far we haven't started anything. It's just as we said we are acquiring land and we are considering how to adapt more specifically to Moscow in terms of supermarkets. So now, Patrick says that the average area at the end will be like what we have in Saint Petersburg currently. We are looking at how to define precise format that we are going to use for Moscow and how to roll them out taking into account the particularities of that market. That's very straight so far, there is no revolution.

**Maria Kolbina - VTB Capital**

OK. Thank you.

**ACT Operator**

Thank you. And the next question comes from Kirill Kirilenko from BFA. Please go ahead with your questions.

**Kirill Kirilenko – BFA**

Good afternoon, gentlemen. I just came across information with regards to your plans to enter Veliky Novgorod market. What is the purpose to enter regional towns with European hypermarket format where weak consumer power and lower sale per square

metre instead of concentrating your resources on more attractive market such as for example Moscow or Euro region towns? Thank you.

**Sebastien Verhaeghe**

Is it **Nizhny** Novgorod or Veliky Novgorod?

**Kirill Kirilenko – BFA**

Veliky Novgorod.

**Patrick Longuet**

*(Translated text)* We studied the project there I mean like many projects in the area. So far there is no decision made particularly on this city. What was the question? Whether we have plans there?

**Kirill Kirilenko – BFA**

What I am talking about – there is an example of your second store in Murmansk which is almost completely cannibalised by your first store which is in more premium location. Same kind of example is expected in Veliky Novgorod because it's a small town with low consumer power. And as I **heard** previously you were looking for expanding in key towns, big towns like over million or almost a million people in populations. That is why I was quite surprised to see news on your project in Veliky Novgorod.

**Patrick Longuet**

*(Translated text)* First, we have projects on 25 cities in Russia. They don't have all one million inhabitants and so we go also in cities with 500,000 inhabitants and sometimes less like Murmansk. And in every city we go into, our project is always to develop several stores. As for Veliky Novgorod in particular, it's not a big city and that's why so far we haven't decided any project there.

**Kirill Kirilenko – BFA**

OK, thank you.

**ACT Operator**

Thank you. The next question is a follow-up from Svetlana Sukhanova from UBS. Please go ahead with your question.

**Svetlana Sukhanova – UBS**

Good afternoon once again. My question would be back to Ozerki. What's the problem in terms of government investigation and what kind of outcome do you expect and also what's the best case scenario, best case and worst case scenario and what kind of scenario do you think is mostly likely? And I would also if possible would appreciate if you can quantify it potentially. Thank you very much.

**Patrick Longuet**

*(Translated text)* About Ozerki, as of today the inquiries are finished and we are now starting the process of fixing the store and we expect a reopening for the last quarter. What else did you ask?

**Svetlana Sukhanova – UBS**

What kind of – do you think you will be fined in future on that kind of accident and how much do you think you would have to pay extra in terms of what you paid already to the people which were affected by the accident and how much more do you think you will have to pay in the coming month?

**Maksim Kravtsov**

In terms of –

**Svetlana Sukhanova – UBS**

In terms of fees, in terms of fines, in terms of everything.

**Maksim Kravtsov**

OK, in terms of current fines and expenses associated with the accident, we have indemnified victims and the total amount was around RUB5 million as well the direct expenses associated with Ozerki are the additional shrinkage and also the reallocation of personnel to other stores because we didn't fire the personnel but kept people and just shifted them to other stores. There are some expenses directly associated with the accident. But on the full year basis, they are not going to be material.

The question whether if we will be found guilty in the accident and what kind of consequences in monetary term we can expect, I will pass the floor to Sebastien.

**Sebastien Verhaeghe**

So far we have no reasons to consider any risk on duties or fees that would be the result of the court case. But now the court case is not finished so we have the conclusion. But as far as the indications we have today, the accident cause lies with a defect in the structure of the metallic part of the roof and now the court has to go on. So we do not I would say accrue or make provision for additional losses on Ozerki. Some indications were given on the cost that we had incurred to date; we have no additional claims so far from the people we have indemnified.

Ozerki store has already ten years of existence, and we are taking the opportunity to refurbish it and so we are reinvesting some money into it to come with a new store for our customer. But it's more I would say a kind of maintenance investment that we do a bit earlier that we would have done eventually plus the cost of fixing the roof itself that we are contributing something like around RUB150 million of new investment into the store to fix the roof and to readapted it - to refresh it I would say.

**Svetlana Sukhanova – UBS**

All clear. Thank you very much.

**ACT Operator**

Once again, if any participant would like to ask a question, please press \*1 on your telephone. To cancel this request, please press \*2.

Thank you. And we have a question from Alexandra Melnikova from Alfa. Please go ahead with your question.

**Alexandra Melnikova – Alfa Bank**

Thanks for hosting the call. I have a question on CapEx. Can you please tell us your CapEx guidance for 2011 and probably 2012 considering that you might undertake additional expenses for this Ozerki hypermarket for example, just checking what I have in my model and what you have up to date?

**Maksim Kravtsov**

For the current year, as we have said, we estimate the CapEx amount for the full year to be close to RUB10 billion which means that it will be between RUB9 billion and RUB10 billion. For the coming year 2012, the CapEx amount would definitely increase. The more precise guidance we will be able to give closer to the end of the year.

**Alexandra Melnikova – Alfa Bank**

For example, you have mentioned during the call that you are doing some investments into land in Moscow. Does it mean that you will allocate part of RUB10 billion CapEx into the land?

**Maksim Kravtsov**

Yes, this acquisition of land was planned initially, I mean there was a budget for the land acquisition for the full year which is part of the RUB10 billion estimate and we are currently within this budget.

**Alexandra Melnikova – Alfa Bank**

OK, may be my follow-up question will be on lease expenses. Do you feel that lease expenses for – capacities for four stores which you leased are going up or they are like in line with inflation or any comment on lease expenses, please?

**Sebastien Verhaeghe**

The lease expenses for most of our stores are proportional to the sales. We usually set minimum and maximum thresholds. They are usually set in dollars with some index of adjustment every year usually linked with dollar inflation, so the thresholds move with that but we usually have a bit lower inflation. But as usually – the target for us is as soon as the store is running in the maturity level that we are in a level where owner gets variable rent, which increases together with inflation.

**Alexandra Melnikova – Alfa Bank**

OK, clear. Thank you very much.

**ACT Operator**

And as a final reminder, if any participant would like to ask a question, please press \*1 on your telephone. To cancel this request, please press \*2.

We do not appear to have any further question, please continue with any point you wish to raise.

**Maksim Kravtsov**

If there is no more questions, thank you very much for attending this conference call and we will meet you again in beginning of September for the conference call regarding the first half 2011 results.

**ACT Operator**

Ladies and gentlemen, this concludes today's presentation. Thank you for your participation and you may now disconnect.

*END OF CONFERENCE*