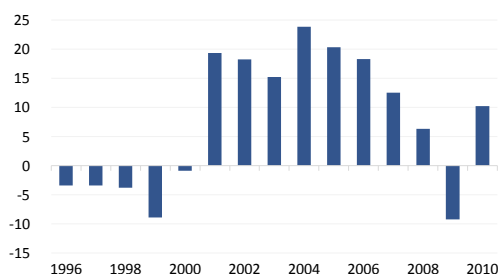


## RETAIL SECTOR OF UKRAINE

Retail is inherent and one of the most dynamically developing branches of Ukrainian economics, which contributes 16% into GDP of the country. Rapid increasing of personal income in the first decade of 2000<sup>th</sup> promoted high rates of market development and appearance on it some big players. Financial and economic crisis of 2008-2009 considerably stroke the branch, but also eliminated such problems as high price of the building land and high level of rent rates. Reclamation of personal income growth in 2010 served as an impetus for economic redevelopment. Retail sector is exceedingly attractive for investment due to high size and non-occupancy of the market.

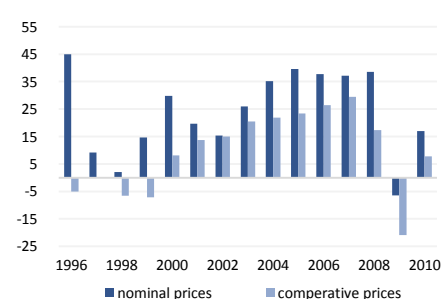
**RETAIL STRUCTURE AND DYNAMICS IN UKRAINE.** Starting from 2001 human wellbeing is constantly growing what is stated in the increasing of actual wages. Only in 2008-2009, this index was less than 10% as a result of financial and economic crisis, which affected GDP decreasing, devaluation of national currency, inflation growing.

Real wages dynamics in Ukraine, YoY, %



Source: State Statistics Committee of Ukraine

Dynamics of retail sales turnover, %



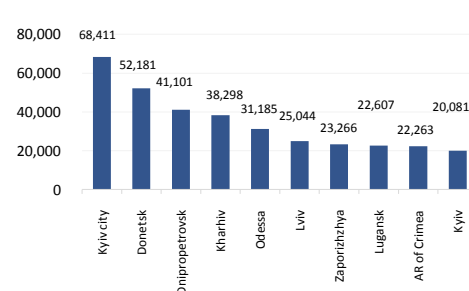
Source: State Statistics Committee of Ukraine

Retail sales dynamics in Ukraine, bln UAH



Source: State Statistics Committee of Ukraine

Retail sales in regions (2010), bln UAH



Source: State Statistics Committee of Ukraine

40% devaluation of national currency in 2009 negatively affected the financial sector, as it leads to appreciation of currency loan. On the other side, it allowed exporters to regain positions on the foreign markets.

**BIG PLAYERS. LAST ACCESES.** Retail market can be nominally divided on several segments: food products, electronics, DIY (do-it-yourself), clothing, etc.

### The largest retail networks in Ukraine

Type	Main networks
Food products	Fozzy Group, ATB-Market, Metro Cash&Carry, Furshet, Auchan
Electronics	Foxtrot, Eldorado, MegaMax, CityCom/Unitrade, Comfy, Technopolis
DIY (Do It Yourself)	OBI, Nova linia, EpiCentr, Praktiker
Clothes, accessories	Mark&Spencer, New Yorker, Tusso, Grand Gallery, New Look

In the food retail segment the leader is Fozzy Group consisting of wholesale hypermarkets “Fozzy”, supermarket network “Silpo”, home store network “Fora”, gastronomie network “Dneprianka”, etc. Turnover of Fozzy Group in 2010 was 15.9 bln UAH what is equal to 5.8% of the market. In general, 2009 was a hard year for the whole sector. Increasing of loan rates forced companies to reduce floating assets and to freeze development programs. But in 2010 together with the stabilization of the situation in banking and real sector food retail companies managed to considerably increase their turnovers.

Turnover of the largest networks of Ukraine

No	Company	Turnover (2009), mln UAH	Turnover (2010), mln UAH	Growth, YoY, %	Market share (2009), %	Market share (2010), %
1	Fozzy Group (Kyiv)	11 385	15 900	39.7	5.0	5.8
2	“ATB-market” ltd. (Dnipropetrovsk)	8 900	12 690	42.6	3.9	4.7
3	Metro Cash & Carry (Kyiv)	8 400	8 770	4.4	3.6	3.2
4	CJSK “Furshet” (Kyiv)	6 200	6 850	10.5	2.7	2.5
5	“Auchan-Ukraine” (Kyiv)	5 660	6 000	6.0	2.5	2.2

Source: Smida, AMC “NIKO” calculations

As a result of 2008-2009 crisis, lot cost and cost of renting square were considerably decreased what made an access to Ukrainian market more available. So, in 2009, company “Real Hypermarket Ukraine”, which falls under Metro Group AG, came on the Ukrainian market; in 2010 Leroy Merlin opened its first building hypermarket in Kyiv. The opening of the second one is expected in 2011.

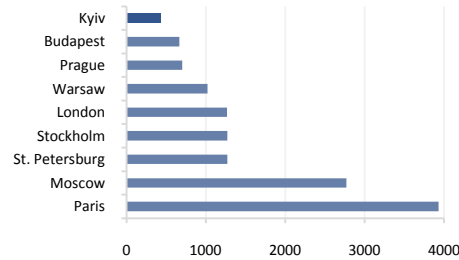
**SALES AREAS AND RENT.** It historically happened that Ukrainian retailers permanently incur a deficit of quality sales areas. It is explained by the fact that this field (in the current sense) is rather new for Ukraine. In Soviet times (till 1991) during total deficit in trading, quite another approach was used, and after 1991 till beginning of 2000 as a result of crisis period of economic conversion, trading field did not have enough attention. And only in 2000<sup>th</sup> with appearing on the market of big foreign players and local players, new shopping and shopping and recreation centers were built. As a result of such processes we have rather high rent rates on sales areas.

Rent rates in Kyiv trading centers (2010Q2)

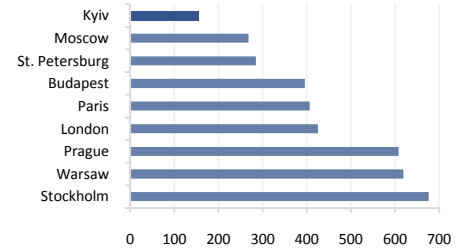
Operator's type	Sales area, m <sup>2</sup>	Average rent*, USD/m <sup>2</sup> /year
supermarket	(1 500 - 5 000)	180
hypermarket	(> 5 000)	108
appliance store	(< 2 000)	216
	(> 2 000)	180
sport shop	(< 1 500)	300
	(> 1 500)	240
make-up and perfumes	(500 - 1 000)	480
baby shop	(> 1 000)	240

\* instead of monthly payments or in addition to them a practice of charging of percentage of the turnover is used

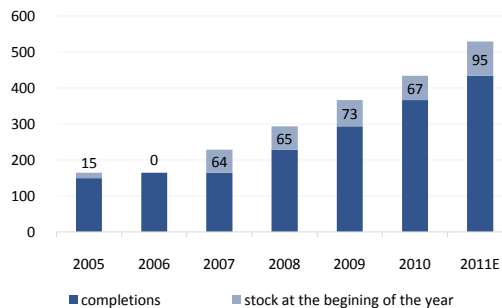
Rent rates vary from 180 to 480 USD/m<sup>2</sup>/year. A practice of collection of interest from the turnover besides monthly payments or instead of them is spread. In the 4<sup>th</sup> quarter of 2008 rent rates level was higher than in other European cities (maximum rent rates reached 2 200 USD/m<sup>2</sup>/year). As a result of crisis, rates were decreased by 60% (in dollar terms) in 2009Q1, whereupon they were stabilized and are not unexposed to rapid variations. In 2011 one can expect insignificant rates increasing.

Total volume of sales areas, ths m<sup>2</sup>

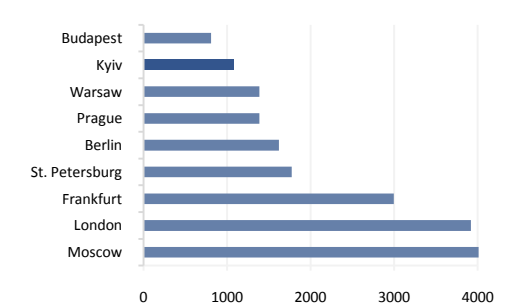
Source: Bloomberg

Volume of sales areas per 1000 persons, m<sup>2</sup>/pers.

Source: Bloomberg

Offer of quality sales areas in Kyiv, ths m<sup>2</sup>

Source: Bloomberg

Maximum rent rates (2010Q2), USD/m<sup>2</sup>/year

Source: Bloomberg

## FEATURES OF THE UKRAINIAN RETAIL MARKET

- ✓ **Ukrainian retail market is rather young** and, as a result, not filled and formatted enough. So, in the product retail (especially in clothing sales), private entrepreneurs, trading on the bazaars, take significant part of the market. Low salaries in regions block expansion of branded clothing stores and wide employment of population in the private agricultural sector supports the existence of bazaar markets. In this case such “soft” discounters as “Fora” are successful. In the meantime, the niche is not filled.
- ✓ In the big cities the most unfilled is the niche of **big grocery hypermarkets**. In everyday shopping the population prefers stores which are located on the way from the work to home. Malls, located far away from the place of residence, customers usually visit 1-2 times per week. But we consider that such situation will dynamically change aside increasing of quantity of big markets on the background of the infrastructure development and increasing of motorization level in the country.

**With that DIY hypermarkets are successful.** Impetuous rates of suburb development with cottages and convenient location of such hypermarkets on the city outskirts, near the road entrances, along which cottage towns are located, create advantages for DIY-companies.

- ✓ **Dynamically developing e-retail.** High level of internet penetration in regional centers and lower prices comparing with conventional stores, make online stores rather successful. The biggest in Ukraine is the trading with electronics and household appliances. More and more actively direct manufacturers come on the market, pushing out retailers, but this can be considered only about electronics. Sector of web-sales of clothing and food is almost empty and, as we can forecast, it will be behind in the development. In e-retail there is also no business struggle in the regions, but it penetrates even here with the development of transport and internet infrastructure.

**OUR OPINION.** In 2010 yet again world sales network Wal-Mart got on the first position in the rating of the biggest companies according to revenue with an annual turnover in 421.8 bln USD (№3 in 2009, №1 in 2008 and 2007). Moreover, retailers take 22 of 200 positions in this rating. Traditionally the best places in the list are taken by powerful oil industry and banking sector. Retail belongs to the group of such fields the significance of which cannot become weaker for the economics, and with the development of informatization and internet – only to increase or modify. Sales areas in Europe are one of the most attractive kinds of investments at this time. In the first quarter of 2011, direct investments into retail property in Europe gained 8 bln EUR (growth +48% comparing with the 2010Q1).

In Ukraine retail sector is very young that means capacity, non-occupancy and, as a result, perspective for investors. Remarkable that in 2010 there was a price increasing on wide range of food products on Ukrainian market (2-3 times), price increasing on another products was noticed. In the meantime, actual volume of goods turnover was increased (+7.8%).

At this time the most unfilled and actual segment is retail in big commercial centers. A range of big international players is not represented on Ukrainian market what significantly weakens business struggle. Sales areas are not enough, and activation of home construction and development of transport infrastructure before EURO-2012 significantly increases attraction of retail business.

Special attention shall be drawn to the non-competitive conditions out of the big regional centers. The most perspective niches are food retail in regions and e-retail.

Retail sector is considered to be highly perspective due to unfilled market, weak access barriers and available growth potential.

---

## ABOUT THE COMPANY

ASSET MANAGEMENT COMPANY "NIKO" is the investment company, a member of the international "NIKO" Group of companies. The main Company's activity priority is the development of global strategy and selection of the individual instruments for each client: the formation of investment portfolio based on the client's requirements, operational management of the investment targets, share and debt capital raising, M&A, the development of new investment projects and their implementation. The main Company's mission is to not only provide a full-range of wealth management services based on the total confidentiality but to guarantee the flexibility and formation of financial model which matches all client's needs and expectations.

AMC "NIKO" areas of expertise among others include:

- I) **Investment Banking** (fund raising, M&A);
- II) **Alternative Investments** (direct and venture investments, corporate treasury);
- III) **Asset Management** (for private investors and corporate clients).

Established in 2006, the Company currently manages more than UAH 440 million in assets. The Company's activity is regulated by the State Commission on Securities and Stock Market of Ukraine (licence AB №456907 dated 05.02.2009).

---

## RISK DISCLOSURES

Trading foreign exchange, commodities, and securities, as well as investing in different kinds of projects carries a high level of risk, and may not be suitable for all investors. Before deciding to trade foreign exchange or investing in projects you should carefully consider your monetary objectives, level of experience and risk appetite. The possibility exists that you could sustain a loss of some or all of your deposited funds and therefore you should not speculate with capital that you cannot afford to lose. You may be liable for losses that exceed the amount of margin that you post. You should be aware of all the risks associated with foreign exchange, commodities, securities trading, investing in projects and seek advice from an independent advisor if you have any doubts.

Past performance is not necessarily indicative of future results.

Material in this report does not constitute investment advice or a recommendation. LLC "ASSET MANAGEMENT COMPANY "NIKO" and its affiliates assume no responsibility for errors, inaccuracies or omissions in these materials. They do not warrant the accuracy or completeness of the information, text, graphics, links or other items contained within these materials. LLC "ASSET MANAGEMENT COMPANY "NIKO" and its affiliates shall not be liable for any special, indirect, incidental, or consequential damages, including without limitation losses, lost revenues, or lost profits that may result from these materials. This email is not a solicitation to buy or sell currency or to invest in projects. All information contained in this e-mail is strictly confidential and is only intended for use by the recipient.