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Eurotorg Announces Intention to Publish Registration Document and Expected Intention to Float on London Stock Exchange

4 October 2018

Eurotorg Holding Plc (the "Company", and together with its consolidated subsidiaries, "Eurotorg" or the "Group"), the largest grocery retailer in Belarus, announces that it intends to publish a Registration Document today, and that it expects to announce its intention to float on the London Stock Exchange on or around 11 October.

Eurotorg highlights

- Eurotorg is the largest grocery retailer in Belarus with market share in 2017 of approximately 19% of the total food retail market. In the modern format grocery retail market, the Group's 2017 market share was approximately 41%, over five times that of its largest competitor and more than the combined market share of the next seven competitors.^{[1] [2]}
- As of 30 June 2018, Eurotorg operated a nationwide retail chain of 627 grocery stores across 225 localities in Belarus.
- Approximately 930,000 customers make purchases at Eurotorg stores every day, and about 2.5 mn active loyalty cardholders - or 26% of Belarus' total population of 9.5 mn people - are unique participants in the Group's loyalty programmes.^[3]
- Eurotorg's store-based retail operations are complemented by its market-leading online grocery retail offering, represented by two services, E-dostavka.by and Gipermall.by. On a combined basis, these online grocery services generated 1.7 mn orders and revenue of BYN 94.4 mn (USD 47.5 mn) in 1H 2018. Eurotorg believes that online operations have significant further growth potential and expects them to grow at an accelerated pace compared to its store-based operations.
- In 2018, the Group launched a chain of Magia drogerie stores, which are currently being opened at select locations adjacent to existing grocery stores or transport hubs, leveraging the strong access to customers. As of 30 June 2018, 38 Magia stores have been opened.
- In the six months ended June 30, 2018 ("1H 2018"):

- Revenue increased by 14.9% year-on-year ("y-o-y") and reached BYN 2.18 bn (revenue in USD terms increased by 9.6% y-o-y and amounted to USD 1.10 bn^[4]). Net retail sales^[5] increased by 11.5% y-o-y and reached BYN 1.95 bn (USD 0.98 bn).
- Adjusted EBITDA^[6] grew by 7.3% y-o-y to BYN 195.7 mn (USD 98.4 mn). The adjusted EBITDA margin remained strong at 9.0%.
- Like-for-like ("LFL") sales grew by 5.9%, driven primarily by a 5.5% increase in the LFL average ticket.
- Revenue for the 12 months to 30 June 2018 ("LTM revenue") was BYN 4.21 bn (USD 2.13 bn); adjusted EBITDA for the same period ("LTM adjusted EBITDA") was BYN 385.0 mn (USD 194.7 mn).
- The Belarusian economy is seeing strong momentum, continuing the recovery that began in 2017. GDP grew by 4.5% in real terms in 1H 2018, while real wages and real disposable incomes grew by 13.0% and 7.6%, respectively. The economy benefits from stabilised inflation, interest rates and local currency, following significant changes in economic policy since 2015.
- The Belarusian grocery retail market was worth approximately BYN 22 bn (about USD 11.4 bn) in 2017. Penetration of modern retail formats stands at just 46%, considerably below most other emerging markets and broadly corresponding, for example, to levels of modern retail penetration in Russia in 2007 and Poland in 2006. Modern retail formats will be key drivers of market growth, due to current low penetration rates and increasing food consumption, and are expected to grow at 15% compound annual growth rate ("CAGR") in 2017-2022.^[7]

Eurotorg CEO Andrei Zubkou said:

"Eurotorg is the undisputed leader in the Belarusian grocery retail market, and a pioneer in the nationwide roll-out of modern retail formats and online grocery shopping. This announcement follows on from our successful debut Eurobond issuance in October 2017, when we effectively opened international capital markets for Belarussian corporate issuers.

"Eurotorg today is at an exciting point in its development. We are the market leader in Belarus by any possible measure of comparison - be it market share, number of stores, selling space, geographical coverage, brand awareness or customer loyalty. And we are continuing to grow apace, pursuing our strategic focus on smaller towns and villages where people previously had no access to modern format grocery retail, all while maintaining healthy levels of profitability. Our asset-light capex programme gives us the flexibility we need to move quickly and seize opportunities where we see them - we opened 127 new grocery stores in the first half of this year alone. This new strategy has allowed us to increase our ROIC, which stood at 29% as of the end of 1H 2018.

"Modern format grocery retail has taken root in Belarus but retains plenty of potential for further growth, given current market penetration of 46% - similar to where Poland was more than a decade ago. We are also excited by the potential of the online grocery retail market, which is forecast to grow at 35% CAGR for the next five years and where we enjoy 98% market share. We believe that now is the time for Eurotorg's exciting growth story to become better known among international investment audiences.

"Belarus is increasingly open to international investors, and placed 38th out of 190 countries in the World Bank's Ease of Doing Business rankings in 2018, ahead of countries including Italy, Belgium and Turkey. The macro environment is stable, thanks to prudent monetary and fiscal policy and a focus on liberalisation. Inflation is at multiple-year lows, while GDP growth reached 4.5% in the first half of 2018. We believe that the Belarusian economy is on a path for growth, and that this favourable macroeconomic environment will support Eurotorg's performance going forward."

Expected offering highlights

- The Offering is expected to consist of Global Depositary Receipts (the "GDRs") representing interests in ordinary shares (the "Shares").

- The Company is expected to apply for listing and trading of the GDRs by way of admission to the standard segment of the Official List of the UK Financial Conduct Authority and trading on the London Stock Exchange.
- The Offering is expected to raise approximately USD 200 mn in primary proceeds to the Company, and also to include a secondary component of GDRs offered by the Company's core shareholders: Uladzimir Vasilko, Sergey Litvin, Aleksander Litvin and Andrei Zubkou.
- The Company intends to use the net proceeds to partially repay the Group's foreign-currency debt, in line with its strategic objective of reducing its foreign-currency debt exposure. Pro-forma the anticipated proceeds of the Offering, the Company expects that the Group's ratio of net debt to LTM Adjusted EBITDA as of 30 June 2018 will decline to below 2.0x.
- The core shareholders are expected to retain a majority shareholding in the Company following the completion of the Offering.
- The Offering is expected to consist of (i) a placement to qualified institutional buyers in the United States under Rule 144A and (ii) a placement to institutional investors outside the United States under Regulation S.
- Credit Suisse and J.P. Morgan are acting as Joint Global Coordinators. Bank of America Merrill Lynch, Renaissance Capital, Sova Capital, UBS and WOOD & Company are acting as Joint Bookrunners.

Access to supplemental information for bona fide unconnected research analysts

Unconnected sell-side research analysts can obtain additional information, including details of a call with the Company, by requesting access via the following website: <http://ir.eurotorg.by/investor-centre/unconnected-analysts/>.

Key strengths of Eurotorg's business

The Group is the largest grocery retailer in Belarus, with more than five times the market share of the second largest player and higher than the combined market share of the next seven competitors - one of the largest gaps between the first and second largest player in the grocery market in Europe. Eurotorg is also the only retail chain that has a nationwide presence in Belarus. Its grocery stores are the only modern format grocery retailer in over 130 settlements in the country.^[8]

The Group's customer proposition is centred around a consistent offering of market-leading prices and focused assortment of high-turnover products, with a particular emphasis on the fresh category and local assortment. This positioning is complemented by a range of creative marketing activities that underpin long-term generational bonding with customers and strength of the Eurotorg brand.

The Group's brand is recognised by 100% of Belarusians, with 43% identifying Eurotorg's stores as their stores of choice, and is further supported by successful and profitable marketing campaigns and unique loyalty programmes that enable nationwide customer coverage.^[9]

The Group has built an extensive nationwide supplier network, with approximately 75% of its sales being locally produced goods, and also developed large, market-leading direct imports capabilities. In addition, the Group places a strong emphasis on its own production as well as developing its private label assortment which comprises over 180 unique brands.

Eurotorg operates its retail grocery stores under the Euroopt and Brusnichka brands, in four formats: rural convenience stores (E-minimarket), urban convenience stores (E-market and Brusnichka), supermarkets (E-Super) and hypermarkets (E-Hyper). This diversified multi-format chain model enables the Group to meet the different consumption needs of its customers from daily neighbourhood to basket family shopping, as well as to penetrate any location in Belarus based on the size of the local population and potential customer base.

Eurotorg operates a balanced real estate strategy, and as of 30 June 2018 owned 42.2% of its total selling space (predominantly the E-Hyper and E-Super stores) and leased approximately 57.8% of its total selling space (predominantly the convenience stores).

Eurotorg's stores are supported by its own fully integrated, nationwide logistics system based around four distribution centres with a total storage space of approximately 96.3 ths sq. m. and three warehouses with a total storage space of 15.7 ths sq. m. as of 30 June 2018. The Group owns a fleet of approximately 200 transportation vehicles, which carry out more than 50% of the total deliveries of products for its grocery stores.

The following strengths have contributed to Eurotorg's successful development and will enable it to capitalise on the expected growth of the Belarus grocery retail market and continue growing its business:

Sizeable, rapidly growing and highly fragmented market with low penetration of modern retail formats and structural barriers to entry

- The growth potential of modern format retail is underpinned by the low levels of penetration in Belarus compared to other markets. In 2017, the share of modern retail formats in Belarus (46%) was more than 1.5 times lower than the average for Eastern Europe (70%).
- Within Belarus, modern format retail has even lower levels of penetration in rural areas than cities. Over half of Belarusians live in administrative units with less than 40% modern retail penetration and rural areas (settlements with less than 2,000 people) are almost uncovered by modern format stores.
- Strengthening macro-economic conditions, increasing consumption and income levels in Belarus are expected to drive further growth in the grocery retail market and in particular modern format grocery retail, which is expected to grow by a CAGR of 15% (in nominal terms) between 2017 and 2022.
- No major international grocery retail chains currently have a presence in the Belarusian grocery retail market. Existing protective measures, including structural and regulatory barriers, focused on supporting Belarusian food producers indirectly protect local retailers and create barriers for the potential expansion of international retailers and discounter chains.

Undisputed leadership in the Belarus grocery retail market far ahead of the second player

- In 2017, Eurotorg had a 34 p.p. lead by market share over the second largest player in the modern retail format segment of the grocery market. Based on the prior experience of other markets, a large gap between a leader and the second largest player tends to be sustainable and could even widen over time. It also gives the Group significantly higher buying power than its competitors.
- As a result of the Group's key advantages, such as market-leading price offering, unparalleled brand awareness, assortment focused on high-turnover products and superior customer shopping experience, Eurotorg has maintained and increased its market leadership by all measures of comparison in the retail industry.
- The Group's extensive geographical coverage offers competitive advantages in the efficiency of its logistics network and brand awareness. Eurotorg's leading market position, multi-regional presence and omni-channel offering provide a strong and sustainable platform for future development of the Group.

Unique customer proposition makes Eurotorg the leading shopping destination in the hearts and minds of consumers in Belarus

- The Group offers a compelling value-for-money customer proposition focused on market-leading prices, focused assortment and unique shopping experience across various formats aimed to address the needs of every household in the country. The Group continuously innovates and refines its customer proposition with its core model remaining unchanged.
- The Group's continuity of its base retail concept and focus on its value enhancement for customers enabled the Group to achieve an outstanding

level of customer loyalty. Eurotorg's grocery stores are stores of choice for 43% of Belarus citizens.

- In-store shopping experience is enhanced by the out-of-store customer engagement via new sales channels of E-dostavka.by and Gipermall.by as well as nation-wide marketing campaigns, such as the nationwide lottery "Udacha v pridachu", as well as other promotional activities the Group launches from time to time, including "Bonsticks" collectible toys. Furthermore, to support customer loyalty, the Group offers a unique "E-plus" loyalty card programme. This loyalty card is required in order for customers to be able to participate in the Group's marketing campaigns.
- These pillars of Eurotorg's retail concept appeal to customers and are central to its unparalleled brand awareness and customer loyalty.

Multi-format ecosystem driving development of new business verticals and maximising the share of customers' wallet

- Over the last 25 years, the Group and its shareholders invested over USD 1 bn in the foundations of Eurotorg, enabling the Group to become not only a market-leading food retailer, but also building what the Company believes to be the most effective multi-channel retail ecosystem in Belarus.
- The Group is successfully rolling out a chain of Magia drogerie stores from January 2018, which are currently being opened at select locations adjacent to grocery stores or transport hubs to capitalize on product offering complementation and benefit from the Group's high customer traffic and knowledge, use of loyalty cards and existing infrastructure such as logistics, IT and HR function.
- In addition to the Group's grocery and drogerie stores, Eurotorg offers product portfolio through E-dostavka.by, its online grocery, and Gipermall.by, its online hypermarket. Eurotorg is the absolute leader in online grocery retail in Belarus, with 98% market share in this segment. The Group's online platform efficiency is supported by its fulfilment capabilities, own courier service and web infrastructure.
- The Group's omni-channel proposition and further integration of formats maximize engagement with customers, increase Eurotorg's share of wallet providing sizeable synergies to its core retail operations and underpinning the Group's growth.

Effective governance, with experienced management team, streamlined decision-making and execution processes

- The Group has a highly skilled management team, formed by the Founding Shareholders, comprising a team of experienced industry professionals with a detailed understanding of the local retail market trends and competitive environment. The team's experience provides the Group with the expertise required to develop and seamlessly implement its business strategy.
- The management team has successfully developed modern grocery retail platform in Belarus under Euroopt and Brusnichka brands over the last decade with the store network increasing from 10 stores in 2008 to 627 stores as of 30 June 2018. Over the last years, the management team has launched high-potential business verticals in online and drogerie segments.
- The involvement and support of its shareholders and the Board creates a more stable and flexible platform from which the Group can effectively operate and achieve its strategic objectives. The Group's supportive shareholder base and Board, together with its leading market position, growth prospects and expansion plans, will enable the business to continue to attract and retain high-calibre managers.

Eurotorg's strategy

The Group's vision is to provide leading customer offering and shopping experience to every household in Belarus at market-leading prices and quality. The Company believes that Eurotorg's leading position in the market, strong brand loyalty, unique retail platform and track record of business operations will allow it to implement a multi-layered development strategy, focused on value creation through:

- achieving revenue growth through market share maximisation in urban areas through the development of small store formats and development of modern retail formats in rural areas, development of a new drogerie store network, and continued growth of the Group's e-commerce platforms; and
- improving operating margins through (i) an increase in sales of higher margin product categories (mainly private label, own-production and non-food categories); and (ii) further strengthening of procurement terms due to increased buying power; strict control of operating expenses and a positive impact of operating leverage; and new store openings without margin dilution.

The Company believes that these strategic priorities will lead to organic debt and interest payments reduction, improved returns on invested capital and growing net profits, and is committed to achieving high shareholder returns through and dividend pay-outs. The Company also believes that the new strategy implies strong free cash flow generation due to its significantly changed capital expenditure profile.

The Group's strategy focuses on:

- Sustainable capex-light expansion of the grocery store network;
- Expansion of the store network in urban and rural areas;
- Developing higher margin drogerie proposition within the Group's retail ecosystem;
- Capitalising on the fast-growing online retail market in Belarus to profitably grow the Group's E-commerce platform;
- Continuing to focus on increasing the share of higher margin private label and own-produced products in the Group's sales;
- Continuing to enhance buying power and further leverage the Group's infrastructure platform;
- Continuing to focus on controlling costs and improving the profitability of the business; and
- Proactively managing the Group's debt portfolio and providing strong and accelerating returns.

Financial and operational highlights

| BYN '000 | 1H 2018 | 1H 2017 | Change | FY 2017 | FY 2016 | FY 2015 |
|---|------------------|------------------|----------------|------------------|------------------|------------------|
| Revenue, net | 2,179,736 | 1,897,646 | 14.9% | 3,932,801 | 3,638,760 | 2,986,568 |
| <i>of which net retail sales</i> | <i>1,952,886</i> | <i>1,751,987</i> | <i>11.5%</i> | <i>3,598,801</i> | <i>3,403,881</i> | <i>2,854,582</i> |
| Gross profit | 561,773 | 504,753 | 11.3% | 1,022,714 | 849,361 | 686,719 |
| <i>Gross margin</i> | <i>25.8%</i> | <i>26.6%</i> | <i>-0.8 pp</i> | <i>26.0%</i> | <i>23.3%</i> | <i>23.0%</i> |
| Adjusted EBITDA | 195,656 | 182,346 | 7.3% | 371,684 | 257,423 | 221,477 |
| <i>Adjusted EBITDA margin</i> | <i>9.0%</i> | <i>9.6%</i> | <i>-0.6 pp</i> | <i>9.5%</i> | <i>7.1%</i> | <i>7.4%</i> |
| Operating profit (EBIT) | 154,997 | 140,838 | 10.1% | 283,554 | 183,513 | 166,509 |
| <i>Operating margin</i> | <i>7.1%</i> | <i>7.4%</i> | <i>-0.3 pp</i> | <i>7.2%</i> | <i>5.0%</i> | <i>5.6%</i> |
| Net profit | 68,678 | 58,916 | 16.6% | 102,517 | (42,775) | (334,934) |
| <i>Net profit margin</i> | <i>3.2%</i> | <i>3.1%</i> | <i>0.1 pp</i> | <i>2.6%</i> | <i>-1.2%</i> | <i>-11.2%</i> |
| Number of stores | 627 | 460 | 36.3% | 500 | 453 | 438 |
| <i>Net store openings</i> | <i>127</i> | <i>7</i> | <i>18.1x</i> | <i>47</i> | <i>15</i> | <i>140</i> |
| Selling space, ths sqm | 300.3 | 273.0 | 10.0% | 278.5 | 270.7 | 250.6 |
| <i>Net selling space added, ths sqm</i> | <i>21.8</i> | <i>2.3</i> | <i>9.4 pp</i> | <i>7.8</i> | <i>20.1</i> | <i>58.1</i> |
| LFL sales growth | 5.9% | 0.7% | 5.2 pp | 1.1% | 1.9% | 0.0% |
| Net sales per 1 | 1,115 | 1,066 | 4.6% | 1,083 | 1,081 | 1,059 |

A copy of the Registration Document will be submitted to the National Storage Mechanism and will be available for inspection at www.morningstar.co.uk/NSM once approved by the FCA. A copy of the Registration Document will also be available online at ir.eurotorg.by.

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About Eurotorg

Eurotorg is the largest grocery retail chain in Belarus, with a market share of 19% in food retail sales (2017). The Company's business was established in 1993 in Minsk. As of 30 June 2018, Eurotorg operated 627 grocery stores under the Euroopt and Brusnichka banners in different formats (hypermarkets, supermarkets and convenience stores).

The Company's strategy, based on offering a focused assortment of high turnover products at market-leading prices, delivers a value proposition that is well-tuned to the needs of Belarusian consumers. Every day approximately 930,000 customers make purchases at Eurotorg stores across 225 localities in Belarus.

Eurotorg's store-based retail operations are complemented by its market-leading online grocery retail offering, represented by two services, E-dostavka.by and Gipermall.by. In 2018, the Group launched a chain of drogerie stores under the Magia banner. As of 30 June 2018, 38 Magia stores had been opened.

In 2017, the Company reported revenue of BYN 3.93 bn under IFRS (USD 2.04 bn based on the average National Bank of Belarus exchange rate for 2017). In 2017, net retail sales of the grocery stores accounted for BYN 3.57 bn (USD 1.85 bn) with the share of 91.0% in total revenue under IFRS.

A brief video about Eurotorg's business can be viewed [here](#).

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