

O'KEY Group S.A.

Russia & CIS 1-1 Conference London





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Introduction

1H 2011 Operational & Financial Review

Strategy & Outlook

Appendix

Speakers

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O'KEY at a glance



Overview

- One of the leading Russian food retailers with particular focus and expertise in the hypermarket segment
 - Hypermarkets account for 90% of selling space, while satellite supermarkets fill in locations better suited for smaller stores
- Concept of a modern European hypermarket providing a pleasant and convenient shopping experience
- Distinctive assortment proposition with a wide product range and focus on fresh, delicatessen and non-food product offering
- Diversified geographical footprint with presence in 15 cities
- High levels of customer loyalty

SOURCE: Company's data

(1) "Constant" SKUs are those SKUs which have been sold at least once during the last quarter

Core hypermarket format complemented by supermarkets (as of September 30, 2011)

	Hypermarkets	Supermarkets
Number of stores	37	24
Total selling space ('000 sqm)	270 (90%)	30 (10%)
Av. selling space (sqm)	7,300	1,250
Number of constant SKUs ⁽¹⁾	35,400	9,100
Typical location	main public transportation hubs	residential districts
Consistent design to provide modern shopping environment in both formats	 	

Resilience through the cycle

RUB mln.	2007	2008	2009	2010	07-10 CAGR
Revenue	30.5	51.1	67.9	82.7	39.4%
Growth rate	83%	68%	33%	22%	
LFL growth	2.8%	32.1%	11.6%	7.7%	
Gross profit	6.5	10.8	14.8	17.9	40.2%
Gross margin	21.2%	21.0%	21.8%	21.7%	
EBITDA	2.2	4.5	5.9	7.1	47.8%
EBITDA margin	7.2%	8.9%	8.7%	8.6%	
Net profit	0.3	(2.9)	0.7	3.0	115.4%

SOURCE: Audited IFRS financial statements for 2007-2010



Geographical coverage



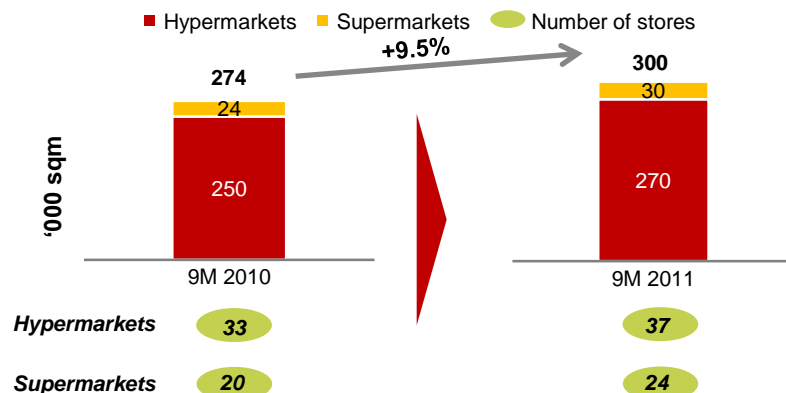
■ O'KEY develops its store chain in regions and large cities with relatively high levels of personal income and consumption

■ St. Petersburg is the leading Russian region in terms of modern retail penetration. It is the birthplace of major Russian hypermarket chains – O'KEY, Karusel and Lenta

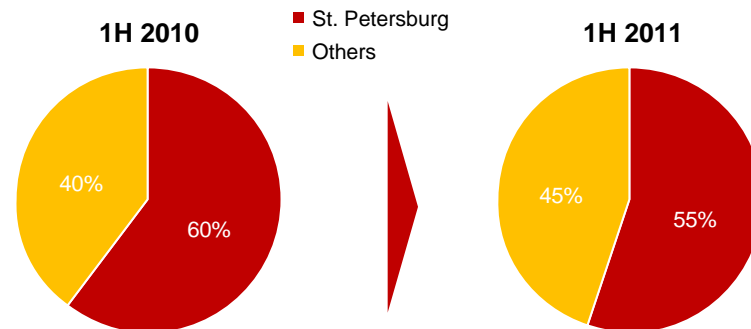
SOURCE: Company data as of June 2011

(1) Including Krasnoe Selo and Kingisepp; (2) Including Noginsk and Lobnya

Selling space and number of stores



Revenue composition



SOURCE: Company data as of June 2011





Our key strengths

Highlights

Expertise in hypermarkets

Strong customer proposition

Focus on expansion

Highly efficient operations

Strong real estate portfolio

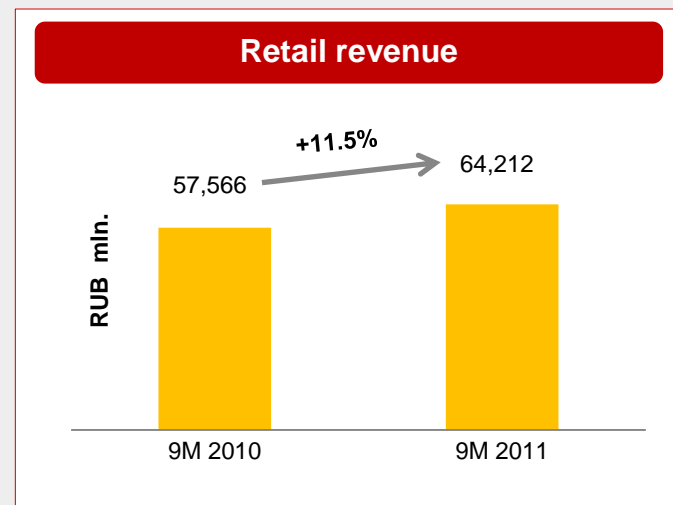
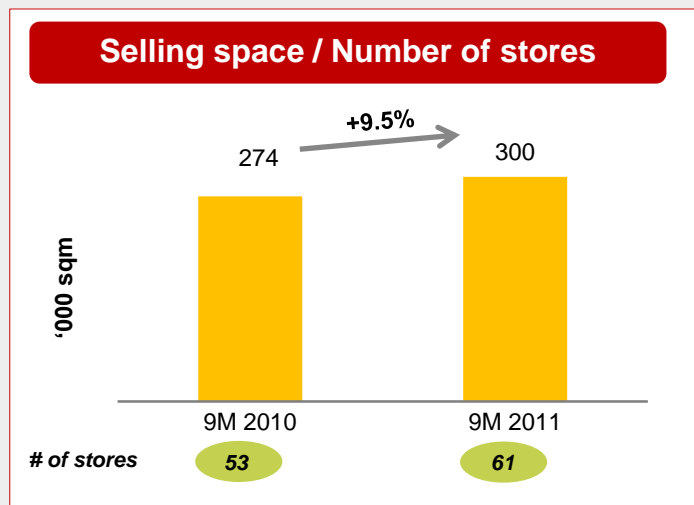
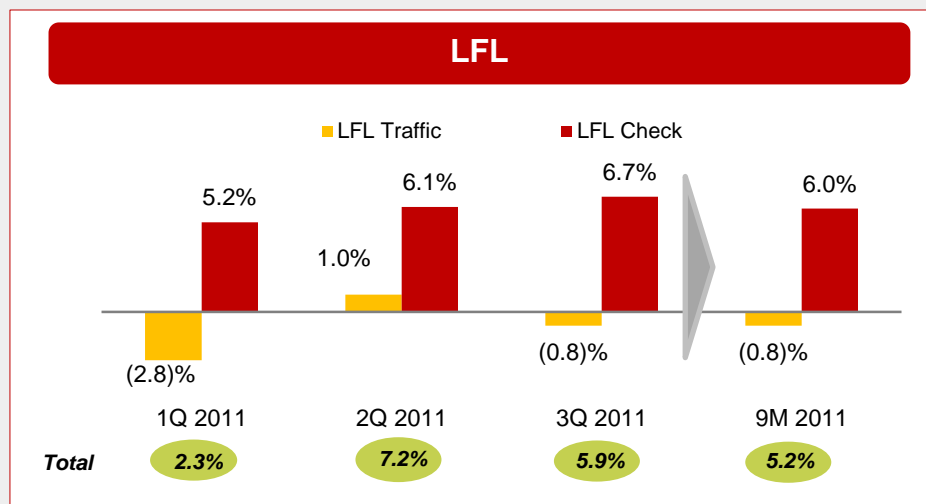
Highly experienced management team

Comments

- ✓ Historical focus on hypermarkets, one of the most attractive segments of Russian food retail market
- ✓ Distinctive expertise of the management team
- ✓ Wide product range providing a customer solution – competitively priced core assortment with focus on fresh and delicatessen products as well as non-food
- ✓ Modern in-store shopping experience – family friendly infrastructure complemented by third party services
- ✓ High levels of customer loyalty
- ✓ Selling space CAGR of 25% over 2007-2010
- ✓ Expansion in the regions with 45% of revenue generated outside St. Petersburg⁽¹⁾
- ✓ One of the highest revenue per sqm among largest Russian publicly-traded food retailers⁽²⁾
- ✓ One of the lowest SG&A costs⁽³⁾ and highest EBITDA per sqm⁽²⁾
- ✓ Strong performance sustained during 2008-2009 economic downturn
- ✓ Active land bank management – 60% of owned real estate
- ✓ 15 owned land plots currently available for construction of own stores
- ✓ Significant flexibility in terms of further development, especially in the regions
- ✓ Experienced team of professionals with a strong track-record in Russian and international markets
- ✓ CEO Patrick Longuet has more than 30 years of retail experience



(1) As of 1H 2011; (2) Compared to X5 Retail Group and Magnit, based on last twelve months to June 30, 2011; (3) As % of sales, compared to X5 Retail Group and Magnit, based on last twelve months to June 30, 2011. Please refer to page 29 for detail
SOURCE: Companies data; Reviewed IFRS financial statements for 1H 2011



SOURCE: Retail revenue excludes Rental income and Revenue from advertising services

Note: LFL analysis is based on number of stores that had been operating for not less than twelve months and have achieved a mature level of sales



Introduction

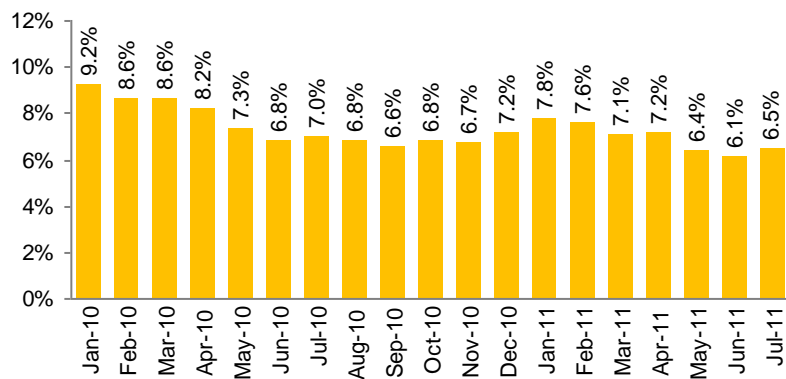
1H 2011 Operational & Financial Review

Strategy & Outlook

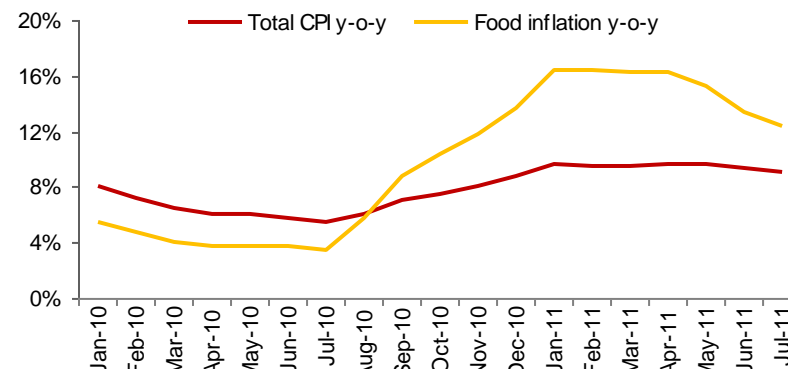
Appendix



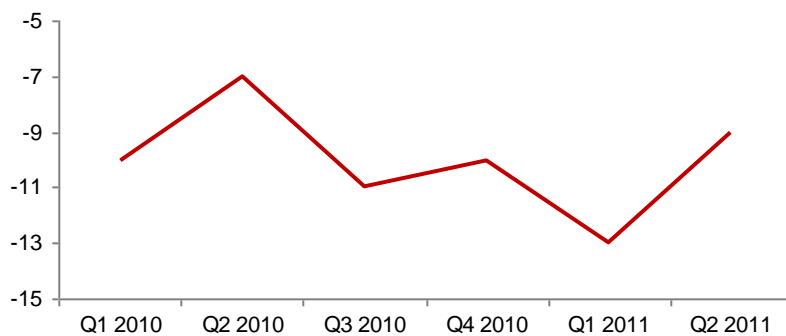
Unemployment rate



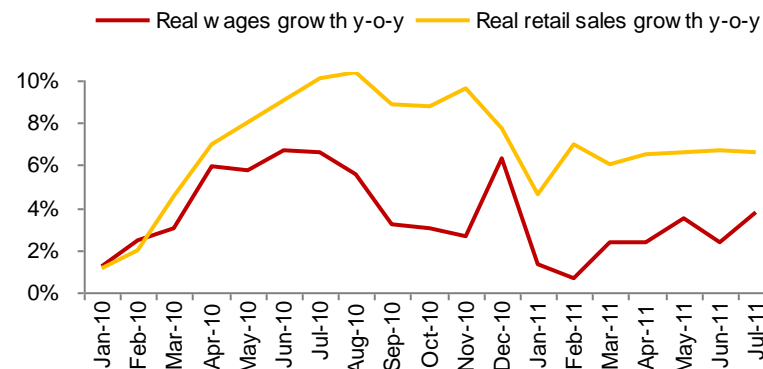
Inflation



Consumer Confidence Index



Real wages growth vs. real retail sales ⁽¹⁾ growth



SOURCE: Russian Statistics Bureau

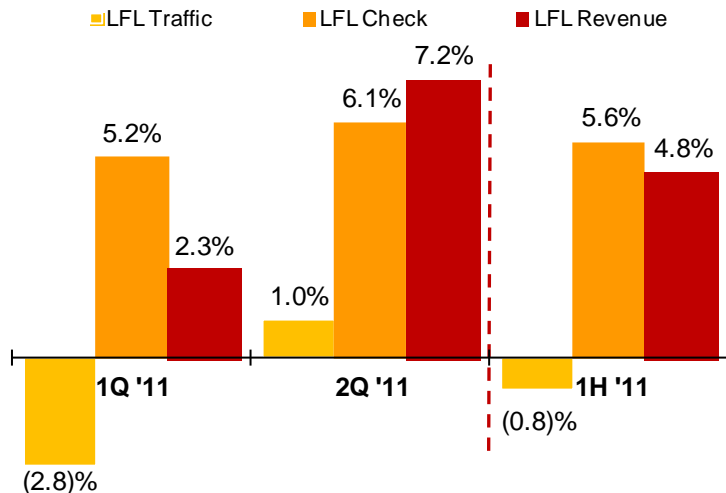
(1) Retail sales represent total retail sales by trading companies, private entrepreneurs and markets, as defined by Russian Statistic Bureau





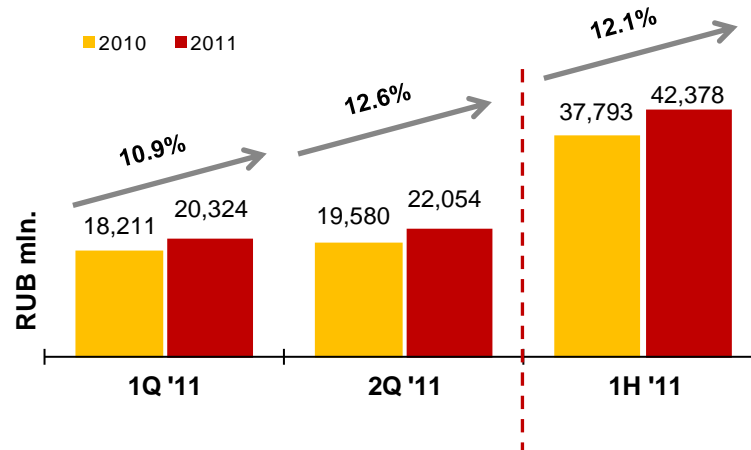
Overview of half year results: LFL and revenue

LFL revenue (RUB terms)



- The impact of Ozerki accident was felt in the first 4 months of 2011. Traffic rebounded in May and June, with resulting LFL traffic growing by 1.0% in Q2 11
- LFL basket growth followed the inflation trends accelerating in Q2, with total LFL basket growth reaching 5.6% in 1H 11

Retail revenue



- 1H 2011 retail revenue growth stood at 12.1%, mostly driven by selling space addition (9.7%)
- 3 hypermarkets and 2 supermarkets were opened in 2H 2010
- 1 hypermarket and 1 supermarket were opened in 1H 2011
- Ozerki store was closed since January 26, while it was fully operational in 1H 2010

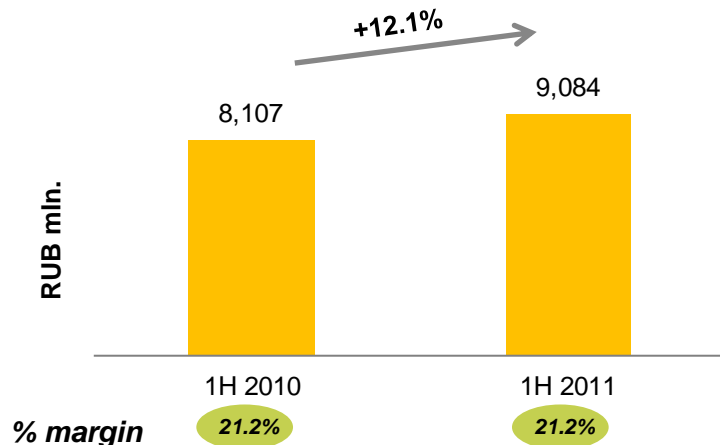
SOURCE: Reviewed IFRS financial statements for 1H 2011

Retail revenue excludes rental income and revenue from advertising services

Note: LFL analysis is based on number of stores that had been operating for not less than twelve months and have achieved a mature level of sales

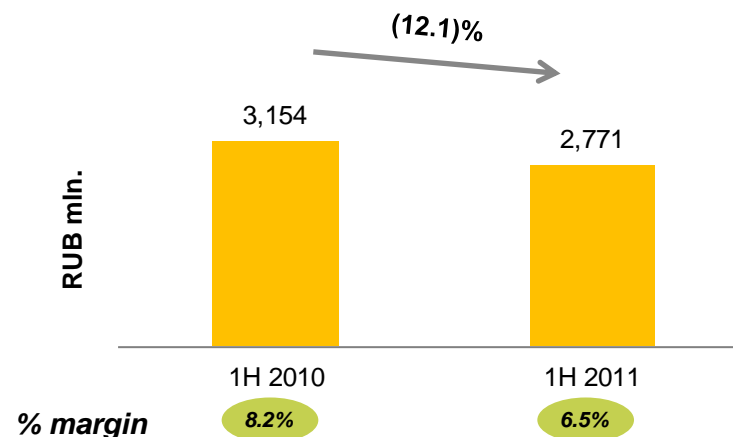


Gross profit and margin



- We saw improvement in trading margin in 1H 11, which however was offset by additional shrinkage costs incurred due to Ozerki accident and additional logistics costs resulting from increasing warehousing space
- As a result our gross profit margin remained flat compared to 1H 2010

EBITDA and margin

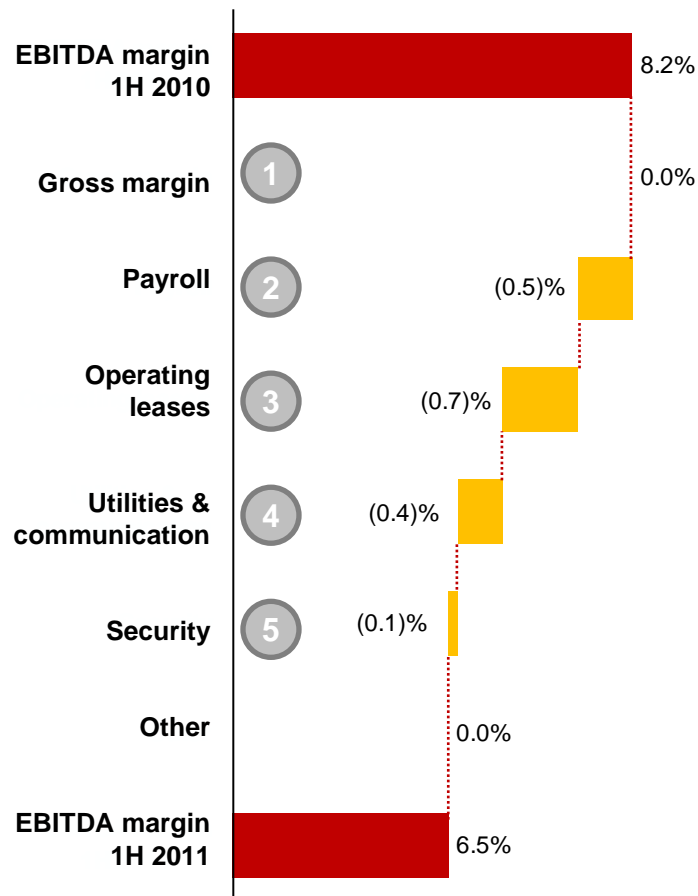


- Our EBITDA margin was adversely affected by increase in operating leases, payroll costs and utilities

SOURCE: Reviewed IFRS financial statements for 1H 2011



EBITDA margin bridge 1H 2010– 1H 2011



Key comments

- 1 Trading margin improvement was offset by additional shrinkage and logistics costs
- 2 Payroll costs were driven by unified social tax increase from 26% to 34%
- 3 Operating leases increased following 90% expansion in leased space (including sale and lease back arrangements) between 1H 2010 and 1H 2011
- 4 Increase in utility costs was driven by liberalization of tariffs
- 5 Security costs were affected by increase in social tax

SOURCE: Reviewed IFRS financials statements for 1H 2011



Summary P&L

RUB mln.	1H 2011	1H 2010
Total revenue	42,798	38,254
<i>YoY growth</i>	<i>11.9%</i>	<i>21.5%</i>
Gross profit	9,084	8,107
<i>Gross margin</i>	<i>21.2%</i>	<i>21.2%</i>
SG&A	(7,162)	(5,729)
<i>% of revenue</i>	<i>16.7%</i>	<i>15.0%</i>
Other op. income (expense)	4	(97)
Operating profit	1,926	2,281
<i>Operating margin</i>	<i>4.5%</i>	<i>5.9%</i>
Finance income	22	2
Finance costs	(365)	(668)
Foreign exchange gains/(losses)	106	(279)
Profit before tax	1,689	1,337
Income tax expense	(600)	(469)
NET INCOME	1,089	869
<i>Net Income margin</i>	<i>2.5%</i>	<i>2.3%</i>

SOURCE: Reviewed IFRS financials statements for 1H 2011





Cash flow highlights and working capital evolution

Cash flow

RUB mln.	1H 2011	1H 2010
1 Net cash from operating activities	(35)	719
2 Net cash used in investing activities	(1,962)	(1,555)
3 Net cash from financing activities	(2,971)	(157)
Net increase in cash and cash equivalents	(4,968)	(993)

Comments

- 1 Operating cash decreased following the decline in profitability and days payable
- 2 Increase in cash used in investing activities reflects growing investments into expansion
- 3 Net cash from financing activities was driven by repayment of borrowings

SOURCE: Reviewed IFRS financial statements for 1H 2011

Working capital

RUB mln.	1H 2011	1H 2010
1 Inventories	5,331	4,508
2 Trade and other receivables ⁽¹⁾	849	902
3 Trade and other payables ⁽²⁾	(8,071)	(7,708)
Net working capital	(1,891)	(2,298)
Cash conversion cycle	(15)	(19)

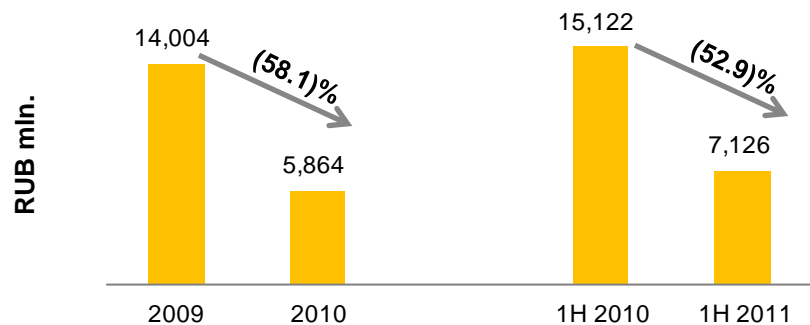
Comments

- 1 Higher inventories reflect increased sales, with inventory days slightly above 1H 2010 number but in line with FY 2010 (30 days)
- 2 Receivable days were in line with 1H 2010 (5 days)
- 3 Payable days decreased from 52 to 50 days following the introduction of the new Retail Law

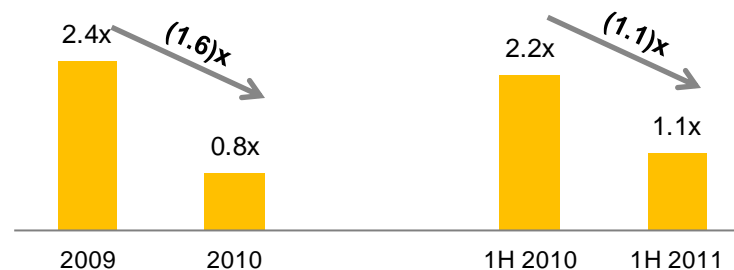
SOURCE: Audited IFRS financial statements for 2009 and 2010 and reviewed financials statements for 1H 2011; (1) Includes trade receivables, VAT receivables and other receivables (incl. Foreign exchange receivable); (2) Includes trade payables and advanced received



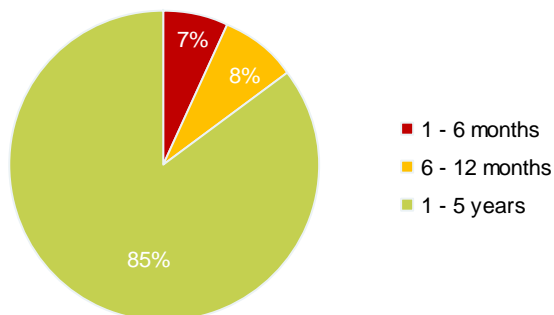
Net debt⁽¹⁾



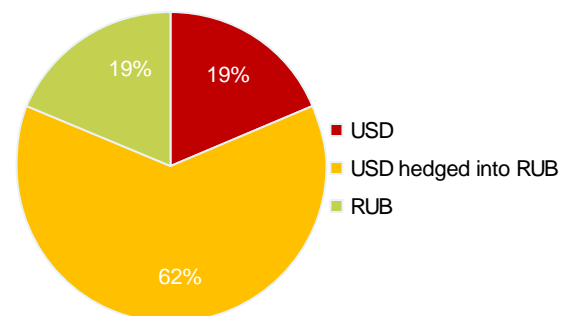
Net debt / EBITDA



Debt portfolio structure by maturity (as of June 2011)



Debt portfolio structure by currency (as of June 2011)



SOURCE: Company's calculations based on audited IFRS financial statements for 2007-2010 and reviewed financial statements for 1H 2011

(1) Calculated as Total interest bearing debt (Current borrowings plus non-current borrowings) less cash & cash equivalents



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Expansion

- Continue expansion in Moscow and other Russian regions
- Establish presence in more than 25 Russian cities by 2015

Product offering

- Further tailor our assortment to better fit local customers
- Increase share of non-food and continue enhancing private label offering

Supply chain

- Set up a network of cross-docking platforms
- Expand warehousing capacity to support import and private label operations

IT

- Implement innovative IT solutions to further enhance CRM and store efficiency

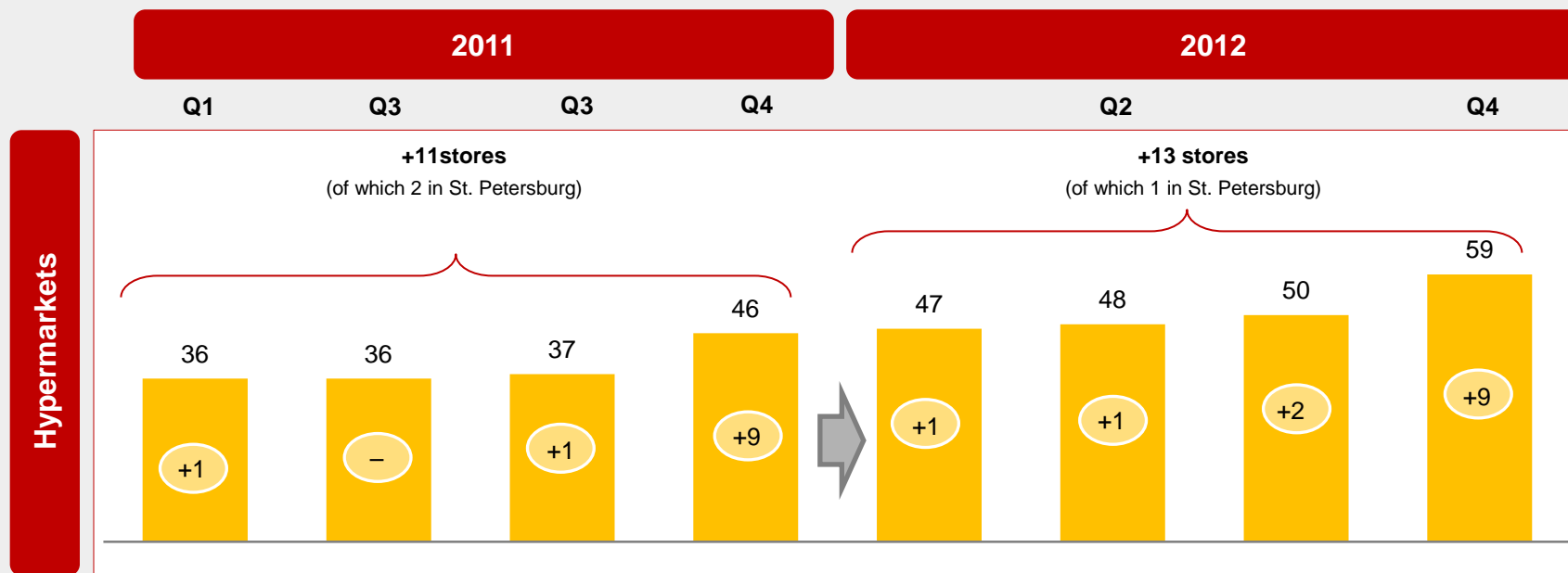


Goals	H2 2011 Plan	2011 targets
Store rollout	<ul style="list-style-type: none"> Opening of 10 hypermarkets and 9 supermarkets in 2H 2011 Re-opening of Ozerki hypermarket 	Net selling space: +30%
LFL	<ul style="list-style-type: none"> Focus on maintaining positive traffic trend Maintaining ticket growth at levels close to inflation 	LFL growth: 6.0%
EBITDA	<ul style="list-style-type: none"> Gross margin improvement due to seasonal effect SG&A improvement due to <ul style="list-style-type: none"> Disappearance of Ozerki accident impact Increased operating leverage in 2H 2011 	EBITDA margin: 7.8% – 8.0%
Capex	<ul style="list-style-type: none"> Investing into new store and land acquisition Investing into maintenance of existing stores 	~ RUB 10bln





Store portfolio rollout program



○ Additions during the quarter

	2011	2012
■ Opened	3	—
■ Fit-out in progress	5	—
■ Construction in progress	3	1
■ Additional locations secured	—	9
■ Negotiations in progress	—	3



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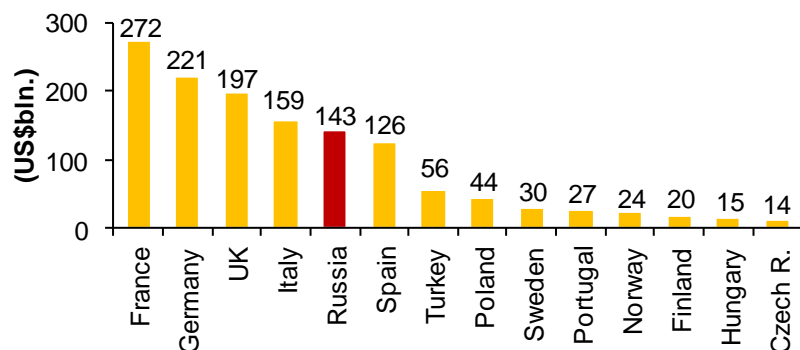
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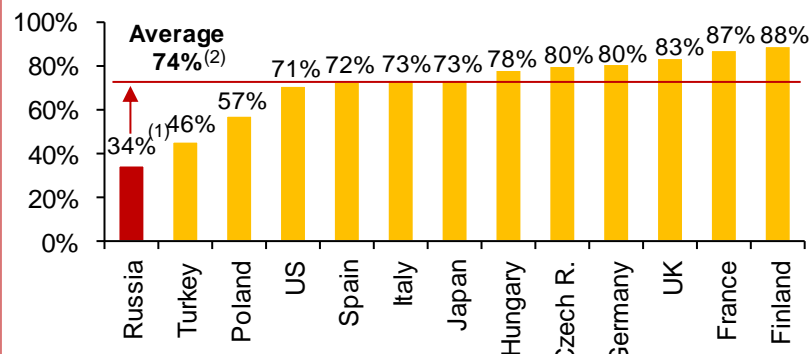
Russia is one of the world's most attractive food retail markets

Russia is one of the largest food retail markets in Europe ...



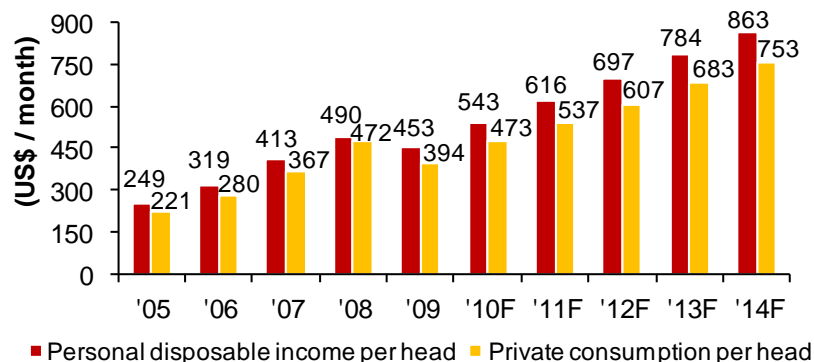
SOURCE: Euromonitor data for 2009 (as of 25 June 2010)

... with one of the lowest rates of penetration by modern retail ...



SOURCE: Euromonitor data for 2009 (as of 25 June 2010)

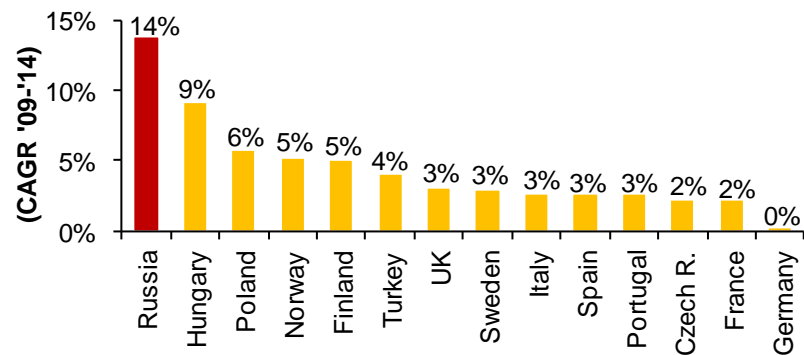
... and recovering consumption and income levels ...



SOURCE: EIU as of 25 June 2010

(1) Rosstat data for total grocery retail market value and Euromonitor data for modern retail formats value, (2) Average excluding Russia

... which should fuel Russian food retail market growth



SOURCE: Euromonitor data for 2009 (as of 25 June 2010)



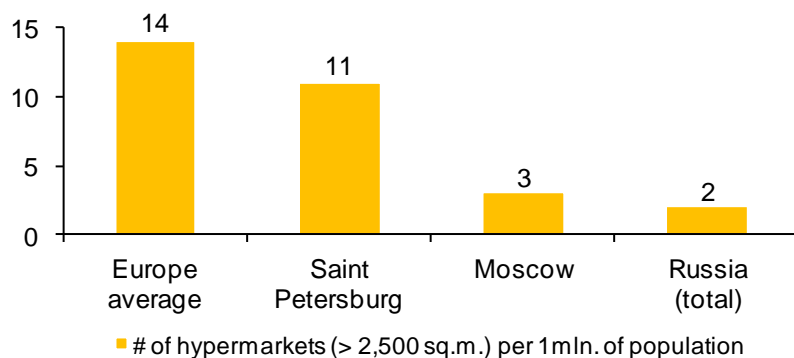


O'Key has strong expertise in hypermarkets, format with appealing growth prospects

Distinctive expertise in hypermarkets

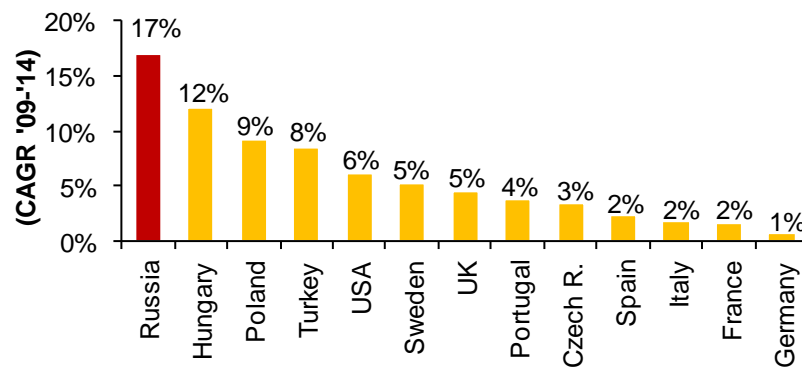
- Focused on one core format – hypermarkets
- Supermarkets (O'Key Express brand) – a satellite format, providing a better fit for specific locations (i.e. residential areas)
- Strong track record in the hypermarket format – roll-out through organic growth and store acquisitions
- Concept of a classic modern European hypermarket:
 - up to 64,000 SKUs of food / non-food products
 - affordable prices
 - large share of fresh food, own bakery and delicatessen
 - convenient locations with large parking area and selling space

Significant undersupply of hypermarkets in Russia...



SOURCE: AC Nielsen as of 7 June 2010

... with high growth potential in this segment relative to overall market







SOURCE: Euromonitor data for 2009 (as of 25 June 2010)





Clearly defined and consistent hypermarket format with satellite supermarkets

	Hypermarket	Supermarket
Average store selling space (sqm)	7,300	1,250
Total selling space (sqm)	270,000 (90% of total)	30,000 (10% of total)
No. of stores	37	24
Product range	SKUs: 35,400 Fresh products: 42% of total Non-food products: 26% of total	SKUs: 9,100 Fresh products: 52% of total
Penetration (No. of cities)	17	6
Average ticket (RUB) ⁽¹⁾	830	409
Target audience	People living within 10 minutes by car / 30 minutes by public transport	People living within 5 minutes by car / 15 minutes walking distance
Locations	Near public transportation hubs, in areas with low or limited competition  	Within highly populated residential districts, in close proximity to roads  

Note: Data as per August 24, 2011; (1) Average ticket include VAT



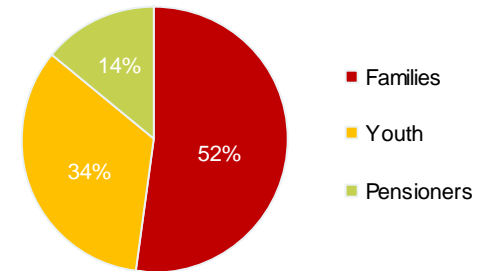


Our value proposition is customized to our formats and all customer segments

Target audience

Target audience structure

Customer types	Focus areas
Hypermarkets <ul style="list-style-type: none"> Families (30-60 years old) Youth (up to 30 years old) 	<ul style="list-style-type: none"> Wide assortment with premium products at affordable prices Comfortable shopping with parking and children's play areas One stop shopping: cleaning services, pharmacies, ATMs, mobile retailers Visiting 1-2 times a week (primarily at weekends)
Supermarkets <ul style="list-style-type: none"> Pensioners (over 60 years old) All income levels 	<ul style="list-style-type: none"> Convenient locations within walking distance of residential districts High quality products for daily shopping of fresh food Private label products to reduce prices for essential goods Visiting 3-4 times a week



Customers are the key focus of our business



**O'KEY**

O'KEY pricing model

Pricing model allowing for significant competitive advantages

Price

Market entry price

Market highest price

SKUs

Basic

Average

Average +

25%

35%

40%

Absolute margins (RUB)

Comments

- **Products at affordable prices** in three main segments:
 - Basic
 - Average
 - Average +
- **Prices monitoring:**
 - Daily:
Fruit & vegetables and top-30 items – prices lower than those of competitors
 - Weekly:
Top-500 assortment items – prices not higher than those of competitors
- **“First” price concept** – minimum prices for the top selling goods in each product group
- **No negative margins**

“First” price concept

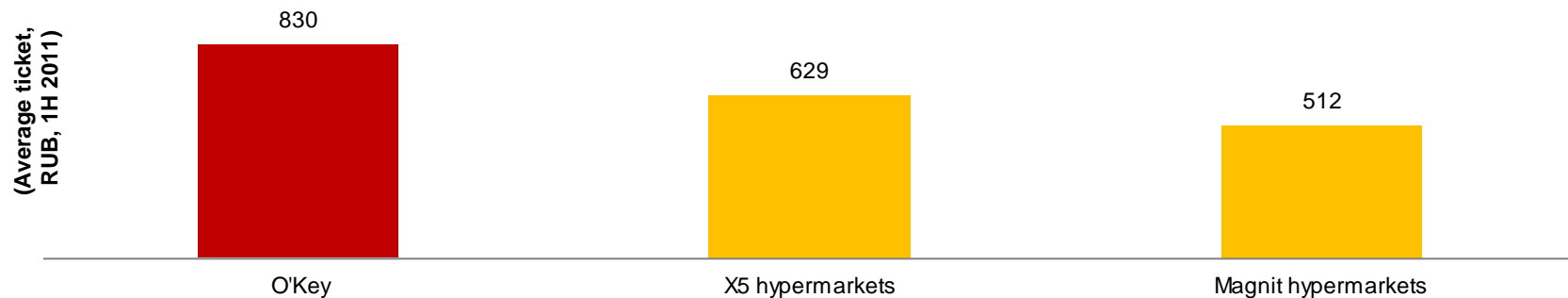
- List of 600 essential products defined
- Regional adjustment
- Availability of products in all stores
- Regular monitoring and negotiations with suppliers to maintain low prices





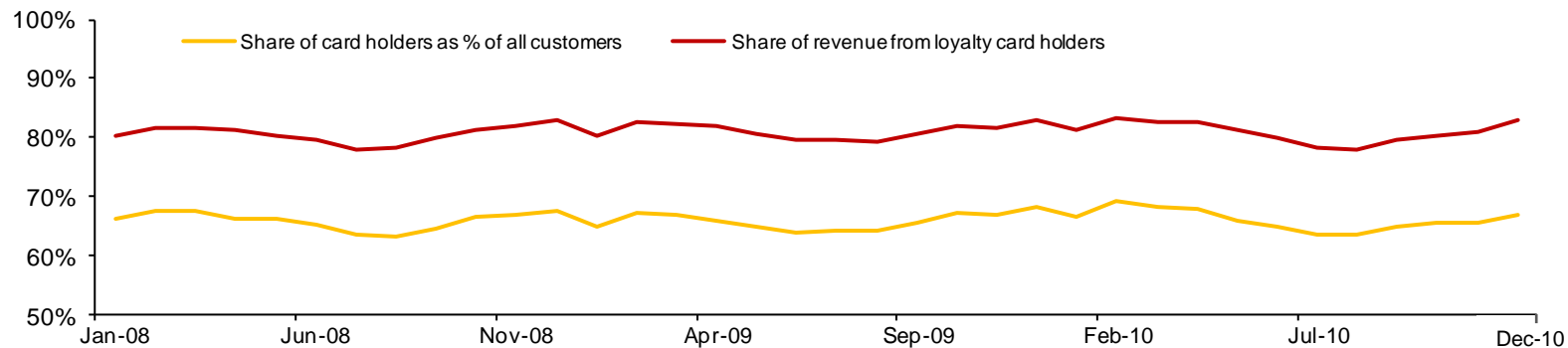
Customers' loyalty and high brand equity

Higher than average basket (hypermarkets)...



SOURCE: Companies data

... supported by high level of customers' loyalty



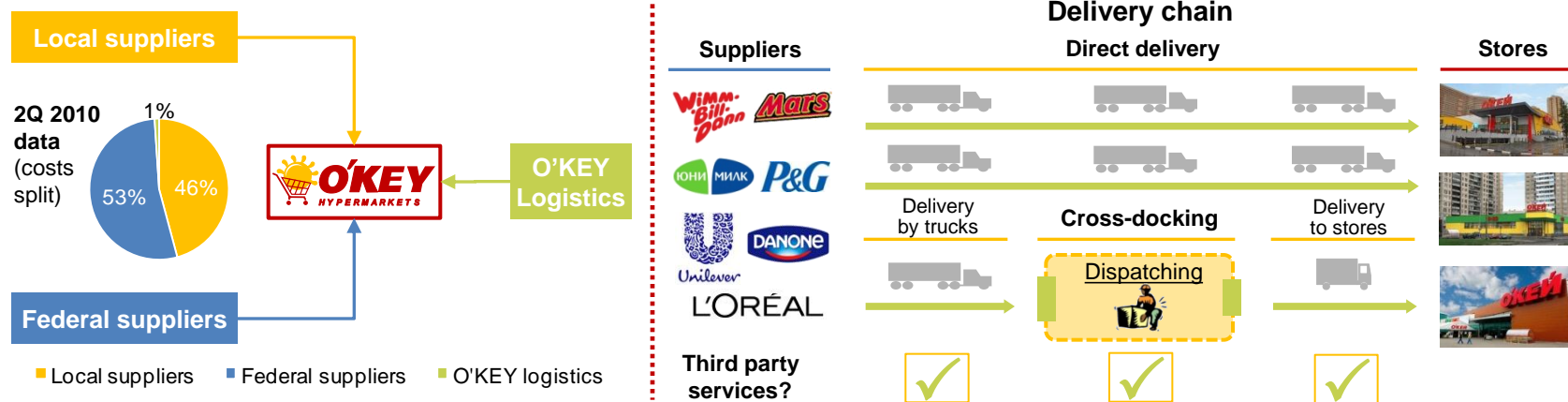
SOURCE: Company data





Efficient supply chain

"Smart" supply chain



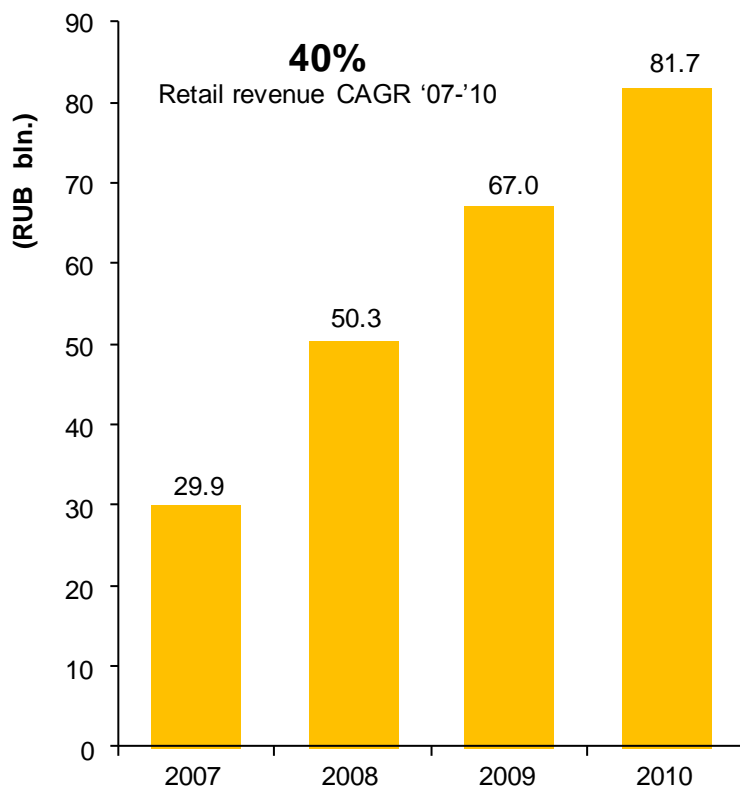
SOURCE: Company data as of June 30, 2010

Comments

- Supply chain model hinging on direct delivery supplemented by storage warehouses for imported and private label products and cross-docking facilities
- The model brings a number of advantages to the business:
 - Availability of a wide product assortment, tailored to local consumer preferences
 - Low inventory level as products go straight onto shelves upon delivery
 - Few out-of-stock issues as time lags between order, delivery and availability on the shelves are short
 - Supports faster roll-out, as openings are less constrained by availability of own logistics infrastructure
 - Minimizes management time and financial resources spent, as compared to running own logistics
 - Cost of warehousing and delivery born by suppliers
- Proven track record of operations in all regions of O'KEY's presence
- Higher stocks turnover and better cash operating cycle
- Plans to expand storage capacity for imported and private label products by setting up additional cross-docking facilities as the density of stores increases in each city
- Currently O'KEY plans to outsource logistics facilities and concentrate its resources in retail operations



Retail revenue

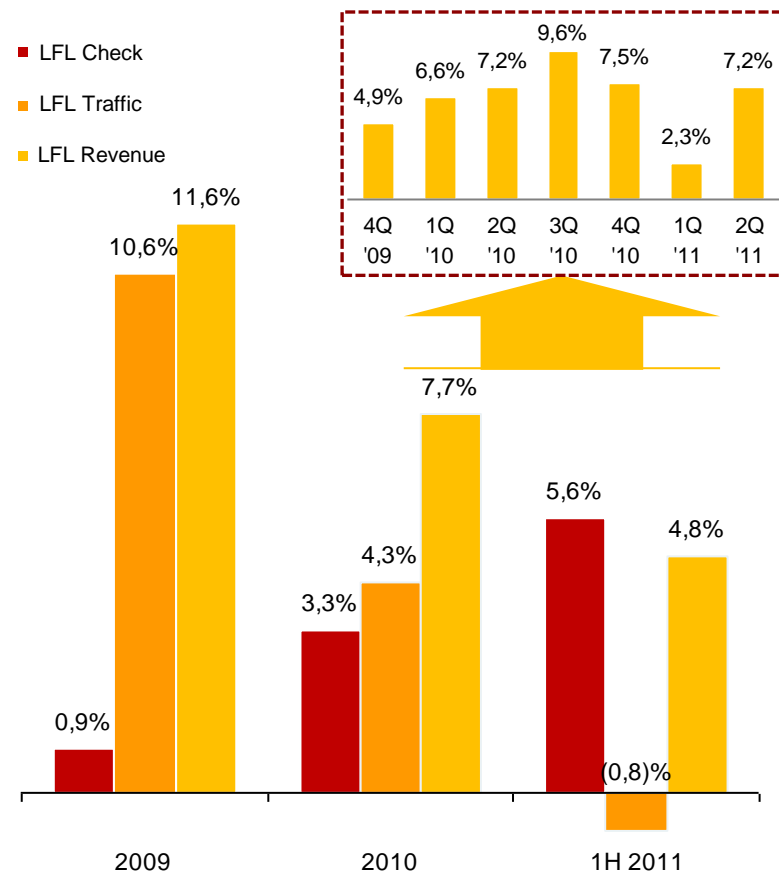


SOURCE: Audited IFRS financial statements for 2007-2010

Retail revenue excludes Rental income and Revenue from advertising services.

Note: LFL analysis is based on number of stores that had been operating for not less than twelve months and have achieved a mature level of sales

LFL revenue (RUB terms)



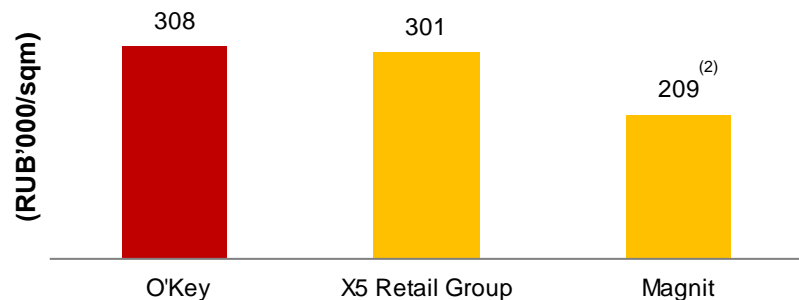
SOURCE: Management accounts



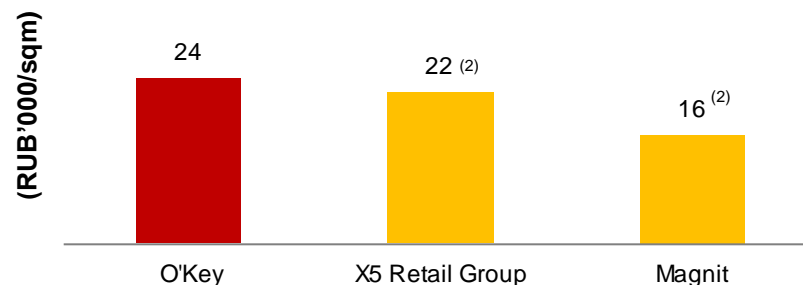


Most efficient operations among largest Russian public food retailers

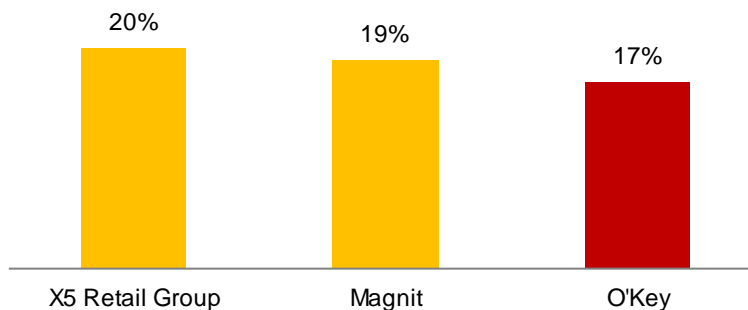
Revenue per sqm⁽¹⁾ (LTM June 2011)



EBITDA per sqm⁽¹⁾ (June 2011)



SG&A as % of revenue (1H 2011)



SOURCE: Companies' data

(1) Calculated as total Revenue / EBITDA divided by average selling space for the year (average between selling space at the beginning and at the end of the year)

(2) The amount was converted to RUB with an average exchange rate of 28.6 RUB/US\$ during 1H 11, 30.1 during 1H 10 and 30.4 during 2010





Summary consolidated P&L

P&L			Cash Flow		
RUB mln.	2010	2009	RUB mln.	2010	2009
Total revenue	82,667	67,875	Net cash from operating activities	5,111	2,872
<i>% YoY growth</i>	<i>21.8%</i>	<i>32.7%</i>	Net cash used in investing activities	(3,393)	(3,290)
Gross profit	17,924	14,768	Net cash from financing activities	2,404	128
<i>% gross margin</i>	<i>21.7%</i>	<i>21.8%</i>	Net increase in cash and cash equivalents	4,122	(289)
SG&A	12,408	10,304	Working capital		
<i>% of revenue</i>	<i>15.0%</i>	<i>12.5%</i>	RUB mln.	2010	2009
Other op. income & expense	846	275	Inventories	5,995	5,145
Operating profit	5,791	3,618	Trade and other receivables	1,253	934
<i>Operating margin</i>	<i>7.0%</i>	<i>5.3%</i>	Trade and other payables	(10,637)	(9,743)
Finance income	17	38	Net working capital	(3,389)	(3,664)
Finance costs	1,354	1,684	Operating cash cycle (days)	(20)	(26)
Foreign exchange gains/ (losses)	(112)	(321)			
Profit before income tax	4,341	1,651			
Income tax	(1,338)	(937)			
Profit for the period	3,003	714			

SOURCE: Audited IFRS financial statements for 2009 and 2010



Corporate governance levels

Board of Directors

- Responsible for setting strategic goals for the Company
- Board of Directors consists of 5 members including:
 - 3 beneficial owners: Mr. Troitskii, Mr. Korzhev and Mr. Volchek
 - 2 INEDs – heads of audit and remuneration committees
- Meets on a regular basis with the constant participation of Company's CEO

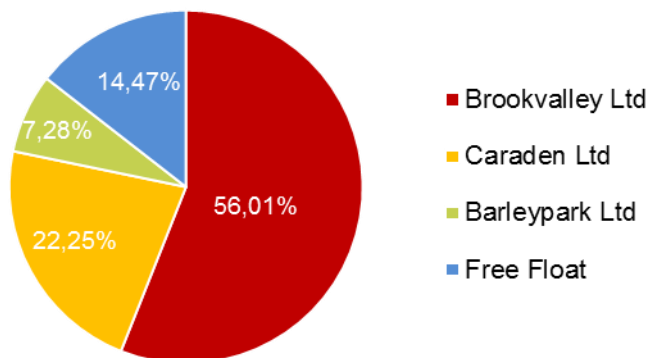
CEO

- Responsible for implementation of the Group's strategy and setting objectives for operational management

Top management

- Responsible for day-to-day operational management of the Group

Shareholders structure



Dividend policy and management incentive program

- Dividends at the target ratio of 25% of Group's net profit for the relevant period can be distributed per the AGM decision
- The Board put in place the management compensation and incentive plan based on stock performance