

O'KEY Group S.A. 1Q 2014 Operating results





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1Q 2014 Key highlights

2013 Operating & Financial Review

Strategy & Outlook

Appendix





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 91% 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 22 major 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 semester; as of 30 June 2012;

Core hypermarket format complemented by supermarkets (as of March 31, 2014)

	Hypermarkets	Supermarkets
Number of stores	62	34
Total selling space ('000 sqm)	456 (91%)	45 (9%)
Av. selling space (sqm)	7,400	1,300
Number of constant SKUs ⁽¹⁾	35,000	9,000
Typical location	main public transportation hubs	residential districts
Consistent design to provide modern shopping environment in both formats	 	

Track record in growth and profitability

RUB bln	2008	2009	2010	2011	2012	2013	CAGR
Revenue	51.1	67.9	82.7	93.1	117.3	139.5	22%
Growth rate	67.5%	32.7%	21.8%	12.7%	26.0%	18.9%	
LFL growth	32.1%	11.6%	7.7%	5.3%	7.0%	8.0%	
Gross profit	10.8	14.8	17.9	21.3	27.6	33.3	25%
Gross margin	21.0%	21.8%	21.7%	22.8%	23.5%	23.9%	
EBITDA	4.5	5.9	7.1	7.5	9.4	11.0	19%
EBITDA margin	8.9%	8.7%	8.6%	8.1%	8.0%	7.9%	
Net profit	(2.9)	0.7	2.7	3.2	4.7	5.0	47%

SOURCE: Audited IFRS financial statements for 2007-2012



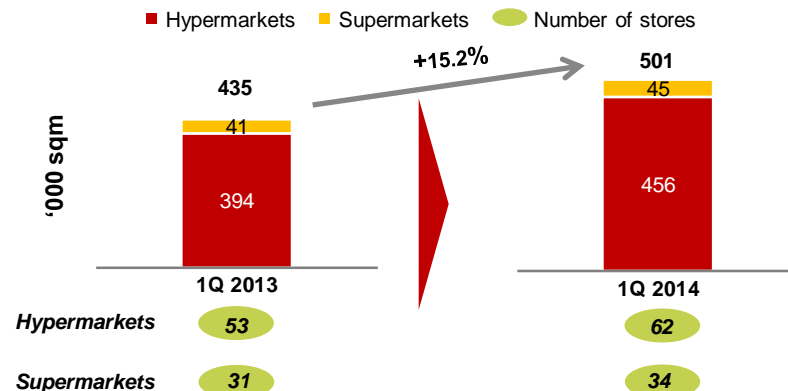
Geographical coverage (as of March 31, 2014)



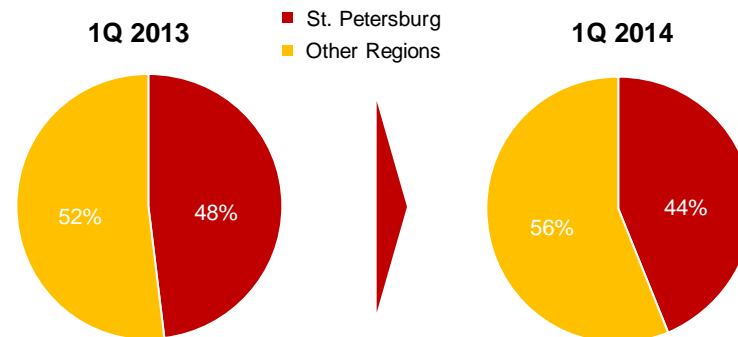
- Expansion into regions with high levels of personal income and consumption
- Maintaining leadership in one of the most competitive markets – St. Petersburg

(1) Including Krasnoe Selo and Kingisepp; (2) Including Moscow Region

Selling space and number of stores (as of March 31, 2014)



Revenue composition



SOURCE: Company data as of 31st March 2014 based on Revenue from sale of goods



Differentiated shopping experience...

- Pleasant and comfortable shopping experience



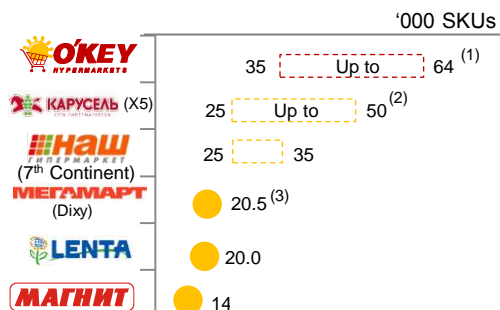
- Convenient locations with direct road access and large parking areas
- "All under one roof" concept with additional services and adjacent stores in the same building
- Spacious buildings with easy navigation on the trading floor
- Modern design of interiors with particular focus on the comfort and ease of shopping



- Clean and lean premises, constant internal control over sanitary norms and outlook of the stores, no stocking on the trading floor

...with compelling product range...

- 35,000 SKU are sold constantly and up to 64,000 with seasonal assortment



- High share of fresh food and non-food assortment
- Assortment covering all customer needs with basic average and average+ offering (by price and quality)

SKUS	Basic	Average	Average +
	25%	35%	40%

- Focus on products outside of the basic range, with the target to deliver value added products to the customers
- Growing share of private labels, with the focus on higher quality items

...priced competitively

- Matched with the lowest prices of local competitors
- Active constant price monitoring in all stores
- Regular promotions and catalogues with special offers are given to the customers
- First price concept is applied to the top selling goods in each product category
- Small price gaps are maintained within each product line to make better products more affordable and to facilitated trading up



SOURCE: Companies' data; for Megamart, Lenta and Magnit - average number of SKUs

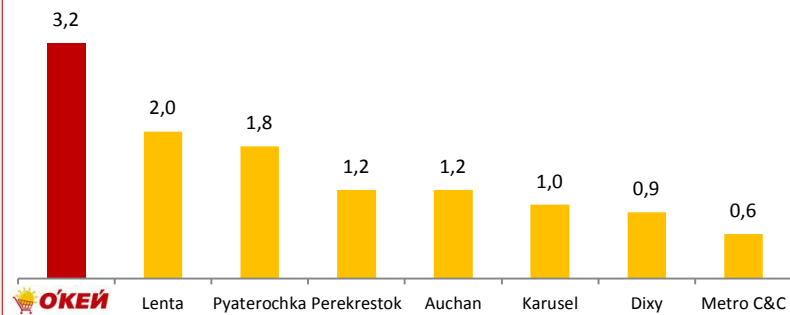
(1) As of 30 June 2012 (2) As of December 2011 (3) As of 30 November 2011





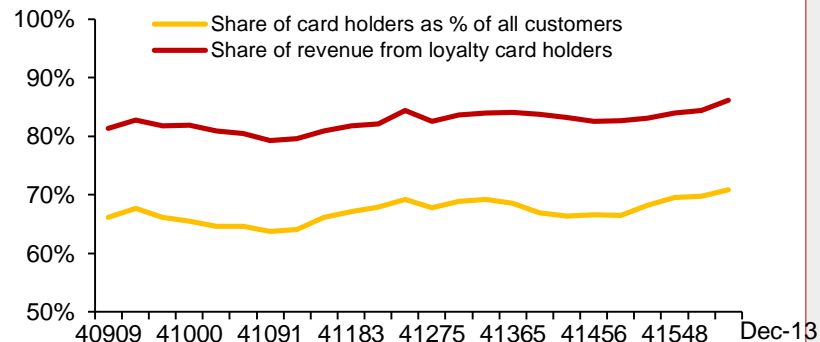
Customers' loyalty and high brand equity

Highest store equity⁽¹⁾ among competitors...



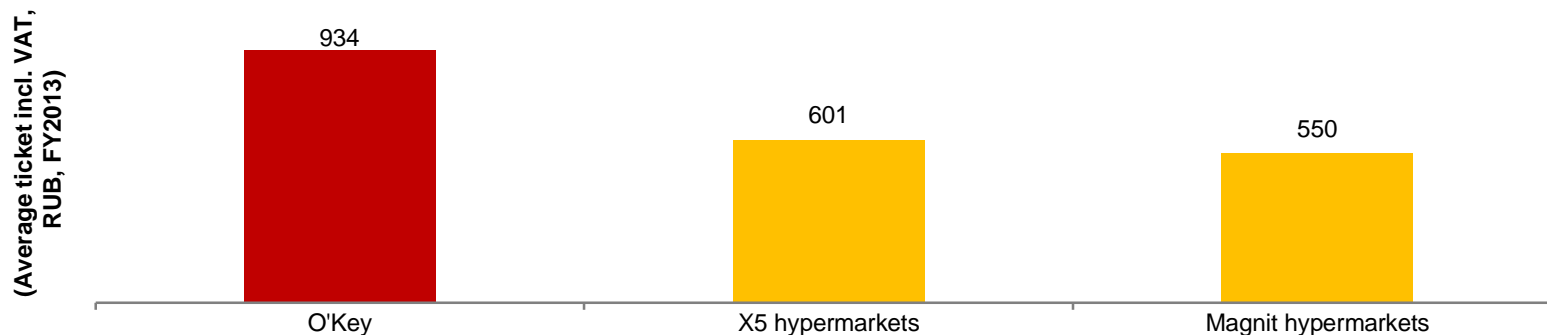
SOURCE: Nielsen 2013, St. Petersburg Brand Leadership

...and high level of customer loyalty...



SOURCE: Company data

... supporting higher than average basket (hypermarkets)



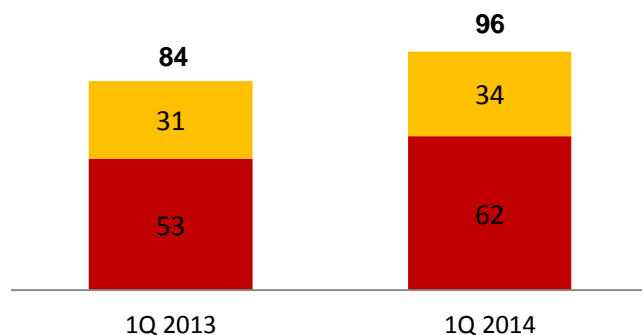
SOURCE: Company data

(1) Brand leadership in St. Petersburg, strong brands have an index >3, moderate brands from 1 to 3



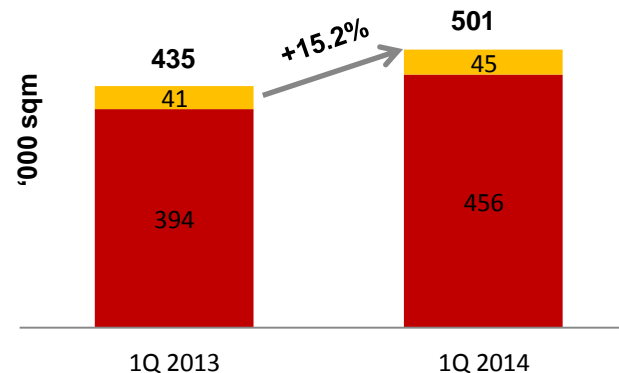
Number of stores

■ Hypermarkets ■ Supermarkets



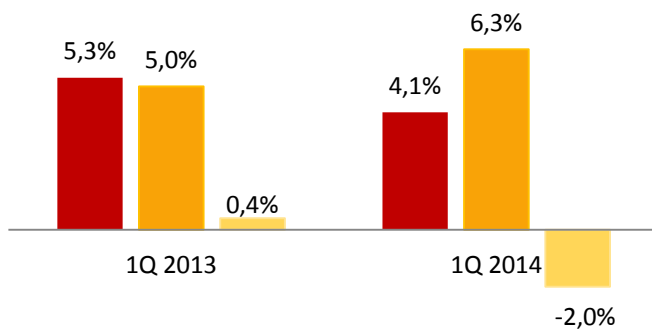
Selling space

■ Hypermarkets ■ Supermarkets

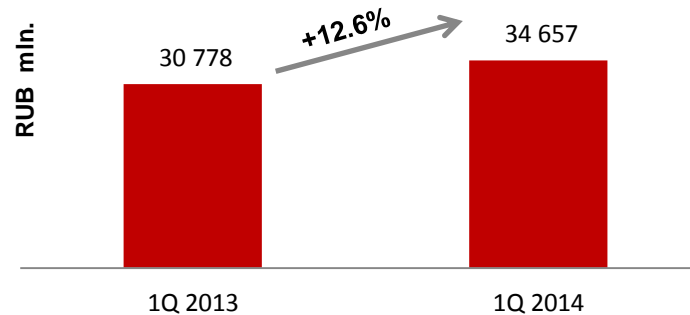


LFL

■ LFL Revenue ■ LFL Ticket ■ LFL Traffic



Retail revenue⁽¹⁾



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

(1) Retail revenue excludes Rental income and Revenue from advertising services





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 21% over 2008-2013
- ✓ Expansion in the regions with 56% 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 – 55% of real estate is owned
- ✓ 71 locations are currently secured for future expansion
- ✓ 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



(1) As of 1Q 2014; (2) Compared to X5 Retail Group, Dixy and Magnit, based on FY2012; (3) As % of sales, compared to X5 Retail Group, Dixy and Magnit, based on FY2012 Please refer to page 31 for detail
SOURCE: Companies data; Reviewed IFRS financial statements for FY2013

1Q 2014 Key highlights

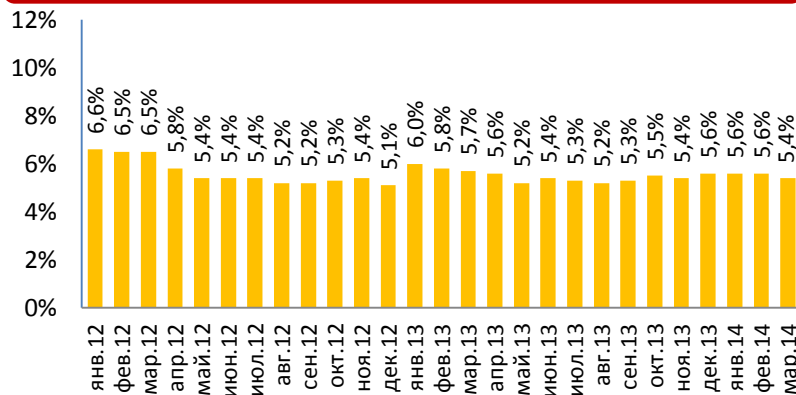
2013 Operating & Financial Review

Strategy & Outlook

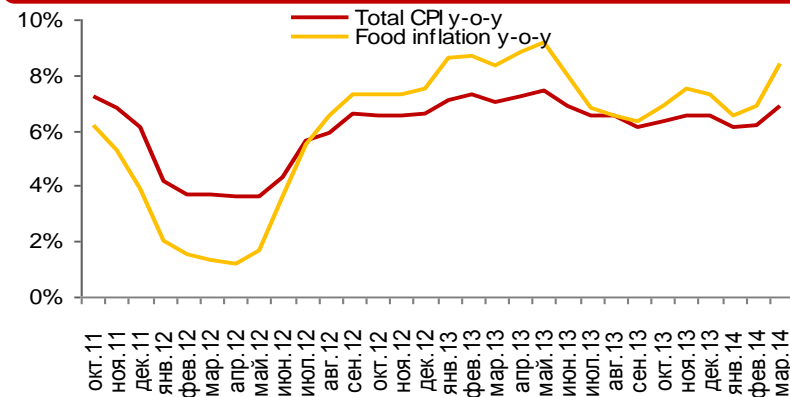
Appendix



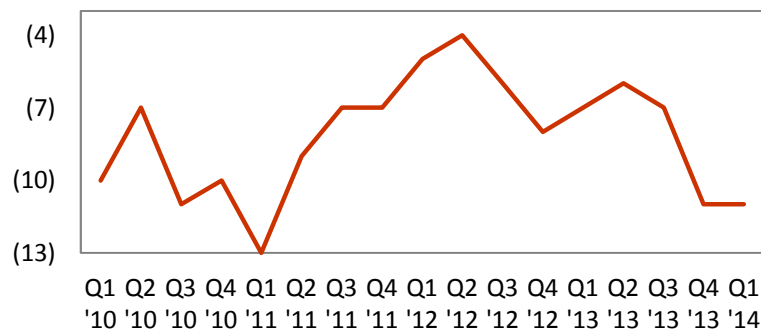
Unemployment rate



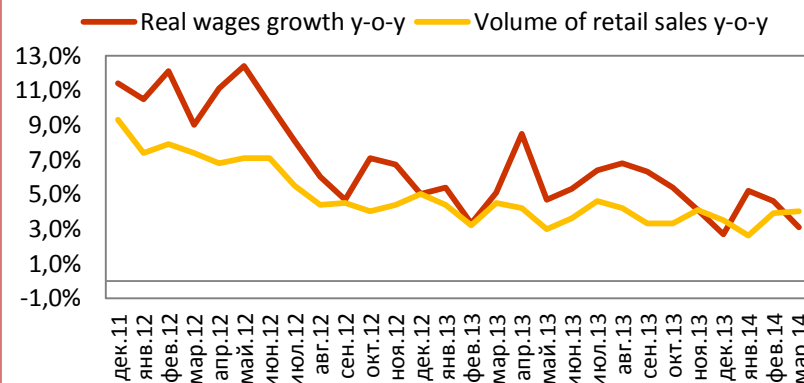
Inflation



Consumer Confidence Index



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



SOURCE: Russian Statistics Bureau

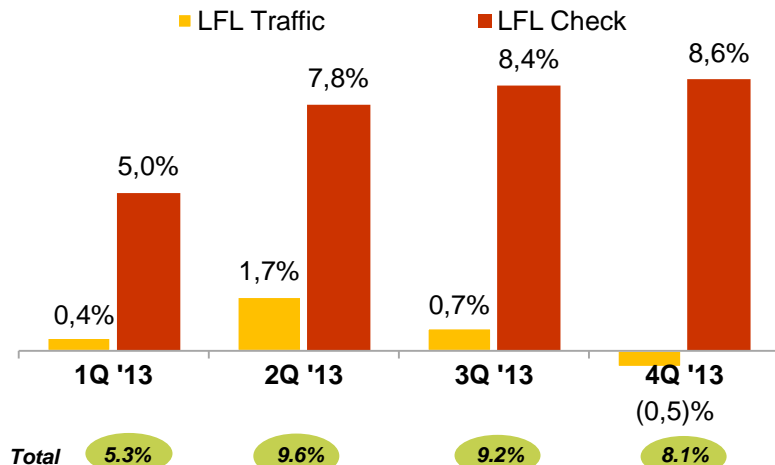
(1) Retail sales represent total retail sales by trading companies, private entrepreneurs and markets as defined by Russian Statistics Bureau





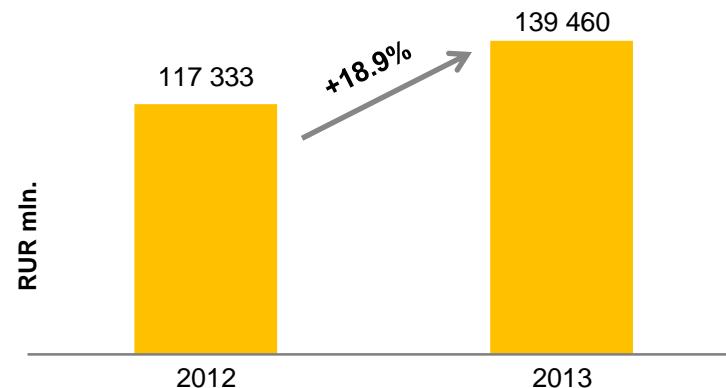
Overview of results: LFL and revenue

LFL revenue



- LFL traffic continued to grow in 2013 despite more intense competition and strong comparative base 2012
- LFL basket increased higher than inflation due to bigger basket size
- Basket size increased further due to expansion in the number of items per purchase

Revenue



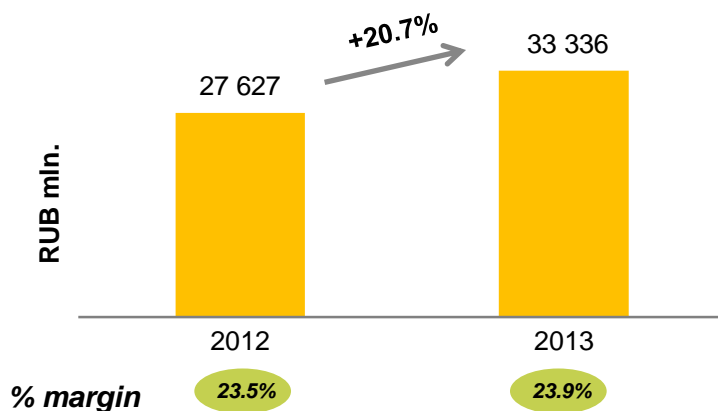
- Revenue growth was driven by selling space addition with 11 stores opened since 2012 and 14,3% growth in sq.m.
- LFL revenue of 8,0% for 2013 further enhanced revenue growth
- Other revenues accelerated by 27,4% following the increase in leased out space and improved occupancy of existing space

SOURCE: Reviewed IFRS financial statements for 2013

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

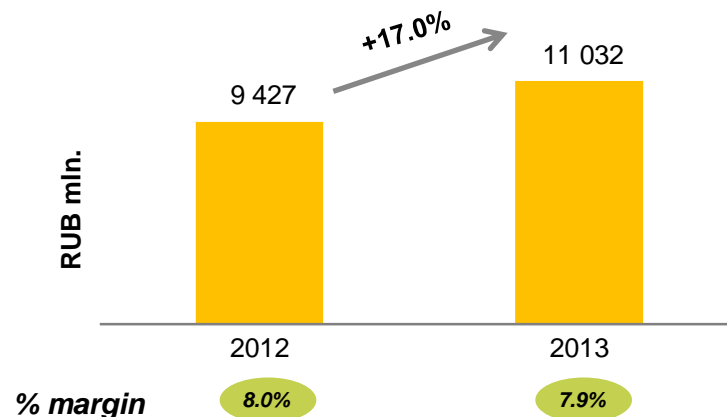


Gross profit and margin



- Higher gross margin due to better purchasing conditions and growing scale of operations

EBITDA and margin

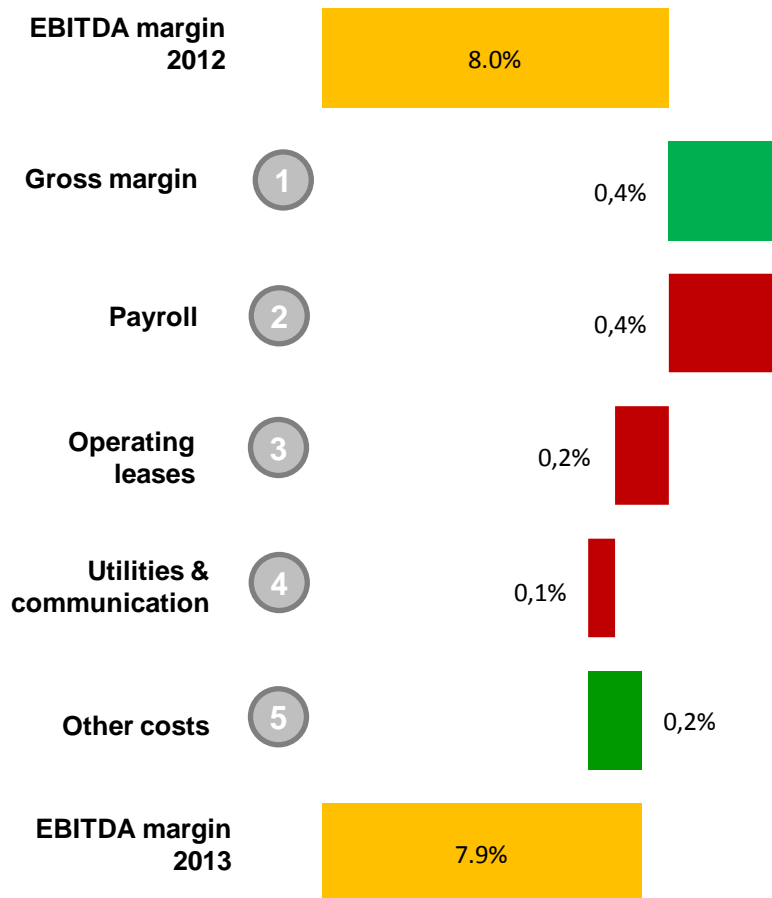


- EBITDA margin decreased under pressure of growing SG&A expenses
- Compared to 2012, EBITDA was adversely affected by increase in payroll costs, operating leases and communication and utilities costs

SOURCE: Reviewed consolidated IFRS statements for 1H 2013



EBITDA margin bridge 2012 – 2013



Key comments

- 1 Gross margin strengthening driven by improved purchasing terms
- 2 Payroll rose due to higher staffing requirements for 11 new stores, salary indexation in 2013 and due to reclassification of recruiting, training and travel expenses
- 3 Operating leases increased following addition of 9 rented stores in 2013 and 7 in 2012. Also, rates are rising due to openings in more expensive cities and weakening ruble
- 4 Increase in utility costs as % of sales resulted from tariff revision in 2013 and addition of new stores
- 5 Other costs decreased due to following the reclassification of outsourcing, travel, training and recruiting expenses into payroll line

SOURCE: Reviewed IFRS statements for 2013





Summary consolidated P&L

Summary P&L

RUB mln.	2013	2012
Revenue	139,460	117,333
<i>YoY growth</i>	<i>18.9%</i>	<i>26.0%</i>
Gross profit	33,336	27,627
<i>Gross margin</i>	<i>23.9%</i>	<i>23.5%</i>
SG&A	(24,941)	(20,364)
<i>% of revenue</i>	<i>17.9%</i>	<i>17.4%</i>
Other op. income (expense)	(519)	63
Operating profit	7,876	7,326
<i>Operating margin</i>	<i>5.6%</i>	<i>6.2%</i>
Net finance costs	(1,094)	(1,024)
Foreign exchange gains/(losses)	69	166
Profit before tax	6,852	6,468
Income tax expense	(1,875)	(1,789)
Profit for the year	4,976	4,679
<i>Net Profit margin</i>	<i>3.6%</i>	<i>4.0%</i>

SOURCE: Reviewed consolidated IFRS statements for 2013





Cash flow highlights and working capital evolution

Cash flow

RUB mln.	2013	2012
1 Net cash from operating activities	7,909	8,938
2 Net cash used in investing activities	(10,534)	(8,491)
3 Net cash from financing activities	1,084	1,136
Net decrease in cash and cash equivalents	(1,542)	1,582

Comments

- 1 Operating cash flow decreased due to negative changes in working capital
- 2 Increase in investing cash outflows was due to expansion in the development pipeline
- 3 Net cash flow from financing activities and debt level increased to finance development of the company

SOURCE: Reviewed consolidated IFRS statements for 2013

Trade Working capital

RUB mln.	2013	2012
1 Inventories	10,258	9,212
2 Trade and other receivables ⁽¹⁾	3,232	1,720
3 Trade and other payables ⁽²⁾	(20,499)	(17,525)
Net working capital	(7,009)	(6,593)
Cash conversion cycle	(23,1)	(22,6)

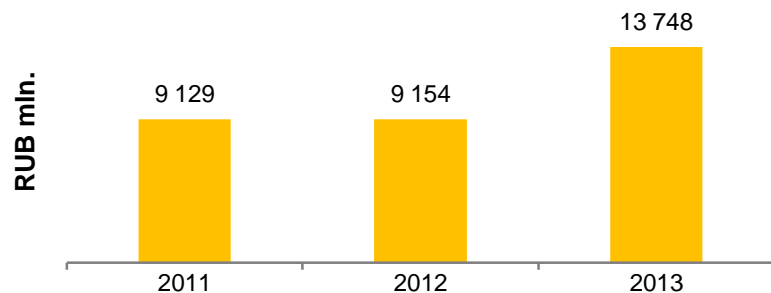
Comments

- 1 Inventory days decreased in comparison with 2012 levels
- 2 Receivable days increased following the increase in VAT receivable and other receivables
- 3 Payable days increased due to improvements in purchasing conditions

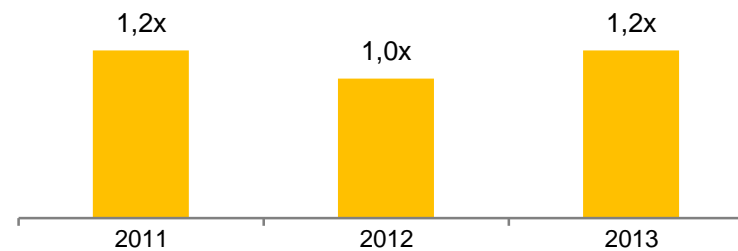
SOURCE: Reviewed IFRS statements for 2013; (1) Includes trade receivables, VAT receivables and other receivables (bonuses and discounts from suppliers); (2) Includes trade payables and advances received



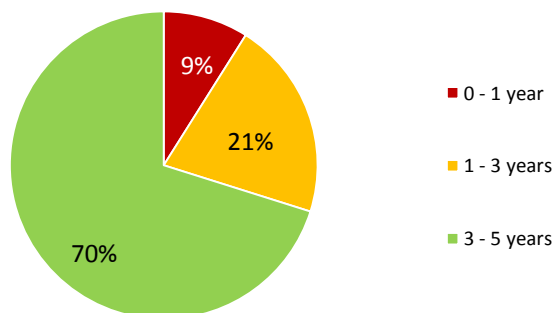
Net debt⁽¹⁾



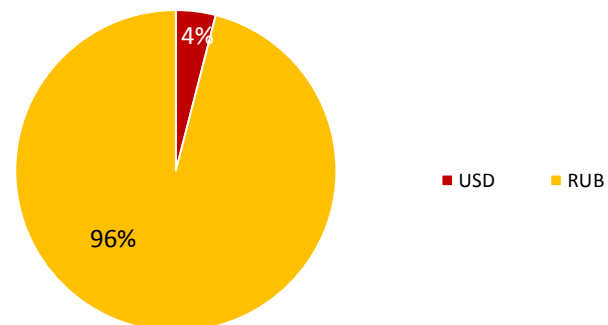
Net debt / EBITDA



Debt portfolio structure by maturity (as of December 2013)



Debt portfolio structure by currency (as of December 2013)



SOURCE: Company's calculations based on reviewed consolidated IFRS statements for 2011-2013

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



Summary Balance Sheet

RUB mln.	2013	2012
Assets		
Non-current assets		
Investment property	540	632
PP&E	30,707	25,692
Construction in progress	5,072	1,720
Intangible assets	550	567
Deferred tax asset	483	375
Other non-current assets	8,102	7,905
Total non-current assets	45,454	36,891
Current assets		
Inventories	10,258	9,212
Trade and other receivables	3,502	1,918
Prepayments	823	857
Cash and cash equivalents	3,007	4,536
Total current assets	17,589	16,523
Total assets	63,043	53,414

RUB mln.	2013	2012
Equity and liabilities		
Equity	21,399	18,090
Non-current liabilities		
Loans and borrowings	14,442	9,864
Deferred income tax liability	588	668
Other non-current liabilities	112	1,056
Total non-current liabilities	15,142	11,588
Current liabilities		
Loans and borrowings	2,313	3,826
Trade and other payables	23,715	19,614
Current income tax payable	474	296
Total current liabilities	26,502	23,736
Total liabilities	41,644	35,324
Total equity and liabilities	63,043	53,414

SOURCE: Reviewed consolidated IFRS statements for 2012-2013



1Q 2014 Key highlights

2013 Operating & Financial Review

Strategy & Outlook

Appendix



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

- Further optimize shelf availability and inventory levels
- Expand warehousing capacity to support import and private label operations
- Set up a network of cross-docking platforms

IT

- Enhance technological platform to support expansion and secure operations
- Implement innovative IT solutions to manage retail operations more efficiently with particular focus on demand forecasting, category management and supply chain optimization





2014 objectives

Goals	2014 Plan	2014 targets
Store rollout	<ul style="list-style-type: none">■ Maintain large portfolio of stores for development	Hypermarkets in pipeline: 40
Revenue	<ul style="list-style-type: none">■ Focus on traffic generation and performance of existing stores	Revenue growth: 12 - 16%
LFL	<ul style="list-style-type: none">■ Increase average basket at levels close to inflation■ Generate growth in LFL traffic	LFL growth: 5.0-6.0%
EBITDA	<ul style="list-style-type: none">■ Focus on cost control and operating efficiency■ Reinvest margin improvements into selling prices	EBITDA margin: 8.0%
Capex	<ul style="list-style-type: none">■ Invest into new stores and land acquisition■ Develop discounter project	~ RUB 20bln



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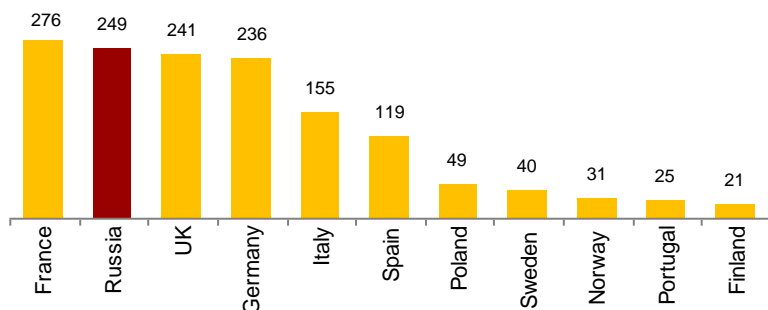




Russia is one of the world's most attractive food retail markets

Russia is one of the largest food retail markets⁽¹⁾ in Europe ...

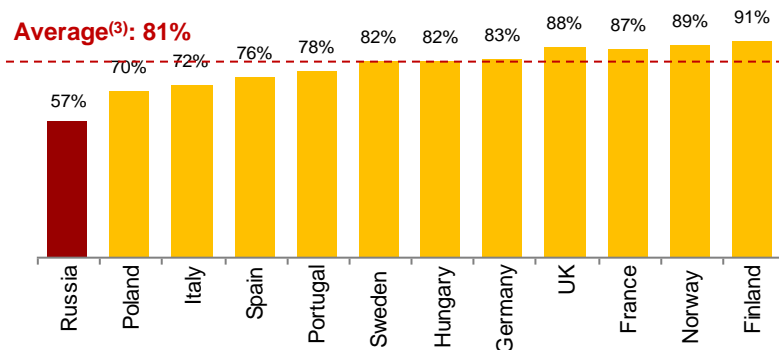
(US\$ bln.)



SOURCE: Euromonitor data for 2012

... with one of the lowest rates of penetration by modern retail⁽²⁾ ...

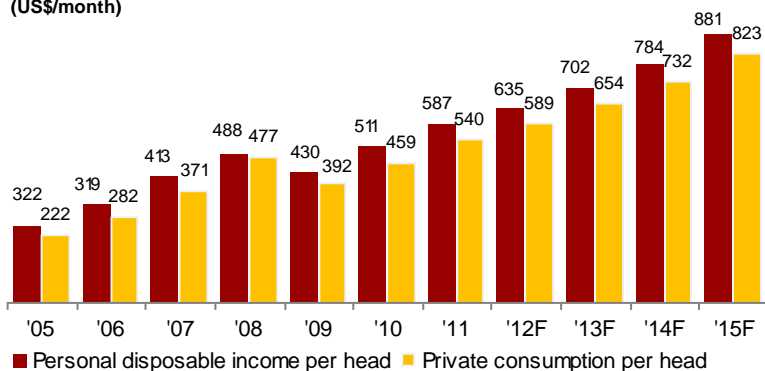
Average⁽³⁾: 81%



SOURCE: Euromonitor data for 2012

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

(US\$/month)



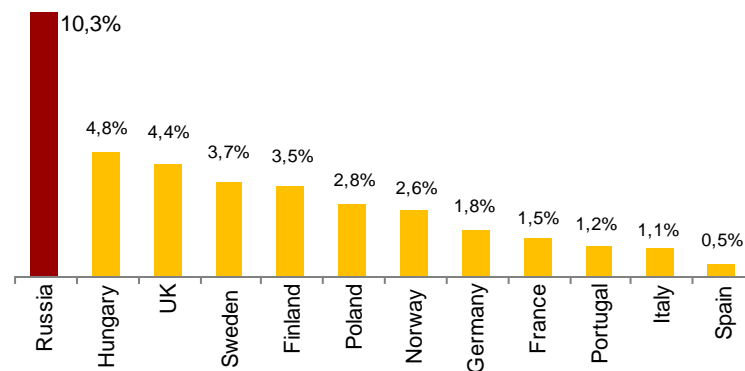
SOURCE: EIU as of April 2012

(1) Nationwide total sales from stores classified as food retailers. The total market includes retailers operating in both modern and traditional channels. Excludes wholesale channels.

(2) Includes all modern grocery retailers (largely multiples and chain stores) and cash & carries/warehouse clubs (3) Average excluding Russia

... which should fuel Russian food retail market¹ growth

CAGR '12-'17



SOURCE: Euromonitor data for 2012



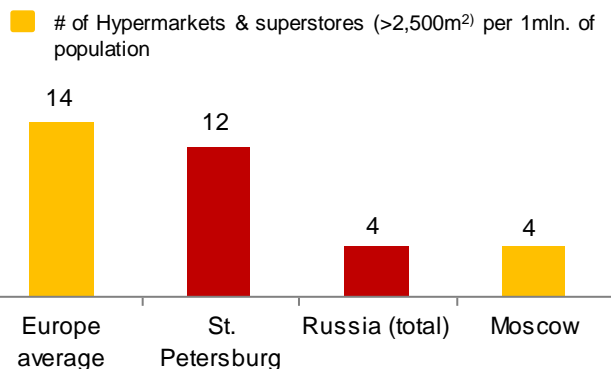


O'Key has strong expertise in hypermarkets, a format with appealing growth prospects

Distinctive expertise in hypermarkets

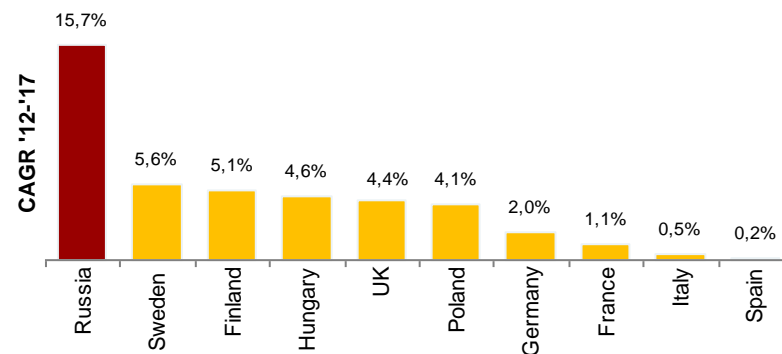
- Focused on one core format – hypermarkets
- Supermarkets (O'Key Express brand) – a satellite format, providing a better fit for specific locations (i.e. residential areas)
- Strong track record in the hypermarket format – roll-out through organic growth and store acquisitions
- Concept of a classic 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: Euromonitor / Infoline data for 2012

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







SOURCE: Euromonitor data for 2012





Clearly defined and consistent hypermarket format with satellite supermarkets

	Hypermarket	Supermarket
Average store selling space (sqm)	7,400	1,300
Total selling space (sqm)	444,000 (91% of total)	45,000 (9% of total)
No. of stores	60	34
Product range	SKUs: 35,000 Fresh products: 43% of total Non-food products: 24% of total	SKUs: 9,000 Fresh products: 51% of total
Penetration (No. of cities)	22	10
Average ticket (RUB) ⁽¹⁾	934	488
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  

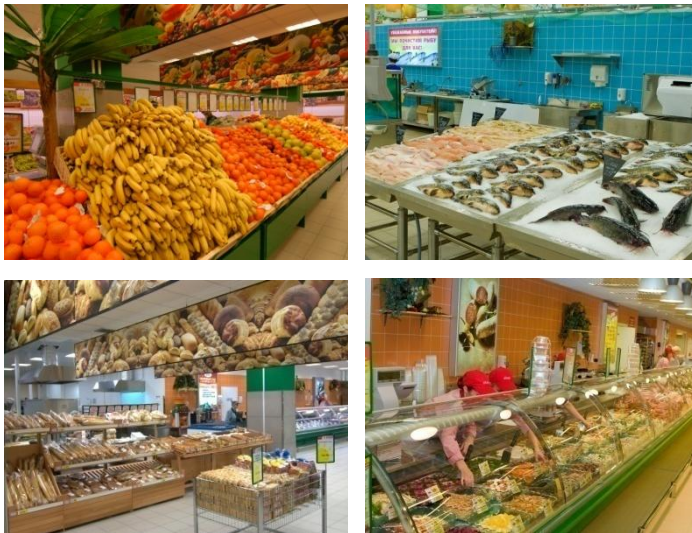
Note: Data as of December 31, 2013; **(1)** Average ticket includes VAT





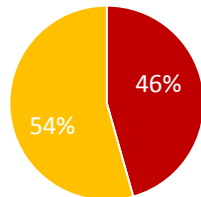
Strong customer proposition with a particular focus on fresh & delicatessen and non-food products

Wide product range with a focus on fresh & delicatessen products ...

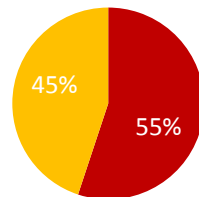


Share of fresh food in Total Retail revenue (2012)

Hypermarkets



Supermarkets

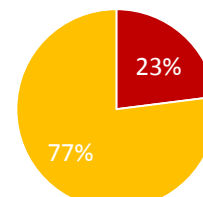


■ Fresh food ■ Other products

... as well as a high share of non-food goods...



Share of non-food in Total Retail revenue (2012)



■ Non-food ■ Food

... complemented with private label offering

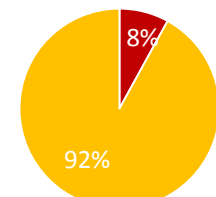


EMOTIONKIDS

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EMOTIONMAN

Share of private label revenues in Total Retail revenue (2012)



■ Private label ■ Other products

SOURCE: Company information

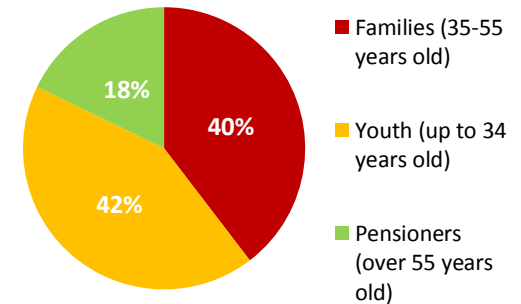




Our value proposition is customized to our formats and all customer segments

Target audience

Target audience structure



Customer types	Focus areas
Hypermarkets <ul style="list-style-type: none"> Families (35-55 years old) Youth (up to 34 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 55 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



“Smart” supply chain



SOURCE: Company data as of December 2011

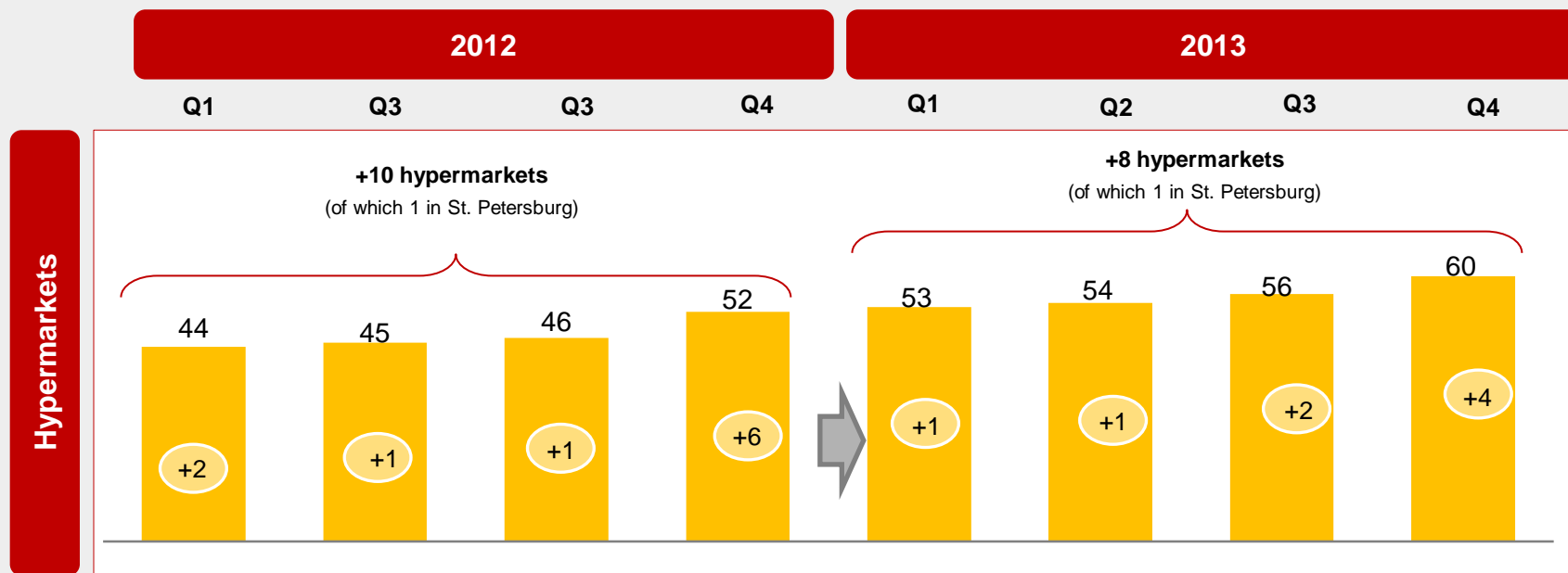
Comments

- 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





Hypermarket rollout timing

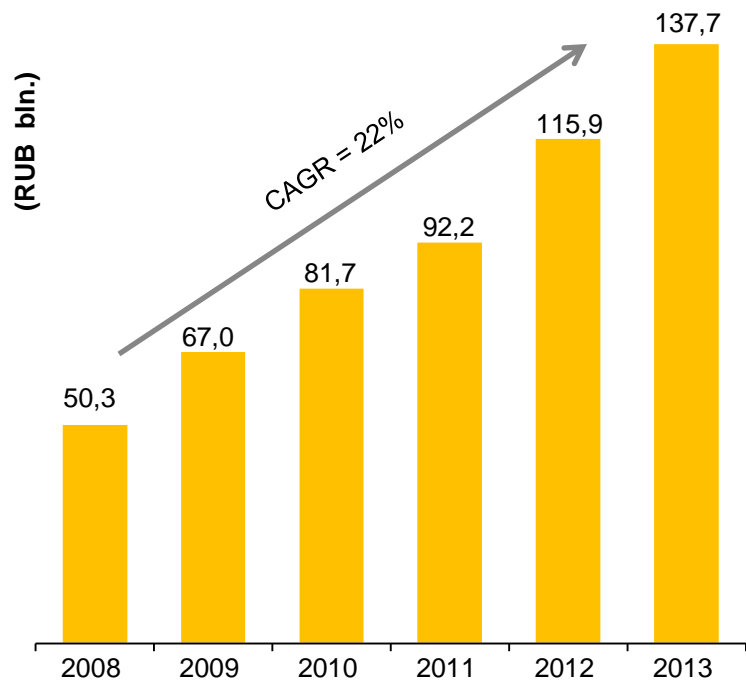


Operating stores
 Additions during the quarter

Hypermarket pipeline	2012		2013	
	Opened	Obtaining operating permit	Fit-out in progress	Construction in progress
■ Opened	10	-	-	-
■ Obtaining operating permit	-	-	-	-
■ Fit-out in progress	-	-	-	-
■ Construction in progress	-	-	-	-



Retail revenue⁽¹⁾

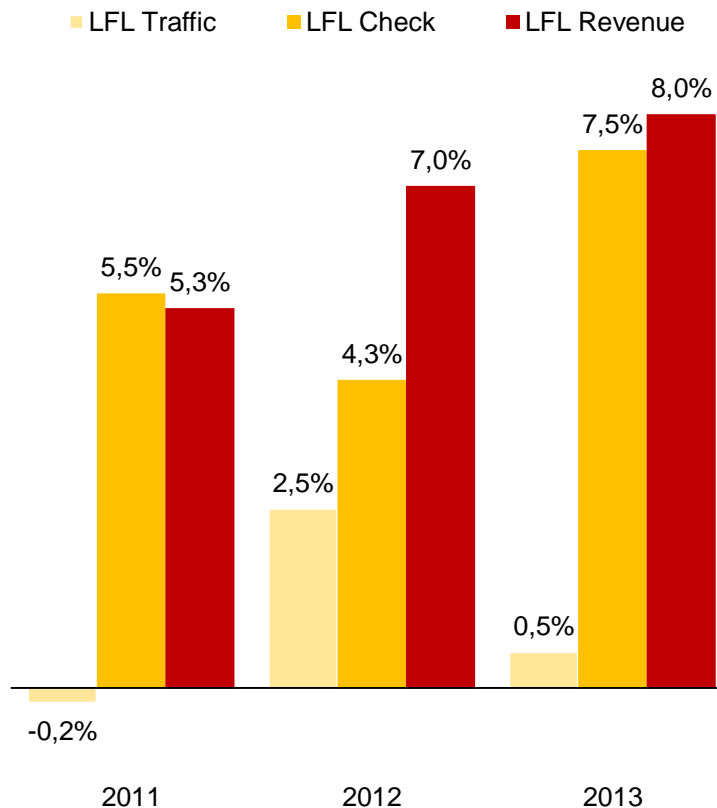


SOURCE: Audited IFRS financial statements for 2008-2012

(1) 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)



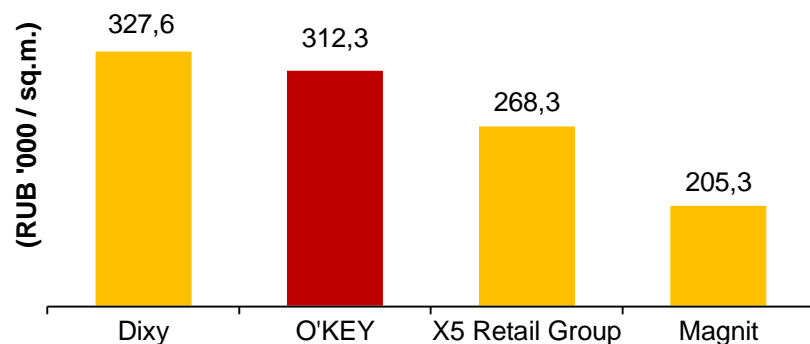
SOURCE: Management accounts



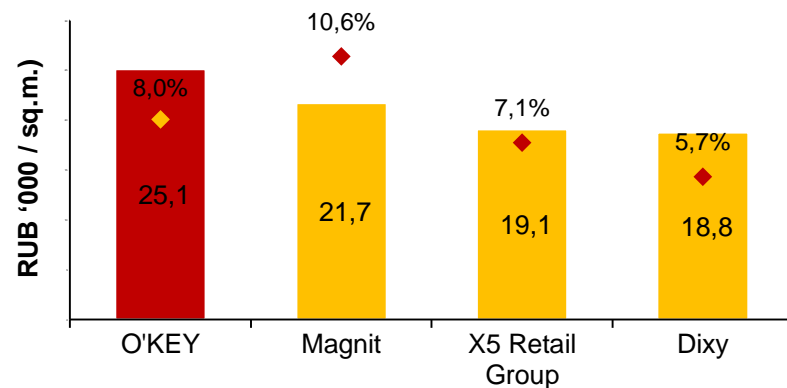


Most efficient operations among largest Russian public food retailers

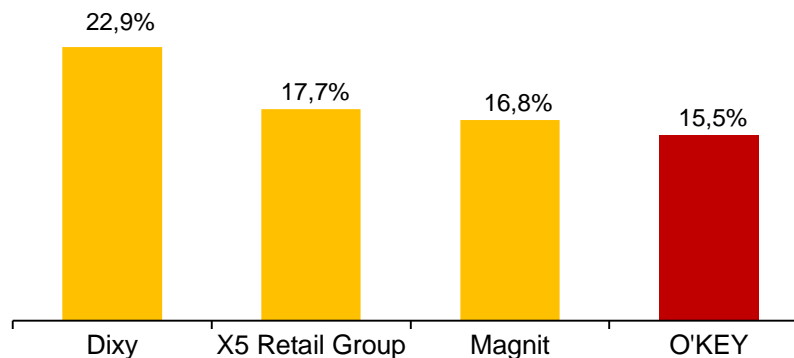
Revenue per sqm⁽¹⁾ (FY2012)



EBITDA margin and EBITDA per sqm⁽¹⁾ (FY2012)



SG&A, without D&A (FY2012)



SOURCE: Companies' data

(1) Calculated as total Revenue or EBITDA divided by average selling space as of 31 December 2011, 31 March, 30 June, 30 September and 31 December 2012



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 – head of remuneration committee and chairman of the board
- Meets on a regular basis with the constant participation of Company's CEO

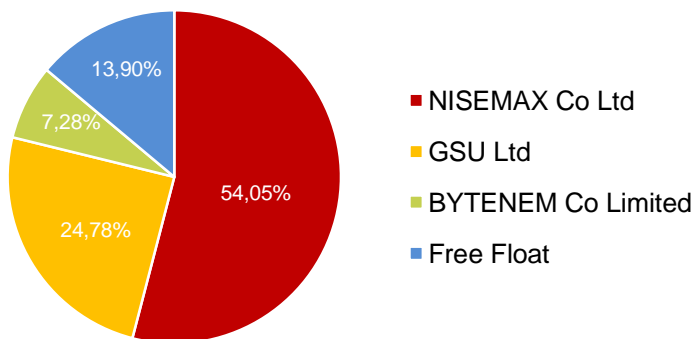
CEO

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

Top management

- Responsible for 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