

O'KEY Group S.A.

9M 2013 Operating results





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9M 2013 Key highlights

1H 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 21 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 September 30, 2013)

	Hypermarkets	Supermarkets
Number of stores	56	31
Total selling space ('000 sqm)	412 (91%)	41 (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	2007	2008	2009	2010	2011	2012	CAGR
Revenue	30.5	51.1	67.9	82.7	93.1	117.3	31%
Growth rate	82.8%	67.5%	32.7%	21.8%	12.7%	26.0%	
LFL growth	2.8%	32.1%	11.6%	7.7%	5.3%	7.0%	
Gross profit	6.5	10.8	14.8	17.9	21.3	27.6	34%
Gross margin	21.2%	21.0%	21.8%	21.7%	22.8%	23.5%	
EBITDA	2.2	4.5	5.9	7.1	7.5	9.4	34%
EBITDA margin	7.2%	8.9%	8.7%	8.6%	8.1%	8.0%	
Net profit	0.3	(2.9)	0.7	2.7	3.2	4.7	69%

SOURCE: Audited IFRS financial statements for 2007-2012



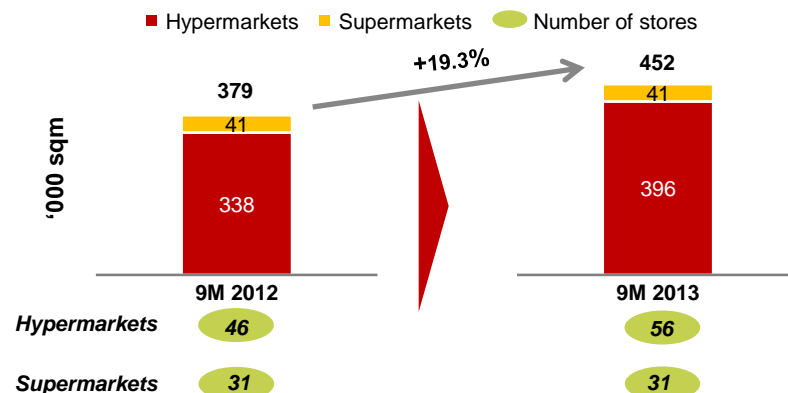
Geographical coverage (as of September 30, 2013)



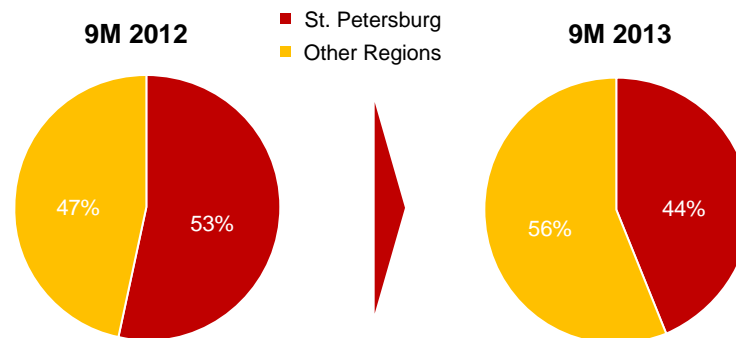
- Expansion into regions with high levels of personal income and consumption
- Maintaining leadership in one of the most competitive markets – St. Petersburg

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

Selling space and number of stores (as of September 30, 2013)



Revenue composition



SOURCE: Company data as of 30th September 2013 based on Revenue from sale of goods



Differentiated shopping experience...

- Pleasant and comfortable shopping experience



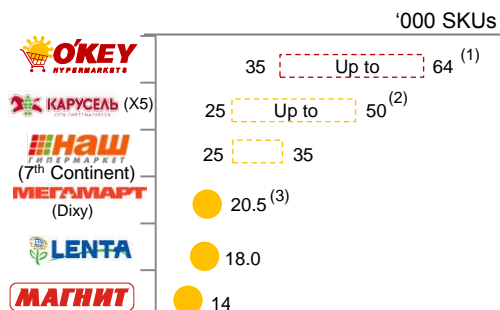
- Convenient locations with direct road access and large parking areas
- "All under one roof" concept with additional services and adjacent stores in the same building
- Spacious buildings with easy navigation on the trading floor
- Modern design of interiors with particular focus on the comfort and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

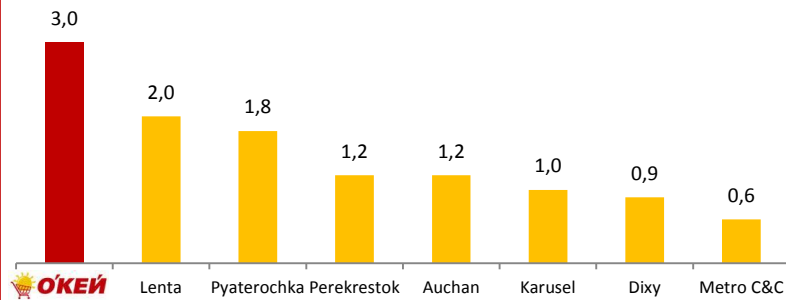
(1) As of 30 June 2012 (2) As of December 2011 (3) As of 30 November 2011





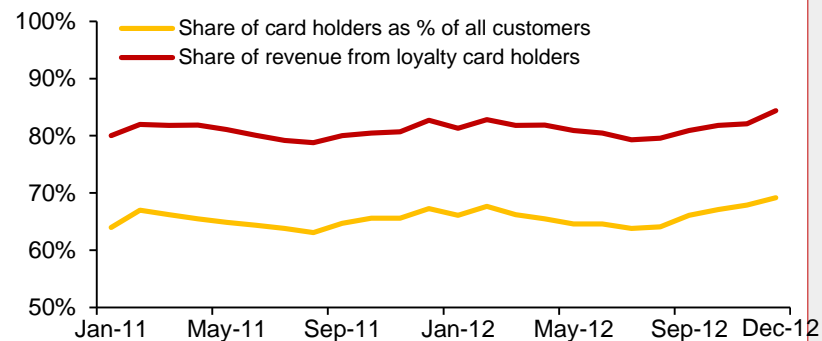
Customers' loyalty and high brand equity

Highest store equity⁽¹⁾ among competitors...



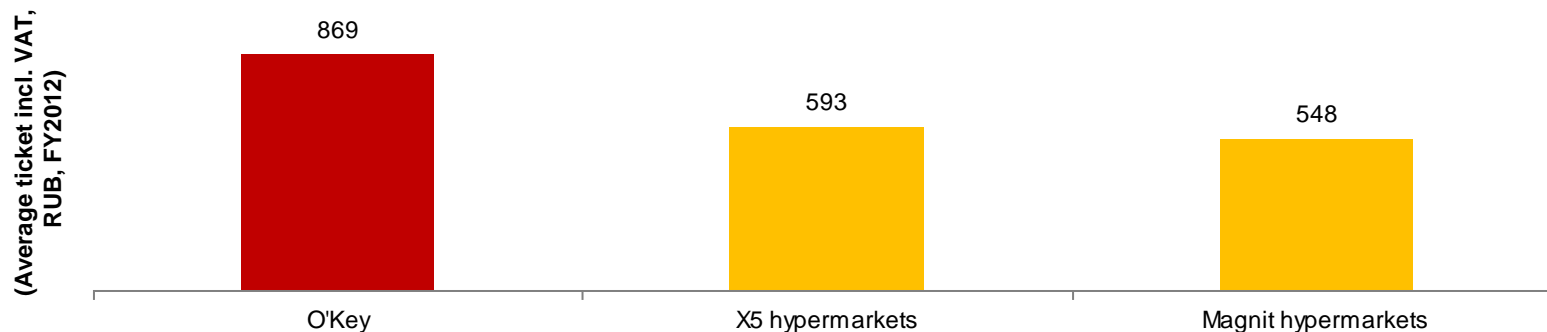
SOURCE: Nielsen 2012, St. Petersburg Brand Leadership

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



SOURCE: Company data

... supporting higher than average basket (hypermarkets)



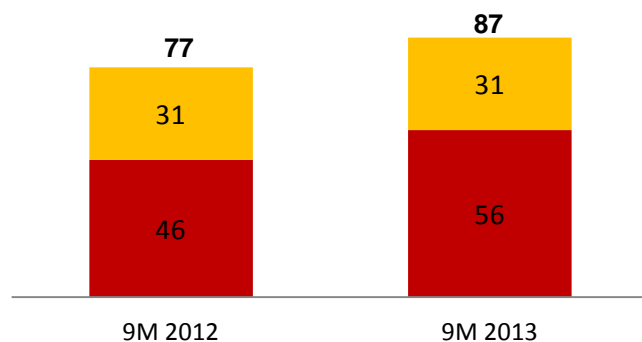
SOURCE: Company data

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



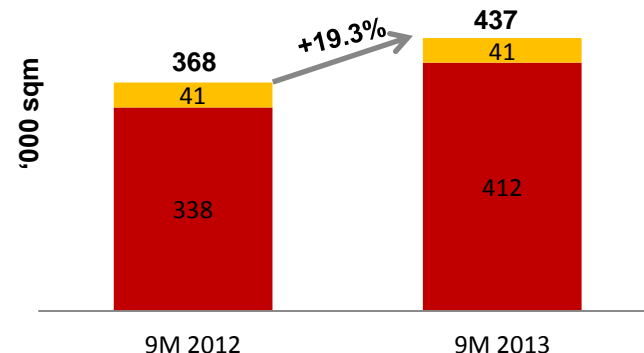
Number of stores

■ Hypermarkets ■ Supermarkets



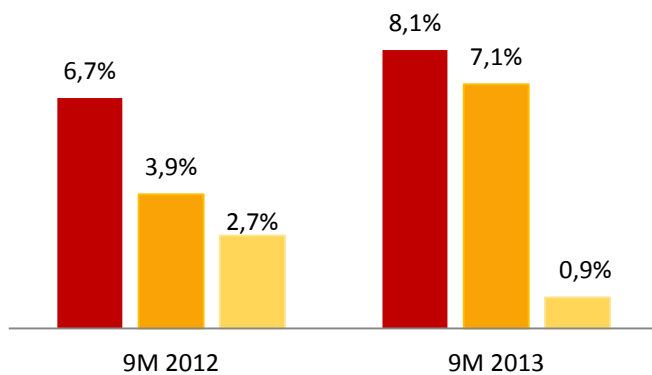
Selling space

■ Hypermarkets ■ Supermarkets

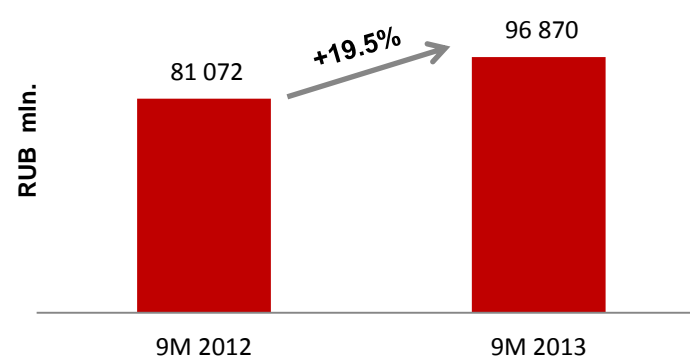


LFL

■ 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 24% over 2007-2012
- ✓ 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 – 56% of real estate is owned
- ✓ 60 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
- ✓ CEO Patrick Longuet has more than 30 years of retail experience



(1) As of 9M 2013; (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 FY2012

9M 2013 Key highlights

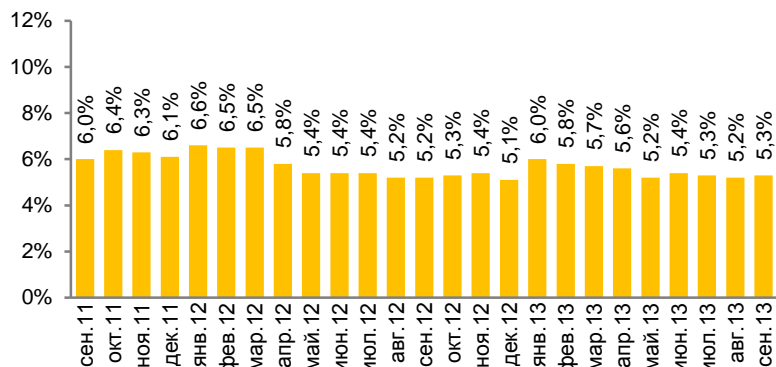
1H 2013 Operating & Financial Review

Strategy & Outlook

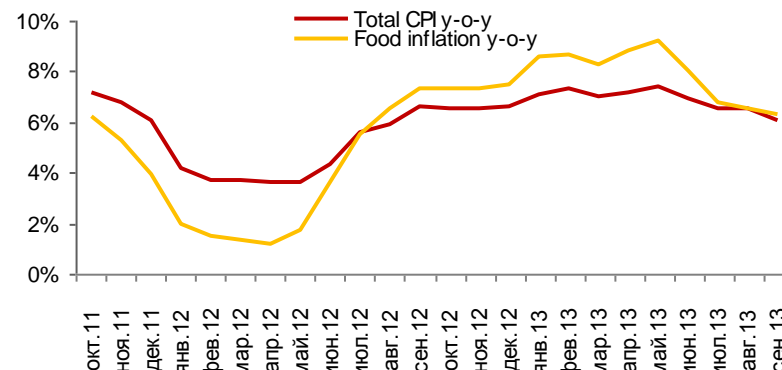
Appendix



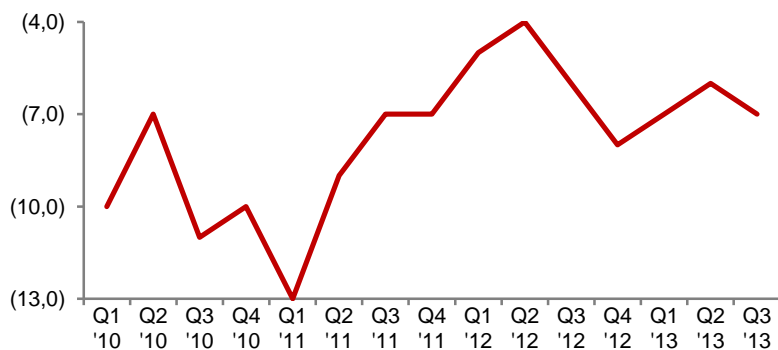
Unemployment rate



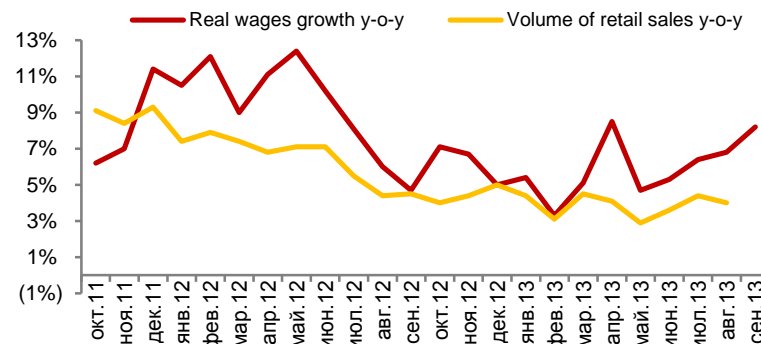
Inflation



Consumer Confidence Index



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



SOURCE: Russian Statistics Bureau

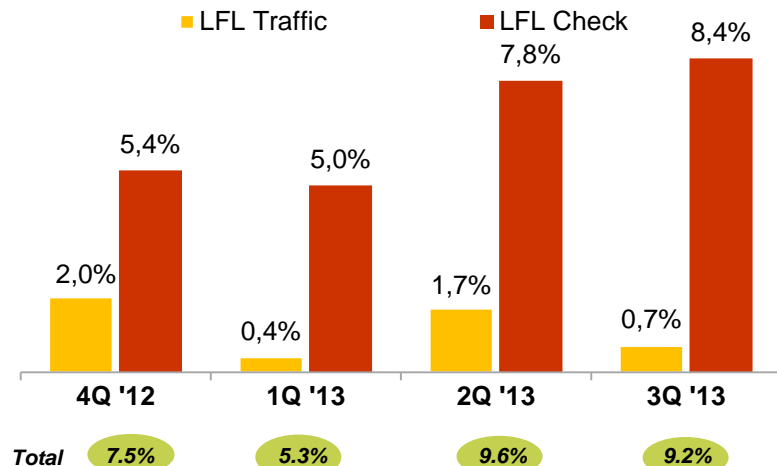
(1) Retail sales represent total retail sales by trading companies, private entrepreneurs and markets as defined by Russian Statistics Bureau





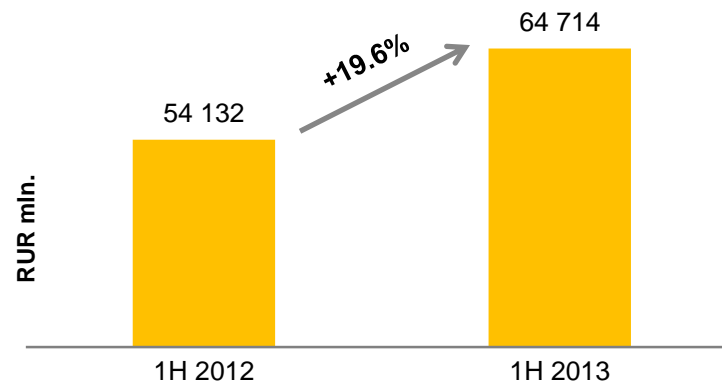
Overview of results: LFL and revenue

LFL revenue



- LFL traffic demonstrated solid growth of 1.1% in 1H2013, enhanced by our promotional activities
- LFL basket growth was driven by changes in real wages, which accelerated to 6,2% y-o-y in Q2 from 4,5% in Q1 2013
- Basket size increased further due to expansion in the number of items per purchase

Revenue



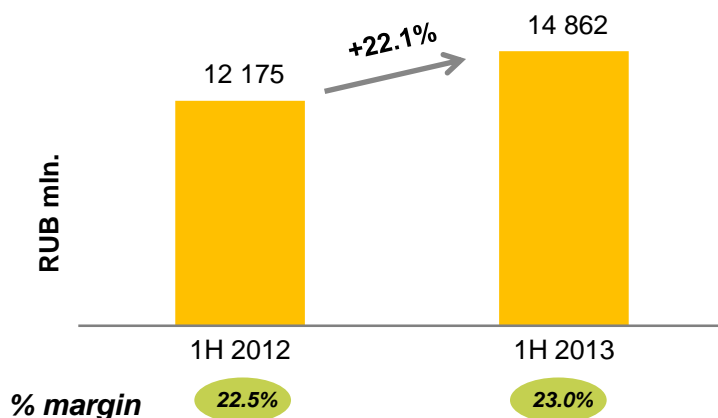
- Revenue growth was driven by selling space addition with 11 stores opened since 1H 2012 and 18,8% growth in sq.m.
- LFL revenue of 7,5% for 1H 2013 further enhanced revenue growth
- Other revenues accelerated by 44,6% following the increase in leased out space and improved occupancy of existing space

SOURCE: Reviewed IFRS financial statements for 1H2013

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

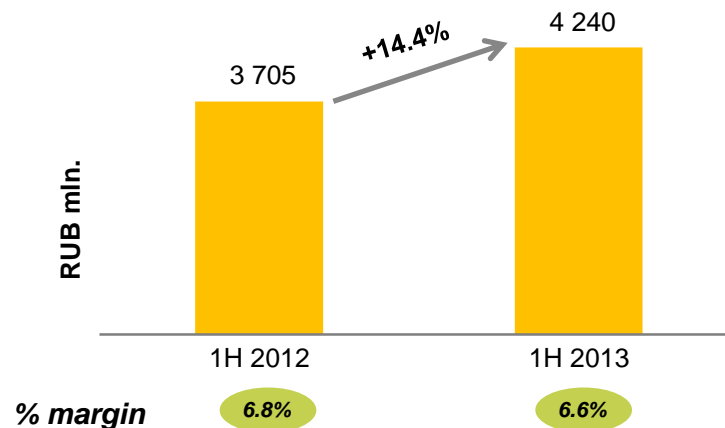


Gross profit and margin



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

EBITDA and margin

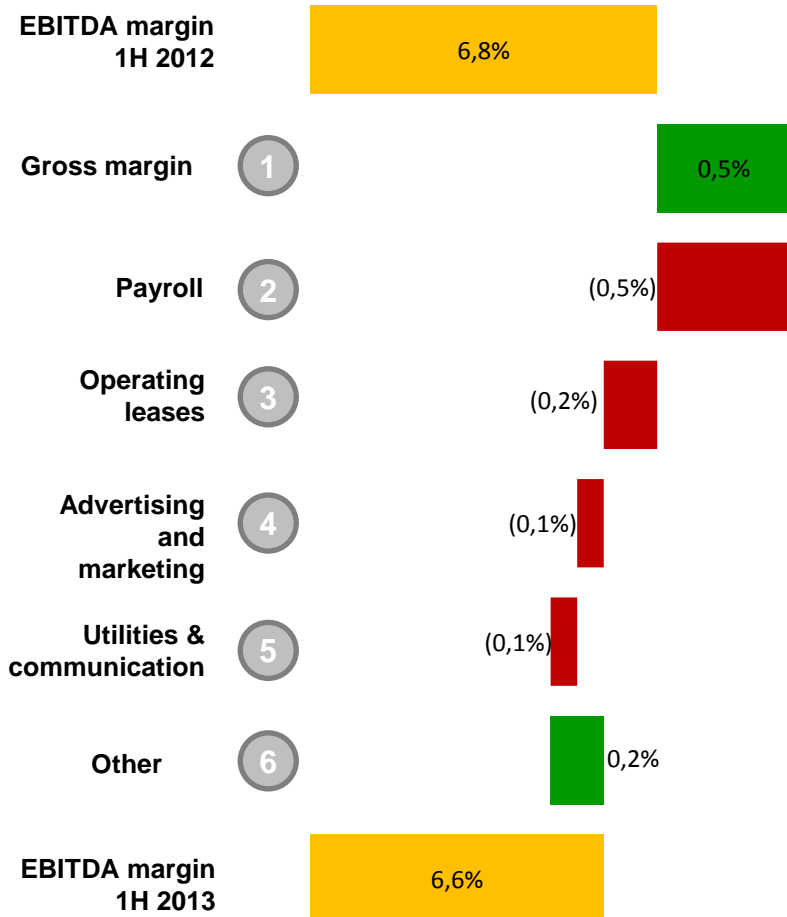


- EBITDA margin decreased under pressure of growing SG&A expenses
- Compared to 1H 2012, EBITDA was adversely affected by increase in payroll costs, operating leases and advertising and marketing expenses

SOURCE: Reviewed consolidated IFRS statements for 1H 2013



EBITDA margin bridge 1H 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 2012, revised motivation scheme for store personnel and reclassification of other expenses
- 3 Operating leases increased following 24% expansion of rented area y-o-y
- 4 Advertising costs increased as a result of intensified promotional activities
- 5 Increase in utility costs as % of sales resulted from tariff indexation in July 2012
- 6 Other expenses decreased following the reclassification of outsourcing, travel, training and recruiting expenses into payroll line

SOURCE: Reviewed IFRS statements for 1H 2013





Summary consolidated P&L

Summary P&L

RUB mln.	1H 2013	1H 2012
Revenue	64,714	54,122
<i>YoY growth</i>	19.6%	26.5%
Gross profit	14,862	12,175
<i>Gross margin</i>	23.0%	22.5%
SG&A	(11,855)	(9,516)
<i>% of revenue</i>	18.3%	17.6%
Other op. income (expense)	18	63
Operating profit	3,025	2,722
<i>Operating margin</i>	4.7%	5.0%
Net finance costs	(564)	(494)
Foreign exchange gains/(losses)	(53)	20
Profit before tax	2,409	2,248
Income tax expense	(795)	(779)
Profit for the year	1,614	1,470
<i>Net Profit margin</i>	2.5%	2.7%

SOURCE: Reviewed consolidated IFRS statements for 1H 2013





Cash flow highlights and working capital evolution

Cash flow

RUB mln.	1H2013	1H2012
1 Net cash from operating activities	444	71
2 Net cash used in investing activities	(2,884)	(2,499)
3 Net cash from financing activities	436	1,039
Net decrease in cash and cash equivalents	(2,004)	(1,389)

Comments

- 1 Operating cash increased driven by improvements in working capital and higher profitability
- 2 Increase in investing cash outflows was due to expansion in the development pipeline
- 3 Net cash from financing activities decreased as a result of larger dividend payment in 1H 2013

SOURCE: Reviewed consolidated IFRS statements for 1H 2013

Trade Working capital

RUB mln.	1H2013	1H2012
1 Inventories	7,782	6,658
2 Trade and other receivables ⁽¹⁾	1,221	1,190
3 Trade and other payables ⁽²⁾	(13,574)	(10,238)
Net working capital	(4,571)	(2,390)
Cash conversion cycle	(13)	(10)

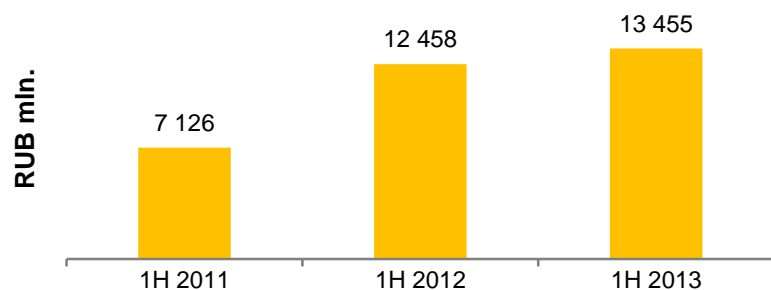
Comments

- 1 Inventory turnover remained stable at 1H 2012 levels
- 2 Receivable days improved following the decrease in VAT receivable
- 3 Payable days increased due to improvements in purchasing conditions

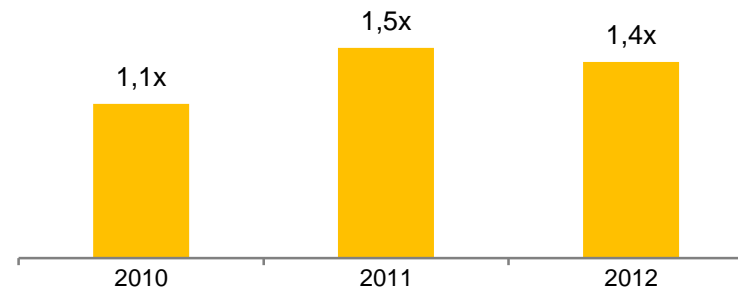
SOURCE: Reviewed IFRS statements for 1H 2013; (1) Includes trade receivables, VAT receivables and other receivables (bonuses and discounts from suppliers); (2) Includes trade payables and advances received



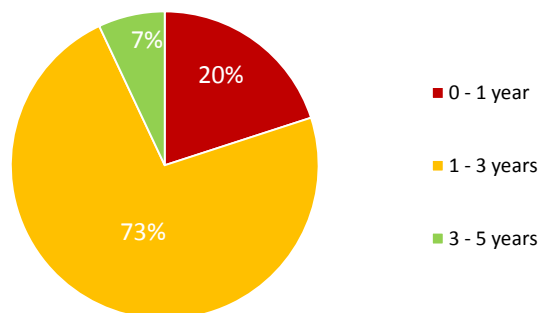
Net debt⁽¹⁾



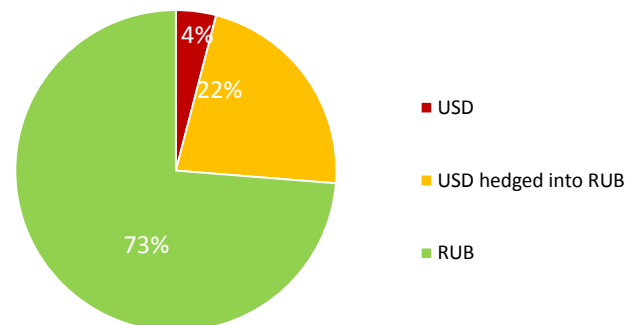
Net debt / EBITDA



Debt portfolio structure by maturity (as of June 2013)



Debt portfolio structure by currency (as of June 2013)



SOURCE: Company's calculations based on reviewed consolidated IFRS statements for 1H 2011-2013

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



Summary Balance Sheet

RUB mln.	1H 2013	1H 2012
Assets		
Non-current assets		
Investment property	632	581
PP&E	25,536	21,497
Construction in progress	2,354	3,555
Intangible assets	538	459
Deferred tax asset	484	296
Other non-current assets	9,463	6,241
Total non-current assets	39,007	32,629
Current assets		
Inventories	7,782	6,658
Trade and other receivables	1,764	1,828
Prepayments	1,042	741
Cash and cash equivalents	2,548	1,561
Total current assets	13,135	10,788
Total assets	52,142	43,417

RUB mln.	1H 2013	1H 2012
Equity and liabilities		
Equity	18,155	14,881
Non-current liabilities		
Loans and borrowings	12,809	4,915
Deferred income tax liability	608	494
Other non-current liabilities	1,110	1,163
Total non-current liabilities	14,527	6,572
Current liabilities		
Loans and borrowings	3,194	9,104
Trade and other payables	16,062	12,748
Current income tax payable	204	112
Total current liabilities	19,460	21,964
Total liabilities	33,987	28,536
Total equity and liabilities	52,142	43,417

SOURCE: Reviewed consolidated IFRS statements for 1H 2012-2013



9M 2013 Key highlights

1H 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



Goals	2013 Plan	2013 targets
Store rollout	<ul style="list-style-type: none"> ■ Maintain large portfolio of stores for development 	Hypermarkets in pipeline: 30
Revenue	<ul style="list-style-type: none"> ■ Maintain high pace of total revenue growth 	Revenue growth: 19 - 22%
LFL	<ul style="list-style-type: none"> ■ Increase average basket at levels close to inflation ■ Generate growth in LFL traffic 	LFL growth: 7.0-8.0%
EBITDA	<ul style="list-style-type: none"> ■ Focus on cost control and operating efficiency ■ Reinvest margin improvements into price proposition 	EBITDA margin: 7.8% – 8.0%
Capex	<ul style="list-style-type: none"> ■ Invest into new stores and land acquisition ■ maintain existing stores and develop IT infrastructure 	~ RUB 14bln



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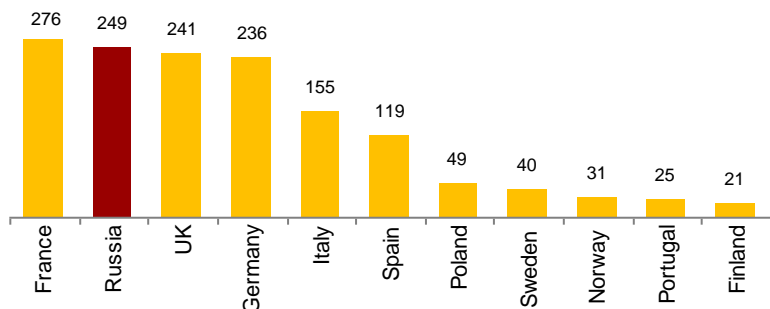




Russia is one of the world's most attractive food retail markets

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

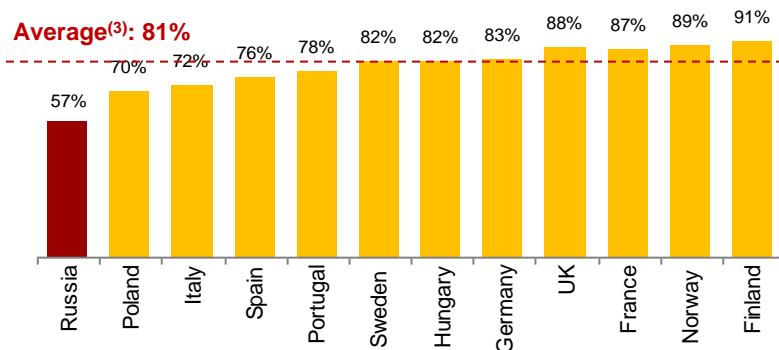
(US\$ bln.)



SOURCE: Euromonitor data for 2012

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

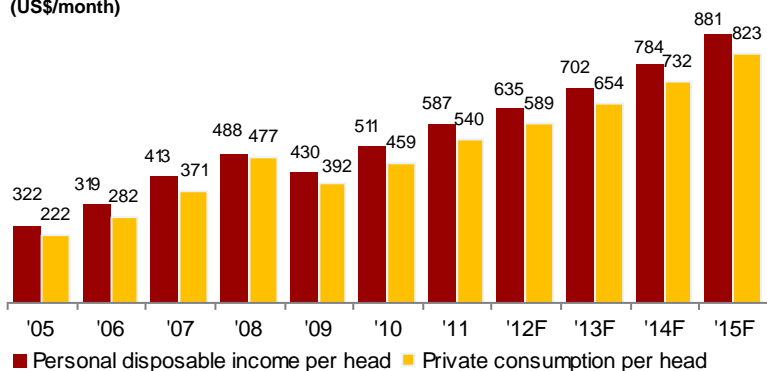
Average⁽³⁾: 81%



SOURCE: Euromonitor data for 2012

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

(US\$/month)



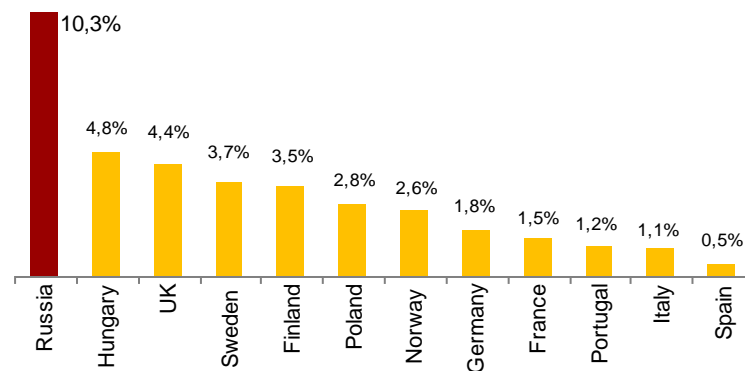
SOURCE: EIU as of April 2012

(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





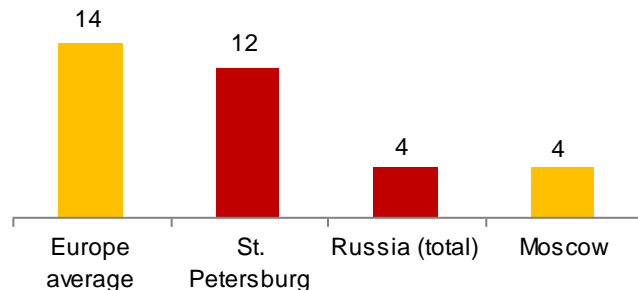
O'Key has strong expertise in hypermarkets, a format with appealing growth prospects

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

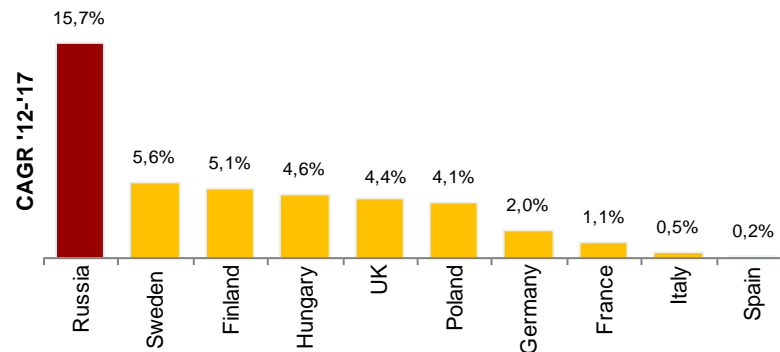
Significant undersupply of hypermarkets in Russia...

■ # of Hypermarkets & superstores (>2,500m²) per 1mln. of population



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)	412,000 (91% of total)	41,000 (9% of total)
No. of stores	56	31
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)	21	7
Average ticket (RUB) ⁽¹⁾	893	475
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 September 30, 2013; (1) Average ticket includes VAT





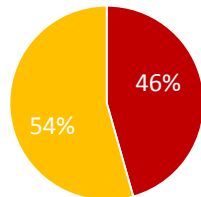
Strong customer proposition with a particular focus on fresh & delicatessen and non-food products

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

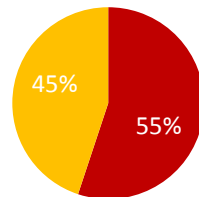


Share of fresh food in Total Retail revenue (2012)

Hypermarkets



Supermarkets

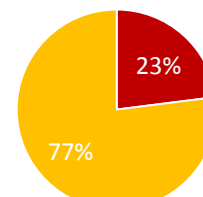


■ Fresh food ■ Other products

... 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

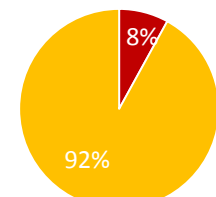


EMOTIONKIDS

EMOTIONLADY

EMOTIONMAN

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



■ Private label ■ Other products

SOURCE: Company information

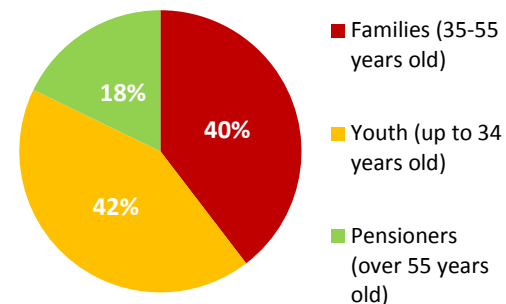




Our value proposition is customized to our formats and all customer segments

Target audience

Target audience structure

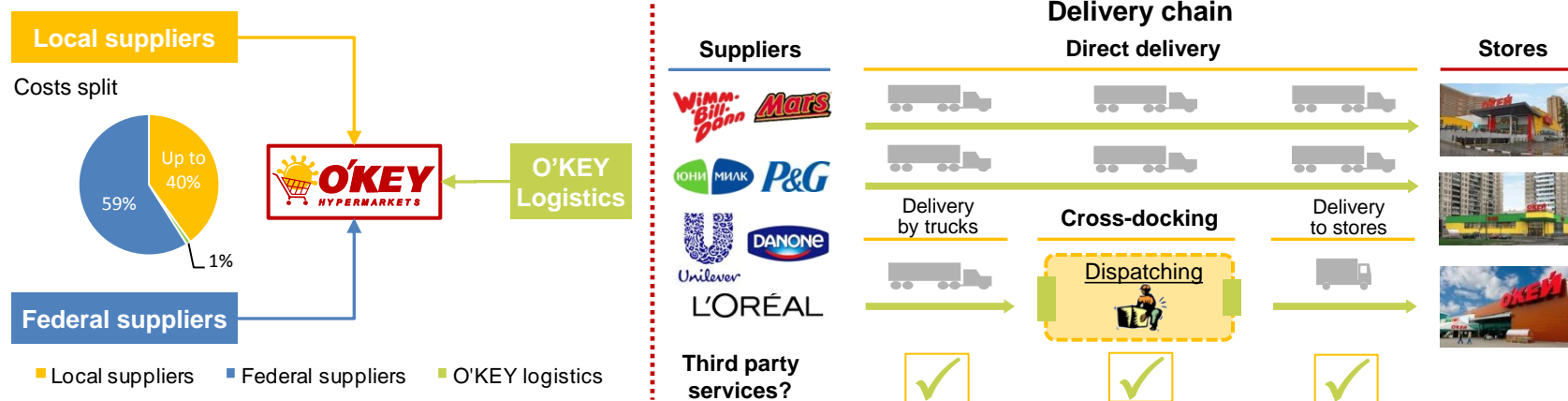


Customer types	Focus areas
Hypermarkets <ul style="list-style-type: none"> Families (35-55 years old) Youth (up to 34 years old) 	<ul style="list-style-type: none"> Wide assortment with premium products at affordable prices Comfortable shopping with parking and children's play areas One stop shopping: 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

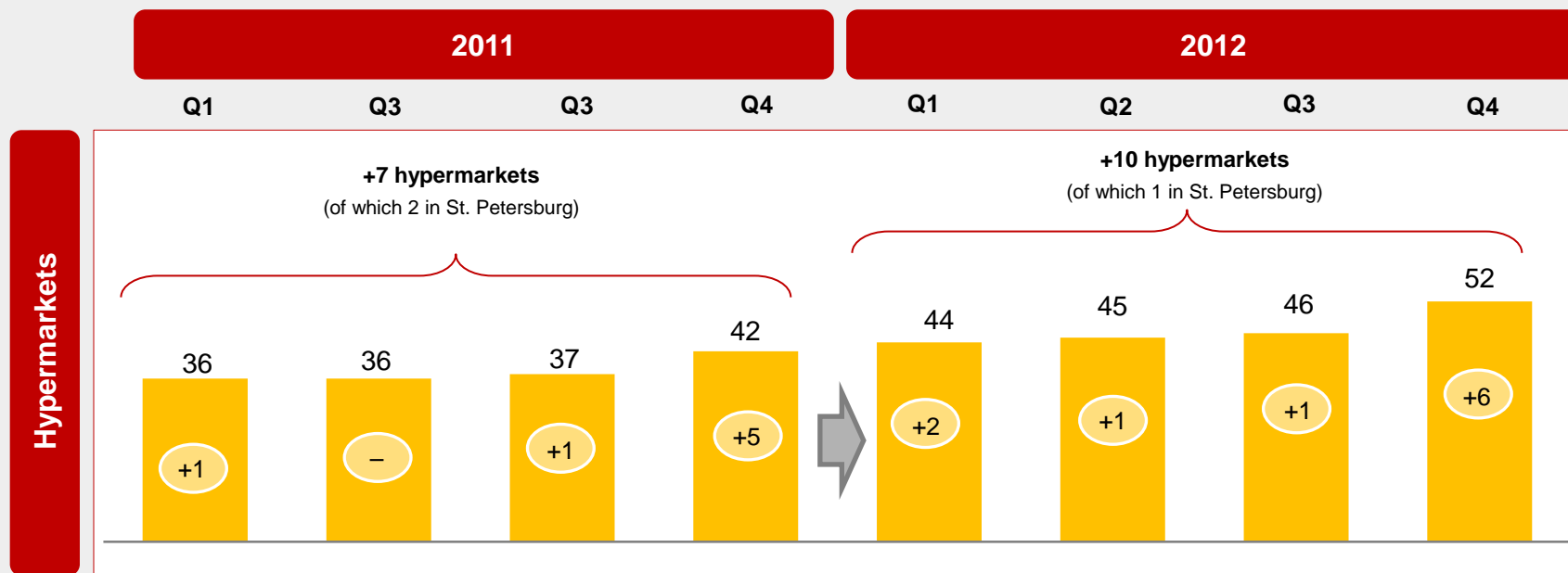
Comments

- 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

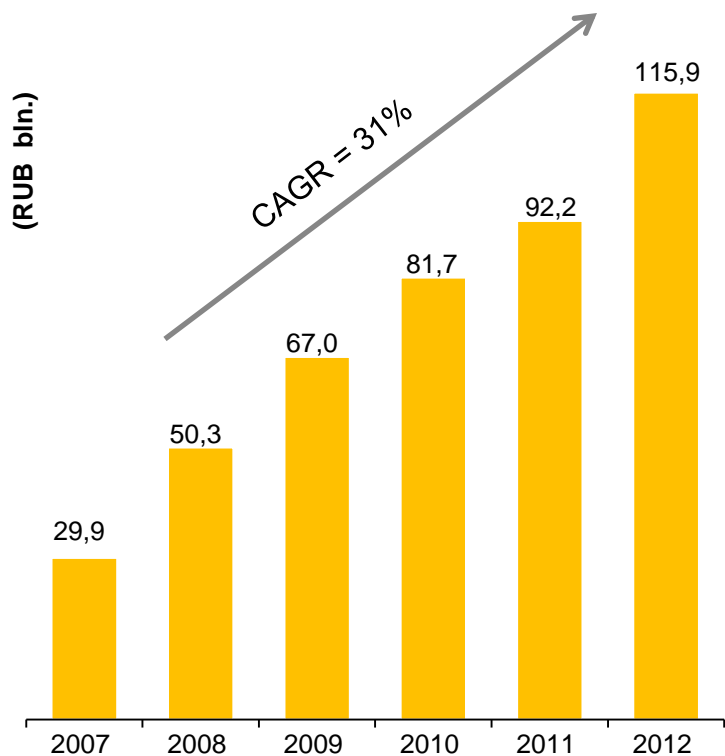
	2011	2012
■ Opened	7	10
■ Obtaining operating permit	-	-
■ Fit-out in progress	-	-
■ Construction in progress	-	-



**O'KEY**

Focus on delivering growth

Retail revenue⁽¹⁾

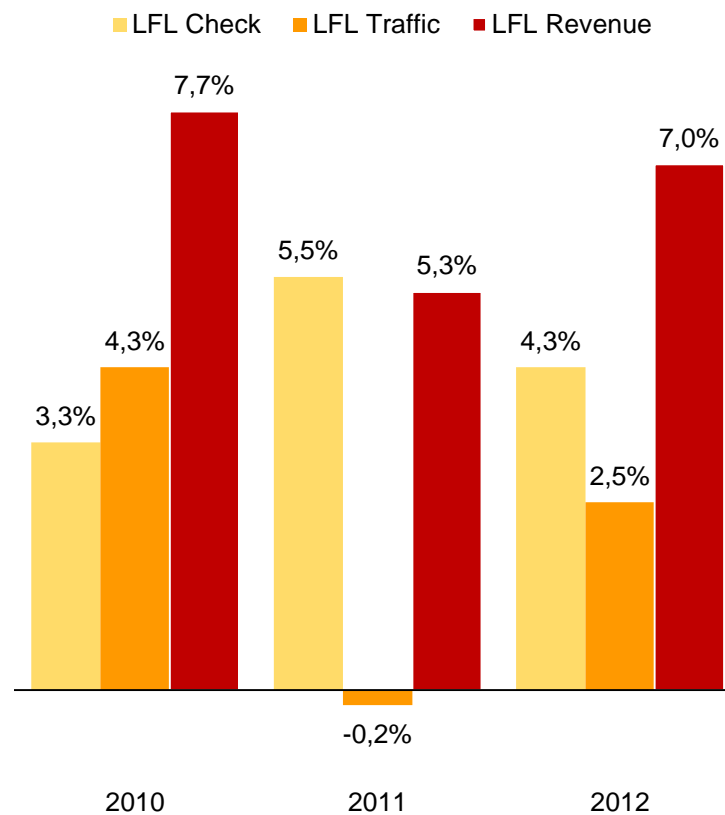


SOURCE: Audited IFRS financial statements for 2007-2012

(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)



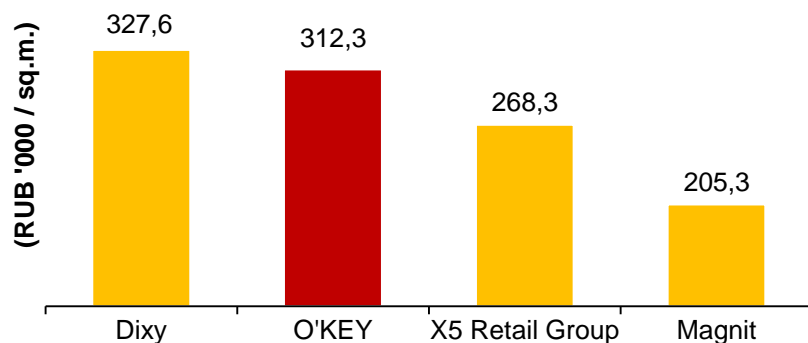
SOURCE: Management accounts



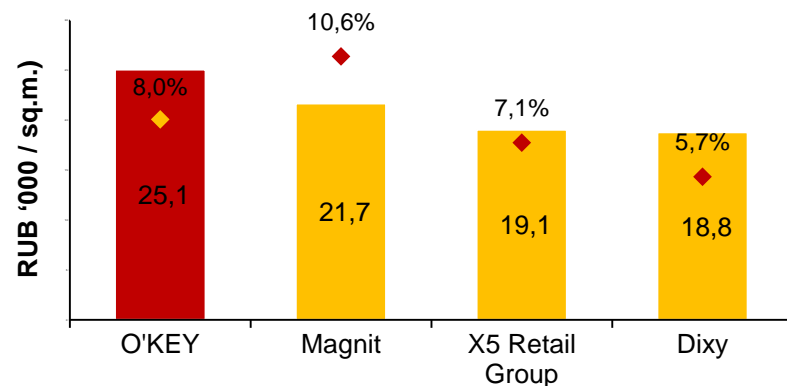


Most efficient operations among largest Russian public food retailers

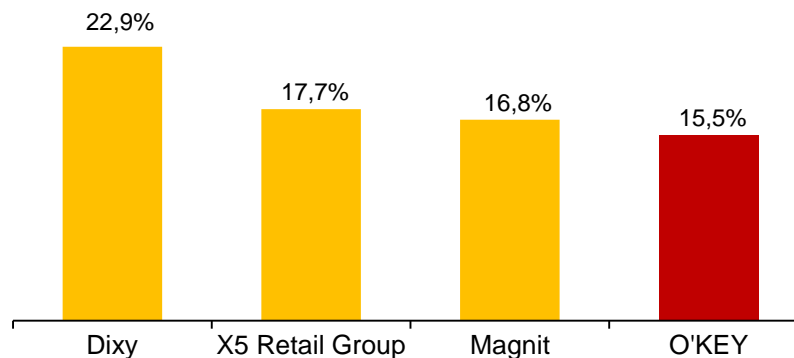
Revenue per sqm⁽¹⁾ (FY2012)



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 – heads of audit and remuneration committees
- Meets on a regular basis with the constant participation of Company's CEO

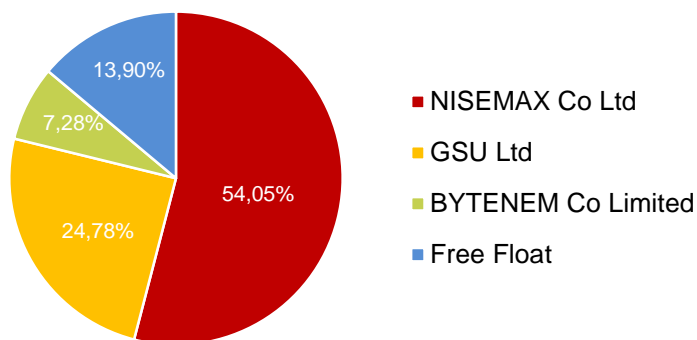
CEO

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

Top management

- Responsible for 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