



Conference Transcription

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Conference title : Goldman Sachs
Russia – Okey
Group SA
Unaudited
Operating Results
for 1Q 2011
Conference Call

CONFERENCE DETAILS

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| Conference Date: | 8 April 2011 |
| Conference Time: | 18:00 Moscow, Russia Time |
| Conference Duration: | Approximately 54 minutes |
| Chairperson: | Ekaterina Evdokimenkova |
| Speakers: | Patrick Longuet Sebastien Verhaeghe Maksim Kravtsov |

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| KEY: | |
| words in bold | Unsure if words heard correctly - please check |
| ?? | Words could not be distinguished |
| (Inaudible -) | Words that are entirely inaudible for the specified reason |

ACT Operator

Ladies and gentlemen, welcome to the Okey Group SA Unaudited Operating Results for 1Q 2011 Conference Call on 8 April 2011. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask question. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

I will now hand the conference over to Maksim Kravtsov. Please go ahead, sir.

Maksim Kravtsov

Good day, ladies and gentlemen. From the management of Okey I would like to welcome you all at the conference call. And now let me start with the results of our operations at the first quarter of 2011. During the first quarter we have opened two stores, one hypermarket and one supermarket, and increased the total number of stores to 59. We have also added one region to our network which is Novosibirsk, so now we have 15 regions. As for the total selling space, we have increased the total selling space to 293,000 square meters.

In terms of the sales numbers we have reached the retail sales of RUR20.3 billion which is an increase of 11.6% compared to the first quarter of 2010. Now this growth is coming from the expansion and also from the positive like-for-like results which were at the level of 2.3% for the retail revenue. Average ticket grew 5.2% while the number of tickets decreased by 2.8%.

Now I would like to turn to the operator to open up the floor for the questions.

ACT Operator

Thank you, sir. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2.

Once again, if you would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2.

The first question comes from Rosie Bichard. Please go ahead.

Rosie Bichard

Hello, could you give us a bit more colour on the trading in your quarter? Can you give us a bit more colour on particularly performance of your stores in Saint Petersburg and the relative traffic declines that you saw there given the situation with the hypermarket roof having collapsed?

Also, could you talk to us about the level of space growth that you have see for year-on-year? I think the number you gave was actually a year-to-date space growth.

Sebastien Verhaeghe

To comment a bit more on the sales, as you are certainly aware we had an accident where roof collapsed in one of our stores in Saint Petersburg at the end of January. And as a result the store is closed and remains closed at this time. We are striving to reopen it as fast as possible. Right now we are still waiting for the results of the official investigation to authorise us to rebuild. As soon as we get that we will prepare the reopening.

We did following this accident close large number of other stores in Saint Petersburg for a few days to make sure that there were no other risks as there were very heavy snowfalls during that time in Saint Petersburg. We considered that it was cautious for us to make sure that there was no risk for our customers elsewhere which was confirmed and we reopened the stores two or three days later. This has clearly affected our sales and is the main source of the traffic decline that we have experienced during the first quarter. Following this accident I would say the traffic is now returning to normal conditions in Saint Petersburg. It's becoming the past, of course due to the absence of Ozerki store it will remain an issue going forward.

Rosie Bichard

Right, but for example today we saw the disclosure by X5 that their like-for-like sales in Saint Petersburg for Carousel were down about 6%. Would you say maybe that you are outperforming – do you feel that you are outperforming Carousel in the Saint Petersburg region still?

Sebastien Verhaeghe

We had that for Carousel in the past year. For now during the first quarter with this accident I would say that I am cautious on the analysis of how we perform compared to the competition. Now we definitely not had to same figures of like-for-like for Saint Petersburg as Carousel. I don't think we can make any link between the causes of Carousel's decline and our case.

Rosie Bichard

OK.

Maksim Kravtsov

Could you please repeat your question about the space?

Sebastien Verhaeghe

Yes, we did not get it properly.

Rosie Bichard

Yes, OK. I just got one follow-up on the Saint Petersburg question. You are saying that February and March have shown a steady recovery in the number of purchases though. You fell things are getting back to normal?

Sebastien Verhaeghe

Yes.

Rosie Bichard

OK. The second question was around the space growth. I was looking at your release and you have 11.6% total sales growth of which 2.3% is from like-for-like and you are saying you had space growth of 2%. That doesn't seem to add up to me. I am trying to understand whether the space growth that you are reporting is year-to-date or is that year-on-year?

Maksim Kravtsov

No, the space growth is coming from the end of 2010. It's from the 31 December 2010 till the 31 March 2011. It's effectively year-to-date.

Rosie Bichard

If I am looking at the components of your 11.6% sales growth on top of the like-for-like the space growth effectively should be 7.5%, 8% year-on-year. Is that right? Otherwise it doesn't make 11.6%.

Sebastien Verhaeghe

No, the space growth over the year 2010 was approximately 20%, a bit above 20%.

Rosie Bichard

Right, OK. Fine, thank you.

Sebastien Verhaeghe

OK. Now there's lots of openings that come at the end of the year.

ACT Operator

The next question comes from Tigran Hovhannisyan from Uralsib. Please go ahead.

Tigran Hovhannisyan – Uralsib

Thank you for your time. A couple of questions. If you could – let's say if this misfortune, I mean the accident, didn't happen with the roof, and if you did not have to shutdown the stores temporarily, how much sales in first quarter would you report all the other things equals if you can make a rough estimate?

Patrick Longuet

(Translated text) It's very hard to evaluate what would have been without the accident. We can easily of course estimate how much we have lost from the closed store itself. As we see we have closed several other stores for two or three days. And then when you reopen stores after several days of closing people do not necessarily come back immediately, it take several weeks to get them back. It is hard to estimate exactly how much would have been the sales without that.

Tigran Hovhannisyan – Uralsib

I see. What's the attendance at the moment? Do you have sales fully recovered, like-for-like sales?

Patrick Longuet

(Translated text) No, not yet. It has not come back as the tendency we had just before.

Tigran Hovhannisyan – Uralsib

I see because –

Patrick Longuet

(*Translated text*) recovery is on the way and we hope that by the end of April we will be there.

Tigran Hovhannisyan – Uralsib

I see, because the markets had, at least what was announced before I feel had quite ambitious expectations on your sales growth for 2011. Is there any new guidance you could give for the full year of sales growth?

Sebastien Verhaeghe

Compared to what was already expected I would say in our simulations we believe that the effect of this accident will have an impact of about 3% to 5% on our total turnover expectations of the year. That's it now, for the rest we are still on track with our expansion plan and a big part of it is in the second semester. As of today there is no change on the plans.

Tigran Hovhannisyan – Uralsib

I see, so just to clarify 3% to 5% will be taken off from the growth expectation or from the sales figure at the end?

Sebastien Verhaeghe

From the sales figure.

Tigran Hovhannisyan – Uralsib

Sales figure. And one more question on the low like-for-like in hypermarkets, don't you think this is a general tenders for 2011 I mean for hypermarkets because we see supermarket is having very good traffic while in 2009 hypermarkets were getting traffic from all premium formats and now it might be the reverse process of basically backflow. It's kind of more money last time to spend on the hypermarkets are not that convenient for shopping. Don't you think that this weak performance of hypermarkets will continue throughout year because we saw the same in X5 and same in Okey, very weak traffic performance and this was actually expected?

Patrick Longuet

(*Translated text*) As for the hypermarket we see an upward tendency it's going to get better in the coming months. The effect of the crisis of course are still there and then we still live with that. Now as soon as we see and we expect to see unemployment rate decrease usually that's where we see the tendency reverse and hypermarkets benefit more because it's a sign of people revenue increase. On the short term definitively the progress of supermarket grows faster than hypermarket, that is clear.

Tigran Hovhannisyan – Uralsib

My last question is, what would be your threshold for like-for-like increase in stores to maintain your margins on EBITDA level?

Sebastien Verhaeghe

It's not so much related with the EBITDA margins. If they would become lower it would mean we expand faster and have more pre-opening costs. But now as for the existing stores and like-for-like stores today we are quite adaptive. It is not we don't, I would say, project maintaining our EBITDA level on the progress itself. I mean if the sale progress less than we expect we adjust.

Tigran Hovhannisyan – Uralsib

Yes, I understand I am talking about like-for-like EBITDA margin, each store EBITDA not with overhead and other expenses. And because you have inflation in utilities installers everything, so we need also to pass something into prices. What would be your like-for-like threshold?

Patrick Longuet

(Translated text) It is something that we look for to compensate in the margin. If tomorrow as we expect the tendency gets better for the hypermarkets, this will clearly be in the non-food part. And that's where we differentiate on the supermarket and that's where we have more margin. We are not particularly worried at that time. We have encountered this social tax increase on the first quarter of course as everyone. And that's something that we are going to compensate through our negotiations and through our margins overall.

Tigran Hovhannisyan – Uralsib

I see. Thank you, thank you very much. That's all for now.

ACT operator

The next question comes from Raj Shant from Newton Investment Management. Please go ahead.

Raj Shant – New Investment Management

Thank you. I have two questions. Firstly, can I just clarify on one of the earlier questions. If you compare your sales space on 31 March this year to 31 March 2010, what was the percentage increase?

Maksim Kravtsov

In terms of which indicator.

Raj Shant – New Investment Management

The sales space, the total setting space.

Maksim Kravtsov

Around 20%.

Raj Shant – New Investment Management

I see, OK. Thank you. And then the other one was also clarification with the last gentleman's question. Can I just be clear that you are saying that your full year

guidance for 30% sales growth is intact despite the fact that you do expect a 3% to 5% impact from the store in Saint Petersburg?

Sebastien Verhaeghe

It will not stay, it will be intact minus the 3% to 5% impact that we have mentioned.

Raj Shant – New Investment Management

OK.

Maksim Kravtsov

Did you mean our CapEx – did I hear you well you meant CapEx programme, is it going to be affected by the sale decrease?

Raj Shant – New Investment Management

No. I was just trying to account what your sales forecast now is. Is it effectively 25% to 27% growth or is it still 30% growth for sales that you are forecasting?

Maksim Kravtsov

No. What we said is that we are planning to increase the selling space by 30%.

Raj Shant – New Investment Management

Right.

Maksim Kravtsov

It's not directly related to revenue growth, so you cannot measure it like 30% sales space increase is equal to 30% sales increase. It's not like this.

Raj Shant – New Investment Management

No, sure that's fair enough. But the 3% to 5% impact from the accident, what I am trying to workout is whether you are feeling confident that your other growth plans will more than offset the impact? Or whether you believe that that's just an impact that 2011 has to bear and then you move on from that.

Maksim Kravtsov

We think that this 3% to 5% decrease in the top line is something that we are going to lose this year comparing to the forecast for example that we are done before the accident. On the top line the result is definitely going to be affected by the accident and we will see the decline.

In terms of the CapEx programme and expansion, expansion is not going to be affected by it because we have some financial capacity and reserves that allow us to expand without any difficulties. If revenue goes even lower than 3% to 5%, CapEx programme doesn't get affected by the accident and by the top line revenue level.

Raj Shant – New Investment Management

That's great. And the last question from me in terms of the food price inflation within Russia. Could you just give some colour, some general impressions from your part on the impact it is having on customer behaviour and the competitive dynamics?

Patrick Longuet

(Translated text) We are experiencing high inflation mainly on the basic products, most necessary product just as flour. It does affect the consumption of the people. As the incomes do not follow, as of today, inflation levels, people are buying less products, very clearly. And that is certainly a reason why we see such high sales increase in the supermarket because it goes into price people still buy what they need but they just pay more. Now that the government has announced their intentions to fight inflation and so we do expect that it will slowdown on the food products.

Raj Shant – New Investment Management

Great. Thank you.

ACT Operator

The next question comes from Natasha Zagvozdina from Renaissance Capital. Please go ahead.

Natasha Zagvozdina – Renaissance Capital

Thank you very much. I apologise but my questions have already been answered. Thank you.

Sebastien Verhaeghe

Thank you.

ACT Operator

We have a question from Simon Dunn from Liberum Capital. Please go ahead.

Simon Dunn – Liberum Capital

Yes, good afternoon gentlemen. I have just two straightforward questions. You mentioned in the second line of the statement that you had strong pressure on your earnings coming from Saint Petersburg. I just wondered if you could say a little bit more about that. Are you referring specifically to the accident and the sales loss or are you talking about pressure on margins? That's question one.

The second question relates to the customer traffic numbers that you gave us. I am just interested if you look at customer traffic in the more recent weeks and in the weeks before the accident, was customer traffic also negative in those weeks? Is the negative customer traffic trend primarily a function of the accident? And is customer traffic now in positive terms growing year-on-year? Those are my two questions.

Patrick Longuet

(Translated text) On Saint Petersburg of course this accident this put clear impact and pressure on our sales and our development. Now in addition what we already mentioned in the previous conference call is that we have added two stores in Saint Petersburg, these new stores compete with existing stores. And that do have a technical effect on the like-for-like figures in Saint Petersburg.

Now we also see fierce competition in Saint Petersburg. Our competitors have made progress, some of them made big progress during the accident of course. It's more tense than before in Saint Petersburg clearly. Now it's our core market and we remain confident in it; we have other openings planned in July in Saint Petersburg in the area where we are not present yet.

Sebastian Verhaeghe

The second question was about the traffic –

Simon Dunn – Liberum Capital

Yes, the traffic trends.

Patrick Longuet

(Translated text) Since the accident we have been increasing our advertising in Saint Petersburg in order to get back customers. We were coming back positive on the stores as we go forward.

Maksim Kravtsov

For example if you look at the fourth quarter of 2010, we had positive like-for-like traffic increase overall for the chain and it was also the case for Saint Petersburg market.

Simon Dunn – Liberum Capital

OK, thank you.

ACT Operator

The next question comes from Yulia Gerasimova from Goldman Sachs. Please go ahead.

Yulia Gerasimova – Goldman Sachs

Thank you and good afternoon. I have several questions. First one, I just wanted to understand how is your ability to recover your like-for-like sales growth going forward towards the yearend? What are your expectations of like-for-like sales for the full year? This is the first question.

Sebastian Verhaeghe

We still expect that, as we mentioned before, to see a better trend overall in the coming months because the big part of inflation will be ended now. Now we had the accident that impacts our like-for-like overall. Now the general trend on the year today going to be around 7%.

Yulia Gerasimova – Goldman Sachs

Sorry how much?

Sebastian Verhaeghe

Around 7% for the year.

Yulia Gerasimova – Goldman Sachs

7%, so like-for-like 10%.

Sebastian Verhaeghe

Taking in account, I would say, the trend we had at the beginning of the year and our expectation is pretty small, it's really difficult to see that. I expect it would be better but let's make a cautious assumption.

Yulia Gerasimova – Goldman Sachs

OK. Just to clarify for the full year like-for-like sales you expect it was around 7% and this includes the effects of accident in the first quarter or not or it was before the accident you expected this figure? I just wanted to clarify if this 7% like-for-like sales growth you expect for the full year it includes the negative effect from the accident in Saint Petersburg in the beginning of the year or it was your expectations before the accident for 2011?

Sebastian Verhaeghe

No, it's our current expectation taking into account what would be the effect of the accident.

Yulia Gerasimova – Goldman Sachs

Second question also on like-for-like. Could you please give us more colour on like-for-like sales growth in other regions for example like not in Saint Petersburg but just in other regions which were not affected by the traffic decrease given this accident?

Sebastian Verhaeghe

It was very different city by city more than region by region but we had very good results in Moscow, good results in Krasnoyarsk. We don't report figures by cities, we are not going to start but we have mentioned before Togliatti is a city where we encountered difficulties because there is a huge rate of unemployment that affects all business there. Krasnodar, we mentioned it last time, we are cannibalizing our own stores because we have now five stores there and 2 are recent openings, so it affects the like-for-like but the overall progress is coming. Now it's a city which is very competitive.

Sebastian Verhaeghe

The rest is just in the average tendency.

Yulia Gerasimova – Goldman Sachs

The purpose of my question was I just wanted to compare with – we have really the X5 results day and for example they reported for their hypermarkets in Moscow region 10% total like-for-like sales growth. I just wanted to compare at least like for some regions which were not affected by the accident, like-for-like sales growth with other retailers. Could you please just comment for example in the Moscow region, so X5 had 10% as –

Maksim Kravtsov

We don't report city by city but I can tell you that it's better in Moscow than X5's result.

Yulia Gerasimova – Goldman Sachs

OK. That's great. Thank you. The last question, this was on your guidance in terms of selling space growth 30%. For the full first quarter you have opened only two new stores, I just wanted to clarify whether you are confident with your 30% guidance on sales in selling place increase for the full year?

Sebastian Verhaeghe

On the opening plan we had said in several comments that the plan was to open 11 hypermarkets and 15 supermarkets. Now the target for us is to increase selling space by 30%, we are still on that target. It was made up of very few stores in the beginning of the year but that's typical for construction activity because construction phases are linked to the weather, so lots of openings are concentrated at the end of the year. There is always, I would say store-by-store, some risks or delays, we manage these everyday. Now as of today for the general trend I would say we are working on all those stores. There is no time for us to worry about this; not everything is completed and secured yet but very big part of it, I would say.

Yulia Gerasimova – Goldman Sachs

OK. Thank you very much. That's all my questions. Thank you.

ACT Operator

The next question comes from Maria Kolbina from VTB Capital. Please go ahead.

Maria Kolbina – VTB Capital

Yes, good evening. I have a few questions. First of all regarding your top line. Have you seen any changes with regards to maturity profile of hypermarkets and supermarkets? We currently assume that hypermarkets reach 100% maturity by the end of 18 months, so have you seen any changes? One thing.

Second thing on the profitability. Can you specify how aggressive you were in the first quarter in Saint Petersburg and regions in general because as you have mentioned still like-for-like is not picking up and I presume that the effect of the roof collapsing should have like ended up quite a few time ago. How **great if** you are, how hurtful it is on margins? What are you seeing with regards to the increase in gasoline prices and increase in social tax rate, were you able to offset it into high prices? I just want to understand the effect on margins particularly in light of making profit warning that came a few weeks ago. Thank you.

Sebastian Verhaeghe

I will start on the profile. Maturity profile does not change I mean there is no reason why it would change so fast, so as we state typically for a hypermarket in 18 months we come to a level of activity where we have positive EBIDA in a store. Ok and it takes up to three year sometimes to reach the expected long-term profitability criterias. We keep using that in our model and our update of the statistics of 2010 show that this remains. Of course some stores have had different experience but overall that does not change.

Now as for Saint Petersburg, did I understand correctly where you said that you would expect the effect of the accident would already be over? Is that what your assumption was Maria?

Maria Kolbina – VTB Capital

Yes. I am just trying to understand that the effect of store closures might have been – like should have come to an end quite a while ago, so I am just trying to understand why like-for-like is still not yet recovering for you? Are you seeing some may be structural changes in the environment in the Saint Petersburg or it is like something else? I just want also to understand how price aggressive you are particularly after this accident, how hurtful it is on margins?

Sebastian Verhaeghe

I frankly mentioned that when we see the minus 6% of X5 on Saint Petersburg on the like-for-like may be we are too ambitious on our plans on the like-for-like because we are better than that. But now the – it takes a while to recover from that, I mean technically the stores are re-open, people come back but there is always some group of people for whom it will take some time to regain confidence.

As Patrick said we have increased our advertising activities with no particular pressure on the margins for Saint Petersburg. And then we have asked our suppliers to help us, contribute better conditions to get over that moment where we have to invest a little more. Now Saint Petersburg is a difficult market and getting more difficult than before, so we have pressures as we have stated before.

Maria Kolbina – VTB Capital

OK. Sebastian, can you also provide, if it is possible, quarterly outlook with regards to hypermarket store opening, if it is possible?

Sebastian Verhaeghe

Quarterly outlook?

Maria Kolbina – VTB Capital

Yes, quarterly guidance on hypermarket openings? How many do you plan to open in the sector quarter, the third and the fourth one, only in hypermarkets?

Sebastian Verhaeghe

Ten hypermarkets we will open after September, from September to December.

Maria Kolbina – VTB Capital

Sorry I didn't get it, from September to December you will –

Sebastian Verhaeghe

Total 10 hypermarkets will be opened from September to December.

Maria Kolbina – VTB Capital

8 hypermarket.

Sebastian Verhaeghe

10, between September and December. One we have hope to open by August but it is not guaranteed.

Maria Kolbina – VTB Capital

That means that you won't have any significant store openings in the second quarter.

Sebastian Verhaeghe

Not significant, not at all.

Maria Kolbina – VTB Capital

Not at all. OK, also so actually yes, we need to work on the numbers because actually what we have in our model now assumes that you like taking into account the accident, the closed stores etc we still forecast the business to grow like 30% for the full year which means that from the second to the fourth quarter you really need to show something like 30 plus to compensate for this. I understand that 30% growth rate in terms of revenue is not what you have in your budget at the moment?

Sebastian Verhaeghe

Sorry Maria when you say 30% just to make sure there is no misunderstanding we always say we worked to increase our sales area by 30% each year, not the turnover, because to make it clear it comes at the end of the year, of course it is possible.

Maria Kolbina – VTB Capital

OK. Maybe we will have a more rapid start of the year, so I need to change it more to the close. OK, I will see what effect it will have on the sales growth.

Also your profitability ratio for the first quarter, can you mention how hurtful was the effect of social tax rate and were you able to offset it at higher prices, also gasoline and also your general marketing policy since the beginning of the year?

Sebastian Verhaeghe

The social tax increase, it is on the short-term, I mean the first quarter it directly impacts our results. And of course now it is something that we would like to compensate on the margin. As I mentioned earlier in some meetings in our industry ultimately anyway if we cannot compensate it will go in the price for all the consumers. But as we monitor very closely the competition, I would say, it is something that we do not do mechanically without being careful to what the other ones are doing. And also that's what we say, we strive to compensate it now, sooner or later we will not put in danger our net profits because the net profits of our industry are very low. We cannot support these changes on the long-term.

Maria Kolbina – VTB Capital

OK. Can you, if possible, provide a few highlights, what the are most important changes on the retail side of the business that have been done since IPO in October, like changes in the assortment mix, in private label, in efficiency of direct label employees.

Sebastian Verhaeghe

Since November, I don't know it's a bit early to make statements on the changes.

Maria Kolbina – VTB Capital

I mean like efficiency improvements if any.

Sebastian Verhaeghe

We execute what we said: we are launching new private labels, we increase (*Inaudible – technical difficulties*). I mean there is no change in the strategy from what we have announced and written in our documents, so we just execute.

Can you make your question more specific?

Maria Kolbina – VTB Capital

No, I was just asking whether for example you saw a higher share of fresh new assortment, whether the private label has significantly increased, whether you did some efficiency improvements in direct label personnel just to see how the business is evolving since it went public.

Sebastian Verhaeghe

No. We have been executing our plan, we have installed our new software, we are launching new private labels. As we say the non-food is not as high as we expect but we still keep working to increase our import shares in the future. What we hope is that the situation reverses in terms of consumer purchasing power, I would say, revenue beats inflation in the coming months knowing that it will improve and we will benefit from the non-food, so we get ready for that but nothing else, no surprises.

Maksim Kravtsov

If you refer to efficiency of personnel, and improvement that we had in the first half of 2010 when personnel costs decreased as a percent of revenue due to optimisation that we did in our stores then this effect still existed in the second half of the year and we had the full year results which are absolutely comparable to the half year, so we did keep this improvement and we did not increase the number of personnel. Now as for further improvements and efficiency gains we have not undertaken any initiatives, I mean what has been achieved in 2010 was already in itself some achievement. And further improvements right now is not something that we consider.

Maria Kolbina – VTB Capital

OK. Thank you very much.

ACT Operator

The next question comes from Natasha Zagvozdina from Renaissance Capital. Please go ahead.

Natasha Zagvozdina – Renaissance Capital

Thank you very much. I have just one question. With this closing of the stores in Saint Petersburg and then re-opening them, did the Company have additional operating cost that we will see in the first quarter in SG&A line related to whatever you had the fixed there? Thank you.

Sebastian Verhaeghe

We of course have some losses, I mean some merchandise was lost, we have to replace some equipment although this is not expenditure yet, so we are ready to do the work but we have cannot do it until we are authorised to do it. There has been some

expenses related to the processing of the accident, expertises and so on. Those compensations and expenses will not be significant in regards to the global results. We have kept all employees and we have put them to work in other stores and in general that will also be compensated with just taking less short-term contracts. Also as we have many stores in Saint Petersburg and its only one store, so fortunately its not so visible. It is more on the loss of the revenues and the margin but no extra cost.

Natasha Zagvozdina – Renaissance Capital

All right. Understood. Thank you very much.

Sebastian Verhaeghe

There is an extra cost during the action but it is, I mean if I have to give a figure I think it is probably like RUB20 million overall.

Natasha Zagvozdina – Renaissance Capital

All right. And also may be final comment from the Company on what you were describing to Maria with the opening of 10 hypermarkets planned between September and December. How would you assess the possibility of slippage in the openings? How many of those stores are you building yourself or you deal with the sub-contractor and how many of those you will be leasing and you will rely on the delivery of the selling space by the third party?

Maksim Kravtsov

Out of 11 hypermarkets that we have planned to open this year, 6 are planned to be opened under the ownership and 5 are going to be rented. All our stores are build or refurbished by the sub-contractors whom we drive. In terms of the slippage you have mentioned, like in any construction process slippage is possible and it is always one of the risks. But at the moment we don't see any specific risks related to those stores.

Natasha Zagvozdina – Renaissance Capital

All right. Very clear, thank you very much.

ACT Operator

The next question comes from Alexandra Melnikova. Please go ahead.

Alexandra Melnikova – Alfa

Hi, thanks for hosting the call. I have a question on CapEx, just to continue what we have discussed just now. Can you please give any CapEx guidance for 2011 in absolute number and may be if you can break it down per store for own and rented stores it will be really useful? Thank you.

Maksim Kravtsov

We have seen estimates from the analyst given that the opening schedule that we have indicated that the CapEx for the year should be around RUB10 billion, I mean for 2011. And we think that this is a reasonable estimate given that we are increasing our land bank and planning to open six own stores. This number seems to be a reasonable one.

Could you please repeat the second half of your question.

Alexandra Melnikova – Alfa

If you can breakdown this CapEx how much you are going to spend for land, how much you are going to spend for own hypermarkets and how much will be the contribution for rented hypermarkets?

Maksim Kravtsov

I can give you an indication of what the elements are but the total number is simply the summing of those, so in terms of guidance for CapEx per store it hasn't changed. We are saying that own hypermarket costs about RUB1 billion including the cost of purchasing land. Rented hypermarket costs on average RUB350 million. In terms of the land purchases that we planned for the year we started the year with 11 land plots. And by the end of the year we plan to increase this number to approximately 20, may be slightly above 20. Meaning that we would acquire additional ten land plots or slightly more. This is what we see right now from the offerings that we received and from the considerations that are going inside the Company.

Alexandra Melnikova – Alfa

Thank you very much. It is really helpful.

ACT Operator

We have a question from Tatiana Prokina from VTB Capital. Please go ahead.

Tatiana Prokina – VTB Capital

Hello, good evening everyone. I would like to continue the topic of the land acquisitions. You are looking for about ten additional land plots to acquire by the end of the year and can you just describe what the average prices are, are you been offered for the land plots in Moscow and in the regions? This is my first question.

Maksim Kravtsov

Answering the question, in terms of the price of land, it is of course very different between regions and Moscow. The situation should be looked at city by city and the proximity of the land plot to the centre of the city also has significant impact on the price of the land. But generally speaking our land plots given that we acquire four hectares of land for our typical hypermarket cost on average RUB250 million. This is the average price. Now of course Moscow is much more expensive than this and some regions might be less expensive.

Tatiana Prokina – VTB Capital

Thank you very much. And I have additional question on the wages. Have you increased the wages already since the beginning of the year and what the average wage increase do you see within the whole year 2011? Thank you.

Sebastian Verhaeghe

Last increase was in July, there was no change at the beginning of this year and we plan to have another review at the beginning of December. But we have not decided on it yet.

Tatiana Prokina – VTB Capital

OK. Thank you very much. That's it from me.

ACT Operator

There appear to be no further question. Are there any other point you wish to raise.

There are no further questions.

Maksim Kravtsov

Thank you very much everybody for taking part in this call.

ACT Operator

This concludes the Okey Group SA Unaudited Operating Results for 1Q 2011 conference call. Thank you for participating. You may now disconnect.

END OF CONFERENCE