

Press Release
24 April 2012

O'KEY GROUP ANNOUNCES FY 2011 RESULTS

GROSS MARGIN AT A HISTORICAL HIGH AND EBITDA MARGIN AHEAD OF GUIDANCE

O'Key Group S.A., ("O'Key Group", "the Group" or "the Company"), a leading food retailer in Russia (LSE ticker: OKEY), today released its audited consolidated IFRS financial results for the year ended 31 December 2011. These and the company's 2011 Annual Report have been published on the company's website, www.okmarket.ru/investors.

2011 Year-end Highlights:

- Total revenue grew 12.7% to RUB 93.1 billion, with like-for-like revenue at 5.3%
- 14 new stores opened for operation during the year
- Gross margin spiked to a historical high of 22.8%
- EBITDA margin ahead of guidance at 8.1%
- Net profit increase of 20.7% to RUB 3.2 billion
- Cash from operating activities demonstrated 25% growth

O'Key Group CEO Patrick Longuet said: "We recorded a 12.7% increase in total revenue and our focus on profitability delivered a gross margin of 22.8%, an EBITDA margin of 8.1% and a 20.7% increase in net profit. This was achieved despite the accident at Ozerki, the industry-wide cost increases and significant deceleration in food inflation – demonstrating the resilience of O'KEY's business model. In an environment where a number of competitors were losing customers, we retained our customer base and maintained the strength of our brand.

We are delighted that we regained our loyal customer base following the decline in the beginning of the year. By the end of the year, the number of active loyalty cards had increased by 17.2% y-o-y and our LFL traffic increased from -2.8% in Q1 to -0.2% by the year end, supported by a very strong traffic inflow of 1.5% in Q4.

Significant increase in our gross margin was driven by general improvement in commercial terms due to the increased scale of our operations and growing purchasing power, and further enhanced by price increases in July, which compensated for growing social taxes and utility charges.

We are glad to report that actual EBITDA margin came above our expectations at the level of 8.1%. Despite the pressures we faced from changes in legislation, liberalization of tariffs and delayed openings, we were able to mitigate large part of it by the improvements in purchasing conditions.

The 25% increase in cash generated through our operations enabled us to finance a substantial part of our 2011 investment program using our own resources, keeping indebtedness at a comfortable ratio of 1.2X Net Debt/EBITDA. Improvements in operating efficiency, cash management and increasing bargaining power with suppliers were supported by the centralization of our purchasing function which was finalized in 2011.



Despite the challenges faced in 2011, we reaffirm our long-term targets. We aim to expand our hypermarket network organically at an annual rate of 30%, and we are also expanding our land bank to ensure we complete our planned store openings over the next two years. Our long-term profitability target remains at over 8% on the EBITDA line and as we continue to develop our range of quality products we will ensure that our prices remain very attractive in the market.”

Financial performance

Income Statement Highlights

RUB millions, unless otherwise indicated	2011	2010 (Restated*)	Change 2010/2011
Revenue	93,134.4	82,666.6	12.7%
Gross profit	21,281.0	17,924.0	18.7%
Gross Margin	22.8%	21.7%	1.1 p.p.
EBITDA	7,510.1	7,126.7	5.4%
EBITDA Margin	8.1%	8.6%	(0.5 p.p.)
Profit before tax	4,369.7	3,946.1	10.7%
Profit for the year	3,239.9	2,684.0	20.7%
Net Margin	3.5%	3.3%	0.2 p.p.

Earnings per share

Basic and diluted earnings per share (RUB) – restated*	12.0	10.5	1.5
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*2010 results have been restated to conform with the change in accounting policy related to accounting for land and buildings

Revenue

Revenue for the year ended 31 December 2011 rose by 12.7% to RUB 93,134.4 million, from RUB 82,666.6 million in the year ended 31 December 2010. Revenue growth was driven both by an increase in selling space and in like-for-like revenue growth.

Like-for-like (LFL) revenue grew by 5.3% year-on-year (y-o-y) in 2011, with a 5.5% increase in LFL basket being driven primarily by increased inflation. This analysis includes the 54 stores that we opened before 31 December 2010 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by 11.0%, or RUB 7,110.8 million in 2011. This was driven by higher sales of trading stock, new store openings, and LFL revenue expansion.

Gross profit increased by 18.7% in 2011 to RUB 21,281.0 million, compared to RUB 17,924.0 million in 2010. The gross margin for 2011 increased by 1.1 p.p. to 22.8%. These improvements were driven primarily by price increases in July, which compensated for growing social taxes and



utility charges, and the Company has also achieved a general improvement in commercial terms due to the increased scale of its operations and its growing purchasing power.

General, Selling and Administrative Expenses

	Year ended 31 December 2011 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2010 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Personnel costs	(7,538.3)	8.1	(5,989.1)	7.2	0.9
Depreciation and amortization	(1,977.3)	2.1	(1,572.0)	1.9	0.2
Operating leases	(1,672.6)	1.8	(1,069.9)	1.3	0.5
Communication and utilities	(1,503.2)	1.6	(1,101.4)	1.3	0.3
Security expenses	(659.7)	0.7	(520.8)	0.6	0.1
Advertising and marketing	(508.3)	0.5	(429.9)	0.5	0.0
Materials and supplies	(404.6)	0.4	(357.5)	0.4	0.0
Operating taxes	(369.1)	0.4	(348.9)	0.4	0.0
Insurance and bank commission	(349.4)	0.4	(327.8)	0.4	0.0
Repairs and maintenance costs	(308.1)	0.3	(257.1)	0.3	0.0
Legal and professional expenses	(262.0)	0.3	(163.3)	0.2	0.1
Other costs	(197.3)	0.2	(268.7)	0.3	(0.1)
Total general, selling and administrative expenses	(15,749.9)	16.9	(12,406.4)	15.0	1.9

The Group's general, selling and administrative expenses increased by 26.9% to RUB 12,406.4 million in 2011, mainly due to the growth in the Group's operations and increased costs related to personnel, utilities and leases. The Company also incurred substantial costs as an indirect result of the unfortunate accident in O'KEY's Ozerki store.

As a percentage of revenue, our general, selling and administrative expenses increased by 1.9 percentage points to 16.9% for the year ended 31 December 2011. Personnel costs increased by 25.9% to RUB 7,538 million, reflecting the increased staffing requirements required for the 14 stores O'KEY opened in 2011. A large proportion of this increase, approximately 40%, was due adjustments made to the social tax rate which rose from 26% to 34% on 1 January, 2011, and the indexation of salaries in July was also a contributory factor as was the costs of additional personnel benefits. Subsequently, as a percentage of revenue, personnel costs increased by 0.9 p.p. in 2011 to 8.1%.



Expenses for operating leases equalled RUB 1,672.6 million in 2011, an increase of 56.3% over the 2010 figure of RUB 1,069.9. This was primarily due to an increase in the rent we paid on three stores that were transferred under lease-back arrangements in late 2010. These stores were paying rent for the full year in 2011, compared to only paying for a fraction of 2010. Another factor that led to the increase in this expense category is the proportion of leased space we are occupying, which reached 45% of the total space our stores occupy by the end of 2011. We added 5 new leased hypermarkets and 6 new leased supermarkets in 2011, thus increasing leased space by 31% compared to the position at the end of 2010.

Net other operating income and expenses resulted in a loss of RUB 142.6 million in 2011, compared to a loss of RUB 121.7 million in 2010. This was primarily due to the impairment of raw materials and Ozerki-accident related expenses. Both items are non-recurring one-off expenses. Furthermore, considerable improvements were made in the collection of receivables, with the number of receivables outstanding for more than 180 days almost halving in 2011.

Finance costs decreased by 42.5% to RUB 777.5 million in 2011, as the Group repaid part of its loan portfolio during the year. The average loan balance in 2011 was therefore below 2010 levels. The effective interest rate increased from 8.1% in 2010 to 8.2% for the year ended 31 December 2011.

Profit before income tax increased by 9.8% to RUB 4,369.7 million in 2011. The significant improvement over operating profit was achieved due to a reduction in financing costs, though these savings were partially offset by foreign exchange losses.

The total income tax expense decreased by 10.5% to RUB 1,129.7 million in the year ended 31 December 2011, primarily due to the increased profit generated by O'KEY's retail operations.

As a result developments described above, O'KEY Group is generated a 20.7% increase in net to RUB 3,239.9 million in 2011, compared to RUB 2,684.0 million in 2010. The rate by which O'KEY's net profit increased is greater than the rate its revenue and operating profit grew, this is mainly due to lower financing costs and income tax expenses.

Cash Flows and Working Capital

(RUB millions)	<u>2011</u>	<u>2010</u>
Net cash from operating activities	6,400.9	5,110.9
Net cash used in investing activities	(8,692.5)	(3,393.2)
Net cash used in financing activities	(449.3)	2,404.2
Net increase/(decrease) in cash and cash equivalents	(2,740.9)	4,121.2
Effect of exchange rate fluctuations on cash and cash equivalents	(24.4)	122.9



Net cash generated from operating activities increased significantly from RUB 5,110.9 million to RUB 6,400.9 million in 2011. Improvements in working capital played a major role in increasing operating cash flow. Improvements in trade accounts payable and net trade and other receivables significantly exceeded the uptake in inventories. The increases in trade accounts payable and inventories were driven by the higher volumes of operations and the greater number of stores in operation. Improvements achieved in net trade and other receivables were due to reduced prepayments for current assets and improved collection time of supplier bonuses.

Cash used in investing activities increased to RUB 8,692.5 million in 2011 and was principally used for purchases of property, plant and equipment. The majority of this outflow was spent on the completion of seven new hypermarkets, of which two were constructed, and seven supermarkets, of which one was constructed. By the end of 2011 some large investments were classified as construction in progress, these relate to stores that were at different stages of completion, but had not yet opened, at the end of the year.

Net cash used in financing activities amounted to RUB 449.3 million following the repayment of debts during the year and the payment of dividends. The Group used excess cash balances available at the beginning of the year to partially repay its current loans and borrowings.

O'Key's primary sources of liquidity include cash derived from operating activities and debt financing. As of 31 December 2011, O'Key's working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) less current liabilities (excluding short-term loans), was a negative RUB 5,508.5 million. O'Key believes that the nature of the food industry means that food retailers run negative working capital figures, and O'Key intends to maintain a negative working capital position.

(RUB millions)	2011	2010
Total Debt	12,071	11,572
Short-Term Debt	5,303	3,702
Long-Term Debt	6,768	7,869
Net Debt	9,129	5,864
Net Debt / EBITDA	1.2	0.8

O'Key considers the net debt to EBITDA ratio as the principal indicator that evaluates the impact of the total size of O'Key's borrowings on its operations. At 31 December 2011, O'Key's net debt to EBITDA ratio was 1.2.

COMPANY OVERVIEW

"O'KEY" is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket under the "O'KEY" brand, complemented by "O'KEY - Express" supermarkets.



The Company opened its first hypermarket in St. Petersburg in 2002 and has demonstrated continuous growth ever since. As at 31 December 2011, O'KEY operated 71 stores in 17 cities across Russia: 42 hypermarkets with an aggregate selling space of approximately 308,000 square meters and 29 supermarkets with an aggregate trading space of approximately 38,000 square meters. As of 31 December 2011, O'Key employed more than 19,000 people.

In accordance with the audited consolidated financial statements for FY 2011, O'KEY's revenue was RUR 93,134 million, like-for-like revenue growth rate was 5.3% and EBITDA margin was 8.1%.

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