Press Release
29 March 2018

O'KEY GROUP ANNOUNCES AUDITED FINANCIAL RESULTS FOR FY2017

O'KEY Group S.A. (LSE: OKEY, the "Group"), one of the leading Russian food retailers, announces financial results for the FY2017 based on audited consolidated financial statements. All the materials published by the Group are available on its website www.okeyinvestors.ru.

2017 financial highlights

- Total Group revenue increased 1.1% YoY, from RUB 175,471 mln to RUB 177,455 mln;
- Revenue generated by O'KEY decreased 1.6% YoY to RUB 167,062 mln driven primarily by intensifying competition and the closure of two hypermarkets in the first half of the year;
- Revenue generated by DA! grew 80% YoY to RUB 10,393 mln. This solid result has been largely driven by stable growth in traffic and average ticket;
- Group gross profit rose 0.6% YoY to RUB 40,444 with gross margin remaining virtually unchanged at 22.8%;
- Group EBITDA increased 1.0% YoY to RUB 9,335 mln with EBITDA margin remaining flat YoY at 5.3%;
- EBITDA generated by O'KEY fell 4.1% YoY to RUB 11,359 mln with the margin decreasing by 20 bps to 6.8% primarily due to growing competitive pressure and higher logistics costs on the back of aggressive centralization;
- EBITDA generated by DA! improved from negative RUB 2,592 mln (44.9% of sales) in 2016 to negative RUB 2,024 mln (19.5% of sales) in 2017 driven by new store openings and higher LFL sales;
- Net profit for the Group amounted to RUB 3,167 mln. The bottom line was primarily underpinned by the gain on sale of the supermarket business performed in December 2017.

Key events in 2017:

- The Group opened one hypermarket in Yekaterinburg and closed two hypermarkets in Cherepovets and Sterlitamak;
- 13 new discounters were opened in Moscow, Tula and Ryazan regions;
- In January, the Group repurchased part of RUB 5.0 bln bond placed in October 2013 at an amount of RUB 577.8 mln;
- In January, Fitch Ratings confirmed the Group's credit rating of B+ with stable forecast;
- In May, the Group placed a RUB 5.0 bln four-year bond due April 2021 with a coupon rate of 9.55% on the Moscow Exchange;
- In December, the Group signed an agreement to sell its supermarket business comprising 32 stores;
- Also in December, the Group repaid the outstanding amount of RUB 385.1 mln from the first bond issuance;
- As at the end of 2017, the Group's weighted average interest rate decreased to 9.8% from 11.0% in 2016. The Group continues to optimise the debt portfolio, as reflected in the average rate decrease to 9.6% in March 2018.

Guidance

- We expect net retail revenue generated by our hypermarkets business to grow low single digits in 2018, with new stores openings limited to two. 2019 is expected to be a pivoting year for the business performance. In 2020 we expect growth to accelerate driven by better sales densities and stores additions.
- We expect net retail revenue generated by our discounters business to grow by approximately 50% YoY in 2018, driven by openings of up to 30 new stores and improved sales densities. EBITDA loss is expected to decline by up to 50% YoY.

Miodrag Borojevic, Chief Executive Officer of "O'KEY", said:

"In 2017 the economy demonstrated the first signs of recovery supported by gradual improvement of consumer sentiment. At the same time the competitive environment in retail sector remained strong. Aggressive selling space growth ahead of food retail sales continued to put pressure on the performance of more mature stores.

In this regard, in 2017, we made a strategic decision to sell the business of supermarkets in order to focus on compact hypermarkets and discounters businesses development to attain greater efficiency and higher profitability.

Operationally, in 2017, we remained dedicated to increasing overall efficiency and enhancing our customer value proposition. Through business process optimisation, both at store and head office level, we managed to become more efficient without compromising the quality of in store shopping experience.

On commercial front we continued to align the price perception of our hypermarkets with the "best value for money" concept by introducing a number of marketing initiatives.We believe that the benefits gained through these marketing activities fundamentally support our top line growth going forward.

In regard to our financial results, EBITDA generated by O'KEY decreased 4.1% YoY. This is the result of growing competitive pressures and higher logistics costs on the back of aggressive centralization. We expect the latter to be offset in 2018 by better conditions on the commercial side.

In 2017 we made some key changes to the structure of the management team. The team was strengthened by the placement of several strong managers with extensive experience in commerce and sales operations to better address our renewed strategic priorities.

Looking forward, we remain confident in our strategy focused on unlocking the potential of our hypermarkets. We will continue to deliver progress on our strategic priorities creating an efficient and forward thinking company and fundamentally creating value for its stakeholders."

Armin Burger, Chief Executive Officer of "DA!", added:

"In 2017 we progressed the expansion of our unique for Russia store format of a classic discounter, with the total number of stores reaching 67 by the end of the year. The discounters continued to deliver performance in line with expectations with loss on EBITDA as percentage of revenue declining by more than two times YoY. The coordinated efforts of the team, along with a strong value proposition where low prices meet quality assortment that covers the daily needs of every customer, have enabled us to demonstrate the consistent growth of LFL indicators.

Also in 2017, we continued to enhance our private label assortment by introducing over 180 new stock keeping units ("SKUs"), thus increasing the total number of private label SKUs to 900. We continue to enhance the customer shopping experience in our discounters by adapting in-store layout to the needs and preferences of modern customers. In this respect, over the past year we have increased the selling space of our own in-store bakeries, in order to ensure only the freshest goods are on offer.

We are pleased with the overall performance to date and expect to see further improvements in the financial results by the end of 2018."

Group profit and losses

RUB mln	2017	2016	∆ YoY
Total Group revenue	**177,455**	**175,471**	**1.1%**
Gross profit	**40,444**	**40,209**	**0.6%**
Gross profit margin	*22.8%*	*22.9%*	*(10 bps)*
SG&A	**(36,189)**	**(35,764)**	**1.2%**
GS&A as % of revenue	*20.4%*	*20.4%*	*0 bps*
Group EBITDA	**9,335**	**9,253**	**1.0%**
Group EBITDA margin	*5.3%*	*5.3%*	*0 bps*
Net profit/(loss)	**3,167**	**(138)**	**>100%**

Operating segments performance

RUB mln	O'KEY		∆, YoY	DA!		∆ YoY
	2017	2016		2017	2016	
Revenue	**167,062**	**169,696**	**(1.6%)**	**10,393**	**5,775**	**80.0%**
EBITDA	**11,359**	**11,845**	**(4.1%)**	**(2,024)**	**(2,592)**	**(21.9%)**
EBITDA margin	*6.8%*	*7.0%*	*(20 bps)*	-	-	-

Group operating results

Segment	2017			2016		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	1.1%	0.4%	0.6%	7.6%	9.3%	(1.7%)
LFL Group	(1.4%)	(2.2%)	0.8%	2.2%	1.2%	0.9%
Hypermarkets and supermarkets	(1.6%)	(4.3%)	2.7%	4.5%	2.6%	1.7%
LFL for the segment	(3.2%)	(5.0%)	1.9%	2.0%	0.9%	1.0%
Discounters	81.5%	62.8%	11.7%	>100%	>100%	5.6%
LFL for the segment	52.0%	34.8%	12.7%	65.5%	37.4%	20.4%

Revenue

In 2017, total Group revenue increased by 1.1% YoY to RUB 177,455 mln while LFL revenue decreased by 1.4% YoY. The LFL revenue dynamics is largely attributable to a 2.2% YoY decrease in LFL customer traffic driven by intensifying competition, and an increase in LFL average ticket by 0.8% YoY affected by falling food inflation. While consumer sentiment has been largely on track to recovery the strong selling space growth ahead of food retail sales continued to put pressure on the performance of more mature stores.

By the end of the reporting period, total selling space decreased by 7.2% to 577,804 sq. m. O'KEY selling space decreased by 9.3% to 531,589 sq. m and selling space of DA! increased by 25.3% to 46,215 sq. m.

Cost of goods sold and gross profit

The cost of goods sold as a percentage of revenue increased by 10 bps in 2017 to RUB 137,010 mln. The table below provides the breakdown of cost of goods sold for 2017 and 2016:

RUB mln	2017	% of revenue	2016	% of revenue	Δ YoY
Total revenue	**177,455**		**175,471**	**100.0%**	
Cost of goods sold	**(137,010)**	**77.2%**	**(135,261)**	**77.1%**	**10 bps**
Cost of trading stock (less supplier bonuses)	(129,262)	72.8%	(128,800)	73.4%	(60 bps)
Inventory shrinkage	(3,086)	1.7%	(2,867)	1.6%	10 bps
Logistic costs	(3,834)	2.2%	(2,771)	1.6%	60 bps
Labelling and packaging costs	(828)	0.5%	(824)	0.5%	0 bps
Gross profit	**40,444**	**22.8%**	**40,209**	**22.9%**	**(10 bps)**

In 2017, gross profit increased 0.6% YoY to RUB 40,444 mln while the gross margin remained virtually unchanged YoY at 22.8%. These results were, for the most part, influenced by more favourable purchasing conditions and better customer value proposition across all store formats. The ongoing work on logistics centralisation together with continued expansion of the discounters format during the year, resulted in a logistic cost increase of 60 bps, as percentage of revenue, to RUB 3,834 mln. Improvements are expected in the net logistics costs by the end of 2018, as the centralisation of logistics progresses and its processes become more efficient. Shrinkage costs as a percentage of revenue increased by 10 bps YoY partially affected by one-off write offs.

General, selling and administrative costs

The general, selling and administrative expenses as a percentage of revenue remained flat YoY, reflecting the Group's ongoing work on increasing efficiency across all business processes. The table below provides the general, selling and administrative expenses breakdown for 2017 and 2016:

RUB mln	2017	% of revenue	2016	% of revenue	Δ YoY
Personnel costs	(15,619)	8.8%	(16,185)	9.2%	(40 bps)
Operating leases	(5,758)	3.2%	(5,344)	3.0%	20 bps
Depreciation and amortisation	(4,613)	2.6%	(4,550)	2.6%	0 bps
Communication and utilities	(3,525)	2.0%	(3,486)	2.0%	0 bps
Advertising and marketing	(2,116)	1.2%	(1,795)	1.0%	20 bps
Repairs and maintenance	(1,254)	0.7%	(1,183)	0.7%	0 bps
Security expense	(869)	0.5%	(825)	0.5%	0 bps
Insurance and bank commissions	(819)	0.5%	(737)	0.4%	0 bps
Operating taxes	(730)	0.4%	(713)	0.4%	0 bps
Legal and professional expenses	(520)	0.3%	(603)	0.3%	0 bps
Materials and supplies	(329)	0.2%	(302)	0.2%	0 bps
Other costs	(36)	0.0%	(41)	0.0%	0 bps
Total SG&A	**(36,189)**	**20.4%**	**(35,764)**	**20.4%**	**0 bps**

Personnel costs

In 2017, personnel costs as a percentage of revenue decreased by 40 bps to 8.8% or by RUB 566 mln YoY. The realised cost savings were, for the most part, attributable to ongoing business processes efficiency increase on both store and head office levels. In 2018 the Group will continue to focus on enhancing the effectiveness of business processes across all store formats.

Operating leases

Operating lease costs as a percentage of revenue increased by 20 bps YoY to 3.2%. This was primarily attributable to the rollout of discounters in the second half of the year in line with previously announced plans and a revision of lease agreements of two hypermarkets during the year. The operating lease expenses as percentage of revenue are expected to decrease as the discounters continue to gain momentum.

Communication and utilities costs

Communication and utilities expenses as a percentage of revenue remained unchanged at 2.0%. The Company aims to continue the work on further optimization of the respective costs and efficiency improvement.

Advertising and marketing expenses

Advertising and marketing expenses as a percentage of revenue increased by 20 bps YoY to 1.2%, while in absolute terms the growth amounted to 17.9% YoY. This YoY increase was primarily driven by continuous work on our customer value proposition and enhancing and implementing a number of marketing initiatives aimed at aligning of our formats price perception with the “best value for money” concept.

Depreciation and amortisation

Depreciation and amortisation as a percentage of revenue remained flat YoY at 2.6%. In absolute terms, the 1.4% growth YoY was in line with revenue and for the most part triggered by the replacement of old in-store equipment and new store openings.

Net finance costs

Whilst net finance costs as percentage of revenue remained unchanged YoY, in absolute terms the increase amounted to 4.6% YoY due to decrease in finance income. The Group's average loan portfolio stayed virtually unchanged YoY.

Net profit

In 2017, net profit amounted to RUB 3,167 mln versus a net loss of RUB 138 mln a year ago. This trend was for the most part underpinned by the gain on the sale of the supermarket business in December 2017.

Cash flow and working capital

RUB mln	2017	2016
Net cash from operating activities	4,874	11,673
Net cash used in investing activities	(3,365)	(5,413)
Net cash used in financing activities	(5,187)	(4,529)
Net (decrease)/increase in cash and cash equivalents	(3,678)	1,730
Effect of exchange rate on cash and cash equivalents	(35)	(35)

Net cash from operating activities

As at 31 December 2017, the Group'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 4,633 mln compared to negative RUB 12,734 mln as at 31 December 2016. The working capital turnover decrease was primarily attributable to the amendments in the Trade Law and temporary effect from reorganization of the logistics processes which accompany the centralization. As a result, notwithstanding the growth of cash receipts from customers by 1.4% YoY, net cash from operating activities during the reported period amounted to RUB 4,874 mln, while in 2016 the Group reported operating cash of RUB 11,673 mln.

Net cash used in investing activities

Net cash used in investing activities declined from RUB 5,413 mln in 2016 to RUB 3,365 mln in 2017 in line with the Group's conservative investment strategy. The consideration received from the sale of supermarket business will be reflected in the Group's consolidated cash flows for 1H 2018.

Net cash used in financing activities

Net cash used in financing activities in 2017 amounted to RUB 5,187 mln. Over the reported period, the Group attracted RUB 7,686 mln of financing through the placement of exchange-traded bonds and made repayments totaling RUB 7,663 mln. In January 2017, the Group distributed a dividend in the amount of RUB 1,466 mln.

Debt

The Group considers the Net Debt/EBITDA ratio as the principal means for evaluating the impact of the Group's borrowings on its operations. As at 31 December 2017, Net Debt/EBITDA ratio was 3.1x compared to 2.7x at 31 December 2016. We maintain a conservative approach to borrowing and expect Net Debt/EBITDA to be below 3.0x by the end of 2018.

RUB mln	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Total debt	**36,341**	**36,295**	**35,558**
Short-term debt[1]	11,662	4,622	12,000
Long-term debt	24,679	31,673	23,558
Cash&cash equivalents	**7,750**	**11,463**	**9,768**
Net Debt	**28,591**	**24,832**	**25,790**
Net debt/EBITDA	**3.1x**	**2.7x**	**2.6x**

COMPANY OVERVIEW

O'KEY Group S.A. (LSE: OKEY, Fitch – 'B+') is one of the largest retail chains in Russia. The Company operates under two main formats: hypermarkets under "O'KEY" brand and discounters under the "DA!" brand.

As at March 29, 2018, the Group operates 145 stores across Russia. The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. O'KEY is the first among Russian food retailers to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery. The Company operates 4 distribution centres across the Russian Federation.

For the full year 2017, revenue totalled RUB 177,454,848 thousand, EBITDA reached RUB 9,334,993 thousand, and the net income for the period amounted to RUB 3,166,913 thousand.

O'KEY shareholder structure is as follows: NISEMAX Co Ltd – 50.95%, GSU Ltd – 29.52%, free float – 19.53%.

[1] Short-term debt includes interest accrued on loans and borrowings.

DISCLAIMER

These materials contain statements about future events and expectations that are forward-looking statements. These statements typically contain words such as "expects" and "anticipates" and words of similar import. Any statement in these materials that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.
None of the future projections, expectations, estimates or prospects in this announcement should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in this announcement. We assume no obligations to update the forward-looking statements contained herein to reflect actual results, changes in assumptions or changes in factors affecting these statements.

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