

Press Release
30 August 2013

O'KEY GROUP ANNOUNCES FINANCIAL RESULTS FOR 1H 2013

O'Key Group S.A., ("O'Key Group", "the Group" or "the Company"), one of the leading food retailers in Russia (LSE ticker: OKEY), today released its unaudited interim consolidated IFRS financial results for the six month period ended 30 June 2013. All related materials have been published on the Company's website, at www.okeyinvestors.ru.

1H 2013 Highlights:

- Total revenue grew 19.6% to RUB 64.7 billion, while like-for-like (LFL) revenue increased 7.5% year-on-year (y-o-y);
- Gross margin reached 23.0%;
- EBITDA increased to RUB 4.2 billion;
- Net cash from operating activities reached RUB 443.6 million;
- Net debt/EBITDA ratio declined to 1.4x.

Patrick Longuet, CEO of O'Key Group, commented:

"We have demonstrated solid operational performance in the first half of 2013 with market leading LFL revenue and traffic growth. Our total revenue increased by 19.6% to RUB 64.7 billion, LFL revenue increased 7.5% and our footprint reached 437 thousand sq. m. of selling space.

"The growing scale of our operations has enabled us to improve purchasing conditions with suppliers, which has had a positive impact on our gross margin, and helped to mitigate growing SG&A expenses as we expanded our presence and strengthened our promotional and advertising activities.

"We also reduced our cash conversion cycle by delivering working capital improvements. Turnover in trade and other payables also increased year-on-year during 1H 2013, as a result of extended payment conditions.

"As a result of the year-on-year improvements achieved during 1H 2013, our net debt increased at a lower rate than our assets grew. The Group's net debt/EBITDA ratio decreased to 1.4x."



Financial performance

Income Statement Highlights

RUB millions, unless otherwise indicated	1H 2013	1H 2012	Change 2013/2012
Revenue	64,714.0	54,121.6	19.6%
Gross profit	14,862.2	12,175.4	22.1%
Gross margin	23.0%	22.5%	0.5 p.p.
EBITDA	4,239.5	3,704.8	14.4%
EBITDA margin	6.6%	6.8%	(0.2) p.p.
Profit before tax	2,408.7	2,248.4	7.1%
Profit for the period	1,613.5	1,469.8	9.8%
Net profit margin	2.5%	2.7%	(0.2) p.p.

Earnings per share

Basic and diluted earnings per share (RUB)	6.0	5.5	0.5
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Revenue

Revenue rose by 19.6% to RUB 64,714.0 million in 1H 2013, from RUB 54,121.6 million in the corresponding period of 2012. Total revenue growth was driven by an 18.8% increase in selling space and was further enhanced by LFL results.

Like-for-like revenue in 1H 2013 increased by 7.5% y-o-y, driven by a 6.4% LFL ticket growth. LFL traffic grew by 1.1% y-o-y. The LFL analysis currently includes 74 stores.

Rental income and revenue from advertising services increased by 44.6% y-o-y in 1H 2013 to RUB 645.9 million, as a result of opening new stores with shopping galleries.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by 18.8% y-o-y to RUB 49,851.8 million in 1H 2013, which is broadly in line with revenue growth.

Gross profit increased by 22.1% to RUB 14,862.2 million in 1H 2013, compared to RUB 12,175.4 million in 1H 2012. The gross margin for the reporting period increased by 0.5 p.p. to 23.0%. The increased scale of operations and growing purchasing power were key factors contributing to this improvement.

General, Selling and Administrative Expenses

	1H 2013 (RUB millions)	Percentage of revenue (%)	1H 2012 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Personnel costs	(6,083.4)	9.4	(4,833.3)	8.9	0.5
Depreciation and amortization	(1,222.5)	1.9	(1,041.0)	1.9	0.0



Advertising and marketing	(505.5)	0.8	(340.2)	0.6	0.2
Operating leases	(1,390.4)	2.1	(1,090.3)	2.0	0.1
Repairs and maintenance costs	(268.7)	0.4	(201.6)	0.4	0.0
Communication and utilities	(1,129.0)	1.7	(869.3)	1.6	0.1
Materials and supplies	(139.7)	0.2	(110.6)	0.2	0.0
Security expenses	(399.0)	0.6	(342.0)	0.6	0.0
Insurance and bank commission	(287.1)	0.4	(227.6)	0.4	0.0
Legal and professional expenses	(123.8)	0.2	(152.0)	0.3	(0.1)
Operating taxes	(287.0)	0.4	(249.2)	0.5	(0.1)
Other costs	(18.7)	0.0	(59.0)	0.1	(0.1)
Total general, selling and administrative expenses	(11,854.7)	18.3	(9,515.8)	17.6	0.7

The Group's general, selling and administrative expenses grew by 24.6% y-o-y to RUB 11,854.7 million in 1H 2013, primarily due to an increase in personnel costs. As a percentage of revenue, general, selling and administrative expenses increased by 0.7 percentage points to 18.3% in 1H 2013.

Personnel costs grew by 25.9% y-o-y to RUB 6,083.4 million in 1H 2013. This was primarily driven by an 11.7% y-o-y increase in headcount due to a larger number of stores and 7% indexation of salaries, which took place in July 2012. In addition, as of Q4 2012, the incentive scheme at the store management level has been revised and the size of the variable component increased. As well, starting in 2013, expenses related to outsourcing, travel costs, training and recruiting were reclassified from 'Other costs' and 'Legal and professional expenses' into 'Personnel costs'. This change resulted in 'Personnel costs' increasing by additional 3%.

Operating leases increased by 27.5% to RUB 1,390.4 million in the reporting period, fuelled by the 24% expansion of our leased space compared to 1H 2012. Since 30 June 2012, the proportion of our leased space expanded with the opening of 6 rented hypermarkets and one supermarket.

The cost of communication and utilities increased by 29.9% y-o-y to RUB 1,129.0 million, following the 18.8% expansion in space, and tariff increases as of July 2012.

Net finance costs increased by 14.2% in line with the increase in the Company's borrowings between the two periods. O'Key's weighted average interest rate for 1H 2013 was 9.5%.

Profit before income tax reached RUB 2,408.7 million for 1H 2013, demonstrating 7.1% growth. Growth in profit before tax was adversely impacted by increasing SG&A's and foreign exchange losses.



Income tax expense increased by 2.1% to RUB 795.2 million. The Company's effective tax rate declined to 33.0% in the reporting period, compared to 34.6% in 1H 2012.

Profit for the period amounted to RUB 1,613.5 million in 1H 2013, with the net profit margin being 2.5%.

Cash Flows and Working Capital

(RUB millions)	1H2013	1H 2012
Net cash from operating activities	443.6	71.2
Net cash used in investing activities	(2,883.8)	(2,499.3)
Net cash from financing activities	436.4	1,039.0
Net increase/(decrease) in cash and cash equivalents	(2,003.8)	(1,389.1)

Net cash from operating activities resulted in an inflow of RUB 443.6 million in 1H 2013 compared to RUB 71.2 million in 2012. Cash from operating activities before changes in working capital¹ increased by RUB 298.0 million to RUB 2,417.2 million. Changes in working capital resulted in RUB 1,973.6 million outflows, which reflect an improvement of RUB 74.4 million compared to 2012. Improvement in working capital was driven by the 26% increase in trade and other payables y-o-y.

Net cash used in investing activities amounted to RUB 2,883.8 million in 1H 2013. Investments were principally in construction, refurbishment of stores, purchasing of equipment and land acquisition.

Net cash from financing activities resulted in an inflow of RUB 436.4 million, net of loan repayments and the payment of a dividend. The Company is increasing its borrowings to finance its expansion program.

Working Capital

O'Key's primary sources of liquidity are cash provided from operating activities and debt financing. As of 30 June 2013, 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 negative RUB 5,678.7 million. O'Key believes that working capital in the food retail industry is usually negative and that maintaining a negative working capital position is desirable.

(RUB millions)	1H 2013	1H 2012
Total debt	16,002.2	14,019.0
Short-term debt	3,193.5	9,104.4
Long-term debt	12,808.7	4,914.6
Less: cash and cash equivalents	2,547.5	1,560.6
Net debt	13,454.7	12,458.4
Net debt / EBITDA ² ratio	1.4	1.5

¹ Cash from operating activities before changes in working capital is calculated as Cash from operating activities before changes in working capital and provisions net of interest and income tax paid.

² In Net debt / EBITDA calculation for half year results EBITDA is annualized and includes the value of current half year results plus the value for preceding half year results.



O'Key considers the ratio of net debt to EBITDA as the principal indicator for evaluating the impact of the total size of its borrowings on its operations. As of 30 June 2013, the Group's net debt/EBITDA ratio stands at 1.4x.

New Store Developments

As at 30 June 2013, O'Key operated a total of 85 stores, which comprised of 54 hypermarkets and 31 supermarkets. During the last twelve months, 9 new hypermarkets and 1 supermarket were added to the chain.

We have secured 7 new locations for future store openings during 1H 2013, and we intend to maintain high levels of growth in our pipeline going forward. The table below breaks down stores that are in our expansion pipeline by stages of development.

Number of New Stores under Development

	<i>Locations secured</i>	<i>Preparing documentation/ obtaining construction permits</i>	<i>Land works, shell&core construction in progress</i>	<i>Fit-out in progress</i>	<i>Obtaining operating permit</i>	<i>Total number of stores under development</i>
<i>Hypermarkets</i>	9	7	9	3	0	28
<i>Supermarkets</i>	19	2	1	0	0	22

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 December 31, 2012, O'KEY operated 83 stores in 21 cities across Russia: 52 hypermarkets with an aggregate selling space of approximately 387,000 square meters and 31 supermarkets with an aggregate trading space of approximately 41,000 square meters. As at December 31, 2012, O'KEY employed more than 23,000 people.

In accordance with the unaudited consolidated financial statements for the FY 2012, O'KEY's revenue was RUR 117.3 billion, like-for-like revenue growth rate was 7.0% and its EBITDA margin was 8.0%.

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