

Press Release
19 March 2015

O'KEY GROUP ANNOUNCES AUDITED FINANCIAL RESULTS FOR 2014

O'KEY Group S.A (LSE: OKEY), a leading food retailer in Russia, today released audited consolidated financial results for the fourth quarter and full year ended 31 December 2014. All materials published by the Group can be found on its website, <http://okeyinvestors.ru/>

FY 2014 Highlights:

- Total revenue grew 9% y-o-y to RUB 151,983 million
- Gross margin increased by 60 bps to 24.5%, with gross profit reaching RUB 37,205 million
- Net profit reached RUB 5,226 million, an increase of 5.0%

4Q 2014 Highlights:

- Total revenue grew 5.2% y-o-y to RUB 43,448 million
- Gross margin decreased to 25.9%, with gross profit standing at RUB 11,250 million
- Net profit reached RUB 2,512 million, with a net margin of 5.8%

Tony Maher, CEO of O'KEY Group, commented:

“The year 2014 was an eventful and challenging year for O'KEY and the Russian retail sector as a whole.

We have been working hard to grow and improve our business, but we are not yet satisfied. Our performance is a result of internal challenges and external circumstances. Nevertheless, our sales grew 9% y-o-y. Our gross profit margin stood at 24.5% compared to 23.9% in 2013. Our EBITDA margin was 7.4%, with a net profit margin of 3.4%.

Despite the challenges of the past year, we have significantly strengthened our management team, reduced our overheads from 8.8% of sales in the second half of 2013 to 8.5% in the second half of 2014, opened nine hypermarkets and five supermarkets. We have made significant headway towards launching our discounter project, scheduled for the latter part of 2015, and our e-commerce platform, successfully launched in January.

We have crystallised our customer value proposition and remain committed to delivering quality for the whole family at competitive prices. We are convinced that our continued work with suppliers, rigorous financial management, superior customer service, the knowledge of the local markets and relentless execution will allow us to hold a leading position in this competitive and rapidly developing industry.”



Financial Summary

Income statement highlights

RUB millions	2014	2013	y-o-y change
Revenue	151,983	139,460	9.0%
Gross profit	37,205	33,336	11.6%
<i>Gross margin</i>	24.5%	23.9%	60 bps
EBITDA	11,270	11,032	2.2%
<i>EBITDA margin</i>	7.4%	7.9%	-50 bps
Operating profit	8,566	7,876	8.8%
Net Profit	5,226	4,976	5.0%

Revenue

Revenue increased 9.0% y-o-y to RUB 151,983 million, compared to RUB 139,460 million in 2013. The rise was primarily driven by increased selling space.

Like-for-like (LFL) retail revenue was virtually flat, declining 0.2%. Due to the worsening economic conditions and accelerating inflation in 2014, traffic fell 4.2%, with items per visit declining 3.4%. At the same time, the product price increased 7.8%.

Selling space rose 13.0% after the opening of nine hypermarkets and five supermarkets.

Sales Performance	Retail revenue growth, %	Traffic growth, %	Av. Ticket growth, %
Trade revenue 12M 2014	8.9%	4.3%	4.3%
Trade revenue LFL 12M 2014	-0.2%	-4.2%	4.2%

Cost of goods sold and gross profit

The cost of goods sold increased 8.2% in 2014 to RUB 114,779 million, in line with revenue.

In the table below, we provide further detail about the cost of goods sold in 2013 and 2014:



RUB million	2014	Percentage of revenue 2014	2013	Percentage of revenue 2013	Change, %
Revenue	151,983	100.0%	139,460	100.0%	
Cost of goods sold, including:	(114,779)	75.5%	(106,124)	76.1%	-0.6%
Cost of trading stock (less supplier bonuses)	(110,048)	72.4%	(102,284)	73.3%	-0.9%
Inventory shrinkage	(2,213)	1.5%	(1,552)	1.1%	0.4%
Logistic costs	(1,797)	1.2%	(1,606)	1.2%	0.0%
Packaging and labelling costs	(721)	0.5%	(682)	0.5%	0.0%
Gross profit	37,205	24.5%	33,336	23.9%	0.6%

Gross profit increased 11.6% to RUB 37,205 million in 2014, compared to RUB 33,336 million in 2013. In 2014, gross margin expanded by 60 bps to 24.5%, following an improvement in purchasing conditions facilitated by our strengthened purchasing power.

General, selling and administrative expenses

RUB millions	Year ended 31 December 2014	Percentage of revenue (%)	Year ended 31 December 2013	Percentage of revenue (%)	Change, bps
Personnel costs	(13,929)	9.2%	(12,687)	9.1%	7 bps
Operating leases	(3,873)	2.5%	(3,082)	2.2%	34 bps
Depreciation and amortisation	(3,056)	2.0%	(2,513)	1.8%	21 bps
Communication and utilities	(2,687)	1.8%	(2,326)	1.7%	10 bps
Advertising and marketing	(1,823)	1.2%	(1,132)	0.8%	39 bps
Security expenses	(833)	0.5%	(826)	0.6%	-4 bps
Repairs and maintenance costs	(726)	0.5%	(598)	0.4%	5 bps
Insurance and bank commission	(661)	0.4%	(598)	0.4%	1 bps
Operating taxes	(633)	0.4%	(562)	0.4%	1 bps
Legal and professional expenses	(517)	0.3%	(278)	0.2%	14 bps
Materials and supplies	(345)	0.2%	(303)	0.2%	1 bps
Other costs	(34)	0.0%	(36)	0.0%	0 bps
Total general, selling and administrative expenses	(29,117)	19.2%	(24,941)	17.9%	127 bps

The Group's general, selling and administrative expenses grew 16.7% y-o-y to RUB 29,117 million in 2014, primarily attributable to an increase of payroll, lease costs and marketing expenses. As a



percentage of revenue, the Group's general, selling and administrative expenses increased by 127 bps to 19.2% in 2014.

Personnel costs

Personnel costs grew 9.8% y-o-y to RUB 13,929 million in 2014. This was mainly a result of a 9.0% increase in average headcount and a 7.0% indexation of salaries that took place in July 2013, which impacted personnel costs in 1H 2014.

RUB millions	2014	2013	y-o-y change
Wages and salaries	8,814	7,383	19.4%
Social security contributions	2,796	2,559	9.3%
Employee benefits and bonuses	1,219	1,678	-27.4%
Other staff costs	1,100	1,067	3.1%
Total payroll	13,929	12,687	9.8%

In 2Q 2014, the Group launched a staff optimisation programme in its stores and offices, the results of which have already started to come through in 2H 2014. Personnel costs went down to 8.5% of revenue in 2H 2014 compared to 8.8% in 2H 2013. The Group expects to see further results of this optimisation throughout 2015.

Operating leases

A 25.7% y-o-y increase in lease costs in 2014 is primarily attributable to the opening of eight stores in 2013 and 10 stores in 2014 (contributing 15 percentage points of the increase) and spending more on contracts linked to the US dollar and the euro (contributing 6 percentage points of the increase).

Communications and utilities

Costs related to communications and utilities increased by 15.5% y-o-y in 2014 to RUB 2,687 million, mostly as a result of adding new stores and increased tariffs.

Advertising and marketing

Marketing costs saw a 61.0% increase in 2014. During the year, the Group conducted several large-scale promotional actions to maintain traffic dynamics in the face of a turbulent macroeconomic environment and strong competition.

Operating profit

The Group reported an 8.8% increase in operating profit to RUB 8,566 million in 2014 from RUB 7,876 million in 2013. The growth of operating income in 2014 was primarily attributable to the gain from the disposal of non-current assets. These amounted to RUB 743 million and were partially offset by an impairment charge of RUB 200 million.

Financing costs

Financing costs increased by 39.3% to RUB 1,588 million in 2014, mainly due to the higher value of the Group's average loan portfolio (consolidated debt on 31 December 2014 stood at



RUB 32,081 million; on 31 December 2013 it was RUB 16,755 million). The Group's weighted average interest rate in 2014 increased to 9.4% from 8.9% in 2013, driven by market conditions.

Profit before income tax

Profit before income tax decreased 7.8% to RUB 6,314 million in 2014 from RUB 6,852 million in 2013. The key factors that influenced the decrease were foreign exchange loss of RUB 688 million, which mostly relates to a US dollar loan from a related party, and RUB 448 million increase in financing costs.

Income tax expense in 2014 fell by 41.9% y-o-y to RUB 1,089 million as a result of a tax reimbursement of RUB 955 million, previously paid for the years 2010-2013.

Profit for the year

During 2014, net profit rose by 5.0% y-o-y to RUB 5,226 million with a net profit margin of 3.4%.

Cash flows and working capital

RUB millions	2014	2013
Net cash from operating activities	9,837	9,749
Net cash used in investing activities	(16,746)	(11,159)
Net cash used in financing activities	9,583	(128)
Net increase/(decrease) in cash and cash equivalents	2,674	(1,538)
Effect of exchange rate fluctuations on cash and cash equivalents	129	9

Cash flows from operating activities

Net cash from operating activities increased to RUB 9,837 million in 2014 owing to a VAT reimbursement (RUB 700 million) and revenue growth of 9.0%.

Cash flows used in investing activities

Net cash flow from investing activities increased by RUB 5,587 million and reached RUB 16,746 million in 2014, driven by investments during the year in store openings and our future expansion. In 2014, the balance of construction in progress increased 42%. Prepayments for PPE almost doubled and reached RUB 4,867 million.

Cash flows from financing activities

In conjunction with its investing activity, the Group attracted new borrowing in 2014. Proceeds from new loans and borrowing less the repayments reached RUB 14,835 million. In addition, the Group increased the level of dividend payments from RUB 1,538 billion in 2013 to RUB 2,929 billion in 2014.



Working capital

As of 31 December 2014, 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 9,043 million, compared to negative RUB 9,606 million at the end of 2013. Working capital figures in the food retail industry are usually negative, and the Group intends to maintain a negative working capital position.

The Group considers the net debt/EBITDA ratio as the principal means for evaluating the impact on its operations of the size of the Group's borrowings. As of 31 December 2014, O'KEY's net debt/EBITDA ratio was 2.3x.

RUB million	2014	2013
Total debt	32,081	16,755
Short-term debt	12,426	2,313
Long-term debt	19,655	14,442
Less cash and equivalents	(5,810)	(3,007)
Net debt	26,271	13,748
Net debt/EBITDA	2.3	1.2

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.

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" supermarkets.

The Group opened its first hypermarket in St. Petersburg in 2002 and has demonstrated continuous growth ever since. As of 31 December 2014, O'KEY operated 108 stores in 28 cities across Russia: 69 hypermarkets with an aggregate selling space of approximately 503,000 square meters and 39 supermarkets with an aggregate trading space of approximately 49,000 square meters. As of 31 December 2014, O'KEY employed over 26,000 people.

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