

Press Release  
25 August 2015

## **O'KEY GROUP ANNOUNCES FINANCIAL RESULTS FOR 1H 2015**

O'KEY Group S.A (LSE: OKEY), one of the leading Russian food retailers, announces its financial results for the first six months of 2015 (reviewed by auditors). All materials published by the Group can be found on its website, <http://okeyinvestors.ru/>

### **1H 2015 Highlights:**

- Total revenue grew 4.4% YoY to RUB 75,885 million;
- Gross profit increased 3.1% YoY to RUB 18,084 million, while gross margin decreased by 30 bps YoY to 23.8%;
- EBITDAR margin remained stable, marginally decreasing by 10 bps YoY to 9.1%, with EBITDAR standing at RUB 6,915 million (+ 3.0% YoY);
- EBITDA margin softened 50 bps YoY to 6.2%, with EBITDA decreasing to RUB 4,702 million (- 3.5% YoY);
- EBITDA (adjusted for discounter costs) was strong and added 1.6% YoY to RUB 5 161 million; while EBITDA margin (adjusted for discounter costs) decreased by just 20 bps YoY to 6.8%;
- Net profit for the Group stood at RUB 621 million (-63.3% YoY), with net margin of 0.8% (-150 bps YoY);
- Net profit (adjusted for discounter costs) declined to RUB 1,409 million (-28.4% YoY) and net margin (adjusted for discounter costs) was at 1.9% (-80 bps YoY).

### **Financial Summary**

#### **Income statement highlights**

<b>RUB millions</b>	<b>1H 2015</b>	<b>1H 2014</b>	<b>YoY, %</b>
Revenue	75 885	72 672	4.4%
Gross profit	18 084	17 541	3.1%
<b>Gross margin</b>	<b>23.8%</b>	<b>24.1%</b>	<b>-30 bps</b>
SG&A	15 224	14 155	7.6%
<b>SG&amp;A (% of revenue)</b>	<b>20.1%</b>	<b>19.5%</b>	<b>+60 bps</b>
EBITDAR	6 915	6 714	3.0%
<b>EBITDAR margin</b>	<b>9.1%</b>	<b>9.2%</b>	<b>-10 bps</b>
EBITDA	4 702	4 871	-3.5%
<b>EBITDA margin</b>	<b>6.2%</b>	<b>6.7%</b>	<b>-50 bps</b>
EBITDA (excluding discounter costs)	5 161	5 080	1.6%
<b>EBITDA margin (excluding discounter costs)</b>	<b>6.8%</b>	<b>7.0%</b>	<b>-20 bps</b>
Operating profit	2 589	3 406	-24.0%
Net Profit	621	1 695	-63.3%
<b>Net margin</b>	<b>0.8%</b>	<b>2.3%</b>	<b>-150 bps</b>
Net Profit (excluding discounter costs)	1 409	1 967	-28.4%
<b>Net margin (excluding discounter costs)</b>	<b>1.9%</b>	<b>2.7%</b>	<b>-80 bps</b>



## Revenue

Total revenue increased 4.4% YoY to RUB 75,885 million, compared to RUB 72,672 million in 1H 2014. The rise was primarily driven by increased selling space.

Like-for-like (LFL) retail revenue declined 1.7% YoY. Average ticket rose 2.0% YoY, while LFL traffic fell 3.6% YoY, primarily due to worsening macro conditions and weaker consumer purchasing power.

As of 30 June 2015, O'KEY Group's selling space rose 11.8% YoY after the opening of 2 hypermarkets (net) and 3 supermarkets in 1H 2015.

Sales Performance	Retail revenue growth, %	Traffic growth, %	Ticket growth, %
OKEY Group, 1H 2015	4.4%	3.4%	0.9%
OKEY Group LFL, 1H 2015	-1.7%	-3.6%	2.0%

## Selling, general and administrative expenses

RUB millions	1H 2015	% of revenue	1H 2014	% of revenue	YoY, bps
Personnel costs	7 101	9.4%	7 183	9.9%	-55 bps
Operating leases	2 213	2.9%	1 844	2.5%	+40 bps
Depreciation and amortisation	1 834	2.4%	1 470	2.0%	+40 bps
Communication and utilities	1 483	2.0%	1 318	1.8%	+15 bps
Advertising and marketing	631	0.8%	604	0.8%	-
Security expenses	351	0.5%	444	0.6%	-15 bps
Repairs and maintenance costs	425	0.6%	313	0.4%	+15 bps
Insurance and bank commission	350	0.5%	324	0.4%	+ 5 bps
Operating taxes	346	0.5%	297	0.4%	+5 bps
Legal and professional expenses	332	0.4%	186	0.3%	+15 bps
Materials and supplies	141	0.2%	157	0.2%	-5 bps
Other costs	19	0.0%	15	0.0%	-
<b>Total SG&amp;A</b>	<b>15 224</b>	<b>20.1%</b>	<b>14 155</b>	<b>19.5%</b>	<b>+60 bps</b>

The Group's selling, general and administrative expenses grew 7.6% YoY, or +60 bps YoY (as a % of revenue) to RUB 15,224 million in 1H 2015, primarily attributable to an increase in operating leases and depreciation and amortisation expenses, which was partially offset by a decrease in personnel costs.

## Personnel costs

The Group continued the staff optimization program, which resulted in a 55 bps YoY personnel costs decline (% of revenue). The average headcount decreased approximately 1.5% YoY during the reported period.



## Operating leases

A 20.0% YoY growth in lease costs in 1H 2015 is primarily attributable to a 20.3% YoY increase in leased space and a weaker ruble. As of 30 June 2015, the Group's share of leased space stood at 50% of the total selling space.

## Communications and utilities

Costs related to communications and utilities increased 12.5% YoY, or +15 bps (as a % of revenue) due to new openings. Expenses incurred in new stores were partly offset by a major energy saving program, launched in 2Q 2015. Furthermore, security costs demonstrated a 21.0% YoY decrease due to continuing costs optimization actions.

## Advertising and marketing

Marketing costs saw a minor increase of 4.4% YoY (flat as a % of revenue) in 1H 2015. During 1H 2015 the O'KEY Group launched several large-scale promotional campaigns to sustain traffic in the face of a turbulent macroeconomic environment and a strong competition. O'KEY Group aims to intensify these activities during 2H 2015, at the same time maintaining advertising and marketing costs as a % of revenue flat in 2H 2015.

## Depreciation and amortization

Depreciation and amortisation expenses grew 24.7% YoY, or +40 bps (as a % of revenue), to RUB 1,834 million, driven by new store openings.

## Profit for the year

Net profit for the Group has declined as a result of higher financing costs and costs related to the forthcoming launch of the discounter format. Net profit (adjusted for discounter costs) for the year stood at RUB 1,409 million (-28.4% YoY), with a net margin of 1.9%.

## Cash flows

<b>RUB millions</b>	<b>1H 2015</b>	<b>1H 2014</b>
Net cash from operating activities	-849	-113
Net cash used in investing activities	-3 991	-5 752
Net cash used in financing activities	134	4 175
Net increase/(decrease) in cash	-4 706	-1 690
Cash at beginning of the period	5 810	3 007
Effect of exchange rate fluctuations on cash	3	66
Cash at end of the period	1 107	1 382

## Cash flows from operating activities

Net cash from operating activities was negative in 1H 2015, at RUB 849 million (vs. negative RUB 113 million in 1H 2014) as a result of revenue growth slowdown and marginal profitability deterioration.

## Cash flows used in investing activities

Net cash flow from investing activities decreased RUB 1,761 million from 1H 2014 and reached RUB 3,991 million in 1H 2015, due to effective investment planning strategy implementation.



### Cash flows from financing activities

During 1H 2015 the Group received RUB 134 million in financing cash flow vs. RUB 4,175 million for the same period a year ago.

### Working capital

As of 30 June 2015, 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 2,763 million, compared to a negative RUB 9,043 million at the end of 2014. Working capital figures in the food retail industry are usually negative, and the Group intends to maintain a negative working capital position.

### Debt structure

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 30 June 2015, O'KEY's moving net debt/EBITDA ratio was at 3.0x. O'KEY Group does not plan to increase the financing leverage.

<b>RUB million</b>	<b>30 June 2015</b>	<b>31 December 2014</b>
Total debt, including:	34 490	32 081
<i>Short-term debt</i>	14 751	12 426
<i>Long-term debt</i>	19 739	19 655
Cash and equivalents	1 107	5 810
Net debt	33 384	26 270
Net debt/EBITDA (moving)	3.0x	2.3x



**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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**COMPANY OVERVIEW**

O'KEY is one of the largest retail chains in Russia. Its primary retail format is the modern Western European style 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 30 June 2015, O'KEY operated 113 stores across 29 cities in Russia: 71 hypermarkets with an aggregate selling space of approximately 515,000 m<sup>2</sup> and 42 supermarkets with an aggregate trading space of approximately 53,000 m<sup>2</sup>. As of 30 June 2015, O'KEY employed over 22,000 people.

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**For further information please contact:**

Marina Kagan  
Head of Corporate Communications and IR  
Tel.: +7(495)663-6677, ext.127  
e-mail: [ir@okmarket.ru](mailto:ir@okmarket.ru)

Tatiana Kormiltseva  
Investor Relations  
Tel: +7(495)663-6677, ext. 285  
e-mail: [Tatyana.Kormiltseva@okmarket.ru](mailto:Tatyana.Kormiltseva@okmarket.ru)

