O'KEY GROUP PRESENTATION

August 2016

O'KEY
GROUP OF COMPANIES

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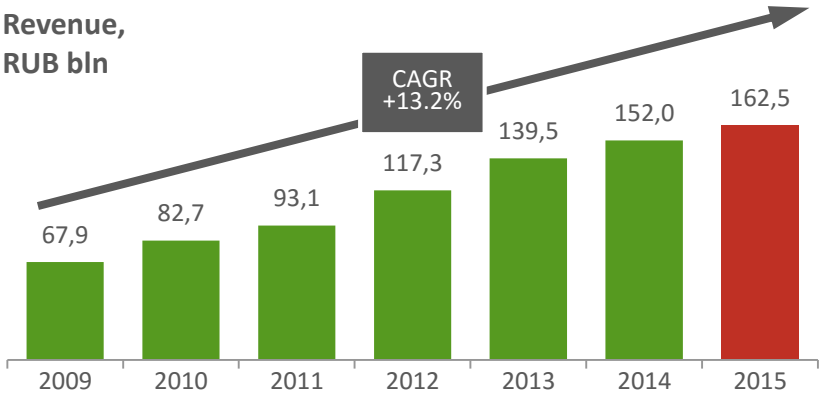
Group Overview

O'KEY is the 7th largest retailer in Russia leading the transformation of food retail landscape in Russia

- From 1 store in St. Petersburg in 2002 to **158** stores in **27** regions as of August 2016
- New experienced management team
- Leadership in St. Petersburg market and strong presence in Moscow and larger cities in the regions with higher income levels
- Strong brand known for the quality of products and best-in-class shopping experience
- Three differentiated formats of modern food retail: hypermarket, supermarket and a new discounter format
- DA!, hard discounter chain, a format unique for the Russian market, launched in September 2015 with **49** stores opened as at August 2016
- On-line shopping launched with **22,000** SKUs
- **25,500** employees
- Free-float of **21%%**
- IPO on the LSE in 2010



Our History

Over the years we have built one of the largest retail companies in Russia with strong brand recognized for the excellence in product quality and customer service

2001-2002

- Founding of O'KEY Group
- First O'KEY hypermarket opened in St. Petersburg

2003-2006

- Strategy of establishing regional market leadership
- Further 8 hypermarkets and 2 supermarkets opened in St. Petersburg
- Total selling space increased from 6,000 m^2 to 87,000 m^2

2007-2008

- Focus on expansion in Russia's regions
- Stores opened in 6 new regions
- Total number of stores reaches 7, selling space doubled to > 190k m^2
- O'KEY enters into ranks of Russia's top-10 retailers by revenue

2009-2014

- Emergence as a leading national retailer
- Rapid expansion in Moscow and the regions
- IPO on the London Stock Exchange
- Total number of stores exceeds 100, selling space over 550k m^2

2015

- Strengthening of international management team
- Launch of the new discounter format under the DA! brand
- Rollout of market-leading hypermarket online sales platform
- Total number of stores reaches 146, selling space reaches 593k m^2

Management Teams

O'KEY has two separate experienced management teams running Group's core business and its start-up, discounter chain under the DA! brand

Group Chairman and CEO
Heigo Kera

Core Business Team

Deputy CEO
Dmitry Pryanikov

CFO
Konstantin Arabidis

Sales Director
Pavel Tomanek

Supply Chain Director
Marc Leblond

Trade Development Director
Peter Rachovides

Commercial Director,
Dry & Drinks, FMCG
Alla Synko

Commercial Director,
Ultra Fresh & Fresh
Oxana Shuliko

Commercial Director,
Non-Food
Maxim Platonov

HR Director
Elena Polozova

Head of strategy and M&A
Anton Farlenkov

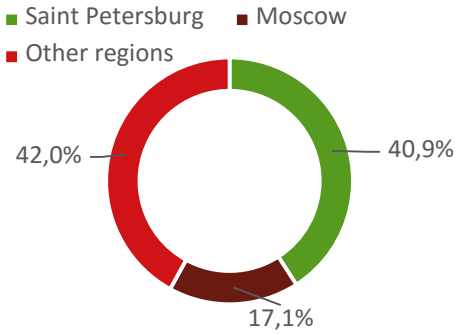
CEO of Discounter Chain
Armin Burger

DA! Team

Hypermarkets and Supermarkets: Footprint

O'KEY is strengthening its presence in its most successful format of compact/city hypermarket with selling area between 5,000 – 7,000 m^2 located in residential areas and complementary supermarket format in Moscow, St. Petersburg and larger cities in the Centre and the South of Russia

Revenue breakdown hypermarkets and supermarkets segment in H1 2016



- 58.0% of sales in hypermarkets and supermarkets are generated in Saint Petersburg and Moscow
- 82.8% of sales in hypermarkets and supermarkets are generated in the cities with the population over 1 mln
- In H1 2016, the Group opened two hypermarkets (in Saint Petersburg and Moscow) and one supermarket in Moscow

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Hypermarket Profile

Hypermarkets	
Share in sales in 2015	89.3%
No. of stores, Q2 2016	71
Average store selling space, '000m^2	7.3
Total selling space (m^2), Q2 2016	521,068 (86.5% of total)
Percentage of owned space	52.3%
Average CAPEX per owned store	RUB 1.1 bln
Average CAPEX per leased store	RUB 350 mln
Payback period per owned store	7 years
Payback period for leased store	4-5 years
Product range	SKUs: 35,000 Fresh + UltraFresh: 44.0% Own production: 4.2% Non-food: 11.4% Drinks: 13.3% Dry: 16.1% Cosmetics/Detergents: 8.4%
Average ticket (RUB) in H1 2016	825
Target audience	Lives within 15 min by car
Locations	Near public transportation hubs, in areas with limited competition

Elements of a New Hypermarket Concept

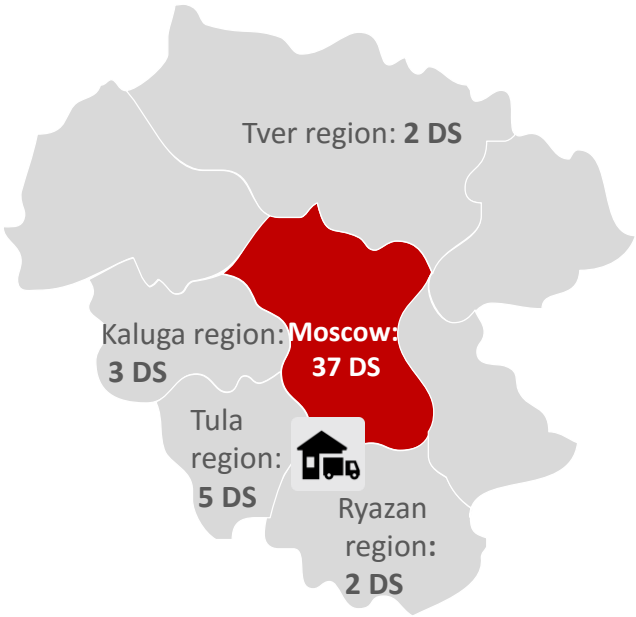
- Modern look & feel
- Orientation is facilitated by multicolored navigation
- More efficient organisation of the selling space to respond to the customer expectations for fun and hassle-free shopping
- Sections of men and women clothes and shoes put at the central positions in the store
- Shop-in-shop principle: children world
- Enhanced drinks and alcohol sections placed at the far-right corner of the shop

Supermarket Profile

Supermarkets	
Share in sales in 2015	10.1%
No. of stores, Q1 2016	37
Average store selling space ('000m^2)	1.3
Total selling space (m^2), Q2 2016	48,457 (8.1% of total)
Percentage of owned space	25.5%
Average CAPEX per owned store	RUB 300 mln
Average CAPEX per leased store	RUB 100 mln
Payback period per owned store	7 years
Payback period for leased store	4-5 years
Product range	SKUs: 12,000 Fresh+ UltraFresh: 51.5% Own production:3.4% Non-food: 3.3% Drinks: 17.5% Dry: 18.2% Cosmetics/Detergents: 4.9%
Average ticket (RUB) in H1 2016	428
Target audience	Lives within 5 minutes by car/ 15 min walking distance
Locations	Within highly populated residential districts in close proximity to roads

Discounters: Footprint

- Unique on the Russian market format of a hard discounter targeting rational customers looking for value for money
- Headed by Mr. Armin Burger, a retail professional with unique experience of managing discounter chains, including almost 20 years in senior management roles with Aldi
- Management team experienced in Russia's retail space
- **49** stores opened in Moscow, the Moscow region and surrounding regions
- Sales area up to **~750 m²**
- Modern and attractive design, brightly lit shelves, good ventilation, excellence in customer service
- Daily delivery of fresh products and a bakery in every store
- Limited assortment of roughly **1,700 SKUs**
- Combination of unbeatable prices and stringent quality control
- Dominant share of private label items (over **40%** already, will reach **70% - 80%**)
- State-of-the art owned distribution center with area of **59,000** m2 opened in the Moscow region with capacity to service **250** stores
- Potential for realizing significant synergies with core business of the Group in purchasing



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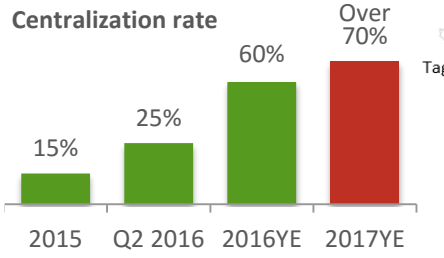
Discounters: Outside/Inside

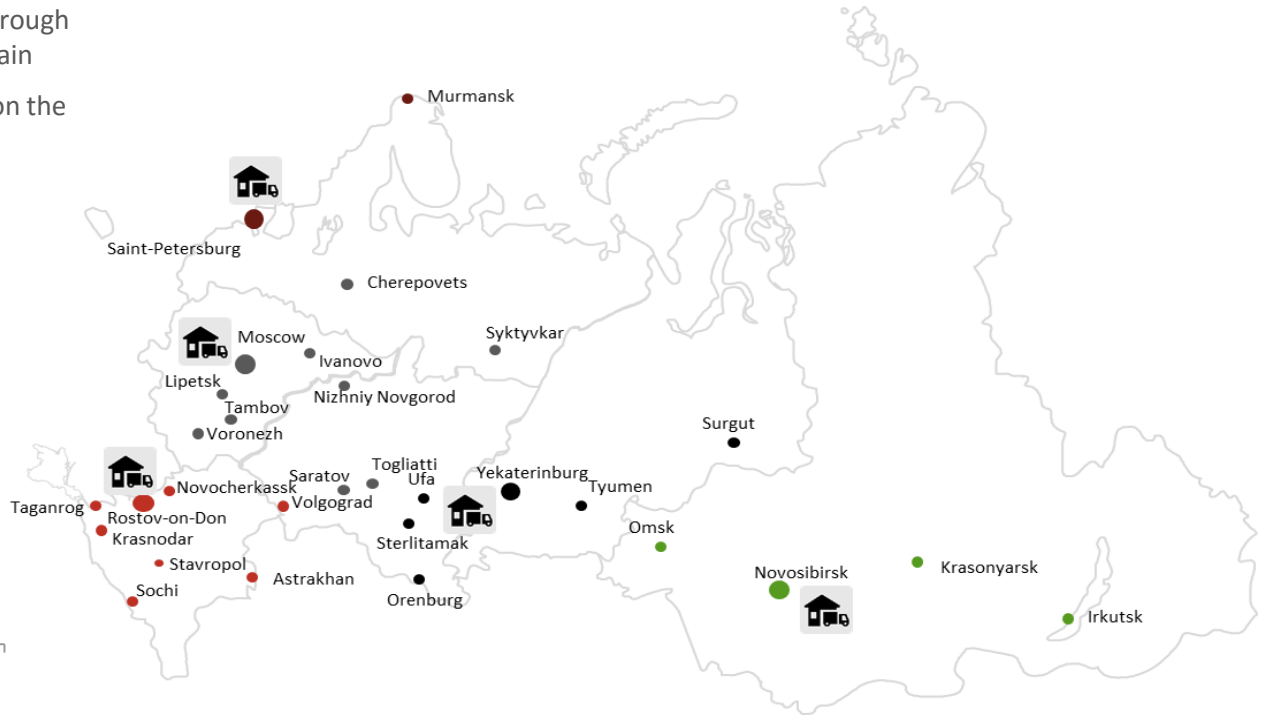
Hypermarkets and Supermarkets: Supply Chain Transformation

O'KEY is transforming its hypermarket/supermarket supply chain by increasing centralization rate: over the two-year period, the Group's supply chain will evolve from 6 small distribution centers to 5 bigger distribution centers, including federal DC in Moscow

Increase in the level of centralization allows the Group:

- To improve inventory turnover and working capital management
- To reduce shrinkage rate through tight control over supply chain
- To reduce personnel costs on the store level



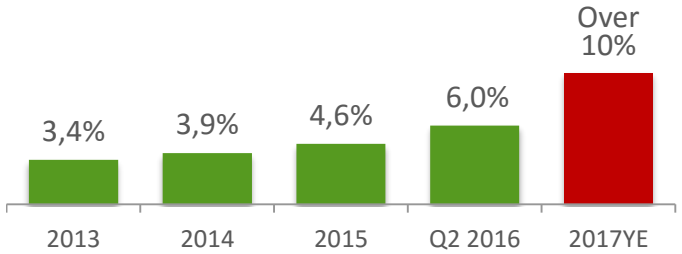


Hypermarkets and Supermarkets: Private Label

In 2015, we overhauled our private label strategy to respond to the changing consumer preferences towards more affordable products

- To cater to the price-sensitive customers we developed the concept of the low-price private label "То, что надо" **(That's What You Need)** replacing no-name private label products: over **500** SKUs introduced as of August 2016
- To address the needs of customers seeking value-for-money we redesigned and relaunched **O'KEY brand,** a superior quality brand that is more expensive than **That's What You Need**
- **Over 300** SKUs under O'KEY brand available on shelves as of August 2016
- Stringent quality control ensure quality is at the par with branded products, while O'KEY brand items are on average cheaper by **20-30%** than branded products of the same quality
- **85%** of products produced by local suppliers
- O'KEY products are featured in regular catalogues and in dedicated catalogues published twice a year
- Dedicated section at the e-commerce website, direct mailing to core customer base and advertising campaigns to support sales of private label products

Share of private labels in turnover*



*Not including turnover of discounter stores

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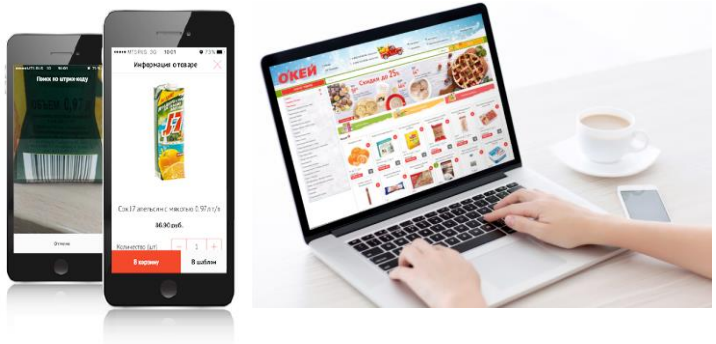
Hypermarkets: Online Sales

In 2015, O'KEY has launched an online sales channel to enhance customer experience and add another revenue stream as the Company develops as a multi-format operator

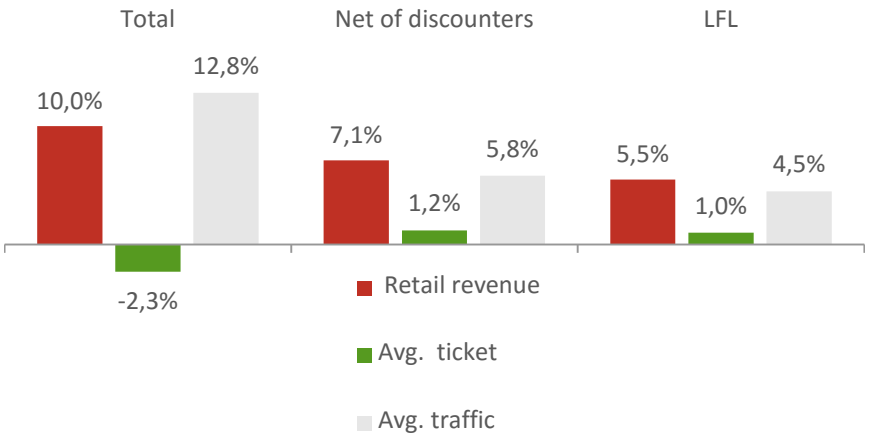
- O'KEY launches online shopping in line with its strategy to get closer to its customers
- Unrivalled choice: **22,000** SKUs available online
- Advanced online platform with enhanced functionality: creating shopping lists
- Pilot version of mobile application with full online store functionality has been launched
- **5** pick-up points in hypermarkets in Moscow and **4** in St. Petersburg, hassle-free: pick-up takes only five minutes
- Own logistics ensures delivery throughout Saint Petersburg and Moscow
- Structure of the basket online is similar to offline with high share of fresh, meat, fruit and vegetables
- Most of the off-line promo-campaigns are mirrored online
- Average ticket online **2.5-3.0 times** higher then average for hypermarkets
- Potential for expansion in the regions
- Strong growth – total sales in 2016 will increase 10 times vs 2015
- Breakeven by the end of 2016



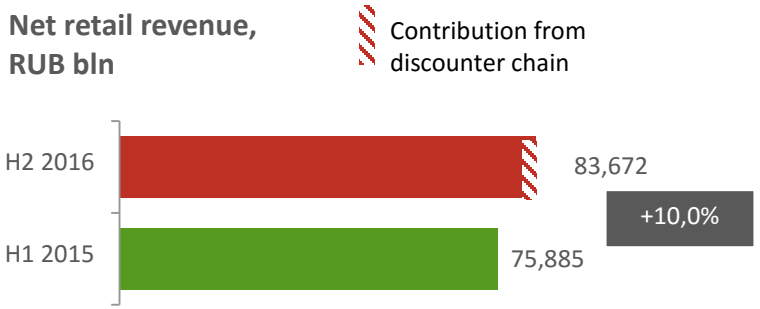
H1 2016 Results Overview: Revenue

- Total revenue increased by 10,3% and net retail revenue grew by 10,0% driven by
  - 5.5% improvement in LFL revenue as a result of the 4.5% increase in LFL customer traffic and 1.0% growth in LFL average ticket due to Company's efforts to improve value proposition, enhance assortment and sales mix and in spite of the weakness in macroeconomic environment and intensifying competitive pressures
  - Development of the discounter chain
  - 6.4% increase in the selling area due to the net addition of one hypermarket and 48 discounter stores

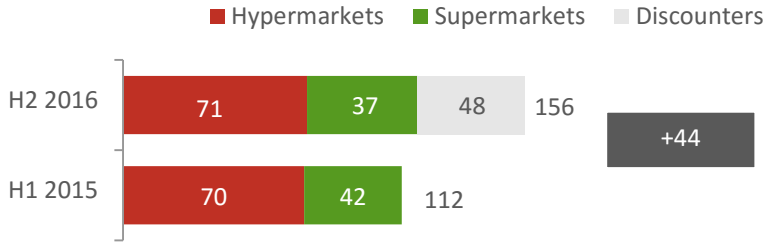
H1 2016 net retail revenue breakdown



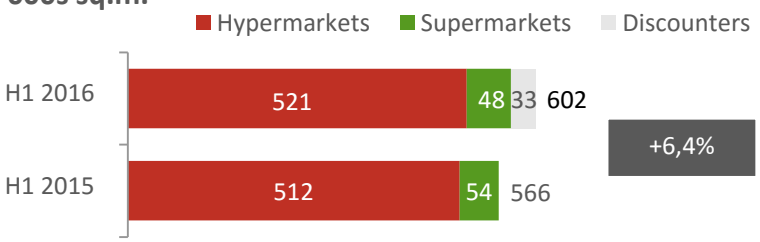
Net retail revenue, RUB bln



Number of stores



Trading space, 000s sq.m.



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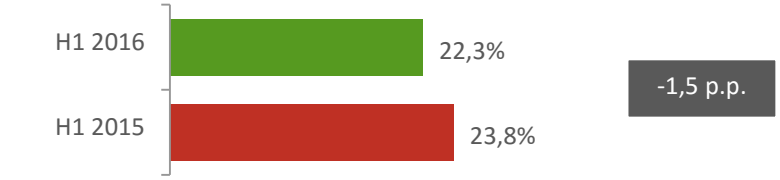
H1 2016 Results Overview: Gross Profit

- In H1 2016, Group gross profit grew 3.2% y-o-y to RUB 18,667 million, while gross margin contracted by 150 bps to 22.3%
- Dynamic of the gross margin was impacted by:
  - the policy of maintaining competitive prices level and increased share of promo in the sales mix;
  - the effect of the lower gross margin in the developing discounter format;
  - the growth in logistics costs due to the ongoing logistics centralization implemented to improve inventories management, which will also allow the Group to obtain better commercial conditions from the suppliers;
  - substantial decrease in shrinkage as a result of the tighter control for purchasing and writing-off of the goods, working with security companies to improve security during the receipt of the goods and on the selling floor as well as a result of logistics centralization

Group gross profit, RUB mln

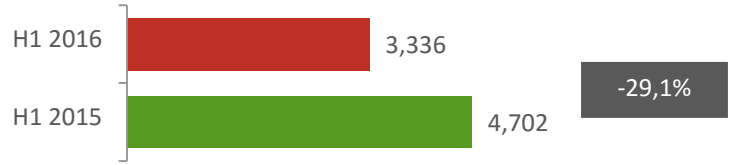
Group gross margin



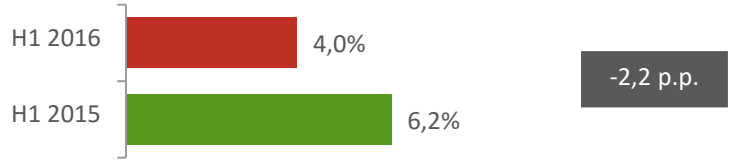
H1 2016 Results Overview: EBITDA

- Total Group EBITDA declined by 29,1% driven by
  - higher negative contribution from discounter chain (where EBITDA amounted to negative amount of RUB 1,241 million compared to a negative amount of RUB 459 million a year ago) as the discounter chain by the end of the period comprised 48 stores and an owned warehouse in the Moscow region;
  - decline in gross margin in the hypermarkets and supermarkets as the Company introduced competitive pricing and increased promo activities;
  - a 17.7% y-o-y increase in personnel costs attributable to increased headcount in the stores, increase in the salaries of the personnel in the stores in September 2015 needed to maintain traditionally high level of customer service, as well as the development of the discounter chain.
    - In H1 2015, personnel costs in the business segment of hypermarkets and supermarkets declined as a result of the aggressive layoffs in the stores which has led to a certain deterioration in customer service standards
  - higher operating lease costs as a result of the development of the discounter chain as well as the impact of the USD and EUR rate increase on the lease agreements nominated in foreign currencies and the growth in lease payments linked to the turnover of the stores and to inflation mitigated by renegotiating lease agreements nominated in foreign currencies (fixing the currency rates or moving to rubles) and closing inefficient stores.

Group EBITDA, RUB mln

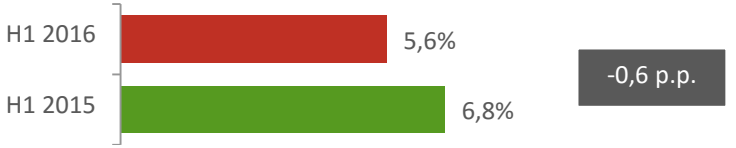


Group EBITDA margin



Group EBITDA, RUB mln

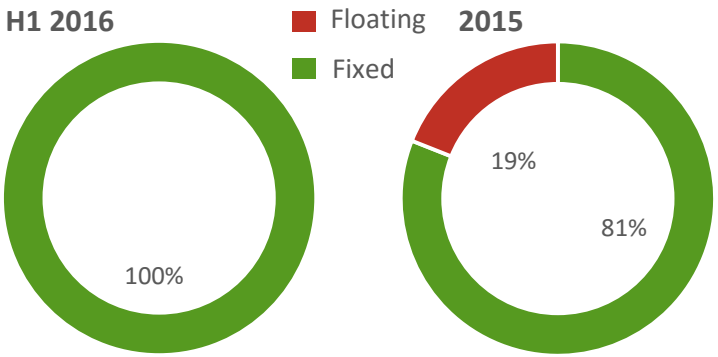
EBITDA margin in hypermarkets in supermarkets



Debt Portfolio

RUB mln	30 Jun 2016	31 Dec 2015	30 Jun 2015
Total debt	34,127	35,558	34,490
Short-term debt	10,388	12,000	14,751
% of total debt	*30.4%*	*33.8%*	*42.8%*
Long-term debt	23,719	23,558	19,739
% of total debt	*69.6%*	*66.2%*	*57.2%*
Cash and cash equivalents	(4,245)	(9,768)	(1,107)
Net debt	30,090	26,271	33,384
Net debt/LTM EBITDA	3.4	2.6	3.0
Undrawn committed credit lines	23,759	17,298	11,300

Debt portfolio by type: fixed vs floating



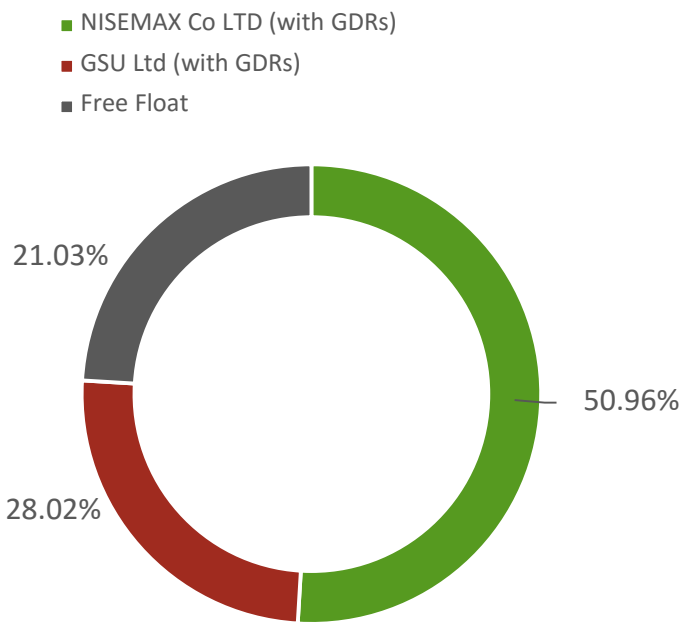
Highlights

- **97%** of debt portfolio is RUB-denominated
- The only financial covenants the Group has pertain to debt leverage of **≤ 4.0** net debt/EBITDA
- In April 2016, the Group placed RUB-denominated bond in the amount of RUB **5.0 bln** with coupon rate of **11.70**% on the Moscow Exchange
- In April 2016, the Group repurchased the RUB **5.0 bln** 05 bond in the amount of RUB **4.8 bln**
- In May 2016, the Group extended the tenor of the revolving credit line open with Sberbank in the amount of RUB **4.0 bln**
- In June 2016, the Group signed a credit agreement with Sberbank in the amount of RUB **3.0 bln** with a tenor of 4 years
- In June 2016, terms of the credit agreement with Sberbank in the amount of RUB **10.0 bln** originally signed in August 2015, were revised and tenor extended from 3 to 5 years
- In June 2016, the Group revised the terms of the credit agreement with Gazprombank in the amount of RUB **3.0 bln** and extended tenor to 5 years
- The Group hedges portion of the floating rate debt through interest rate swaps: at the end of H1 2016 amount of hedge equaled RUB **1.5 bln**
- As a result of the Group's efforts aimed at optimization of the debt portfolio, the weighted average rate declined during H1 2016 from **11.87%** to **10.71%**

Shareholder Structure

- Three major shareholders of the Group are its founders Mr. Dmitry Korzhev (indirectly owns approximately 23.99% of the shares), Mr. Dmitri Troitskii (indirectly owns approximately 23.99% of the shares) and Mr. Boris Volchek (indirectly owns 28.03% of the shares)
- Board of Directors:
  - Mr. Heigo Kera, Chairman and CEO
  - Mr. Dmitrii Troitskii, Director
  - Mr. Dmitry Korzhev, Director
  - Boris Volchek, Caraden Director
  - Mykola Buinyckyi, Independent Director

Shareholder structure*



*As of 05 July 2016

Summary Consolidated Balance Sheet

RUB, 000s	H1 2016	FY 2016
Investment property	564 000	564 000
Property, plant and equipment	45 336 200	43 088 062
Construction in progress	5 264 867	6 694 671
Intangible assets	1 290 164	1 293 723
Deferred tax assets	971 386	654 512
Other non-current assets	7 362 002	6 934 782
Total non-current assets	**60 788 619**	**59 229 750**
Inventories	10 675 329	12 628 304
Trade and other receivables	6 591 947	6 937 346
Prepayments for current assets	709 691	1 515 881
Cash and cash equivalents	4 245 031	9 768 130
Total current assets	**22 221 998**	**30 849 661**
Total assets	**83 010 616**	**90 079 411**
Total equity	**23 593 640**	**24 490 967**
Loans and borrowings	23 719 020	23 558 269
Deferred income tax liabilities	1 047 442	826 874
Other non-current liabilities	140 670	99 352
Total non-current liabilities	**24 907 132**	**24 484 495**
Trade and other payables	23 594 603	28 817 333
Current income tax payable	299 214	286 886
Loans and borrowings	10 616 028	11 999 730
Total current liabilities	**34 509 845**	**41 103 949**
Total liabilities	**59 416 977**	**65 588 444**
Total equity and liabilities	**83 010 616**	**90 079 411**

Summary Consolidated P&L

RUB, 000s	H1 2016	H1 2015
Revenue	**83 671 600**	**75 884 906**
Cost of goods sold	(65 004 439)	(57 801 276)
Gross profit	**18 667 161**	**18 083 630**
Gross margin	**22.3%**	**23.8%**
General, selling and administrative expenses	(17 752 736)	(15 224 308)
Oher operating income and expenses	(247 884)	(269 855)
Operating profit	**666 541**	**2 589 467**
Operating margin	*N/A*	*3.4%*
Finance income	211 314	45 899
Finance costs	(1 770 901)	(1 728 696)
Foreign exchange losses	**189 359**	**(77 330)**
Loss/profit before income tax	**(703 687)**	**829 340**
Income tax expense	(82 550)	(208 105)
Loss/profit for the year	**(786 237)**	**621 235**
Net profit margin	**N/A**	

RUB, 000s	H1 2016	H1 2015
Group EBITDA	3 335 697	4 702 097
Group EBITDA margin	*4.0%*	*6.2%*
EBITDA for hypermarkets and supermarkets	4 576 840	5 161 358
EBITDA margin hypermarkets and supermarkets	*5.6%*	*6.8%*
EBITDA for discounters	(1 241 143)	(459 261)

Summary Consolidated Cash Flow

RUB, 000s	H1 2016	H1 2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	173 675 975	87 014 472
Other cash receipts	187 512	381 666
Interest received	13 678	38 252
Cash paid to suppliers and employees	(159 017 273)	(87 007 427)
Operating taxes	(583 609)	(332 972)
Other cash payments	(137 106)	(114 978)
VAT paid to budget/received from budget	(504 487)	76 397
Income tax paid	(131 077))	(338 296)
Net cash from/(used in) operating activities	**140 963**	**(521 460)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of PP&E and initial cost of land lease (excluding VAT)	(3 266 985)	(4 292 929)
Purchase of other intangible assets (including VAT)	(111 932)	(26 713)
Proceeds from sales of PP&E and intangible assets (excluding VAT)	910 201	480
Net cash used in investing activities	**(2 468 716)**	**(4 319 162)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	8 040 613	10 138 000
Repayment of loans and borrowings	(9 109 994)	(7 967 441)
Interest paid	(2 045 877)	(2 120 399)
Other financial (payments)/proceeds	(50 778)	84 259
Net cash (used in)/ from financing activities	**(3 166 036)**	**134 419**
Net decrease in cash and cash equivalents	**(5 493 788)**	**(4 706 203)**
Cash and cash equivalents at beginning of the period	**9 768 130**	**5 810 182**
Effect of exchange rate fluctuations on cash and cash equivalents	(29 311)	2 660
Cash and cash equivalents at end of the year	**4 245 031**	**1 106 639**

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