# O'KEY GROUP TRADING UPDATE

## Q2 AND 1H 2018

*24 July, 2018*

O'KEY
GROUP OF COMPANIES

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# 1H and Q2 2018 operating highlights



## Group operating highlights

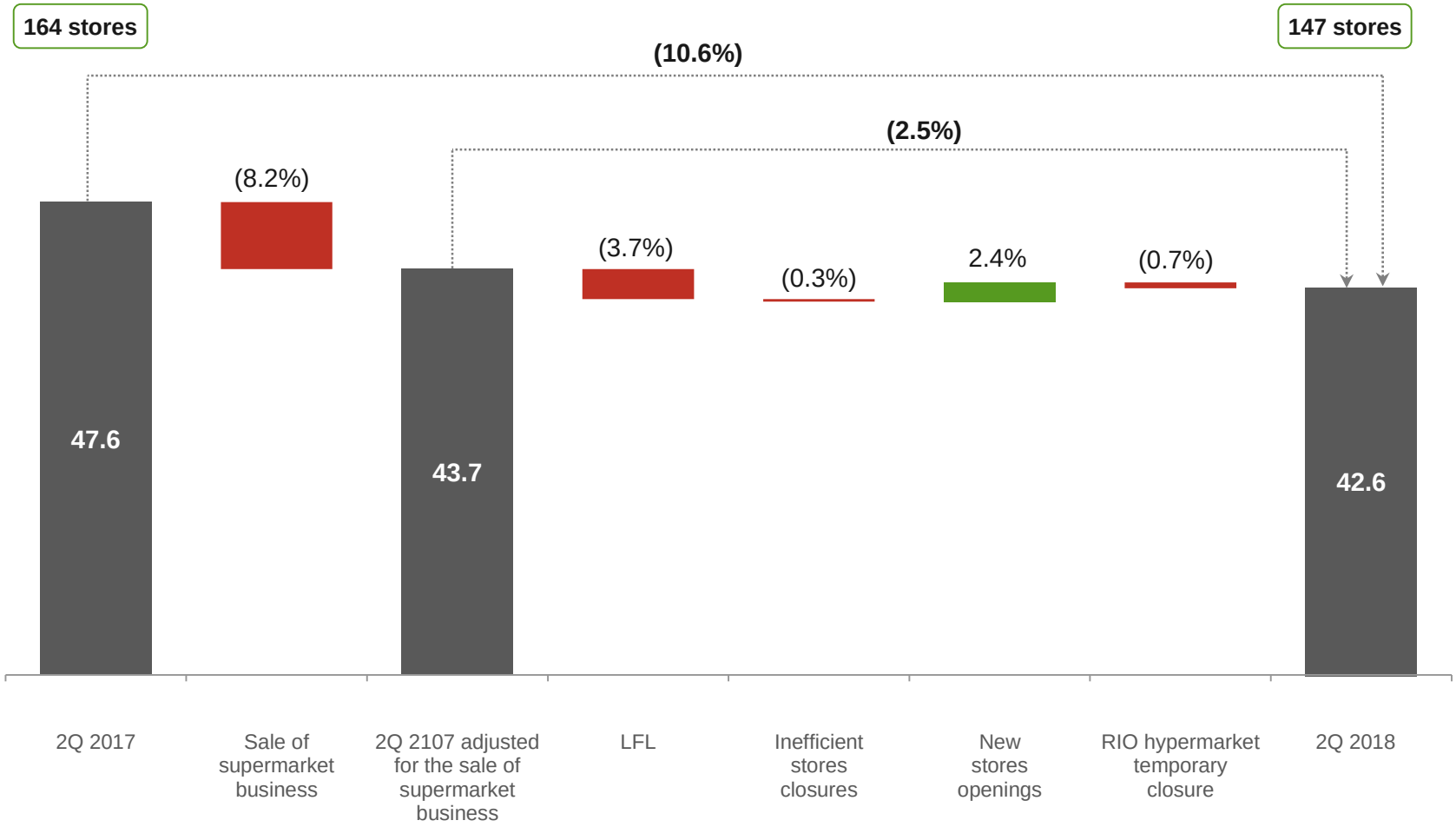
- Total revenue in 1H 2018 decreased by 8.7% YoY to RUB 88,068 mln
  - Organic total revenue(1) decreased by 1.6% YoY
- LFL revenue in 1H 2018 decreased by 2.3% YoY
  - LFL traffic decreased by 1.5%
  - LFL ticket decreased by 0.8%
- Total revenue in Q2 2018 decreased by 10.6% YoY to RUB 42,618 mln
  - Organic total revenue decreased by 2.5% YoY
- LFL revenue in Q2 2018 decreased by 4.0% YoY
  - LFL traffic decreased by 2.2%
  - LFL ticket decreased by 1.8%
- One hypermarket was reopened and two discounters were opened in Q2 2018
- Total selling space amounted to 577,248 sq. m as of June 30th 2018 (decrease by 5.6% YoY)

Notes: (1) Excluding the effect from supermarket business sale

# Organic Group total revenue in Q2'18 decreased by 2.5% YoY on the back of strong competition and macro headwinds

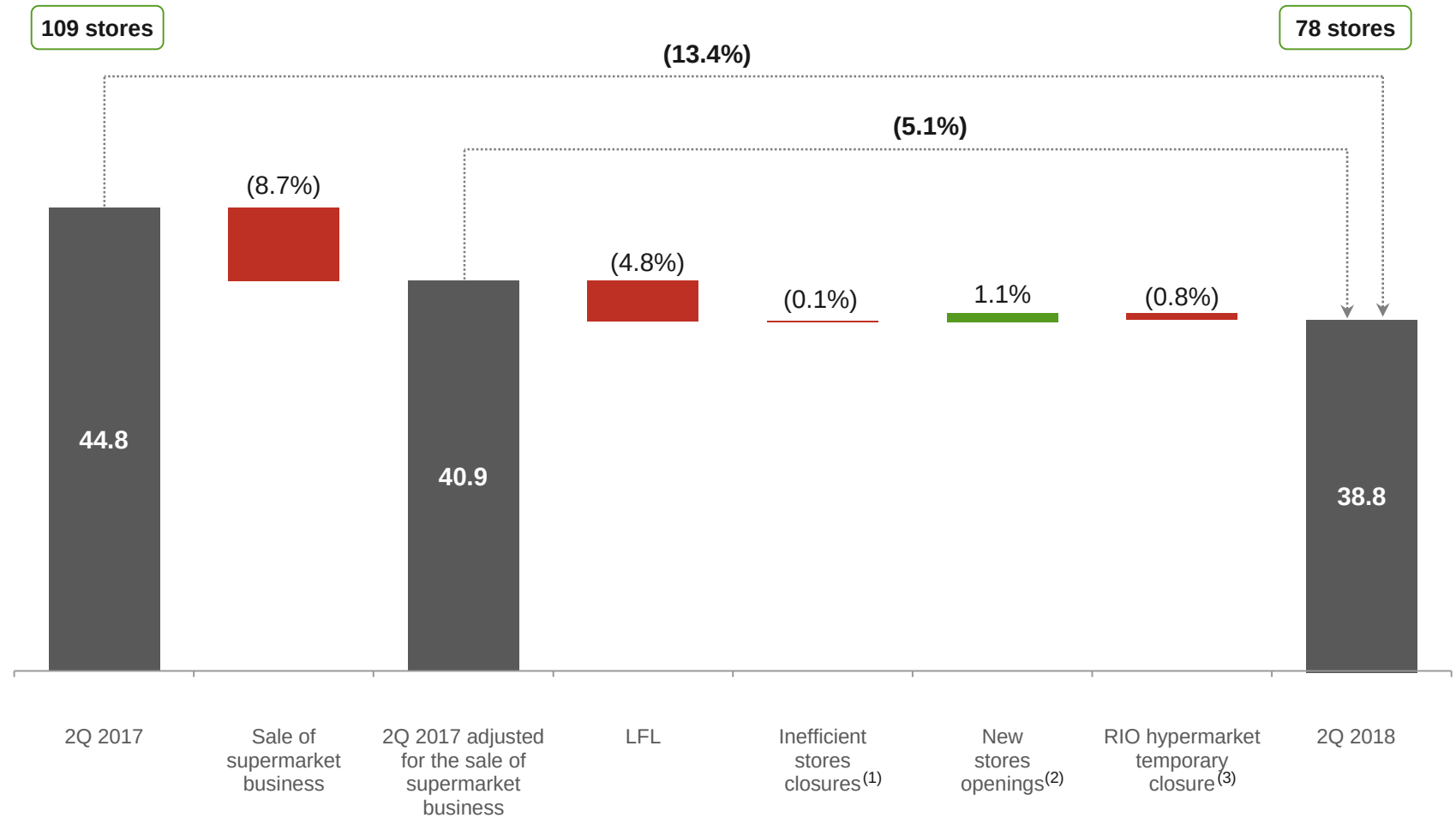


**Total revenue, Q2 2017 vs. Q2 2018, RUB bn**



# Intensifying competition, near-zero food inflation and less favorable weather conditions affected O'KEY organic revenue growth in Q2 '18

## Total revenue, Q2 2017 vs. Q2 2018, RUB bn




Notes: (1) Closure of hypermarkets in Cherepovets and Sterlitamak in 2Q '17; (2) Opening of supermarket in Sestroretsk in 2Q '17 and hypermarket in Yekaterinburg in 4Q '17; (3) RIO hypermarket in Moscow was temporary closed in July '17- May '18.

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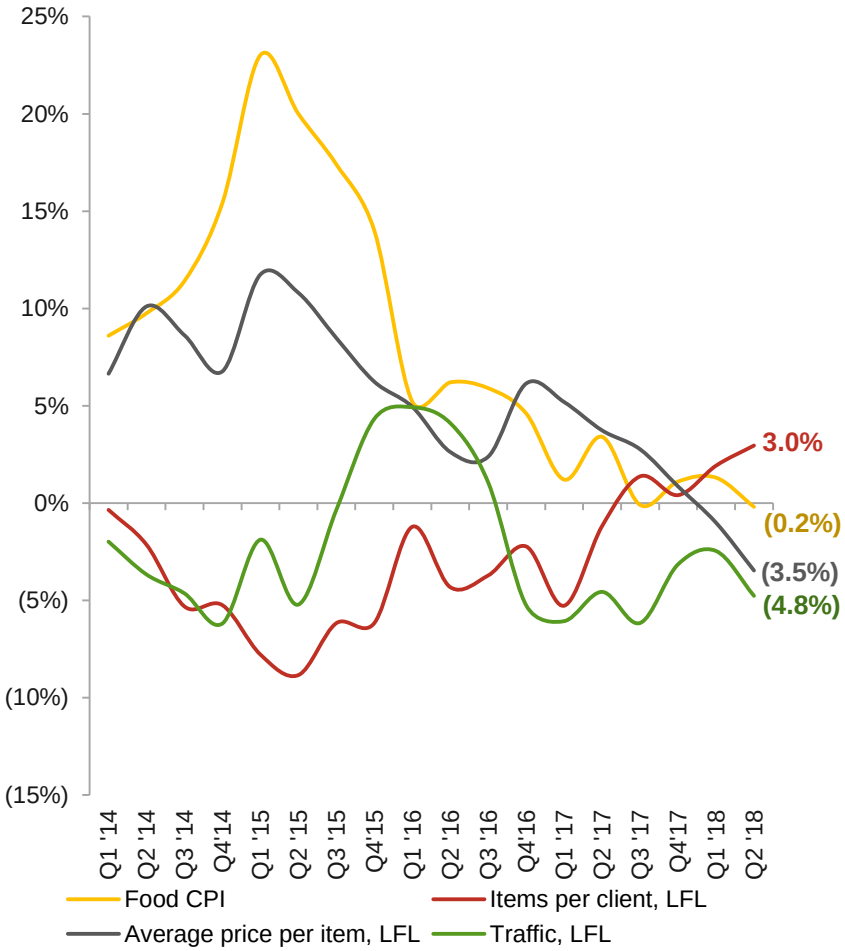
# O'KEY Q2 2018 operating results overview



**Strong macro headwinds with shelf inflation down by almost 4% YoY put a negative pressure on LFL performance in Q2 '18**




**The majority of key performance drivers demonstrated the negative dynamics in Q2 '18**

| | Q2 2018 | Q2 2017 |
|---|---|---|
| **Traffic, YoY** | **(4.8%)** | **(4.6%)** |
| Competition | ↑ | ↑ |
| Weather conditions | ↑ | ↓ |
| Frequency of visits[1] | ↓ | ↑ |
| **Ticket, YoY** | **(0.6%)** | **2.5%** |
| Food CPI | ↓ | ↑ |
| Price per item | ↓ | ↑ |
| Items per client | ↑ | ↓ |

↑ Increased ↓ Decreased — Stayed the same

Note: Positive changes, from the hypermarkets' standpoint, are marked in green, negative in red.

Notes: (1) Based on loyalty cards data.

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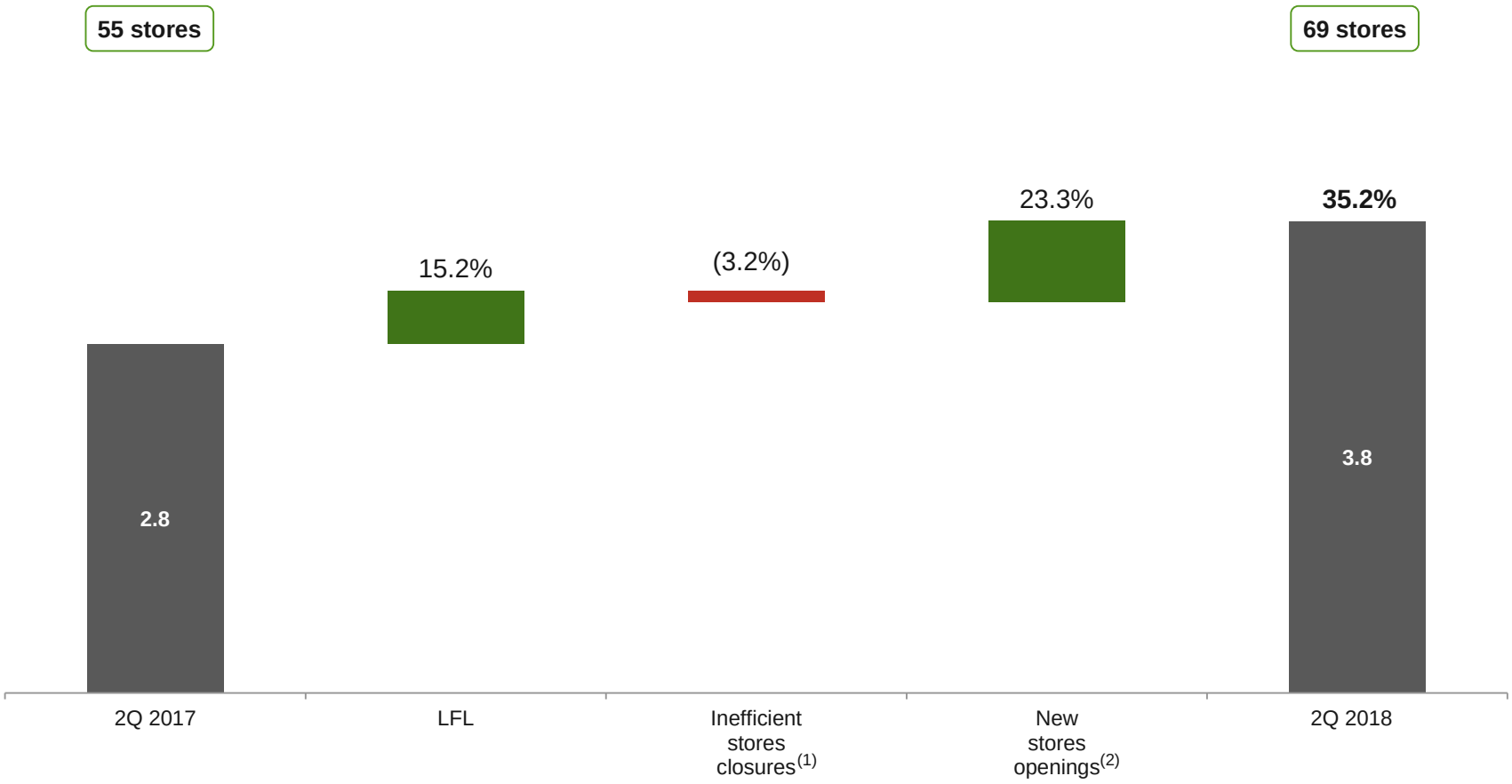
# DA! discounters continued to demonstrate healthy growth trends in Q2 ‘18

**Total revenue, Q2 2017 vs. Q2 2018, RUB bn**

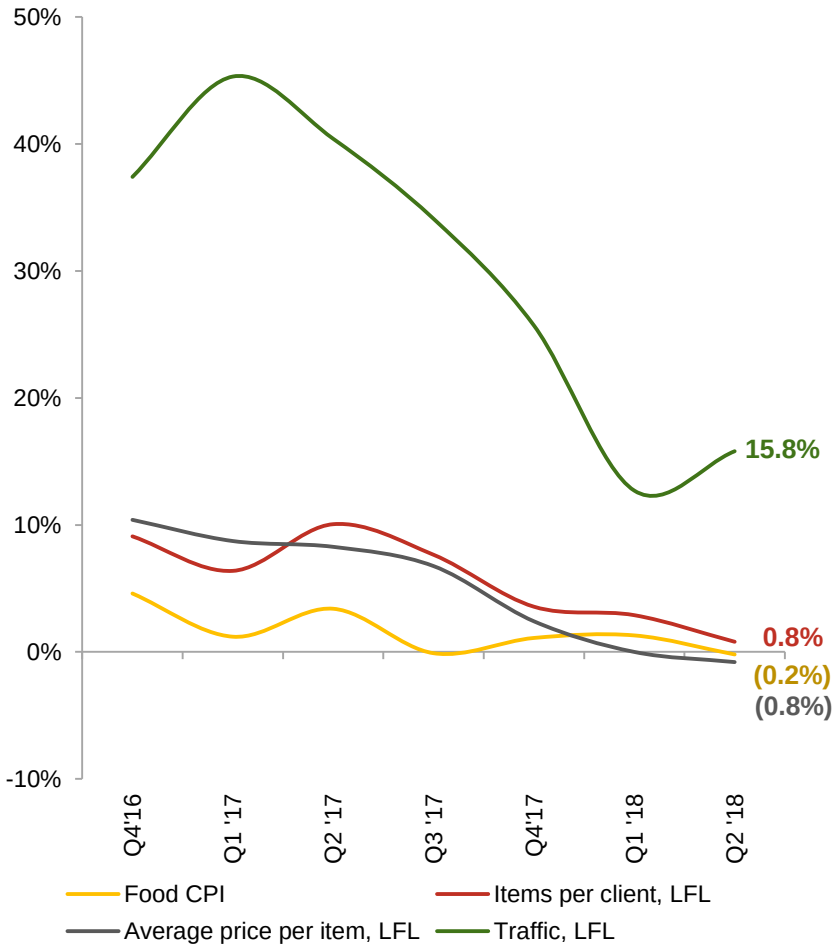



Notes: (1) Closure of three discounters in 1Q ‘18; (2) Opening of 17 new discounters in July ’17- June ‘18.

# DA! Q2 2018 operating results overview



**The positive trend in LFL traffic alongside the steadily growing share of private labels in the basket led to LFL net retail revenue growth in Q2 '18**




**Despite major part of key performance drivers turning red in Q2 '18, rising recognition of the discounters business model aided the Company's performance**

| | Q2 2018 | Q2 2017 |
|---|---|---|
| **Traffic, YoY** | **15.8%** | **40.4%** |
| Competition | ↑ | ↑ |
| Weather conditions | ↑ | ↓ |
| **Ticket, YoY** | **0.0%** | **19.2%** |
| Food CPI | ↓ | ↑ |
| Price per item | ↓ | ↑ |
| Items per client | ↑ | ↑ |

↑ Increased ↓ Decreased — Stayed the same

Note: Positive changes, from the discounters' standpoint, are marked in green, negative in red.

# O'KEY Group transformation under way (1)



| Strategic commitments | Initiatives launched and completed in Q2 2018 |
|---|---|
| EFFICIENCY TO VALUE | ✓ Completion of the executive management team formation |
| ENHANCING OF SUPPLY CHAIN | ✓ Transformation of imported goods supply chain to increase efficiency of operations<br>✓ Warehouse management system[1] upgrade to streamline the level of centralization |
| STORE ENHANCEMENT | ✓ Reopening of hypermarket in Moscow (RIO) which was temporary closed in Q3 2017 |
| NEW IT INFRASTRUCTURE | ✓ New ERP system (Microsoft Dynamics AXAPTA) is fully integrated within the perimeter of all stores<br>✓ Pilot phase of category management system (Oracle RPAS) completion. Successful integration into the commercial operations |
| ASSORTMENT & MARKETING | ✓ Last phase of Operating CRM[2] system development. To be launched in Q3 '18 |

Notes: (1) Manhattan WMS; (2) Manzana Loyalty 2015 based on Microsoft Dynamics CRM 2015.

# O'KEY Group transformation under way (2)



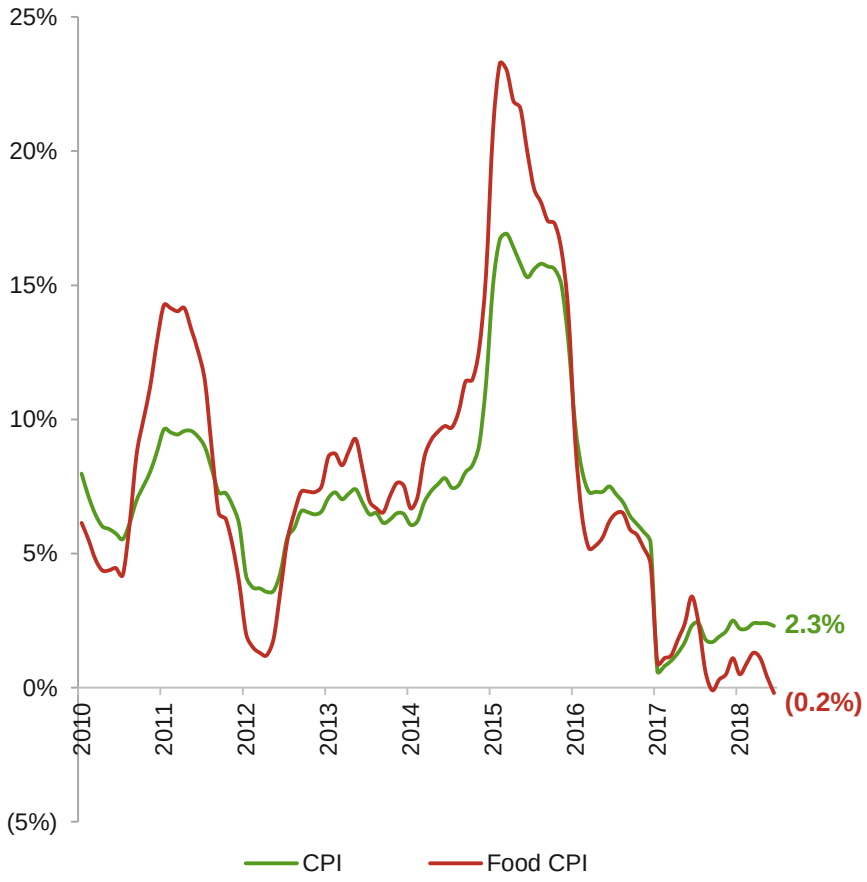
| Strategic commitments | Initiatives launched and completed in Q2 2018 |
| --- | --- |
| GROWTH & EXPANSION | ✓ Two new discounters were opened[1]<br>✓ Introduction of new lightning concept – focused light |
| ASSORTMENT & MARKETING | ✓ 55 new private label SKU's introduced<br>✓ Listing of new frozen products and goods sold by weight[2] |
| THE BEST VALUE PROPOSITION | ✓ Improvement of recipes in private label assortment<br>✓ Introduction of new customer baskets – bigger and more comfortable |

Notes: (1) The major part of openings will be performed in 2H '18; (2) Shrimps, khinkali, pelmeni, candies, nuts.

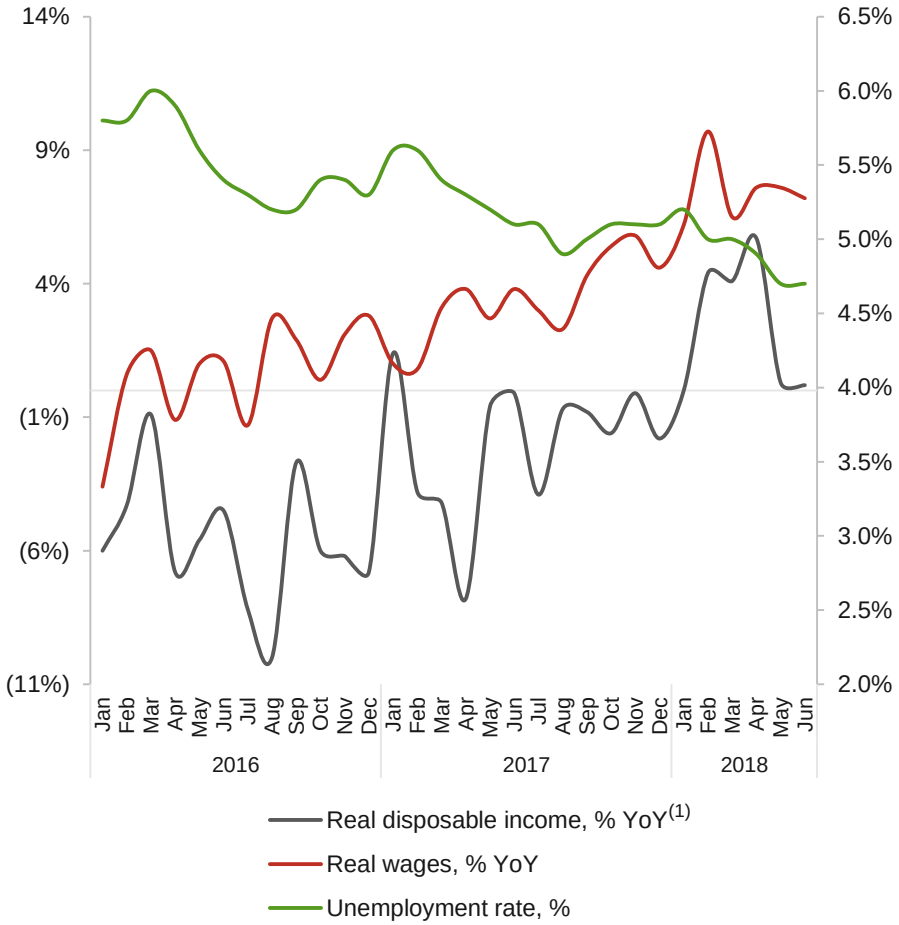
# Macro: headwinds for grocery persisted in Q2 '18



**Food CPI growth slowed down to the lowest level in the several last years**




**In Q2' 18 cautious consumer sentiment continued to prevail despite the gradual recovery in real disposable incomes**




Source: Rosstat
Notes: (1) Real disposable income growth YoY in Jan '17 excluding one time payment to the pensioners.

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# Appendix: key operating data by quarter



| Category[1] | Q2 2016 | Q3 2016 | Q4 2016 | FY 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | FY 2017 | Q1 2018 | Q2 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total sales, RUB bn** | **45.4** | **46.3** | **56.6** | **196.9** | **48.8** | **47.6** | **46.6** | **55.9** | **198.9** | **45.5** | **42.6** |
| *Growth* | *5.7%* | *6.1%* | *4.7%* | *7.5%* | *0.5%* | *4.9%* | *0.7%* | *(1.2%)* | *1.1%* | *(6.9%)* | *(10.6%)* |
| O'KEY | 43.9 | 44.6 | 54.3 | 190.4 | 46.4 | 44.8 | 43.7 | 52.4 | 187.3 | 42.1 | 38.8 |
| DA! | 1.4 | 1.7 | 2.2 | 6.4 | 2.4 | 2.8 | 2.9 | 3.5 | 11.7 | 3.3 | 3.8 |
| **Number of stores** | **156** | **160** | **164** | **164** | **165** | **164** | **168** | **145** | **145** | **145** | **147** |
| O'KEY | 108 | 110 | 110 | 110 | 110 | 109 | 109 | 78 | 78 | 78 | 78 |
| DA! | 48 | 50 | 54 | 54 | 55 | 55 | 59 | 67 | 67 | 67 | 69 |
| **Selling space, ths sqm** | **602,208** | **621,098** | **622,891** | **622,891** | **623,611** | **611,679** | **611,300** | **577,804** | **577,804** | **577,968** | **577,248** |
| O'KEY | 569,525 | 587,024 | 586,001 | 586,001 | 586,001 | 574,069 | 570,896 | 531,589 | 531,589 | 531,589 | 529,555 |
| DA! | 32,683 | 34,074 | 36,890 | 36,890 | 37,610 | 37,610 | 40,404 | 46,215 | 46,215 | 46,379 | 47,693 |
| **LFL sales growth** | **2.2%** | **(0.4%)** | **(1.0%)** | **2.2%** | **(4.9%)** | **(0.1%)** | **(0.2%)** | **(0.5%)** | **(1.4%)** | **(0.7%)** | **(4.0%)** |
| O'KEY | 2.2% | (0.4%) | (1.7%) | 2.0% | (6.4%) | (2.2%) | (2.3%) | (1.9%) | (3.2%) | (1.6%) | (5.4%) |
| DA! | | | 65.5% | 65.5% | 67.8% | 67.4% | 54.1% | 33.3% | 52.0% | 15.9% | 15.7% |
| **LFL traffic growth** | **4.1%** | **1.1%** | **(4.1%)** | **1.2%** | **(3.6%)** | **(1.6%)** | **(3.1%)** | **(0.7%)** | **(2.2%)** | **(0.8%)** | **(2.2%)** |
| O'KEY | 4.1% | 1.1% | (5.3%) | 0.9% | (6.1%) | (4.6%) | (6.2%) | (3.2%) | (5.0%) | (2.5%) | (4.8%) |
| DA! | | | 37.4% | 37.4% | 45.3% | 40.4% | 34.1% | 25.7% | 34.8% | 12.7% | 15.8% |
| **LFL ticket growth** | **(1.8%)** | **(1.4%)** | **3.3%** | **0.9%** | **(1.3%)** | **1.5%** | **2.9%** | **0.2%** | **0.8%** | **0.1%** | **(1.8%)** |
| O'KEY | (1.8%) | (1.4%) | 3.8% | 1.0% | (0.4%) | 2.5% | 4.2% | 1.3% | 1.9% | 0.9% | (0.6%) |
| DA! | | | 20.4% | 20.4% | 15.5% | 19.2% | 14.9% | 6.1% | 12.7% | 2.9% | 0.0% |

Notes: (1) O'KEY category includes hypermarkets and supermarkets, DA! category includes discounters

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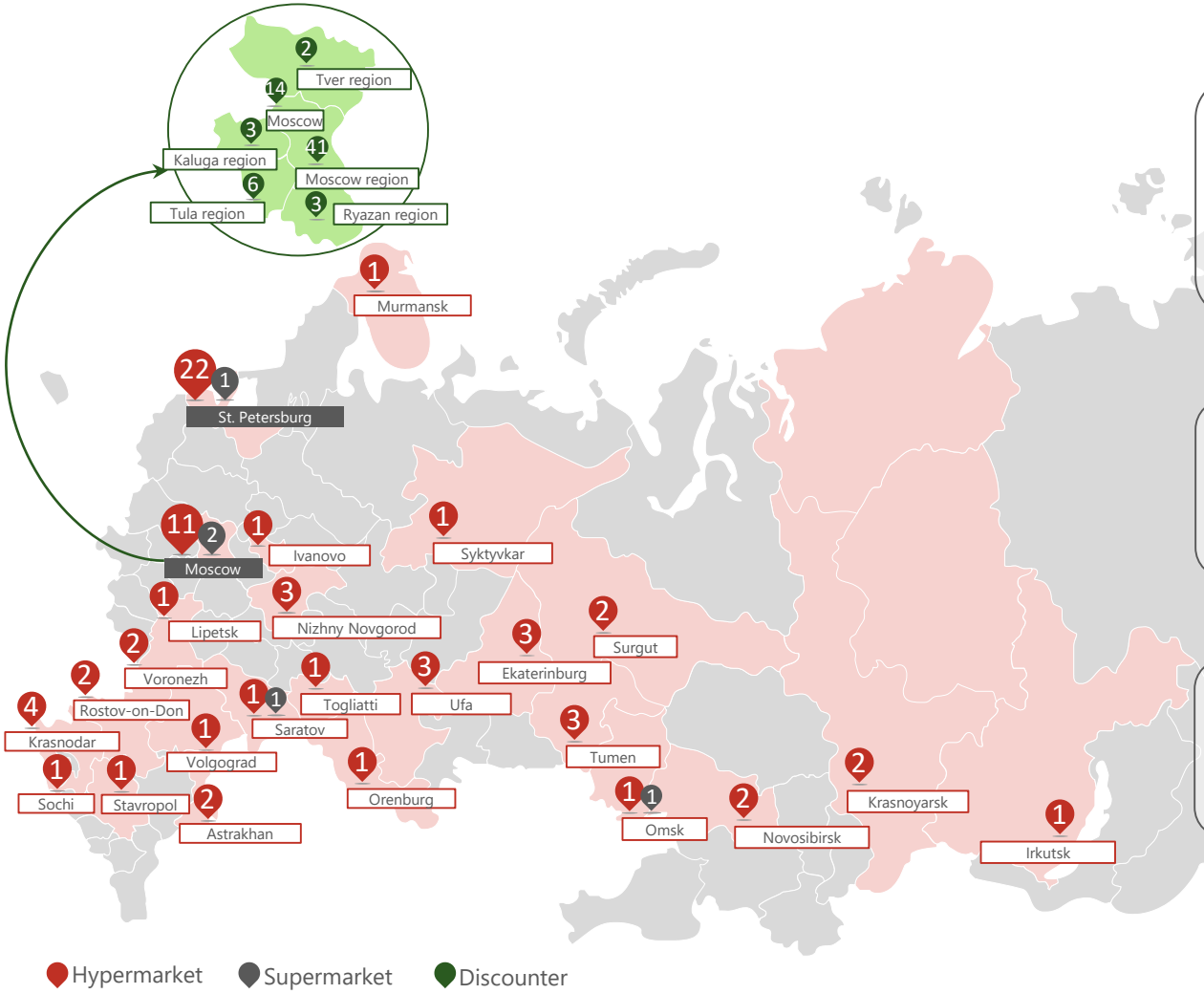
# Appendix: O'KEY geography




**147**
**Total number of stores**

**78**
**Hypermarkets(1)**

**69**
**Discounters**

Notes: (1) Including five supermarkets that will be refurbished into compact hypermarkets by the end of 2018.

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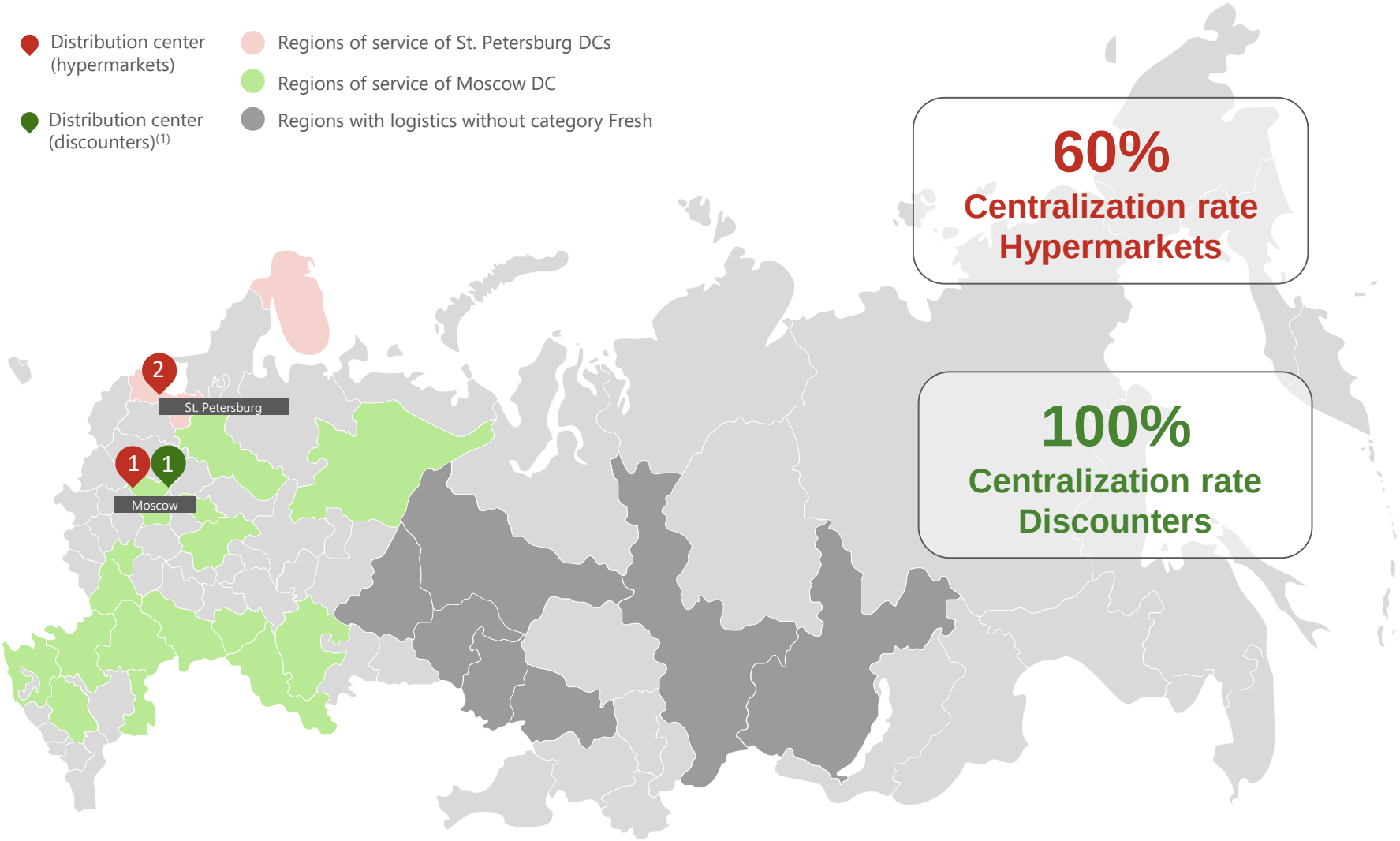
# Appendix: O'KEY supply chain



- Distribution center (hypermarkets)
- Distribution center (discounters)[1]
- Regions of service of St. Petersburg DCs
- Regions of service of Moscow DC
- Regions with logistics without category Fresh




**60%**
**Centralization rate Hypermarkets**

**100%**
**Centralization rate Discounters**

Notes: (1) Service areas are limited to Moscow, Moscow region, Tula region, Tver region, Kaluga region and Ryazan region.

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