Press Release
30 August 2018

O`KEY GROUP ANNOUNCES UNAUDITED FINANCIAL RESULTS FOR 1H 2018

O`KEY Group S.A. (LSE: OKEY, the 'Group'), one of the leading Russian food retailers, announces financial results for the 1H 2018 based on a condensed consolidated interim financial statements reviewed by the auditors.

All the materials published by the Group are available on its website www.okeyinvestors.ru.

1H 2018 financial highlights

- Organic Group total revenue, excluding the effect of the supermarket business sale, fell 1.4% YoY. Total Group revenue decreased by 8.5% YoY, from RUB 85,453 mln[1] to RUB 78,179 mln;
- Organic revenue generated by O`KEY, excluding the effect of the supermarket business sale, decreased by 3.7% YoY. Revenue generated by O`KEY decreased by 11.0% YoY to RUB 71,884 mln. The decrease was primarily caused by the supermarket business sale (December 2017 – April 2018) as well as negative macroeconomic trends and increasing competition;
- Revenue generated by DA! grew 35.3% YoY to RUB 6,296 mln, supported by steady growth in traffic and average ticket;
- The Group gross margin expanded by 60 bps, reaching 23.3%, while gross profit decreased by 6.2% YoY to RUB 18,227 mln;
- The Group EBITDA margin grew by 17 bps YoY to 4.4%, while EBITDA decreased by 4.9% YoY to RUB 3,470 mln;
- O`KEY EBITDA margin increased by 40 bps YoY to 6.1%, while EBITDA fell 5.2% YoY to RUB 4,370 mln. The O`KEY EBITDA margin increase was primarily driven by improved purchasing terms and the increased efficiency of operations across the Group;
- EBITDA generated by DA! improved from negative RUB 958 mln (-20.6% of sales) in 1H 2017 to negative RUB 900 mln (-14.3% of sales) in 1H 2018, driven by new store openings and higher LFL sales;
- Net loss for the Group amounted to RUB 541 mln. The net loss YoY decrease by almost three times was mainly driven by a net gain from the sale of supermarket business, impairment of receivables and non-current assets in 1H 2017, which did not take place in 1H 2018, and growth of the Group's business operations efficiency.

Key events in 1H 2018:

- The Group reopened a RIO hypermarket in Moscow after a temporary closure;

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[1] From 1 January 2018 the Group adopted IFRS 15 which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income.

- 5 new discounters were opened in the Moscow region;
- Under the framework agreement on the sale of the supermarket business, all 32 supermarkets included within the deal perimeter were closed by the end of 1H 2018;
- In January, Fitch Ratings confirmed the Group's credit rating of B+ with stable forecast;
- In July, RAEX (Expert RA) assigned O`KEY a 'ruA-' rating with positive outlook;
- In August 2018, the Group extended the maturity dates of several long-term credit lines;
- In August 2018, the Group signed non-revolving credit line facility agreements with Sberbank, under which the Group can raise up to RUB 12 bn which will be primarily used for refinancing of the current credit agreements and for operating activities;
- As at the end of 1H 2018, the Group's weighted average interest rate decreased by 70 bps from 9.8% as of the end of 2017 to 9.1%. The Group maintains its strong focus on debt portfolio optimisation.

Revised guidance

- We expect net retail revenue generated by our hypermarkets business to decrease by low single digits in 2018 driven by a higher competitive pressure, negative macroeconomic dynamics, the FIFA World Cup and less favourable than a year ago weather conditions in the Company's key operating regions. At the same time we expect 2018 profitability to increase in line with the growth achieved in the first half of 2018;
- We expect net retail revenue generated by our discounters business to grow by up to 50% YoY in 2018, driven by openings of up to 25 new stores. The new openings will accelerate in the second half of the year.

Group profit and losses

RUB mln	1H 2018	1H 2017	∆ YoY
Total Group revenue	**78,179**	**85,453**	**(8.5%)**
Organic Group revenue[2]	**78,179**	**79,305**	**(1.4%)**
Gross profit	**18,227**	**19,438**	**(6.2%)**
Gross profit margin	*23.3%*	*22.7%*	*60 bps*
SG&A	**(17,048)**	**(18,318)**	**(6.9%)**
SG&A as % of revenue	*21.8%*	*21.3%*	*50 bps*
Group EBITDA	**3,470**	**3,650**	**(4.9%)**
Group EBITDA margin	*4.4%*	*4.3%*	*17 bps*
Net loss	**(541)**	**(1,478)**	**n.a.**

[2] Excluding the effect of supermarket business sale.

Operating segments performance

RUB mln	O`KEY		Δ, YoY	DA!		Δ YoY
	1H 2018	1H 2017		1H 2018	1H 2017	
Revenue	**71,884**	**80,801**	**(11.0%)**	**6,295**	**4,653**	**35.3%**
EBITDA	**4,370**	**4,608**	**(5.2%)**	**(900)**	**(958)**	**(6.1%)**
EBITDA margin	*6.1%*	*5.7%*	*40 bps*	-	-	-

Group operating results

Segment	1H 2018			1H 2017		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
LFL Group	(2.3%)	(1.5%)	(0.8%)	(2.5%)	(3.6%)	1.1%
LFL hypermarkets and supermarkets	(3.4%)	(3.6%)	0.2%	(4.3%)	(5.3%)	1.0%
Discounters	35.6%	32.7%	2.2%	108.5%	78.1%	17.5%
LFL for the segment	15.8%	14.3%	1.3%	67.5%	42.5%	17.6%

Revenue

In 1H 2018, total Group revenue decreased by 8.5% YoY to RUB 78,179 mln. The revenue decline was primarily triggered by the supermarket business sale initiated in December 2017. At the same time, organic Group total revenue, excluding the effect of the supermarket business sale, fell 1.4% YoY, on the back of weakening inflation, intensifying competition in the key regions, the FIFA World Cup and less favourable weather conditions in Q2 2018. The closure of hypermarkets in Cherepovets and Sterlitamak in 1H 2017, along with the temporary closure of a RIO hypermarket in Moscow from July 2017 to May 2018, also impacted the Group's results during the reporting period.
By the end of the reporting period, total selling space decreased by 5.6% to 577,248 sq. m. O`KEY selling space decreased by 7.8% to 529,555 sq. m, the selling space of DA! increased by 26.8% to 47,693 sq. m.

Cost of goods sold and gross profit

The gross profit as a percentage of revenue increased by 60 bps in 1H 2018 to RUB 18,227 mln. The table below provides the breakdown of cost of goods sold in 1H 2018 and 1H 2017:

RUB mln	1H 2018	% of revenue	1H 2017	% of revenue	∆ YoY
Total revenue	**78,179**	**100.0%**	**85,453**	**100.0%**	
Cost of goods sold	**(59,952)**	**76.7%**	**(66,015)**	**77.3%**	**(60 bps)**
Cost of trading stock (less supplier bonuses)	(56,020)	71.7%	(62,216)	72.8%	(120 bps)
Inventory shrinkage	(1,377)	1.8%	(1,537)	1.8%	0 bps
Logistic costs	(2,244)	2.9%	(1,838)	2.2%	70 bps
Labelling and packaging costs	(311)	0.4%	(425)	0.5%	(10 bps)
Gross profit	**18,227**	**23.3%**	**19,438**	**22.7%**	**60 bps**

The Gross profit increase was for the most part driven by the reduction of trading stock cost (less supplier bonuses) as a percentage of the revenue by 120 bps YoY as a result of more favourable purchasing conditions. These were achieved through successful negotiations with suppliers and through continuous expansion of logistic centralisation. The growing level of logistics centralisation along with ongoing expansion of the discounter business during the first half of the year contributed to the logistics costs increase by 70 bps YoY. Shrinkage costs as a percentage of revenue remained flat YoY, while in absolute terms it decreased by 10.4%.

General, selling and administrative costs

General, selling and administrative expenses as a percentage of revenue increased by 40 bps YoY in 1H 2018. The table below provides the general, selling and administrative expenses breakdown for 1H 2018 and 1H 2017:

RUB mln	1H 2018	% of revenue	1H 2017	% of revenue	∆ YoY
Personnel costs	(7,198)	9.2%	(8,185)	9.6%	(40 bps)
Operating leases	(2,668)	3.4%	(2,835)	3.3%	10 bps
Depreciation and amortisation	(2,133)	2.7%	(2,278)	2.6%	10 bps
Communication and utilities	(1,771)	2.3%	(1,786)	2.1%	20 bps
Advertising and marketing	(1,081)	1.4%	(1,021)	1.2%	20 bps
Repairs and maintenance	(584)	0.7%	(591)	0.7%	0 bps
Security expense	(375)	0.5%	(437)	0.5%	0 bps
Insurance and bank commissions	(410)	0.5%	(398)	0.5%	0 bps
Taxes other than on income	(401)	0.5%	(355)	0.4%	10 bps
Legal and professional expenses	(279)	0.4%	(252)	0.3%	10 bps
Materials and supplies	(132)	0.2%	(163)	0.2%	0 bps
Other costs	(16)	0.0%	(17)	0.0%	0 bps
Total SG&A	**17,048**	**21.8%**	**18,318**	**21.4%**	**40 bps**

Personnel costs

In 1H 2018, personnel costs as a percentage of revenue decreased by 40 bps to 9.2% or by RUB 987 mln YoY. This decrease was largely attributable to the ongoing business process optimisation aimed at increasing efficiency per hour and per square meter at both store and head office levels. In the second half of the year, the Group will maintain its focus on enhancing the effectiveness of business processes.

Operating leases

Operating lease costs as a percentage of revenue increased by 10 bps YoY to 3.4%. The increase was primarily attributable to the rollout of discounters in the second half of the year (4 out of 5 newly opened stores in 1H 2018 are rented) in line with previously announced plans. The operating lease expenses as percentage of revenue are expected to decrease as the discounters continue to gain momentum.

Communication and utilities costs

Communication and utilities expenses as a percentage of revenue increased by 20 bps YoY to 2.3%. The increase was primarily caused by the indexation of the tariffs in the second half of 2017. The Group continues to work towards the optimisation of respective costs and efficiency improvements.

Advertising and marketing expenses

Advertising and marketing expenses as a percentage of revenue increased by 20 bps YoY to 1.4%. The YoY increase was primarily driven by launch of marketing campaigns aimed at aligning the hypermarkets' price perception with the 'best value for money' concept and building a stronger brand, as well as at increasing the footfall across the Group's stores.

Depreciation and amortisation

Depreciation and amortisation as a percentage of revenue increased by 10 bps YoY to 2.7%, while in absolute terms it decreased by 6.4% on the back of supermarkets business sale.

Net finance costs

Whilst net finance costs as percentage of revenue remained almost unchanged YoY, in absolute terms they fell by 6.2% YoY as a result of the decrease in finance costs, on the back of the decline in the weighted average interest rate to 9.1% in 1H 2018 from 9.8% in 2017. The Group's average loan portfolio decreased by RUB 2.8 bn year to date.

Net loss

In the first half of 2018, net loss amounted to RUB 541 mln, down almost three times YoY. The net loss decrease was mainly driven by the net gain received from the sale of non-current assets (sale of the supermarket business), impairment of receivables and non-current assets in 1H 2017, which did not take place in 1H 2018, and decrease in other operating expenses realised during the reporting period, in line with the Group's strategy towards increasing business efficiency.

Cash flow and working capital

RUB mln	1H 2018	1H 2017
Net cash used in operating activities	(5,318)	(5,086)
Net cash from/(used in) investing activities	5,375	(1,459)
Net cash used in financing activities	(6,437)	(2,388)
Net decrease in cash and cash equivalents	(6,380)	(8,933)
Effect of exchange rate on cash and cash equivalents	(35)	(32)

Net cash used in operating activities

As at 1H 2018, 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 2,996 mln, compared to negative RUB 4,521 mln as at 1H 2017. The working capital turnover decrease was primarily influenced by the slowdown of inventory turnover as a result of a reorganisation of the logistics processes which accompanied the centralisation. As a result, net cash used in operating activities during the reporting period amounted to RUB 5,319 mln, while in 1H 2017 the cash used in operating activities amounted to RUB 5,086 mln.

Net cash from investing activities

Net cash from investing activities amounted to RUB 5,375 mln in 1H 2018. The growth of the line was primarily a result of the RUB 6,910 mln proceeds received from the sale of the supermarket business, which largely offset the Group's 1H 2018 capital expenditures (CAPEX) of RUB 1,551 mln (excluding VAT). During the reporting period the Group invested RUB 739 mln (excluding VAT) into the development of the hypermarkets business and RUB 812 mln (excluding VAT) in the development of the discounters business.

Net cash used in financing activities

Net cash used in financing activities in 1H 2018 amounted to RUB 6,437 mln. Over the reporting period, the Group attracted RUB 1,100 mln of financing in the form of short-term credit lines and made repayments totalling RUB 3,990 mln. In January 2018, the Group paid a dividend in the amount of RUB 1,879 mln. The dividend yield as at the day of the dividend announcement amounted to 4.7%. As of 30 June 2018, the Group had RUB 12,700 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating basis in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, as necessary.

Debt

The Group considers the Net Debt/EBITDA ratio as the principal means for evaluating the impact of the Group's borrowings on its operations. As at 30 June 2018, Net Debt/LTM EBITDA ratio was 3.5x compared to 3.6x at 30 June 2017. The decrease in the ratio compared to 30 June 2017 is mainly driven by the decrease in total debt by RUB 3.7 bn YoY. We maintain a conservative approach to borrowing and expect Net Debt/LTM EBITDA to be below 3.0x by the end of 2018.

RUB mln	As of 30 June 2018	As of 30 June 2017
Total debt	**33,303**	**37,037**
Short-term debt[3]	8,097	3,200
Long-term debt	25,206	33,837
Cash&cash equivalents	**1,334**	**2,498**
Net Debt	**31,969**	**34,539**
Net debt/LTM EBITDA	**3.5x**	**3.6x**

OVERVIEW

O`KEY Group S.A. (LSE: OKEY, Fitch – 'B+', RAEX – 'ruA-') is one of the largest retail chains in Russia. The Group operates under two main formats: hypermarkets, under the 'O`KEY' brand and discounters, under the 'DA!' brand.

As at August 30, 2018, the Group operates 150 stores across Russia. The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. O`KEY is the first among Russian food retailers to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery. The Group operates four distribution centres across the Russian Federation.

For the full year 2017, revenue totalled RUB 177,454,848 thousand, EBITDA reached RUB 9,334,993 thousand, and the net income for the period amounted to RUB 3,166,913 thousand[4].

The O`KEY shareholder structure is as follows: NISEMAX Co Ltd – 50.95%, GSU Ltd – 29.52%, free float – 19.53%.

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

[3] Short-term debt does not include interest accrued on loans and borrowings.
[4] Full year 2017 IFRS figures will be adjusted in 2018 IFRS financial statements due to the change in accounting policy (adoption of IFRS 15 from 1 January 2018).

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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