23 March 2016

O'KEY ANNOUNCES AUDITED FINANCIAL RESULTS FOR THE FOURTH QUARTER AND FULL YEAR ENDED 31 DECEMBER 2015

O'KEY Group S.A. (LSE: OKEY), a leading food retailer in Russia, announces audited financial and operating results for the fourth quarter and full year ended 31 December 2015. All materials published by the Group are available on its website www.okeyinvestors.ru.

Key highlights for 2015:

- Total revenue increased 6.9% to RUB 162,510 million, total revenue net of discounter revenue increased 6.5% to RUB 161,822 million
- Traffic rose 7.2% while average ticket declined 0.4%, traffic without discounters rose 6.2% while average ticket grew 0.2%
- Like-for-like (LFL) trade revenue grew 0.6% while average ticket grew 1.3% and average LFL traffic declined 0.7%.
- Selling area increased 7.4% to 593,000 m^2 due to the net opening of two hypermarkets, one supermarket and 35 discounters, selling area without discounters increased 3.1% to 569,000 m^2.
- Gross profit reached RUB 38,367 million with gross margin declining by 90 basis points to 23.6%
- EBITDAR declined 2.0% to RUB 14,837 million with EBITDAR margin decreasing by 80 basis points to 9.3%
- EBITDAR net of discounters' costs grew 3.8% to RUB 16,254 million while EBITDAR margin net of discounters' costs grew by 20 basis points to 10.4%
- EBITDA declined 10.3% to RUB 10,109 million with EBITDA margin decreasing by 120 basis points to 6.2%
- EBITDA net of discounters' costs decreased 1.4% to RUB 11,674 million with EBITDA margin net of discounters' costs declining by 60 basis points to 7.3%
- Capital expenditures amounted to RUB 8,621 million
- Net profit fell 63.6% to RUB 1,918 million

Key highlights for Q4 2015:

- Total revenue increased 10.3% y-o-y to RUB 47,931 million
- Traffic increased 13.5% y-o-y with the net opening of one hypermarket and 20 discounters while average ticket declined 3.1% y-o-y
- Traffic net of discounters increased 10.0% with the average ticket net of discounters declining 1.3% y-o-y
- Trade LFL revenue increased y-o-y 3.8% while LFL traffic grew 4.3% and average LFL ticket declined 0.5%
- Gross profit reached RUB 11,049 million with gross margin of 23.1%
- Net profit fell 57.6% y-o-y to RUB 1,117 million

Commentary

Heigo Kera, CEO and Chairman of the Board of Directors of O'KEY Group, said,

"2015 was a year when we started the transformation of our business to get closer to our customers. I am pleased to report that, despite significant macroeconomic headwinds, we were able to execute our turnaround strategy, achieve a recovery in traffic growth and deliver solid operational results.

During the year, we enhanced value proposition in our hypermarkets and supermarkets offering customers more attractive prices while maintaining the highest standards of product quality, re-launched our private-label lines, saw early positive results in our unique online shopping platform and successfully introduced new discounter format.

First results of our turnaround strategy were reflected in our Q4 2015 results when we reported a 4.3% y-o-y LFL traffic growth and a 3.8% y-o-y increase in LFL revenue. Overall, during the year we increased our trade revenue by 6.9%, ahead of our guidance as a result of our expansion in the key markets, increase of the LFL traffic and the opening of 35 discounters under the DA! brand.

In addition, we embarked upon a number of projects aimed at improving business efficiency. We are centralizing logistics and have opened two new distribution centers in St Petersburg. We are transforming our IT-infrastructure to enhance business efficiency by introducing best practices in the key processes, including demand planning, inventory management, pricing, assortment and shelf management, and finance management. We are enhancing our IT system by implementing the leading solutions from Oracle, JDA and Microsoft in each of these areas, which allows us to use the world's best practices while maintaining reasonable TCO (Total Cost of Ownership) level for the whole system. And we will see the first benefits from the IT transformation already in 2016.

We have strengthened our senior management team with professionals possessing a wealth of experience in managing the leading international and Russian retailers and sharing a common vision for the Group's future.

In 2016, we will focus on our key and most profitable markets, including St. Petersburg, Moscow and large cities in the Center and the South of Russia. We will expand our presence in our key format of compact hypermarket and its complementary supermarket format. We will also continue to roll-out the innovative hard discounter format in Moscow, the Moscow region and neighboring cities where this format has already reached its target audience. However, given the tough macroeconomic environment and intense competition we will maintain conservative approach to expansion and forecast capital expenditures in the amount of RUB 7-10 billion. Overall, we expect to deliver a Group topline growth of 11-15%, including the contribution from the developing discounter chain. Key risks for the Group revenue include sustained volatility in the markets and changing consumer preferences.

A the end of 2015, O'KEY's net debt/EBITDA ratio was 2.6x compared to 2.3x at the end of 2014. The increase in this ratio was driven by a decline in EBTIDA, while the amount of net debt fell by 2%. We are comfortable with the current level of debt leverage and don't plan to increase it significantly.

I am confident that the business transformation started last year, and continuing in 2016, will ensure we have the right fundamentals in place to deliver long-term growth and create value for our shareholders".

Armin Burger, Chief Executive of the Discounter Chain, added,

"In 2015, we launched a well-established in Europe, but unique on the Russian market hard discounter format. The launch was the culmination of 18 months of careful preparation, including the creation of a new company, development of the brand concept and private-label line as well as finding the right locations for our stores. In Stupino, near Moscow we created a new, state-of-the-art 52,000 m^2 distribution centre with four temperature zones, allowing us to make daily deliveries to our new stores and ensuring a base for organic growth in Moscow, the Moscow region and neighboring cities.

Hard discounter means a limited assortment (1,500 SKUs on average), substantial share of private label products in sales (it's over 50% already and we aim to increase it up to 70-80%), strict quality control and very competitive pricing. We provide a hard discount price proposition, while still offering pleasant and comfortable shopping experience in brightly lit stores. We supply all our shops with fresh fruit and vegetables on a daily basis and have a bakery on premises in each of the stores.

We are pleased with the results of the first 35 store openings in 2015. In 2016 we are continuing rollout of the new chain and will soon start realizing economies of scale which will boost profitability.

The launch of the discounter chain targeting rational consumers responds to the behaviour trends of the Russian customers who in difficult times reduce their spend on food and key value items while still demanding high quality products. I am confident that soon the new discounter format will provide the Group with an additional growth driver."

Financial Results

Statement of profit & losses

RUB million	2015	2014	Year-on-year change, %
Revenue	162,510	151,983	6.9
Gross profit	38,367	37,205	3.1
Gross margin	*23.6%*	*24.5%%*	*-0.9 pp*
EBITDA	10,109	11,270	-10.3
EBITDA margin	*6.2%*	*7.4%*	*-1.2 pp*
Operating profit	5,848	8,566	-31.7
Net Profit	1,918	5,226	-63.6

Revenue

In 2015, overall Group revenue increased 6.9% in spite of the falling disposable incomes and intensifying competition. The growth was driven by growth in the selling space and our efforts aimed at increasing LFL traffic through the increased assortment in lower price range, the launch of promo campaigns, including competitive prices on 5,000 SKUs, development of private label lines and the launch of online sales with a full hypermarket assortment in Moscow and St Petersburg.

Trading space rose 7.4% and reached 593,000 m^2, including 71 hypermarkets with an aggregate trading space of approximately 518,000 m^2, 40 supermarkets with an aggregate trading space of approximately 51,000 m^2 and 35 discounters with an aggregate trading space of approximately 24,000 m^2.

Sales Performance	Retail revenue growth, %	Traffic growth, %	Av. Ticket growth, %
Trade revenue FY 2015	6.9	7.2	-0.4
Trade revenue LFL FY 2015	0.6	-0.7	1.3

Cost of goods sold and gross profit

The cost of goods sold increased 8.2% in 2015 to RUB 124,143 million. In the table below, we provide further details about the cost of goods sold in 2014 and 2015:

RUB million	2015	Percentage of 2015 revenue	2014	Percentage of 2014 revenue	Change, p.p.
Revenue	**162,510**	**100.0**	**151,983**	**100.0**	
Cost of goods sold, including	**(124,143)**	**76.4**	**(114,779)**	**75.5**	**0.9**
Cost of trading stock (less supplier bonuses)	(117,725)	72.4	(110,100)	72.4	0.0
Inventory shrinkage	(3,391)	2.1	(2,161)	1.5	0.6
Logistics cost	(2,214)	1.4	(1,797)	1.2	0.2
Packaging and labelling costs	(814)	0.5	(721)	0.5	0.0
Gross profit	**38,367**	**23.6**	**37,205**	**24.5**	**-0.9**

Gross profit increased by 3.1% to RUB 38,367 million in 2015, compared to RUB 37,205 million in 2014 as the Group's decision to offer better value proposition to customers was balanced by our sustained efforts to obtain better commercial terms with suppliers. Gross margin contracted by 0.9 pp to 23.6% impacted by:

- higher shrinkage rate attributable to supply chain disruptions following the introduction of import restrictions; and
- higher logistics costs as the Group embarked upon centralization of logistics to improve inventory management which, in turn, allows the Group to obtain more favorable commercial terms from the suppliers.

General, selling and administrative expenses

RUB million	Year ended 31 December 2015	Percentage of revenue (%)	Year ended 31 December 2014	Percentage of revenue (%)	Change, p.p.
Personnel costs	(14,989)	9.2	(13,929)	9.2	0.0
Operating leases	(4,728)	2.9	(3,873)	2.5	0.4
Depreciation and amortisation	(3,838)	2.4	(3,056)	2.0	0.4
Communication and utilities	(3,046)	1.9	(2,687)	1.8	0.1
Advertising and marketing	(1,651)	1.0	(1,823)	1.2	-0.2
Security expenses	(740)	0.5	(833)	0.5	0.0
Repairs and maintenance costs	(940)	0.6	(726)	0.5	0.1
Insurance and bank commission	(687)	0.4	(661)	0.4	0.0
Operating taxes	(759)	0.5	(633)	0.4	0.1
Legal and professional expenses	(660)	0.4	(517)	0.3	0.1
Materials and supplies	(300)	0.2	(345)	0.2	0.0
Other costs	(33)	0.0	(34)	0.0	0.0

Total general, selling and administrative expenses	**(32,371)**	**19.9**	**(29,117)**	**19.2**	**0.7**

The Group's general, selling and administrative expenses grew 11.2% y-o-y to RUB 32,371 million in 2015, primarily attributable to higher lease expenses resulting from the increase in the selling space as well the impact of the ruble depreciation on foreign currency denominated leases in US dollars and euro. General, selling and administrative expenses were also impacted by an increase in D&A resulting from the opening of new stores and modernisation of existing stores. As a percentage of revenue, the Group's general, selling and administrative expenses increased by 0.7 pp to 19.9% in 2015.

In order to streamline investment portfolio and focus on the most efficient markets, the Group has divested 8 objects (5 stores under construction and 3 land plots) and closed two hypermarkets and two supermarkets.

Personnel costs

In 2015, in order to improve productivity we optimised staffing levels in the stores and in the administration. Still due to a 5.0% increase in average headcount attributable to the opening of discounter stores and an increase in salaries in line with the industry trends personnel costs grew 7.6% y-o-y to RUB 14,989 million.

RUB million	2015	2014	Year-on-year change
Wages and salaries	9,894	8,814	12.3%
Social security contributions	3,037	2,796	8.6%
Employee benefits and bonuses	966	1,219	-20.8%
Other staff costs	1,092	1,100	-0.7%
Total payroll	**14,989**	**13,929**	**7.6%**

Operating leases

A 22.1% y-o-y increase in lease costs in 2015 was primarily attributable to the net opening of two hypermarkets, one supermarket and 35 discounters and the impact of ruble depreciation on the payments under the leases linked to the US dollar and euro.

Communications and utilities

Costs related to communications and utilities increased by 13.4% y-o-y in 2015 to RUB 3,046 million, mostly as a result of adding new stores, including discounter stores, and increased utilities tariffs.

Advertising and marketing

Advertising and marketing costs declined by 9.4% in 2015 to RUB 1,651 million as the Group has improved efficiency of marketing efforts.

Operating profit

In 2015, the Group reported a 31.7% decline in operating profit to RUB 5,848 million from RUB 8,566 million due to an increase in SG&A driven by Company's expansion and inflationary pressure. The decline was also impacted by a rise in other operating expenses in the amount of RUB 126 million due to the recognition of the loss from disposal of other non-current assets relating to stores and land plots in Moscow and other regions closed or disposed by the Group in 2015, which was partially offset by the income generated as a result of streamlining of our real estate portfolio. This compares to an increase in operating income in 2014 attributable to the gain from the disposal of non-current assets in the amount of RUB 743 million which was partially offset by an impairment charge of RUB 200 million, which mainly related to the leasehold improvements in two loss-making stores.

Financing costs

Financing costs increased 2.2x to RUB 3,413 million in 2015, due to the higher value of the Group's average loan portfolio and an increase in the Group's weighted average interest rate in 2014 to 12.5% from 9.4% in 2014 driven by worsening market conditions.

Profit before income tax

Profit before income tax declined by 70.0% to RUB 1,901 million in 2014 from RUB 6,314 million in 2014. Key factors influencing the decrease include a substantial increase in finance costs, a foreign exchange loss of RUB 615 million primarily attributable to a US dollar loan and an increase in D&A due to expansion of the Group's footprint.

In 2015, the Group realized income tax benefit in the amount of RUB 16 million impacted by a tax reimbursement of RUB 702 million paid for 2013 and 2014 and a decline in profit before income tax compared to 2014. In 2014, the Group reported income tax expense in the amount of RUB 1,089 million as the tax authorities reimbursed to the Group RUB 764 million of income tax paid for the previous years in the amount of RUB 955 million.

Profit for the year

During 2015, net profit fell by 63.6% y-o-y to RUB 1,918 million with a net profit margin of 1.2%.

Cash flows and working capital

RUB million	2015	2014 Restated
Net cash from operating activities	9,140	9,378
Net cash used in investing activities	(2,332)	(16,287)
Net cash (used in)/from financing activities	(2,885)	9,583
Net increase in cash and cash equivalents	3,923	2,674
Effect of exchange rate fluctuations on cash and cash equivalents	34	129

Cash flows from operating activities

In 2015, the operating cash flows were impacted by a decline in EBITDA while working capital demonstrated positive dynamics. As a result, net cash from operating activities fell slightly by 2.5% to RUB 9,140 million. Cash receipts from customers grew by 6.8%, in line with revenue increases.

Cash used in investing activities

Net cash used in investing activities declined from RUB 16,287 million in 2014 to RUB 2,332 million in 2015 as a result of the Company's efforts aimed at streamlining its real estate portfolio. In 2015, proceeds from sales of property, plant and equipment and intangible assets (excluding VAT) amounted to RUB 6,289 million. Prepayments for PPE fell from RUB 4,867 million to RUB 1,704 million.

Cash flows from financing activities

Proceeds from new loans and borrowing less the repayments reached RUB 3,091 million as the Group made significant repayments during the period and finance costs rose following the increase in weighted average interest rate. In addition, the Group decreased the level of dividend payments from RUB 2,929 million in 2014 to RUB 1,644 in 2015.

Working capital

As of 31 December 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 8, 023 compared to 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.

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 2015, O'KEY's net debt/EBITDA ratio was 2.6x. The increase in this ratio was driven by a decline in EBITDA, while the amount of net debt fell by 2%.

RUB million	2015	2014
Total debt	35,558	32,081
Short-term debt	12,000	12,426
Long-term debt	23,558	19,655
Less cash and equivalents	(9,768)	(5,810)
Net debt	25,790	26,271
Net debt/EBITDA	2.6	2.3

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 style hypermarket under the "O'KEY" brand reinforced by O'KEY supermarket. The Group is developing the innovative discounter format under the DA! brand. O'KEY is the first among Russian food retailers to launch e-commerce operations in St. Petersburg and Moscow with a full hypermarket assortment.

The Group opened its first hypermarket in St. Petersburg in 2002 and has demonstrated continuous growth ever since. As of December 31, 2015, O'KEY operates 146 stores across 32 cities in Russia: 71 hypermarkets with an aggregate trading space of approximately 518,000 m^2, 40 supermarkets with an aggregate trading space of approximately 51,000 m^2 and 35 discounters with an aggregate trading space of approximately 24,000 m^2. O'KEY employs over 24,000 people as of December 31, 2015.

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