

Press Release
6 April 2020

O`KEY GROUP ANNOUNCES AUDITED FINANCIAL RESULTS FOR 2019

O`KEY Group S.A. (LSE: OKEY, the 'Group'), one of the leading Russian food retailers, announces its financial results for the FY2019 based on audited consolidated financial statements.

All materials published by the Group are available on its website, okeygroup.lu.

All results are presented under IFRS 16 standard unless stated otherwise.

2019 financial highlights

- Organic Group total revenue, excluding the effect of the supermarket business sale, increased by 3.0% YoY. Total Group revenue increased by 2.3% YoY, from RUB 161,303 mln to RUB 165,086 mln.
- Organic revenue generated by O`KEY, excluding the effect of the supermarket business sale, increased by 0.3% YoY. Total revenue generated by O`KEY decreased by 0.3% YoY to RUB 147,175 mln, while net retail revenue decreased by 0.4%
- Total revenue generated by DA! grew by 31.5% YoY to RUB 17,911 mln, strongly driven by LFL revenue increase of 14.9%.
- Group gross margin increased by 19 bps to 23.7% versus 12M 2018, while gross profit increased by 3.2% YoY to RUB 39,100 mln.
- Group EBITDA decreased by 0.5% YoY to RUB 14,061 mln compared with RUB 14,133 mln in 2018, while the EBITDA margin decreased by 24 bps YoY to 8.5%.
- O`KEY's EBITDA decreased by 4.4% YoY to RUB 14,277 mln, while O`KEY's EBITDA margin decreased by 41 bps to 9.7%.
- EBITDA generated by DA! improved from negative RUB 793 mln (-5.8% of sales) in 12M 2018 to negative RUB 215 mln (-1.2% of sales) in 12M 2019, driven by new store openings, higher revenue and increased efficiency.
- Net profit for the Group amounted to RUB 747.0 mln in 12M 2019 compared to net loss of RUB 1047 mln in 12M 2018.
- Net debt position increased to RUB 26.2 bln at the end of 12M 2019 from RUB 25.7 bln at the end of 12M 2018.

Key events in 12M 2019:

- 19 new discounters were opened.
- O`KEY successfully issued 3-year bonds in the amount of RUB 5,000 mln at 9.35% per annum in April and 5-year bonds in the amount of RUB 5,000 mln at 7.85% per annum in December 2019.

- In a continuing effort to optimize the Group's property portfolio, the Group sold subsidiaries holding rights for lease of 2 land plots to a third party in June.

Group operating results

Segment	12M 2019			12M 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	2.4%	2.1%	0.3%	-8.6%	-12.9%	5.0%
LFL Group	0.9%	0.0%	0.9%	-3.3%	-2.6%	-0.6%
O`KEY	-0.4%	-2.5%	2.1%	-11.1%	-18.2%	8.6%
LFL O`KEY	-0.4%	-1.8%	1.4%	-4.3%	-4.8%	0.4%
Discounters	31.7%	24.5%	5.8%	31.9%	27.8%	3.3%
LFL Discounters	14.9%	8.6%	5.8%	12.7%	9.5%	1.2%

For more details, please refer to O`KEY's [Q4 2019 Operating Results Update](#).

Revenue

In 2019, total Group revenue increased by 2.3% YoY to RUB 165,086 mln. The revenue increase was primarily triggered by the continuing the continuing expansion of DA! and higher shelf inflation. At the same time, organic Group total revenue, excluding the effect of the supermarket business sale, increased by 3.0% YoY, on the back of continuing double-digit growth of the discounter business. The value-for-money concept continued to show its efficiency: LFL revenue of DA! grew by 14.9% YoY, supported by a steady increase in LFL traffic and average ticket (up 8.6% YoY and 5.8% YoY respectively).

IFRS 16 implementation

The Group has applied IFRS 16 since 1 January 2019. Upon adopting IFRS 16, the Group recognised its lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17. The associated right-of-use assets for leases were measured at their carrying amounts as if the standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.

Upon implementing the standard, the Group's management began to assess Company performance based on the figures presented in accordance with IFRS 16.

Group profit and losses

RUB mln	12M 2019	12M 2018 (IFRS 16) - unaudited	Δ YoY 2019 / 18	12M 2018 (IAS 17)	Δ YoY 2019 / 18
Total Group revenue	165,086	161,303	2.3%	161,303	2.3%
O`KEY	147,175	147,688	-0.3%	147,688	-0.3%
DA!	17,911	13,616	31.5%	13,616	31.5%
Organic Group revenue	165,086	160,322	3.0%	160,322	3.0%
O`KEY	147,175	146,706	0.3%	146,706	0.3%
DA!	17,911	13,616	31.5%	13,616	31.5%
Gross profit	39,100	37,904	3.2%	37,382	4.6%
<i>Gross profit margin</i>	23.7%	23.5%	19	23.2%	51
Group EBITDA	14,061	14,133	-0.5%	8,644	62.7%
<i>Group EBITDA margin</i>	8.5%	8.8%	(24)	5.4%	316
EBITDA O`KEY	14,277	14,926	-4.4%	10,416	37.1%
EBITDA margin O`KEY	9.7%	10.1%	(41)	7.1%	265
EBITDA DA!	(215)	(793)	-72.8%	(1,772)	-87.8%
EBITDA margin DA!	-1.2%	-5.8%	462	-13%	1 181
Net profit (loss)	747	(1,047)	n/a	(599)	n/a
Net profit (loss) margin	0.5%	-0.6%	110	-0.4%	82

Cost of goods sold and gross profit

The table below provides a breakdown of the cost of goods sold in 2019 and 2018:

RUB mln	12M 2019	% of revenue	12M 2018 (IFRS 16) - unaudited	% of revenue	Δ YoY, bps	12M 2018 (IAS 17)	% of revenue	Δ YoY, bps
Total revenue	165,086	100%	161,303	100.0%	-	161,303	100.0%	-
Cost of goods sold	(125,987)	76.3%	(123,400)	76.5%	(19)	(123,922)	76.8%	(51)
Cost of trading stock (less supplier bonuses)	(118,330)	71.7%	(115,981)	71.9%	(22)	(115,981)	71.9%	(22)
Inventory shrinkage	(3,127)	1.9%	(2,875)	1.8%	11	(2,875)	1.8%	11
Logistics costs	(3,896)	2.4%	(3,902)	2.4%	(6)	(4,424)	2.7%	(38)
Labelling and packaging costs	(633)	0.4%	(642)	0.4%	(1)	(642)	0.4%	(1)
Gross profit	39,100	23.7%	37,904	23.5%	19	37,382	23.2%	51

The Group's gross profit margin increased by 19 bps YoY on a comparable basis while increasing in absolute terms by RUB 1,196 mln, driven by better sales, the optimisation of the assortment matrix and the continuing improvement of purchasing conditions. Increased imports of own brand assortment in different categories also positively affected gross margin.

Shrinkage costs increased by 8.8% YoY, mainly due to cancelling supplier returns of products with a shelf-life of less than 30 days.

Logistics costs remained flat at 2.4% of revenue in 2019, as two opposing factors offset one another: as quality standards were increased, processing costs also grew, however that was compensated for by a decrease in delivery tariffs.

General, selling, and administrative costs

The table below provides the general, selling, and administrative expenses breakdown for 12M 2019 and 12M 2018:

RUB mln	12M 2019	% of revenue	12M 2018 (IFRS 16) unaudited	% of revenue	Δ YoY, bps	12M 2018 (IAS 17)	% of revenue	Δ YoY, bps
Personnel costs	14,672	8.9%	14,068	8.7%	17	14,068	8.7%	17
Depreciation and amortisation	8,100	4.9%	7,782	4.8%	8	4,367	2.7%	220
Communication and utilities	3,656	2.2%	3,503	2.2%	4	3,503	2.2%	4
Advertising and marketing	2,268	1.4%	2,012	1.2%	13	2,012	1.2%	13
Repairs and maintenance	1,317	0.8%	1,228	0.8%	4	1,230	0.8%	4
Insurance and bank commissions	918	0.6%	817	0.5%	5	817	0.5%	5
Security expenses	713	0.4%	736	0.5%	(2)	736	0.5%	(2)
Legal and professional expenses	656	0.4%	630	0.4%	1	630	0.4%	1
Operating taxes	638	0.4%	803	0.5%	(11)	803	0.5%	(11)
Expense relating to variable lease payments / Operating lease expense	347	0.2%	461	0.3%	(8)	5,426	3.4%	(315)
Materials and supplies	321	0.2%	294	0.2%	1	294	0.2%	1
Other costs	24	0.0%	29	0.0%	(0)	29	0.0%	(0)
Total	33,630	20.4%	32,362	20.1%	31	33,915	21.0%	(65)

In 2019, personnel costs as a percentage of revenue increased by 17 bps to 8.9% or by RUB 604 mln YoY. This increase was largely attributable to necessary wage increases at the hypermarkets business in the second half of 2018 and to new discounter openings, partly offset by the sale of the supermarket business.

Communications, utilities, repairs, and maintenance expenses increased as a percentage of revenue by 8 bps YoY or by 5.1% in absolute terms. The increase was primarily caused by indexing utility tariffs in the second half of 2019, rising tariffs for cleaning services and planned equipment repairs in 2019. The Group continues to work towards optimising related costs and efficiency improvements.

Advertising and marketing expenses as a percentage of revenue increased by 13 bps primarily driven by higher expenses related to promo actions and recently introduced regular leaflets for Fresh categories.

Insurance and banking expenses as a percentage of revenue increased by 5 bps due to the growing usage of cards for payment by our clients.

Depreciation and amortisation increased by 85.5% YoY in comparison with 2018 figure under IFRS 17 due to the implementation of new IFRS 16 standard.

Other operating income and expenses

In June 2019, the Group signed an agreement with a third party for the sale of subsidiaries holding rights for lease of land plots in Moscow. According to the agreement, the total proceeds are RUB 1,553 mln. Additionally, the Group recognised an impairment loss in the amount of RUB 821 mln in 2019 versus RUB 369 mln in 2018, primarily in respect of mature low-performing stores and other related non-current assets, including one O'KEY store and one DA! store.

Foreign exchange gain / (loss)

The foreign exchange gain was due to a substantial difference in exchange rates at both the end and the beginning of the reporting period, arising primarily from intragroup USD-denominated loans.

Net finance costs

Finance costs on loans and borrowings decreased as a percentage of revenue by 0.3% YoY, driven by a decline in the weighted average interest rate from 8.8% in 12M 2018 to 8.5% in 12M 2019. At the same time, total finance costs increased by 58.3% YoY as a result of additional interest costs on lease liabilities in the amount of RUB 2,223 mln under the new IFRS 16 standard.

Cash flow and working capital

RUB mln	12M 2019 (IFRS 16)	12M 2018 (IAS 17)
Net cash from operating activities	11,078	4,762
Net cash (used in) / from investing activities	(1,352)	3,479
Net cash used in financing activities	(12,922)	(7,248)
Net (decrease) / increase in cash and cash equivalents	(3,196)	993
Effect of exchange rate on cash and cash equivalents	(9)	(31)

Net cash used in operating activities during the reporting period improved from RUB 4,762 mln in 12M 2018 to RUB 11,078 mln in 12M 2019, due amongst other factors, to the implementation of IFRS 16. Repayment of principal amount of lease liabilities and interest paid on them in the amount of RUB 6,370 mln were presented in cash flows from financing activities, while in 2018 under IAS 17 all lease payments were presented in cash flows from operating activities.

Net cash used in investing activities amounted to RUB 1,352 mln in 2019. This was a result of the Group's 2019 capital expenditures (CAPEX) of RUB 2,919 mln (excluding VAT), which were partly offset by proceeds

received from the sale of subsidiaries owning lease rights for two land plots and other non-current assets of the RUB 1,553 mln. During the reporting period, the Group paid RUB 1,004 mln (excluding VAT) for the development of its hypermarket business and RUB 1,915 mln (excluding VAT) for the development of its discounter business.

Net cash used in financing activities in 12M 2019 amounted to RUB 12,922 mln. Over the reporting period, the Group attracted RUB 13,253 mln in financing and made repayments of loans and borrowings totalling RUB 15,844 mln. As at 31 December 2019, the Group had RUB 15,947 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.

Financial liabilities

By 31 December 2019, net debt had increased by 1.9% YoY to RUB 26,212 mln.

With its major creditors, the Group negotiated a new covenant calculated as total interest-bearing liabilities (net debt and lease liabilities) divided by the EBITDA based on IFRS 16. The Group complies well with all bank covenants as of 31/12/2019.

RUB mln	As of 31 December 2019 (IFRS16)	As of 31 December 2018 (IAS17)
EBITDA LTM	14,061	8,644
Total debt	31,719	34,426
Short-term debt	1,629	2,461,
Long-term debt	30,090	31,964
Cash & cash equivalents	5,507	8,712
Net Debt	26,212	25,713
Total Lease Liabilities	25,122	-
Short-term lease liabilities	3,950	-
Long-term lease liabilities	21,173	-
Total Interest-Bearing Liabilities (Net of cash & cash equivalents)	51,334	25,713
Total Interest-Bearing Liabilities (Net of cash & cash equivalents) / EBITDA	3.7	2.97

Report

The report, including the full set of reviewed IFRS financial statements, can be found at <https://okeygroup.lu/press-center/press-releases>.

O'KEY Group S.A. (LSE: OKEY) is pleased to invite the investment community to join O'KEY conference call on **12M 2019 IFRS financial results**. **The date and time of the conference call will be announced later.**

All related materials will be published on the “Investor” section of the Company’s website at <https://okeygroup.lu/>.

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 April 2, 2020, the Group operates 178 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 2019, revenue totalled RUB 165,086,202 thousand, EBITDA reached RUB 14,061,432 thousand, and the net profit for the period amounted to RUB 746,958 thousand.

The O`KEY shareholder structure is as follows: NISEMAX Co Ltd – 44,79%, GSU Ltd – 29,52%, free float – 25,69%.

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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