

Press Release
31 August 2011

O'KEY GROUP ANNOUNCES FINANCIAL RESULTS FOR 1H 2011

O'Key Group S.A., ("O'Key Group", "the Group" or "the Company"), one of the leading food retailers in Russia (LSE ticker: OKEY), today released its unaudited consolidated IFRS financial results for the period ended 30 June 2011. All related materials have been published on the company's website, www.okmarket.ru.

1H 2011 Highlights:

- Total revenue grew 11.9% to RUB 42.8 billion, while like-for-like revenue increased 4.8% year-on-year (y-o-y)
- Gross margin was stable at 21.2%, in line with 1H 2010 levels
- EBITDA margin decreased to 6.5% of revenue, driven by SG&A pressures
- Net Profit reached RUB 1.1 billion demonstrating y-o-y growth of 25.3%, primarily supported by a decrease in gross debt

O'Key Group CEO Patrick Longuet said:

"1H 2011 was a challenging period for O'key both in terms of the macroeconomic environment and the accident at one of our St. Petersburg stores. These factors created strong pressure on both our revenue and profitability in the first half of the year.

Macroeconomic conditions were characterized by high inflation and slower growth in real wages. These factors had a negative impact on our business, which was already under pressure following the accident. Nevertheless, in first half of 2011 we have taken measures to minimise the effect of adverse market conditions on our business, regained customers following the accident and continued to progress on store roll-out plan.

We generated revenue of RUB 42.8 billion in 1H 2011 and maintained our gross margin at 2010 levels, despite the overall economic and operating environment, including the introduction of the new law on retail. Our EBITDA margin declined to 6.5%, which was driven by an increase in social taxes, utility tariffs and the growing share of rented space. Nevertheless, we continued to reduce our debt, which improved our Net Profit margin to 2.5% of sales, up from 2.3% in 1H 2010.

I am also pleased to confirm that with re-opening of Ozerki store in late September, we will completely overcome consequences of the accident.

Looking forward towards 2H 2011 we are going to focus on improving operational efficiency and executing store rollout plan."



Financial performance

Income Statement Highlights

RUB millions, unless otherwise indicated	1H 2010	1H 2011	Change 2010/2011
Revenue	38,254.2	42,797.6	11.9%
Gross profit	8,107.2	9,084.2	12.1%
Gross Margin	21.2%	21.2%	- p.p.
EBITDA	3,153.5	2,770.7	(12.1%)
<i>EBITDA Margin</i>	<i>8.2%</i>	<i>6.5%</i>	<i>(1.7 p.p.)</i>
Profit before tax	1,337.4	1,688.9	26.3%
Profit for the period	868.7	1,088.7	25.3%
<i>Net Profit Margin</i>	<i>2.3%</i>	<i>2.5%</i>	<i>0.2 p.p.</i>

Earnings per share

Basic and diluted earnings per share (RUB)	3.4	4.0	0.6
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Revenue

Revenue rose by 11.9% to RUB 42,797.6 million in the first half of 2011, from RUB 38,254.2 million in the first half of 2010. Total revenue increased due to Like-for-like (LFL) revenue growth and increase in the selling space of 9.7%.

Like-for-like¹ revenue in 1H2011 increased by 4.8% y-o-y, driven by LFL ticket growth of 5.6%. LFL traffic decreased by 0.8% as a result of the Ozerki accident. LFL analysis includes 50 stores.

Rental income declined by 8.0% in 1H 2011 to RUB 317.6 million as a result of a sale-lease back arrangement for our three hypermarkets in St. Petersburg. In these stores we retained 15% of the initial rental income.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by 11.8% to RUB 33,713.5 million in 1H 2011 which is broadly in line with revenue growth. However, within COGS there were a number of changes. An improvement in purchasing conditions during the first six months of the year was offset by an increase in shrinkage levels and transportation costs. The increase in shrinkage can partially be attributed to the results of the Ozerki accident.

Gross profit increased by 12.1% to RUB 9,084.2 million in the first half of 2011. We have maintained our gross profit margin at 21.2%, which is in line with the first half of 2010.

¹ LFL analysis included 50 stores



General, Selling and Administrative Expenses

	1H 2010	Percentage of revenue	1H 2011	Percentage of revenue	Change, p.p.
	(RUB millions)	(%)	(RUB millions)	(%)	
Personnel costs	(2,786.9)	7.3	(3,342.1)	7.8	0.5
Depreciation and amortization	(736.9)	1.9	(887.2)	2.1	0.1
Advertising and marketing	(192.3)	0.5	(213.0)	0.5	0.0
Operating leases	(465.0)	1.2	(811.6)	1.9	0.7
Repairs and maintenance costs	(113.2)	0.3	(141.2)	0.3	0.0
Communication and utilities	(539.6)	1.4	(767.2)	1.8	0.4
Materials and supplies	(119.1)	0.3	(140.5)	0.3	0.0
Security expenses	(230.6)	0.6	(294.6)	0.7	0.1
Insurance and bank commission	(147.9)	0.4	(181.7)	0.4	0.0
Legal and professional expenses	(80.0)	0.2	(101.8)	0.2	0.0
Operating taxes	(202.7)	0.5	(196.0)	0.5	0.0
Other costs	(114.4)	0.3	(84.9)	0.2	(0.1)
Total general, selling and administrative expenses	(5,728.6)	15.0	(7,162.0)	16.7	1.7

The Group's general, selling and administrative expenses increased by 25.0% to RUB 7,162.0 million in 1H 2011 supported by high inflation, which affected most of our costs. Significant part of the increase was due to several factors which occurred during the reporting period, such as the new social tax rate, the liberalization of electricity rates and the significant increase in our leased space.

As a percentage of revenue, general, selling and administrative expenses increased by 1.7% to 16.7% in the first half 2011. The increase was driven primarily by operating leases, personnel costs and utilities.

Operating leases increased by 74.5% to RUB 811.6 million in the reporting period fueled by the 90% expansion of our leased space compared to 1H 2010. Since 30 June 2010, leased space expanded with the opening of four rented hypermarkets, two supermarkets and the lease back arrangement executed in late 2010. The increase in rents of existing stores amounted to approximately 3%.

Personnel costs grew by 19.9% to RUB 3,342.1 million in 1H 2011. This was primarily driven by a higher social tax rate which came into effect 1 January 2011. The indexation of salaries which took place in July of 2010 is another factor that contributed to the increase in personnel costs for 1H 2011.



The cost of communication and utilities went up 42.2% to RUB 767.2 million mostly as a result of an increase in electricity tariffs. Energy sector liberalization lead to a substantial increase in electricity tariffs in the beginning of 2011.

Net finance costs decreased by 48.5% to RUB 343.0 million in the reporting period due to a reduction in the total amount of borrowings. Between 1H 2010 and 1H 2011, the Group repaid RUB 7,747.1 million, or 49.6% of debts outstanding as at 30 June 2010.

Foreign exchange gains for the period amounted to RUB 106.1 million compared to a loss of RUB 278.6 million for 1H 2010. The gain was a result of the positive revaluation of non-hedged liabilities as the Ruble strengthened its position versus the US dollar during the first half of 2011.

Profit before income tax increased by 26.3% to RUB 1,688.9 million in the first half of 2011 due to a decrease in finance costs and foreign exchange losses.

Profit for the year reached RUB 1,088.7 in the first half of 2011, which is in line with the increase in profit before tax.

Cash Flows and working capital

(RUB millions)	<u>1H 2010</u>	<u>1H2011</u>
Net cash from operating activities	719.4	(35.2)
Net cash used in investing activities	(1,555.6)	(1,962.4)
Net cash from financing activities	(157.5)	(2,970.7)
Net increase/(decrease) in cash and cash equivalents	(993.5)	(4,968.4)
Effect of exchange rate fluctuations on cash and cash equivalents	18.4	(2.4)

Net cash from operating activities shows an outflow of RUB 35.2 million in 2011 compared to an inflow for the first half of 2010. The change in cash flow from operating activities was primarily due to an increase in operating expenses as detailed above, and to a contraction of working capital. The contraction of working capital resulted from a reduction in trade days payable following the introduction of new law on retail, which was partially offset by improved collection of trade and other receivables.

Net cash used in investing activities amounted to RUB 1,962.4 million in 2011. Investments were principally in construction, refurbishment and acquisition of equipment for new stores as well as land acquisition.

Net cash from financing activities resulted in an outflow of RUB 4,968.4 million due to the repayment of borrowings.

Working Capital

O'Key's primary sources of liquidity are cash provided from operating activities and debt financing. As of 30 June 2011, O'Key's working capital, defined as current assets (excluding cash and cash



equivalents and short-term investments) less current liabilities (excluding short-term loans), was negative RUB 3,426.9 million. O'Key believes that working capital in the food retail industry is usually negative and that maintaining a negative working capital position is desirable.

(RUB millions)	1H 2010	1H 2011
Total Debt	15,609.2	7,862.1
Short-Term Debt	8,100.9	1,181.4
Long-Term Debt	7,508.3	6,680.7
Net Debt	15,122.0	7,125.7
Net Debt / EBITDA	2.2	1.1

O'Key considers the ratio of net debt to EBITDA as the principal indicator for evaluating the impact of the total size of its borrowings on its operations. The Company has substantially reduced its indebtedness since the comparable period in 2010. As a result the Company has improved its balance sheet and investment capacity.

COMPANY OVERVIEW

"O'KEY" is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket under the "O'KEY" brand, complemented by "O'KEY - Express" supermarkets.

The Company opened its first hypermarket in St. Petersburg in 2002 and has demonstrated continuous growth ever since. As at 31 December 2010, O'KEY had 57 stores across Russia: 35 hypermarkets with an aggregate selling space of approximately 260,000 square meters and 22 supermarkets with an aggregate selling space of approximately 27,000 square meters.

In accordance with the audited consolidated financial statements for FY 2010, O'KEY's revenue was RUR 82,667 million, while its like-for-like revenue growth rate was 7.7% and EBITDA margin was 8.6%.

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