

Press Release
28 October 2014

O'KEY GROUP EBITDA INCREASES 38% Y-o-Y IN 3Q 2014

O'Key Group S.A (LSE: OKEY), a leading food retailer in Russia, today releases its unaudited consolidated financial results for the third quarter and nine months ended September, 30th 2014.

3Q 2014 Highlights:

- Total revenue increased by 7.2% Y-o-Y to RUB 36 billion
- Gross profit grew 13.8% Y-o-Y to RUB 8.4 billion with the gross margin expanding 136 b.p. to 23.5%
- EBITDA grew 38.4% Y-o-Y to RUB 2.7 billion with the EBITDA margin improving by 168 b.p to 7.4%
- Net profit almost doubled to RUB 1.0 billion

9M 2014 Highlights:

- Total revenue up 10.6% Y-o-Y to RUB 108.5 billion driven by new store openings and a 1.9% increase in like-for-like revenue
- Gross margin increased by 124 b.p. to 23.9%
- EBITDA grew 22.2% to RUB 7.5 billion

Tony Maher, CEO of O'KEY Group, commented:

“During the third quarter we continued to streamline our business processes and put the right team in place to support our repositioning efforts. I am pleased to say that, to help drive these developments forward, we now have a new Commercial Director, Head of IT, Head of Security and Head of Communications. There will be a few further announcements before the end of the year.

“We saw the EBITDA margin increasing to 7.4% in the third quarter compared to 5.8% in the third quarter 2013, despite a more substantial investment in shopper promotions and the final price as we re-establish our competitive position. In addition, our advertising and marketing spend in the quarter was 34% higher than last year. Nevertheless, due to our cost cutting efforts, HR review and strengthened supplier relationships, our net profit in the quarter increased by an impressive 84% to RUB 1 billion.

In the nine months of 2014, EBITDA grew 22% and reached RUB 7.5 billion, with an EBITDA margin of 6.9%. At the same time we continue to invest significantly in new ventures, including our discounter project, which is due to launch in the second quarter of 2015.



“In terms of sector trends, we see shopping patterns change in the current economic environment as consumers cut down on non-essentials and buy fewer items per visit. During the third quarter like-for-like average ticket grew by 2.8%. The number of tickets has fallen by 4.6% leading to negative like-for-like retail revenue of 1.9%, with September being most affected. Total revenues for the quarter grew 7.2%.

We felt the impact of the special economic measures, introduced by the government of the Russian Federation at the beginning of August, possibly more than our peers. Our range of fruit and vegetables, including exotic varieties, fresh fish, cheese and dairy products has been reduced. This was one of the factors that led to slower traffic and fewer items per ticket.

“In terms of our expansion, we opened two new stores in the third quarter. Although this rate of expansion is slightly lower than anticipated, we are doing all the groundwork for more aggressive openings in 2015 and beyond. Just outside of the reporting period, on October 16th, we opened our 100th store in Orenburg, in the Urals, further strengthening our footprint in that region”.

Operating Summary

Number of new stores	9M 2014	9M 2013
Group	4	4
Hypermarkets	4	4
Supermarkets	0	0

Total stores at the end of the period	9M 2014	9M 2013
Group	98	87
Hypermarkets	64	56
Supermarkets	34	31

Trading space as at the end of the period, '000 m2	9M 2014	9M 2013	Change, %
Group	512	452	13%
Hypermarkets	469	412	14%
Supermarkets	43	41	5%

Sales Performance	Q3 2014			9M 2014		
	Retail revenue, %	Traffic, %	Av. Ticket, %	Retail revenue, %	Traffic, %	Av. Ticket, %
Group	7.2%	3.7%	3.3%	10.5%	4.6%	5.6%
Group, LFL	-1.9%	-4.6%	2.8%	1.9%	-3.5%	5.6%



Financial Summary

<i>RUB, millions</i>	9M 2014	9M 2013	Y-o-Y	3Q 2014	3Q 2013	Y-o-Y
Revenues	108 535	98 173	10.6%	35 863	33 459	7.2%
Gross Profit	25 954	22 257	16.6%	8 413	7 394	13.8%
<i>Gross margin (%)</i>	23.9%	22.7%		23.5%	22.1%	
EBITDAR	10 239	8 354	22.6%	3 524	2 724	29.4%
<i>EBITDAR margin (%)</i>	9.4%	8.5%		9.8%	8.1%	
EBITDA	7 535	6 165	22.2%	2 664	1 925	38.4%
<i>EBITDA margin (%)</i>	6.9%	6.3%		7.4%	5.8%	
Net Profit	2 714	2 168	25.2%	1 019	555	83.7%
<i>Net profit margin (%)</i>	2.5%	2.2%		2.8%	1.7%	

Revenue and Gross Profit

Revenue grew 7.2% in the third quarter, a slower pace than in the first two quarters of 2014. The cumulative increase for the first nine months of 2014 was 10.6% Y-o-Y, bringing revenue for the nine months of 2014 to RUB 108.5 billion. This growth was mainly driven by additional trading space, which expanded by 13.2% Y-o-Y in the nine months of 2014.

Like-for-like revenue growth has come under pressure since the beginning of 2014 due to increased external and internal competition, the latter especially noticeable in St Petersburg, Ufa and Krasnoyarsk. Revenue numbers for the third quarter were also compounded by a change in customer behaviour, which has been driven by a combination of the economic downturn and the special economic measures introduced at the beginning of August. Customers have become more price sensitive, cutting down on non-discretionary spending and buying fewer items per visit. This changed shopping pattern resulted in a decrease in the like-for-like number of items per ticket (-5.3% in the third quarter 2014) and a slowdown in average price growth in August and September. Therefore, like-for-like average ticket growth amounted to 2.8% in the reporting quarter.

Despite the above, gross profit continued to demonstrate a healthy performance, increasing 13.8% Y-o-Y and resulting in the gross profit margin improving by 136 b.p. to 23.5%. In the nine months 2014, gross profit increased by 16.6% and the gross profit margin grew 124 b.p. to 23.9%. These dynamics are primarily a result of the improvement in the terms and conditions within our supplier agreements.

EBITDA

EBITDA grew 38.4% to RUB 2.7 billion in the third quarter. The EBITDA margin in the third quarter was 7.4%, a significant improvement compared to 5.8% in the third quarter 2013. In addition to the improvement in gross profit, we also saw benefits accruing from our cost optimisation programmes, particularly in our pay-roll costs.



Total SG&A growth in the third quarter was 6.7% Y-o-Y. This figure was lower than revenue growth in the period, despite a significant increase in promotional activities (marketing costs grew by 34% Y-o-Y) and operating leases, which rose by 10.7% Y-o-Y as a result of an increase in the amount of leased space. Exchange rate dynamics and the indexation of existing contracts also had an impact. Personnel expenses in the third quarter grew by only 2.1%, decreasing as a percentage of revenue by 44 b.p. to 8.7%. This is a result of a new regional structure, the optimisation of staff schedules both in hypermarkets and supermarkets and other related measures.

Net Profit

Net profit increased by an impressive 83.7% to RUB 1 billion. In the nine months of 2014 net profit grew 25.2% reaching RUB 2.7 billion. This is primarily a result of strong gross profit and EBITDA levels compared to the previous year, partially offset by foreign exchange losses resulting from the weakening rouble.

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 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 of September 30, 2014, O’KEY operated 98 stores in 23 cities across Russia: 64 hypermarkets with an aggregate selling space of approximately 469,000 square meters and 34 supermarkets with an aggregate trading space of approximately 43,000 square meters. As of September 30, 2014, O’KEY employed over 23,000 people.

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