

Press Release
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O'KEY GROUP ANNOUNCES AUDITED FINANCIAL RESULTS FOR 2018

O'KEY Group S.A. (LSE: OKEY, the 'Group'), one of the leading Russian food retailers, announces its financial results for the FY2018 based on consolidated financial statements reviewed by auditors.

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

2018 financial highlights

- Underlying Group revenue, excluding the effect of the supermarket business unit sale (32 stores), fell by 1.1% YoY. IFRS Group revenue decreased by 8.4% YoY, from RUB 176,076 mln¹ to RUB 161,303 mln
- Underlying revenue generated by O'KEY hypermarkets, excluding the effect of the supermarket business unit sale (32 stores), decreased by 3.4% YoY. IFRS revenue generated by O'KEY decreased by 10.9% YoY to RUB 147,688 mln.
- Revenue generated by DA! grew 31.9% YoY to RUB 13,616 mln, supported by solid growth in traffic and the average ticket
- The Group's gross margin grew by 20 bps, reaching 23.2%, while gross profit decreased by 7.6% YoY to RUB 37,382 mln
- The Group EBITDA margin grew by 6 bps YoY to 5.4%, while EBITDA decreased by 7.4% YoY to RUB 8,644 mln
- O'KEY's EBITDA margin increased by 20 bps YoY to 7.1%, while EBITDA fell 8.3% YoY to RUB 10,416 mln
- EBITDA loss generated by DA! improved from negative RUB 2,024 mln (–19.6% of sales) in 2017 to negative RUB 1,772 mln (–13.0% of sales) in 2018, driven by new store openings and higher LFL sales

Key events in 2018

- Two hypermarkets (in Moscow² and Novocherkassk) and nineteen new discounters (in the Moscow, Tver, and Tula regions) were opened in 2018, while four discounters and one supermarket were closed
- Under the framework agreement on the sale of O'KEY's supermarket business unit, all 32 supermarkets included within the deal were transferred to the buyer up to and including April 2018
- In July, RAEX (Expert RA) assigned O'KEY a 'ruA-' rating with a positive outlook
- In 2018, the Group extended the maturity dates of several long-term borrowings

¹ From 1 January 2018, the Group adopted IFRS 15, resulting in changes in accounting policies and adjustments to the amounts recognised in the consolidated statement of profit or loss and other comprehensive income.

² The RIO hypermarket in Moscow was closed in July 2017 and reopened in May 2018.

- In August 2018, the Group signed non-revolving loan facility agreements with Sberbank in the total amount of RUB 12 bn, which were used for refinancing the current loan agreements and enabled lengthening the debt portfolio duration
- In October, the Group redeemed the bond issue 4B02-04-36415-R placed on 15 October 2013 with a coupon rate of 8.9%–11.7% for the total amount of RUB 5,050,112 ths
- In December, we moved both the O'KEY and DA! headquarters in close proximity to each other in new offices to encourage cooperation and active dialogue between both formats
- As at the end of 2018, the Group's weighted average interest rate decreased from 9.8% as at the end of 2017 to 8.8%. The Group maintains its strong focus on debt portfolio optimisation

Guidance

- We expect the net retail revenue generated by our hypermarket business in 2019 to grow by low single digits YoY, while profitability will stay at the level of 2018
- We expect double-digit LFL growth from our discounter business in 2019, driven by growing popularity of the business model among customers. Up to 20-25 new store openings are planned for 2019

Group profit and losses

RUB mln	2018	2017	Change, YoY
Total Group revenue³	161,303	176,076	(8.4%)
Gross profit	37,382	40,444	(7.6%)
<i>Gross profit margin</i>	<i>23.2%</i>	<i>23.0%</i>	<i>20 bps</i>
SG&A	(33,915)	(36,189)	(6.3%)
<i>SG&A as % of revenue</i>	<i>21.0%</i>	<i>20.6%</i>	<i>47 bps</i>
Group EBITDA⁴	8,644	9,335	(7.4%)
<i>Group EBITDA margin</i>	<i>5.4%</i>	<i>5.3%</i>	<i>6 bps</i>
Net loss	(599)	3,167	n/a

Group operating results

Segment	2018			2017		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
LFL Group	(3.3%)	(2.6%)	(0.6%)	(1.4%)	(2.2%)	0.8%
LFL hypermarkets	(4.3%)	(4.8%)	0.4%	(3.2%)	(5.0%)	1.9%
Discounters	31.9%	27.8%	3.3%	81.8%	62.8%	11.7%
LFL discounters	12.7%	9.5%	1.2%	52.0%	34.8%	12.7%

³ The Group has adopted IFRS 15 from 1 January 2018 which resulted in adjustments to presentation of revenue, comparable figures were restated respectively as described in the note 5 of Consolidated Financial Statements.

⁴ EBITDA is earnings before interest, tax, depreciation and amortisation adjusted for certain one-off items. The explanation of EBITDA calculation is provided in the note 6 of Consolidated Financial Statements.

Revenue

In 2018, underlying Group revenue, excluding the effect of the supermarket business unit sale, fell by 1.1% YoY. IFRS Group revenue decreased by 8.4% YoY to RUB 161,303 mln. The revenue decline was primarily triggered by the supermarket business unit sale (32 stores) initiated in December 2017.

Weakened consumer sentiment resulting from real disposable income diminishing by 0.2% YoY⁵ amid rising inflation, stagnant pensions and intensifying market competition continued to put pressure on the Group's operations during the year. In addition adaptation to new working schedules influenced service levels and freshness during the summer period putting pressure on a top line.

The closure of hypermarkets in Cherepovets and Sterlitamak in 1H 2017 and supermarket in Omsk in 2H 2018, along with the temporary closure of the hypermarkets at the RIO shopping mall (from July 2017 to May 2018) and Otrada shopping park (in December 2018) in Moscow also impacted the Group's results during the period under review.

By the end of the reporting period, total selling space increased by 1.2% to 584,914 sq. m. O`KEY selling space decreased by 0.7% to 528,124 sq. m, while DA! selling space increased by 22.9% to 56,790 sq. m.

Cost of goods sold and gross profit

Gross profit as a percentage of revenue increased by 20 bps in 2018 to RUB 37,382 mln. The table below provides the breakdown of cost of goods sold in 2018 and 2017.

RUB mln	2018	% of revenue	2017	% of revenue	Change, YoY
Total revenue	161,303	100.0%	176,076	100.0%	
Cost of goods sold	(123,922)	76.8%	(135,631)	77.0%	(20 bps)
Cost of trading stock	(115,981)	71.9%	(127,883)	72.6%	(73 bps)
Inventory shrinkage	(2,875)	1.8%	(3,086)	1.8%	3 bps
Logistics costs	(4,424)	2.7%	(3,834)	2.2%	57 bps
Labelling and packaging costs	(642)	0.4%	(828)	0.5%	(7 bps)
Gross profit	37,382	23.2%	40,444	23.0%	20 bps

The gross profit increase was mostly driven by a reduction in cost of trading stock as a percentage of revenue by 73 bps YoY, resulting from successful negotiations with suppliers enabling more favourable purchasing conditions to be secured and continued renewal and enhancement of the product mix.

Gradual increase in logistics centralisation YoY along with growing level of logistics tariffs contributed to a logistics cost increase by 57 bps YoY.

Shrinkage costs as a percentage of revenue remained almost flat YoY, while in absolute terms it decreased by 6.8%.

⁵ Source: Rosstat. Including the impact of a one-off RUB 5,000 payout made to pensioners in January 2017.

Selling, general and administrative costs

General, selling, and administrative expenses as a percentage of revenue increased by 47 bps YoY in 2018. The table below provides the general, selling, and administrative expenses breakdown for 2018 and 2017.

RUB mln	2018	% of revenue	2017	% of revenue	Change, YoY
Personnel costs	(14,068)	8.7%	(15,619)	8.9%	(15 bps)
Operating leases	(5,426)	3.4%	(5,758)	3.3%	9 bps
Depreciation and amortisation	(4,367)	2.7%	(4,613)	2.6%	9 bps
Communication and utilities	(3,503)	2.2%	(3,525)	2.0%	17 bps
Advertising and marketing	(2,012)	1.3%	(2,116)	1.2%	5 bps
Repairs and maintenance	(1,230)	0.7%	(1,254)	0.7%	5 bps
Insurance and bank commissions	(817)	0.5%	(819)	0.5%	4 bps
Operating taxes	(803)	0.5%	(730)	0.4%	8 bps
Security expenses	(736)	0.5%	(869)	0.5%	(4 bps)
Legal and professional expenses	(630)	0.4%	(520)	0.3%	10 bps
Materials and supplies	(294)	0.2%	(330)	0.2%	0 bps
Other costs	(29)	0.0%	(36)	0.0%	0 bps
Total SG&A	33,915	21.0%	36,189	20.6%	47 bps

Personnel costs

During the year, we revised the work schedules of employees in hypermarkets, which, along with ongoing business process optimisations aimed at efficiency increases per hour and per square metre at both store and head office levels, led to a personnel costs decrease by 15 bps YoY as a percentage of revenue. In 2019, the Group will maintain its focus on improving the efficiency of business processes.

Operating leases

Operating lease costs as a percentage of revenue increased by 9 bps YoY to 3.4%, while in absolute terms it decreased by 5.8% YoY. The decrease, primarily attributable to the sale of the supermarket business, was partially offset by the continued rollout of discounters during the year, in line with approved plans. The operating lease expenses as a percentage of revenue are expected to decrease as the discounters continue to gain traction⁶.

Communication and utilities costs

Communication and utilities expenses as a percentage of revenue increased by 17 bps YoY to 2.2%. The increase was primarily caused by the indexation of tariffs in the second half of 2017. The Group continues to work towards optimising related costs and achieving efficiency gains.

⁶ 2019 expected trends are presented without effect of adoption of new standard IFRS 16 "Leases" as described in note 36 (w) to Consolidated Financial Statements.

Advertising and marketing expenses

Advertising and marketing expenses as a percentage of revenue increased by 5 bps YoY to 1.3%, while in absolute terms it decreased by 3.9% YoY. During 2018, the Group was focused on marketing model optimisation, whereby the most efficient channels of communication were prioritised over those delivering poorer results.

Legal and professional expenses

Legal and professional expenses as a percentage of revenue increased by 10 bps YoY to 0.4%. The increase in legal and professional expenses was largely attributable to consulting costs arising from the sale of the supermarket business and marginal growth of software costs on the back of new IT systems implementation.

EBITDA⁷

RUB mln	O`KEY		Change, YoY	DA!		Change, YoY	Group		Change, YoY
	2018	2017		2018	2017		2018	2017	
Revenue	147,688	165,744	(10.9%)	13,616	10,332	31.9%	161,303	176,076	(8.4%)
EBITDA	10,416	11,359	(8.3%)	(1,772)	(2,024)	(12.5%)	8,644	9,335	(7.4%)
<i>EBITDA margin</i>	<i>7.1%</i>	<i>6.9%</i>	<i>20 bps</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>5.4%</i>	<i>5.3%</i>	<i>6 bps</i>

The Group EBITDA margin grew by 6 bps YoY to 5.4%, while EBITDA decreased by 7.4% YoY to RUB 8,644 mln.

O`KEY's EBITDA margin increased by 20 bps YoY to 7.1%, while EBITDA fell 8.3% YoY to RUB 10,416 mln. The EBITDA margin increase was primarily driven by improved purchasing terms and increased operational efficiency across the Group.

EBITDA loss generated by DA! improved from negative RUB 2,024 mln (–19.6% of sales) in 2017 to negative RUB 1,772 mln (–13.0% of sales) in 2018, driven by increased efficiency.

Depreciation and amortisation

Depreciation and amortisation as a percentage of revenue increased by 9 bps YoY to 2.7%, while in absolute terms it decreased by 5.4%. The D&A increase as a percentage of revenue was mainly driven by growth in intangible assets during the year and continued discounter rollouts.

Operating taxes

Operating taxes as a percentage of revenue increased by 8 bps YoY to 0.5%. The increase in operating taxes was mainly caused by changes in the Russian tax legislation leading to an increased cadastral value of real estate.

⁷ The explanation of EBITDA calculation is provided in the note 6 of Consolidated Financial Statements.

Net finance costs

While net finance costs as percentage of revenue remained almost unchanged in 2018, they fell in absolute terms by 8.8% YoY as a result of decreased finance costs amid the decline in the weighted average interest rate to 8.8% in 2018 from 9.8% in 2017.

Net loss

Net loss for the Group amounted to RUB 599 mln. The net loss was partly triggered by an increase in foreign exchange losses, arising from intragroup USD-denominated loans as well as opening of 19 new discounters.

Cash flow and working capital

RUB mln	2018	2017
Net cash from operating activities	4,762	4,874
Net cash from/(used in) investing activities	3,479	(3,365)
Net cash used in financing activities	(7,248)	(5,187)
Net increase/(decrease) in cash and cash equivalents	993	(3,678)
Effect of exchange rate on cash and cash equivalents	(31)	(35)

Net cash from operating activities

The gradual improvement in turnover of cash and cash equivalents, trade payables and trade receivables offset by marginal slowdown in inventories turnover led to a flat YoY change in working capital turnover in 2018. The inventory turnover slowdown in 2018 was largely caused by the transition to the new business model (hypermarkets and discounters), created after the sale of supermarket business at the end of 2017, as it took some time to adapt the business processes to its needs.

As a result, net cash from operating activities during the reporting period stayed almost at the previous year level, amounting to RUB 4,762 mln, while as at 31 December 2017 cash from operating activities amounted to RUB 4,874 mln.

Net cash from investing activities

Net cash from investing activities amounted to RUB 3,479 mln in 2018. The increase in this item was primarily a result of the RUB 7,070 mln proceeds received from the sale of the supermarket business, which more than offset the Group's 2018 capital expenditures (CAPEX) of RUB 3,622 mln (excluding VAT). During the reporting period, the Group invested RUB 1,706 mln (excluding VAT) into the development of its hypermarket business and RUB 1,916 mln (excluding VAT) in growing its discounter business.

Net cash used in financing activities

Net cash used in financing activities in 2018 amounted to negative RUB 7,248 mln. Over the reporting period, the Group attracted RUB 15,006 mln of financing primarily in the form of long-term credit lines, and made repayments totalling RUB 16,897 mln. In January 2018, the Group paid dividends in the total amount of RUB 1,879 mln. The dividend yield as at the day of the dividend's announcement amounted to 4.7%.

As at 31 December 2018, the Group had RUB 12,207 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating rate basis, for which all conditions have been met. The proceeds from these facilities may be used to finance operating and investing activities, if 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 31 December 2018, Net Debt/EBITDA was 2.97x, compared with 3.03x on 31 December 2017. The decrease was driven mainly by the reduction in total debt by RUB 1.7 bn YoY. We are maintaining a conservative approach to borrowing and expect Net Debt/LTM EBITDA to be below 3.0x by the end of 2019.

RUB mln	As at 31 December 2018	As at 31 December 2017
Total debt	34,426	36,109
Short-term debt ⁸	2,462	11,430
Long-term debt	31,964	24,679
Cash and cash equivalents	8,712	7,750
Net Debt	25,714	28,359
Net debt/EBITDA	2.97x	3.03x

OVERVIEW

O`KEY Group S.A. (LSE: OKEY, RAEX – 'ruA-') operates under two main formats: hypermarkets under the 'O`KEY' brand and discounters under the 'DA!' brand.

As at 1 April 2019, the Group operates 162 stores across Russia (78 hypermarkets and 84 discounters). 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 six e-commerce pick-up points in Moscow and six e-commerce pick-up points in St. Petersburg. The Group operates four distribution centres across the Russian Federation – two in Moscow and two in St. Petersburg. As at 31 December 2018 the Group employs more than 20,000 people.

For the full year 2018, revenue totalled RUB 161,303,411 thousand, EBITDA reached RUB 8,644,008 thousand, and net loss for the period amounted to RUB 599,755 thousand.

The O`KEY shareholder structure is as follows: NISEMAX Co Ltd – 44.79%, GSU Ltd – 29.52%, free float – 25.69%.

⁸ Short-term debt does not include interest accrued on loans and borrowings.

DISCLAIMER

These materials contain statements about future events and expectations that are forward-looking in nature. 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 obligation 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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