Press Release
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O'KEY GROUP ANNOUNCES FINANCIAL RESULTS FOR 1H 2017

O'KEY Group S.A. (LSE: OKEY, the "Group"), one of the leading Russian food retailers, announces financial results for the first six months of 2017 based on condensed consolidated interim financial report reviewed by the auditors. All the materials published by the Group are available on its website www.okeyinvestors.ru.

1H 2017 financial highlights

- Group total revenue increased by 2.7% YoY, from RUB 83,672 mln to RUB 85,969 mln;
- Revenue in the segment of hypermarkets and supermarkets was virtually unchanged YoY at 81,256 mln. Negative trends observed in 1Q (partially due to the high base) were offset by stronger YoY performance in 2Q;
- Revenue in the discounter segment grew by 109% YoY to RUB 4,713 mln. The segment continues to deliver solid results largely driven by consistent growth in traffic and average ticket;
- Group gross profit rose by 4.1% YoY to RUB 19,438 with gross margin expanding by 30 bps to 22.6%;
- Group EBITDA increased by 9.4% YoY to RUB 3,650 mln with EBITDA margin up by 20 bps to 4.2%;
- EBITDA in the segment of hypermarkets and supermarkets increased by 0.7% YoY to RUB 4,608 mln with the segment margin growing by 10 bps to 5.7% due to ongoing cost optimization;
- In 1H 2017 discounters demonstrated an EBITDA improvement from (RUB 1,241 mln) to (RUB 958 mln). The positive trend was achieved mainly due to the larger number of stores, higher sales density and better gross profit margin of the segment;
- Net loss for the Group amounted to RUB 1,478 mln. The bottom line was mainly affected by closing of inefficient stores and related write-offs.

Key events for 1H 2017:

- During the period, the Group opened one supermarket (in St. Petersburg), closed two hypermarkets (in Cherepovets and Sterlitamak) and opened one discounter (in Tula);
- In January 2017, the Group repurchased part of RUB 5.0 bln bond placed in October 2013 in the amount of RUB 577.8 mln;
- In January 2017, Fitch Ratings confirmed the Group's rating at B+ with stable forecast;
- In May 2017, the Group placed four year RUB 5.0 bln exchange-traded bonds due April 2021 on the Moscow Exchange with a coupon rate of 9.55%;
- The Group's weighted average rate on the debt portfolio as of the end of 1H 2017 decreased to 10.3%, from 10.7% in the same period last year. The Group continues to optimize the debt portfolio, as reflected in the average rate decrease to 9.9% in July 2017.

Miodrag Borojevic, Chief Executive Officer of the hypermarket and supermarket segment, said:

"During the reporting period, we remained focused on costs control, optimization of commercial policies and improvement of our assortment mix. As a result of process optimization, we achieved a notable decrease in personnel costs, both at store and head office level. We have identified a number of opportunities to further increase efficiency of our operations and expect this trend to continue going forward. The new approach to promotion and category management will help us improve overall LFL performance in 2H 2017.

During the quarter, we made some important changes to the structure of the management team. Our commercial team was strengthened by the appointment of a new commercial and marketing director, Ivan Dropuljic. Ivan has a long track record of delivering quantifiable results in the food retail industry. I believe that his unique experience will enable us to meet the needs of existing customers and increase footfall across our retail chain. With the appointment of Tariel Bokuchava as our new IT director, our team is now better placed to accelerate ongoing IT projects.

Overall, our performance in the first half of 2017 was in line with our expectations. We remain confident in our strategy, aimed at unlocking of our hypermarkets and supermarkets potential, and reiterate our guidance (7-8% EBITDA margin in the next 3 years and revenue low single digit growth in 2017)."

Armin Burger, Chief Executive Officer of the discounter segment, added:

"In the first half of the year our discounters delivered notable improvement in performance with loss on EBITDA down to RUB 958 mln, from RUB 1,241 mln during the respective period of 2016. The significant progress in the performance was achieved due to consistent improvement in key operating results with LFL net retail revenue up 109% YoY and gross profit margin improvement. The growing LFL customer traffic (42.5% in 1H 2017), along with the increasing LFL average ticket (17.6% in 1H 2017), pave the way to further improvement in the operating effectiveness of our discounters.

We continuously work on enhancing our private label assortment with a focus on quality and fine-tuning of instore layout to make our outlets more comfortable and customer friendly. Our progress in this respect is reflected in the results achieved during the first half of 2017. We expect further improvement in the financial results of discounters by the end of the year."

Group profit and losses

RUB mln	1H 2017	1H 2016	∆ YoY
Total Group revenue	**85,969**	**83,672**	**2.7%**
Gross profit	**19,438**	**18,667**	**4.1%**
Gross profit margin	*22.6%*	*22.3%*	*30 bps*
GS&A	**(18,318)**	**(17,753)**	**3.2%**
GS&A as % of revenue	*21.3%*	*21.2%*	*10 bps*
Group EBITDA	**3,650**	**3,336**	**9.4%**
Group EBITDA margin	*4.2%*	*4.0%*	*20 bps*
Net loss	**(1,478)**	**(786)**	**88.0%**

Operating segments performance

RUB mln	Hypermarkets and supermarkets		Change, YoY	Discounters		∆ YoY
	1H 2017	1H 2016		1H 2017	1H 2016	
Revenue	**81,256**	**81,416**	**(0.2%)**	**4,713**	**2,256**	**108.9%**
EBITDA	**4,608**	**4,577**	**0.7%**	**(958)**	**(1,241)**	**(22.8%)**
EBITDA margin	*5.7%*	*5.6%*	*10 bps*	*(20.3%)*	*(55.0%)*	*2.7x*

Group operating results

Segment	1H 2017			1H 2016		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	2.6%	1.6%	1.1%	10.1%	12.6%	(2.3%)
LFL for the Group	(2.5%)	(3.6%)	1.1%	5.5%	4.5%	1.0%
Hypermarkets and supermarkets	(0.2%)	(2.6%)	2.4%	7.1%	5.8%	1.2%
LFL for the segment	(4.3%)	(5.3%)	1.0%	5.5%	4.5%	1.0%
Discounters	108.5%	78.1%	17.5%	-	-	-
LFL for the segment	67.5%	42.5%	17.6%	-	-	-

Revenue

In the first half of 2017, total Group revenue increased by 2.7% to RUB 85,969 mln driven by higher LFL average ticket in the hypermarket and supermarket segment (up 1.0% YoY), along with sound performance of our discounter segment demonstrating 42.5% YoY increase in LFL traffic and a 17.6% YoY increase in LFL average ticket.

LFL net retail revenue of the Group decreased by 2.5% YoY in the first half of 2017, largely attributable to diminishing LFL traffic (down by 3.6% YoY) on the back of growing competitive pressure.

By the end of the reporting period, total selling space increased by 1.0% to 608,507 sq. m, selling space of hypermarkets and supermarkets increased by 0.2% to 570,897 sq. m and selling space of discounters increased by 15.1% to 37,610 sq. m.

Cost of goods sold and gross profit

In the first half of 2017, gross profit increased by 4.1% to RUB 19,438 mln accompanied by a gross margin increase of 30 bps to 22.6%. Gross margin improvement during the period was a result of more favorable purchasing conditions and better assortment mix in both hypermarkets and supermarkets segment and discounters segment. Logistic cost increase due to growing centralization levels was largely offset by commercial improvement. We expect logistics costs to improve from 2018, once the majority of our suppliers have been moved to our warehouses.

RUB mln	1H 2017	% of revenue	1H 2016	% of revenue	Δ YoY
Total revenue	**85,969**	**100.0%**	**83,672**	**100.0%**	
Cost of goods sold	**(66,531)**	**77.4%**	**(65,005)**	**77.7%**	**(30 bps)**
Cost of trading stock (less supplier bonuses)	(62,731)	73.0%	(61,805)	73.8%	(80 bps)
Inventory shrinkage	(1,537)	1.8%	(1,478)	1.8%	0 bps
Logistic cost	(1,838)	2.1%	(1,343)	1.6%	50 bps
Labelling and packaging costs	(425)	0.5%	(380)	0.5%	0 bps
Gross profit	**19,438**	**22.6%**	**18,667**	**22.3%**	**30 bps**

General, selling and administrative costs

RUB mln	1H 2017	% of revenue	1H 2016	% of revenue	Δ YoY
Personnel costs	(8,185)	9.5%	(8,360)	10.0%	(50 bps)
Operating leases	(2,835)	3.3%	(2,638)	3.2%	10 bps
Depreciation and amortisation	(2,278)	2.6%	(2,195)	2.6%	0 bps
Communication and utilities	(1,786)	2.1%	(1,724)	2.1%	0 bps
Advertising and marketing	(1,021)	1.2%	(764)	0.9%	30 bps
Security expense	(437)	0.5%	(413)	0.5%	0 bps
Insurance and bank commissions	(398)	0.5%	(348)	0.4%	10 bps
Repairs and maintenance	(591)	0.7%	(531)	0.6%	10 bps
Operating taxes	(355)	0.4%	(355)	0.4%	0 bps
Legal and professional expenses	(252)	0.3%	(266)	0.3%	0 bps
Materials and supplies	(163)	0.2%	(139)	0.2%	0 bps
Other costs	(17)	0.0%	(20)	0.0%	0 bps
Total SG&A	**(18,318)**	**21.3%**	**(17,753)**	**21.2%**	**(10 bps)**

Personnel costs

In the first half of 2017, personnel costs as a percentage of revenue decreased by 50 bps to 9.5% or by RUB 175 mln. The cost savings were mainly achieved due to headcount optimization, higher personnel efficiency and improvement in business processes' effectiveness across all formats.

Operating leases

Whilst operating lease costs as a percentage of revenue remained virtually unchanged, in absolute terms the increase amounted to 7.5% YoY. The growth in expenses was for the most part caused by the revision of lease agreements of several hypermarkets during the first quarter. This growth in expenses will not continue in 2H 2017, as the contracts terms' were renegotiated in May 2017.

Communication and utilities costs

Communication and utilities expenses as a percentage of revenue remained unchanged at 2.1%. During the reporting period, the Group managed to decrease electricity consumption as a result of facilities' working schedule optimization along with the switch to LED-based lightning in some stores.

Advertising and marketing expenses

Advertising and marketing expenses as a percentage of revenue increased by 30 bps to 1.2%, mainly driven by the use of a wider range of communication channels with customers within the loyalty program (sending SMS, e-mails messages, etc.), greater outreach through catalogues and leaflets marketing, as well as expanding advertisement on TV and radio.

Depreciation and amortization

Depreciation and amortization as a percentage of revenue was flat YoY at 2.6%. Key developments affecting the cost during the reporting period included the replacement of old in-store equipment and opening of new stores.

Net finance costs

Net finance costs grew by 4.9% YoY to RUB 1,636 mln due to increase in average debt portfolio by 5% and the decrease in capitalized interest driven by reduction in construction expenses in line with the Group's conservative investment strategy. Weighted average interest rate on the Group's total debt decreased from 10.7% in 1H 2016 to 10.3% in 1H 2017. In July 2017, efforts aimed at interest expense minimization continued resulting a rate decrease to 9.9%.

Net loss

In the first half of 2017, net loss amounted to RUB 1,478 mln compared to a net loss of RUB 786 mln a year ago. Net loss was primarily triggered by a change in fair value of assets held for sale on the back of the closure of an inefficient hypermarket in Cherepovets in 2Q 2017, one-off expenses and foreign exchange loss.

Cash flow and working capital

RUB mln	1H 2017	1H 2016
Net cash (used in)/from operating activities	(5,086)	141
Net cash used in investing activities	(1,459)	(2,469)
Net cash used in financing activities	(2,388)	(3,166)
Net decrease in cash and cash equivalents	(8,933)	(5,494)
Effect of exchange rate on cash and cash equivalents	(32)	(29)

Net cash (used in)/from operating activities

As of 30 June 2017, 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 4,521 mln compared to negative RUB 12,734 mln as of 31 December 2016 and negative RUB 5,918 mln as of 30 June 2016. The working capital turnover decrease was primarily attributable to the amendments in the Trade Law, higher pace of invoicing, reinforced by increasing electronic document interchange coverage within the Group and temporary worsening of inventory turnover in hypermarkets and supermarkets segment due to ongoing centralization. As a result during the reporting period net cash from operating activities amounted to (RUB 5,086 mln), while in 1H 2016 the Group reported operating cash in the amount of RUB 141 mln.

Net cash used in investing activities

Net cash used in investing activities declined from RUB 2,469 mln in the first half of 2016 to RUB 1,459 mln in the first half of 2017 in line with the Group's conservative investment strategy.

Net cash used in financing activities

Net cash used in financing activities in the first half of 2017 amounted to RUB 2,388 mln. During the reporting period, the Group attracted RUB 5,000 mln of financing through the placement of exchange-traded bonds and made repayments in the amount of RUB 4,078 mln. In January 2017, the Group distributed a dividend in the amount of RUB 1,466 mln.

Debt

RUB mln	As of 30 June 2017	As of 31 December 2016	As of 30 June 2016
Total debt	**37,247**	**36,295**	**34,335**
Short-term debt	3,410	4,622	10,616
Long-term debt	33,837	31,673	23,719
Cash&cash equivalents	**2,498**	**11,463**	**4,245**
Net Debt	**34,749**	**24,832**	**30,090**
Net debt/LTM EBITDA	**3.6x**	**2.7x**	**3.4x**

The Group considers the net debt/LTM EBITDA ratio as the principal means for evaluating the impact of the Group's borrowings on its operations. As of 30 June 2017, net debt/ LTM EBITDA ratio was 3.6x compared to 2.7x as of 31 December 2016 and 3.4x as of 30 June 2016. The increase in the ratio compared to 31 December 2016 is mainly driven by seasonal factors and the higher net debt, which in turn was largely affected by the amendments to the Trade Law. We remain on track to achieve our targeted net debt/EBITDA of below 3.0x by end-2017.

COMPANY OVERVIEW

O'KEY is one of the largest retail chains in Russia. The Company operates via three main formats: hypermarkets and supermarkets under the "O'KEY" brand and discounters under the "DA!" brand. O'KEY is the first Russian food retailer to launch e-commerce operations in St. Petersburg and Moscow, based on its hypermarket assortment.

The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. As of August 29, 2017, the Group operates 166 stores across Russia – 72 hypermarkets, 37 supermarkets and 57 discounters.

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.
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For further information please contact:

Veronika Kryachko
Head of Investor Relations
+7 495 663 6677 ext. 404
Veronika.Kryachko@okmarket.ru
www.okeyinvestors.ru