Press Release
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O'KEY GROUP ANNOUNCES AUDITED FINANCIAL RESULTS FOR FY2016

O'KEY Group S.A. (LSE: OKEY, "the Group"), one of the leading Russian food retailers, announces its full year 2016 consolidated audited financial results. All materials published by the Group are available on its website www.okeyinvestors.ru.

2016 Highlights:

- Total revenue increased by 8.0% y-o-y from RUB 162,510 million to RUB 175,471 million
- Revenue of the hypermarket and supermarket segment rose by 4.9% y-o-y to RUB 169,696 million
- Revenue of the discounters segment reached RUB 5,775 million
- Gross profit rose by 4.8% from RUB 38,367 million to RUB 40,209 million y-o-y with gross margin contracting by 0.7 p.p. to 22.9%
- Group EBITDA fell by 8.5% y-o-y from RUB 10,109 million to RUB 9,253 million
- EBITDA in the hypermarkets and supermarkets segment increased by 1.5% y-o-y from RUB 11,672 million to RUB 11,845 million with EBITDA margin of the segment decreasing from 7.2% to 7.0% y-o-y
- EBITDA in the discounter segment was negative and amounted to RUB 2,592 million (compared to a negative amount of RUB 1,563 million in 2015)
- Cash flow from operating activities increased by 27.7% to RUB 11,673 million

Key events for 2016:

- During the period, the Group opened 4 hypermarkets (one was closed), one supermarket (five were closed) and 19 discounters
- In October 2016, the Group repurchased series 04 bond for the amount of RUB 4.4 billion (total amount - the RUB 5.0 billion)
- The Group optimized its debt portfolio and decreased the weighted average rate from 12.5% to 11.0% in 2016

Heigo Kera, CEO of Hypermarket and Supermarket segment and Chairman of the Board of Directors, said:

"2016 was an eventful and challenging year for O'KEY. We successfully implemented our business transformation programme and achieved the goals set by the Board of Directors.

We put considerable effort into improving efficiency in our hypermarket and supermarket business segment as well as further expanding our discounter stores.

In order to address the twin challenges of preserving traffic and the average ticket size, we continued to develop our customer-centric approach enhancing our best customer value proposition, which is based on competitive pricing and availability of a wide range of high-quality goods, including our private label and local products, as well as providing attractive promotions for even more outstanding customer experience.

Overall, our strategy delivered strong operating results in 2016 with the Group's total annual revenue increasing by 8.0%, while traffic grew by 9.3% over the same period. Total revenue in the hypermarket and supermarket segment rose by 4.9% for the year, with traffic growing by 2.6% and average ticket size increasing by 1.7% over the same period. The main annual LFL indicators were also positive in this segment with the retail revenue of all the Group's LFL stores up by 2.2% in 2016.

As for financial results, EBITDA declined by 8.5% due to continuing roll-out of discounters, although the Group considers this to have now peaked and anticipates a significant improvement in EBITDA in this and future years. EBITDA net of discounters increased by 1.5%, as a result of continuing efforts to boost efficiency of the business. We maintain a conservative approach to borrowing – our debt leverage remains stable with Net Debt/EBITDA ratio of 2.7x as of 31 December, 2016.

In 2017 we will focus on making further progress towards becoming a multi-format retailer, enhancing our operating efficiency, accelerating our growth and strengthening our relationship with investors. The quality of our products mix and private label brands will remain one of the key priorities in 2017 and we remain fully committed to improving an overall in-store shopping experience for our customers."

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

"In 2016 we continued to develop our discounter format in line with our strategic plans. We have put a considerable emphasis on improving the product range continually adjusting it to the needs of our customers. As a result of these changes, we have seen a growing popularity of our private labels brands resulting in the overall success of the discounter concept. We are pleased to report that LFL revenue in our discounter segment grew by an impressive 64.1% in the fourth quarter of 2016, with the traffic and average ticket increasing by 36.4% and 20.4%, respectively. We saw a further strengthening of this trend in Q1'17 and are very pleased with the overall performance to date. We believe we will see an improvement in EBITDA in 2017 reaching breakeven by the end of 2018."

Financial results

RUB mln	2016	2015	Year-on-Year change
Total Group revenue	**175,471**	**162,510**	**8.0%**
Revenue in the hypermarkets and supermarkets segment	169,696	161,822	4.9%
Revenue in the discounter segment	5,775	688	>100%
Gross profit	**40,209**	**38,367**	**4.8%**
Gross margin	*22.9%*	*23.6%*	*-0.7 p.p.*
SG&A	-35,764	-32,371	10.5%
SG&A as % of revenue	*20.4%*	*19.9%*	*0.5 p.p.*
Group EBITDA	**9,253**	**10,109**	**-8.5%**
EBITDA margin	*5.3%*	*6.2%*	*-0.9 p.p.*
EBITDA of the hypermarkets and supermarkets segment	11,845	11,672	1.5%
EBITDA margin of the hypermarkets and supermarkets segment	*7.0%*	*7.2%*	*-0.2 p.p.*
EBITDA of the discounter segment	-2,592	-1,563	65.8%
Net profit/loss	-138	1,918	-107.2%

Revenue

In 2016, the Group revenue increased by 8.0% year-on-year with LFL revenue rising by 2.2%. The LFL revenue growth was primarily attributable to a 0.9% increase in average ticket due to inflation and a 1.2% increase in LFL traffic despite significant changes in customer behaviour driven by the deterioration in macroeconomic conditions, the decline in disposable incomes and intensifying competition.

To address the worsening macroeconomic conditions and intensifying competition, we launched a turnaround strategy in the summer of 2015 aimed at responding to our customers' changing demands. As a result, during 2016 we made great progress in rebalancing our product range as well as streamlining marketing efforts to drive traffic to our stores. During the year, the Group continued to strengthen its presence with a focus on the most resilient markets. Selling space rose 5.1% in 2016 to 623 thousand square metres following the opening of four hypermarkets, one supermarket and 19 discount stores.

YoY change	12M 2015			12M 2016		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	**6.9%**	**7.2%**	**-0.4%**	**7.6%**	**9.3%**	**-1.7%**
Group LFL	0.6%	-0.7%	1.3%	2.2%	1.2%	0.9%
Group net of discounters	**6.4%**	**6.2%**	**0.2%**	**4.5%**	**2.6%**	**1.7%**
Group net of discounters LFL	0.6%	-0.7%	1.3%	2.0%	0.9%	1.0%
Discounters LFL	-	-	-	64.1%	36.4%	20.4%

Cost of goods sold and gross profit

The cost of goods sold increased 9.0% in 2016 to RUB 135,261 million. In the table below, we provide further detail on the cost of goods sold for 2016 and 2015:

rub mln	2016	% revenue	2015	% revenue	Change, p.p.
Revenue	**175,471**	**100.0%**	**162,510**	**100.0%**	**0.0**
Cost of goods sold, including	**-135,261**	**77.1%**	**-124,143**	**76.4%**	**0.7**
Cost of trading stock (less supplier bonuses)	-128,800	73.4%	-117,725	72.4%	1.0
Inventory shrinkage	-2,867	1.6%	-3,391	2.1%	-0.5
Logistics costs	-2,771	1.6%	-2,214	1.4%	0.2
Packaging and labelling costs	-824	0.5%	-814	0.5%	0.0
Gross profit	**40,209**	**22.9%**	**38,367**	**23.6%**	**-0.7**

Gross profit increased 4.8% to RUB 40,209 million in 2016 compared to RUB 38,367 million in 2015. However, the overall gross margin contracted by 0.7 percentage points in 2016 to 22.9% due to better customer value proposition and the effect of the lower gross margin in the developing discounter format (compared to hypermarket and supermarket segment). Total logistics costs rose by 25.2% in 2016 to RUB 2,771 million compared to 2015 as a result of the ongoing logistics centralisation and the continued expansion of the discount format, however, net logistics costs (including discounts from suppliers included in cost of trading stock) stayed at the same level y-o-y. Shrinkage costs in 2016 fell by 15.5% to RUB 2,867 million compared to 2015 due to tighter controls over both purchasing and writing-off of goods.

General, selling and administrative expenses

RUB mln	2016	% of revenue	2015	% of revenue	Change, p.p.
Personnel costs	-16,185	9.2%	-14,989	9.2%	-
Operating leases	-5,344	3.0%	-4,728	2.9%	0.1
Depreciation and amortization	-4,550	2.6%	-3,838	2.4%	0.2
Communication and utilities	-3,486	2.0%	-3,047	1.9%	0.1
Advertising and marketing	-1,795	1.0%	-1,651	1.0%	0.0
Repairs and maintenance costs	-1,183	0.7%	-940	0.6%	0.1
Security expenses	-825	0.5%	-740	0.5%	0.0
Insurance and bank commission	-737	0.4%	-687	0.4%	0.0
Operating taxes	-713	0.4%	-759	0.5%	-0.1
Legal and professional expenses	-603	0.3%	-660	0.4%	-0.1
Materials and supplies	-302	0.2%	-300	0.2%	0.0
Other costs	-41	0.0%	-33	0.0%	0.0
Total general, selling and administrative expenses	**-35,764**	**20.4%**	**-32,371**	**19.9%**	**0.5**

The Group's general, selling and administrative expenses grew by 10.5% year-on-year to RUB 35,764 million in 2016, which was primarily attributable to an increase in D&A resulting from the expansion of discounter stores and the opening of new owned hypermarkets and supermarket as well as the higher lease expenses of discounter format. Another reason is an increase in communication and utilities costs mostly due to adding new stores and increased utilities tariffs. As a percentage of revenue, the Group's general, selling and administrative expenses increased by 0.5 percentage points to 20.4% in 2016.

Personnel costs

Although personnel costs grew 8.0% y-o-y to RUB 16,185 million in 2016, they remained stable as a percentage of revenue compared to the prior year. This was a result of Group's continuing focus on increasing labour productivity in hypermarkets and supermarkets resulting in the 0.5 percentage points decrease in personnel costs for this segment as a percentage of revenue in the second half of the year. Overall the increase in costs was primarily due to the expansion of the discounter segment, a 5.2% increase in average headcount and an increase in salaries in line with industry trends.

Operating leases

The 13.0% year-on-year rise in lease costs in 2016 was primarily attributable to discounter store lease payments following the launch of this new format in September 2015 and which therefore, only operated for part of the year, as well as the impact of the depreciation of the rouble on lease payments of some stores which were linked to the US dollar and euro.

Advertising and marketing

Advertising and marketing costs increased by 8.8% in 2016 but remained stable as a percentage of revenue compared to the prior year despite the Group renewing its hypermarket concept and implementing new promotional activities, such as personalised communications. In addition, the increase in costs was due to the new discount stores' marketing activities.

EBITDA of the segments

EBITDA net of discounters increased by 1.5% year-on-year to RUB 11,845 million in 2016, with the EBITDA margin net of discounters reaching 7.0% of revenue. The negative EBITDA of the discount stores rose by 65.8% in 2016, although the Group considers this to have now peaked with a significant improvement in EBITDA now expected in this and future years.

Financing costs

Financing costs increased by 4.0% to RUB 3,550 million in 2016. The Group's average loan portfolio (consolidated debt stood at RUB 36,295 million as of 31 December 2016 compared to RUB 35,558 million on 31 December 2015) did not change significantly (+2.1% vs 2015) and the Group's weighted average interest rate decreased to 11.0% in 2016 from 12.5% in 2015 due to the successful refinancing of approximately 65% of the loan portfolio.

Net (loss)/profit for the year

Net profit fell by 107.2% year-on-year to register a loss of RUB 138 million in 2016, which was primarily due to the expansion of discounter format and costs associated with it. The decline in net profit was also caused by one-off expenses. The Group is making a considerable progress to improve business efficiency, which led to the closure of one hypermarket and five supermarkets during the year. As a result, the loss from the disposal of other non-current assets relating to stores and land plots in Moscow and other regions amounted to RUB 568 million (compared to RUB 126 million in 2015). There was also an impairment charge of RUB 434 million, which mainly related to several stores in the regions.

In 2016, the Group did not benefit from any tax reimbursements and recognised a tax expense in the amount of RUB 409 million. Whereas in 2015, the Group realised an income tax benefit of RUB 16 million due to a tax reimbursement of RUB 702 million in relation to 2013 and 2014.

Cash flow and working capital

RUB mln	2016	2015
Net cash from operating activities	11,673	9,140
Net cash used in investing activities	-5,413	-2,332
Net cash used in financing activities	-4,529	-2,884
Net increase in cash and cash equivalents	1,730	3,924
Effect of exchange rate fluctuations on cash and cash equivalents	-35	34

Cash flow from operating activities

In 2016, operating cash flow was negatively impacted by a decline in the gross margin while working capital demonstrated positive dynamics. As a result, net cash from operating activities increased by 27.7% to RUB 11,673 million in 2016. Cash receipts from customers grew by 7.7% during the year in line with the revenue increase.

Cash used in investing activities

Net cash used in investing activities increased from RUB 2,332 million in 2015 to RUB 5,413 million in 2016 mainly due to significant asset sales in 2015. In 2016, investments net of proceeds from sales of property, plant and equipment and intangible assets decreased from RUB 8,621 million to RUB 6,331 million.

Cash flow used in financing activities

Proceeds from new loans and borrowing, less repayments, reached RUB 1,018 million in 2016 as the Group made significant repayments during the period. In addition, dividend payments decreased by 10.4% from RUB 1,644 million in 2015 to RUB 1,472 million in 2016.

Working capital

As of 31 December 2016, the Group's working capital, defined as current assets (excluding cash and cash equivalents) less current liabilities (excluding short-term loans), was negative RUB 12,734 compared to negative RUB 8,023 million as of the end of 2015. This reflects the Group's achievements in terms of improving both stock levels and the overall efficiency of logistics. Working capital figures across the food retail industry are usually negative, and the Group intends to maintain a negative working capital position.

The Group considers the net debt/EBITDA ratio as the principal means of evaluating the impact of the size of the Group's borrowings on its operations. As of 31 December 2016, O'KEY's net debt/EBITDA ratio was 2.7x.

RUB mln	As of 31.12.16	As of 31.12.15
Total debt	**36,295**	**35,558**
Short-term debt including interest accrued on loans	4,622	12,000
Long-term debt	31,673	23,558
Less cash and equivalents	11,463	9,768
Net debt	**24,832**	**25,790**
Net debt/EBITDA	**2.7**	**2.6**

COMPANY OVERVIEW

O'KEY is one of the largest retail chains in Russia. Its primary retail format is the modern Western European style hypermarket under the "O'KEY" brand reinforced by O'KEY supermarket. The Group is developing the innovative discounter format under the "DA!" brand. O'KEY is the first among Russian food retailers to launch e-commerce operations in St. Petersburg and Moscow based on hypermarket assortment.

The Group opened its first hypermarket in St. Petersburg in 2002 and has demonstrated continuous growth ever since. As of March 30, 2017, O'KEY operates 164 stores across Russia – 74 hypermarkets, 36 supermarkets and 54 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.

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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