

Press Release
 21 August 2014

O'KEY GROUP ANNOUNCES FINANCIAL RESULTS FOR 1H 2014

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 interim consolidated IFRS financial results for the six month period ended 30 June 2014. All related materials have been published on the Company's website, at www.okeyinvestors.ru.

1H 2014 Highlights:

- Total revenue grew by 12.3% year-on-year (y-o-y) to RUB 72.7 billion, while like-for-like (LFL) revenue increased 4.0% y-o-y;
- Gross margin expanded by 1.1 p.p. to 24.1%;
- EBITDA increased by 14.9% y-o-y to RUB 4.9 billion;
- Net cash from operating activities amounted to RUB 633.6 million;
- Net cash used in investing activities reached RUB 7.5 billion for the first six months of 2014.

Financial performance

Income Statement Highlights

RUB millions, unless otherwise indicated	1H 2014	1H 2013	Y-o-Y Change
Revenue	72,672.5	64,714.0	12.3%
Gross profit	17,541.0	14,862.2	18.0%
<i>Gross margin</i>	<i>24.1%</i>	<i>23.0%</i>	<i>1.1 p.p.</i>
EBITDA	4,870.6	4,239.5	14.9%
<i>EBITDA margin</i>	<i>6.7%</i>	<i>6.6%</i>	<i>0.1 p.p.</i>
Profit before tax	2,643.1	2,408.7	9.7%
Profit for the period	1,694.7	1,613.5	5.0%
<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)	6.3	6.0	0.3
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Revenue

In the first half of 2014, revenue increased by 12.3% y-o-y to RUB 72,672.5 million from RUB 64,714.0 million in the corresponding period of 2013. This growth was driven by the addition of selling space and increase in the LFL revenue.

LFL revenue¹ in the first half of 2014 increased by 4.0% y-o-y, driven by a 7.0% LFL ticket growth. LFL traffic being under pressure from internal and external competition declined by 2.9% y-o-y.

Rental income and revenue from advertising services increased by 13.8% y-o-y in the first half of 2014 to RUB 979.8 million.

Cost of Goods Sold and Gross Profit

The cost of goods sold increased by 10.6% y-o-y to RUB 55,131.5 million in the first six months of 2014.

Gross profit increased by 18.0% to RUB 17,541.0 million in the first half of 2014, compared to RUB 14,862.2 million in the corresponding period of 2013. The gross margin for the reporting period gained 1.1 p.p. and reached 24.1%. This increase resulted from the improvement in terms and conditions from our suppliers.

General, Selling and Administrative Expenses

	<u>1H 2014</u>	<u>Percentage</u>	<u>1H 2013</u>	<u>Percentage</u>	<u>Change,</u>
	<u>(RUB millions)</u>	<u>of revenue</u>	<u>(RUB millions)</u>	<u>of revenue</u>	<u>p.p.</u>
		(%)		(%)	
Personnel costs	(7,182.5)	9.9	(6,083.4)	9.4	0.5
Depreciation and amortization	(1,470.5)	2.0	(1,222.5)	1.9	0.1
Advertising and marketing	(604.1)	0.8	(505.5)	0.8	0.0
Operating leases	(1,843.6)	2.5	(1,390.4)	2.1	0.4
Repairs and maintenance costs	(312.7)	0.4	(268.7)	0.4	0.0
Communication and utilities	(1,318.0)	1.8	(1,129.0)	1.7	0.1
Materials and supplies	(157.4)	0.2	(139.7)	0.2	0.0
Security expenses	(444.3)	0.6	(399.0)	0.6	0.0
Insurance and bank commission	(323.9)	0.4	(287.1)	0.4	0.0
Legal and professional expenses	(186.2)	0.3	(123.8)	0.2	0.1
Operating taxes	(297.0)	0.4	(287.0)	0.4	0.0
Other costs	(14.7)	0.0	(18.7)	0.0	0.0
Total general, selling and administrative expenses	(14,155.0)	19.5	(11,854.7)	18.3	1.2

¹ The LFL analysis currently includes 83 stores.



The Group's general, selling and administrative expenses grew by 19.4% y-o-y to RUB 14,155.0 million in the first six months of 2014, primarily due to an increase in personnel costs, operating leases and scaling up of the discounter project. As a percentage of revenue, the Group's general, selling and administrative expenses increased by 1.2 p.p. to 19.5% in the first half of 2014.

Personnel costs grew by 18.1% y-o-y to RUB 7,182.5 million. This was primarily driven by a 13.6% y-o-y increase in average headcount due to 11 net store openings and by the 7% indexation of salaries that took place in July 2013. In 2014, the Group revised its organizational structure at both store and office levels which resulted in the 5% optimization of headcount. Growth in personnel expenses slowed down significantly already in the second quarter of 2014.

Operating leases increased by 32.6% y-o-y to RUB 1,843.6 million in the reporting period. The increase was driven by a 15% rise in leased space, a large part of which is located in the Moscow region where lease expenses are higher, and an 11% indexation of existing contracts. Since 30 June 2013, the proportion of our leased space expanded with the opening of four rented hypermarkets and two supermarkets.

Net finance costs increased by 16.9% y-o-y to RUB 701.9 million in the first six months of 2014 due to growing debt level. At the same time, O'Key's weighted average interest rate for the reporting period decreased to 9.2% favorably impacting the growth of finance costs.

Profit before income tax reached RUB 2,643.1 million for the first half of 2014, demonstrating 9.7% y-o-y growth.

Income tax expenses increased by 19.3% y-o-y to RUB 948.4 million in the first half of 2014. The Company's tax expense and effective tax rate increased due to higher expenses related to tax withheld on dividends.

Profit for the period amounted to RUB 1,694.7 million in the first half of 2014, with a net profit margin of 2.3%.

Cash Flows and Working Capital

(RUB millions)	1H 2014	1H 2013
Net cash from operating activities	633.6	443.6
Net cash used in investing activities	(7,468.7)	(2,883.8)
Net cash from financing activities	5,146.3	436.4
Net increase/(decrease) in cash and cash equivalents	(1,688.8)	(2,003.8)

Net cash from operating activities resulted in an inflow of RUB 633.6 million in the first half of 2014 compared to RUB 443.6 million in the corresponding period of 2013. Cash from operating activities before changes in working capital² increased by RUB 367.6 million to RUB 2,784.8 million reflecting the growing scale of our operations. Changes in working capital resulted in an outflow of RUB 2,151.2 million, which reflects the normal level of changes in payables, receivables and inventories seen at mid-year.

² Cash from operating activities before changes in working capital is calculated as Cash from operating activities before changes in working capital and provisions net of interest and income tax paid.



Net cash used in investing activities amounted to RUB 7,468.7 million in the first half of 2014, as a result of a growing number of projects under development. Investments were principally in construction, store refurbishment, purchasing new equipment and land acquisition.

Net cash from financing activities resulted in an inflow of RUB 5,146.3 million, net of loan repayments and the payment of a dividend. The Company is increasing its borrowings to finance its expansion programme.

Working Capital

O'Key's primary sources of liquidity are cash provided from operating activities and debt financing. As of 30 June 2014, 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 6,653.1 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 2014	1H 2013
Total debt	24,039.4	16,002.2
Short-term debt	6,899.6	3,193.5
Long-term debt	17,139.8	12,808.7
Less: cash and cash equivalents	1,382.4	2,547.5
Net debt	22,657.0	13,454.7
Net debt / EBITDA ³ ratio	1.9	1.4

O'Key considers the ratio of net debt to EBITDA as the principal indicator for evaluating the impact the total size of its borrowings has on its operations. As of 30 June 2014, the Group's net debt/EBITDA ratio stood at 1.9x.

New Store Developments

As at 30 June 2014, O'Key operated a total of 96 stores, which comprised of 63 hypermarkets and 33 supermarkets. During the last twelve months, 9 new hypermarkets and 3 supermarkets were added to the chain, while one supermarket was closed.

The table below breaks down stores in the Group's expansion pipeline by stages of development.

Number of New Stores under Development

	<i>Locations secured, obtaining construction permits</i>	<i>Land works, shell&core construction in progress</i>	<i>Fit-out in progress</i>	<i>Total number of stores under development</i>
<i>Hypermarkets</i>	22	16	3	41
<i>Supermarkets</i>	35	3	1	39

³ In Net debt / EBITDA calculation for half year results EBITDA is annualised and includes the value of current half year results plus the value for preceding half year results.



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 December 31, 2013, O’KEY operated 94 stores in 22 cities across Russia: 60 hypermarkets with an aggregate selling space of approximately 444,000 square meters and 34 supermarkets with an aggregate trading space of approximately 45,000 square meters. As at 31 December 2013, O’KEY employed more than 24,500 people.

Based on the audited consolidated financial statements for the FY 2013, O’KEY’s revenue was RUB 139.5 billion, like-for-like revenue growth rate was 8.0% and its EBITDA margin was 7.9%.

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Appendix I**Unaudited Financial Results for 2Q 2014**

<i>RUB, millions</i>	2Q 2014	2Q 2013	Change
Revenues	37,551.2	33,539.2	12.0%
Gross Profit	9,294.4	7,947.0	17.0%
<i>Gross margin (%)</i>	<i>24.8%</i>	<i>23.7%</i>	
EBITDAR	4,126.5	3,467.1	19.0%
<i>EBITDAR margin (%)</i>	<i>11.0%</i>	<i>10.3%</i>	
EBITDA	3,200.4	2,768.4	15.6%
<i>EBITDA margin (%)</i>	<i>8.5%</i>	<i>8.3%</i>	
Net Profit	1,716.9	1,469.0	16.9%
<i>Net margin (%)</i>	<i>4.6%</i>	<i>4.4%</i>	

