

Financial results

Key financial results (RUB mln)

	2016	2017	2018
Net sales, RUB mln	1,074,812	1,143,314	1,237,015
Convenience stores	790,157	846,113	917,853
Supermarkets	214,599	206,214	207,434
Drogerie stores	64,449	78,786	91,563
Wholesale	5,606	12,201	20,164
Gross profit, RUB mln	295,759	289,498	296,447
Gross margin, %	27.5	25.3	24.0
EBITDAR, RUB mln	145,125	136,967	141,140
<i>EBITDAR margin, %</i>	<i>13.5</i>	<i>12.0</i>	11.4
EBITDA, RUB mln	106,654	91,644	89,931
Adjusted EBITDA ¹	106,654	91,644	91,429
EBITDA margin, %	9.9	8.0	7.3
Adjusted EBITDA margin, %	9.9	8.0	7.4
EBIT, RUB mln	80,828	57,928	53,413
<i>EBIT margin, %</i>	<i>7.5</i>	<i>5.1</i>	4.3
Profit before tax, RUB mln	68,780	45,424	43,072
Profit tax expenses, RUB mln	-14,371	-9,885	-9,207
Net income, RUB mln	54,409	35,539	33,865
Net income margin, %	5.1	3.1	2.7

Net sales for 2018 amounted to RUB 1,216.9 billion, a 7.6% increase from 2017 that was driven by the opening of 2,049 new stores (an 11.6% increase in selling space) and LFL sales growth of -2.5%. The main contribution to sales came from the convenience segment, while the strongest sales growth was demonstrated by the drogerie format.

Wholesale reached RUB 20.2 billion, an increase of 65.3% compared to 2017.

1. Adjusted EBITDA differs due to one-time inventory write-offs and provisions in the amount of RUB 1.5 billion that were accrued in the first half of 2018.

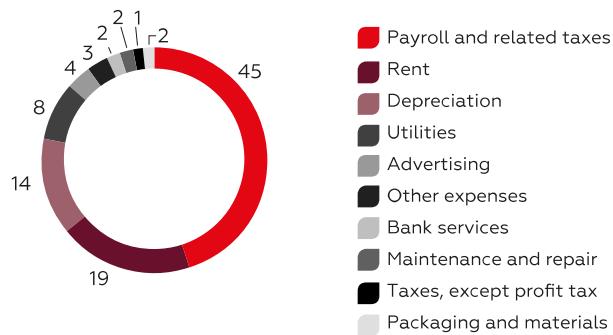
Gross profit for the whole year increased by 2.4% and the gross profit margin for 2018 was 24.0% vs 25.3% a year ago. The gross profit margin deteriorated by 136 bps as a result of the following factors:

- The cost of goods sold increased ahead of sales and contributed to 122 bps of the contraction;
- Due to investment in prices, higher shrinkage due to provisions created for write-offs and the increased share of the fresh assortment, pressure from selling off old slow-moving stock, and the increased share of the wholesale segment from 1.1% to 1.6% in 2018;

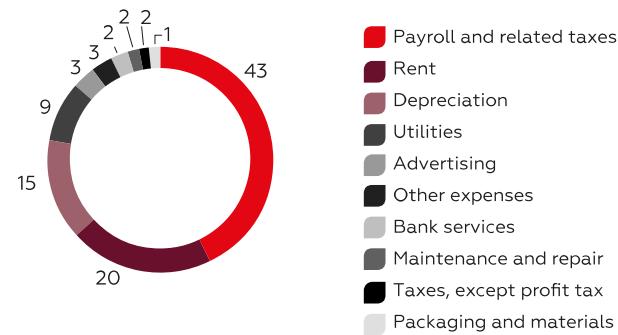
- Partially offset by improvements in commercial terms from suppliers.
- Transportation expenses as a percentage of sales increased by 14 bps as higher centralization ratio (89% vs 88%), reduced average distance per trip (560 km vs 490 km) and other operational efficiency weren't enough to offset the impact of higher fuel prices and increased external transport rates.

Selling, general and administrative expenses, %

2017



2018



Index	2017		2018	
	RUB mln	as % of revenue	RUB mln	as % of revenue
Payroll and related taxes	107,806	9.4	107,833	8.7
Rent	45,323	4.0	51,209	4.1
Depreciation & amortization	33,716	2.9	36,517	3.0
Utilities	19,591	1.7	21,274	1.7
Advertising	8,432	0.7	8,601	0.7
Other expenses	7,376	0.6	7,587	0.6
Bank services	4,466	0.4	6,059	0.5
Repair and maintenance	5,041	0.4	4,421	0.4
Taxes, other than income tax	3,399	0.3	3,804	0.3
Packaging and raw materials	3,443	0.3	3,531	0.3
Total SG&A	238,593	20.9	250,837	20.3
SG&A excl D&A	204,877	17.9	214,319	17.3

SG&A expenses as a percentage of sales improved by 59 bps YoY in 2018:

- Payroll related expenses decreased by 71 bps mainly due to increased overall productivity at the Company by 10.1%
- Utilities went up only 1 bp as the indexation of tariffs in July 2018 were almost completely offset by a reduction in energy consumption
- Rent as a percentage of sales went up by 18 bps due to the higher share of rented space of 69.5% vs 66.4% a year ago
- Advertising costs as a percentage of sales decreased by 4 bps due to the positive impact of more cost-effective media channels used for promotion campaigns
- Bank services as a percentage of sales were 10 bps higher due to increased rates for money collection, which was partly offset by the introduction of automated deposit machines inside stores
- Maintenance expenses declined by 8 bps as a percentage of sales vs 2017 due to the review of suppliers and improved commercial terms

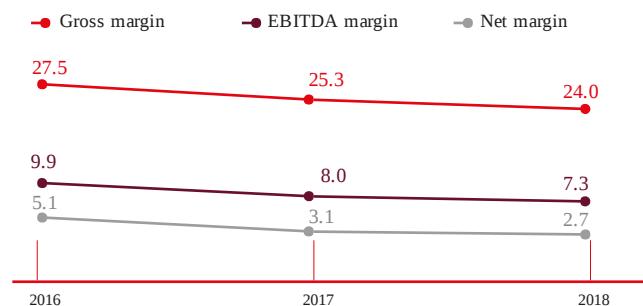
As a result, operating profit for the Company was RUB 53.4 billion for 2018, or 7.8% lower than the previous year.

Finance costs decreased by 29.4% to RUB 8.9 billion compared to 2017 (RUB 12.6 billion). This was the result of lower interest rates combined with refinancing activities and the lower average amount of borrowing compared to the previous year. The weighted average cost of debt for 2018 was 7.2% (including the effect of subsidized debt).

Income tax for 2018 was RUB 9.2 billion. The effective tax rate was 21.4% vs 21.8% in 2017.

As a result, net income for 2018 was RUB 33.9 billion and the net income margin was 2.7%, down YoY by 4.7% and 37 bps, respectively.

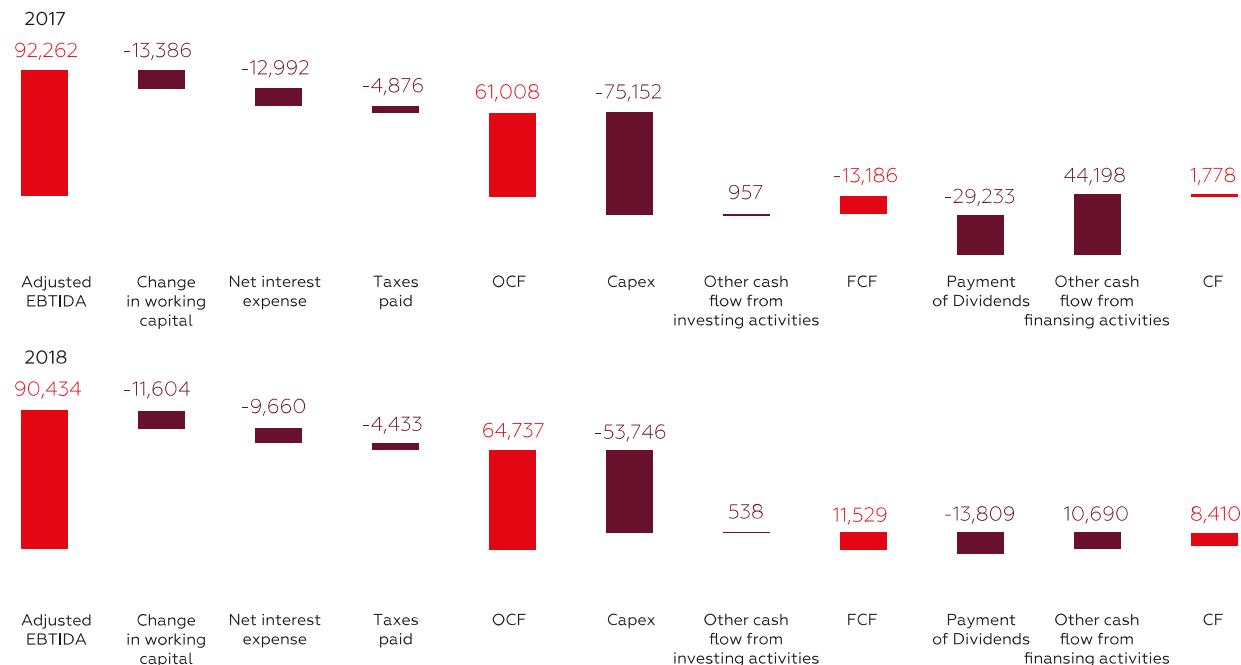
Profit margins (%)



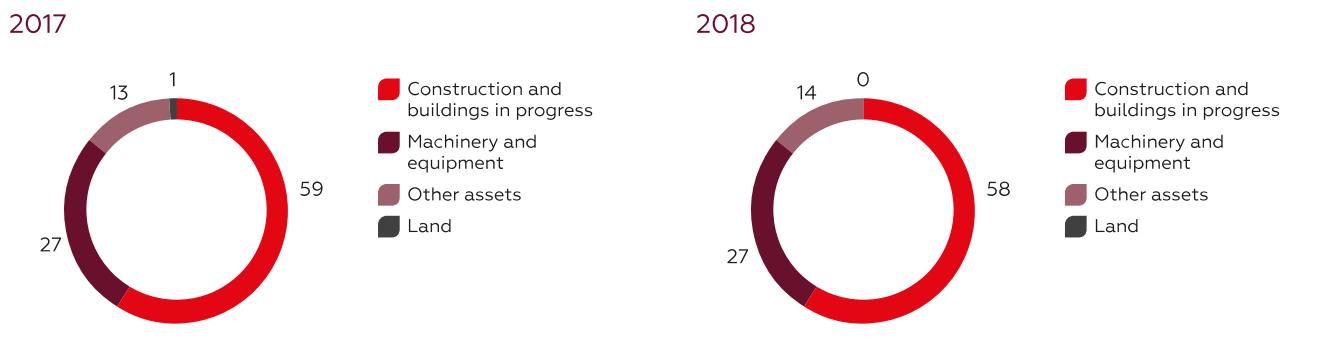
EBITDA Margin Bridge



Free cash flow



Capital expenditures, %



RUB mln	2017	2018	Change, %	Comments
Construction and buildings in progress	44,443	31,414	-29.3	there were fewer store openings (2,385 stores in 2018 versus 2,665 in 2017), fewer facilities were redesigned (1,352 versus 1,976), and there was a decrease in advance payments and investment in in-house production
Machinery and equipment	20,355	14,693	-27.8	
Land	865	51	-94.2	growth in retail space over the course of the year due solely to rent
Other assets	9,489	7,589	-20.0	164 new vehicles were purchased in 2018 versus 625 in 2017
Total	75,152	53,746	-28.5	