

Strengthening Expanding Improving



Lenta is a price-led, distinctive hypermarket business in Russia led by a highly experienced management team. Lenta has a compelling, integrated business model and is well positioned to grow in Russia's dynamic food retail market.

Lenta is now Russia's number one hypermarket operator by selling space. In 2015 we ranked fifth by total sales – and were the country's fastest growing food retailer for the third year running.

Strategy in action

Strengthening

We continued to identify and take advantage of the numerous opportunities for sustainable growth across key regions in the Russian market.

[+ Read more on page 02](#)



Expanding

We accelerated our store roll-out programme and were Russia's fastest growing large retailer for the third year running.

[+ Read more on page 04](#)



Improving

Understanding our customers' changing preferences enables us to tailor our ranges and promotions to give them more of what they want.

[+ Read more on page 06](#)



To see the report online go to:
www.lentainvestor.com/en/investors/annual-reports

Highlights of the year

Financial highlights

Revenue (RUB)

252.8bn
+30.3%

Adjusted EBITDA (RUB)

28.1bn
+31.4%

Gross profit (RUB)

56.3bn
+28.7%

Net profit (RUB)

10.3bn
+13.4%

Operational highlights

- ▶ Total sales were up almost a third on last year, like-for-like sales grew 9.1% and we experienced a 3.9% rise in customer traffic.
- ▶ Total selling space across our store base grew to 882,383 sq.m. – an increase of 25.8% year-on-year.
- ▶ We opened stores in 11 new cities. At the year end Lenta had a presence in 69 cities across Russia.
- ▶ At the end of the year we had over 8.4 million active loyalty cardholders, an increase of 29% on the previous year.

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Strategy in action

Strengthening

What we did in 2015

We reinforced our presence in key areas including Moscow and St. Petersburg, and the North-West, Central, Volga, South, Siberia and Ural regions – with Siberia being the largest, accounting for 20% of total selling space at the year end. New distribution centres in Togliatti, Rostov-on-Don and Yekaterinburg provided us with additional capacity to serve our network of stores efficiently and cost-effectively.

Supporting our business

Strengthening – and servicing – our presence in key regions is fundamental to our strategy. We continued to identify and take advantage of the numerous opportunities for sustainable growth in the Russian market, building the most appropriate store formats for each location and supporting them through enhanced supply operations.

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1st

Number one hypermarket

Lenta is the leading hypermarket retailer in Russia by selling space. In 2015 we added over 188,000 sq.m. of new space – an increase of over 25% year-on-year. Our rapid growth to date and future expansion plans mean we remain on course to exceed our aim of doubling our selling space in the three-year period to 2016.

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3

New distribution operations

Two distribution centres had soft openings in 2014 and came fully on stream in 2015, with a third undergoing commissioning. This extra capacity enables us to increase centralisation of our operations and reduce our transportation costs – and gives us the ability to serve over 250 hypermarkets.

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69

Deepening our presence

We have continued to grow our market share in areas where we already have an established and loyal customer base. With a sizeable land bank and a healthy pipeline of projects, our range of modern retail formats means we can plan and build exactly the right store for every location. At the year end Lenta had a presence in 69 cities across Russia.

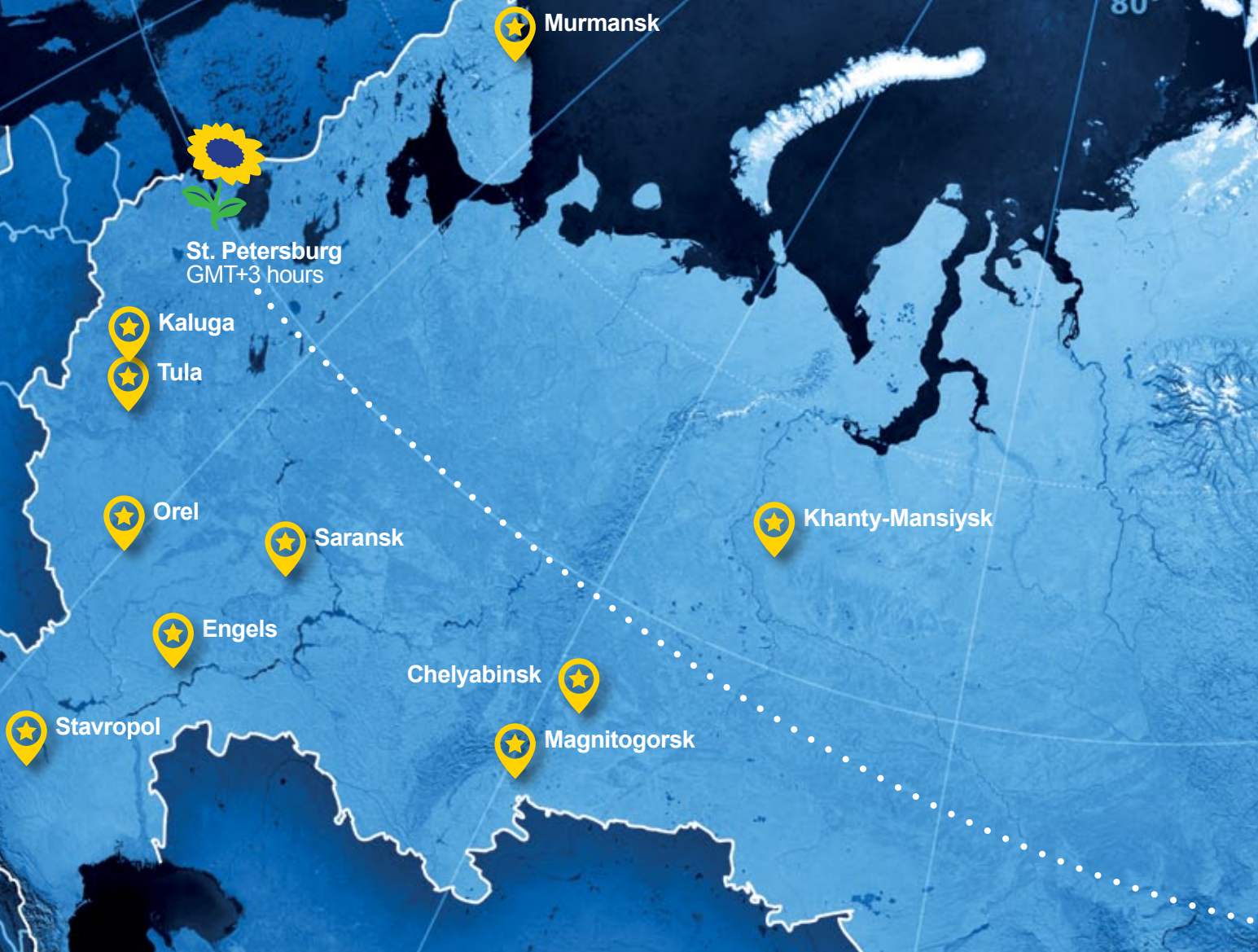
[+ Read more on page 25](#)



We continued to support the professional development of all our people – from Senior Management to our shop floor staff. In 2015 over 24,000 of our store colleagues benefited from training courses to enhance their skills.

[+ Read more on page 53](#)

Strategy in action



Expanding

What we did in 2015

We extended Lenta's presence across Russia, bringing the total number of cities in which we have a presence to 69. We exceeded our year's opening target with 32 new hypermarkets – more than in any single year in the Company's history, bringing the total to 140 – and are now Russia's leading hypermarket chain in terms of selling space.

Driving our strategy

We continued to accelerate the pace of our store roll-out programme in both new and existing locations – and were Russia's fastest growing large retailer for the third year running. We remain on track to exceed our ambition of doubling selling space in the three years to December 2016.

11

New cities

Our expansion plans accelerated in 2015 and we opened Lenta stores in 11 new cities across Russia. From Murmansk in the Arctic Circle to Irkutsk near Lake Baikal, we are successfully growing our presence in new and challenging geographies.

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4

New supermarkets in St. Petersburg – and beyond

In 2015 we opened our first four supermarkets in our home city of St. Petersburg – with more to come. This successful format provides us with excellent growth potential and high returns on our investment. We therefore plan to roll it out further in St. Petersburg, Moscow and other regions over time.

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+29%

Lenta loyalty cardholders

The Lenta loyalty card goes from strength to strength. We now have over 8.4 million active cardholders, a rise of 29% on 2014. Our customers recognise and appreciate the generous benefits it brings in the form of extra discounts, special promotions and additional bonuses.

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5,777 km



Irkutsk
GMT+8 hours



Our rapid expansion meant the total number of suppliers increased to almost 3,000 in 2015. Local and regional producers supplied over 50% of fresh products sold in 2015 – and have now become the principal channel of sourcing for our stores.

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Strategy in action

Improving

What we did in 2015

We tailored elements of our offering to reflect local and regional tastes and used data from customer loyalty cards to help us edit our ranges. Responding to the difficult consumer environment, we also worked hard to deliver great value; providing more choice in lower-priced goods and enhancing our private label range of affordable essentials.

Enhancing our offering

Understanding what our customers want, how their preferences change and what they can afford is essential if we are to continue to flourish. Our ongoing analysis of our loyalty card data enables us to tailor our ranges and promotions to give customers more of what they appreciate – enhancing loyalty and driving profitable growth for Lenta.

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50.3% 250+

Fresh food from local suppliers

We enhanced the breadth of products we sell – especially in our extensive private label value-for-money range. We also expanded the selection of goods prepared or baked in-store and sourced just over 50.3% of our fresh food from local suppliers.

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Improving our supply chain

Our supply chain benefits from sophisticated technologies to maintain its flexibility and efficiency. During the year we grew our network of distribution centres, expanded our own fleet of delivery trucks and increased the capacity of our IT systems. These improvements have given us the capacity to serve over 250 hypermarkets.

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For those most in need we offer a Social Card, which offers additional discounts on essential food and household items. Well over half a million people joined the scheme in 2015, taking the total number of cardholders to 1.2 million.

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33.4%

Improving our offer

With continued pressures on household incomes, we worked hard to deliver great value for money and help customers live within their budgets. Based on customer feedback and identified market opportunities we improved our product offer with tailored promotions designed to appeal to local buying patterns and tastes. Promotions accounted for 33.4% of total sales.

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Chairman's statement

Another year of progress



John Oliver
Chairman

Lenta experienced another year of good progress in 2015, delivering strong sales, profit and operating cash flow growth, whilst continuing to expand rapidly. This is a remarkable achievement when considered in the context of Russia's turbulent retail climate – and is testimony to the strength and adaptability of our business model, the clarity of our strategy, our rigorous attention to execution and the skills and dedication of our team.

Flourishing in a difficult environment

The difficult and uncertain environment increased the pressure on our customers – and hence on Lenta itself. However, our strategy is fit for purpose – and is key to our ability to cope with the challenging market conditions. Our proven low-price/low-cost business model enabled us to adjust our offer effectively in the face of continued strong economic headwinds and intense competition; as the market has changed, so has Lenta.

In difficult times, it is more important than ever to stay close to our customers. Our loyalty card plays a crucial role in helping us track and analyse their shopping choices. We use this valuable data to provide the products our customers want at prices they can afford – and run attractive, relevant and timely promotions, because we have worked hard to help customers spend less, they have rewarded us with continued strong sales and as a result, Lenta was able to grow its share of the market significantly in 2015.

Governance

We are fortunate to have a strong group of talented individuals on our Board and I am grateful to my fellow Directors for their advice and support during the year. Their unique blend of international experience and complementary skills enhances our discussions of Lenta's strategy and performance, and supports effective decision-making.

225m

USD primary capital increase
in March 2015

150m

USD primary capital increase
in October 2015

Robust corporate governance underpins Lenta's effective operation and the execution of our strategy. In 2015, we continued to improve our governance framework – including the remit of our Board Committees – to support the growth of the business. We enhanced the scope of our policies and improved reporting and disclosure during the year, taking us closer to becoming a 'best practice' example of governance among Russian companies.

Non-executive Director Lindsay Forbes resigned in July. Lindsay had served on the Board for five years and I thank him for his valuable contribution to our discussions during this time.

Driving sustainable growth and building shareholder value

Strategically, the underserved Russian market remains very attractive. The current environment is challenging for all retailers of course, but it also creates attractive opportunities for strong, well-financed businesses such as Lenta. Many competitors have slowed down or stopped their expansion, including most hypermarket operators and most of the regional and smaller players. Lenta's robust business model enables us to continue to open high-returning new stores despite the difficult economy.

Lenta opened more hypermarkets in 2015 than in any previous year and increased selling space by over 25%. We are committed to maintaining rapid growth, but also to ensuring that our expansion creates value for shareholders by delivering returns on investment well above the cost of capital.

As part of this drive for growth – and in the wake of our successful IPO in 2014 – the Board launched two capital increases last year. We completed primary capital increases of US\$225 million in March 2015 and US\$150 million in October. The proceeds of these placings have strengthened our balance sheet and provided us with the financial resources we need to accelerate and sustain our planned expansion in 2016 and beyond.

Lenta's standing in the credit markets also improved during 2015 – S&P and Moody's upgraded Lenta's credit ratings and Fitch initiated coverage with a BB-rating. This was in large part driven by our ability to deliver strong growth whilst maintaining prudent financial policies and a consistently healthy financial profile.

Socially responsible business

Notwithstanding the turbulent economic background, increasing pressures on retailers and our own ambitious growth plans, we remain faithful to our simple stated aim of providing our customers with high quality, affordable products.

As a public company and a high profile retailer, we recognise that we have multiple obligations and responsibilities: to our customers, our employees, our suppliers and the wider communities in which we operate. At Lenta, 'doing the right thing' is integral to the way we do business. Delivering on our commitment to act responsibly – whether socially, environmentally or ethically – is fundamental to Lenta's sustainable long-term success.

Accelerating our growth

Lenta confirms its 2016 expansion target to open at least 40 new hypermarkets, significantly more than it has ever opened in a single calendar year. The number of supermarket openings – a format that now has the potential to open up significant market opportunities alongside the considerable scope that exists for us to expand our hypermarket coverage – is also expected to increase in 2016. Looking ahead, we expect to maintain a similar or higher rate of growth in 2017 and beyond.

We expect that as a result of our successful expansion in 2014 and 2015, combined with further acceleration of growth in 2016, we will significantly exceed our previously communicated goal of doubling selling space over the three years to December 2016.

Executing this planned rate of expansion requires exceptional dedication and hard work from colleagues at all levels across the Company. Wherever I go in the business: to our offices, distribution centres or stores, I am always impressed by the enthusiasm and energy of our valued employees, who are the real driving force behind Lenta. I thank them for their efforts this year and look forward to our continued shared success.



John Oliver
Chairman

At a glance

Lenta at a glance

Lenta is Russia's largest hypermarket operator by selling space and the fifth largest food retailer by total sales. In 2015 we were the country's fastest growing food retailer.

What we do

We sell high quality products at affordable prices, providing great value for money for our customers and aiming to provide the best promotional offers in the market. We have more than 8.4 million active loyalty cardholders, who account for over 90% of all sales.

Our strategy

Our growth strategy is to expand our store network rapidly whilst maintaining high like-for-like sales. We combine this with high levels of operating efficiency to generate the returns to finance our growth.

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► **Hypermarkets**

140

We operate 140 hypermarkets across Russia. Located primarily in urban areas for ease of access, they are usually open 24 hours a day, seven days a week. We operate three store formats: standard, compact and supercompact, ranging in size from 7,000 sq.m. to 3,000 sq.m. This flexibility allows us to adapt to a variety of different locations, whilst offering customers the most appropriate products for their needs.

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Lenta private label

12.3%

Lenta private label sales increased to 12.3% of total sales



More highlights of 2015



32

Opened 32 new hypermarkets



Opened our first four supermarkets in St. Petersburg

4



Commenced centralised bakery and culinary operations in nine 'mother' stores

9

▶ Supermarkets

32

We operate 32 supermarkets in Moscow and St. Petersburg. Launched in 2013 and designed for frequent shopper visits, these smaller stores are typically located in urban areas within a 20-minute walk for customers. Delivering high sales densities and strong like-for-like growth, our supermarkets are now established as a core Lenta format.

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▶ Our supply chain

110

Our sophisticated, national supply network comprises our distribution centres and our fleet of 110 delivery trucks. It operates with low costs and short lead times – a key advantage given Russia’s size, time zones and climatic variation. Our supply chain enables high and reliable on-shelf product availability for customers. We now have sufficient capacity to service over 250 hypermarkets.

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▶ Our product range

24,000

We offer a broad range of products in our stores, with an emphasis on high quality and great value for money. Our largest hypermarket format stocks an average of 24,000 SKUs. Our core product range is centrally controlled to ensure a degree of standardisation, but we tailor certain elements of our offering to reflect local preferences. We also have two major private label variants that comprise the most affordable products in their categories.

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3+4

Three new stores and four land plots purchased from O’KEY Group



40%

New LED lighting delivered a 40% saving in energy usage



30.6

Delivered an average of 30.6 hours of training per employee

Where we are

Expanding our reach

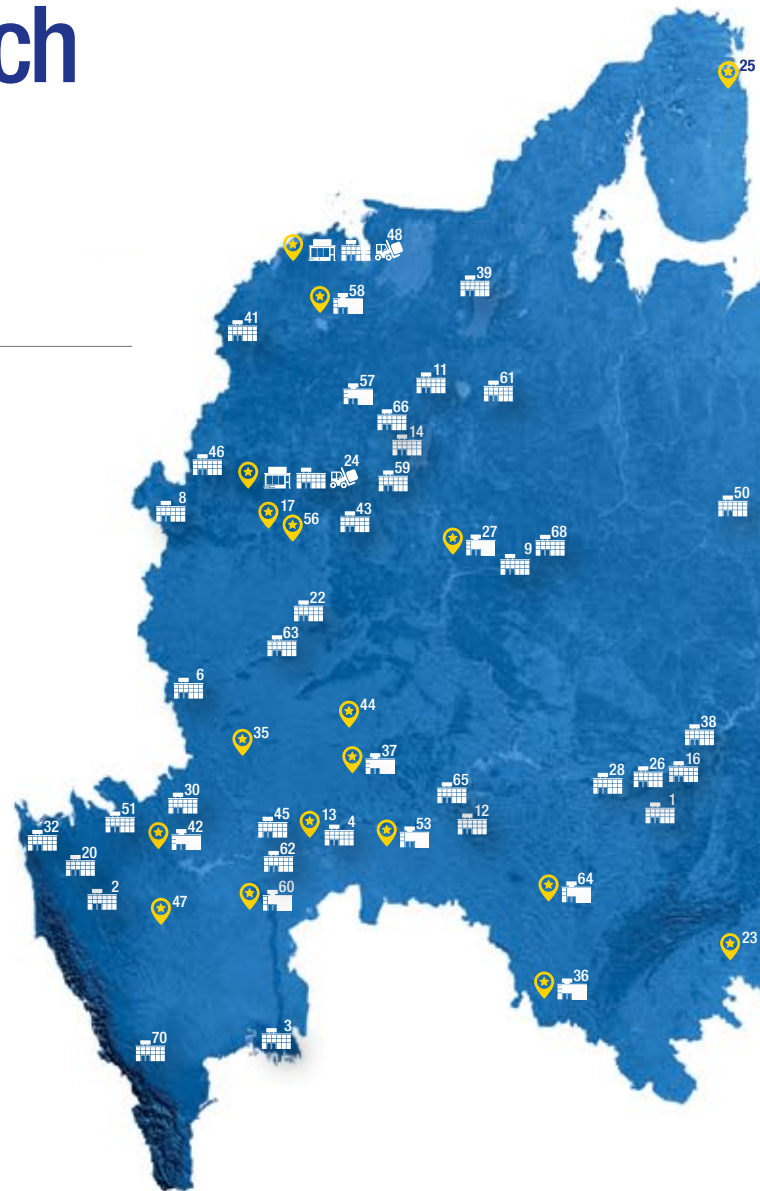
In 2015 Lenta consolidated its position as a genuinely federal chain.

During the year we extended our reach across Russia, opening 32 new hypermarkets and eight supermarkets. These included our most geographically distant store in Irkutsk, some 5,700 km from our home city of St. Petersburg. At the year end we had 140 hypermarkets in 69 cities across Russia and 32 supermarkets in Moscow and St. Petersburg.

During the year we enhanced our regional supply operations with the opening of new distribution centres in Togliatti and Rostov-on-Don and with a further distribution centre in Yekaterinburg being commissioned.

We continue to identify new sites for our stores – both in areas where we already have a presence and in brand new locations. We are stepping up the rate of new openings in 2016, and have 40 new hypermarkets planned for the year ahead.

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New openings in 2015

Hypermarkets

10 Chelyabinsk	3	25 Murmansk	1
13 Engels	1	27 Nizhny Novgorod	1
15 Irkutsk	1	29 Nizhny Tagil	1
17 Kaluga	1	31 Novokuznetsk	1
18 Kemerovo	2	35 Orel	1
19 Khanty-Mansiysk	1	36 Orenburg	1
21 Krasnoyarsk	1	37 Penza	1
23 Magnitogorsk	1	44 Saransk	1
24 Moscow	3	47 Stavropol	1

48 St. Petersburg	3
49 Surgut	1
54 Tyumen	1
56 Tula	1
58 Veliky Novgorod	1
60 Volgograd	1
64 Ufa	1

Supermarkets

24 Moscow	4
48 St. Petersburg	4

Distribution centres

42 Rostov-on-Don	1
53 Togliatti	1
67 Yekaterinburg	1



1st

Largest hypermarket operator by selling space

69

Cities where we operate

140

Hypermarkets

38,414

Employees¹

¹ Average FTE for 2015 was 31,307 employees

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2014 locations



Hypermarkets



Supermarkets



Distribution centres

+ For full list of cities see page 136 of Appendices.

Business model

How we create value



► Lenta loyalty card



Captures information

Captures information about every customer at every point of contact. This enables us to build highly personalised profiles of customer types which we define across ten segments – allowing us to meet the needs of all our customers in a personalised way.



Lenta loyalty card

- + Active cardholders **8.4m**
- + Price advantage for customers **5%**
- + Spend penetration **92%**



Insight drives

- + Direct marketing promotions
- + Pricing
- + Category management
- + Strong relationships with suppliers

Enhances like-for-like sales

► Driving our strategy for growth

Driving Lenta forward

We remain focused on driving the business forward in pursuit of our long-term goals. Our proven strategy enables us to confidently manage and grow Lenta – even in challenging times.



Delivering profitable like-for-like growth



Strengthening our existing presence



Exploiting white space potential



Format evolution

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► Creating value

Earnings per share RUB '000 **+6.7%**

2015	0.112
2014	0.105
2013	0.83

Adjusted EBITDA RUB bn **+31.4%**

2015	28.1
2014	21.4
2013	16.5

Total sales growth RUB bn **+30.3%**

2015	252.8
2014	194.0
2013	144.3

Number of stores **+30.3%**

2015	172
2014	132
2013	87

Number of employees **+9.5%**

2015	38,414
2014	35,100
2013	27,800

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CEO's review

Successful expansion and sustainable profitability



Jan Dunning
Chief Executive Officer

Since our IPO two years ago, Lenta has risen to fifth in the Russian food retail sector, ranked by sales. Our proven low-price/low-cost business model and clear growth strategy enabled us to deliver another strong performance in 2015, leaving us well positioned to sustain this momentum in the year ahead – and beyond.

9.1%

Like-for-like sales up

8.4m

Loyalty cardholders

25.8%

Selling space up

A strong performance

2015 was a challenging year, but Lenta delivered a strong performance. Full year sales rose 30.3% to RUB 252.8 billion (2014: RUB 194.0 billion), including a 9.1% increase in like-for-like sales. For the third year running, we achieved the highest total sales growth amongst publicly quoted Russian retailers. This demonstrates the strength of our offer, the adaptability of our business concept to our customers' requirements and the quality and experience of our team.

In a contracting economy and weakening consumer environment, we surpassed our expansion targets with the opening of 32 hypermarkets – more than any other year in our history – and eight supermarkets. At the year end we operated 140 hypermarkets and 32 supermarkets, with a total selling space of 882,383 sq.m., up 25.8% compared with 2014.

Success in a difficult market

Unsurprisingly, the food retail sector remained extremely competitive in 2015. Feeling the pressures of high inflation and declining real household incomes, Russian customers adjusted their shopping habits accordingly: comparing prices between retailers, buying fewer items, substituting with cheaper goods and making fewer impulse purchases.

At the year end 8.4 million of our customers were active Lenta loyalty cardholders. Analysis of data gained through this programme provided us with valuable insights into our customers' shopping habits. Our knowledge of customer preferences enabled us to adapt and refine our marketing strategy, aligning our product mix, pricing and promotional activity more closely to what they were seeking.

Our industry-leading sales growth demonstrated that customers recognised and appreciated these initiatives; returning frequently to our stores – with more occasional Lenta shoppers becoming regular customers.

We also invested in pricing throughout the year to reduce the impact of inflation on our customers. The strong growth experienced across our private label ranges showed that they responded positively to our ongoing efforts to provide high quality products at low prices. Our pricing and offering proposition, including tailored promotions, continued to be attractive to consumers and resulted in strong like-for-like traffic growth of 3.9%.

Positioned for further growth

Strong cash flow generation from our operations and the two 2015 primary equity issues funded most of our capital expenditure in 2015. At the year end, our financial position was stronger than ever – and our reduced leverage and strong investment returns mean we are well positioned to grasp the strategic opportunities we see in the Russian market.

The foundations of our strong 2015 performance lie in our robust and adaptable low-price/low-cost business model, which in turn enables us to pursue our strategy for sustainable growth. In line with our strategy, we strengthened our presence in all our key regions, the largest of which is now Siberia, with some 20% of our total selling space.

Last year we opened our most geographically distant store in Irkutsk, close to Lake Baikal, some 1,850 km from our Novosibirsk distribution centre and 5,700 km from our headquarters in St. Petersburg. With stores as far north as Murmansk in the Arctic Circle and – in February 2016 – a newly-opened hypermarket in Grozny, the Chechen Republic, we have confirmed our position as a truly federal chain. We also opened a new distribution centre in Yekaterinburg – our first in the Ural federal district.

Towards the end of the year we opened our first four supermarkets in St. Petersburg. We plan to further extend our footprint in this format, as well as continuing to roll out supermarkets in Moscow.

Our suppliers faced their own challenges in 2015 and our negotiations with them were conducted in a spirit of fairness and mutual respect. They remain eager to work with Lenta as they recognise the speed of our growth and the value our customer insight can bring to their own businesses.

Outlook

Our 2015 results demonstrate that Lenta's low-price/low-cost business model is robust, resilient and well suited to the prevailing challenging environment. That we have excelled in such difficult circumstances is testimony to the strength, skills and experience of our inspirational management team. We met our full year sales guidance last year – and have sustained solid momentum into 2016 with continued good growth.

In the year ahead, we plan to accelerate our store-opening programme with a target of 40 new hypermarkets in 2016. We are identifying more opportunities than ever, both in cities where we already have a presence and in new ones, including the three remaining Russian cities with more than one million inhabitants where Lenta is not yet established.

While our growth plans are ambitious and exciting, we never forget that our principal focus is on delivering shareholder value through looking after our customers. Hence our accelerating expansion will be delivered without sacrificing either quality or healthy investment returns.

Despite the recession, our newly opened stores are delivering returns in line with our expectations and we continue to work with our suppliers to provide the best offers to our customers. The ongoing volatility of the macroeconomic and consumer environments makes it difficult to predict exactly how the market will develop in 2016. However, our robust business model, growing new store pipeline and strong balance sheet mean we look forward with confidence to the year ahead.



Jan Dunning
Chief Executive Officer

Market overview

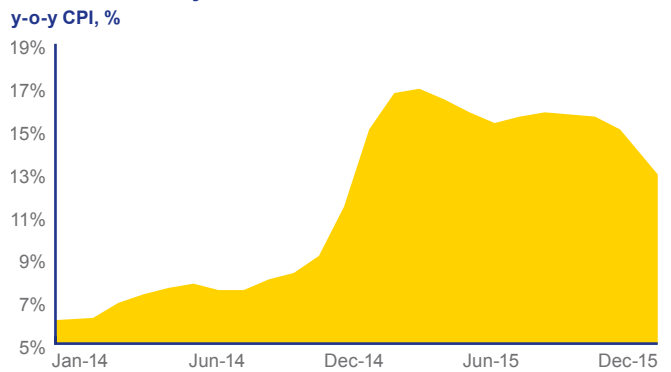
Market with growth potential

The macroeconomic and consumer environments in Russia deteriorated sharply during 2015, with high inflation and increasing pressure on customer incomes. Consequently the intensely competitive conditions in the food retail market also persisted. Price-sensitive consumers continued to trade down, seeking to spend less by focusing on lower volume purchases, becoming more promotion-driven and shopping around more actively.

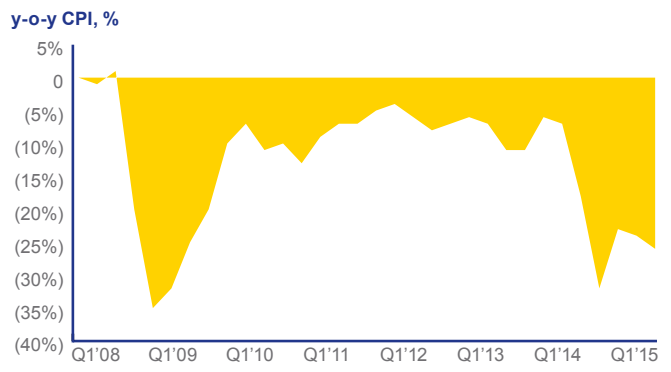
A challenging economic and consumer environment

From 2010 to 2013, economic growth resulted in a significant increase in average wages, disposable income levels and a more even distribution of wealth. The rate of growth slowed in 2014, with plunging oil prices, economic sanctions and counter-sanctions leading to further slowing in the second half of 2014. By early 2015 the Russian economy had fallen into recession, with GDP falling by 3.7% over the year as a whole. Inevitably, there was a major deterioration in the consumer environment, with a step up in inflation significantly outpacing growth in disposable incomes as well as a further deterioration in already weak levels of consumer confidence. Growth rates in food sales declined throughout the year and consumer confidence fell back to 2009 levels.

Inflation monthly evolution



Consumer confidence index



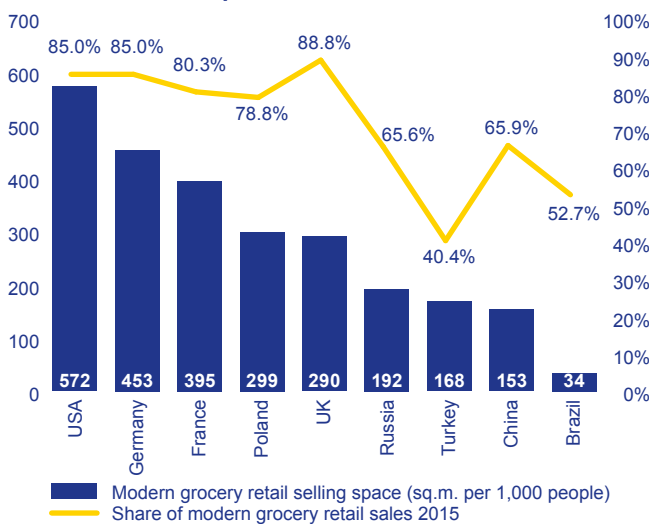
Compared with more developed economies, the market share of the largest grocery retailers is much lower in Russia.

A strategically important and attractive market

Despite the current difficult trading conditions, the Russian food retail market remains strategically attractive. With a population of 146.3 million, almost three quarters of whom live in urban areas, Russia is the most populous country in Europe. The market is both fragmented and under-penetrated by modern retail formats relative to other European and many emerging markets.

The food retail market is characterised by its high but shrinking share of 'traditional' formats, with many consumer transactions still conducted over the counter, in covered markets or via pavilions and kiosks. The share of 'modern' formats has been increasing for many years and this trend has accelerated as a result of the recent economic downturn, with modern retailers' share reaching 65% in 2015.

Modern food retail penetration

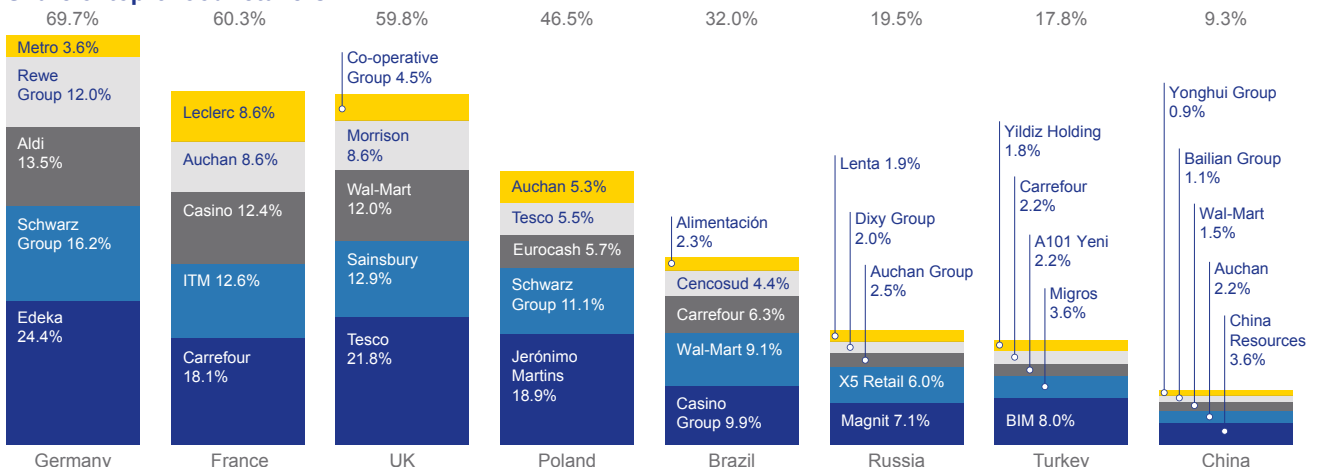


Industry sources indicate that the growth of modern retail formats is expected to continue. This is largely due to their consumer appeal and new selling space additions, but also as a result of government initiatives aimed at promoting quality control and the population's well-being.

Among modern retailers, the five largest players (including Lenta in 2015) have a presence in most regions and are considered 'federal' chains. The market share of this group increased from 17% in 2014 to 20% in 2015. The share of the top five nonetheless remains very low by international standards.

Source: Euromonitor

Share of top-5 food retailers



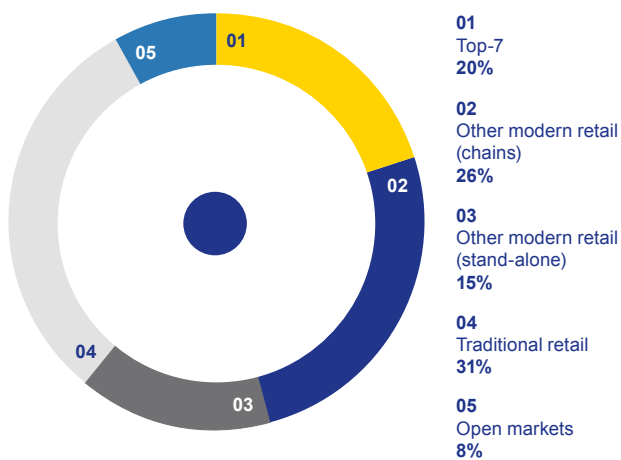
Source: Euromonitor

Most market commentators expect the large federal chains to continue to increase their share of the food retail market relative to smaller and more traditional players. This trend is expected to be driven by their higher selling space growth,

which is in turn enabled by the substantial economies of scale of the federal retail chains, their higher levels of technological sophistication and their ability to procure goods at lower prices, leading to more competitive prices to the consumer.

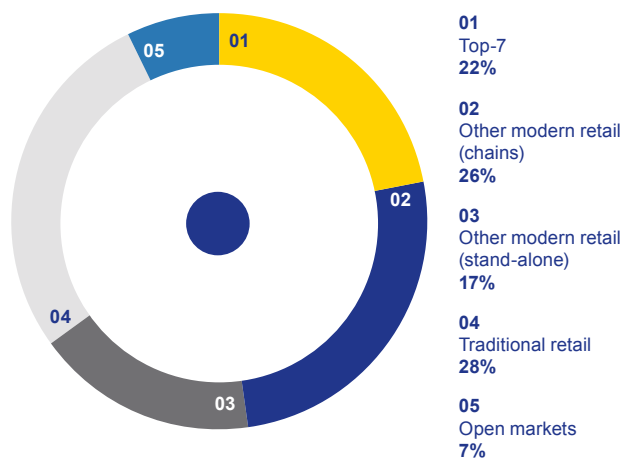
Market overview continued

Russian food retail market structure 2014



Source: Infoline

Russian food retail market structure 2015

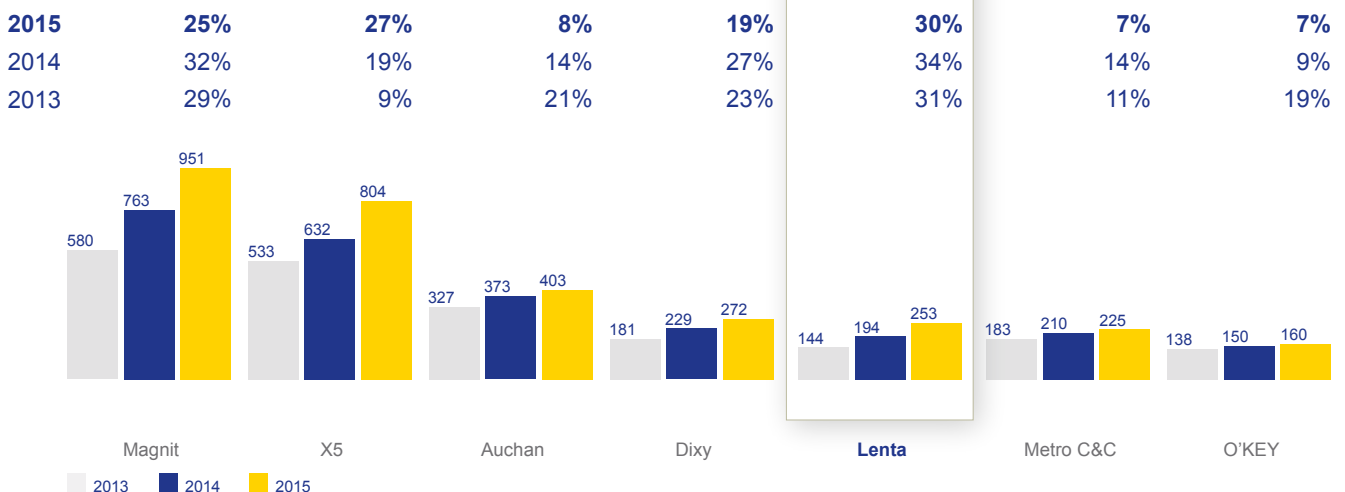


Historically, Moscow and St. Petersburg were viewed as distinct from the rest of Russia due to their size, consumer sophistication and relatively high levels of disposable income. Although they still account for a significant proportion of sales volumes, their share has been declining steadily over the past decade as that of other regions has grown. According to Infoline, other regions accounted for 48.9% of sales in 2015 compared with 44.7% in 2003.

In 2015 Lenta was the fastest growing federal grocery retailer for the third consecutive year and overtook Metro to become the fifth largest retailer nationally in terms of sales.

Top Russian food retailers by sales, RUB bn

y-o-y sales growth, %



Source: Infoline and public data for listed food retailers

Lenta was the fastest growing retailer in Russia in 2015 with sales growth well ahead of the average growth of other 'federal' retailers and the market.

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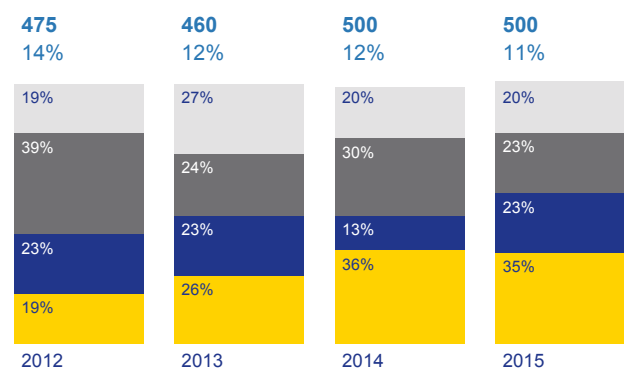
Hypermarkets – an attractive segment in which Lenta is a major player

The hypermarket is now established as a popular format and the last ten years have seen an extensive roll-out of hypermarkets across Russia. Their penetration varies widely however, with large and relatively affluent cities often having low penetration ratios.

Two main groups of hypermarket players operate in Russia: six federal chains (including Lenta) and a large number of much smaller regional/local retail operators.

In common with the overall food retail market, the share of the federal operators in the hypermarket segment has been growing over time, largely as a result of their faster selling space expansion relative to smaller operators. In 2014 and 2015 the six federal chains with large hypermarket businesses added approximately 80% of all new hypermarket selling space.

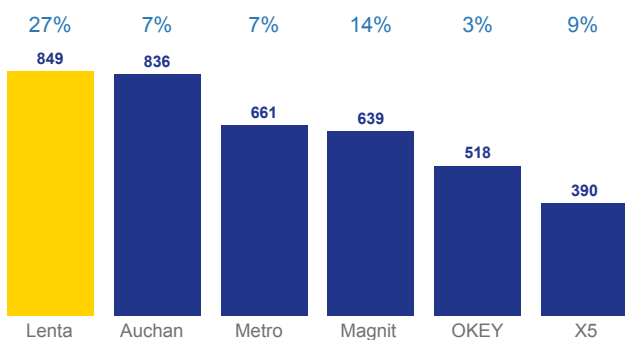
Hypermarket selling space increase by Top-150 retailers
Share of selling space added, %



XX Hypermarket selling space added, '000 sq.m.
XX% Hypermarket selling space growth, %
■ Lenta
■ Listed Big 3 includes Magnit, X5 and Dixy
■ Other Big 3 includes Metro, Auchan and O'KEY
■ Others includes retailers ranked #8–150 for 2015 and #8–130 for 2012–2014

According to Infoline data monitoring of the 130 largest Russian FMCG retail chains in 2012–2014 and the 150 largest Russian FMCG retail chains in 2015.
Source: Infoline

Top Russian hypermarket players by selling space as at 31 December 2015, '000 sq.m.



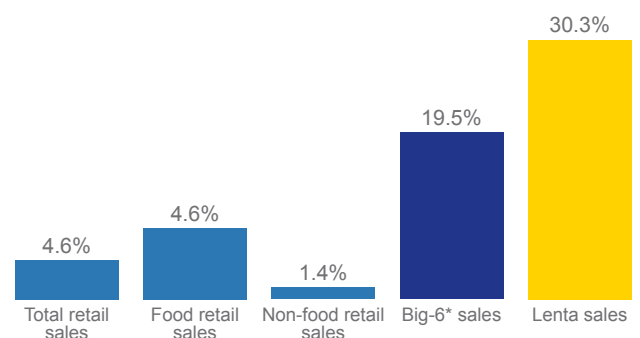
XX% y-o-y selling space growth, %

Source: Infoline and public data for listed food retailers

Among the federal hypermarket operators, Lenta has grown fastest in terms of selling space in recent years, with a share of around 35% of all new hypermarket selling space in 2014 and 2015. Lenta overtook Auchan to become the number one hypermarket operator in Russia by selling space in 2015.

Although some federal chains slowed their rate of expansion in 2015, most market commentators nonetheless expect the large federal chains to continue to increase their share of the hypermarket segment relative to smaller players.

2015 Nominal sales growth



*Big 6 includes Magnit, X5, Dixy, O'KEY, Metro and Auchan.

Source: Rosstat and public data for listed food retailers

Strategy

Driving Lenta forward

Trading conditions in 2015 continued to be difficult. However, we remained focused on driving the business forward in pursuit of our long-term goals. Our proven strategy enables us to confidently manage and grow Lenta – even in challenging times.

Strategic priorities



Delivering profitable like-for-like growth



Strengthening our existing presence



Exploring white space potential



Format evolution

Overview

Progress in 2015

Plans for 2016

Continued focus on investment in our low-price/low-cost business model ensures that increasing numbers of loyal customers drive sales in our existing stores. We maintain our price leadership through a variety of mechanisms including tailored and seasonal promotions, focused category management and analysis of customer preferences through our Big Data Customer Insight Programme.

We adapted well to the year's challenging economic conditions, adjusting our ranges and tailoring our promotions to help our customers' budgets stretch further. Shoppers appreciated our efforts and like-for-like customer traffic in our stores rose by almost 4%, with like-for-like sales up just over 9%. The average like-for-like ticket increased by 5%.

We will continue to provide more of what our customers want. Careful editing of our category assortment using data derived from loyalty card use will help us refine the ranges we offer and create appealing promotions that cater to local conditions and tastes. Ongoing rigorous control of our cost base will help us retain our price leadership position.

[+ Read more on page 31](#)

With our substantial land bank and healthy project pipeline, we see numerous opportunities for us to strengthen our position in areas where we already have stores. Consolidating our presence in this way enables us to take advantage of existing high brand awareness and established infrastructure – as well as our strong relationships with local suppliers, contractors and the wider community.

We reinforced our position in all the key regions across Russia in 2015. We grew our market share in areas where we already have an established presence, proving that – with careful planning – good opportunities still exist for Lenta in highly developed urban areas, without cannibalising sales from our neighbouring stores.

With our stable and loyal customer base, we continue to see excellent opportunities for our store opening programme across Lenta's existing cities. The year ahead will also see us develop hypermarkets on four plots of land acquired from O'KEY Group in Chelyabinsk, Omsk, Taganrog and Tomsk.

[+ Read more on page 25](#)

Despite the economic downturn, the potential for Lenta to expand across Russia's large and fragmented market represents a significant strategic opportunity. In many towns and cities there is little penetration by modern retail formats – particularly hypermarkets. We work collaboratively with local authorities, which are generally supportive of the investment and employment we bring to the area.

Despite the difficult economic environment, we accelerated the expansion of our operations across Russia. We opened stores in 11 new cities, taking the total number of cities where we have a presence to 69. We were Russia's fastest growing hypermarket operator.

We will continue to identify new opportunities for expansion. These include the remaining three cities of over one million people where we have yet to open a store. With growth accelerating, we remain on track to exceed our target of doubling selling space in the three years to December 2016.

[+ Read more on page 24](#)

Developed to meet a variety of local needs, our standardised hypermarket formats are highly cost-effective. They enable us to rapidly plan and build precisely the right store for the available site and expected customer traffic. Our complementary supermarket formats provide us with an additional growth option, designed for frequent visits from local residents, commuters and passers-by in high-density urban areas.

We created two new lower capital expenditure cost variations of our compact hypermarket formats and a new supermarket format, which will enable us to deliver the most appropriate size and type of store for every location. We also redesigned some aspects of our sales areas and display layouts to draw customers' attention to promotions and our great value private label ranges.

We will continue to develop and refine our store formats, enabling us to take advantage of new opportunities as they arise. We are aiming to open at least 40 hypermarkets in 2016, with a particular focus on the compact format.

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Operating review

Another strong performance

Lenta strengthened its position in all key Russian regions in 2015 and was Russia's fastest growing food retailer for the third year running. The year was noteworthy for the continued success of our accelerated store opening programme, coupled with a strong operational and financial performance.

11

New cities taking the total to 69

188,100

188,100 sq.m. of new selling space



2015 sales were up almost a third on the previous year, growth which was in line with our own guidance. Total sales for the year were up 30.3% to RUB 252.8 billion (2014: RUB 194.0 billion).

Like-for-like sales grew 9.1% and we experienced a 3.9% rise in customer traffic across our store base. The average like-for-like ticket grew by 5.0%.

Lenta was not immune to 2015's difficult trading environment. However, our operations were able to adapt early and well to the effects of these challenging conditions on our customers, helping them spend less as the pressure on household budgets intensified. Our results demonstrate the strength of our customer proposition and our ability to perform well in all economic conditions. Our resilient, adaptable and efficient business model underpins this; consequently we remain confident in our ability to adjust, trade and win in the Russian market – however strong the headwinds.



We continued to push on with our expansion strategy and opened stores in 11 new cities. At the year end Lenta had a presence in 69 cities across Russia. We added a total 188,100¹ sq.m. of new selling space, and now have total selling space amounting to 882,383 sq.m. – an increase of 25.8% year-on-year. As a result of our 2015 expansion and further acceleration of growth, we will significantly exceed our previously stated goal of doubling selling space over the three years to the end of 2016.

Lenta's strategy is to own most of its stores, thus shielding the business from fluctuations in rental pricing and the potential loss of store leases. We do take leasehold stores where such opportunities meet our requirements and, for our supermarket format in particular, this is an effective means of accessing suitable locations for expansion. As at 31 December 2015 we owned 81% of our selling space compared with 85% at 31 December 2014. We apply rigorous and proven investment criteria when evaluating new store openings, with a disciplined approach to the selection of locations and returns on investment.

Strengthening our existing presence

We continued to increase our market share in areas where we are already established. Our low-price/low-cost business model generates considerable customer loyalty, which boosts profitable like-for-like growth. With a substantial land bank and project pipeline, continued consolidation of our share in existing markets remains a core element of our strategy. Most newly opened stores do not significantly cannibalise sales from existing stores, highlighting the fact that considerable opportunities exist even in developed urban areas. Moreover, our range of proven store formats provides us with the flexibility to provide any location with the most appropriate size and type of store.

¹ Adjustments to reported selling space

Lenta made some adjustments to the selling space of its operating hypermarkets and supermarkets across the country. This resulted in a reduction of 6,824 sq.m. of selling space (-0.8%), giving a total of 882,383 sq.m. as of 31 December 2015. These adjustments were related to store reconstruction, refurbishment, renting out excess selling space to third parties or conversion into production areas to support the centralisation of own in-store produced food. As a result, selling space was reduced at some stores, but increased at others. The most significant change was related to the standard format hypermarket in Vladimir (acquired in December 2014) where selling space was brought in line with Lenta's business concept – from 9,058 sq.m. to 6,252 sq.m. All the changes are reflected on the Company's website at <http://www.lentainvestor.com/en/about/lentas-geography/our-hypermarkets> and <http://www.lentainvestor.com/en/about/lentas-geography/our-supermarkets>.

	As at 31 Dec 2015	As % of total selling space at 31 Dec 2015
Selling space adjustments (sq.m.)	-6,824	-0.8%
Hypermarkets	-7,039	-0.8%
Supermarkets	215	0.6%

Operating review continued



Hypermarkets

Our hypermarkets are typically located in easily accessible, high-traffic urban locations in residential areas – and are usually open 24 hours a day, seven days a week. In many cities, we were the first retailer to introduce a modern format hypermarket, which has facilitated our access to prime store locations and helped us establish a stable and loyal customer base.

Lenta operates three hypermarket formats. Our standard format typically has 7,000 sq.m. of selling space, our compact format has an average of 5,000 sq.m. and our supercompact, 3,000 sq.m. The largest of these stocks an average of 24,000 SKUs while the supercompact carries around 15,000 SKUs.

We opened 32 hypermarkets in 2015, exceeding our own guidance, and establishing a record for the number of hypermarkets opened by Lenta in a single year. Of these, 13 were opened in seven cities with more than one million

inhabitants. Eighteen stores were opened in the last quarter alone: four standard stores in Chelyabinsk, Kemerovo, St. Petersburg and Surgut, one leased standard store in Nizhny Novgorod and eight owned compact stores in Chelyabinsk, Moscow, Krasnoyarsk, Kaluga, Orenburg, St. Petersburg, Ufa and Khanty-Mansiysk. We also opened four leased compact stores in Saransk, Tula, Stavropol and Irkutsk, as well as a leased supercompact store in Penza.

Encouragingly – and despite the recession – our new hypermarkets are already delivering returns in line with expectations, with greater efficiencies offsetting any impact on sales attributable to the difficult overall market environment.

In September we announced the acquisition of three new stores – two in Chelyabinsk and one in Volgograd – and four land plots from O'KEY Group, further strengthening Lenta's presence in these cities where we are already established.

At the end of the year, the total number of Lenta hypermarkets stood at 140 and we became the number one hypermarket retailer by selling space in Russia. Despite the ongoing economic uncertainty, we continue to see considerable potential for expansion. Russia is a large and fragmented market, with a widespread scarcity of modern retail formats. Our healthy pipeline of store development and flexibility of formats, combined with our strong balance sheet and industry-leading performance ratios, mean that we are well positioned to take advantage of the opportunities ahead.

We believe that the medium- to long-term prospects for the Russian modern food retail sector remain positive. We therefore aim to continue to expand, bringing the advantages of the Lenta offer to more customers by opening at least 40 new hypermarkets in 2016, with a greater focus on compact format stores.



Increasing customer loyalty



In December 2015 Lenta and Masha and the Bear Company, creator of one of Russia's most popular cartoons, ran a nationwide promotion aimed at increasing customers' loyalty. Attended by popular actors, the launch event took place in Rostov-on-Don and featured a large number of gifts and prizes. Throughout the promotion, for each RUB 1,200 spent at any Lenta hypermarket, customers received a pack of Masha and the Bear stickers at the cash desk and were able to obtain a calendar for collecting the stickers. The promotion proved very popular in all of our stores.

	Standard	Compact	Supercompact
Total sq.m. of selling space	590,493	215,577	42,802
Number of hypermarkets	83	44	13
Selling space/store (sq.m.)	7,000	5,000	3,000
Total space/store (sq.m.)	13,200	8,900	5,600
Number of parking spaces	500	400	150-200
Plot size (ha)	4	2.5-3	1.2
SKUs	23,800	20,300	15,000
Non-food space (sq.m.)	2,000	1,300	700
Non-food space share (%)	29	28	19
Non-food sales share (%)	13	12	6
Capex/owned store ¹ (RUB m)	1,000-1,100	850-1,000	600-700
Capex/rental store ¹ (RUB m)	250-350	200-270	230-260

¹ Excludes cost of land (estimated at RUB 20-60m/ha).

Operating review continued



Supermarkets

Launched in Moscow in 2013, our supermarkets are now firmly established as a core Lenta format and delivered high sales densities and strong like-for-like growth in 2015. Designed for frequent shopper visits, typically within a 20-minute walk for customers, our supermarket operations experienced robust like-for-like sales growth of 15.1% last year, and an increase in like-for-like customer traffic of 7.7%, with the average like-for-like ticket increasing by 6.8%.

We opened eight supermarkets in 2015, bringing the total to 32. We opened our first four leased supermarkets in St. Petersburg – and will continue our expansion here in the year ahead. We will also continue to roll out this format in Moscow. We are also looking at expanding into other regions, given the potential for growth with high returns on investment that Lenta's format offers. We will open a new owned distribution centre for our supermarket operations in Moscow in 2016 and expect to open significantly more supermarkets this year than we did in 2015.

During 2015 we integrated our supermarket organisation more fully with our hypermarket business, enabling us to derive more long-term synergies with our hypermarkets.

Lenta loyalty card

We operate a very popular and effective loyalty card programme for our customers. At the end of the year we had over 8.4 million active cardholders, an increase of 29% on the previous year. Customers benefit from a 5% minimum discount on their purchases and have exclusive access to special and seasonal promotions with discounts up to 50%. They are also able to accrue virtual bonuses, which can be applied to future purchases.

Approximately 92% of customer spend is linked to loyalty cardholders. During the year we conducted three 'thank you' mailshots, comprising a total of 476 product offers sent to 2.3 million customers. These offers are tailored so that for example, new parents can obtain discounts on baby food or nappies.

Independent research shows that the Lenta loyalty card is highly valued by shoppers. In November 2015, O&K Research's Retail Market Advertising Tracking found that Lenta was the market leader amongst food retailer discount cardholders, with over half of respondents having a Lenta card. Some 40% of cardholders always carry it in their wallet, with 39% asserting that the card delivers a significant saving whenever they use it. Lenta was the loyalty card leader across all indicators in the North West, and in the Volga and Siberia-Ural regions. In regions where the share of cardholders was lower than a competitor, Lenta's card was nevertheless recognised as the one that delivered better value.



Big Data Customer Insight Programme

We are able to track the purchases each customer makes using their loyalty card. This has enabled us to assess the development of our substantial customer base and develop an excellent understanding of customers' shopping habits.

In 2013 Lenta became the first Russian food retailer to use technology to analyse customer preferences based on the purchases made via loyalty cards. Today our Big Data Customer Insight Programme uses information from loyalty card transactions to help us plan our development and strategy, manage our sales and marketing and make better, more informed decisions about our business. Our ability to analyse customer profiles gives us valuable information about their product preferences. This in turn helps us refine and tailor our approach to all aspects of our offer: from product development, pricing and promotions to in-store displays and staff training.

With continued pressure on already squeezed household budgets, our customer insights helped us maintain our competitive edge in 2015, enabling Lenta to provide customers with a wide range of timely, relevant, attractive benefits and promotions aligned to their immediate needs. Depending on their preferences, the frequency of their purchases and average spend, Lenta customers fall into one of ten categories. We use this segmentation to adapt our product range, merchandising and advertising. For example, the Big Data Customer Insight Programme showed us that whereas customers used to respond well to 'three for two' offers, they were now looking for 'two for one' discounts, so we adjusted our promotional emphasis accordingly.

Personalised discounts are provided by scanning the loyalty card and providing coupons for previously purchased products. We can then track detailed buying patterns to see how a customer's habits are changing – and provide tailored promotions based around their lifestyle and preferences.

Product range

We offer a broad range of products in our stores, with an emphasis on high quality and great value for money. While our core product range is centrally controlled to ensure a degree of standardisation across our network, we tailor certain elements of our offering to reflect local preferences – and detailed analysis of loyalty card use enables us to edit our category assortment. Given Russia's size and the variations in taste across the country, this not only makes good business sense for Lenta, it also sets us apart from our competitors.

Lenta's standard hypermarket carries around 24,000 SKUs, which is 30-40% fewer than some of our competitors in a hypermarket format. This enables us to benefit from supply chain and in-store efficiencies and helps our customers quickly find the products they really need.

We place particular emphasis on lines that are attractive to families and women. Certain product categories are designated as 'destination' categories, characterised by especially attractive

Operating review continued



assortments and pricing to draw customers to our stores. Examples include fresh and ultra-fresh foods, dry groceries, baby care and toys.

In 2015 just over 40% of sales from both store formats were of fresh food, with dry groceries comprising 47% and non-food items just over 12%. The proportion of non-food items sold in hypermarkets was 12.7% compared with 2.7% through our supermarkets. Food sales (fresh food and dry food) grew by 32.1% in 2015. Our non-food range, which includes household goods, basic clothing, seasonal goods and a smaller-scale offer of kitchen aids and home appliances comprised 12.3% of sales and grew by 19.2% in 2015.

In contrast to many of our competitors, our business model emphasises regional and local sourcing. We obtain products from a variety of local and federal suppliers and increasingly prepare much of our fresh food – such as own-baked bread and cakes, salads and prepared meals – either through centralised production or in-store facilities.

Sales from our own production amounted to RUB 31.8 billion, which accounted for 13.1% of our total sales. Centralised production has enabled us to optimise several of our processes and significantly reduce our staffing and equipment costs. In 2015 we commenced centralised bakery and culinary operations in nine ‘mother’ stores, which in turn supplied a further 12 ‘daughter’ stores and we now have centralised production of bread products in 38 stores across Russia.

In December we opened an automated vegetable peeling line at one of our hypermarkets in St. Petersburg. This facility currently serves several stores locally, but we are planning to deliver peeled vegetables to all our stores in the North West region in future. Peeled vegetables are used in the production of our own prepared foods and we also plan to sell them as a separate product. The coming year will also see us expand our own production capabilities further with additional categories such as Korean salads, pickled and fermented foods and the introduction of in-store express ‘bake-off’ technologies.

Taking control of production and sourcing raw materials directly enables us to maintain consistently high levels of quality control and on-shelf availability, while keeping our costs down and our pricing competitive.

Our customers continued to appreciate the benefits of our low-price/low-cost business model. Our extensive private label range reinforces our value-for-money proposition and provides quality everyday products at cheaper prices than brand-name alternatives. We strive for a position of local price leadership, aiming to be at least 5% cheaper than the next competitor.

We have two major FMCG private label variants: our ‘365 days’ range, which comprises approximately 800 of the most affordable food and non-food products in their categories and the ‘Lenta’ range of around 500 mid-range products, comparable in quality to – but priced at least 15% below – their branded equivalents. Launched in 2014, our ‘Bigga’ toys brand and ‘Actico’ sports/leisure brands performed well during the



year and we upgraded our 'Home Club' household goods private label.

During 2015 we took a variety of steps to respond to the difficult macroeconomic environment, including selectively adding to our SKU count in lower-priced goods, enhancing our private label range and emphasising our offering of non-food essentials. Recognising the quality of our own ranges, customers have become increasingly loyal to our private label brands and sales of these products rose to 12.3% of total sales, compared with 11.7% in 2014.

Price leadership and promotions

Lenta's core proposition is delivering value for money. In partnership with our suppliers we work towards lower on-shelf inflation, passing the benefits to our customers. Our strong profit performance derives not from high margins, but from high store traffic, high sales density and a low cost base. Our private label range of everyday essentials offers affordable quality and our loyalty cardholders benefit from

a 5% discount on their purchases, as well as from attractive, tailored promotions.

During 2015, we continued to adhere to our price leadership strategy, despite the tough macroeconomic environment. As retailers fought hard to win consumers' spend, we continued to monitor the pricing strategies of our competitors – both national and local – on an ongoing basis to ensure we maintained a leading position.

We maintain a long-term promotional calendar, which is continuously updated in the light of sales feedback and market opportunities. Promotional activity is tailored to local tastes and buying patterns, which attracts new customers, builds loyalty and heightens brand awareness. Promotions accounted for 33.4% of total sales in 2015 compared with 27.6% in 2014 – and reached an all-time high of 41.5% in December 2015.

We advertise weekly promotional deals – especially on fresh foods – across a wide variety of media including

store façade signage, billboards and local TV, radio and the internet. We publish a fortnightly summary of all our offers for distribution in stores and in local neighbourhoods. Seasonal and event-driven discounts also occur throughout the year. For example, we reduce the prices of our flowers in the period leading up to International Women's Day on 8 March and run substantial promotions around Easter with significant discounts on eggs. Every September features a month's worth of discounts as part of Lenta's birthday celebrations, with discounts for certain products as high as 50%.

We also run targeted promotions to reconnect with customers whose patronage has declined and use a range of marketing tools to preserve our customer base in the event of a competitor store opening nearby.

In 2015 we continued to improve our pricing and promotions communications through both conventional and digital channels.

Operating review continued



Distribution

Russia's size presents federal food retailers with considerable logistical challenges, particularly with regard to travel distances, time zones and climate variations. Our rapid growth therefore depends on a robust, flexible and efficient supply chain. We seek to achieve a balance between deliveries shipped via our own distribution centres and direct deliveries from suppliers to our stores.

Our distribution centres incorporate highly efficient pick-by-line, cross-docking and central storage processes, which reduce operating costs and increase in-store availability.

During the year, we enhanced our supply operations with new distribution centres in Rostov-on-Don and Togliatti coming fully on-stream and the opening of a new distribution centre in Yekaterinburg, giving us the capacity to serve over 250 supermarkets. This regional expansion has facilitated increased centralisation of our operations, leading to economies of scale and lower net

distribution costs. We also optimised the return journeys of our trucks back to distribution centres, basing them on real need and benefiting from the consequent cost savings.

The centralisation ratio for our hypermarket format increased to 45% in 2015 and at the year end the centralisation ratio for our supermarkets stood at 68%. The average distance for goods transported was 635 km per pallet compared with 896 km per pallet in 2014, a decrease of 29%. Although our new stores in the Siberia and Ural regions necessitated transportation of goods over longer distances, this was offset by the positive impact from a higher share of stores in cities where we already have a presence and the new Yekaterinburg distribution centre.

We continued to build up our truck fleet during the year, aimed at giving us greater control of the supply chain. At the end of 2015, our fleet comprised 110 owned delivery trucks. Our owned fleet handled 39.3% of all deliveries to our stores (2014: 35%). In the year

Winning collaboration



Lenta was awarded 'Best case in the area of supply chain optimisation' in the annual ECR Awards for a collaborative project with Unilever, which resulted in savings in warehouse processing time and logistics costs. The awards support and promote the best examples of successful cooperation between suppliers and retail chains.

ahead, we plan to further expand our capacity, focus on efficiency gains and increase our own truck fleet share to 50%, which will improve reliability and reduce costs.

Purchasing and supplier partnerships

Lenta maintains strong relationships with its key suppliers, whilst at the same time employing a highly diversified regional and local supplier base. In 2015, we continued to work with our suppliers to minimise inflation for our customers, leveraging the scale of our buying into lower costs. Every Lenta supplier must meet stringent safety and quality standards, with legally compliant packaging and all necessary consumer information.

Our store opening programme across the country introduces Lenta to numerous local suppliers and we



work hard at cultivating and nurturing relationships with them – especially those offering local/regional or specialist products with local customer appeal. The overall number of suppliers increased in 2015 to almost 3,000 due to Lenta's rapid expansion across Russia and the higher number of local and regional providers. During 2015, over 96% of all product purchases were sourced in Russia including over 22% from local suppliers within the region where we operate. Over 50.3% of our fresh food was obtained from local suppliers. Not only do such relationships benefit local and regional economies, they often provide more competitive pricing than federal suppliers.

We analyse our regions and consider new suppliers on a quarterly basis. We also participate in regional exhibitions to extend our ranges of those products that appeal to particular local tastes. The number of direct import suppliers declined in 2015 as a result of the import embargo and devaluation of the Rouble.

Our high growth rate offers a very efficient and flexible channel to market for our suppliers. Since they benefit from our fast growth and flexibility, many of them reward us for these benefits with improved purchasing terms and conditions.

These in turn increase our competitiveness for customers and also support our margins. Potential suppliers can also approach Lenta directly, accessing our commercial departments or via our website.

	2015	2014	Change
Suppliers total	2,816	2,524	+292
Direct import	233	259	-26
Sourced in Russia:	2,583	2,265	+318
Federal suppliers	1,114	1,128	+16
Regional/local suppliers	1,439	1,137	+302

Operating review continued



Gold award in the CIS Innovation Category at the SAP Quality Awards 2015.

IT
Lenta's IT strategy is based upon a suite of fully integrated best-in-class business applications, including applications from SAP, Oracle and JDA. These support all key aspects of our business including supply chain operations, cash and inventory management, centralised purchasing and pricing and in-store systems, as well as HR, finance and other administrative functions.

In 2015 Lenta was declared the Excellence Winner of the SAP Quality Awards 2014 in the SAP HANA category for the CIS. We were the regional Silver Winner for the entire SAP EMEA region in the HANA Innovation category; a recognition of our application of quality principles to ensure the successful implementation of the SAP project. Lenta was also acknowledged as a technology leader by Oracle, winning its 'Best Innovation Project 2015' award.

Our clear IT strategy encompasses state-of-the-art in-memory solutions including SAP HANA and Oracle Exadata. Lenta's advanced systems are therefore designed for scalability as well as reliability and performance; our system in its current form could potentially support a network of over 500 stores, without the need to replace core applications. During the year we increased the capacity of these performance-enhancing systems to ensure they remain capable of supporting our ongoing rapid expansion.

In 2015 we upgraded our point of sale system, which is now based on state-of-the-art technologies and supports our growing business requirements. We rolled it out across our stores during the year and by December it was operational in 118 stores, with 4,000 employees having been trained on the system.

We also automated several processes in our hypermarkets and supermarkets with the introduction of Personal Digital Assistant (PDA) devices. These included a Mobile Stock Management system, which is based on the SAP Mobile Platform, integrates seamlessly with Enterprise Resource Planning (ERP) and increases our in-store operations' performance in the applicable areas by between 30-60%. By the end of the year, functionality was installed in all 27 supermarkets and 17 hypermarkets in our Moscow and North West regions.

We continued the roll-out of JDA Demand and Fulfilment software, which now operates in all our distribution centres and stores and covers all our ranges except fresh food and non-food. We also implemented the EGAIS system, which enables the transparent management of alcohol turnover in our distribution centres and stores, as required by Federal Law.



Merchandising

We developed a new supermarket format, based around the concepts of 'focus on fresh – low prices – easy to shop'. Three planning sizes from 350-1,200 sq.m. have been evaluated with corresponding product ranges, enabling us to retain flexibility to adjust to prevailing site availability and rental conditions.

We have developed clear standard designs for our stores. Each has a logical and easy-to-navigate layout that provides customers with a convenient, efficient and pleasant shopping experience. Our hypermarkets feature high-rack storage that visually reinforces our value-for-money proposition and maximises the sales area by reducing storage space.

Store layouts are specifically designed to draw attention to fresh food products with centrally located, visually attractive fruit and vegetable displays and a prominently placed promotions aisle for weekly and special offers. The 'Children's World' area is typically placed near the entrance, emphasising Lenta's 'family first' ethos to customers as they enter the store.

We use sophisticated technology that combines store-specific data with Company-wide presentation principles to create planograms. These help us present our products to customers in the most appealing way whilst maximising our stores' performance.

In 2015 we redesigned elements of the sales area in our hypermarkets, reducing the space allocated for consumer electronics, clothing and shoes in favour of seasonal goods and promotions. Responding to the economic crisis in the first half of the year, we adjusted our display layouts to focus customers' attention on our great value '365' private label range.

Principal risks and uncertainties

Risk management





All businesses are subject to varying degrees of risk. Recognising the effects and potential origins of uncertainty on our business helps us make sound, risk-informed decisions that put us in a better position to achieve our objectives, respond to future challenges and create new opportunities.

The Board continuously monitors and reviews all material risks to the business and takes appropriate actions to safeguard all aspects of our operations.




The success of Lenta's growth ambitions relies on careful assessment of the principal risks to the Company and their potential impact on our operations so that we can manage them effectively.







Every manager within Lenta deals with risk every day. During 2015 we engaged an external consultant to further professionalise our risk management and embed a more formal process of recognising, reporting and classifying risk deeper within the organisation. This will also closely align our managers' approach with Senior Management's views of risk appetite and Lenta's strategic goals.

Our strategic priorities:

-  Delivering profitable like-for-like growth
-  Strengthening our existing presence
-  Exploiting white space potential
-  Format evolution

* Residual risk level

-  High risk
-  Medium risk
-  Low risk

*	Risk and description	Impact	Strategic priorities that would be affected	Change in 2015
External	<p>General economic</p> <p>Rouble devaluation and GDP decline, resulting in high inflation over a period of more than two years, pressure on wages development and savings behaviour.</p>	<p>▶ Food retail sales and customer behaviour are influenced considerably by a decrease in real disposable income, lack of financial reserves among customers, an increase in unemployment and decisions by consumers to save rather than spend.</p>	<p>Pressures on purchasing power lead to lower customer loyalty as they 'cherry pick' promotions across various retailers. Consumers also drastically reduce the number of articles in their basket and buy cheaper products, resulting in slow growth – or even decline – of the average basket. This puts pressure on the goal to maintain healthy LFL sales growth to generate cash to further grow the business.</p> <p>  </p>	<p>Food inflation reached 14% after inflation of 15.4% in 2014.</p> <p>The Rouble declined significantly and became much more volatile in 2015 compared to 2014 – but the direct effect on the P&L was low and not material.</p> <p>The volatility of the oil price and the Rouble in early 2016 combined with other economic developments may lead to a longer period of high inflation and decline in purchasing power.</p> <p>With the outlook for slower growth, Lenta decided to accelerate multiple business improvements resulting in substantial cost savings without loss of attractiveness for the customer. This has helped Lenta improve its Adjusted EBITDA margin from 2014 to 2015, despite the lower LFL sales growth.</p>
External	<p>Market</p> <p>Increase in competition.</p>	<p>▶ Competitors alter their commercial approach, potentially resulting in shifting store loyalties and a decline in sales.</p>	<p>Increased competitor success will result in lower growth for Lenta, both LFL and in new stores, which will result in slower growth to support expansion.</p> <p>  </p>	<p>Competitors have become more active in promotions. However for some, these margin investments are leading to steep declines in results and high leverage, thus posing a threat to their future growth potential. As a result, more smaller players are exiting the market and the speed of consolidation of the market is likely to increase.</p>

The risk landscape altered in 2015, with falling real purchasing power of consumers resulting from low oil prices, the steep devaluation of the Rouble, increased inflation and higher interest rates. The import embargo on certain agricultural products from the US, EU and several other countries also played its part. We managed these changes by adapting our commercial offer, helping customers save money by offering attractive promotions and a wider choice of products available in smaller quantities and at lower prices. We also took steps to improve the efficiency of our business, lowering our operational cost (excluding depreciation and rental expenses) as a percentage of sales.





The risk management process is closely aligned to our strategic objectives. The principal risks that could have a negative impact on our ability to deliver on our goals are set out below, along with their potential impacts and the mitigating actions taken in each case. Each risk is categorised as 'high', 'medium' or 'low' depending on how the possible impact would affect the achievement of our strategic objectives.

How we manage it




- ▶ Low-price/low-cost business model provides value for money for customers.
- ▶ Our everyday low price offer is supported by strong promotional activities with deep discounts. This is what customers require in the current economic circumstances – and is supporting a positive development in store traffic.
- ▶ Working with suppliers to achieve lower on-shelf inflation and pass benefits on to customers.
- ▶ Everyday products through own private label at lower prices than similar brand-name products.
- ▶ Customers using Lenta loyalty card receive 5% reduction on all purchases as well as other promotions and discounts.
- ▶ Introduction of our Social Card with additional 3%-8% discount on socially significant goods.
- ▶ Constantly monitoring competitors' pricing so that Lenta maintains its position as hypermarket price leader.
- ▶ Urban, inner-city locations can easily be reached on foot and by public transport as well as by car.
- ▶ Additional focus on sourcing and supply chain optimisation to ensure Lenta can offer the best prices in the market.
- ▶ Continuous focus on our cost efficiency to maintain high returns in periods of slower growth.
- ▶ Monitoring customer trends using external reports and analysis of individual customer behaviour provided through Lenta's Big Data Customer Insight Programme.
- ▶ Monitoring changes in competitors' commercial propositions.
- ▶ Adapting assortment, price ranges and promotion activities to remain attractive to customer base.











Principal risks and uncertainties continued

Our strategic priorities:

-  Delivering profitable like-for-like growth
-  Strengthening our existing presence
-  Exploiting white space potential
-  Format evolution

*** Residual risk level**

-  High risk
-  Medium risk
-  Low risk





*	Risk and description	Impact	Strategic priorities that would be affected	Change in 2015
External	<p>Regulatory</p> <p>Laws and regulations governing food retail are subject to change and are particularly open to scrutiny in periods of high inflation.</p> <p>Laws and regulations are passed that increase operating costs of retail businesses and can pose threats to business continuity because of potentially complex adjustments required to IT systems.</p>	<ul style="list-style-type: none"> ▶ Reduced retail margins and a negative impact on working capital. ▶ Increases in operating costs due to additional levies or additional costs of implementing and operating complex new IT systems. ▶ Increased risk of mistakes in reporting to government bodies due to the additional requirements. ▶ Acceleration of market consolidation as smaller players fail to cope with the changes. 	<p>These risks threaten our efficient operating model and cost structure as well our balance sheet and returns. This may ultimately lead to reduced cash flows available to grow the business.</p> 	<p>The outcome of discussions on changing the trade law is still unclear.</p> <p>In 2015 a system was developed allowing authorities to follow every bottle of alcohol and its excise mark from producers to the point of sale to the consumer. System requirements and operational issues had to be defined and Lenta had to integrate these into its own IT systems.</p> <p>A second example is the introduction of a road tax for trucks over 20 tonnes.</p>
External	<p>Tax</p> <p>Frequent changes in tax legislation and the ambiguity of many tax regulations.</p>	<ul style="list-style-type: none"> ▶ Exposure to tax risks in some circumstances; all tax risks are set out in the Financial statements. 	<p>A high tax burden endangers the returns that can be invested in growing the business.</p>   	<p>General economic circumstances will most likely lead to a pressure on total income from all types of taxes. This may also result in additional scrutiny by the authorities.</p>
External	<p>Legal</p> <p>As in all jurisdictions, Russian law is subject to change.</p>	<ul style="list-style-type: none"> ▶ Trade and import laws could negatively influence day-to-day business operations. 	<p>Changes in regional or federal law may adversely affect Lenta's competitiveness and potentially inhibit its growth strategy with restrictions on opening new stores.</p>   	<p>During 2015 there was no significant change observed in laws affecting Lenta or their implementation.</p>
External/Internal	<p>Financial: capital structure and covenants</p> <p>Balancing projected EBITDA, planned capital expenditure and expected interest payments with financial covenants.</p>	<ul style="list-style-type: none"> ▶ Large deviations might lead to breaches of covenants with banks. 	<p>Lack of timely funding may endanger the general growth strategy because of a lack of finance to build new stores.</p>   	<p>Lenta raised capital twice in 2015. Leverage is therefore very healthy and Lenta has a higher flexibility in defining its speed of growth.</p>

How we manage it




- ▶ Closely monitoring all changes in regulations affecting business.
 - ▶ Active participation in industry trade bodies to contribute to the development of workable and well-balanced regulations.
 - ▶ Active participation in development of requirements of new systems that retailers have to work with, thus ensuring Lenta is well prepared and can develop the requisite systems and operational changes in time to ensure continuity of operations.
-
- ▶ Analysing all existing practices and court rulings in detail and adapting our approach in accordance with court practices or a robust interpretation of the law.
 - ▶ Ensuring that our own tax practices are fair and not overly aggressive.
-
- ▶ Continuous monitoring of changes in the law with expert support from external professional advisors.
 - ▶ Relevant changes reflected in a timely manner in all internal processes and documentation.
-
- ▶ Balancing commitments for new investments with projected EBITDA, projected interest and required headroom on covenants.
 - ▶ If necessary, proactively renegotiate covenants to ensure prudent headroom is maintained.
 - ▶ Strict capital expenditure planning on a conservative EBITDA forecast to ensure that we retain comfortable covenant headroom.
 - ▶ Issue share capital if equity markets are receptive to enable sustained high growth while keeping leverage at prudent levels.

Principal risks and uncertainties continued

Our strategic priorities:

-  Delivering profitable like-for-like growth
-  Strengthening our existing presence
-  Exploiting white space potential
-  Format evolution

*** Residual risk level**

-  High risk
-  Medium risk
-  Low risk





*	Risk and description	Impact	Strategic priorities that would be affected	Change in 2015
External	<p>Financial: interest rates Significant changes in interest rates.</p>	<ul style="list-style-type: none"> ▶ Would affect liquidity as well as ability to maintain prudent covenant headroom. 	<p>Lack of timely funding may endanger the general growth strategy because of a lack of finance to build new stores.</p> 	<p>2015 saw a continuous decline in interest rates from close to 25% (3 months MosPrime) in January to just below 12% at the end of December. However, ongoing low oil prices and resulting volatility of the Rouble have resulted in increased uncertainty about further decline in rates with some risk of increases.</p>
External	<p>Financial: credit Large amounts of receivables.</p>	<ul style="list-style-type: none"> ▶ Subject to collection risk, especially in more economically turbulent times. 	<p>The inability to collect receivables may result in lower than expected cash flows, which may in turn endanger the ability to grow the business through new store openings.</p> 	<p>No change compared to previous year.</p>
External	<p>Financial: foreign currency Changes in foreign currency exchange rates.</p>	<ul style="list-style-type: none"> ▶ Inflation (see General economic risk section) and the price of imported materials. 	<p>An increase in imports will increase investments and may threaten our goal to deliver market-leading returns.</p> 	<p>The Rouble became much more volatile in 2015 compared to 2014 but direct effect on the P&L is low and not material.</p>
External	<p>Financial: liquidity Unexpected changes in cash flows and lack of available financing.</p>	<ul style="list-style-type: none"> ▶ Unable to fulfil financial obligations. 	<p>Lack of timely funding may endanger the general growth strategy because of a lack of finance to build new stores.</p> 	<p>After some uncertainties in the banking system in early 2015, the situation stabilised. Lenta's continued growth, combined with healthy profitability and decreased leverage – as a result of healthy cash flow generation and two equity increases – resulted in an improved credit rating, making Lenta an attractive prospect for banks when it comes to lending. Lenta is in a significantly better position than at the end of 2014.</p>
External	<p>Sourcing Inability to source the right products in the right place for the right price.</p>	<ul style="list-style-type: none"> ▶ Sales development below expectations. ▶ Margin development below expectations. 	<p>Lower like-for-like and total sales growth and/or lower margins impact cash flow available to fund further growth.</p> 	<p>The self-imposed food import ban required rapid adaptation to sourcing many fresh food items at the end of 2014. At that time, Turkey was open for imports of fruits and vegetables, but the recent strained relationship between Russia and Turkey has closed this option. As a result, new sources must be found.</p>

How we manage it




- ▶ Various instruments are employed such as fixed rate loans, interest rate swaps and caps so that interest paid is less influenced by rate volatility.
 - ▶ Derivative instruments clearly linked to existing debt positions with variable interest rates and not used for speculation.
 - ▶ At year-end 73% of Lenta's debt was fixed, hedged into a fixed rate or capped against significant increases in interest rates.
-
- ▶ Payables to and receivables from individual suppliers are managed in tandem.
 - ▶ Well-developed systems and payment processes track development of trade receivables on a weekly basis.
-
- ▶ Borrowings in Roubles only, so no exposure to currency risk.
 - ▶ Imports (about 4% and mainly non-food items) paid partly in advance and currency risks not generally hedged.
 - ▶ Store and other rental agreements denominated in Roubles (only 0.6% of space has lease terms in uncapped foreign currency and this is being renegotiated).
 - ▶ 10-15% of investment in new stores involves imported equipment, with local sourcing used wherever possible.
-
- ▶ Short- and long-term cash flow forecasting processes implemented to ensure appropriate understanding of liquidity requirements.
 - ▶ Treasury policies ensure large buffers of available debt to finance a full development programme for 12-18 months.
 - ▶ Diversified portfolio of lenders reduces the risks should any lender be unable to disburse already-agreed loans.
 - ▶ Comprehensive investment planning process ensures that commitments to new investments are in line with both projected cash flows and required headroom on covenants in the short and mid term.
-
- ▶ Large supplier base of local, regional and federal suppliers ensures that the loss of any one supplier would not result in major issues.
 - ▶ Cooperating with smaller local and regional suppliers and offering support to improve production and quality standards.
 - ▶ Ensuring fair terms for smaller suppliers will allow them to grow their business with Lenta and ensures a stable supply to Lenta.

Principal risks and uncertainties continued

Our strategic priorities:

-  Delivering profitable like-for-like growth
-  Strengthening our existing presence
-  Exploiting white space potential
-  Format evolution

*** Residual risk level**

-  High risk
-  Medium risk
-  Low risk

*	Risk and description	Impact	Strategic priorities that would be affected	Change in 2015
External/Internal	<p>Product liability Selling goods that do not meet health and safety regulations.</p>	<p>▶ Legal liability claims from customers, with Lenta liable for financial compensation and damage to its reputation.</p>	<p>Direct impact is very limited. A persistent problem may create reputational issues that could lead to lower sales as customers shop elsewhere. This could result in lower potential for growth.</p> 	No change.
External/Internal	<p>Logistics and supply chain Disruption of an efficient supply chain.</p>	<p>▶ Lack of goods for customers and sales developments below expectations.</p>	<p>Lower LFL and total sales growth impact the cash flow available to fund further growth.</p>   	<p>Implementation of a new system to levy road tax, starting November 2015, created some disruption in the transport market, leading to a lack of available trucks. Working with own transport and high quality providers on long-term agreements ensured this had a very limited effect on Lenta's operations in the crucial month of December.</p>
External	<p>Construction and development Exposure to risks related to cost, quality and timing of development projects.</p>	<p>▶ Future returns could be negatively influenced by budget overruns, late commissioning of stores, excessive maintenance costs or the inability to use constructed property.</p>	<p>Higher investment and delayed openings put pressure on Lenta's aim to deliver market-leading returns.</p>    	<p>Despite the high inflation in general, construction inflation has been modest. The lack of other companies investing in real estate also ensures there is a wide choice of contractors available at keen prices.</p>
Internal	<p>Operational control Growing selling space at 25-40% per year and adding new stores and suppliers.</p>	<p>▶ Lack of control in new operations, leading to a performance that is below expectations.</p>	<p>Lower operational control will lead to higher costs. Lower service levels will affect sales, which will reduce the funds available to finance further growth.</p>   	<p>Lenta's high growth rate makes it an attractive employer for ambitious people wanting to work in retail. The fact that Lenta continues to pay variable income also increases trust from existing and future employees and will help it attract the best people in the market.</p>
External	<p>Environmental health and safety Strict compliance with health and safety standards for customers and employees. Compliance with environmental pollution guidelines.</p>	<p>▶ Non-compliance would risk Lenta's reputation and customer loyalty, with a resulting negative impact on sales.</p>	<p>Non-compliance would run the risk of Lenta no longer receiving approvals for new store construction – and not achieving its growth strategy.</p>    	No change.

How we manage it

- ▶ Development of strict quality assurance measures to ensure that products meet or exceed legal requirements.
 - ▶ Audit of suppliers' production processes, particularly for fresh produce and raw materials.
 - ▶ Regular audits of production process of Lenta-produced food.
-
- ▶ Effective supply chain solution with a good balance of own resources and external service providers.
 - ▶ Employing a mix of owned and third-party transport to optimise cost and mitigate risk of non-availability of transport.
 - ▶ Ownership of all but one distribution centre and all processes utilising Company-owned systems.
 - ▶ Broad base of transport providers with long-term agreements to ensure continuity of high-level services.
-
- ▶ Strong base of experienced construction companies with a proven track record on similar projects.
 - ▶ Own site managers oversee construction activities on a day-to-day basis and control progress and quality.
 - ▶ Detailed budget planning and control, as well as strict controls on contractor spending.
 - ▶ Third-party specialists employed to monitor the quality of construction materials used and techniques deployed.
-
- ▶ Clear and scalable organisational structure ensures that Lenta has proper control procedures to manage the business efficiently, whatever its size.
 - ▶ Established assessment and development process for future managerial positions ensures that new operations are supported by experienced people who fully understand Lenta's systems and processes.
 - ▶ All new employees undergo structured training and development.
-
- ▶ Highest quality standards maintained across the business as well as safeguarding the comfort and safety of customers and employees at all times.
 - ▶ Operations conducted with respect towards the environment.
 - ▶ Strict adherence to all legal requirements for health and safety within stores.
 - ▶ Cooperation with local and regional authorities to complete and maintain all necessary approvals and regulatory requirements for new stores.

Financial review

A year of increasing profitability



Jago Lemmens
Chief Financial Officer

With sales growth of over 30%, we were the fastest growing publicly-traded food retailer for the third year running and became No. 5 by total sales.

252.8bn

RUB Total sales

56.3bn

RUB Gross profit

22.3bn

RUB Operating profit

Dear Shareholders

Despite ongoing turbulent economic conditions, Lenta delivered a strong overall performance in 2015, with industry-leading sales growth. Our customers continued to face challenges, but our low-price/low-cost model ensured that we were able to help them manage their budgets and still deliver a strong financial performance.

We increased our profitability, despite making additional price investments to reduce the impact of inflation on our customers. It was particularly pleasing that our improved profitability was driven by enhancing our operational processes in stores, distribution centres and head office, and as a result of the investments in supply chain infrastructure we made in 2014 and 2015.

Our total sales grew 30.3%, in line with our guidance, and we increased selling space during the year by 25.8%. We delivered a gross margin of 22.3%, a reduction of 0.2pp compared to 2014. The slight decrease was due to the additional investments in pricing and promotions throughout the year, which more than offset the benefits from improved supplier terms, increasing supply chain efficiency and reduced shrinkage.

Our supply chain costs fell to 1.3% of sales from 1.6% in 2014 as we reaped the benefits of our investments over the last five years in distribution centres, trucks and IT. Transportation costs remain the largest element, but the average distance for goods transported fell by 29.1% to 635 km per pallet, as we benefited from our three new distribution centres in Togliatti, Rostov and Yekaterinburg.

Productivity improvements and volume leverage meant that sales per full-time employee (FTE) grew by 13.3%, whilst our cost per FTE only grew by 4.2%. We worked hard to ensure our new stores became profitable quickly; shrinkage fell 10bps and pre-opening costs of new stores reduced by the same amount. Costs as a percentage of sales fell across many other areas of the business including marketing, cleaning and security.

Our Adjusted EBITDA rose by 31.4% to RUB 28.1 billion, with margin up 0.1pp to 11.1% (2014: 11.0%).

Net profit was RUB 10.3 billion, an increase of 13.4% on 2014. This was driven by EBITDA growth partly offset by increased interest expenses and higher depreciation. The net profit margin fell 0.6pp to 4.1%.

The effective tax rate increased from 17.0% in 2014 to 20.1%, due to a large one-off effect in 2014 when Lenta started to deduct a larger part of its shrinkage for profit tax purposes. The Company resubmitted tax declarations for the years 2011-2013, resulting in a one-off benefit of around RUB 0.5 billion recognised in 2014.

Since the year end, the trading environment has remained challenging for retailers and customers alike. Food inflation slowed at the start of 2016, but with wages and incomes barely growing, customers remain under pressure. They are buying fewer products and trading down to cheaper alternatives, with price sensitivity and promotion-orientation remaining high.

Our growing profitability and the equity issues of 2015 have strengthened our balance sheet. Lenta's financial position remains very healthy, with falling leverage, and stable costs of debt coupled with long maturity profiles. Liquidity and availability of debt is high, with RUB 45.3 billion of undrawn borrowing facilities. We have the necessary resources in place to succeed in this environment; returns on our new stores remain well above the cost of capital, we see room for greater efficiency and the momentum from 2015 means we are well placed to accelerate our expansion.

Gross profit

RUB bn	+28.7%
2015	56.3
2014	43.7
2013	31.5

Net profit

RUB bn	+13.4%
2015	10.3
2014	9.1
2013	7.1

Summary income statement

RUB (millions)	2015	2014	% Change 2015-2014
Total sales	252,763	193,988	30.3%
Gross profit	56,305	43,736	28.7%
Gross margin	22.3%	22.5%	-0.2pp
SG&A, % of sales	14.3%	14.4%	-0.1pp
Adjusted SG&A ¹ , % of sales	10.9%	11.6%	-0.7pp
Adjusted EBITDAR²	30,752	22,781	35.0%
Adjusted EBITDAR margin	12.2%	11.7%	0.5pp
Rental expenses, % of sales	1.1%	0.7%	0.4pp
Adjusted EBITDA	28,080	21,372	31.4%
Adjusted EBITDA margin	11.1%	11.0%	0.1pp
Operating profit	22,332	17,659	26.5%
Profit before income tax	12,872	10,928	17.8%
Net profit	10,288	9,075	13.4%
Net profit margin	4.1%	4.7%	-0.6pp

1 Adjusted SG&A is SG&A before rent paid on land, equipment and premises leases, depreciation and one-off non-operating costs.

2 Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.

Financial review continued

Our success springs from staying true to our successful low-price/low-cost business model. In 2015 we further improved profitability thanks to effective control of operational costs and further development of our supply chain infrastructure.

Sales

In 2015 our sales were RUB 252.8 billion, an increase of 30.3% compared to 34.5% growth in 2014. The growth was supported by a significant increase in selling space in 2014 and 2015, with increases of 38.7% and 25.8% respectively. LFL sales rose by 9.1%, which included a 3.9% increase in LFL traffic and 5.0% LFL average ticket growth.

We opened 32 new hypermarkets and eight new supermarkets in 2015. The number of active loyalty cardholders increased by 29% year-on-year to 8.4 million at the year end.

Selling space
'000 sq.m.

+25.8%

2015	882.4
2014	701.2
2013	505.7

y-o-y growth	1H 2015	2H 2015	2015	2014
Total sales	33.8%	27.5%	30.3%	34.5%
LFL sales	11.5%	7.2%	9.1%	10.6%
LFL traffic	4.7%	3.2%	3.9%	4.4%
LFL ticket	6.5%	3.9%	5.0%	6.0%

Selling, general and administrative expenses (SG&A)

SG&A decreased to 14.3% of sales, 0.1pp lower than 2014. We managed a reduction in SG&A expenses thanks to ongoing operational improvements throughout the business, productivity improvements and a more efficient use of our marketing resources. These more than offset an increase in the share of leased stores with their associated rental expenses and increased depreciation expenses driven by our investment in new stores and supply chain infrastructure. Lenta's rent expenses increased by 0.4pp to 1.1%.

Professional expenses reduced in 2015, mainly thanks to fewer one-off corporate costs related to the IPO in 2014 and lower fees to payment systems due to better tariffs.

Operational improvements, cost saving measures and increasing scale contributed to a fall in Adjusted SG&A to sales ratio of 0.7pp to 10.9%. LFL stores opened prior to 2015 delivered an even more impressive reduction of 1.5pp in SG&A as a percentage of sales. The reduction in SG&A more than offset slightly lower gross margin to give a 0.5pp rise in EBITDAR to 12.2% of sales.

EBITDA

Adjusted EBITDA for 2015 grew faster than sales in 2015, reaching RUB 28.1 billion (+31.4% compared to 2014) with an Adjusted EBITDA margin of 11.1%. This was due largely to lower costs as a percentage of sales.

RUB (millions)	2015	2014	% Change 2015-2014
Adjusted EBITDA	28,080	21,372	31.4%
One-off expenses and income ¹	(62)	(54)	15.1%
Reported EBITDA²	28,018	21,318	31.4%

1 One-off expenses and income in 2015 and 2014 were professional services fees primarily incurred in connection with the optimisation of the group corporate legal structure, development of employee incentive plans and cost and income related to Lenta's public offerings carried out in March 2014, March 2015 and October 2015.

2 Reported EBITDA (as set out in Note 6 of the IFRS financial statements) includes all operating income and expenses excluding interest, tax, depreciation and amortisation as well as certain other expenses.

Interest

Net interest expenses were RUB 9.3 billion, an increase of 36.2% from RUB 6.8 billion in 2014. This rise was due primarily to higher market rates in the first half of the year and a slightly higher average level of borrowing, which was used to fund our store opening programme and supply chain development.

We reduced the cost of our debt over the year, from 17.5% in the first three months to 12.3% in the last quarter. This was due principally to the combined effects of ongoing reductions in MosPrime rates, improvements in the terms and conditions of our major long-term loan facilities and repayment of our most expensive debt following the primary capital increase in March.

Lenta's weighted average cost of debt in 2015 increased by 152bps vs. 2014, to 13.7%, while the average MosPrime rate increased 328bps over the same period.

Capital expenditure

Lenta's capital expenditure reduced by 10.7% in 2015 to RUB 31.4 billion (from RUB 35.1 billion in 2014). This was chiefly because we made fewer investments in land acquisitions compared to previous years, but was partially offset by slightly higher investments in future store openings. Much of our capital expenditure in 2015 was funded by our strong operating cash flow – and to a lesser extent by the proceeds from our primary capital increases in March and October. We increased our capital expenditure cover ratio (after taxes and before interest paid) to 80%.

Financial review continued

We finished 2015 with a stronger balance sheet than ever. Our leverage fell to 1.9x – thanks to strong profitability and cash generation combined with our two successful primary equity issues.

Cash flow

Net cash generated from operating activities before net interest and income taxes paid rose 10.2% to RUB 25.9 billion compared to RUB 23.5 billion in 2014. This was primarily driven by the growth in EBITDA, partly offset by an increase in working capital.

Summary cash flow

RUB (millions)	Year ended 31 December 2015	Year ended 31 December 2014	y-o-y growth
Profit before income tax	12,872	10,928	17.8%
Cash from operating activities before movements in working capital	28,288	21,894	29.2%
Movements in working capital	(2,378)	1,625	–
Cash from operating activities	25,911	23,519	10.2%
Net interest	(9,090)	(6,583)	38.1%
Income tax	(896)	(956)	(6.3%)
Net cash generated from operating activities	15,924	15,979	(0.3%)
Net cash used in investing activities	(31,370)	(35,111)	(10.7%)
Net cash generated from financing activities ¹	25,865	24,955	3.6%
Net increase/(decrease) in cash and cash equivalents	10,420	5,824	78.9%
Cash and cash equivalents at the end of the period	22,456	12,036	86.6%

¹ Net cash generated from financing activities includes RUB 21.8bn of proceeds from issue of new shares in 2015.

Net debt

As of 31 December 2015, Lenta's net debt was RUB 53.5 billion. A combination of rapidly rising EBITDA, strong operating cash flows and the primary equity issues enabled us to end the year with a Net debt to Adjusted EBITDA leverage of 1.9x, down from 2.8x at the end of 2014. Our leverage covenants are 4x, so our headroom is very healthy. Adjusted EBITDA to net interest was 3.0x. Our financial ratios remain fully compliant with all the covenants in our loan agreements, with prudent levels of headroom.

All of our drawn debt portfolio is denominated in Russian Roubles and as at 31 December 2015 100% of it was borrowed under long-term bank facilities or in the form of bonds with an average maturity of 3.0 years. Some 73% of our debt is at fixed rates or hedged, with the remaining 27% exposed to increases in MosPrime.

At the year end, Lenta had drawn debt of RUB 76.1 billion compared to RUB 71.4 billion in 2014. In addition, the Company had RUB 45.3 billion of undrawn short- and long-term facilities and a cash balance of RUB 22.5 billion at 31 December 2015.

Since the year end, we have signed a RUB 7 billion three-year fixed rate unsecured loan facility with Rosbank, increasing the proportion of long-term fixed-rate debt in our portfolio. This loan was fully drawn down in January 2016.

We also repurchased RUB 3 billion of bonds and re-set the coupon on RUB 7 billion of bonds, with a further coupon re-set on these bonds due in August and September 2018.



Jago Lemmens
Chief Financial Officer

Summary balance sheet

RUB (millions)	31 December 2014	
	31 December 2015	(restated)
Property, plant and equipment	104,016	81,218
Other non-current assets	11,023	9,688
Inventories	22,782	19,629
Trade and other receivables	13,647	11,371
Cash and cash equivalents	22,456	12,036
Advances paid	2,265	2,751
Other current assets	2,203	4,552
Total assets	178,392	141,245
Equity	47,130	16,730
Long-term borrowings	65,149	58,520
Other long-term liabilities	5,254	3,814
Trade and other payables	48,820	48,373
Short-term borrowings and short-term portion of long-term borrowings	10,773	12,695
Other short-term liabilities	1,265	1,112
Total liabilities and equity	178,392	141,245
Net debt/Adjusted EBITDA	1.9x	2.8x

Corporate social responsibility

Enduring values

For Lenta, corporate social responsibility is not an ‘add-on’; it is embedded in the way we do business and is a long-term commitment. We believe it is possible to create value for all our stakeholders whilst behaving ethically, contributing to economic development, looking after our employees and improving the local communities in which we operate.

We made good progress against our stated CSR goals for 2015 – and we are continuing our efforts during the year ahead (see page 65). For 2016 we added a new goal that focuses on educating and strengthening ties with our suppliers. Our CSR agenda is built on six pillars that influence our daily interactions with our stakeholders.





Our pillars

We worked hard throughout 2015 to extend and enhance our activities across all six pillars.



Recruiting, training and retaining great staff

+ Read more on page 53



Pricing and customer satisfaction

+ Read more on page 56



Local sourcing

+ Read more on page 58



Caring for the environment

+ Read more on page 60



Making a positive contribution to local communities

+ Read more on page 62



Promoting health and safety

+ Read more on page 64

Corporate social responsibility continued

The Lenta Way

Our established core principles underpin our business. Our commitment to these – and our ethics policy – informs our CSR agenda, strengthens our business and supports our ambitions for long-term growth.

Customer satisfaction

We work every day to provide the best possible service for our customers, by constantly taking into account the products they want and the services they demand. Our customers are the key to our development and improvement.

Providing customers with low prices every day

Lenta is the leader in terms of price. We have always been the price leader and we are committed to bringing our customers more goods at lower prices than the competition. We ensure that our costs are kept to a minimum so that we can pass savings on to our customers.

Selling goods of only the highest quality

Our stores only stock fully licensed goods that have been handled under the most hygienic conditions.

Our employees

We know that if we want to have satisfied customers, we must retain employees who are well trained and motivated.

Maintaining the highest level of respect for everyone

We pride ourselves on respecting the opinions of our customers, suppliers and employees, encouraging positive criticism and friendly relations.

Teamwork in everything we do

Only by everyone working together will we be able to satisfy our customers. By encouraging an open environment based on mutual trust, everyone can feel comfortable about asking assistance from another employee and they can be confident that their voice will be heard.

Innovation and the constant generation of new ideas

The key to our long-term survival is a continuous flow of innovative ideas. Many of these come from our own staff. We believe that in order to stay ahead of the competition we must continuously implement these new ideas.

Our Ethics Policy

We are committed to ensuring high standards of behaviour across all aspects of our business. Our Ethics Policy sets out the obligations of all employees to behave ethically and comply with corporate standards. These include:

- no improper payments to the authorities and business partners;
- upholding the integrity and good name of the Company in developing long-term relationships with customers, communities and suppliers;
- the unacceptability of directly or indirectly offering, paying, soliciting or accepting bribes or kickbacks in any form;
- no conflicts between personal interests and those of the Company.

Any non-compliance by employees is reviewed and may lead to disciplinary action including dismissal.

Lenta's Ethics Committee was established in 2011 to review all complaints about the Company, and the Ethics Policy forms the basis of the standards and rules applied to each case. The Committee's work is regularly reviewed, both by the Audit Committee and by the Board.

Anyone – including customers, employees and suppliers – can contact the Ethics Committee. This can be done directly and anonymously via the Lenta website or via our in-store information desks. In 2015, 404 calls to the Company hotline were received and reviewed; a marginal increase on last year. However, the number of complaints per store significantly decreased given the large number of new Lenta stores. The number of anonymous calls also declined, indicating an increased level of trust in the hotline on the part of employees and customers alike.



1. Recruiting, training and retaining great staff

Our motivated, friendly and knowledgeable workforce is the heart of our business and the key to our long-term success. By recruiting and training the right individuals with the right skills, we seek to offer an enhanced level of service to our customers. We encourage a collegiate culture that fosters teamwork, innovation and trust.

Training and development

We believe that investing in our people improves employee retention and increases our productivity. Lenta operates a programme of ongoing internal promotions and job rotations, which – combined with individual career plans and recognition initiatives – contribute to reducing staff turnover. Lenta has an above-average retention rate for the food retail sector; 5,873 employees have been with the Company for more than five years and 849 employees have worked for us for more than a decade.

We offer a range of training programmes to our managers, taking into account their experience and knowledge. In 2015, approximately 60 managers participated in a Lenta Leader programme providing development for managers with high potential. Some 780 colleagues, mostly in stores, participated in our Effective Management programme. This is targeted at the development of managerial skills and covers such areas as goal setting, planning, analysis and decision-making, methodology of control and motivation. The programme is run by in-house business trainers and Lenta store directors who share their experience and best practice.

During the year, 13 experienced managers benefited from external pre-MBA programmes administered via two business schools. The programmes are focused on systemic

thinking, holistic business understanding and the increase of personal effectiveness.

Whilst management training is important, our principal focus is our store employees, who are responsible for ensuring the high levels of service to our customers that we expect. Each of our stores runs an orientation programme for new recruits, ensuring that they quickly acquire the necessary knowledge and skills to fully integrate into the store teams.

In 2015, we delivered a total of over 900,000 man-hours of training, with an average of 30.6 hours per person. This was provided through a combination of in-house and remote training. We believe remote courses provide a stimulating learning environment, with theory reinforced through a combination of practical work and mentoring. In 2015, we doubled the amount of remote training delivered by the Company. Some 85% of our training uses internal resources, enabling us to keep the cost of one learning hour per employee at RUB 30.

A key activity in 2015 focused on supporting change across Lenta's business processes, such as the introduction of new point of sale software, implementation of the EGAIS system for the processing of alcohol product registration based on new legal requirements and the introduction of Personal Digital Assistant (PDA) devices. These business process changes necessitated the creation of tailored educational programmes and the instruction of internal trainers to communicate these to large numbers of employees. Over 6,500 employees undertook such courses, which have enabled them to quickly and effectively apply their new knowledge in their own positions.

Recruitment and career development

In 2015, Lenta created 7,610 new jobs – and a total of 15,000 employees were recruited to new positions. The recruitment process is centralised for several elements such as job posting, advertising, candidate attraction and phone interviews via Lenta's Centralised Employment Centre. However, the final selection of candidates is decentralised and conducted in each store. This combination optimises the efficiency of the process and focuses the attention on local staffing requirements.

Our rapid growth requires continuous improvement of our hiring processes and consistent succession planning. There are numerous opportunities for career advancement and we actively encourage the professional development of our people. Succession planning at Lenta is a dynamic process across all divisions of the Company and we aim to fill as many positions as possible with internal candidates. Succession planning has a powerful influence in motivating employees to develop their skills and capabilities. In 2015, 48% of vacancies were filled internally, and 75% of the directors of our newly opened stores were internal candidates. 3,025 people were promoted and 4,636 employees benefited from horizontal moves.

Employee mobility and readiness to relocate to another Russian region is essential for effective succession planning and vital for the success of Lenta's expansion programme. In 2015 we implemented a new relocation policy, which formalises the relocation rules for employees to all of Lenta's existing and planned regions of presence. The policy supports the Company's rapid and effective growth by offering internal candidates a transparent and fair relocation package.

Corporate social responsibility continued

To evaluate the achievements of individual employees and identify potential, Lenta has an established performance management process. Office employees and management of stores and distribution centres already participate in this process and in 2016 we will extend it to all employees. To ensure successful implementation, we have prepared almost 450 internal trainers amongst our store managers – and with their help we have trained over 24,000 of our store employees.



Crystal Pyramid – 2015 winner in The Best HR Team of the Year award

HR brand strengthening

During the year we continued to strengthen the HR team within Lenta. As part of this effort, we attracted 17 students and graduates as trainees to the Company's head office, four of whom now work for Lenta. Through increasing the effectiveness and reputation of the HR department, the Company again featured in the top 100 most attractive employers in Russia (ranked 56th in 2015 compared with 60th in 2014).

Salaries and benefits

We provide a range of attractive local employment opportunities and careers – with competitive pay and health benefits, uniforms and all necessary protective equipment.



We will continue further development of distance learning programmes and our approach to training based on the use of internal experts to share knowledge and act as mentors. We will also roll out our performance management process in stores to further enhance our customer focus and service levels.

Despite the increasing cost pressures in the food retail labour market, Lenta maintained its social benefits for employees. Salaries for certain in-store positions were increased and we introduced an additional bonus to support the basic income of employees whose stores achieve their planned targets of reducing operating expenses.

While maintaining the level of benefits, we reduced expenses for medical checks and voluntary medical insurance through optimising our supplier services and more effective planning.

We continued to provide financial support for employees in accordance with a set of established principles. When staff find themselves in difficult circumstances, we offer help above set limits. For example, after the severe hailstorms in Zheleznovodsk we provided support for those employees whose homes and cars were damaged.

Diversity

We value diversity and encourage all our people to fulfil their potential. Our key recruitment and promotion considerations are based around professional knowledge and competence and we offer employment opportunities to all able candidates.

In every store we provide a minimum of five job opportunities for people with special needs. In 2015, 78 vacancies were filled by candidates from this group.

Employee engagement

There is a strong connection between employee engagement, business performance and customer satisfaction. Keeping employees up to date with our progress and plans is therefore vital to our success. In 2015 we piloted several initiatives based on store employees' suggestions including 'gamification' projects to motivate colleagues to actively participate in store life –



In October, 48 employees represented Lenta in the annual Trade and Industry 'Best in Profession' awards held in St. Petersburg. Our colleagues included eight food shop assistants, two non-food shop assistants and 38 cashiers. Elena Kozlova from Lenta-8 was named Best Cashier-Controller and Igor Gololobov from Lenta-11 took third place in the Best Shop Assistant in Food category.

for example through helping their colleagues and conducting training sessions or identifying safety hazards. Commitment to Lenta's success enables employees to earn 'Lenta points' and exchange them for prizes, with rewards ranging from caps and T-shirts to household appliances and TVs.

These initiatives provide valuable feedback, which we use to help us refine our development strategy and operational procedures.

Our Penza store launched a series of motivational initiatives in 2015 including the 'I'm a Professional' game played for Lenta points, professional photographic portraits of the best store employees and stories about colleagues' lives featured on Lenta TV. Staff also marked the 70th anniversary of the Great Victory by enhancing the store's car parking area.



The best corporate magazine at the Best Corporate Media awards 2015

During the year we conducted Strategic Communication Sessions at our Regional Forums in St. Petersburg, Moscow and Novosibirsk. These events enable Senior Management to review the previous year's achievements with approximately 400 Lenta managers and share the broader strategic outlook.

Our award-winning staff magazine 'Nasha Lenta' ('Our Lenta') is distributed to all employees every quarter and aims to strengthen team spirit and broaden awareness of the Company's activities. It keeps colleagues informed on a wide range of topics from developments in the retail sector, company performance and management interviews to store openings, ethics policy and dress code. In 2015 the magazine won the Internal Corporate Magazines category in the AKMR (Russian Association of Communication Directors and Corporate Publishing) 'Best Corporate Media 2015' awards.

Looking ahead

In 2016 we will launch an updated Lenta Leader Programme in collaboration with an acclaimed business school. This will provide a deeper understanding of all aspects of the business, based upon MBA principles.

Corporate social responsibility continued

✓ 2. Pricing and customer satisfaction

Lenta's core pricing proposition to its customers is 'value for money'. We offer a wide range of products at attractive prices and seek to provide a competitive offer for our customers across the key product attributes of quality, availability, service and shopping environment. We believe that the service provided by our staff contributes significantly to customer satisfaction – and our in-store colleagues are continuously trained to engage with our customers and deliver the highest standards of service.

During 2015 we introduced a number of new promotional activities in our stores as well as new pack sizes. In the past, 'three for two' offers were popular with customers, but with tighter budgets having to stretch further, 'two for one' offers have become the preferred option. The most effective promotion remains a direct discount.

Lenta has a broad customer base, and we monitor purchasing patterns to assess changing tastes. Together with information gathered through our loyalty programme and customer surveys, we use this data to inform our decisions on product ranges and prices and to help tailor our offering to align closely with the needs of our customers, both regular and occasional.

Lenta's Loyalty Card guarantees a discount of 5% on all purchases. As at 31 December 2015, there were 8.4 million active cardholders, an increase of 29% on the previous year. During the year, some 92% of all sales were made using the card. Members of the scheme also benefit from access to additional discounts for special offers and seasonal promotions, which generate significant customer and brand loyalty. Independent surveys indicate that the Loyalty Card programme is highly appreciated by shoppers.



We also offer a Social Card, which is available in all Lenta stores across Russia. This gives vulnerable and needy citizens an additional discount of between 3% and 8% on basic food products and selected household items. By the end of the year there were over 1.2 million holders benefiting from the scheme, enabling them to make substantial savings on essential purchases. Over 527,000 customers joined the scheme in 2015.

In September 2015, Lenta enabled its Social Cardholders in the Moscow region to participate in a local social programme. By showing a Moscow Region resident's social card at a Lenta store information desk, individuals can obtain a free Lenta Social Card with a special sticker. When shown at a checkout, the cashier gives an additional discount for goods from a list of over 90 SKUs including essential food and household products.

30,000

Severstal employees enrolled into Lenta Social Card scheme

In December 2015, we signed a partnership agreement with the steel and mining company Severstal, enrolling their 30,000 Cherepovets-based employees into our Social Card scheme.

As well as providing support to the workforce of one of the city's largest employers, the partnership will contribute to the socio-economic development of the area.



In November 2015, Lenta signed an agreement with the administration of Vologda to participate in the city's 'Zabota' ('Care') project, which helps those sections of the population on low incomes. Lenta's participation means that holders of Vologda's City Discount Card can receive an additional discount of up to 13% on 90 'socially significant' essential items, including fruit, vegetables, meat and dairy products.

Our stores stock a wide range of high quality and fresh foods that support our customers in their healthy eating choices. Much of our food is produced in store, including a variety of meat and fish products, freshly made salads and bread. We also cater for customers with special dietary requirements including those with lactose intolerance, diabetes and coeliac disease.

Looking ahead

We are constantly seeking new ways to improve our customers' shopping experience. For example, in the coming year we intend to explore the viability of launching shuttle bus services to improve accessibility to some of our stores and establishing bus stations adjacent to our stores where needed.

Lenta topped Delovoy Peterburg's rating of hypermarkets for the cheapest pricing for basic food and non-food goods in St. Petersburg. The newspaper's journalists monitored prices across 44 categories of products from ten hypermarkets calculated on an index of minimum prices. The rankings highlighted which retailers had managed to negotiate the best prices with suppliers and were most successful with their private label range.

Corporate social responsibility continued



3. Local sourcing

The number of direct import suppliers to Lenta reduced in 2015, partly as a result of the import embargo and devaluation of the Rouble. However, we grew our overall number of suppliers due to increased local sourcing.

Locally sourced products are at the heart of the Lenta shopping experience and, unlike many of our retail competitors, our strategy acknowledges the importance of local and regional sourcing. During the year over 96% of all product purchases were sourced from suppliers in Russia, including increasing numbers of products sourced locally, which included 22.2% of our product range and just over 50.3% of our fresh food (as measured by purchase price paid). Not only do these relationships benefit the local economies, they often provide more competitive pricing than federal suppliers.

We improved communication and strengthened our ties with our suppliers across the country to enhance the effectiveness of our supply chain, enabling us to further expand our offer and reduce our logistics costs.

All products must meet the necessary safety, quality, packaging and consumer information standards before they reach Lenta's shelves. During 2015 we launched a series of programmes aimed at educating our suppliers and improving the quality of their products. We have supported Hazard Analysis and Critical Control Point System ('HACCP') implementation at the production premises of our suppliers.



We made significant improvements to our product quality audit process – including that of our private label products – focusing particularly on producers with whom we have started working relatively recently. We also introduced a detailed quality questionnaire that suppliers must complete to enable their products to be sold in our stores.

Our Quality Department carried out a total of 199 audits; 23 audits for branded goods suppliers and 176 for private label local suppliers in 2015. The results of such audits enable us to identify areas of potential quality improvement in the production process and provide the relevant advice and support to address these.

Lenta is a member of the Retail Companies Association (ACORT), which represents the interests of some of Russia's largest retail networks. During 2015, self-regulation in the retail industry developed significantly. ACORT members including Lenta collaborated with the Inter-industry Expert Council, which brings together key retail chains and suppliers of consumer goods. A Memorandum establishing a self-regulating organisation in the consumer market was signed and a Centre of Public Procedures was formed, which will mediate in disputes between market participants. Other joint achievements included the amendments to the Code of Good Relationship Practices, reducing the price change approval period from 45 to 30 days.



Looking ahead

We are planning a number of initiatives over the coming year to improve our relationships with suppliers. These include an online information portal for suppliers, which will standardise requests to Lenta and enhance our response mechanism. We will also publish a profile of Lenta's 'optimum supplier', containing complete and up-to-date lists of our requirements of suppliers, along with a detailed manual setting out our business processes.

2016 will also see the implementation of new IT systems to ensure quality analysis of suppliers and support the application of HACCP food safety principles.

We will also increase the visibility of local produce on our shelves with distinctive 'local produce' branding and plan to offer temporary in-store placements to potential suppliers, with contracts awarded on a 'best sales' basis. We also plan to run a pilot scheme in conjunction with the EBRD to educate local suppliers.

In addition, we will continue holding Regional Partnership Forums on a regular basis to keep suppliers informed about Lenta's performance, enabling us to negotiate with potential contractors and facilitate constructive dialogue.

Corporate social responsibility continued



4. Caring for the environment

With Lenta stores at the heart of local communities, we recognise our responsibility towards the community and the environment in which we operate. Moreover, we are committed to minimising any adverse impact – whether caused by use of materials, energy, transportation or disposal of waste.

We aim to comply with national and regional legislation relating to our operations – and work in close collaboration with local authorities and communities when planning new store sites. Prior to constructing new stores or distribution centres, we conduct environmental reviews of the proposed locations. We believe we comply in all material respects with the environmental standards applicable to us under Russian law and regulations.

Waste

Lenta produces various types of waste that are removed by third-party contractors. During the year we reduced the quantity of waste we produced from 0.0265 kg per sq.m. of selling space in 2014 to 0.0177 kg per sq.m. We also made considerable improvements in the amount of cardboard we recycle, with volumes rising from 0.0025 t/sq.m. to 0.0059 t/sq.m., and dramatically increased the amount of recycled PVC from 0.0002 t/sq.m. to 0.0016 t/sq.m. We also worked closely with suppliers to reduce the amount of packaging waste.

We continued to invest in systems to ensure we comply with local regulations with regard to our sewage and waste water treatment, including the installation of fat absorbers and rainwater cleaning equipment. We spent RUB 120 million in 2015 on 13 stores, with RUB 150 million budgeted for an additional 17 stores in 2016.



Energy

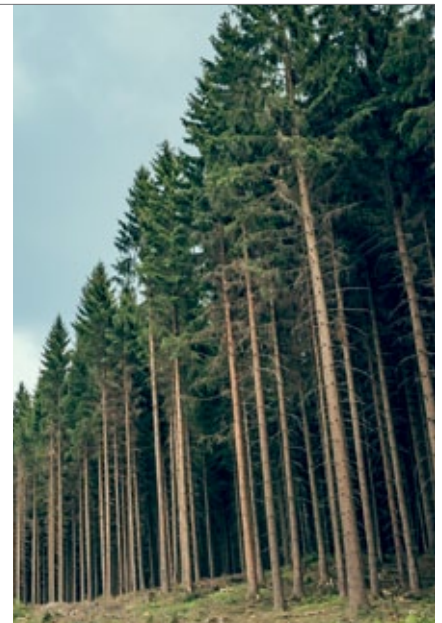
During the year we conducted a comprehensive energy audit of 20 stores, which resulted in a series of measures to improve our overall energy efficiency and performance. These included the introduction of motion detectors for lighting, an energy management system, temperature isolation for cooling chambers and the renewal of cooling equipment. As a result of these actions, it is estimated that our gas consumption will decline by up to 113,554 m³ per year and our CO₂ waste by up to 642 tonnes per year. This will deliver a cost saving to the Company while reducing the negative impact of these gases on the environment at the same time.

We continued to focus on emissions reduction through the implementation of further efficiencies in logistics and in-store facilities, including our cooling systems. At two stores we switched our commercial refrigeration systems to natural refrigerants such as carbon dioxide, which have a much lower

greenhouse gas impact than conventionally used gases. We installed four more energy-efficient ovens in our in-store bakeries and fitted sliding glass doors to chiller cabinets in 15 stores, with a further 25 planned for 2016 as part of our ongoing improvement programme.

We undertook the refurbishment of 21 different store features across Lenta including lighting. We completely replaced the sales area lighting in 11 stores. The energy efficient LED strip lights that were installed in 2015 delivered a 40% saving in energy usage. This allows an average of 55,000 kWh to be saved annually, with an estimated cost saving of RUB 3 million.

In addition to the store lighting replacement, we undertook the upgrade of façade and car park lighting at a number of sites. These actions helped us reduce average power consumption in stores by 500 kWh per year – or a total of 5,260 kWh of annual consumption.



Looking ahead

Our support for the six pillars of our CSR agenda is an ongoing process – and one that we are committed to over the long term. Our budget for environmental initiatives in 2016 is RUB 459 million. We will continue to improve our recycling efforts and drive our energy efficiency initiatives. In addition to new sewerage facilities, we are also considering the feasibility of acquiring or building our own local water treatment facilities adjacent to our stores.

We plan to upgrade our energy supply systems through additional automation to reduce the likelihood of human error and plan to switch those stores still using diesel energy to more eco-friendly fuel sources if they cannot be connected to the electricity network.

During the year we recycled more than 43,075 tonnes of paper – the equivalent of 29,187 pine trees when measured according to WWF standards.

43,075 = 29,187

Tonnes of paper recycled **Pine trees saved**

Corporate social responsibility continued



5. Making a positive contribution to local communities

We are committed to playing an active part in the communities in which we operate, not just through the provision of employment and local contracts, but through financial and 'in kind' support to local charities and educational, health, leisure and cultural institutions.

We maintain an active investment programme in local infrastructure, driven by local government. We also operate a number of partnership agreements with regional authorities aimed at enhancing socio-economic cooperation. In 2015, some 15 partnership agreements were signed with local authorities including Kemerovo, Ivanovo, Orel, Chelyabinsk and Samara, aimed at developing and improving retail in the regions. These include increasing the number of local producers present in stores, and liaising closely with local suppliers as well as working with other retail chains to help those customers in most need.

In February 2015, Lenta and several other members of the Retail Companies Association (ACORT) agreed to freeze prices for a basket of at least 20 'socially significant' essential goods for at least two months. The initiative was approved by the Federal Antimonopoly Service of Russia and aimed to stabilise the food market to help customers whilst highlighting the retail community's commitment to social responsibility.

In 2015, Lenta was acknowledged as the best retail enterprise by several local administrations including Izhevsk, Veliky Novgorod, Kemerovo, Ufa, Volzhsky, St. Petersburg, Ulyanovsk and Krasnodar. Local committees checked a variety of criteria including product displays and expiry dates, in-store hygiene conditions and friendliness of staff, as well as comparing prices with competitors.



We continued to enhance our reputation as a committed supporter of community initiatives and played an active part in a variety of locally based environmental activities in all cities where we have a presence. In 2015 we supported – independently and with local administrations – a wide range of campaigns and initiatives. These included the Green Wave waste paper collection in Petrozavodsk, tree planting in the Moscow Region and Omsk, riverbank clean-up in the Leningrad Region and numerous cleaning initiatives in the areas adjacent to our stores.

Other social initiatives include presenting baskets of products to veterans on Victory Day in many Russian cities and a range of activities to address specific local issues, such as sports ground improvements in two schools in Volgograd, bicycles for schoolchildren in Kemerovo and reconstruction of the Znamenskaya boarding school in Orel.

For the third year running, Lenta presented a gift of Dutch tulip bulbs to the city of St. Petersburg. These were planted by hand in Kirov Park on Elagin Island. Visited by 500,000 people in 2015, the Tulip Festival now extends to 2,100 sq.m. with 95 varieties and over 120,000 bulbs. Lenta's gift included 550 rare-variety bulbs, often only seen in specialist collections.



In 2015 we also helped to build a children's playground in Belgorod, acted as a sponsor of the Festival associated with the Children's Protection Day celebrations in Krasnoyarsk and the children's Ice Cream Festival in Ivanovo. We also sponsored the ice sculpture competition in Tomsk, which attracts many visitors. For several years in a row Lenta has sponsored the Safe Wheel Zone in Kazan, where young people learn how to drive safely.

We conducted charity campaigns for orphans in Cherepovets and Vologda. Our in-store Christmas trees featured letters containing the Christmas gift wishes of children in the care of the cities' orphanages. Customers were invited to buy presents, which were collected in stores and then given to the orphans. We also supported the 'Diary of the Governor' competition for schoolchildren in Krasnoyarsk, with the winner given the opportunity to have tea with the governor of the region.

Looking ahead

The year ahead will see us continue our support of socially vulnerable citizens including children. A renewed focus on youth will see us continue running masterclasses for children in stores to educate them about opportunities in the retail sector.

Increasing environmental awareness amongst our customers and employees is also a priority. Next year, we plan to launch a number of initiatives around waste handling and separation, energy saving and increased awareness of health-related issues.

We routinely conduct excursions around our stores for children from local schools, orphanages and kindergartens. The scheme educates young people about retail and promotes the image of the sector in general. In 2015, Lenta conducted several store tours in cities including St. Petersburg, Cherepovets and Novorossiysk.

In Cherepovets, for example, children were able to see a range of individual professions at work including a cook, baker, packer, cashier, salesperson and warehouseman – and were shown how to bake a variety of muffins.

Corporate social responsibility continued



6. Promoting health and safety



We are committed to creating and maintaining a safe environment for our employees and customers. Lenta's Active Safety programme aims to identify and prevent risks that may lead to accidents. As part of the programme, managers conduct daily and monthly 'safety walks' within stores. These help to identify any potential risks to staff and customers, ensure the staff's hazard awareness and confirm the integrity of the store's safety equipment. Colleagues are encouraged to report every incident, no matter how small, so that we can identify the cause and prevent any recurrence.

In 2015 we introduced a new system of injury rate reporting (per 100,000 hours worked) for employees. In 2015, Lenta's injury rate declined by 11% against the previous year and the total number of employee accidents fell by 2%.

Quality and safety are also central to our sourcing strategy, and we regularly conduct audits not just of our own operations, but those of our suppliers. In 2015 we continued to implement the HACCP system, which is an internationally recognised method of managing food safety. The system is now operating in every one of our stores across Russia.

Looking ahead

In 2016 we will continue the roll out of our Active Safety programme, extending safety walks to all parts of the Company and conducting formal risk check procedures in every store and distribution centre at least annually. We will also look to build on and expand our successful safety 'gamification' pilot schemes whereby employees earn points for identifying risks and actively participating in our safety programme. Employees earning a certain number of points become eligible for prizes.

Through the automated learning platform we monitor the legal health and safety training requirements for each employee. We developed our own first aid programme that will be delivered by internal experts and in 2016 some 90% of our employees will be trained within this programme.

Our goals for 2016

In addition to our ongoing CSR programmes we are focusing closely on a specific set of goals for 2016:

1. We will continue to invest in our value-for-money proposition to provide the best offers for our customers.
2. We will expand our social programmes aimed at vulnerable citizens. Alongside our own initiatives, we are open to cooperation with suppliers and other retailers to achieve this.
3. We will develop partnerships with local government to strengthen social and economic cooperation.
4. We will further increase local sourcing opportunities for suppliers in a range of industries.
5. We will pursue the development of programmes in the fields of environmental care and social activities.
6. We are committed to continued investment in the training and development of our employees to ensure that they are the best-in-class in the retail sector.
7. We will work with our suppliers to ensure their commitment to quality and safety aligns with our own.
8. We will look to actively increase employee involvement in working towards all our CSR goals.



Corporate governance



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Introduction from the Chairman



John Oliver
Chairman

Dear Shareholders

One of my key responsibilities as Chairman is the promotion of good governance. The way in which we conduct ourselves affects every aspect of our business; and is vital to ensuring that we remain successful and sustainable over the long term. I am delighted, therefore, to present this overview of the Company's corporate governance framework.

Towards best practice

Although we are not required to comply with the UK Corporate Governance Code ('the Code'), we believe that following the provisions of the Code to the extent appropriate and practicable is in the best interests of all our stakeholders. With the revision of the Code by the UK Financial Reporting Council in September 2014, we took the opportunity to review our governance framework. This is necessarily an evolutionary process. During 2015, we worked hard to implement new systems, protocols and processes that will take us closer to becoming a 'best practice' model in corporate governance for a Russian operating company. These included reviewing the membership of our Board Committees, ensuring the terms of reference of the Board Committees were consistent with the updated Code provisions and commissioning a review of our risk management function. We are committed to demonstrating that Lenta operates with the highest levels of integrity and transparency.

Objectives and responsibilities

The chief objective of the Board is to ensure the long-term success of the Company and sustained returns for shareholders. This requires the setting of strategic goals, overseeing our financial and human resource structures, reviewing management performance and setting the Company's risk appetite. The Board ensures that the risk management measures and internal controls are appropriate and effective.

As a result of the sale by EBRD of part of its stake in July 2015, EBRD now has the right to nominate one Director rather than two. The size of the Board has been reduced accordingly to nine Directors, from ten Directors previously.

Lindsay Forbes, an EBRD nominated Director, stepped down as a non-executive Director on 25 July 2015. Lindsay had served on the Board since 2009 and provided valuable insight and guidance to his fellow Board members and the executive team.

There were no other changes in Board membership during 2015.

The Company is exposed to financial, operational and compliance risks. Responsibility for risk management lies with the Board, with the Audit Committee having delegated responsibility for overseeing the Company's risk management framework.

Engaging with shareholders is a key aspect of good corporate governance. Throughout the year, the CEO and CFO, supported by the Company's investor relations team, and where appropriate by members of the Board and Senior Management, regularly meet with institutional shareholders and sell-side analysts. The Board also receives regular reports from the Head of Investor Relations on the team's activities – and in particular on shareholder sentiment and feedback.

Our corporate governance framework combines leadership with collaboration and underpins our robust decision-making process. The Board delegates certain responsibilities to four principal Committees – Audit, Remuneration, Nomination and Capital Expenditure. Information on their roles, responsibilities and activities during the year is set out in their respective sections.

Looking forward

The macroeconomic situation in Russia is likely to remain challenging and its effects will continue to impact the way our customers shop and the choices they make. We will continue to work to maintain and improve Lenta's performance during the coming year for the benefit of all: our customers, employees, shareholders, suppliers and the wider communities in which we operate.

As a Board, we are of course responsible to our shareholders. We are also driven by our advisory role; complementing and supporting the executive team as it executes our strategy. I have every confidence in the leadership of Lenta's CEO and our experienced Senior Management. Last year's results proved that they have the skills to deliver excellent results, with record store openings and a strong financial performance. As they strive to maintain this success in difficult times, they can be assured of the Lenta Board's continued support and guidance.

Board of Directors



John Oliver



Jan Dunning



Jago Lemmens



Michael Lynch-Bell



Stephen Johnson



Stephen Peel



Dmitry Shvets



Martin Elling



Anton Artemyev

The Board believes that it has the necessary skills and experience to provide effective leadership and control of the Company.

John Oliver (57) Chairman

John Oliver was appointed a non-executive Director of the Company in October 2009 and has been Chairman of the Board since 2011.

Board Committees

Audit, Nomination, Remuneration, Capital Expenditure

Experience

John is a former TPG partner and led TPG's European Operating Group until December 2013. Prior to joining TPG in 2006, John spent 15 years with General Electric. His roles at GE included CEO of GE Equipment Services Europe, a diverse portfolio of businesses operating in 20 countries, and CEO of GE IT Solutions Europe, an IT infrastructure and services provider, which was turned around and sold under his leadership. Prior to this, he held various roles at GE Medical Systems including GM EMEA Services, VP Global Radiation Therapy and VP Global Vascular Systems. He started his career in 1981 with Schlumberger oilfield services, holding various technical and country general management roles in Africa and Asia-Pacific, then worked for Boston Consulting Group before joining GE.

Other roles

Senior Advisor to TPG.

Qualifications

John graduated with a BSc in Chemical Engineering from Imperial College in 1981, and with an MBA from INSEAD in 1987.

Jan Dunning (56) Chief Executive Officer (CEO)

Jan Dunning joined Lenta as CEO in 2009 and was appointed a Director of Lenta Ltd in 2013.

Experience

Prior to joining Lenta, Jan was Operations Director of Metro Cash & Carry Russia and then General Manager of Metro Cash & Carry Ukraine. During his six years with Metro in Russia, the business expanded from four to 48 stores. Jan's previous experience also includes three years as General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North. Over the last 25 years, he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

Qualifications

Jan has a History degree from the University of Groningen and an Economics degree from the University of Amsterdam. He also attended management development programmes at INSEAD and the London Business School.

Jago Lemmens (47) Chief Financial Officer (CFO)

Jago Lemmens joined Lenta in 2010 as Accounting and Reporting Director, becoming CFO in 2011. He was appointed a Director of Lenta Ltd in 2013.

Experience

Prior to joining Lenta, Jago served as Finance Director of OBI Ukraine and, before this, as Finance Director of Metro Cash & Carry Ukraine. During his 25 years in the retail industry, he has held senior positions in finance, accounting and controlling with

several major retailers in the Netherlands, including Makro and Lukas Klamer (both part of Metro Cash & Carry) and Vomar.

Qualifications

Jago holds a degree in Finance and Auditing from the VU University Amsterdam and completed postgraduate courses in Auditing and Financial Management at the University of Amsterdam. He is a member of the Association of Chartered Auditors and the Association of Registered Controllers, both in the Netherlands.

Michael Lynch-Bell (62) Director

Michael Lynch-Bell was appointed an independent non-executive Director of Lenta Ltd in 2013.

Board Committees

Audit (Chairman), Nomination, Remuneration

Experience

Michael retired from Ernst & Young as Senior Partner in 2012 after a 38-year career with the firm. He was a member of Ernst & Young's audit practice from 1974 to 1997, becoming a partner in 1985. During this period, as well as supervising and being involved in the audit of a number of multinational groups, he advised a wide range of companies on systems and controls, corporate governance, risk management and accounting issues. In 1997, Michael moved to Ernst & Young's Transaction Advisory practice, where he founded and led its UK IPO and Global Natural Resources transaction teams. He has been involved with the CIS since 1991 and has advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.

Other roles

Michael is also Senior Independent Director and Audit Committee Chair of Kaz Minerals Plc, a non-executive Director, Audit Committee Chair and Compensation Committee Chair at Transocean Partners LLC, a non-executive Director and Audit Committee Chair of Gem Diamonds Limited and a non-executive Director and Audit Committee Chair at Seven Energy Ltd. He is also active with the charities Action Aid International and 21st Century Legacy.

Qualifications

Michael graduated from Sheffield University with a BA in Economics and Accounting in 1974, qualified as an English Chartered Accountant in 1977, and was awarded an Honorary Doctorate of Humane Letters by Schiller International University in 2006.

Stephen Johnson (52)**Senior Independent Director**

Stephen Johnson has been an independent non-executive Director of Lenta Ltd since 2010. He was appointed as Lenta's Senior Independent Director in 2013.

Board Committees

Nomination (Chairman), Remuneration (Chairman), Audit, Capital Expenditure

Experience

Stephen has over 20 years' experience in the retail industry, having been part of the team that turned around and successfully sold Asda to Walmart. Whilst at Asda, Stephen held several senior positions including Trading Director, Commercial Finance Director and Marketing Director. Following his time at Asda, he was CEO of Focus DIY Ltd and of Woolworths Plc, as well as Sales & Marketing Director at GUS Plc. He started his career in management consultancy with Bain & Co.

Other roles

Stephen is currently a non-executive Director of Big Yellow Group Plc and Chairman of Pocketwatch since 2015. He also works with a number of private equity firms primarily focused on Southern and Eastern Europe.

Qualifications

Stephen graduated from Cambridge University with an Engineering degree.

Stephen Peel (49)**Director**

Stephen Peel has been a non-executive Director of Lenta Ltd since 2011.

Experience

Stephen is the founder of SMP Policy Innovation, a not for profit organisation focused on promoting better public policy. He is also a visiting fellow at the Blavatnik School of Government at the University of Oxford. Prior to this, he spent some 27 years' in finance and private equity. From 1989 to 1997 Stephen was in the corporate finance and principal investment areas at Goldman

Sachs. From 1997 to 2014, he was a Managing Partner at TPG Capital initially founding and leading its European office and latterly leading its Asian business based in Hong Kong.

Other roles

Stephen serves as a member of the Trilateral Commission, is on the board of Global Witness, on the Global Partners Council of the Institute of New Economic Thinking, and on the advisory boards of the Institute of State Effectiveness, the Open Contracting Partnership, and the Jackson Institute of Global Affairs at Yale University.

Qualifications

Stephen graduated from the University of Cambridge, Downing College with an MA in 1987 and received a Masters of Advanced Studies from Yale University in 2015.

Dmitry Shvets (43)**Director**

Dmitry Shvets was appointed a non-executive Director of Lenta Ltd in 2009.

Board Committees

Capital Expenditure (Chairman), Nomination, Remuneration

Experience

Prior to joining TPG Capital in 2008, Dmitry was Operating Director in the mining and metallurgical company Norilsk Nickel, where he was in charge of optimisation of the company's key production assets and was also responsible for the integration of newly acquired assets. From 1998 to 2004 Dmitry worked for McKinsey & Company, where he led projects in industries including consumer goods, retail, transportation, metals and mining, and oil extraction in the areas of strategy, organisation and operational effectiveness. He also worked for the Coca-Cola Company in various marketing roles.

Other roles

Dmitry is the Head of TPG Capital Russia and is a Director at Fesco Transportation Group.

Qualifications

Dmitry holds an MBA from Emory University and graduated with honours from the Moscow State Institute of International Relations ('MGIMO').

Martin Elling (62)**Director**

Martin Elling joined Lenta Ltd as a non-executive Director in 2011.

Board Committees

Capital Expenditure

Experience

Martin started his career with the UN Food and Agriculture Organization where he worked for 11 years as a financial analyst and economist mostly on World Bank agribusiness and infrastructure. He then

joined the European Bank for Reconstruction and Development ('EBRD'), where he was responsible for agribusiness, financial services and energy investments in Ukraine, Romania and Russia. In 1997, Martin left the EBRD to concentrate on investment opportunities in agribusiness, leasing and B2B services in Ukraine and Russia, achieving two successful exits in Ukraine and one in Russia.

Other roles

Martin advises a number of companies on restructuring and corporate governance. He also occasionally advises the African Parks Foundation on the operational strategy of individual national parks.

Qualifications

Martin holds an Economics degree from the University of Amsterdam and a postgraduate degree from the University of Wageningen.

Anton Artemyev (55)**Director**

Anton Artemyev was appointed an independent non-executive Director of Lenta Ltd in 2013.

Board Committees

Audit, Nomination, Remuneration

Experience

Anton has extensive FMCG experience in Russia and Eastern Europe including 12 years in the brewing industry, where his roles included Executive Vice-President of Baltic Beverages Holding, the largest Eastern European brewing group at the time; President of Baltika Breweries; and Senior Vice-President responsible for Eastern Europe and a Member of the Executive Committee of Carlsberg Group. Prior to this Anton worked in a variety of consulting roles including Partner in Bossard Consultants and Principal in Gemini Consulting/CAP Gemini, where as head of Russian operations he focused on strategy work in various sectors, primarily consumer goods.

Other roles

Anton is currently Chairman of Fortrent OY, which provides construction equipment rental services in Russia and Ukraine. Fortrent is a 50/50 joint venture between Cramo and Ramirent, who are among the European leaders in this field.

Qualifications

Anton holds a Diploma with honours and a Doctorate in Geography from Leningrad State University. He also studied Management and Economics at Bocconi University and at Henley Management College.

Director who served but resigned during the period

Lindsay Forbes, non-executive Director, resigned on 25 June 2015.

Senior Management team



Jan Dunning



Jago Lemmens



Edward Doeffinger



Anna Meleshina



Herman Tinga



Tatiana Yurkevich



Pavel Remezov



Sergey Prokofiev



Joern Arnhold



Maxim Shchegolev

Under the chairmanship of the CEO, our highly skilled Senior Management team implements the strategies set by the Board. With a breadth of experience across the food retail sector, both on the domestic and international front, their leadership is vital to the success of Lenta's day-to-day operations.

Jan Dunning (56) Chief Executive Officer (CEO)

Jan Dunning joined Lenta as CEO in 2009 and was appointed a Director of Lenta Ltd in 2013. Jan's biography appears on page 68 of this report.

Jago Lemmens (47) Chief Financial Officer (CFO)

Jago Lemmens joined Lenta in 2010 as Accounting and Reporting Director, becoming CFO in 2011. He was appointed a Director of Lenta Ltd in 2013. Jago's biography appears on page 68 of this report.

Edward Doeffinger (59)

Chief Operational Officer (COO)
Edward Doeffinger joined Lenta in 2011 as Chief Operational Officer.

Experience

Prior to joining Lenta, Edward served as Deputy General Director of Metro Cash & Carry Kazakhstan. Before starting his career in 1991 at Metro Cash & Carry (Germany), Edward held several positions in wholesale companies and worked as Head of the dry food department at the Trade Ministry of the German Democratic Republic. During his 30 years' experience in the retail industry he has held senior positions in various countries. In 1994 he obtained his first assignment outside Germany as a board advisor to Metro Cash & Carry in Hungary. After a year in Hungary, Edward became a member of the Metro Jinjiang team (China) and worked as a Store General Director and later as Head of Store Development for several years in China before moving to Russia in 2001. In Russia Edward was responsible for the business operations of Metro Cash & Carry in the Privolzhsky, Ural and Siberian regions. He was also responsible for the Metro Cash & Carry Kazakhstan business operations as a Deputy CEO.

Qualifications

Edward has a degree in Economics from the Hochschule fuer Oekonomie Berlin.

Anna Meleshina (38)

Public Relations and Government
Affairs Director

Anna Meleshina joined Lenta in 2013 as Public Relations and Government Affairs Director.

Experience

Prior to joining Lenta, Anna served as Corporate Relations Director for Heineken in Russia and served as a member of the global corporate relations leadership team. In addition to her 13-year career in the brewing sector, Anna has held senior positions in non-commercial organisations, including an advisory role at the Honorary Consul of Iceland in St. Petersburg, and as a board member and Deputy Chairman of the Russian Breweries' Association.

Qualifications

Anna graduated from the Scandinavian linguistics faculty of the St. Petersburg State University with a diploma cum laude. She also holds an MBA from Henley Management College in the UK.

Herman Tinga (58)**Commercial Director**

Herman Tinga joined Lenta in 2013 as Commercial Director.

Experience

Prior to joining Lenta, Herman served as Non-Food Global Category Management & Sourcing Director at Metro AG. With a background in marketing, category management, buying and merchandising, Herman has extensive experience as a senior manager and board member in retail and cash & carry spanning 33 years. For four years, Herman was a board member of Metro Cash & Carry in Russia.

Qualifications

Herman has a bachelor's degree from the Netherlands Institute of Marketing.

Tatiana Yurkevich (43)**HR Director**

Tatiana Yurkevich joined Lenta in 2012 as Human Resources Director.

Experience

Prior to joining Lenta, Tatiana served as Human Resources Director at Fazer Bakeries & Confectionery, Russia. During her 18 years in HR management, she has held senior positions in HR including Head of HR at United Heavy Machinery Group and Izhora Plants, and HR Director of Caterpillar European Fabrications and Caterpillar Tosno. Tatiana has experience in leading Six Sigma Program implementation as a Deployment Champion in Caterpillar.

Qualifications

Tatiana has a master's degree in International Economics from St. Petersburg State University as well as English and German language degrees from Novosibirsk State Pedagogical University.

Pavel Remezov (41)**Format Development Director**

Pavel Remezov joined Lenta in 2013 as Format Development Director.

Experience

Prior to joining Lenta, Pavel worked as Investments Director with NCH Capital Russia. He has over 18 years' experience in the expansion and investments field. He has previously worked as Real Estate Director for BV Development (a project of Baring Vostok Capital Partners), as Senior Real Estate Project Manager with Metro Cash & Carry, and as Retail Real Estate Broker with Colliers. He is responsible for finding and acquiring plots of land, the construction of shopping centres, and managing projects to acquire retail chains and stores.

Qualifications

Pavel holds a BA in Economics magna cum laude from St. Lawrence University.

Sergey Prokofiev (47)**Legal Director**

Sergey Prokofiev joined Lenta as Legal and Government Relations Director in 2012.

Experience

Prior to joining Lenta, Sergey worked for Metro Cash & Carry for 11 years in different positions including Legal and Compliance Director. He started his career as expert-interpreter and later worked as a lawyer in a major Russian law firm and as a defending attorney at the Moscow City Bar.

Qualifications

Sergey graduated from the Military Institute of Foreign Languages ('VKIMO') and the Institute of Law. He holds a PhD in Law from the Institute of Legislation and Comparative Law under the Government of the Russian Federation and an MBA in Strategic Management from California State University.

Joern Arnhold (45)**Supply Chain Director**

Joern Arnhold joined Lenta in 2011 as Supply Chain Director.

Experience

Prior to joining Lenta, Joern had 13 years' experience with Metro Group Logistics ('MGL') where he held various key positions in Germany, Turkey and Russia. As Managing Director of MGL in Russia, Joern was responsible for developing and running logistics operations for the Metro Group sales divisions in Russia.

Qualifications

Joern holds a degree in Business Administration from the Georg August University Goettingen.

Maxim Shchegolev (49)**Integration and Format Development Director**

Maxim Shchegolev joined Lenta in 2012 as Integration and Format Development Director.

Experience

Prior to joining Lenta, Maxim held a number of executive positions with O'KEY Group. During his 16 years' experience in the retail industry, Maxim has held senior positions in business development. In 2008 he was appointed Director of Expansion for O'KEY and was responsible for various aspects of business development, including expert assessment of the competitive environment, and the purchase and lease of real estate for the construction of stores. In 2012, he took a similar position with Lenta. He is responsible for finding and acquiring plots of land, managing the construction and redevelopment of shopping centres, letting out premises owned by the Company, and the development of new stores in leased premises.

Qualifications

Maxim graduated from St. Petersburg University of Economics and Finance, the Russian-Dutch School of Marketing and the Higher School of the Ministry of Economic Development and Trade of the Russian Federation.

Senior Management team member who served but resigned during the period

Victor Solodnikov, Development & Construction Director, resigned on 17 June 2015.

Corporate governance

Promoting strong governance

Our corporate governance framework

Compliance with UK Corporate Governance Code

The UK Corporate Governance Code ('the Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve good standards of corporate governance. As a company incorporated in the British Virgin Islands ('BVI') with GDRs admitted to the Official List, we are not required to comply with the provisions of the Code. However, we have chosen to comply with the Code to an appropriate and practicable extent.

As of the date of this report, the Board considers that Lenta fully complies in all material respects with the Code, with the exception of the following provisions:

- the Chairman of the Board was not independent on his appointment;
- there is not a majority of independent directors on the Board;
- the Company's risk management process and function is currently under review. It is intended to implement the recommendations of the review during 2016;
- the Directors have not provided a statement as to the prospects of the Company. This provision will be complied with as part of our 2016 reporting;
- the whole Board is available to attend the AGM but it is not a requirement that each member attends.

While BVI law imposes certain general duties on company directors (including the duty to act in the best interests of the company), there is no specific corporate governance code or corporate governance regime in the BVI.

Leadership

The Chairman leads the Board, ensuring its effectiveness while taking account of the interest of the Group's various stakeholders and promoting high standards of corporate governance. There is a clear delineation between the role of Chairman and CEO. Updated descriptions of the roles were agreed by the Board in 2015 and are summarised as follows:

The Chairman's responsibilities include:

- ensuring the Directors receive accurate, timely and clear information;
- facilitating the effective contribution of non-executive Directors and engagement between executive and non-executive Directors;
- building an effective Board;
- the induction of new Directors and further training for all Directors as required;
- communicating effectively with shareholders and other stakeholders and ensuring the Board develops an understanding of the view of stakeholders;
- ensuring an annual evaluation of the Board is conducted and leading the performance evaluation of the CEO and non-executive Directors.

The Chairman holds one-to-one and group meetings with the non-executive Directors – without the executive Directors being present – four times a year.

The Chairman was not independent upon his appointment to the Board since, at that time, he was a partner in TPG Capital, one of the Company's major shareholders.

The CEO's responsibilities include:

- leading the development of the Company's strategic direction and implementing the agreed strategy;
- identifying and executing new business opportunities;
- managing the Group's risk profile and implementing and maintaining an effective framework of internal controls;
- building and maintaining an effective management team;
- ensuring effective communication with shareholders and regularly updating institutional shareholders on business strategy and performance.

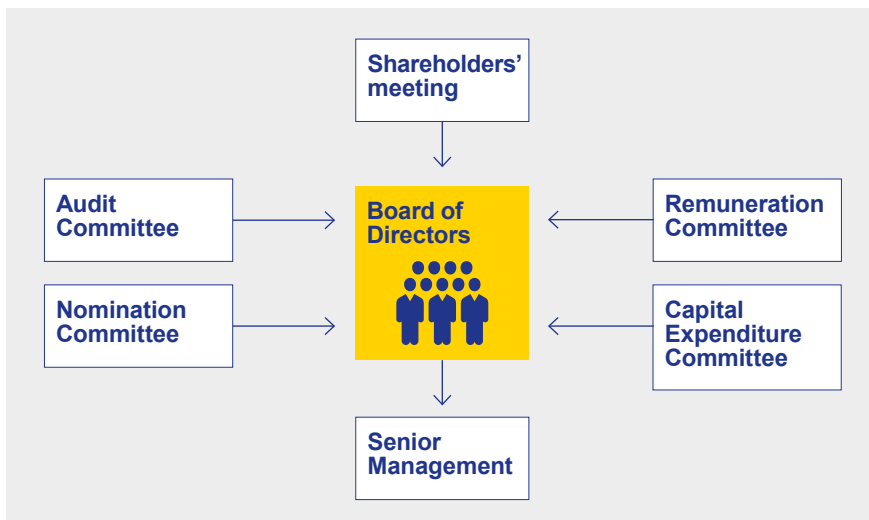
Stephen Johnson was the Senior Independent Director ('SID') throughout the year ending 31 December 2015. He was selected for the role because of his experience and expertise, both as an executive and non-executive Director with retail and international experience. The key roles and responsibilities of the SID include the following:

- acting as a sounding board for the Chairman;
- serving as an intermediary for the other Directors when necessary;
- being available to assist in resolving shareholder concerns, should alternative channels be exhausted;
- holding at least one meeting each year with the non-executive Directors without the Chairman present;
- monitoring the training and development requirements of Directors;

- overseeing the Chairman's appraisal and succession, and
- ensuring that Committee chairmen conduct performance evaluations of their Committees.

Non-executive Directors

The non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under BVI law, the non-executive Directors fulfil a vital role in corporate accountability. They have responsibility for constructively challenging the strategies proposed by the executive Directors and scrutinising the performance of management in achieving agreed goals and objectives. They also play a key role in the functioning of the Board and its Committees. Between them, the current non-executive Directors have an appropriate balance of skills, experience, knowledge and independent judgement to undertake their roles effectively.



Corporate governance continued

Matters specifically reserved for the decision of the Lenta Ltd Board of Directors

Management, strategy and planning

The Board has responsibility for the overall management of the Group. This includes approval of the strategy, business plans and budgets as well as approval of any material restructuring or reorganisation and establishment of new material areas of business. The Board also reviews performance in light of the strategy, objectives, business plans and budgets, ensuring that any necessary corrective action is taken.

Operations and transactions

This includes approval of significant capital and non-capital expenditure as well as approval of significant asset disposals and any other transactions that could have a material effect on the strategic or financial plans of the Company, including making or responding to takeover bids.

Capital structure

The Board approves changes relating to capital structure including allotment of shares, reduction of capital (except under employee share plans) and share buy-backs. It also approves major changes to the Group's corporate structure and the Company's listings or its status as a company limited by shares.

Loans and dividends

This includes approval of any substantial new loan or similar facility (including financial leases) from third parties or material amendment to any such facilities including material loans or similar facilities made available to third parties. The Board also oversees the Company's dividend policy, declaration of interim and recommendation of final dividends and approval of other distributions to shareholders, as well as any new pension schemes or significant changes to existing pension schemes.

Public reporting and controls

The Board approves the preliminary trading and half-yearly results announcements as well as the Annual Report and Accounts. It also approves appropriate press releases, material changes in principal accounting policies and practices, treasury policies and related risk management strategy and framework. On recommendation of the Audit Committee, the Board also appoints or removes the external auditor.

Board and Directors

The Board of Directors manages, directs and supervises the business of the Company. The Board oversees the officers of the Company and succession planning. The Board, in some circumstances, may elect a Director to fill an empty seat on the Board. The Board may also establish committees and set their responsibilities.

Remuneration

This includes approving the Directors' and Officers' insurance cover and establishing policies and rules relating to share-based incentive schemes. The Board also determines remuneration policy for executive Directors and certain senior executives and approves the remuneration of non-executive Directors.

Corporate governance

The Board reviews its own performance and that of its Committees and individual Directors. It is responsible for determining the risk appetite of the Group and ensuring maintenance of an effective system of internal control and risk management. It also approves and revises policies, including health, safety and environment policies, share dealing rules, code of conduct, anti-bribery and corruption policy and corporate governance arrangements.

The Board also calls any general meetings and approves documents sent to shareholders. It also recommends any changes to the Company's Memorandum and Articles of Association and considers material litigation or regulatory investigations affecting the Lenta Group. It is responsible for the approval of political donations and the appointment of key corporate advisors.

Other

The Board also considers other matters of strategic or reputational importance likely to have a significant impact on the Company. When, exceptionally, decisions on matters specifically reserved for the Board are required to be taken urgently between Board meetings, such decisions shall be taken by a Directors' written resolution pursuant to Article 12.9 of the Articles of Association of the Company.

Board of Directors

Position	Name	Cat.	Director since	Committees			
				Nomination	Audit	Remuneration	Capex
Chairman	John Oliver ¹	TPG	2009	●		●	
Sen. INED	Stephen Johnson	INED	2010	●	●	●	●
Director	Michael Lynch-Bell	INED	2013	●	●	●	
Director	Anton Artemyev	INED	2013	●	●	●	
Director	Dmitry Shvets	TPG	2009	●		●	●
Director	Stephen Peel	TPG	2011				
Director	Martin Elling	EBRD	2011				●
Director	Jan Dunning	CEO	2013				
Director	Jago Lemmens	CFO	2013				

● Committee member ● Chairman of Committee

¹ Effective 31 December 2015, John Oliver resigned as a member of the Audit Committee and was appointed a member of the Capex Committee.



● Nomination Committee (five Directors)

+ Read more on page 78

● Audit Committee (three Directors)

+ Read more on page 81

● Remuneration Committee (five Directors)

+ Read more on page 84

● Capex Committee (four Directors)

+ Read more on page 89

The Board is responsible for managing our business and may exercise all of the business's powers in doing so, except to the extent that any such power must be exercised by the shareholders in accordance with applicable BVI law or the Company's Memorandum and Articles ('M&A'). The Board also, by virtue of direct or indirect shareholdings in our consolidated subsidiaries, provides strategic management of our affairs and those of our consolidated subsidiaries. The day-to-day operations of our operating company, Lenta LLC, are managed by Senior Management as described below.

The Board currently consists of nine Directors, of which three: Michael Lynch-Bell, Anton Artemyev and Stephen Johnson are judged by the Board to be independent Directors according to the provisions of the UK Corporate Governance Code. None of the factors or circumstances set out in the Code as potential indicators of non-independence apply to Mr Lynch-Bell or Mr Artemyev.

While Mr Johnson carried out remunerated consultancy work for Lenta and one of its Major Shareholders,

TPG Capital, prior to 2014, is remunerated as Chairman of another TPG Capital investee company and holds 80,000 Shares in Lenta Ltd subject to secured arrangements in favour of our pre-2014 Offering, the Board is satisfied that these have no effect on his independence. This is primarily because of his extensive experience in retail and the fact that his shareholding is subject to staggered release starting in 2014 and ending in 2018 – and is subject to his continued service on Lenta's Board.

Our CEO and CFO, who are also the General Director and Chief Financial Officer of Lenta LLC, are Directors, but are ineligible to serve on Board Committees. The remaining four Directors – including the Chairman – were elected by the shareholders pursuant to the nomination rights of the Major Shareholders.

As provided under the M&A:

- the CEO and CFO hold office by virtue of their positions, and are appointed, and may be removed by the Board.

- the Major Shareholders may nominate Major Shareholder-nominated Directors (and remove such Directors), and shareholders are obliged to vote to approve the appointment or removal of such candidates, as follows:

- TPG Capital: three Directors including the Chairman whilst it holds directly or indirectly an interest in 22.5% or more of the shares; two Directors including the Chairman whilst it holds directly or indirectly an interest in 15% or more of the shares; one Director whilst it holds directly or indirectly an interest in 5% or more of the shares;

- EBRD: two Directors whilst it holds an interest in 15% or more of the shares; one Director whilst it holds an interest in 5% or more of the shares;

- VTB Capital Private Equity: one Director whilst it holds directly or indirectly an interest in 5% or more of the shares, although VTB has chosen not to nominate a Director since June 2014.

Corporate governance continued

On each of the first two occasions where a Major Shareholder's holding falls below a threshold listed above, one of the Directors nominated by that Major Shareholder must resign, and the number of Directors on the Board shall be reduced by one. However, the Major Shareholder retains the right to appoint a Director if its shareholding should go back up above the thresholds. On each subsequent occasion when a Major Shareholder's shareholding falls below a threshold listed above, one of the Directors nominated by that Major Shareholder must resign no later than the next general meeting, but may be re-nominated and re-elected by a simple majority resolution of the shareholders. These Directors may otherwise only be removed by their nominating Major Shareholder. The Major Shareholders may not assign or transfer these nomination rights to third parties. During 2015, the shareholding of the EBRD fell from 15.3% to 7.4% and as a result one of its two nominated Directors, Lindsay Forbes, stepped down from the Board.

As at the date of this report there are four Major Shareholder-nominated Directors on the Board. The Major Shareholder-nominated Directors have a fiduciary duty under the laws of the BVI to act in the best interests of our business. Under the M&A, a Director who has an interest in a transaction likely to give rise to a conflict of interest may not vote on any resolution relating to the transaction, unless fewer than three Directors are entitled to vote on such a resolution, in which case each interested Director may vote provided his interest is duly disclosed or certain other exceptions apply.

There should be at least three independent Directors at all times. Independent Directors are elected by a majority resolution of the Board

from a list of candidates proposed by the Board and considered by the Board to be independent, taking into account the criteria for independence set forth in the Code. Each independent Director shall be deemed to resign at the first general meeting following their election by the Board, at which general meeting they shall be put forward for re-election. These Directors may be removed by a majority resolution of the Board or by a simple majority resolution of the shareholders upon a proposal made by shareholders holding more than 15% of the shares.

Each of the other Directors (if any) shall be elected by a simple majority resolution of the shareholders from a list of candidates. This will include those candidates proposed by the Board, retiring Directors consenting to being put forward for re-election and any candidates put forward for election by shareholders holding at least 15% of the shares within the timeframe stipulated in the M&A. These Directors may be removed in the same way as the independent Directors.

The Board may appoint a Director to fill a vacancy (subject to the rights of the Major Shareholders). In this case, that Director shall resign at the next general meeting and be put forward for re-election.

While the Board has overall accountability, in order to operate more effectively, responsibility for specific functions is delegated to four specialist Board Committees: Nomination, Audit, Remuneration and Capital Expenditure. The responsibility for formulating and, after approval, implementing strategic plans and the management of day-to-day operations is delegated to the Chief Executive Officer and the Senior Management team.

Board focus during the year

In 2015, the Board spent its time considering a wide range of matters. These included:

- individual business and overall Group performance and future capital expenditures
- budgets and long-term plans for the Company
- review of estimates of future cash flows, financing arrangements and fundraising
- preparing and authorising two equity fundraisings
- maintaining and increasing efficiency of the Company's increasingly rapid development
- development of the Company's corporate governance
- responding to the changing dynamics of the Russian economy
- strategy
- financial statements and announcements
- reviewing reports from its Committees
- shareholder feedback and reports from brokers and analysts
- risk management and risk oversight
- the industry and competitive environment.

Board and Committee attendance during the year

Normally the Board holds at least four meetings in person and a number of ad hoc meetings in person or via teleconference. We consider that any Director, participating via teleconference, videoconference or other electronic means shall be considered to be physically present, provided each Director is able to hear all other Directors and, in turn, be heard by all other Directors.

Member	Board (6 meetings)	Audit Committee (7 meetings)	Capex Committee (21 meetings)	Nomination Committee (1 meeting)	Remuneration Committee (3 meetings)
John Oliver (Major Shareholder nominee) Chairman	6	7	n/a	1	3
Jan Dunning (CEO)	6	n/a	n/a	n/a	n/a
Stephen Johnson (Independent)	6	7	21	1	3
Michael Lynch-Bell (Independent)	6	7	n/a	1	3
Jago Lemmens (CFO)	6	n/a	n/a	n/a	n/a
Lindsay Forbes (Major Shareholder nominee)	1	3	n/a	n/a	n/a
Anton Artemyev (Independent)	6	7	n/a	1	3
Dmitry Shvets (Major Shareholder nominee)	6	n/a	21	1	3
Stephen Peel (Major Shareholder nominee)	5	n/a	n/a	n/a	n/a
Martin Elling (Major Shareholder nominee)	6	n/a	21	n/a	n/a

A quorum for Board meetings consists of a minimum of five members of the Board.

Changes to the Board in 2015

Lindsay Forbes	EBRD Director	Resigned from the Board with effect from 25 July 2015
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Length of service and independence of non-executive Directors

Stephen Johnson	Since 2010	Considered to be independent by the Board
Michael Lynch-Bell	Since 2013	Considered to be independent by the Board
Anton Artemyev	Since 2013	Considered to be independent by the Board

There are five Board meetings scheduled for 2016.

The terms of reference for Lenta's Board Committees were revised and updated in November 2015. Details are set out in the Corporate Governance section of the Company website: www.lentainvestor.com/en/about/corporate-governance/internal-policies

Corporate governance continued

Board Committees

Effectiveness

The appointment of new Directors is led by the Nomination Committee, the majority of whose members are independent non-executive Directors. Details of the appointments process can be found on page 75.

All new Directors receive a personalised induction programme, tailored to their experience, background and particular area of focus. This is designed to develop their knowledge and understanding of the Company's culture and operations. The programme incorporates a wide-ranging schedule of meetings with Senior Management across the Company, comprehensive briefing materials and opportunities to visit the Company's operations, including spending time at new store openings, in-store and in our distribution network.

All Directors have the opportunity to increase their knowledge of the Company through visits to the Company's operations and meetings with senior executives across the business.

The Board makes a careful assessment of the time commitments required from the Chairman and non-executive Directors to discharge their roles properly. This is discussed with candidates as part of the recruitment process and a commitment to the appropriate time requirements is included in engagement letters. Directors are expected to attend every Board meeting and every meeting of any Committee of which they are a member, unless there are exceptional circumstances preventing their attendance. Scheduled Board and Committee meetings are arranged at least a year in advance to allow Directors to manage other commitments.

The Chairman reviews each Director's development needs as part of the annual performance evaluation process and puts appropriate arrangements in place for specific training. The Nomination Committee reviews the Directors' skills and experience as a group against those needed to oversee and support the Company's future operations, and identifies any gaps. Training is arranged to develop the knowledge and skills of the Directors in a variety of areas relevant to Lenta's business.

Board papers are circulated a week before each meeting to give the Directors and Committee members sufficient time to fully consider the information. All Directors have access to the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or could have a direct or indirect interest that conflicts or may conflict with the interests of the Company. A Director has a duty to disclose to the Board any transaction or arrangement under consideration by the Company in which he has a personal interest. The Board has a procedure for authorising conflicts or potential conflicts of interest. Under this procedure, Directors are required to declare all directorships or other appointments outside the Company that could give rise to a conflict or potential conflict of interest.

Following completion of the year end, the Board conducted an internal review of its performance and that of its Committees and individual Directors.

Nomination Committee Report

Committee members

Stephen Johnson
(Independent, Chairman)

Michael Lynch-Bell
(Independent)

Anton Artemyev
(Independent)

John Oliver
(Major Shareholder nominee)

Dmitry Shvets
(Major Shareholder nominee)

The key roles of the Nomination Committee are to:

- ensure that proper procedures are established for the nomination, selection and training of the Company's Directors and Senior Management;
- keep under review the balance of skills, experience, independence, knowledge and general diversity on the Board to ensure the balance and composition of the Board and its Committees remains appropriate;
- make recommendations to the Board on Directors' conflicts of interest for authorisation, where appropriate;
- make recommendations to the Board of Directors regarding the appointment of new Directors (aside from Major Shareholder nominees, the CEO and the CFO), and identify, interview, select, and determine the independence of candidates with suitable industry or key competency experience;
- review Senior Management appointments and Company-wide succession planning and other human resources-related matters.

The Human Resources Director may be invited to attend any meeting of the Committee, except for portions of the meetings where their presence would be inappropriate, as determined by the Committee Chairman.

Dear Shareholders

2015 continued to be a challenging and exciting year for all our colleagues at Lenta. The Company's substantial growth during the year and the ambitious expansion objectives we have for the future inevitably place great demands on the organisation – and particularly the Senior Management team. With this in mind, the focus of the Nomination Committee's activities during the year has been on ensuring that the Company has the appropriate framework and processes in place to ensure that it is best placed to support the business strategy, whilst continuing to focus on productivity improvements that do not sacrifice our customer service ethos. As part of our Governance Framework review we took the opportunity to review and make recommendations to the Board on the membership of our Board Committees.

We reviewed the Committee's own performance, constitution and terms of reference; and reported to the Board on how the Committee had discharged its responsibilities.

A copy of the Committee's terms of reference is available on the Company's website: www.lentainvestor.com/en/about/corporate-governance/internal-policies

Looking forward to 2016, the Committee intends to continue its focus on the performance appraisal programme and the succession planning programme. We will also support Management in the identification and recruitment of suitable candidates to support the Company's growth plans.

Activities during the year Performance appraisal programme

Over the last few years, Lenta has developed and implemented a Company-wide performance appraisal programme. This process is used to assess the performance of every employee in the business, including the executive Directors. The findings from this programme are used to identify training and development needs, to pinpoint areas where investment in human resources is required and to identify high performance individuals at all levels. The Nomination Committee receives regular reports on the results and operation of the performance appraisal programme.

Succession planning programme

The Company also operates an active succession planning programme. This is designed to identify possible successors for all management positions in the Company, to identify development needs for any potential successors, and to address any succession gaps. The performance appraisal programme is one of the key inputs in the succession planning process. During the year the Committee regularly reviewed the succession plan and worked with Company management to refine and develop it. Inevitably, this is an ongoing process. The Company has at least one named successor for 80% of the managers in the business.

Board Committee review

After noting the requirements of the Code, we made a number of recommendations to the Board on the composition of our Audit and Capital Expenditure Committees. Effective 31 December 2015, our Chairman, John Oliver, stepped down as a member of the Audit Committee, making the membership of that Committee fully Code compliant. As of the same date John joined the Capital Expenditure Committee.

Stephen Johnson
Chairman
Nomination Committee

Corporate governance continued

Accountability

The Board considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provide the necessary information required for shareholders to assess the Company's performance, business model and strategy – and that the business continues to operate as a going concern.

The Board has overall responsibility for ensuring the Company has appropriate risk management and internal controls in place – and that they continue to work effectively. Successful management of risk is supported by controls, management oversight and sources of assurance.

The Company maintains a comprehensive framework of internal controls addressing the key strategic, financial, legal, reputational and operational risks to the business. The accountability for operating these controls rests with Senior Management as a first line of defence.

Key elements of the Company's system of internal controls that operated throughout the year were:

- monitoring by the Board of a comprehensive reporting system including detailed monthly results, periodic short- and medium-term forecasts, annual budgets and medium-term plans;
- monitoring by the Board of the Company's liquidity, financing and borrowing requirements;
- well-defined procedures for assessment, approval, control and monitoring of major investment projects;
- a centrally coordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and identify any risks and potential areas for improvement at an early stage;
- financial, treasury, operating, compliance and administrative policies and procedures that incorporate statements of required behaviour;
- reviewing the speak-up policy and monitoring the operation of whistle-blowing facilities in place to allow staff and customers to raise concerns; and
- a remuneration policy for executives that motivates them appropriately, without encouraging excessive risk taking.

No significant internal control failings were identified during the year. The Group's approach to risk management, the risks identified and how it profiles these risks is set out on pages 36 to 43.

The Board commissioned a review of the effectiveness of the Company's risk management and internal controls in late 2015, assisted by external consultants. Recommendations resulting from that review will be considered and implemented during 2016.

Colleagues are required to confirm annually that they complied with the Code of Business Conduct, which sets out individual obligations and responsibilities for everyone working at Lenta.

Internal audit

Internal audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Company's resources and ensure compliance with the Company's policies and legal and regulatory requirements. It also advises on ways in which areas of risk can be addressed and provides objective assurance on risk and controls to Senior Management, the Audit Committee and the Board.

The mandate and programme of work of the internal audit department is considered and approved by the Audit Committee. Based on the approved internal audit plan, a number of internal audits took place across the Company's operations and functions to facilitate improvement of the Company's internal controls, with findings reported to the relevant operational management. Internal audit follows up on the implementation of recommendations and reports on progress to Senior Management and to the Audit Committee.

We recruited a new Head of Internal Audit during 2015. He reports regularly to the Chair of the Audit Committee and attends Audit Committee meetings to present the internal control findings from the internal audits performed. The Audit Committee reviews and discusses the effectiveness of internal audits on an annual basis with the Head of Internal Audit.

The Audit Committee plays a role in monitoring compliance with internal controls. In addition to receiving reports from Internal Audit, the Committee is responsible for monitoring legal compliance across the Company, including receiving reports from the Chief Legal Director. The Committee reports each year on its assessment of the effectiveness of the risk management and internal control systems. Throughout the year the Committee receives regular reports from the external auditor covering topics such as quality of earnings and technical accounting developments.

Whilst an internal control system cannot guarantee that losses will not occur, the Board is satisfied that management has remained diligent in its efforts to ensure an appropriate level of control remains in place. All Directors are covered by the Group's Directors' and Officers' insurance policy.

Audit Committee Report Committee members

Michael Lynch-Bell
(Independent, Chairman)

Anton Artemyev
(Independent)

Stephen Johnson
(Independent)

In 2015 the Audit Committee consisted initially of five Directors, three of whom were independent (including the Chair), and the Company Chairman. Lindsay Forbes resigned with effect from 25 July 2015 and the Company Chairman resigned from the Committee effective 31 December 2015. As a result, the membership of the Committee is now fully Code compliant.

The Audit Committee supports the Board in its responsibilities with regard to corporate reporting and risk management and internal controls, and with maintaining a relationship with the Company's auditor. The Committee's activities include the review of internal control systems, compliance with financial reporting requirements and the scope, results and cost effectiveness of the external audit.

There are seven Committee meetings scheduled for 2016.

Dear Shareholders

At the heart of the Audit Committee's remit is the need to provide confidence in the integrity of the Company's processes and procedures in relation to internal control, risk management and corporate reporting. In keeping with our commitment to good corporate governance, we seek to do this in line with international best practice.

During 2015, the Committee reviewed the Company's financial results, including significant financial reporting estimates and judgements, as well as the financial disclosures in the interim management statements. It also monitored the Company's system of internal control and management of the Company's risks and oversaw the relationship with the external auditor and with the internal audit function.

We are very grateful for the assistance of the Company's external auditor Ernst & Young ('EY') in this capacity. EY contributes a further independent perspective on certain aspects of the Company's financial control systems and reports both to the Audit Committee and directly to the Board.

Corporate governance continued

Responsibilities

The primary responsibilities of the Audit Committee encompass overseeing, monitoring and reviewing the Company's financial reporting, internal control and assurance processes. Whilst the Committee has very specific duties set out in its terms of reference, it serves a much greater purpose in reassuring shareholders that their interests are properly protected in respect of the Company's financial management and reporting. The Committee regularly reports to the Board on matters discussed at its meetings. The Board has delegated responsibility to the Committee for reviewing the Company's procedures and system of internal control in relation to risk management, with a focus on the methodology used by Senior Management. It also oversees the internal and external audit processes that report to it.

The Chairman of the Board, CEO, CFO, Company Secretary, Head of Internal Audit, Chief Legal Counsel and the external auditor are normally invited to attend Committee meetings. Other members of Senior Management are invited to attend to discuss any matters relevant to them.

External auditor

The Committee approved the terms of engagement of the external auditor, the fees paid to it and the scope of work carried out by it, and reviewed the performance and effectiveness of the external auditor in respect of the year ended 31 December 2014. Consideration was given to the performance, objectivity, independence, resources and relevant experience of the external auditor. In this process, it reviewed a report from the external auditor on all relationships that might reasonably have a bearing on its independence and the audit partner and staff's objectivity, and the related safeguards and procedures. It also

performed an annual review of the policies on the independence and objectivity of the external auditor, the use of the auditor for non-audit services and the employment of former employees of the external auditor. Following this review, the Committee recommended to the Board the re-appointment of EY as the Company's external auditor.

To safeguard auditor objectivity and independence, the Committee oversees the process for the approval of all non-audit services provided by EY. Consideration is given to whether it is in the best interests of the Company that the non-audit services are purchased from EY.

The Committee received reports on the findings of the external auditor during its half yearly review and annual audit. It reviewed the recommendations made to management by the external auditor and management's responses as well as the letters of representation to the external auditor.

Ernst & Young LLC was appointed as our external auditor in 2011. It is our policy to review its appointment annually and to re-tender the audit contract every seven years.

Role of the Audit Committee

Key roles and responsibilities of the Audit Committee included:

- monitoring and challenging, where necessary, the integrity of the financial statements and half yearly results, interim management statements and any other formal announcement relating to financial performance;
- reviewing and challenging, where necessary, the actions and judgements of management, taking into account the views of the external auditor, in relation to the Company's financial statements, strategic review, financial review, governance statement and half-yearly reports, including the going concern assumption;
- reviewing the Company's internal controls, including financial controls and risk management systems;
- reviewing the Company's insurance arrangements;
- reviewing the Company's treasury policy;
- reviewing the Company's compliance with the updated UK Corporate Governance Code;
- approving Internal Audit's annual operational plan and reviewing reports received from Internal Audit;
- reviewing the Company's speak-up policy and receiving reports on matters raised via the speak-up facilities;
- overseeing the Company's relationship with the external auditor;

- agreeing the scope of the external auditor's annual audit plan and reviewing the output;
- reviewing and amending as necessary the policy on the provision of non-audit services by the external auditor;
- reviewing annually the Committee's own performance, constitution and terms of reference; and
- reporting to the Board on how the Committee has discharged its responsibilities.

A copy of the Committee's terms of reference is available on the Company's website: www.lentainvestor.com/en/about/corporate-governance/internal-policies

The Audit Committee considered a number of issues during the year, taking into account the views of the Company's management, its tax advisors and the external auditor.

Significant issues considered by the Audit Committee

The significant issues – and how they were addressed – are set out below.

Suppliers' allowances

The Committee reviewed the accounting for and recognition of suppliers' allowances received for the provision of services. The review included consideration of the types of allowances received, the period of coverage and the timing of receipt. Based on this review, the Committee is satisfied that the allowances are recognised in the period in which they are earned and that appropriate disclosure has been made in the financial statements.

Inventories and inventory allowances

The Committee reviewed the accounting for inventories and the recognition of write-downs during the period. The review took into consideration the calculation of the cost of inventories, the identification of slow-moving inventories and the reasons why shrinkage had occurred. Based on this review, the Committee agreed with the accounting treatment and disclosures adopted by management.

Capital construction

The Committee examined the accounting for capital construction including the recognition of direct costs incurred, the allocation of directly attributable overheads and land lease expense. The review included a consideration of potential fraud risk, the construction tender process and the acquisition or leasing of land. The Committee agreed with the accounting treatment and disclosures adopted by management.

Taxation

The Committee received regular updates on tax developments in Russia from management and the Company's advisors, together with management's interpretation of the impact of current tax legislation on the Company. The Committee concurred with management's judgement on the positions adopted and the related disclosures.

Going concern

The Committee reviewed management's adoption of the going concern basis of accounting. Management had taken into account the Company's financial position, available borrowing facilities, loan covenant compliance, planned store opening programme and the anticipated cash flows and related expenditures from our retail stores.

The Committee considered the position taken by management and, taking into account the external auditor's review, concluded that management's recommendation to prepare the financial statements on a going concern basis was appropriate.

It is the Directors' intention to include a viability statement concerning the prospects of the Company, commencing with the 2016 annual report.

Share-based payments

The Committee reviewed the considerations made by management in relation to the accounting for remuneration received by certain employees in the form of share-based payments. In addition, management had evaluated the required disclosures for inclusion in the financial statements. Having challenged the appropriateness of key assumptions used by management, the Committee agreed with management's assessment and disclosures.

Michael Lynch-Bell

Chairman
Audit Committee

Corporate governance continued

Remuneration

The work of the Remuneration Committee, the interests in the Company's share capital held by Senior Management and the remuneration received by the Chairman and the non-executive Directors are set out on pages 84 to 88. The Directors' interests in the Company's share capital are set out on page 88.

Remuneration Committee Report

Committee members

Stephen Johnson
(Independent, Chairman)

Michael Lynch-Bell
(Independent)

Anton Artemyev
(Independent)

John Oliver
(Major Shareholder nominee)

Dmitry Shvets
(Major Shareholder nominee)

The Remuneration Committee held four meetings in 2015 and has four meetings scheduled for 2016.

The Remuneration Committee assists the Board of Directors in discharging its responsibilities in relation to remuneration, including:

- reviewing Lenta's overall compensation policy;
- making proposals to the Board of Directors about the remuneration of the Directors of the Company;
- making proposals to the Board of Directors about the remuneration of Lenta's Senior Management team;
- advising on and administering Lenta's management incentive plans.
- reviewing annually the Committee's own performance, constitution and terms of reference; and
- reporting to the Board on how the Committee has discharged its responsibilities.

A copy of the Committee's terms of reference is available on the Company's website: www.lentainvestor.com/en/about/corporate-governance/internal-policies

Dear Shareholders

Lenta continues to be a very high growth business, setting itself and achieving ambitious targets. Over the last few years it has been one of the fastest growing and best run retail businesses in Russia – and indeed across Europe. Enabling the business to attract, retain and incentivise the best people remains central to our continuing ability to achieve our goals. The Remuneration Committee's primary focus is to ensure that Lenta has a remuneration framework that is highly competitive in the markets where we compete for talent, designed to support the long-term strategy of the business and aligned with the interests of our shareholders.

We also strive to get the right balance between maintaining a consistent approach to remuneration, whilst at the same time recognising that we operate in a fast changing and, in recent times, volatile retail and macroeconomic environment in Russia. The Committee is mindful of the need to be both active and flexible in keeping all aspects of the business's remuneration policies under review.

Most members of the Committee and the Board have long experience of and involvement in remuneration matters. However, the Committee is also aware that, from time to time, it is important to gather external views and advice. During the year the Committee has been advised by both Mercer and PwC on various matters as well as making use of external labour market data from Hay.

Key activities of the Committee in 2015

Job evaluation

The overall pay system in Lenta is based on a job evaluation methodology conducted by Mercer, global experts in pay evaluation and labour market analysis. The original job evaluation was carried out in 2012, establishing a pay and benefits hierarchy. The remuneration system in Lenta consists of base salary that is set according to the job grade and location, and different types of bonuses that are linked to team performance and depend on job grade. All other benefits also depend on job grade. Such an approach assures internal equity of pay and proper benchmarking of salaries with the external labour market, including specific cities where we have a presence. Mercer and Hay salary surveys are used as the main sources of labour market data.

In 2015 full job regrading was carried out, again using Mercer, to reflect the doubling in size of our business. Change of job grade did not result in automatic pay rises. However, Lenta management was conscious that some key positions were behind our market target, based on salary surveys of the Russian labour market.

The Committee reviewed the salary data analysis and approved salary increases – both for specific positions in head office and stores. Thus, in November 2015, head office personnel received pay rises that depended on individual performance evaluation results for 2014 and the competitive position of their actual salary compared to the target salary for the grade. This represented a total head office payroll increase of 5%. This was affordable due to the fact that there was very strong control over headcount growth in head office, which grew only by 1.7% vs. 2014.

The store personnel pay review indicated that there were certain positions with pay below our market target and availability of personnel for these positions was low. The pay for these positions (covering 10,500 employees in 59 cities) was increased, increasing total store payroll by 3.4%. Again, this was affordable due to strong productivity improvements achieved in 2015.

Annual bonus for 2014

In April 2015, the 2014 annual bonus award was completed, with an overall award across the Company for those participating in the scheme of 62% of the maximum. Stretch targets to reach maximum bonus level were quite challenging; even though the Company performed extremely well, the impact of a deteriorating economy, import ban and Rouble depreciation was significant enough that stretch targets were not achieved and the bonus payout coefficient was less than in 2013. The Committee and the Board felt that this accurately reflected the significant progress that the business made during 2014.

Within this overall award, the Senior Management team was awarded annual bonuses of 68% of the maximum, with the CEO achieving 66%. The Committee also agreed the annual bonus targets for 2016, providing for similarly stretching performance.

Management remuneration

Lenta's overall philosophy on remuneration is to ensure that, whilst base salary levels remain competitive, the Senior Management team is substantially incentivised through both variable pay (the annual bonus plan) and the long-term incentive plan ('LTIP') to share in the value created for shareholders. Lenta's Senior Management team includes heads

of business functions reporting directly to the CEO. The Company's Management Incentive Programme ('MIP') is described in more detail on page 87 of this report.

The MIP was put in place during 2012 and 2013. Much has changed in the Russian macroeconomic environment since that time and it has lost most of its retention value. In 2014 the Committee decided to implement changes to the MIP and to postpone any MIP shares vesting until the change is finalised. In 2015 the Senior Management team remuneration package was reviewed with the participation of PwC, using not only Russian but European retail salary data. As a result of this review, recommendations were made to address both the base pay and the long-term incentive programme.

The Remuneration Committee approved an increase of 28% in the Rouble base salaries of individual Senior Management team members. The Committee also approved the change in the MIP from the USD share price to the RUB price and a change of vesting schedule. The new vesting schedule separates the Management team from any sale of shares by major shareholders and establishes fixed vesting periods that assure retention of the team until 2018. New long-term incentives have also been agreed in principle by the Committee to ensure retention of Management after 2018; details of the new LTIP will be further developed in 2016.

Corporate governance continued

Key management (top 60) remuneration

In 2015, the Remuneration Committee also focused its activities on retention of the top 60 management positions within Lenta. These positions represent two levels below the CEO in the company and they received an 11% basic pay increase in 2015. The Committee also approved a new annual long-term incentive plan with a vesting period of three years for these positions. The total value of this award is 24,700 shares and represents around 20% of this group's annual salary. The allocation of the LTIP is linked to overall Company performance in the previous year and individual performance evaluation.

International experts

Given the turbulent external environment, particularly relating to Rouble/Euro exchange rates, the Remuneration Committee was conscious of the need to ensure that pay rates for Senior Management and other international experts Lenta employs remained competitive, not only within Russia but also in the context of the wider European market for talent.

The combination of the weakening Rouble and rising inflation had a significant impact, particularly on the expatriate members of the team. To address this, since 2014 there has been a cost of living adjustment ('COLA') established for international members of the Senior Management team and other expatriates working in Lenta. This is a non-contractual arrangement that does not create a permanent increase in basic pay, but reflects the difference in Rouble salaries and Euro salaries on a monthly basis. This mechanism was continued during 2015 and we intend to continue applying it until such time as it is considered appropriate to reassess permanent salary levels.

Management Incentive Programme

We have instituted a share-settled management incentive programme ('the MIP'). Under the MIP, participating managers are allocated a specified number of phantom shares, in relation to which their entitlement under the MIP is calculated. Upon (i) an initial public offering (ie the 2014 Offering) and (ii) fixed vesting dates, provided the per-share price of that Settlement Event is greater than that manager's hurdle reference price plus 8% per annum from that manager's hurdle reference date, that manager receives a number of shares (to be issued by us) equal to the number of their phantom shares multiplied by the proportion of shares linked with this vesting date, multiplied by the share price of the Settlement Event (as determined under the terms of the MIP) minus that manager's base price, divided by the Settlement Event share price, and (unless the per-share Settlement Event price is greater than that manager's hurdle reference price plus 16% per annum from that manager's hurdle reference date) divided by two. Since 2015, all the share prices: base, hurdle and settlement event price are defined in Roubles.

A manager's eligibility to receive shares in the circumstances described above is conditional on his or her compliance with certain covenants, including confidentiality, non-competition and non-solicitation covenants. Where a Settlement Event occurs in relation to which the 8% per annum hurdle is not cleared, participating managers lose rights in relation to the Settlement Event Proportion of their phantom shares. Where a participating manager voluntarily terminates his employment with us, has such employment terminated for cause, or otherwise breaches the terms of the MIP, he loses rights in respect of his remaining phantom (non-vested) shares. To the extent his phantom shares have not otherwise vested by such time, half a manager's original allocation vests on the fifth anniversary of that manager's vesting period commencement date, and the remainder on the seventh anniversary.

The key terms of each member of Senior Management's participation in the MIP are set out below:

Manager	Number of phantom shares	Base price (RUB)	Hurdle reference price (RUB)	Hurdle reference date	Vesting period commencement date
Jan Dunning	205,646	1,516	764	23/9/2011	1/4/2012
Jago Lemmens	102,823	1,516	764	23/9/2011	1/4/2012
Herman Tinga¹					
1st grant	102,823	1,516	1,375	1/4/2013	1/4/2013
2nd grant	35,000	1,516	1,375	1/4/2013	1/4/2013
Edward Doeffinger	102,823	1,516	764	23/9/2011	1/4/2012
Joern Arnold	85,686	1,516	764	23/9/2011	1/4/2012
Sergey Prokofiev	35,988	1,516	1,375	1/4/2013	1/4/2013
Maxim Shchegolev	35,988	1,516	1,375	1/4/2013	1/4/2013
Tatiana Yurkevich	35,988	1,516	1,375	1/4/2013	1/4/2013

1 Herman Tinga has received two allocations under the MIP.

On 22 April 2014, as a result of the Settlement Event upon the 2014 Offering, we granted 399 new shares, (some in the form of GDRs), to Senior Management under the MIP. The details of the MIP issuance, the holdings of the recipients immediately following the issuance, and holdings of Senior Management as of 31 December 2015 are summarised below:

Name of recipient	Number of shares issued (including as GDRs)	Total holding after issuance (interests in shares)	Total holding as of Dec 31 2015 (interest in shares)	Approximate holding as of Dec 31 2015 (% of share capital)
Jan Dunning¹	132	549,538	549,538	0.56%
Jago Lemmens²	66	104,697	105,737	0.11%
Edward Doeffinger	66	93,397	93,397	0.10%
Joern Arnold	55	86,497	86,497	0.09%
Herman Tinga	44	7,044	7,044	0.01%
Sergey Prokofiev	12	12	12	Less than 0.0001%
Maxim Shchegolev	12	12	12	Less than 0.0001%
Tatiana Yurkevich	12	12	12	Less than 0.0001%

1 Including through his vehicle Golden Healer Investments Limited.

2 Including through his vehicle Ergo United Limited.

Corporate governance continued

Remuneration of the Chairman and non-executive Directors

The Chairman and other non-executive Directors of Lenta LLC each have a letter of appointment; they do not have service contracts. There is no notice period for termination.

Fees for the Chairman and the other non-executive Directors are determined by the Board as a whole, upon the recommendation of the Remuneration Committee. Fees are set at a level sufficient to attract, motivate and retain the world-class talent necessary to contribute to a high-performing board – and are paid monthly in cash. The Chairman and the other non-executive Directors do not participate in any of our employee incentive arrangements, nor do they receive any pension provision.

The Chairman and the other non-executive Directors receive a base fee, with additional fees payable for the chairmanship and membership of our key Committees, and for performing the Chairman and Senior Independent Director roles. The fee levels are reviewed on a periodic basis with reference to the time commitment and responsibilities of the role and to companies of comparable size and complexity.

The fees applicable for the services of Major Shareholder nominated Directors are paid either directly to the relevant Director or to the nominating shareholder, as determined by the nominating shareholder.

There has been no increase in the level of fees paid to the Chairman and the non-executive directors since the company's IPO in February 2014. The Committee and Board have agreed that no increase will be payable for the coming year.

The table below sets out fee levels applicable as at 1 January 2015:

	Amount payable (USD)
Base fee for non-executive Directors	165,000
Additional fees:	
Chairman	285,000
Senior Independent Director	25,000
Chair of the Audit Committee	40,000
Chair of the Capital Expenditure Committee	30,000
Chair of the Nomination and Remuneration Committees	17,500
Members of the Audit and Capital Expenditure Committees	15,000
Members of the Nomination and Remuneration Committees	10,000

Interest of Directors in Lenta shares are summarised in the table below:

Name of Director	Total holding as of Dec 31 2015 (interest in shares)	Approximate holding as of Dec 31 2015 (% of share capital)
John Oliver	125,000	0.13%
Stephen Johnson	80,000	0.08%
Martin Elling	10,000	0.01%
Michael Lynch-Bell	3,200	less than 0.001%

Stephen Johnson
Chairman
Remuneration Committee

Capital Expenditure Committee Report

Committee members

Dmitry Shvets

(Major Shareholder nominee, Chairman)

Stephen Johnson

(Independent)

Martin Elling

(Major Shareholder nominee)

John Oliver

(Major Shareholder nominee)

There are ten Committee meetings scheduled for 2016; this number may be increased as necessary.

Working within the framework of guidance provided by the Board of Directors regarding strategic, budgetary and return requirements, the Capital Expenditure Committee has the power to:

- review, modify and approve proposals relating to significant capital expenditure, i.e. where the amount to be expended exceeds RUB 150 million including expenditures for new construction, major improvements to existing property and merger & acquisition transactions;
- advise the Board when proposed projects do not comply with its framework; these are accordingly referred to the full Board of Directors;
- endeavour to ensure that improvement programmes relating to the design, construction and operation of new stores are defined and implemented in cooperation with management;

- monitor the implementation of the capital expenditure programme, including, where appropriate, a comparison of actual performance with the financial and implementation projections of the approved submissions.

A copy of the Committee's terms of reference is available on the Company's website: www.lentainvestor.com/en/about/corporate-governance/internal-policies

Dear Shareholders

2015 was another eventful year for Lenta as it further accelerated its expansion – opening 32 hypermarkets and eight supermarkets in Russia, reaching further east to Irkutsk. This obviously meant another eventful year for the Capital Expenditure Committee. In a growing economy, with the environment providing tailwinds for the business, our job would have been a very busy one. But with Russia's current financial uncertainties, a more stringent focus on how these could impact the business – and consequently any future capital expenditure planning – was required.

In a more challenging economic environment, the Committee applied a particularly keen focus on balancing the need to approve expenditure for land purchases and the construction and fitting-out of stores that will continue to feed Lenta's future growth plans with our commitment to deliver value for shareholders.

We will, as usual, be reviewing all opportunities as they present themselves. However, the Board and Senior Management agree that, in the present circumstances, it is particularly important to maintain an appropriate balance of prudent leverage levels, whilst also pursuing high growth and high investment project returns. We are confident of being able to continue to do so.

Activities during the year

During 2015, the Capital Expenditure Committee focused on a number of issues on behalf of the Board. We considered more than 150 new investment proposals including new store projects, acquisitions, and supply chain and vertical integration projects.

We considered, reviewed and made recommendations to the Board on the Company's investment strategy, policy and risk management. We continued to improve the new form of investment proposal ('IP') with even higher standards to ensure the best overview and forecasts against the backdrop of the very large number of promising new store IPs that the expansion teams developed in 2015. We also worked together with management on improving the efficiency of the existing stores and maintaining their strict compliance with all applicable regulations.

The Capital Expenditure Committee also worked closely with management in reviewing potential acquisition opportunities, including the acquisition of stores and land plots from O'KEY in September 2015. This cooperation enabled the smooth acquisition and integration of the new assets.

We continued to refine the post-IP evaluation procedures to make sure that the capital expenditure process is in line with the Company strategy – and that the results are in line with our return requirements and high corporate standards. Post-IP evaluation continues to be refined to ensure future outcomes remain in line with our expectations. We also ensure that any lessons learned are applied in future store and other investment projects.

Dmitry Shvets

Chairman

Capital Expenditure Committee

Corporate governance continued

Relations with shareholders

We are committed to conducting constructive dialogue with shareholders to ensure that we understand what is important to them and enable clear communication of our position. The Chairman, CEO and CFO hold regular meetings with shareholders and update the Board on the outcomes of those meetings. Investor Relations keeps the Board informed of broker and analyst views, and reports and presents formally to the Board at each scheduled Board meeting.

We support engagement with institutional shareholders as envisaged by the Stewardship Code and have a dedicated investor relations website.

To encourage shareholder participation in the upcoming 2016 AGM, we offer electronic proxy voting and voting through the CREST electronic proxy appointment service. At our AGM, all resolutions are proposed and voted upon individually by shareholders or their proxies. All votes taken during the AGM are by way of a poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting.

Responsibility statement

We, members of the Board, confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of Lenta Ltd and its subsidiaries taken as a whole. This annual report includes a fair review of the development and performance of the business and the position of Lenta Ltd and its subsidiaries, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

John Oliver
Chairman, Lenta Ltd
21 April 2016

Schedule of investor calls in 2015

January	29	Thursday	5-6pm Moscow time (GMT +3)
March	12	Thursday	5-6pm Moscow time (GMT +3)
April	23	Thursday	5-6pm Moscow time (GMT +3)
July	21	Tuesday	5-6pm Moscow time (GMT +3)
August	27	Thursday	5-6pm Moscow time (GMT +3)
October	16	Friday	5-6pm Moscow time (GMT +3)

Schedule of investor calls for 2016

January	28	Thursday	5-6pm Moscow time (GMT +3)
February	18	Thursday	5-6pm Moscow time (GMT +3)
April	27	Wednesday	5-6pm Moscow time (GMT +3)
July	21	Thursday	5-6pm Moscow time (GMT +3)
August	18	Thursday	5-6pm Moscow time (GMT +3)
October	20	Thursday	5-6pm Moscow time (GMT +3)

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements

for the year ended 31 December 2015

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of Lenta Limited and its subsidiaries ("the Group").

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries ("the Group") as at 31 December 2015 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

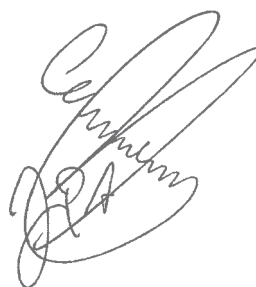
- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved by management on 15 February 2016.

On behalf of the Management as authorized by the Board of Directors.



Jan Dunning
CEO of Lenta Ltd



Jago Lemmens
CFO of Lenta Ltd

Independent auditors' report

To the Shareholders of Lenta Limited

We have audited the accompanying consolidated financial statements of Lenta Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

15 February 2016
Saint Petersburg, Russia



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Consolidated statement of financial position

as at 31 December 2015 (in thousands of Russian Roubles)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets:			
Property, plant and equipment	8	104,016,458	81,218,207
Prepayments for construction	9	6,528,355	4,780,350
Leasehold rights	10	3,047,168	3,271,544
Intangible assets other than leasehold rights	11	1,092,329	870,531
Long-term portion of cash flow hedging instruments	30	355,414	765,257
Total non-current assets		115,039,724	90,905,889
Current assets:			
Inventories	12	22,781,732	19,629,381
Trade and other receivable	13	13,646,894	11,371,248
Advances paid	14	2,264,911	2,750,726
Taxes recoverable	15	1,257,764	2,416,605
Advance payments for income tax		288,119	30,858
Prepaid expenses		217,711	134,863
Short-term portion of cash flow hedging instruments	30	439,050	1,969,920
Cash and cash equivalents	16	22,455,945	12,035,785
Total current assets		63,352,126	50,339,386
Total assets		178,391,850	141,245,275
Equity and liabilities			
Equity			
Share capital	17, 19	284	284
Additional paid-in capital	17	26,216,147	4,427,554
Share options	27	338,016	153,892
Hedging reserve	17	724,642	2,585,857
Retained earnings		19,850,882	9,562,789
Total equity		47,129,971	16,730,376
Liabilities			
Non-current liabilities:			
Long-term borrowings	20	65,149,097	58,519,948
Deferred tax liabilities	21	5,229,804	3,750,189
Long-term portion of cash flow hedging instruments	30	24,564	28,357
Long-term obligations under finance leases		–	35,465
Total non-current liabilities		70,403,465	62,333,959
Current liabilities:			
Trade and other payables	22	48,820,207	48,373,389
Advances received		219,705	213,951
Other taxes payable	23	927,084	898,178
Short-term portion of cash flow hedging instruments	30	99,564	–
Short-term borrowings and short-term portion of long term borrowings	20	10,773,277	12,695,422
Short-term obligations under finance leases		18,577	–
Total current liabilities		60,858,414	62,180,940
Total liabilities		131,261,879	124,514,899
Total equity and liabilities		178,391,850	141,245,275

The accompanying notes on pages 98 to 134 are an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2015 (in thousands of Russian Roubles)

	Note	Year ended 31 December 2015	Year ended 31 December 2014 reclassified*
Sales		252,763,075	193,988,240
Cost of goods sold	24	(196,457,910)	(150,251,966)
Gross profit		56,305,165	43,736,274
Selling, general and administrative expenses	25	(36,044,771)	(27,985,607)
Other operating income	26	2,584,310	2,267,130
Other operating expense	26	(512,533)	(358,593)
Operating profit		22,332,171	17,659,204
Interest expense		(10,044,858)	(6,910,890)
Interest income		767,905	99,821
Ineffective portion of change in fair value of cash flow hedging instruments	30	6,308	(19,488)
Other expenses		–	(41,165)
Foreign exchange (losses)/gains		(189,423)	140,166
Profit before income tax		12,872,103	10,927,648
Income tax expense	21	(2,584,010)	(1,852,541)
Profit for the year		10,288,093	9,075,107
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	18	(2,326,519)	3,286,020
Income tax relating to the components of OCI	21	465,304	(657,204)
Other comprehensive (loss)/income for the year, net of tax		(1,861,215)	2,628,816
Total comprehensive income for the year, net of tax		8,426,878	11,703,923
Earnings per share (in thousands of Russian roubles per share) (Note 19)			
– basic and diluted, for profit for the year attributable to equity holders of the parent		0.112	0.105

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2014 and reflect adjustments made as detailed in Note 2.4.

The accompanying notes on pages 98 to 134 are an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2015 (in thousands of Russian Roubles)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit before income tax		12,872,103	10,927,648
Adjustments for:			
Loss on disposal of property, plant and equipment		53,596	93,704
Loss on disposal of intangible assets		6,486	840
Loss on disposal of leasehold rights		59,235	-
Interest expense		10,044,858	6,910,890
Interest income		(767,905)	(99,821)
Inventory (reversal of write-down)/write-down to NRV		(38,710)	255,357
Change in bad debt allowance		194,665	15,073
Depreciation and amortization	8, 25	5,686,264	3,658,953
Share options expense	27	184,124	111,795
Ineffective portion of change in fair value of cash flow hedging instruments	30	(6,308)	19,488
		28,288,408	21,893,927
Movements in working capital:			
Increase in trade and other receivables		(2,120,455)	(2,896,891)
Decrease/(increase) in advances paid	14	486,213	(1,347,140)
(Increase)/decrease in prepaid expenses		(52,232)	60,067
Increase in inventories	12	(3,113,641)	(6,890,550)
Increase in trade and other payables	22	1,228,784	13,129,614
Increase in advances received		5,754	89,149
Increase/(decrease) in net other taxes payable	15, 23	1,187,747	(519,117)
Cash from operating activities		25,910,578	23,519,059
Income taxes paid		(896,352)	(956,191)
Interest received		656,052	86,566
Interest paid		(9,745,887)	(6,670,052)
Net cash generated from operating activities		15,924,391	15,979,382
Cash flows from investing activities			
Purchases of property, plant and equipment		(30,434,839)	(33,594,055)
Purchases of intangible assets other than leasehold rights		(486,224)	(419,367)
Purchases of leasehold rights		(557,827)	(1,101,724)
Proceeds from sale of property, plant and equipment		109,264	4,412
Net cash used in investing activities		(31,369,626)	(35,110,734)
Cash flows from financing activities			
Proceeds from borrowings		89,717,940	80,336,800
Repayments of borrowings		(85,565,000)	(55,330,000)
Repayments of obligations under financial lease		(16,888)	(14,964)
Proceeds from issue of new shares	17	21,788,593	-
Payment of loan commission		(59,250)	(36,664)
Net cash generated from financing activities		25,865,395	24,955,172
Net increase in cash and cash equivalents		10,420,160	5,823,820
Cash and cash equivalents at the beginning of the period	16	12,035,785	6,211,965
Cash and cash equivalents at the end of the period	16	22,455,945	12,035,785

The accompanying notes on pages 98 to 134 are an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2015 (in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2015	284	4,427,554	2,585,857	153,892	9,562,789	16,730,376
Profit for the period	-	-	-	-	10,288,093	10,288,093
Other comprehensive income/(loss)	-	-	(1,861,215)	-	-	(1,861,215)
Total comprehensive income/(loss)	-	-	(1,861,215)	-	10,288,093	8,426,878
Share-based payments (Note 27)	-	-	-	184,124	-	184,124
Issue of shares (Note 17, 27)	-	21,788,593	-	-	-	21,788,593
Balance at 31 December 2015	284	26,216,147	724,642	338,016	19,850,882	47,129,971
Balance at 1 January 2014	284	4,407,154	(42,959)	65,510	484,669	4,914,658
Profit for the period	-	-	-	-	9,075,107	9,075,107
Other comprehensive income	-	-	2,628,816	-	-	2,628,816
Total comprehensive income	-	-	2,628,816	-	9,075,107	11,703,923
Share option expired worthless (Note 27)	-	-	-	(3,013)	3,013	-
Share-based payments (Note 27)	-	-	-	111,795	-	111,795
Issue of shares (Note 17, 27)	-	20,400	-	(20,400)	-	-
Balance at 31 December 2014	284	4,427,554	2,585,857	153,892	9,562,789	16,730,376

Notes

Additional paid-in capital: Additional paid-in capital is the difference between the fair value of consideration received and nominal value of the issued shares.

Notes to the consolidated financial statements

for the year ended 31 December 2015 (in thousands of Russian Roubles)

1. The Lenta Group and its operations

The Lenta Group (the "Group") comprises Lenta Limited ("the Company") and its subsidiaries. The Group's principal business activity is the development and operation of hypermarket and supermarket stores in Russia.

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company's registered address is at Road Town, Tortola, BVI. The registered office of the Group's main operating entity, Lenta LLC, is located at 112, Savushkina Street, 197374, Saint Petersburg, Russia.

Starting from March 2014 the Company's shares were listed on the London Stock Exchange and Moscow Stock Exchange in the form of Global Depositary Receipts (GDR). In 2015 two more public offerings took place at the London Stock Exchange and Moscow Stock Exchange in the form of GDRs.

At 31 December 2014 and 2015 the Group had one main operational fully owned subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The principal activity of Lenta LLC is retail trade.

2. Basis of preparation and significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for as described in accounting policies below. The consolidated financial statements are presented in Russian roubles and all values are rounded to the nearest thousand (RUB 000), except when otherwise indicated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

Management has considered the Group's cash flow forecasts for the period ending 31 December 2016 which takes into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

Accordingly, management is satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the consolidated financial information for these consolidated financial statements.

At 31 December 2015, the Group had net current assets of RUB 2,493,712 thousand (net current liabilities at 31 December 2014: RUB 11,841,554 thousand).

Unused credit facilities available as of 31 December 2015 were RUB 45,300,000 thousand. Management believes that operating cash flows and available borrowing capacity will provide it adequate resources to fund its liabilities for the next year.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries) as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Subsidiaries are those companies (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits and which are neither associates nor joint ventures. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

2.3 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequently contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised either in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

All other assets are classified as non-current. A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within

the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian rouble ("RUB"), the national currency of the Russian Federation, the primary economic environment in which operating entities function.

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Property, plant and equipment

Property, plant and equipment are initially recorded at purchase or construction cost. Cost of replacing major parts or components of property, plant and equipment items is capitalized and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Gains and losses on disposals determined by comparing net proceeds with the respective carrying amount are recognised in profit or loss.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate impairment loss has been recognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Land improvements	30
Machinery and equipment	5 to 15
Other	3 to 5

Leasehold rights

Leasehold rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortisation and accumulated impairment losses. These leasehold rights are amortized to profit or loss over the term of the lease, which is 49 years. If the Group further purchases the land plot previously leased, the carrying amount of the related leasehold right as of the date of purchase transaction is reclassified to the cost of land plot purchased.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method to write off their cost to their residual values and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets or included into the carrying amount of an asset as appropriate.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with management's interpretation of the relevant legislation enacted or substantively enacted as at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit or loss and other comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of consideration paid.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Cost comprises the direct cost of goods, transportation and handling costs. Cost of sales comprises only cost of inventories sold through retail stores and inventory write-downs made during the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. For the purposes of borrowing costs recognition, a substantial period of time is considered to be a period of twelve months or more.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Revenue recognition

The sole source of revenue is retail sales. Revenue from the sale of goods is recognised at the point of sale.

The Group generates and recognizes sales to retail customers in its stores at the point of sale. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognised net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

Income generated from rental of spaces for small trading outlets within the Group's stores is recognised in the end of each month on a straight-line basis over the period of the lease, in accordance with the terms of the relevant lease agreements.

Interest income is recognised on a time-proportion basis using the effective interest rate method. Interest income is included into the Interest income line in the statement of comprehensive income.

Suppliers' allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. These allowances received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

Employee benefits

The Group is subject to mandatory contributions to the Russian Federation defined contribution state pension benefit fund. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share-based payments

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in share options reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (Note 27). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 27).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Pre-opening costs

Operating expenses incurred during the process of opening of new stores were recorded in the Group's consolidated statement of profit or loss and other comprehensive income. These expenses do not meet capitalisation criteria under IAS 16 Property, Plant and Equipment and include rent, utilities and other operating expenses.

Segment reporting

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different stores and in various regions within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on a measure of revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

Seasonality

The Group's business operations are stable during the year with limited seasonal impact, except for a significant increase of business activities in December.

Financial assets

General description

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

Ordinary shares are classified as equity. Transaction costs of a share issue are shown within equity as a deduction from the equity.

Additional paid-in capital

Additional paid-in capital represents the difference between the fair value of consideration received and the nominal value of the issued shares.

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of transaction costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially recognised at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and caps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

2. Basis of preparation and significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Swaps and caps used by the Group that meet the strict criteria for hedge accounting are accounted for as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss as other operating expenses.

Designation of a hedge relationship takes effect prospectively from the date all of the criteria are met. In particular, hedge accounting can be applied only from the date all of the necessary documentation is completed. Therefore, hedge relationships cannot be designated retrospectively.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- when the Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

2.4 Reclassifications in the consolidated statement of profit or loss and other comprehensive income

The Group reassessed the presentation of labor cost of temporary employees engaged in own production process in butchery, bakery and culinary. These expenses had previously been recognized within selling general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

On 1 January 2015 the Group elected to present labor cost of temporary employees engaged in own production within cost of goods sold in the consolidated statement of profit or loss and other comprehensive income.

Management believes that the change would result in the financial statements providing more relevant and reliable information about the effects of Group's operations on the entity's financial performance.

The Group applied change in presentation retrospectively, by adjusting comparative amounts disclosed for the prior period presented.

Impact on consolidated statement of profit or loss and other comprehensive income

	Amount previously reported	Adjustments	Amount after reclassification
Year ended 31 December 2014			
Cost of goods sold	(150,131,083)	(120,883)	(150,251,966)
Selling general and administrative expenses	(28,106,490)	120,883	(27,985,607)
Gross profit	43,857,157	(120,883)	43,736,274

3. Significant accounting judgments, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 2 above, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments that have the most significant effect on the amounts recognized in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Judgments

Operating lease commitments – Group as lessor

The Group has entered into premises leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

3. Significant accounting judgments, estimates and assumptions (continued)

Assets versus business acquisition

From time to time in the normal course of business the Group acquires the companies that are a party to a lease contract, own the land plot or store in which the Group is interested. If at the date of acquisition by the Group, the company does not constitute an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investor, the Group treats such acquisitions as a purchase of assets (a leasehold right, land plot or store) in the consolidated financial statements. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Leases renewal assumption

It is presumed that the initial land leases contracted for 3 years will be renewed for 49 years at completion of construction of department stores. Thus, any long-term prepayments at the inception of the leases are presumed to have a 49-year useful life. Should the Group fail to renew the land lease contracts for a 49-year period, leasehold rights would have to be written off at the end of the initial lease term.

Inventory valuation

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review also includes the identification of slow moving inventories which are written down based on inventories ageing and write down rates. The write down rates are determined by management following the experience of sales of such items.

Tax legislation

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar

years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 29 for further discussion.

Impairment of non-financial assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

The value in use calculation is based on a discounted cash flow model. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available. The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

4. Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new or revised standards and interpretations effective as of 1 January 2015.

The nature and the impact of each new standard and amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. There are no business combinations in 2015 and therefore this amendment had no impact on these consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

This is consistent with how the Group has disclosed the judgments made in applying the aggregation criteria, and thus this amendment does not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment to IAS 16 has no impact on the Group, as the revaluation model is not implemented.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments have no impact on the Group's financial statements.

Annual improvements 2011-2013 cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that joint arrangements, not just joint ventures, are outside the scope of IFRS 3. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself, the Company is not a joint arrangement, and thus this amendment is not relevant for the Group.

4. Adoption of new or revised standards and interpretations (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

5. Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

5. Standards issued but not yet effective (continued)

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. Under IFRS 16 a lessee is required to recognise assets and liabilities arising from a lease. The new standard is applicable to all lease and sublease contracts except for leases of certain types of intangibles and some other specific assets and will supersede all current requirements for lease recognition and disclosure under IFRS. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments to IAS 12 clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The clarifications refer to accounting for deferred tax assets when an entity:

- has deductible temporary differences relating to unrealised losses on debt instruments that are classified as available-for-sale financial assets and measured at fair value;
- is not allowed to deduct unrealised losses for tax purposes;
- has the ability and intention to hold the debt instruments until the unrealised loss reverses; and
- has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise those deductible temporary differences.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 7 Statement of Cash Flows

Amendments to IAS 7 Statement of Cash Flows were issued on 29 January 2016 as a response to requests from investors for information that helps them better understand changes in a company's debt. The amendments require companies to provide information of changes in their financing liabilities will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017 with early application permitted. These amendments will result in additional disclosures made by the Group.

6. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry.

The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned subsidiaries Lakatomo Holdings Ltd and Lenta Luxembourg S.a.r.l., which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segments represented by stores into one reportable operating segment. Within the segment all business components are similar in respect of:

- the products;
- the customers;
- centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized).

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyze performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortization (EBITDA).

The accounting policies used for the operating segment are the same as accounting policies applied for the consolidated financial statements.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

6. Operating segments (continued)

The segment information for the year ended 31 December 2015 and 2014 is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales	252,763,075	193,988,240
EBITDA	28,018,435	21,318,157

Reconciliation of EBITDA to IFRS profit for the year is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
EBITDA	28,018,435	21,318,157
Interest expense	(10,044,858)	(6,910,890)
Interest income	767,905	99,821
Income tax expense (see Note 21)	(2,584,010)	(1,852,541)
Depreciation/amortization (see Note 8, 10, 11, 25)	(5,686,264)	(3,658,953)
Ineffective portion of the change in fair value of cash flow hedging instruments (see Note 30)	6,308	(19,488)
Other expenses	-	(41,165)
Foreign exchange (loss)/gain	(189,423)	140,166
Profit for the year	10,288,093	9,075,107

7. Balances and transactions with related parties

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

The consolidated financial statements include the following balances with related parties:

Entities with significant influence over the Group:

	31 December 2015	31 December 2014
EBRD		
Long-term loans payable	4,520,527	4,519,663
Accrued liabilities	6,559	5,063
Interest accrued	1,691	3,325
TPG Capital		
Accrued liabilities	13,848	4,644

7. Balances and transactions with related parties (continued)

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2015	Year ended 31 December 2014
EBRD		
Proceeds from borrowings	–	4,554,240
Interest expense	833,200	28,467
Directors fee	25,483	10,301
Business trip expenses	323	5,643
TPG Capital		
Directors fee	23,642	14,772
Business trip expenses	19,919	8,867
Consulting services	2,807	19,430
Monitoring fee	–	42,723
VTB Capital*		
Proceeds from borrowings	–	5,000,000
Repayment of borrowings	–	3,150,000
Interest expense and commission on loans	–	618,719
Finance leasing charge	–	1,225
Interest income on deposits	–	(3,511)

* Management of the Group concluded that starting from March 2014 year VTB Capital is not a related party due to lack of influence on operational activity of the Group following the reduction of its share in equity capital as the result of sale of shares during IPO.

Remuneration to the members of the Board of Directors and key management personnel was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Short-term benefits	682,421	397,442
Long-term benefits (share-based payments, Note 27)	158,645	83,411
Total remuneration	841,066	480,853

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

8. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2015	9,971,338	5,488,814	54,610,275	21,331,730	4,542,748	95,944,905
Additions	–	–	87,269	611	27,642,190	27,730,070
Transfers from construction in progress	2,035,686	1,650,598	16,510,017	8,370,416	(28,566,717)	–
Transfers from leasehold rights	655,359	–	–	–	–	655,359
Disposals	(79,609)	(22,834)	(2,156)	(268,746)	(53,462)	(426,807)
Balance at 31 December 2015	12,582,774	7,116,578	71,205,405	29,434,011	3,564,759	123,903,527
Accumulated depreciation and impairment						
Balance at 1 January 2015	–	848,274	6,621,417	7,257,007	–	14,726,698
Charge for the year	–	193,659	2,028,335	3,138,721	–	5,360,715
Disposals	–	–	(1,821)	(198,523)	–	(200,344)
Balance at 31 December 2015	–	1,041,933	8,647,931	10,197,205	–	19,887,069
Net book value						
Balance at 1 January 2015	9,971,338	4,640,540	47,988,858	14,074,723	4,542,748	81,218,207
Balance at 31 December 2015	12,582,774	6,074,645	62,557,474	19,236,806	3,564,759	104,016,458

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2014	4,959,072	3,802,799	36,612,066	13,836,780	3,747,966	62,958,683
Additions	674,215	148,758	2,299,843	38,668	29,662,056	32,823,540
Transfers from construction in progress	3,804,904	1,537,257	15,718,418	7,758,373	(28,818,952)	–
Transfers from leasehold rights	534,591	–	–	–	–	534,591
Disposals	(1,444)	–	(20,052)	(302,091)	(48,322)	(371,909)
Balance at 31 December 2014	9,971,338	5,488,814	54,610,275	21,331,730	4,542,748	95,944,905
Accumulated depreciation and impairment						
Balance at 1 January 2014	–	715,616	5,300,628	5,555,663	–	11,571,907
Charge for the year	–	132,658	1,329,571	1,958,317	–	3,420,546
Disposals	–	–	(8,782)	(256,973)	–	(265,755)
Balance at 31 December 2014	–	848,274	6,621,417	7,257,007	–	14,726,698
Net book value						
Balance at 1 January 2014	4,959,072	3,087,183	31,311,438	8,281,117	3,747,966	51,386,776
Balance at 31 December 2014	9,971,338	4,640,540	47,988,858	14,074,723	4,542,748	81,218,207

8. Property, plant and equipment (continued)

Land and buildings with a carrying amount of RUB 3,956,848 thousand (31 December 2014: RUB 26,015,987 thousand) are pledged under secured loan agreements (see Note 20).

During the year ended 31 December 2015 and year ended 31 December 2014 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2015 was RUB 37,532 thousand (31 December 2014: RUB 50,091 thousand). Leased assets are pledged as security for the related finance lease. Additions during the year ended 31 December 2015 include no property, plant and equipment under finance leases.

Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2015 and year ended 31 December 2014 is presented within depreciation and amortization in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Depreciation of property, plant and equipment (Note 8)	5,360,715	3,420,546
Amortization of intangible assets (Note 11)	257,940	171,154
Leasehold rights amortization (Note 10)	67,609	67,253
Total depreciation and amortization	5,686,264	3,658,953

See Note 28 for capital commitments.

9. Prepayments for construction

Prepayments for construction are represented by advances given to the constructors for the building of the stores and to suppliers.

10. Leasehold rights

Leasehold rights as at 31 December 2015 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2015	3,486,162
Additions	557,827
Disposals	(63,559)
Transfer to PPE	(724,775)
At 31 December 2015	3,255,655
Accumulated amortization and impairment	
At 1 January 2015	214,618
Charge for the year	67,609
Disposals	(4,324)
Transfer to PPE	(69,416)
At 31 December 2015	208,487
Net book value	
At 1 January 2015	3,271,544
At 31 December 2015	3,047,168

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

10. Leasehold rights (continued)

Leasehold rights as at 31 December 2014 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2014	2,956,519
Additions	1,101,724
Transfer to PPE	(572,081)
At 31 December 2014	3,486,162
Accumulated amortization and impairment	
At 1 January 2014	184,855
Charge for the year	67,253
Transfer to PPE	(37,490)
At 31 December 2014	214,618
Net book value	
At 1 January 2014	2,771,664
At 31 December 2014	3,271,544

Amortization expense is included in selling, general and administrative expenses (Note 25).

11. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2015 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2015	1,603,385	549	1,603,934
Additions	486,224	–	486,224
Disposals	(10,922)	–	(10,922)
At 31 December 2015	2,078,687	549	2,079,236
Accumulated amortization			
At 1 January 2015	732,870	533	733,403
Amortization for the period	257,924	16	257,940
Disposals	(4,436)	–	(4,436)
At 31 December 2015	986,358	549	986,907
Net book value			
At 1 January 2015	870,515	16	870,531
At 31 December 2015	1,092,329	–	1,092,329

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2014 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2014	1,184,858	549	1,185,407
Additions	419,367	–	419,367
Disposals	(840)	–	(840)
At 31 December 2014	1,603,385	549	1,603,934
Accumulated amortization			
At 1 January 2014	561,738	511	562,249
Amortization for the period	171,132	22	171,154
At 31 December 2014	732,870	533	733,403
Net book value			
At 1 January 2014	623,120	38	623,158
At 31 December 2014	870,515	16	870,531

Amortization expense is included in selling, general and administrative expenses (Note 25).

12. Inventories

	31 December 2015	31 December 2014
Goods for resale	21,809,738	18,729,075
Raw materials	971,994	900,306
Total inventories	22,781,732	19,629,381

Raw materials are represented by inventories used in own production process in butchery, bakery and culinary.

During the reporting period the Group accounted for reversal of write down of inventories to their net realizable value, which resulted in recognition of reversal of expenses within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 in the amount of RUB 38,710 thousand. During the year ended 31 December 2014 the Group wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the amount of RUB 255,357 thousand.

13. Trade and other receivables

	31 December 2015	31 December 2014
Accounts receivable on rental and other services and on suppliers' advertising	9,727,574	7,857,515
Suppliers' rebates receivable	3,643,232	3,333,612
Other receivables	307,105	190,874
Bad debt allowance	(31,017)	(10,753)
Total trade and other receivables	13,646,894	11,371,248

Receivables are due normally within 25 days according to the terms of standard contracts. Outstanding receivables are regularly monitored. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Usually for receivables over 365 days the allowance for doubtful debts is 100%, unless there are strong indications from the nature of the agreement underlying the debt that no allowance is needed as the long term of the receivable is in line with the agreement. Allowances for doubtful debts are recognized against receivables of under 365 days based on estimated irrecoverable amounts determined by reference to past default experience of each particular counterparty and an analysis of the counterparty's current financial position.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

13. Trade and other receivables (continued)

Amounts receivable from suppliers and accounts receivable on rental and other services disclosed above include amounts (see below for ageing analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2015:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	87,469	8,326	30,827	3,513,960	3,640,582
Accounts receivable on rental and other services	1,206,134	45,621	43,801	8,406,211	9,701,767
Other receivables	80,450	4,157	1,376	218,562	304,545
Total	1,374,053	58,104	76,004	12,138,733	13,646,894

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2014:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	120,015	13,431	11,185	3,186,987	3,331,618
Accounts receivable on rental and other services	1,092,350	93,732	35,057	6,627,620	7,848,759
Other receivables	68,035	1,777	88	120,971	190,871
Total	1,280,400	108,940	46,330	9,935,578	11,371,248

14. Advances paid

	31 December 2015	31 December 2014
Advances to suppliers of goods	788,124	821,958
Advances for services	1,066,570	1,607,285
Guarantee payments under lease contracts	410,217	321,483
Total advances paid	2,264,911	2,750,726

15. Taxes recoverable

Taxes recoverable as at 31 December 2015 are represented by a VAT receivable of RUB 417,114 thousand (31 December 2014: RUB 1,847,669 thousand) and input VAT that has not yet been claimed for reimbursement from tax authorities of RUB 840,650 thousand (31 December 2014: RUB 568,936 thousand).

16. Cash and cash equivalents

	31 December 2015	31 December 2014
Rouble short-term deposits	16,612,228	8,954,088
Rouble denominated cash in transit	2,258,241	1,802,739
Rouble denominated cash on hand and balances with banks	3,556,009	1,258,676
Foreign currency denominated cash on hand and balances with banks	29,467	20,282
Total cash and cash equivalents	22,455,945	12,035,785

Cash in transit represents cash receipts made during the last day of the reporting period (31 December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period.

Significant rouble denominated cash in transit result from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on non-banking days, the amount of cash in transit increases.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17. Issued capital and reserves

Issued capital

As at 31 December 2015 the Company's share capital was comprised of 97,318,746 authorized and issued ordinary shares (as at 31 December 2014: 86,053,394) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the year ended 31 December 2015 and for the year ended 31 December 2014.

The movements in the number of shares the year ended 31 December 2015 and for the year ended 31 December 2014 were as follows.

	31 December 2015 No. unlimited	31 December 2014 No. unlimited
Authorized share capital (ordinary shares with no par value)		
Issued and fully paid (no par value)	97,318,746	86,053,394
	31 December 2015 No.	31 December 2014 No.
Balance of shares outstanding at beginning of financial year	86,053,394	86,052,995
Additional issue of shares	11,265,352	399
Balance of shares outstanding at the end of financial year	97,318,746	86,053,394

In year 2015 11,265,352 ordinary shares were issued by the Group for a cash consideration of RUB 21,788,593 thousand net of directly attributable issuance costs. The whole amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

During 2014 year 399 ordinary shares were issued by the Group within the share-based payment scheme.

Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 27 for further details of these plans.

Hedging reserve

The hedging reserve is used to recognise the effective portion of the gain or loss on the hedging instrument and later reclassified to profit or loss when the hedge item affects profit or loss.

18. Components of other comprehensive income (OCI)

	Year ended 31 December 2015	Year ended 31 December 2014
Cash flow hedges		
Reclassification during the year to profit or loss	(1,800,556)	(108,492)
Related tax effect	360,111	21,698
(Loss)/gain arising during the year	(525,963)	3,394,512
Related tax effect	105,193	(678,902)
Net (loss)/gain during the year, net of tax	(1,861,215)	2,628,816

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for the year ended 31 December 2015 (in thousands of Russian Roubles)

19. Earnings per share

	Year ended 31 December 2015	Year ended 31 December 2014
Earnings per share (in thousands of Russian roubles per share)		
– basic and diluted, for profit for the period attributable to equity holders of the parent	0.112	0.105

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2015: RUB 10,288,093 thousand for the year ended 31 December 2014: RUB 9,075,107 thousand) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2015	Year ended 31 December 2014
Number of issued shares at the beginning of period	86,053,394	86,052,995
Number of shares issued in October 2015	4,225,352	–
Number of shares issued in March 2015	7,040,000	–
Number of shares issued in April 2014	–	399
Number of shares at the end of reporting period	97,318,746	86,053,394
Weighted average number of shares	92,252,707	86,053,244

The Group has issued share-based payments (Note 27) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material effect on dilution of earnings per share for the periods presented.

20. Borrowings

Short-term borrowings:

	Currency	31 December 2015	31 December 2014
Fixed rate bonds (liability for interests)	RUB	760,097	317,351
Fixed rate long-term bank loans (liability for interests)	RUB	30,138	30,069
Floating rate long-term bank loans (liability for interests)	RUB	14,575	33,128
Short-term portion of fixed rate long-term bank loans	RUB	–	5,798,205
Fixed rate short-term bank loans	RUB	–	6,516,669
Fixed rate bonds	RUB	9,968,467	–
Total short-term borrowings and short-term portion of long-term borrowings		10,773,277	12,695,422

Long-term borrowings:

	Currency	31 December 2015	31 December 2014
Fixed rate bonds	RUB	9,973,156	9,962,655
Fixed rate long-term bank loans	RUB	9,951,940	9,915,884
Floating rate long-term bank loans	RUB	45,224,001	38,641,409
Total long-term borrowings		65,149,097	58,519,948

The Groups' borrowings as at 31 December 2015 and 31 December 2014 are denominated in Russian roubles.

In March 2015 the Group signed revolving credit line of RUB 15,000,000 thousand with VTB Bank OJSC. The credit line has covenants with respect to the Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 25 June 2015 the Group entered into 7 year loan agreement of RUB 37,300,000 thousand with VTB Bank OJSC. At the reporting date the Group drew down RUB 30,000,000 thousand, these funds were utilized on early prepayment of loan from VTB Capital Plc. The loan has covenants with respect to the Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 6 August 2015 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralized storage was completed in the amount of RUB 5,000,000 thousand with a nominal value of RUB 1 thousand each, a 12.4% coupon rate, 3,640 days to maturity and put option right on early redemption after 2.5 years.

On 10 September 2015 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralized storage was completed in the amount of RUB 5,000,000 thousand with a nominal value of RUB 1 thousand each, a 12.4% coupon rate, 3,640 days to maturity and put option right on early redemption after 3 years.

The funds raised from the issue of the bonds are used on business expansion.

20. Borrowings (continued)

On 21 September 2015 the Group entered into revolving credit line of RUB 3,500,000 thousand with Bank Saint-Petersburg OJSC.

On 23 October 2015 the Group signed revolving credit line of RUB 5,000,000 thousand with Russian Agricultural Bank. The credit line has covenants with respect to the Net debt / EBITDA, EBITDA / Net interest expense ratios and net assets.

During the year ended 31 December 2015 the Group received RUB 44,200,000 thousand under credit agreements concluded before 1 January 2015 and repaid RUB 79,515,000 thousand.

As at 31 December 2015 the Group had RUB 45,300,000 thousand of unused credit facilities (as at 31 December 2014: RUB 36,260,000 thousand).

As at 31 December 2015 the Group was in compliance with all financial covenants of loan agreements.

21. Income taxes

The Group's income tax expense for the year ended 31 December 2015 and 31 December 2014 is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense	632,900	948,213
Deferred tax expense	1,944,919	1,408,690
Adjustments in respect of current income tax of previous year	6,191	(504,362)
Income tax expense recognized in profit for the year	2,584,010	1,852,541
	Year ended 31 December 2015	Year ended 31 December 2014
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	(465,304)	657,204
Income tax (benefit)/expense recognized in OCI	(465,304)	657,204
	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax	12,872,103	10,927,648
Theoretical tax charge at 20%	(2,574,421)	(2,185,530)
Difference in tax rates for foreign companies	157,125	(49,202)
Add tax effect of non-deductible expenses	(160,523)	(122,171)
– share option expenses	(36,825)	(22,359)
– others	(123,698)	(99,812)
Adjustments in respect of current income tax of previous years	(6,191)	504,362
Income tax expense	2,584,010	1,852,541

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 20% is detailed below.

In 2014 the Company re-submitted income tax declarations for 2011-2013 years and deducted expenses on stock losses in full that resulted in recognition of an adjustment in respect of current income tax related to previous years.

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for the year ended 31 December 2015 (in thousands of Russian Roubles)

21. Income taxes (continued)

	1 January 2015	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2015
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(3,241,091)	(1,875,521)	–	(5,116,612)
Leasehold rights	(450,356)	21,911	–	(428,445)
Unused vacation and employee bonuses accrual	144,820	112,389	–	257,209
Suppliers' bonuses	(157,358)	86,625	–	(70,733)
Borrowings	(79,040)	(115,291)	–	(194,331)
Intangible assets other than leasehold rights	(17,386)	(3,383)	–	(20,769)
Inventory	586,189	(171,014)	–	415,175
Bad debt allowance	13,236	34,823	–	48,059
Finance leasing	6,947	(3,529)	–	3,418
Consulting and other accruals	46,769	19,151	–	65,920
Customs duty payable	30,677	6,941	–	37,618
Cash flow hedging instruments	(634,903)	(58,007)	465,304	(227,606)
Other	1,307	(14)	–	1,293
Total deferred tax (liabilities)/assets	(3,750,189)	(1,944,919)	465,304	(5,229,804)

	1 January 2014	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2014
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(1,821,403)	(1,419,688)	–	(3,241,091)
Leasehold rights	(324,476)	(125,880)	–	(450,356)
Unused vacation and employee bonuses accrual	113,970	30,850	–	144,820
Suppliers' bonuses	(249,097)	91,739	–	(157,358)
Borrowings	(84,661)	5,621	–	(79,040)
Intangible assets other than leasehold rights	(6,150)	(11,236)	–	(17,386)
Inventory	516,753	69,436	–	586,189
Bad debt allowance	10,535	2,701	–	13,236
Finance leasing	10,627	(3,680)	–	6,947
Consulting and other accruals	98,954	(52,185)	–	46,769
Customs duty payable	30,677	–	–	30,677
Cash flow hedging instruments	18,404	3,897	(657,204)	(634,903)
Other	1,572	(265)	–	1,307
Total deferred tax (liabilities)/assets	(1,684,295)	(1,408,690)	(657,204)	(3,750,189)

The temporary taxable differences associated with undistributed earnings of subsidiaries amount to RUB 54,229,761 thousand and RUB 27,207,916 thousand as of 31 December 2015 and 2014, respectively. A deferred tax liability on these temporary differences was not recognized, because management believed that it was in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

22. Trade and other payables

	31 December 2015	31 December 2014
Trade payables	42,002,004	41,081,087
Accrued liabilities and other creditors	3,586,669	3,138,048
Payables for purchases of property, plant and equipment	3,231,534	4,154,254
Total trade and other payables	48,820,207	48,373,389

The trade and other payables were denominated in:

	31 December 2015	31 December 2014
Russian roubles	48,601,870	48,171,738
USD	122,582	137,556
EUR	94,991	60,848
GBP	764	3,247
Total trade and other payables	48,820,207	48,373,389

23. Other taxes payable

	31 December 2015	31 December 2014
Social taxes	490,231	332,956
Property tax	270,774	241,299
Personal income tax	134,089	120,691
Other taxes	31,990	203,232
Total other taxes payable	927,084	898,178

24. Cost of sales

Cost of sales for the years ended 31 December 2015 and 31 December 2014 consisted of the following:

	Year ended 31 December 2015	Year ended 31 December 2014 (reclassified)
Cost of goods sold	167,408,885	126,742,396
Cost of own production	21,710,294	17,048,666
Supply chain cost	3,185,448	3,136,580
Losses due to inventory shortages and write down to net realisable value	4,153,283	3,324,324
Total cost of sales	196,457,910	150,251,966

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

The cost of own production consisted of the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Raw materials	17,925,511	13,880,282
Labour costs	2,947,684	2,533,421
Utilities	752,180	576,911
Repairs and maintenance	84,919	58,052
Total cost of own production	21,710,294	17,048,666

Cost of sales for the year ended 31 December 2015 included employee benefits expense of RUB 4,092,406 thousand (year ended 31 December 2014: RUB 3,465,640 thousand) of which contributions to state pension fund comprised RUB 609,388 thousand (year ended 31 December 2014: RUB 530,316 thousand).

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

25. Selling, general and administrative expenses

	Year ended 31 December 2015	Year ended 31 December 2014 (reclassified)
Employee benefits	14,558,823	11,988,045
Depreciation and amortization (Note 8, 10, 11)	5,671,219	3,658,951
Premises lease	2,349,035	1,103,157
Advertising	2,313,536	1,971,926
Utilities and communal payments	1,964,640	1,360,833
Professional fees	1,822,108	2,001,603
Cleaning	1,432,304	1,136,447
Repairs and maintenance	1,264,894	896,847
Taxes other than income tax	1,096,846	907,981
Security services	973,180	793,401
Land and equipment lease	323,045	306,302
Pre-opening costs	640,596	663,063
Other	1,634,545	1,197,051
Total selling, general and administrative expenses	36,044,771	27,985,607

From 1 January 2015 the Group presents expenses on IT consumables and compensations for operational cost under premises lease agreements as other expenses within selling, general and administrative expenses. Comparative amounts disclosed for the year 2014 as repairs and maintenance expenses were respectively adjusted in the amount of RUB 267,387 thousands.

Employee benefits for the year ended 31 December 2015 included contributions to state pension fund of RUB 1,844,088 thousand (year ended 31 December 2014: RUB 1,572,217 thousand).

Pre-opening costs for the year ended 31 December 2015 included employee benefits of RUB 360,904 thousand (year ended 31 December 2015: RUB 415,108 thousand) of which contributions to state pension fund comprised RUB 39,742 thousand (year ended 31 December 2014: RUB 49,391 thousand).

Pre-opening costs for the year ended 31 December 2015 included depreciation expense of RUB 15,045 thousand (for the year ended 31 December 2014: RUB 2 thousand).

26. Other operating income and expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Penalties due by suppliers	904,528	789,557
Rental income	752,755	482,455
Income from IPO	-	420,111
Advertising income	422,002	387,297
Gain on property, plant and equipment disposal	62,250	1,801
Sale of secondary materials	295,743	125,433
Other	147,032	60,476
Total other operating income	2,584,310	2,267,130

IPO income is represented by the Group's share of stabilization profit made by the Stabilizing Manager on buying back shares subject to overallotment option and a one off payment to the Group as an income share in Depositary's fees charged to GDR holders.

26. Other operating income and expenses (continued)

Other operating expenses comprised of the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Loss from fixed assets and leasehold rights disposal	181,567	96,345
Change in bad debt allowance	194,665	15,073
Penalties from government authorities	65,351	7,725
Penalties for breach of a contracts with suppliers	1,311	185,437
Other	69,639	54,013
Total other operating expenses	512,533	358,593

27. Share-based payments

Share value appreciation rights

During the 2014 year the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Ltd based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, SVARs during the year:

	2015 Number	2015 WAEP	2014 Number	2014 WAEP
Outstanding at 1 January	594,211	49.84 USD	742,765	49.84 USD
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(123,975)	49.84 USD
Expired during the year	-	-	(24,579)	49.84 USD
Outstanding at 31 December	594,211	1,516 RUB	594,211	49.84 USD
Exercisable at 31 December	-	-	-	-

During the year 2014 the Group issued 399 shares with respect to SVARs that were exercised during the period and credited additional paid-in capital with the amount of RUB 20,400 thousand.

With respect to vested 24,579 SVARs that expired during the period ended 31 December 2014 the Group transferred amount of RUB 3,013 thousand from share options reserve to retained earnings.

In March 2015 modifications to the SVARs were agreed including deferral of exercise date of SVARs that are to be vested in April 2015 by one year. In consequence of modification weighted average fair value of options granted increased up to RUB 0.40 thousand.

On 17 July 2015 the Remuneration Committee of Lenta Ltd agreed on certain changes in the management long-term incentive plan, which is based on Share Value Appreciation Rights. Whereas the plan has been set up using financial parameters denominated in USD, all financial parameters are now changed into Russian roubles using the exchange rate on the date of the grant (1 April 2013). As a result, the Exercise price for the remaining outstanding options will be changed from USD 49.84 to 1,516 Russian roubles per share. The vesting schedule has been revised and fixed, as a result of which the remaining 80% of the initial grant will now vest in 2 stages: 30% on 1 April 2017 and the remaining 50% on 1 April 2018. In consequence of modification weighted average fair value of options granted increased up to RUB 0.86 thousand.

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2015 was 2.3 years (31 December 2014: 3.3 years).

The exercise price for options outstanding as at 31 December 2015 was RUB 1,516 thousand and as at 31 December 2014 was USD 49.84 (RUB 2.8 thousand).

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

27. Share-based payments (continued)

The expense recognized for the services received from the employees covered by SVARs plan during the year is shown in the following table:

	Year ended 31 December 2015	Year ended 31 December 2014
Expense arising from the equity-settled SVARs transaction	155,199	78,966

The fair value of the management SVARs is estimated at the grant date using the Black Scholes option pricing model, taking into account the terms and conditions upon which the SVARs were granted.

Long-term incentive plan

During the year 2014 the Group approved a long-term incentive plan (LTIP) to certain members of middle management (not including top management), whereunder the Company granted award shares on 1 April 2014 (Tranche 2014) and on 1 October 2015 (Tranche 2015) along with communication of the terms of award to participants.

The monetary amount of the award to be granted to the participants of the plan was calculated based on the annual base salary on the grant date, target award interest, business results co-efficient and individual performance rating co-efficient.

To determine the number of ordinary shares subject to award the monetary amount of the award was divided by the Company's share price calculated based on the following:

- the price of GDR at IPO on LSE (10\$) translated to RUB using exchange rate as at the date for offering, i.e. 27 February 2014 (Tranche 2014);
- the average price of GDR on LSE (6.6\$) for the 1st quarter 2015 translated to RUB using average exchange rate (Tranche 2015).

Under terms of Tranche 2014 the shares are to be released in phases:

- 1st 25% on the first anniversary of the award (1 April 2015);
- 2nd 25% on the second anniversary of the award (1 April 2016);
- 50% on the third anniversary of the award (1 April 2017), provided that employment conditions are met.

With respect to the first phase no shares were issued in April 2015, the Group plans to release shares in the first half of 2016.

The vesting date of Tranche 2015 is 1 April 2018.

The fair value of the award shares was estimated based on the GDR price on LSE on the award grant date.

The expense recognized for the services received from the employees covered by long-term incentive plan during the year is shown in the following table:

	Year ended 31 December 2015	Year ended 31 December 2014
Expense arising from the equity-settled long-term incentive plan payments	28,925	32,829

28. Commitments

Capital expenditure commitments

At 31 December 2015 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 19,370,442 thousand (31 December 2014: RUB 12,709,553 thousand).

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2015	31 December 2014
Not later than 1 year	3,786,074	2,800,096
Later than 1 year and not later than 5 years	14,664,366	10,356,566
Later than 5 years	33,247,702	27,394,299
Total operating lease commitments	51,698,142	40,550,961

29. Financial instruments

Categories of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Cash	22,455,945	12,035,785
Trade and other receivables	13,646,894	11,371,248
At fair value through OCI	794,464	2,735,177
Financial liabilities		
At fair value through OCI	124,128	28,357
At amortised cost		
Floating rate long-term borrowings	45,224,001	38,641,409
Fixed rate long-term borrowings	19,925,096	19,878,539
Fixed rate short-term borrowings and short-term portion of long term borrowings	9,968,467	12,314,874
Short term liability for interests	804,810	380,548
Trade and other payables	47,058,158	46,979,088
Long-term obligations under finance leases	18,577	35,465
Total financial liabilities at amortised cost	122,999,109	118,229,923

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures of fair value measurement hierarchy for financial assets and financial liabilities as at 31 December 2015:

	31 December 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	794,464	–	794,464	–
Financial liabilities measured at fair value				
Cash flow hedging instruments	124,128	–	124,128	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	19,872,900	19,872,900	–	–
Floating rate borrowings	46,835,306	–	46,835,306	–
Fixed rate borrowings	9,449,769	–	9,449,769	–
Obligations under finance leases	18,577	–	18,577	–

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

29. Financial instruments (continued)

	31 December 2014	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	2,735,177	-	2,735,177	-
Financial liabilities measured at fair value				
Cash flow hedging instruments	28,357	-	28,357	-
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	10,322,951	10,322,951	-	-
Floating rate borrowings	54,122,762	-	54,122,762	-
Fixed rate borrowings	21,310,270	-	21,310,270	-
Obligations under finance leases	35,465	-	35,465	-

During the year ending 31 December 2015, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash flow hedging instruments	794,464	794,464	2,735,177	2,735,177
Financial liabilities				
Interest-bearing loans and borrowings				
Obligations under finance leases	18,577	18,577	35,465	35,465
Floating rate borrowings	45,224,001	46,835,306	38,641,409	54,122,762
Fixed rate borrowings	29,893,563	29,322,669	32,193,413	31,633,221
Derivative liabilities				
Cash flow hedging instruments	124,128	124,128	28,357	28,357
Total financial liabilities	75,260,269	76,300,680	70,898,644	85,819,805

The management assessed that the carrying amounts of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their fair values largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.
- The fair value of bonds is based on the price quotations at the reporting date at Moscow exchange where transactions with bonds take place with sufficient frequency and volume.
- The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 31 December 2015 and 31 December 2014, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

30. Hedge and hedging instruments

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate. Caps provide security for 4 quarters during the full periods of the agreement, so the termination date would be the earlier of the expiry date or the fourth settlement date for the floating amounts paid by VTB to the Group.

As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2015	Notional amount 2014	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	–	6,250,000	7.33%	n/a	30 September 2011	31 March 2015
Interest rate swap	–	3,000,000	8.00%	n/a	30 September 2011	31 March 2015
Interest rate swap	–	3,250,000	8.15%	n/a	30 September 2011	31 March 2015
Interest rate swap	12,500,000	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate swap	1,000,000	1,000,000	15.35%	n/a	31 December 2014	31 December 2016
Interest rate cap	10,000,000	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	900,000	12.00%	0.45%	31 December 2013	12 November 2018

Derivative financial instruments are classified in the statement of financial position as follows:

	31 December 2015	31 December 2014
Non-current asset	355,414	765,257
Current assets	439,050	1,969,920
Non-current liability	(24,564)	(28,357)
Current liability	(99,564)	–
Net derivative asset	670,336	2,706,820

The Group performs fair value assessment of the fair values of swaps and caps at the reporting date:

	31 December 2015	31 December 2014
Swaps	755,481	2,154,537
Caps	(85,145)	552,283
Net derivative asset	670,336	2,706,820

Starting 1 July 2013 the Group applied cash flow hedge accounting of swaps and caps that meet prescribed criteria, including preparation of all necessary documentation. Hedge accounting was applied prospectively from designation.

Retrospective and prospective effectiveness of cash flow hedges (swaps and caps) was measured by the Group using the “dollar offset” method. The effective portion of the gain or loss on the hedging instrument was recognized in other comprehensive income in hedging reserve.

The effect from changes in fair value of financial instruments is recognized as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit or loss		
Ineffective portion of the change in the fair value of cash flow hedging instruments	6,308	(19,488)
Reclassification from hedge reserve into interest expense	1,800,556	108,492
	1,806,864	89,004
Other comprehensive income		
Effective portion of the change in the fair value of cash flow hedging instruments	(525,963)	3,394,512
Reclassification from hedge reserve into interest expense	(1,800,556)	(108,492)
	(2,326,519)	3,286,020

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

31. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialists that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, cash equivalents and derivative financial instruments.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

During the year ended 31 December 2015 and year ended 31 December 2014, the Group did not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

At 31 December 2015 and at 31 December 2014 there were no significant amounts in foreign currencies.

Whenever possible, the Group tries to mitigate the exposure to foreign currency risk by matching the statement of financial position, and revenue and expense items in the relevant currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant.

	Change in USD rate	Effect on profit before tax
Year ended 2015	40.00%	(49,033)
	-13.00%	15,936
Year ended 2014	28.54%	(39,259)
	-28.54%	39,259

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant.

	Change in EUR rate	Effect on profit before tax
Year ended 2015	43.00%	(40,846)
	-15.00%	14,249
Year ended 2014	29.58%	(17,999)
	-29.58%	17,999

Foreign currency exchange rate reasonable possible change range was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is derived from statistical data, in particular time series analysis.

31. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2015 these obligations are represented with long-term borrowing (Note 20), which bears interest of MosPrime 1-3m plus margin. In order to hedge the risk of rising MosPrime interest rate, the Group entered into interest rate swaps and caps (Note 30).

Interest rate sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in MosPrime rates, on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and OCI are affected through the impact on floating rate borrowings, as follows:

	Profit or loss		OCI	
	600 bp increase	500 bp decrease	600 bp increase	500 bp decrease
2015				
Variable rate instruments	(2,647,200)	2,647,200	–	–
Interest rate swaps and caps	1,519,500	(855,009)	1,761,327	(1,358,130)
Cash flow sensitivity (net)	(1,127,700)	1,792,191	1,761,327	(1,358,130)

	Profit or loss		OCI	
	932 bp increase	932 bp decrease	932 bp increase	932 bp decrease
2014				
Variable rate instruments	(3,122,160)	3,122,160	–	–
Interest rate swaps and caps	1,948,129	(629,572)	3,801,430	(4,020,129)
Cash flow sensitivity (net)	(1,174,031)	2,492,588	3,801,430	(4,020,129)

The range of reasonable possible changes in MosPrime rate was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is based on risk metrics that are derived from statistical data, in particular time series analysis.

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2015 all of the Group's borrowings were denominated in Russian roubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 30 of these financial statements. The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 2015 was as follows:

	31 December 2015
Total floating rate borrowings (gross of direct issue costs)	46,054,240
Less notional amount of interest rate financial instruments (Note 30)	(25,300,000)
Net exposure to interest rate fluctuations	20,754,240
% of floating rate borrowings exposed to interest rate fluctuations	45%

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

31. Financial risk management (continued)

Credit risk

Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables.

In determining the recoverability of receivables the Group performs a risk analysis considering the credit quality of the counterparty, the ageing of the outstanding amount and any past default experience.

Trade receivables

The Group has no significant concentrations of credit risk. Concentration of credit risk with respect to receivables is limited due to the Company's customer and vendor base being large and unrelated. Credit is only extended to counterparties subject to strict approval procedures. The Group trades only with recognized, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards.

Cash and cash equivalents

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 22,317,167 thousand (31 December 2014: RUB 11,927,252 thousand).

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015, 31 December 2014 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MosPrime index) existing at the reporting date:

31 December 2015

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	19,945,156	72,189,546	15,328,782	107,463,484
Trade and other payables	47,058,158	–	–	47,058,158
Amounts payable under swaps and caps	100,216	74,344	–	174,560
Finance leasing	19,850	–	–	19,850
Total	67,123,380	72,263,890	15,328,782	154,716,052

31 December 2014

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	26,241,580	85,765,949	3,697,212	115,704,741
Trade and other payables	46,979,088	–	–	46,979,088
Amounts payable under swaps and caps	–	30,753	–	30,753
Finance leasing	21,136	19,850	–	40,986
Total	73,241,804	85,816,552	3,697,212	162,755,568

31. Financial risk management (continued)

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. The Group is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt, requirements to diversification of funding sources. Dividends are to be declared based on the capital requirements of the business and with reference to continuing compliance with the financial policy.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, obligations under finance leases less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

Net debt of the Group is comprised of the following:

	31 December 2015	31 December 2014
Borrowings	75,922,374	71,215,370
Obligations under finance leases	18,577	35,465
Cash and cash equivalents (Note 16)	(22,455,945)	(12,035,785)
Net debt	53,485,006	59,215,050

Net debt is a non-IFRS indicator and, therefore, its calculation may differ between companies, however it is one of the key indicators that are commonly used by investors and other users of financial statements in order to evaluate financial condition of the Group.

32. Contingencies

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed, consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's Security* signed on 6 August 2014 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's and Russian citizens Security from the criminal and other illegal actions and the application of special economic measures against Turkey* signed on 28 November 2015 it was prohibited to import into the territory of the Russian Federation certain products from Turkey. The following countries are under embargo: EU countries, USA, Australia, Canada, Norway and Turkey. A specific list of goods in respect of which the restrictions are imposed was determined by the Russian Government. The list includes meat and dairy products, fish, vegetables, fruits, nuts and some other products. The Group's Management believes that these measures do not have material impact on the Group's operation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015 (in thousands of Russian Roubles)

32. Contingencies (continued)

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries in 2014. The rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015.

The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 6,449 thousand as at 31 December 2015 (31 December 2014: RUB 1,841 thousand). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 126,793 thousand (31 December 2014: RUB 1,030,479 thousand). No tax provisions were recorded as at 31 December 2015 and 31 December 2014. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2015 and 31 December 2014.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

33. Events occurring after the reporting period

On 27 January 2016 the Group received RUB 7,000,000 thousand under non-revolving credit line agreement of with PJSC Rosbank with maturity period of 3 years. The loan bears covenants with respect to Net debt / EBITDA and EBITDA / Net interest expense

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List of cities as of 31 December 2015

Number on the map	Cities ¹	Number of hypermarkets	Number of supermarkets	Number of distribution centres
1	Almetyevsk	1		
2	Armavir	1		
3	Astrakhan	1		
4	Balakovo	1		
5	Barnaul	2		
6	Belgorod	2		
7	Biysk	1		
8	Bryansk	1		
9	Cheboksary	1		
10	Chelyabinsk	3		
11	Cherepovets	2		
12	Dimitrovgrad	1		
13	Engels	1		
14	Ivanovo	3		
15	Irkutsk	1		
16	Izhevsk	1		
17	Kaluga	1		
18	Kemerovo	3		
19	Khanty-Mansiysk	1		
20	Krasnodar	2		
21	Krasnoyarsk	2		
22	Lipetsk	1		
23	Magnitogorsk	1		
24	Moscow	8	28	1
25	Murmansk	1		
26	Naberezhnye Chelny	1		
27	Nizhny Novgorod	3		
28	Nizhnekamsk	1		
29	Nizhny Tagil	2		
30	Novocherkassk	1		
31	Novokuznetsk	5		
32	Novorossiysk	2		
33	Novosibirsk	7		1
34	Omsk	4		
35	Orel	1		

¹ From 1 May 2015, all stores located in Moscow city and the Moscow Region are shown as 'Moscow'. All stores located in the Leningrad Region and St. Petersburg are shown as 'St. Petersburg'.

Number on the map	Cities	Number of hypermarkets	Number of supermarkets	Number of distribution centres
36	Orenburg	2		
37	Penza	2		
38	Perm	1		
39	Petrozavodsk	1		
40	Prokopyevsk	1		
41	Pskov	1		
42	Rostov-on-Don	2		1
43	Ryazan	2		
44	Saransk	1		
45	Saratov	2		
46	Smolensk	1		
47	Stavropol	1		
48	St. Petersburg	20	4	2
49	Surgut	2		
50	Syktyvkar	1		
51	Taganrog	1		
52	Tobolsk	1		
53	Togliatti	2		1
54	Tyumen	4		
55	Tomsk	1		
56	Tula	1		
57	Tver	1		
58	Veliky Novgorod	2		
59	Vladimir	1		
60	Volgograd	3		
61	Vologda	1		
62	Volzhski	1		
63	Voronezh	2		
64	Ufa	2		
65	Ulyanovsk	2		
66	Yaroslavl	2		
67	Yekaterinburg			1
68	Yoshkar-Ola	1		
69	Yurga	1		
70	Zheleznovodsk	1		

Glossary

Unless otherwise specified, the terms 'we', 'us', and 'our' refer to Lenta Ltd., or where the context allows, to the Lenta business more generally.

the 2014 Offering	the initial public offering of our Shares, in the form of GDRs, admitted to trading on the London Stock Exchange and the Moscow Stock Exchange on 5 March 2014
active cardholder	a customer who has purchased goods at one of our stores at least twice in the past 12 months using our loyalty card
average sales density	total sales during the relevant year divided by the average selling space for that year
average ticket	the figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year
the Board	the board of directors of Lenta Ltd
BVI	the British Virgin Islands
Capex	capital expenditure
EGAIS	national automated information system for the control of alcohol production and distribution
FMCG	fast-moving consumer goods – products that are sold quickly and at relatively low cost
GDRs	global depositary receipts
in-store availability	the number of SKUs in-store with a positive stock value as a proportion of the total number of active SKUs for sale, calculated based on the average daily in-store availability of all open stores
LFL	like-for-like
P&L	profit and loss statement
SG&A	Selling, General and Administrative Expenses, which is a major non-production cost presented in the Income statement
Shares	our ordinary shares
SKU	a 'stock keeping unit', or a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise
sq.m.	square metre(s)
ticket	the receipt issued to a customer for his/her basket (the amount spent by a customer on a shopping trip)
total selling space	the area inside our stores used to sell products, excluding areas rented out to third parties, own-production areas, storage areas and the space between store entry and the cash desk line
traffic	the number of tickets issued for the period under review

Further information

In this annual report, we present certain operating and financial information regarding our hypermarkets and supermarkets, which we define as follows:

Adjusted EBITDA	EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of sales
Adjusted EBITDAR	Adjusted EBITDA before rent paid on land, equipment and premises leases
Adjusted EBITDAR margin	Adjusted EBITDAR as a percentage of sales
EBITDA	Profit for the period before foreign exchange gains/losses, revaluation of financial instruments at fair value through profit or loss, reversal of impairment of non-financial assets, other expenses, depreciation and amortisation, interest and tax. The reconciliation of EBITDA to IFRS profit is presented in tabular format in note 6 to the Consolidated Financial Statements.
like-for-like sales	We distinguish between sales attributable to new stores and sales attributable to existing stores. We consider the sales generated by stores until the end of the 12th full calendar month of their operation to be sales attributable to new stores. Accordingly, like-for-like sales begin with the comparison of the 13th full calendar month of operations of a store to its first full calendar month of operations, assuming the store has not subsequently closed, expanded or down sized. The number of stores in our like-for-like panel as of 31 December 2015 and 2014 was 109 (91 hypermarkets and 18 supermarkets) and 74 (68 hypermarkets and 6 supermarkets) respectively. 'Like-for-like average ticket growth', 'like-for-like average price growth per article', 'like-for-like traffic growth', and 'like-for-like average sales density' are calculated using the same methodology as like-for-like sales.
Other metrics	Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents. The ratio of net debt to Adjusted EBITDA is net debt divided by Adjusted EBITDA. The ratio of Adjusted EBITDA to net interest expense is Adjusted EBITDA divided by net interest expense, which is calculated as interest expense less interest income. The ratio of Adjusted EBITDAR to net interest expense plus rental expense ratio is Adjusted EBITDAR divided by the sum of net interest expense and rental expenses. CROCI is defined as Adjusted EBITDA over average capital invested. Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year. Adjusted SG&A/Sales is SG&A, excluding expenses on land and equipment leases, premises leases, depreciation and amortisation and one-off expenses as a proportion of sales.

We have included these measures because we believe that they enhance an investor's understanding of our financial performance. However, these measures should not be used instead of, or considered as alternatives to, our historical financial results based on IFRS. In addition, certain of our loan agreements contain financial covenants that are based on certain of these measures. Our use of these measures may vary from other companies in our industry.

Cautionary statements

Forward-looking statements

This document contains certain 'forward-looking statements' which include all statements other than those of historical facts that relate to our plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters.

We generally use words such as 'estimates', 'expects', 'believes', 'intends', 'plans', 'may', 'will', 'should', 'projects', 'anticipates', 'targets', 'aims', 'would', 'could', 'continues' and other similar expressions to identify forward-looking statements. We have based these forward-looking statements on the current views of our management with regard to future events and performance. These views reflect management's best judgement, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside our control, the occurrence of which could cause actual results to differ materially from those expressed in our forward-looking statements.

Market and industry data

Statements referring to our competitive position and the Russian retail food sector reflect our beliefs and, in some cases, private and publicly available information and statistics, including annual reports, industry publications, market research, press releases, filings under various securities laws, official data published by Russian governmental entities and data published by international organisations and other third-party sources.

Rounding

Certain figures in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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