LENTA

The Lenta difference

Annual Report 2017

Winning through differentiation

The retail market is becoming increasingly competitive. Customers continue to search for quality, great value, product variety and freshness. They also want their shopping experience to be enjoyable.

At Lenta, we work hard to ensure we meet the needs of all our customers. Our growth strategy – combined with our drive to differentiate ourselves in the market – have helped us to become Russia's number three food retailer.

www.lentainvestor.com/en/investors/annual-reports

How we are different

We listen closely to our customers and work hard to give them what they want: high quality products, a wide assortment to choose from and great value for money.

Everything about the way we plan our stores – from their format, location and layout to the types of products we stock – is planned around our customers, making shopping at Lenta an effortless and enjoyable experience.

Read more on pages 2 to 11

Contents

Winning with the customer

Operating attractive stores with friendly staff, well-stocked shelves, great quality and choice, affordable prices and fast checkouts are the key ingredients to creating the right experience. When our customers enjoy shopping, they visit more frequently, buy more products – and recommend us to more people.

Total sales growth

+19.2%

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ЛЕНТА
ЛЕНТА
ЛЕНТА
ЛЕНТА
Cake
МОЛОКО

Focused on formats

Understanding how and where customers shop is key to creating the right shopping formats. We carefully choose optimal locations – and our range of formats means we can deliver the most appropriate size and type of store for a particular neighbourhood. This ability to adapt to different catchments enables us to achieve high store densities in our chosen cities.

Read more on page 31

New stores

+89


ЛЕНТА


Грузди белые
Грузди белые

Catering to regional tastes

We carefully tailor our assortment of fresh and high quality products to suit regional preferences. We customise our categories to varying degrees in different locations and work closely with local suppliers. This geographic flexibility is a key differentiator for us. We also have an extensive choice of unique products and are continually developing our Private Label ranges to offer competitive prices.

Read more on pages 35 and 36

Share of sales from local suppliers

20.6%


выращено
ЛЕНТА
с любовью
ЭКО
АГРО
ФАРМИНГ
КАРТОФЕЛЬ
отборный

Building strong partnerships

Strong relationships with suppliers are a vital component in our growth ambitions. We also actively seek partnerships that will help us to extend and enhance our range of niche products that appeal to specific local tastes. We work closely with local growers to ensure all our produce is fresh and high quality.

In 2017, over 94% of products sold in Lenta were sourced in Russia, over 20% of which were from suppliers located close to the destination store.

Read more on page 38

Fresh fruits and vegetables sourced directly from growers

14.3%

Rewarding loyalty the smart way

We actively engage with our customers through our highly successful Loyalty Card Programme. This helps us understand how they are shopping and enables us to track the competitive dynamics of our offer. Analysis of the data we collect allows us to tailor attractive, personalised offers for our customers, enhancing their experience and giving them more reasons to shop at Lenta.

Read more on page 40

Active cardholders

+17%

Russia's largest hypermarket operator

With stores across Russia, Lenta is the country's largest hypermarket operator by selling space and the third largest food retailer. We have 231 hypermarkets and 97 supermarkets – and we're growing fast.

What we do

Usually open 24/7, our conveniently located hypermarkets and supermarkets sell a wide range of high quality, great value products.

Our strategy

Our growth strategy aims to rapidly expand our network of stores, balancing investment and returns – and maintaining a healthy balance sheet.

Read more on page 28

#3
food retailer in Russia

25.7%
share of fruit and vegetables directly imported

Read more on page 38

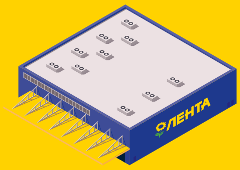
12.3m
active cardholders

Read more on page 40

231
hypermarkets

Read more on page 31

97
supermarkets



Read more on page 33

28,500
SKUs in a standard hypermarket

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290
Lenta own car fleet

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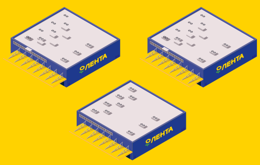
36
new stores



comprising 14 leased hypermarkets from Sedmoy Kontinent and 22 owned supermarkets from the Holiday Group.

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94%
purchases sourced in Russia

including 21% from local suppliers.

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42,366
people work for Lenta (FTE)

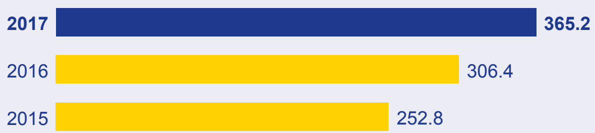
across our stores, distribution centres and offices.

Read more on page 45

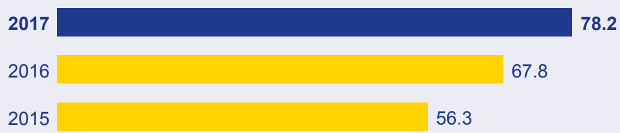
A year of progress

Financial

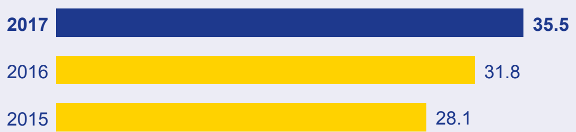
Revenue (RUB, bn)
+19.2%



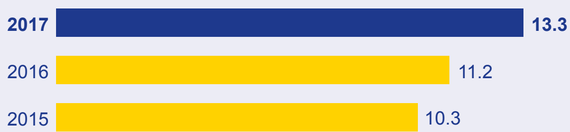
Gross profit (RUB, bn)
+15.4%



Adjusted EBITDA (RUB, bn)
+11.8%

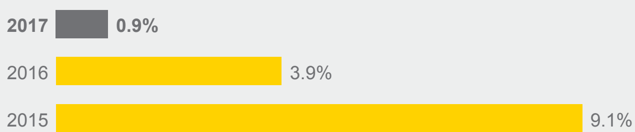


Net profit (RUB, bn)
+18.4%



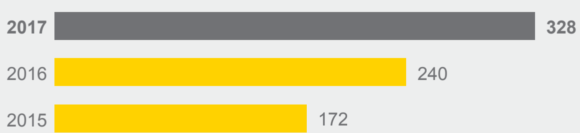
Operational

Like-for-like sales
+0.9%



Selling space (sqm)
+20.6%

Stores
+89



Active cardholders (m)
+17%

Key events

February 2017
Announcing our long-term targets for 2020

We will stay focused on profitable growth, balancing capex and returns – and maintaining our healthy balance sheet, with a conservative approach to leverage. We also aim to double our selling space over the next three years and will continue investing in management development to ensure the effectiveness of our retail team.

February 2017
Our first supermarket in Novosibirsk

Building on Lenta's strong brand recognition and loyalty among Novosibirsk's residents, our first supermarket opening of the year was also the first in this city. It strengthens our position in the region and sets the stage for the rapid expansion of this format in a market with considerable growth potential.

July 2017
Lease agreement signed for NASH hypermarkets

We signed a 15-year lease deal for 14 hypermarkets operated under the NASH brand in Moscow and the Russian regions. With total selling space of approximately 78,400 sqm, they are compatible with our existing standard, compact and supercompact hypermarket formats – and in complementary locations to our existing stores.

November 2017
Agreement with Holiday Group to purchase 22 supermarkets

The acquisition of 22 supermarkets in Siberia from the Holiday Group will significantly strengthen our network in the region, providing many more customers with the opportunity to shop at a Lenta store close to their homes. With good urban locations, the supermarkets are an excellent fit with our existing store network.

November 2017
Lenta joins Europe's leading purchasing alliance

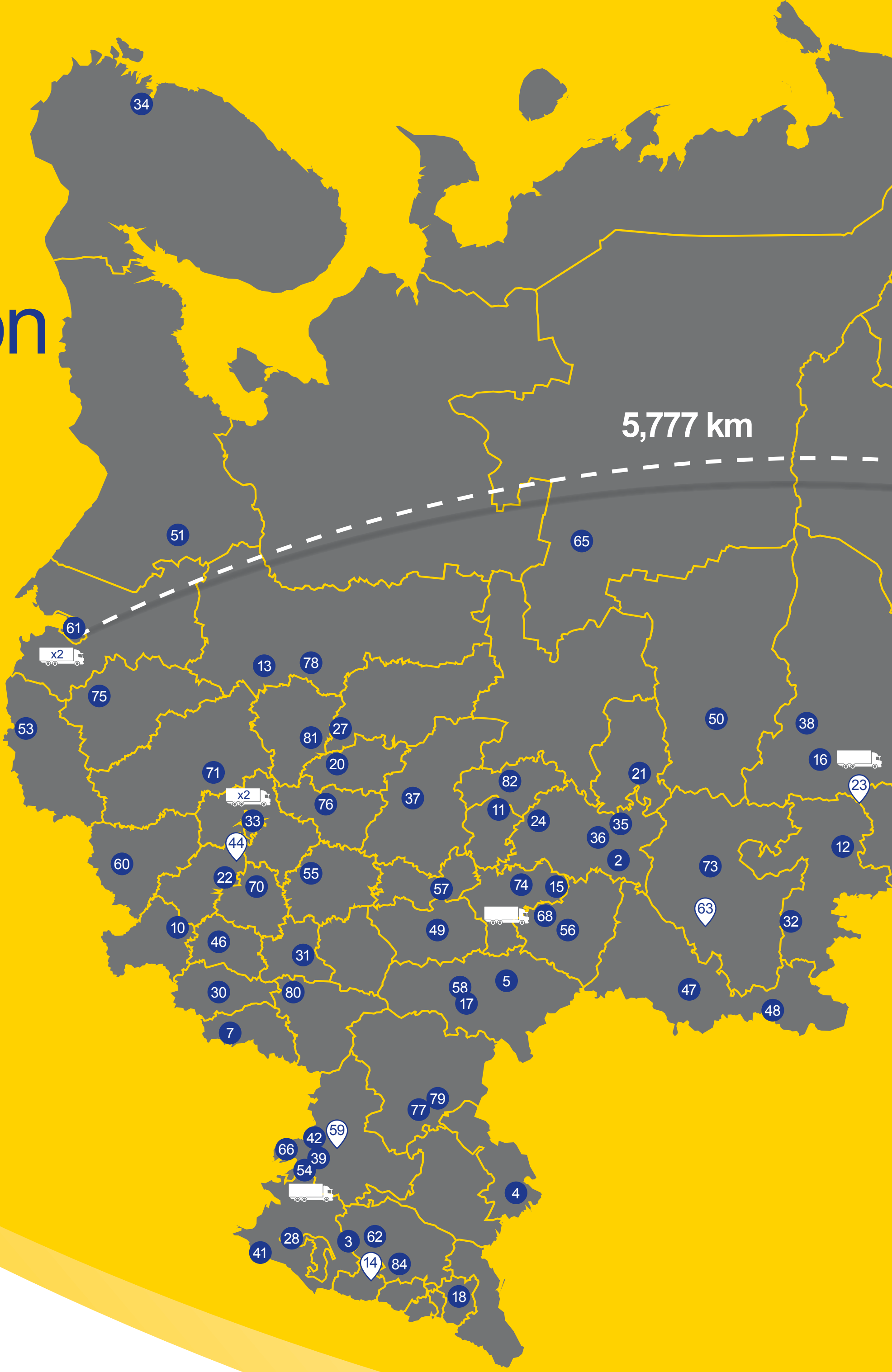
We are the only Russian retail chain to benefit from membership of European Marketing Distribution (EMD) – the world's largest FMCG purchasing network. Joint procurement with other large European retailers gives Lenta's customers access to an extensive range of affordable quality products from international producers.

November 2017
Doubling the size of our fleet

Featuring refrigerated semitrailers, the vehicles will significantly improve our supply chain performance. The purchase of these new high fuel-efficient MAN diesel trucks almost doubles the size of our fleet – and over 60% of products delivered to stores from our distribution centres will be covered by Lenta's own vehicles.

Where we are

Accelerating our expansion



In 2017 Lenta continued to expand its geographic footprint.

At the year end we had a total of 328 stores, comprising 231 hypermarkets and 97 supermarkets.

We continued to build on our presence in the areas where we already operate. We also extended our reach, rolling out Lenta stores into seven new cities.

We now have a presence in 84 cities, including all 15 Russian cities with more than 1 million inhabitants.

Largest hypermarket operator by selling space

#1

Stores

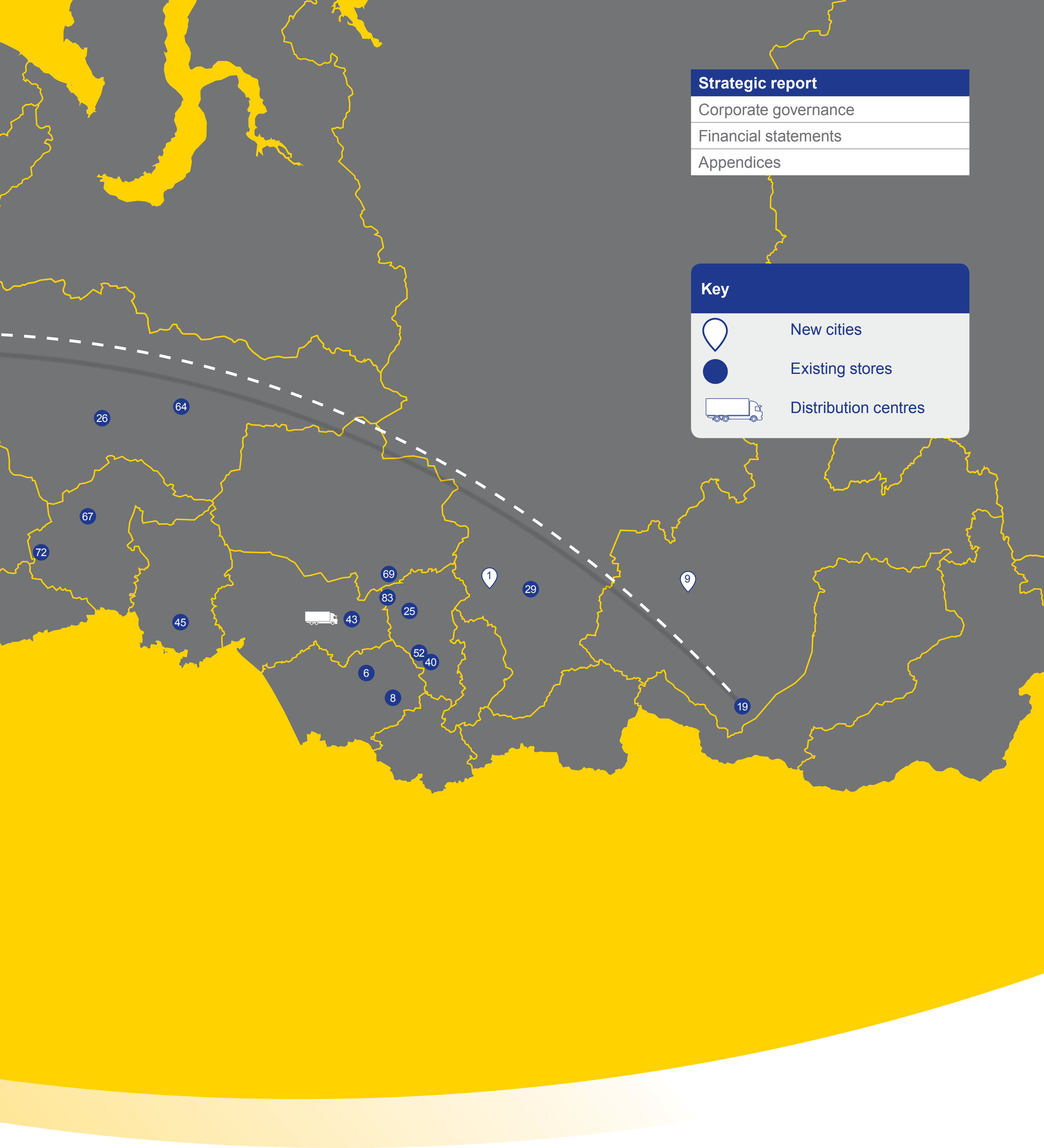
328

Cities

84

● Hypermarkets ● Supermarkets

	Hypermarkets	Supermarkets
1 Achinsk	1	
2 Almetyevsk	1	
3 Armavir	1	
4 Astrakhan	2	
5 Balakovo	1	
6 Barnaul	3	
7 Belgorod	2	
8 Biysk	1	
9 Bratsk	1	
10 Bryansk	1	
11 Cheboksary	1	
12 Chelyabinsk	6	
13 Cherepovets	3	
14 Cherkessk	1	
15 Dimitrovgrad	1	
16 Ekaterinburg	3	8
17 Engels	2	
18 Grozny	1	
19 Irkutsk	2	
20 Ivanovo	3	1
21 Izhevsk	1	
22 Kaluga	2	2
23 Kamensk-Uralsky	1	
24 Kazan	4	
25 Kemerovo	3	
26 Khanty-Mansiysk	1	
27 Kostroma	1	
28 Krasnodar	3	
29 Krasnoyarsk	5	
30 Kursk	1	
31 Lipetsk	2	
32 Magnitogorsk	2	
33 Moscow	24	43
34 Murmansk	1	
35 Naberezhnye Chelny	1	



36 Nizhnekamsk 1
37 Nizhniy Novgorod 4
38 Nizhniy Tagil 2
39 Novocherkassk 1
40 Novokuznetsk 5
41 Novorossiysk 2
42 Novoshakhtinsk 1
43 Novosibirsk 7 15
44 Obninsk 1
45 Omsk 6
46 Orel 1
47 Orenburg 5
48 Orsk 1
49 Penza 2
50 Perm 2
51 Petrozavodsk 2
52 Prokopievsk 1
53 Pskov 1
54 Rostov-on-Don 4
55 Ryazan 3
56 Samara 3
57 Saransk 1
58 Saratov 3
59 Shakhty 1
60 Smolensk 1
61 St. Petersburg 36 25
62 Stavropol 2
63 Sterlitamak 1
64 Surgut 2
65 Syktyvkar 2
66 Taganrog 2
67 Tobolsk 1
68 Togliatti 2
69 Tomsk 3
70 Tula 1 1
71 Tver 1
72 Tyumen 5
73 Ufa 4
74 Ulyanovsk 2
75 Velikiy Novgorod 2
76 Vladimir 1 1
77 Volgograd 4
78 Vologda 1
79 Volzhskiy 1
80 Voronezh 2
81 Yaroslavl 4
82 Yoshkar Ola 1
83 Yurga 1
84 Zheleznovodsk 1

Sustaining our momentum

Maintaining our drive for growth over the long term is a priority for Lenta.

John Oliver
Chairman

2017 was another very good year for Lenta. Our drive to reinforce and expand our presence in Russia's major cities continued apace, and we made significant progress with both our hypermarket and supermarket formats. Yet again, our tried and tested low price/low cost business model was the key to another successful year.

In tough times, flexibility and adaptability are crucial – and these essential attributes enabled Lenta to flourish, even in last year's challenging conditions. Staying close to our customers; analysing what they buy, when and where they shop – informs us about what is important to them and enables us to adjust our assortment accordingly.

When it comes to understanding our customers, the Lenta loyalty card is the ace in our pack. It provides us with an unrivalled in-depth insight into the way they shop, helping us create tailored offers that precisely match their shopping preferences. It also enables us to anticipate – and respond to – their changing habits and preferences.

Corporate governance

We are committed to implementing and maintaining the highest standards of corporate governance – and this starts at the top; the Board of Directors sets the tone for the rest of the Company to emulate and uphold. Lenta's Board comprises a diverse and engaged group of individuals, whose complementary backgrounds and expertise ensure our discussions benefit from rigorous scrutiny and thorough consideration.

"It is a source of pride that – despite the challenging retail environment – we have the most stable management team in the market."

In December, Steven Hellman joined Lenta as a non-executive Director. His experience across a breadth of industries and geographies – both Russian and international – is a most welcome and valuable addition to our Board. He replaced Stephen Peel, who had been with Lenta since 2011. We are very grateful to Stephen for his contributions to Lenta's development over the years, and wish him well for the future.

The execution of our strategy is entrusted to an equally dedicated group of individuals. It is a source of pride that – despite the challenging retail environment – we have the most stable management team in the market; its composition has remained constant for several years. As well as steering the growth and development of the business, they freely share their valuable experience with junior colleagues – ensuring our next generation of managers is equipped with the necessary knowledge and skills to take the business forward.

Corporate social responsibility

Our customers rely on us to provide them with high quality products at competitive prices. However, we recognise we also have wider responsibilities: to our employees, local communities and supply partners. An awareness of the society and environment in which we operate – and an understanding of how our presence can enhance them – drives our CSR policies and shapes our actions.

Respect for the environment is an essential consideration in all aspects of our decision-making. During the year we continued to implement a range of measures designed to minimise Lenta's impact on its surroundings and sensitively manage our environmental footprint. Likewise with social and community-based activities, we strongly believe that we have a responsibility to be an actively engaged corporate citizen. It was extremely gratifying to see so many of our community projects flourish in 2017.

Focused on the long term

I am grateful to my fellow directors for their insight, advice and support during the year. I would also like to thank our senior management team for delivering another strong set of results in the relentlessly competitive retail sector. I am particularly grateful to our shareholders for their continued commitment to Lenta, as well as to our suppliers and partners for their ongoing loyalty and support.

Last, but not least, I pay tribute to our employees. Whether behind the scenes or on the shop floor serving our customers, every one of our colleagues plays a part in making the Lenta 'difference' and I offer them my sincere thanks.

Creating long-term value for our shareholders is a priority for Lenta. Maintaining our growth momentum, supported by attractive returns on our investments is a critical part of this. Effective planning, a clear strategy and our robust flexible business model mean we are well placed to sustain our success to date and build an even stronger business for the future. Going forward, we will continue to deliver on our promises. Our shareholders and customers can be assured that they remain at the heart of every decision we make.

John Oliver
Chairman

Board focus

One of my key responsibilities is to ensure the Board works effectively as a group towards its shared goals. The Board's principal objective is to secure Lenta's long-term success and ensure the delivery of sustained returns for its shareholders. This includes:

- establishing the management culture of the Company
- setting of strategic targets
- overseeing financial and human resource structures
- reviewing of management performance
- determining the Company's risk appetite

The Board supports Lenta's senior management team in the execution of our strategy; monitoring its activities and holding it accountable for the Company's performance against our expectations. I am privileged to lead Lenta at such an exciting time in its development – and with such a talented team. We look forward to 2018 with confidence.

John Oliver

Another year of strong progress

Lenta experienced another year of good growth. We continued to successfully execute our strategy, helping our customers live a better life through spending less.

Jan Dunning
Chief Executive Officer

2017 was another year of successes for Lenta. Full year sales grew 19.2% to RUB 365.2 billion (2016: RUB 306.4 billion). This included like-for-like sales growth of 0.9%.

Our good performance was yet again underpinned by our low price/low cost model. Throughout the year, customers responded positively to continuing improvements in our offering, range, marketing and communication. This led to a significant increase in like-for-like ticket growth.

2017 performance

Total selling space at 31 December 2017 amounted to 1,382,111 sqm, an increase of 20.6% year-on-year.

During the year we continued our rapid expansion. We entered seven new cities, bringing the total number of cities where Lenta has a presence to 84. We opened 40 new hypermarkets – 30 of which were opened in the fourth quarter alone. We now have a total of 231 hypermarkets across Russia.

We doubled the size of our value-for-money supermarket network in 2017, opening 49 new stores during the year: more than in the previous four years. This gave us a total of 236,000 sqm of net new selling space and was in line with our guidance for the year.

Our geographic expansion continued apace. We made notable progress in Moscow, opening 11 new hypermarkets and ten new supermarkets. We also launched our supermarket format in Siberia and the Urals, and we now have a substantial supermarket presence comprising 97 stores in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg and Central Region.

> "We have a proven ability to succeed in diverse markets – both through organic openings and acquired stores."

Our positive sales growth derived principally from a range of initiatives implemented throughout the year. These included a focus on our unique assortment – giving customers additional reasons to visit our stores – as well as a strong emphasis on locally sourced products. Enhancing and expanding our private label range also contributed to improved sales.

Marketplace

Household budgets remained under constant pressure – and the food retail market was extremely competitive. In such a volatile environment, our ability to adapt to changing circumstances has been more important than ever. However, thanks to our flourishing expansion programme – and clear focus on the customer – Lenta yet again proved its ability to succeed in a tough environment and strengthened its position in the marketplace.

At our IPO in 2014, we were the number six food retailer in Russia; we believe we are now number three – improving our position in all our key markets in 2017. We significantly enhanced our presence in Moscow and grew strongly in cities with a population in excess of one million.

Strategy in action

During the year we implemented a number of programmes aimed at increasing the attractiveness of our offering to customers. These included improvements to our assortment – notably the introduction of new private label product ranges – as well as our marketing and loyalty programme. We also worked hard to strengthen existing – and develop new – partnerships with local suppliers.

Our communication initiatives included digital marketing activities to reach customers, with individually tailored special offers designed to enhance basket size and encourage traffic. The number of active Lenta Loyalty Card holders grew to 12.3m by the year end – an increase of 17% year-on-year.

We have a proven ability to succeed in diverse markets – both through organic openings and acquired stores. Successful integration of acquisitions also contributed to our growth story in 2017. The 14 ex-NASH hypermarkets, which re-opened under the Lenta brand in November, delivered solid results, as did the 11 hypermarkets acquired from Kesko in 2016.

A further 22 supermarkets were acquired from Holiday in December 2017, which have given us an immediate, sizeable presence in Siberia. Compatible with our format in terms of size and layout, these stores are in good urban locations with substantial existing traffic and complement our existing network.

In November we joined EMD, Europe's leading purchasing alliance, becoming its only Russian member. We are now able to offer a much wider range of high quality products from international producers at affordable prices, which will stimulate the further development of our private label ranges.

Looking ahead

We will continue our drive to improve sales by further strengthening our customer proposition, enhancing our appeal and providing the very best in-store experience. A number of new initiatives will come to fruition in 2018 – and we continue to devise new ways to make it easier for our customers to shop with us.

Full year sales (RUB)

365.2bn

We expect to see some improvements in both the macroeconomic and consumer environments in the year ahead, with the deflation and cannibalisation headwinds beginning to abate. Sales in the early part of the year have been promising.

There is still huge scope for further growth. Whilst our core growth strategy remains resolutely organic, our track record of successful acquisitions is also growing. We will therefore continue to pursue attractive opportunities in both hypermarket and supermarket formats, where we see a good fit with our existing business.

In 2018 we expect our capex to be approximately RUB 30-35bn. This includes organic expansion of both formats and land acquisition for new stores, as well as investment to extend the capacity of our existing distribution centres and Lenta's own truck fleet. Capital spending is also allocated to IT and digital marketing projects.

In 2018 we will stay focused on our commitment to provide attractive returns on our investments and long-term value to our shareholders. With our robust business model, strong financials and dedicated workforce, we look forward with confidence to the year ahead.

Jan Dunning
Chief Executive Officer

How we create value

Our high growth, distinctive business model enables us to offer competitively priced, high quality products to our customers. Our stores are tailored to suit their locations and the communities they serve – and our fully integrated supply chain and IT platform support our expansion.

Inputs

Financial
Disciplined investment approach to our infrastructure, systems and people

Strong brand
A great reputation for quality and value, backed by trusted private labels

Sites and formats
Locating the right stores in the right places in cities across Russia

Employees
A well-trained, motivated and engaged workforce across our business

Technology and data
State-of-the-art systems enhance business processes and customer loyalty

Partnerships
Forging lasting alliances with growers and suppliers who match our quality standards

Products
Offering a carefully edited assortment, with many goods tailored to regional tastes

Our key differentiators

Underpinned by strong governance and corporate social responsibility

Growth strategy

Top 3 multi-format food retailer
Consolidate our position as a top 3 multi-format food retailer and the biggest hypermarket player in Russia, enabling further benefits of scale in supplier terms and fixed cost efficiency

Focus on profitable growth
Continuous focus on profitable growth, carefully balancing capex and returns (target IRR of 20%) with the aim of continuing to deliver market-leading returns

Healthy balance sheet
Maintain healthy balance sheet with conservative approach to leverage

Investing in management
Continue investing in management development to ensure Lenta's retail team remains one of the most effective in the industry

Selling space
Double selling space during the four years from 2016 to end 2020

Alternative models
Develop alternative models to add to our growth

Value created

Shareholders
- A strong balance sheet
- Financial returns

Value for money
- 5% discount on all purchases through Loyalty Card
- Lenta Social Programme

Employees
- Employment opportunities
- Motivated and engaged staff
- Training and development
- Career progression
- Good employment packages

Partners
- Local suppliers benefit from Lenta success
- Number one partner for suppliers amongst Russian retailers
- Suppliers benefit from local distribution centres near their facilities – saving costs and lead times

Communities and Environment
- A positive contribution to local communities
- Community investment
- Taking care of the environment

Adjusted EBITDA (RUB)
35.5bn

Number of employees (FTE)
42,366

Wages (RUB)
17.4bn

Taxes (RUB)
11.5bn

Number of projects
133

Read more on pages 42 and 70

Good growth opportunities in a changing environment

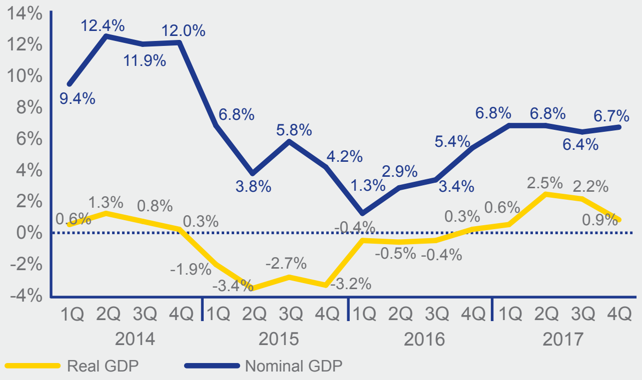
From an international perspective, grocery retail in Russia remains fragmented. The market continues to present excellent growth opportunities for the most effective federal players.

Continuing challenges for retailers and customers alike

2017 was another year of challenges across the Russian retail sector. In the ongoing difficult environment, customers continued to face tough choices as their household budgets remained tight, necessitating careful management of spending.

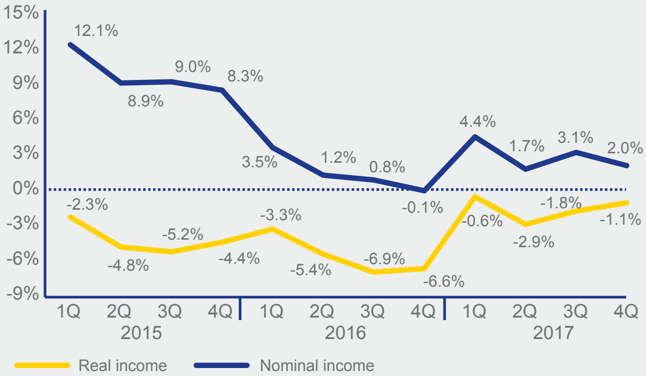
In spite of domestic pressures and international influences including economic sanctions, the Russian economy grew by 1.5%. This was the first annual increase for three years. It was boosted by growth in the agricultural sector – resulting from fewer EU food imports, which in turn stimulated production from local suppliers – as well as a rise in oil prices. Inflation fell steadily throughout 2017, driven in part by much lower food price inflation, and finished the year below 3%.

GDP



Source: Rosstat

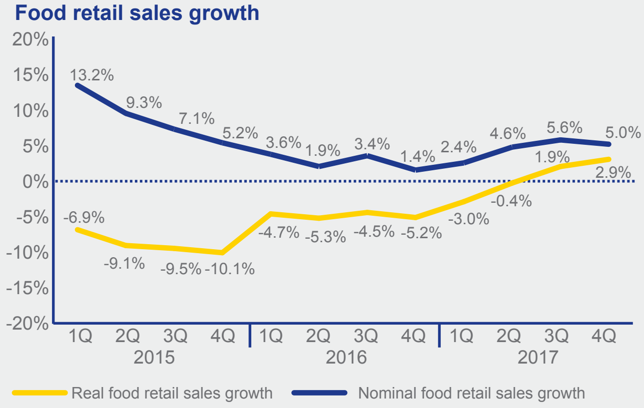
Household income



Source: Rosstat

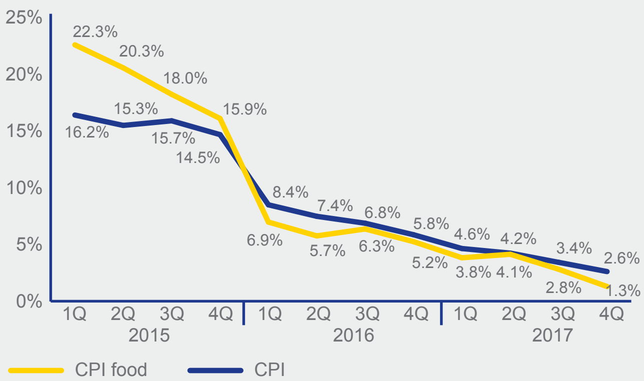
> **Competition between retailers for consumers' limited disposable income was as intense as ever."**

Food retail sales growth



Source: Rosstat

Food inflation



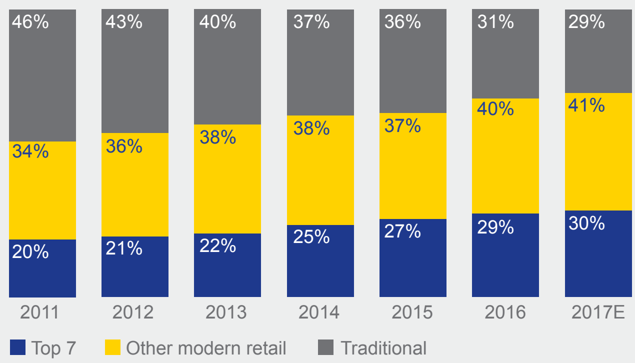
Source: Rosstat

Competition remains intense

As in 2016, consumer sentiment was fragile during the year. Russians are well used to the harsh realities of the economy; as a result, they have become increasingly discerning in their shopping habits, seeking out the best prices and attractive promotions. Alongside excellent value for money however, they also want a pleasant shopping experience from a retailer they trust.

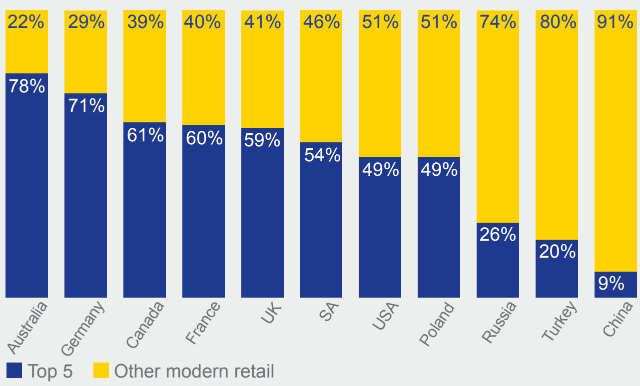
Competition between retailers for consumers' limited disposable income was as intense as ever in 2017 – and levels of promotional and discounting activity remained high. Intensive growth in the convenience store segment added a new dimension to the competitive landscape. Lenta's inherent strengths: its low price/low cost business model, scale, data-driven customer insight and adaptability all helped the Company flourish in 2017, despite the ongoing turbulence in the market.

Share of grocery retail sales in 2017, %



Source: Company information, Infoline, Euromonitor.

International context

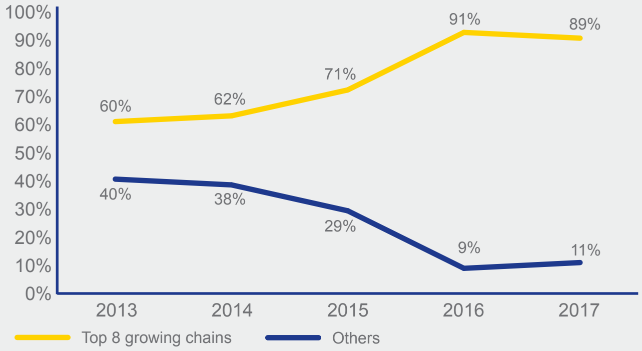


Source: Company information, Infoline, Euromonitor.

Growing our presence

The Russian market trails the rest of Europe when it comes to modern retail formats. Notwithstanding the vagaries of the macroeconomic and consumer climates, we believe the sector still exhibits considerable potential for growth.

Share of selling space
as at 31 December 2017



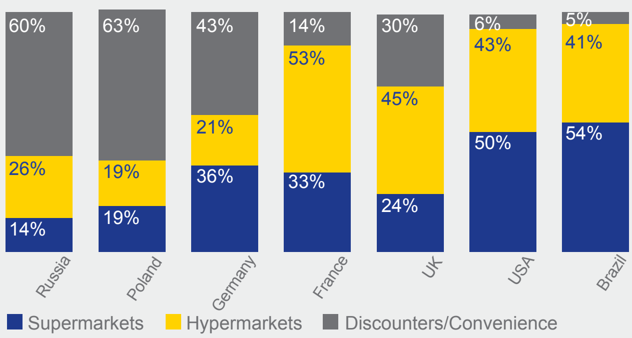
Source: Infoline

Although small neighbourhood stores offer on-the-spot convenience, we know that consumers respond well to the attractive hypermarket format – and are prepared to travel further for wider choice, better value and higher quality products. The supermarket format is popular with customers and is also gaining momentum in Russia, as the demands of many customers begin to align with those of more developed markets.

Potential for growth

With our considerable experience in successfully launching new stores, we continue to see significant potential to develop both formats in strategic locations across Russia. Lenta's flexibility in the face of market volatility has enabled us to build a loyal customer base that not only engages with the brand, but responds positively to the tailored incentives we create. As the economy recovers, the larger and more efficient federal players stand to benefit from the likely rise in consumer spending.

Formats share
as at 31 December 2017

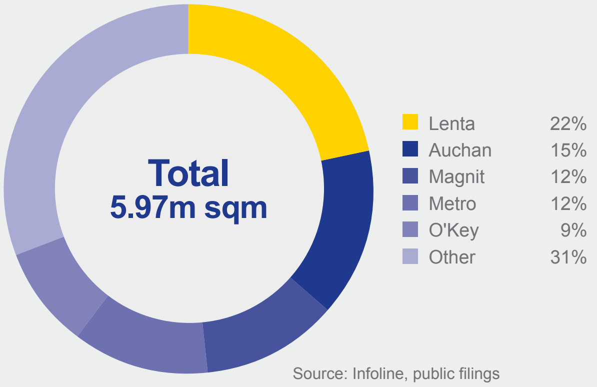


Source: Company information, Infoline, Euromonitor

Discrepancies in calculation are due to rounding.

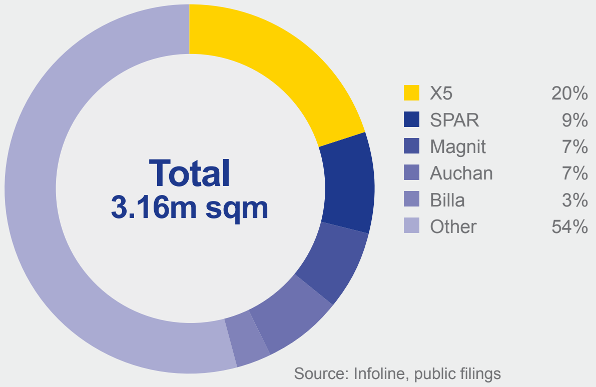
"As the economy recovers, the larger and more efficient federal players stand to benefit."

Hypermarkets
Total selling space, 5.97m sqm



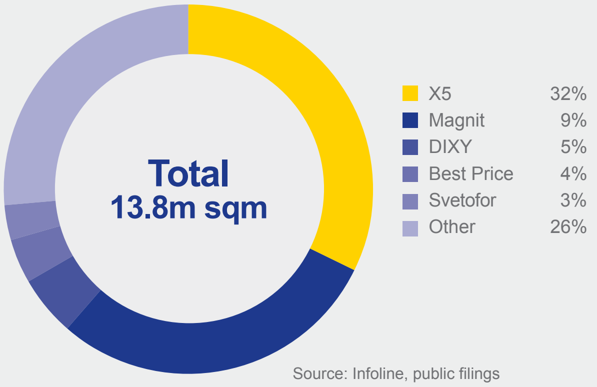
Source: Infoline, public filings

Supermarkets
Total selling space, 3.16m sqm



Source: Infoline, public filings

Convenience/Discounters
Total selling space, 13.8m sqm



Source: Infoline, public filings

Whether or not any upturn relieves pressure on prices, we are prepared either way – having proved our ability to adapt to changing circumstances. With its consistent commercial strategy – which has delivered good results in challenging times – Lenta is well positioned for the year ahead.

Focused on growth and value

Strategic priorities

A Top 3 multi-format food retailer

Objectives
Become a top three multi-format food retailer and the biggest hypermarket player in Russia, enabling further benefits of scale in supplier terms and fixed cost efficiency.

Achievement 2017
Lenta has become Russia's #3 multi-format food retailer.

Targets 2018
Reinforce differentiation in offer for hypermarkets and supermarkets, prepare supply chain for further growth.

Risks
- Acceleration of organic or inorganic expansion by other hypermarket players
- Aggressive growth of category specialists and niche formats

B Focus on profitable growth

Objectives
Continuous focus on profitable growth, carefully balancing capex and returns (target IRR of 20%) with the aim of continuing to deliver market-leading returns.

Achievement 2017
EBITDA growth 11.8%

Targets 2018
Focus on differentiation, sourcing and innovation to drive growth and returns.

Risks
- Regulation resulting in major additional compliance and operational costs
- Major decline in economy, increased competition and competitive sourcing

C Healthy balance sheet

Objectives
Maintain healthy balance sheet with conservative approach to leverage.

Achievement 2017
Year end leverage of 2.6X, 0.2X below 2016.

Targets 2018
Maintain conservative leverage.

Risks
- Retail regulation of price/margin or major decline in economy
- Taxation changes, interest rate variations and access to finance

Hypermarkets

Growing our store estate

Objectives
Open organically 150-200K sqm per year, with long-term potential for about 400 additional hypermarkets in target cities.

Achievement 2017
Opened 198,000 sqm of hypermarkets.

Targets 2018
Open about 20 hypermarkets.

Planning our expansion

Objectives
Primary focus on Moscow, St. Petersburg and largest cities in medium term, combined with continuing roll-out to existing and new smaller cities.

Achievement 2017
Main focus of openings was in the Moscow region and the largest cities.

Targets 2018
Main focus on Moscow (region) and larger existing cities – with plan to add only 4-5 cities.

Investing for the future

Objectives
Capex and cost initiatives to drive returns and enable coverage of smaller catchment areas.

Achievement 2017
Increased LFL sales per FTE 7.5% despite on-shelf price deflation. Added 130 trucks to counter cost increases in transport market.

Targets 2018
Roll out innovations such as self-scanning and digitalisation of marketing. Professionalise and centralise indirect procurement.

Our strategic priorities give us clarity of purpose as we grow Lenta: investing in our people, expanding the business and unlocking value.

D Investing in management

Objectives
Assessment of training and development needs of second level 150 management to ensure Lenta has the right skills in place for its growing complexity and scale.

Achievement 2017
Over 100 managers trained in the Lenta Leader programme.

Targets 2018
Full assessment of top 150 management to ensure Lenta has the right people in place for its growing complexity and scale.

Risks
- Scarcity of appropriately skilled and experienced individuals at management level
- Potential erosion of standards from rapid expansion

E Double selling space

Objectives
Double selling space during the four years from 2016 to end 2020.

Achievement 2017
Added 236,329 sqm, which is 20.6% vs 2016.

Targets 2018
Open about 20 hypermarkets and about 50 supermarkets organically.

Risks
- New store site selection could be compromised due to the desire to meet rapid growth targets
- Access to finance beyond own-generated cash flow could affect space growth

F Develop alternative models

Objectives
Develop alternative models to enhance our growth.

Achievement 2017
Lenta PRO programme rolled out country-wide and supported with specific assortment for corporate clients.

Targets 2018
Double Lenta PRO sales and significantly increase sales with internet sales partners.

Risks
- Lack of innovation could impact the effectiveness of Lenta's offer and marketing
- Management succession issues and access to finance may influence scope/scale of innovation

Supermarkets

Stepping-up our new store programme

Objectives
Significantly increase number of store openings to deliver around 8x increase in selling space by 2020 (15-20% of total selling space).

Achievement 2017
Opened 49 supermarkets with 39,000 sqm.

Targets 2018
Open about 50 supermarkets.

Building on our existing presence

Objectives
Extend the network around existing distribution starting in 2017.

Achievement 2017
Opened supermarkets in Novosibirsk and Ekaterinburg.

Targets 2018
No new regions to be added.

Increasing the share of owned space

Objectives
Primary focus on rent with 20-30% ownership provided this generated attractive returns.

Achievement 2017
Increased owned space to 18.5%.

Targets 2018
Stores from Holiday deal will contribute to an increased share of ownership.

A strong performance

Tough trading conditions prevailed during the year, with food retailers competing for a share of stretched household budgets. Yet again, Lenta rose to the challenge; we listened to what our customers told us and worked hard to deliver what they wanted. They responded positively to our efforts – and Lenta grew strongly in 2017.

Highlights of the year

- Total sales were up 19.2% to RUB 365.2 billion (2016: RUB 306.4 billion)
- Like-for-like sales grew 0.9%
- Total selling space growth of 20.6% in 2017
- Lenta became Russia's number three multi-format food retailer

Total sales rose 19.2% to RUB 365.2 billion (2016: RUB 306.4 billion) compared with 21.2% in 2016. Like-for-like sales grew 0.9% and Lenta's average like-for-like ticket grew by 2.3%. Like-for-like traffic declined 1.4%. Net selling space increased by 20.6% compared with 29.9% in 2016.

Our robust and proven low price/low cost business model continues to be the key to our ongoing success, providing us with the necessary flexibility to anticipate consumer trends and adapt to changing circumstances. Combined with our appealing product assortment and delivery of a superior shopping experience, it enables us to attract and retain new customers.

Our growth strategy saw us continue our fast-paced store-opening programme. We entered seven new cities – and by the year end we had a presence in 84 Russian cities. In 2017 we added a total of 236,000 sqm of net new selling space, taking us to a total of 1,382,111 sqm – a 20.6% year-on-year increase.

> **Our robust and proven low price/low cost business model continues to be the key to our ongoing success, providing us with the necessary flexibility to anticipate consumer trends and adapt to changing circumstances."**

Formats

Our ability to adapt to different locations has helped us achieve high store densities in our chosen cities.

Our store formats

The rapid pace of our expansion belies the meticulous planning that precedes every new store opening. Every location is evaluated using sophisticated analytical techniques to ensure that it is fit for purpose and will deliver the required return on investment. Our ability to identify the exact size and format for any given location means we deliver the store that best aligns with how our customers shop.

The decision whether to own or rent our stores is predicated on circumstances at each individual location. Most of our stores are owned, which protects us from potential rental inflation. Whilst ownership is inevitably more capital intensive, it gives us the freedom to plan, design and build stores in the format that will best suit the target catchment area – and deliver the best returns. In 2017, our proportion of leased premises increased from 18% to 24% of our total selling space.

We continued to 'fill the gaps' in areas where we are already established. Strengthening our footprint in locations where Lenta already has a presence is a key element of our strategy, adding to our coverage and reinforcing our market position.

Hypermarkets

Almost all our hypermarkets are located in – or adjacent to – residential areas with good transport connections. We operate three hypermarket formats – each offering a wide variety of fresh foods, groceries and general household items. Most stores are open all day, seven days a week.

Our three hypermarket formats are 'Standard', 'Compact' and 'Supercompact' with average selling space of 7,100, 4,900 and 3,100 sqm respectively. There are three variants of the Compact format, which gives us complete flexibility when adapting a certain type of store to a particular catchment area.

Lenta has a presence in

all cities with over 1m people

Lenta Category Management

In 2017 we undertook a record 35 Lenta Category Management (LCM) projects. Considerable attention was paid to refining our assortment structure to align with our own strategy as well as wider market trends, with a particular focus on organic products and healthy food. We also analysed the related principles of store layout and navigation.

Several suppliers participated in our LCM projects and – with key market experts – we held nine days of workshops, jointly developing ideas for further category development.

The various project outcomes highlighted ways in which we could increase category penetration rates, profitable purchases and maximise cross-category purchasing. The changes to categories made as a result of the LCM projects are already proving beneficial. We plan to conduct a further 39 LCM projects in 2018.

Hypermarkets opened

40

In 2017, we opened 40 hypermarkets in 26 cities. Seven of these cities were brand new locations for Lenta – and we are proud to be very first hypermarket brand in Cherkessk, Achinsk and Bratsk. At the year end we had a total of 231 hypermarkets across Russia. This was in line with our guidance and demonstrates our ability to maintain our rapid expansion in a challenging economic environment. We added 197,720 sqm of hypermarket selling space on a net basis, an increase of 18.0% from last year.

This was in line with our guidance for the year and includes all 14 leased hypermarkets previously operated under the NASH brand (seven in Moscow and an additional seven in Obninsk, Nizhniy Novgorod, Chelyabinsk, Perm, Ryazan and Rostov-on-Don). These had been closed for refurbishment for around three months, prior to reopening under the Lenta brand. The stores demonstrated rapid sales ramp-up in the last few weeks of the year, reflecting the attractiveness of our offer and the potential for further growth – even in such a competitive environment.

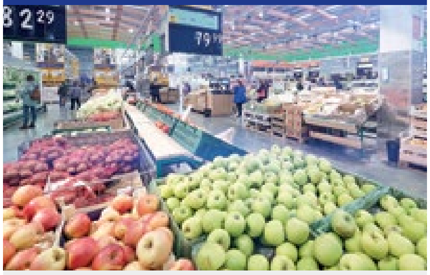
Sales at the 11 hypermarkets acquired from Kesko in 2016 also continued to ramp up rapidly. Our ability to succeed in diverse markets – with both acquired stores and organic openings – demonstrates the attractiveness of our customer proposition.

This format continues to exhibit great potential and we continue to actively explore new opportunities to grow our hypermarket presence. Our analysis of customer data and shopping patterns helps us pinpoint the optimum locations for new stores.

The pipeline for 2018 is secure and we will continue to roll out new stores in cities where we already have a presence – as well as in new locations – in the year ahead. The primary focus remains on Moscow, St. Petersburg and Russia's largest cities over the medium term, alongside our continuing roll-out programme to existing and new smaller cities. Looking further ahead, we see long-term potential for an additional 400 hypermarkets in our target cities.

"We continue to see opportunities to expand our supermarket presence."

Expansion in Siberia



We opened our first supermarket in Siberia in February. In November we signed an agreement with the Holiday Group to acquire 22 supermarkets in the region: 11 in Novosibirsk, seven in Kemerovo and four in Barnaul. Compatible with our own stores in terms of size and layout, these stores are in prime urban locations with substantial existing traffic and will significantly strengthen our presence in Siberia.

The six Novosibirsk stores re-opened under the Lenta brand in December 2017, with work on the remainder expected to be complete – and alcohol licences obtained – in early 2018.

Supermarkets opened

49

Supermarkets

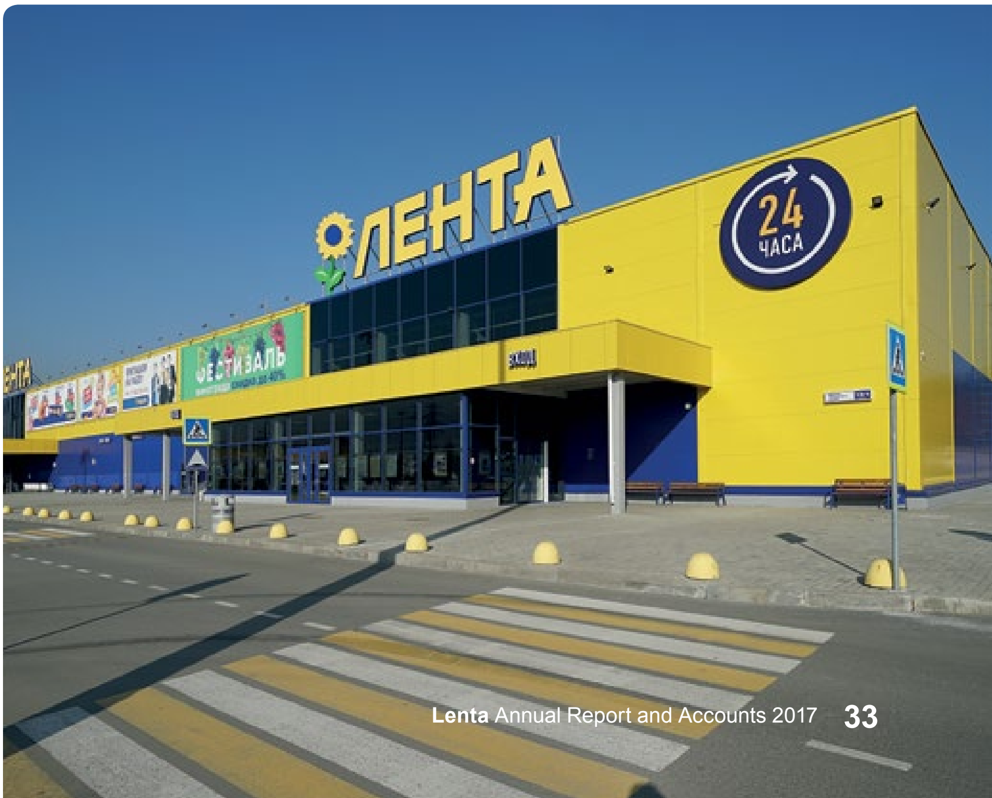
Lenta's supermarkets are a strategic extension of our hypermarket-led brand. Since we opened our first supermarket in Moscow in 2013, customer reaction has remained overwhelmingly positive. Supermarkets provide us with a foothold in areas where placing a hypermarket would not be feasible – and are designed frequent shopping trips for everyday purchases. With average selling space of approximately 900 sqm per store, our supermarkets are very popular with consumers and generate excellent sales per square metre. This neighbourhood-based store format is now well established in Moscow, St. Petersburg and Central regions – and for many communities, is a regular 'walking distance' shopping destination.

In 2017, our supermarkets delivered good like-for-like growth of 1.9%. While they experienced a reduction in like-for-like customer traffic of -1.1%, the average like-for-like ticket increased by 3.1%.

Led by a dedicated supermarket development team, we significantly accelerated growth in this format in 2017 and added 38,243 sqm of new selling space. This took us to a total of 84,528 sqm at the year end, representing year-on-year growth of 82.6%. We opened 49 supermarkets compared with 17 openings in 2016 – this was in line with our guidance and a record for openings in one year. We now have a total of 97 supermarkets.

In January 2017 we signed lease contracts with Edisonenergo LLC (part of the ADG Group) for 36 new stores in attractive, high-traffic locations across Moscow on the sites of former cinemas. These will give us approximately 30,300 sqm of new selling space and the first new store remains on schedule to open at the end of the year.

We continue to see new opportunities to expand our supermarket presence – both organic and via accretive acquisitions. As with our hypermarkets, the new stores pipeline is strong.



Experience

Careful space planning ensures our customers can navigate even our largest stores with ease and quickly find the products they want.

Enhancing the customer experience

All our stores have a broadly similar layout, with product categories logically arranged. We showcase our fresh food ranges – with particular prominence given to fruit and vegetable displays – and place our most appealing promotions in high traffic areas, for example near the store entrance.

During the year we implemented a series of initiatives designed to increase our appeal to customers through providing an enhanced shopping environment. We undertook a revamp of our Standard hypermarkets in 2017, upgrading the product mix and rearranging the layout of selected zones to improve shop floor design and in-store navigation. All new stores in this format will feature the new design – and the revamp programme will be extended to our Compact and Supercompact hypermarkets in the year ahead.

All the hypermarkets opened in 2017 were equipped with self-service checkouts. These help reduce queues and speed-up the payment process for time-pressed customers.

Our highly popular LENTA Magazine is published monthly and has over a million readers per issue. Available free of charge to our active cardholders, it includes approximately 50 recipe ideas per month and a wide variety of articles: from childcare and healthy eating tips to features on beauty, leisure activities and interior design. A digital version is also available. The printed magazine is available in 131 hypermarkets in the Moscow, St. Petersburg, Urals and Volga regions.

We also launched several new initiatives aimed at specific customer groups. These included our hypermarkets' successful 'Back to school' campaign, which offers parents the chance to buy all their children's educational supplies in one place, in advance of the start of the new school year.

The campaign incorporated a number of unique promotions including clothes, notebooks and school bags. A total of 1.7 million customers purchased goods from the range, which comprised over 1,000 items specially selected for schoolchildren.

In September we launched the Caring Mothers Club, an attractive bonus programme for young parents with a Lenta loyalty card. Purchases of participating merchandise enable members to earn 'Buttons' bonus points, exchangeable for items from Lenta's children's ranges – including books and educational toys. The Club also provides access to a dedicated website: www.babyclub.lenta.com – where members can check their points totals, receive news on upcoming offers and access parenting tips and advice. Within five months of its launch, the Club had already attracted some 9,000 members.

By popular demand, we launched our 'Mini Lenta 2' campaign in all our stores in October. Following the success of our 2016 initiative, active cardholders can once again build a unique collection of 32 miniature replicas of well-known brands and Lenta private label products including cosmetics, dairy products and confectionery. Additional items including a cashier's desk, trolley and play money mean customers can collect everything necessary to open their own improvised mini store.

Assortment

We provide an extensive – yet carefully edited – range of products for our customers.

Expanding our assortment

The standard Lenta hypermarket carries approximately 28,500 SKUs, which – although fewer than our peers – enables us to maximise cost efficiencies across our supply chain and share the benefits with our customers.

In 2017, sales of fresh food comprised 40.3% of Lenta's combined supermarket and hypermarket sales. Dry groceries accounted for 48.0% of sales – and our non-food category, which includes clothing, homeware and seasonal goods made up 11.7%.

Total food sales (fresh and dry combined) grew by 19.7%. Non-food items comprised 12.2% of total hypermarket and 3.2% of total supermarket sales respectively and increased by 15.5% in total.

During the year we upgraded the product mix in our Standard hypermarkets. We withdrew less popular items such as home appliances and books from our shelves and extended our ranges of fast-moving consumer goods such as children's merchandise, confectionery, tea and coffee. The introduction of prominent brands, new private labels and unique European products exclusive to Lenta considerably boosted the attractiveness of our assortment in these stores.

Given Russia's size, customer preferences inevitably vary from region to region. Our ability to tailor our category assortment to local tastes and buying habits not only sets us apart from less flexible competitors, but builds and retains customer loyalty for Lenta.

In November, we started selling Pirkka-branded products in some regional stores in north-west Russia. Produced by Kesko of Finland, Pirkka is a high quality private label brand; its products are well known and extremely popular in St. Petersburg and beyond. Lenta's hypermarkets and supermarkets are initially offering a range of 80 SKUs in the dry food, confectionery and household chemicals categories.

Centralised production continues to make us more efficient and also broadens our customer appeal. Sourcing our own ingredients also means we can maintain the highest quality standards. Baked goods, freshly prepared salads and time-saving ready meals are increasingly popular with customers. We see centralised production as a key differentiator for Lenta; in 2017 it accounted for RUB 7.9 million (35%) of bakery sales, an increase of 18% on 2016.

In 2017 we introduced our 'bake-off' technology at five new 'mother' stores. Our 29 mother stores serve 77 'daughter' premises, with a 92% increase in sales in 2017 compared with 2016.

Total food sales growth (fresh and dry combined)

+19.7%

Sales share of fresh food

40.3%

Brand relaunched

Dolce Albero

New brands launched

Bonvida, Little Times, Frelia

Private label ranges

We are immensely proud of our extensive private label offerings, which provide superb value on a wide variety of everyday essential items. In 2017, we focused our attention more closely on developing these brands, accelerating their growth and expanding our offer. We added a total of 843 private label SKUs during the year, including many exclusive food products not sold by other retail chains.

Lenta's own brands now account for more than 12% of total sales – and like-for-like sales of private labels (except 365 DAYS) rose 4.6% in 2017.

Our '365 DAYS' variant comprises 1,082 SKUs, which are the most affordable products in their categories. The mid priced 'Lenta' range comprises 1,152 SKUs and provides our customers with excellent quality at competitive prices. In 2017 we extended both these ranges to deliver a wider choice of meat, dairy and bakery products at different price points.

During the year we relaunched our 'Dolce Albero' private label range, which features high quality confectionery, sweet groceries, teas and coffees. At the year end, the range comprised 74 SKUs, but is under continuous development. With most Dolce Albero products produced in Europe, this brand provides us with a singular point of difference from our competitors.

We also extended our offering of non-food own brands. In September we launched 'Frelia', a new face and bodycare range including shampoos, shower creams and moisturisers. The products are manufactured in the Czech Republic and Poland, both of which are renowned for delivering the optimum price-quality combination. Initially comprising 24 SKUs, the range is positioned as an appealing and affordable alternative to high-end brands.

September also saw the launch of Lenta's new baby hygiene brand: 'Little Times'. With a launch range of ten SKUs including seven types of diaper and three types of disposable baby pants, they are produced for us by world-leading manufacturer Ontex. We are continuing to evolve this label with the introduction of other categories.

Towards the end of the year we launched 'Bonvida' – a brand new private label range of products for the hotel and catering sector. Initially comprising 40 SKUs, the range includes a wide range of consumables including coffee and sugar sachets and shampoo and shower gels. Bonvida is aimed specifically at Lenta PRO customers, principally trade buyers from the hospitality sector. New products were added to the range early in 2018 and – as with our other private label launches – we see considerable potential for the range to expand across different product categories.

We have high ambitions for our private label offering. We aim to make them 'best in class' – and are confident that they will become established as trusted brands in their own right, comparing favourably with branded products for their quality and value. The year ahead will see us set some new strategic goals for our private labels, clarify their positioning and accelerate their growth and acceptance through in-store activities and customer communication initiatives.

Pricing and promotion

We are proud of Lenta's price leadership position; hence we closely monitor our competitors' pricing – at both a local and national level – on an ongoing basis. Aided by our Big Data Customer Insight programme, this helps us plan our own promotional activities, which help to attract new customers and reinforce loyalty.

Private label SKUs added in 2017

843

Sourcing

We work hard to build and maintain lasting relationships with suppliers that meet our exacting safety and quality standards.

Sourcing and supply

Supplier relationships

Our total number of suppliers increased by 11.6% to 3,548 in 2017 – and we bought products from 27 countries. Some 94% of all Lenta purchases were sourced in Russia, including 20.6% from suppliers local to the destination store. Approximately 47.6% of all the fresh food sold in our stores in 2017 was supplied by local producers.

We work hard to build and maintain lasting relationships with suppliers that meet our exacting safety and quality standards. Such collaborations often involve favourable terms and conditions, which ensure we can keep costs down, pass on savings to our customers and grow our business. 2017 saw us continue to establish close connections with a range of local and regional producers.

Direct imports

We expanded our direct import activities in 2017, launching a total of 53 new SKUs in 2017. Direct imports accounted for over a quarter of all fresh fruit and vegetables sold in our stores, sales of which were almost double the previous year, increasing from 62,763 tonnes to 122,210 tonnes. We imported from seven new countries in 2017 taking the total to 27 – and significantly expanded the variety of produce we offer our customers, with several new exotic fruits now available on our shelves. We are hoping to develop import arrangements with a further seven countries in 2018.

We also grew our direct imports of frozen foods, adding 47 'year-round' and seasonal SKUs to our offering. Sourced from seven countries, we added over 50 new suppliers to our database and signed 30 contracts during the year. We also took delivery of 30 transport units to facilitate the distribution of imported products.

In November we joined EMD, Europe's leading purchasing alliance, making Lenta the only Russian retail chain to benefit from membership of the world's largest FMCG purchasing network. Membership enables us to benefit from contracts sourced though the alliance's negotiations.

Joint procurement with other large European retailers will allow our customers to access an even wider variety of quality products at affordable prices, especially through our private label ranges.

Direct imports from

27 countries

In November we signed a contract securing a supply of two varieties of fresh Karelian trout for direct deliveries to our hypermarkets in Moscow and St. Petersburg. The contract with a major Russian fish producer will give us complete quality control over the entire supply and farming process, whilst guaranteeing security of farm-to-shelf supply. The fish will be delivered to Lenta stores within 24 hours of being caught.

Our total number of suppliers increased by 11.6% in 2017

3,548

Our Growers Platform project – which brings fresh fruit and vegetables direct from suppliers to our stores – continued to go from strength to strength. Many of the varieties we sell are exclusive to Lenta, and by the end of 2017, almost a fifth of our fresh fruit and vegetables were sourced through this project.

Supply chain

Our flexible and highly efficient supply chain supports the rapid growth of our store network. Lenta's expanding geographic reach necessitates a sophisticated 24/7 supply operation to keep our hypermarkets and supermarket shelves stocked. Stores are served either via our own distribution centres or directly from our suppliers.

New suppliers of frozen food

50

Our seven distribution centres are strategically located and designed for maximum efficiency, with the capacity to serve over 250 hypermarkets and 250 supermarkets. In 2017, we continued to invest in our distribution network, establishing a fruit and vegetable distribution centre in Novorossiysk to enhance our import capabilities.

We also extended our distribution centre capacity in Novosibirsk at the end of the year.

The centralisation ratio in 2017 was 53.7% for our hypermarkets and supermarkets, compared with 50.8% in 2016. The average distance transported per pallet of goods was 553 km, compared with 579 km per pallet in 2016, a decrease of 4%.

Our expanding truck fleet ensures we are able to successfully manage this essential element of the supply chain. During the year, our owned trucks delivered 57.5% of all deliveries to our stores compared with 52.1% in 2016.

In November 130 new MAN trucks with refrigerated semitrailers were purchased to strengthen our supply chain operations. The new vehicles will be used both on Lenta's regional routes – from distribution centres to stores – and on some inter-regional routes between Central Russia and the South. With recent increases in transport hire rates, the use of our own trucks enables us to make significant savings while improving both the quality and reliability of deliveries. The acquisition has almost doubled the size of our truck fleet; at the end of 2017 our fleet comprised 290 owned delivery trucks, an increase of 80%.

Intelligence

As the needs and preferences of customers continue to evolve, it is crucial that retailers understand their requirements and communicate with them effectively.

Close to our customers

Our highly successful loyalty card programme continues to go from strength to strength. We now have 12.3 million active cardholders, representing 17% year-on-year growth. In 2017, 95% of in-store purchases were made using a loyalty card. Cardholders receive a guaranteed 5% discount on all product ranges across our hypermarkets and supermarkets, as well as additional promotional discounts of up to 50% on products in store.

Active cardholders also regularly receive tailored offers on products they have previously purchased and receive coupons at checkouts, offering discounts on future purchases.

Those most in need can participate in the Lenta Social Programme, which enables them to benefit from additional discounts of between 3% and 8% on selected products.

Big Data has transformed modern retail. Lenta pioneered the use of Big Data analytics in the Russian retail space and has been refining its data-driven approach for over 5 years. We use real-time transaction data from our loyalty card programme to help us track users' shopping habits and inform our decision-making.

We leverage the data that our customers choose to share with us in return for the rewards and benefits we give back to them. Our technical capabilities enable us to use the information as a marketing tool to drive targeted offers and improve our pricing, promotions, assortment and overall in-store experience.

Knowing how much individuals spend and what they buy helps us refine our ten customer lifestyle profiles. These in turn enable us to provide increasingly personalised offers that encourage loyalty, boost visit frequency and grow ticket size.

In September we announced the launch of our 'Happy Birthday' campaign. All 12.3 million of our cardholders now receive a personalised birthday greeting from Lenta, accompanied by an additional 15% discount on all product ranges valid for a week either side of the recipient's birthday.

Analysis of our customer data revealed that a significant number of products are purchased for businesses. This led us to create Lenta PRO: a dedicated loyalty programme for corporate customers, principally aimed at the hospitality sector, small independent retailers and buyers of office supplies. On registering with the programme, legal entities and individual professionals receive additional discounts on all Lenta products in Lenta hypermarkets. They can pay for purchases at dedicated checkouts and receive full invoices, necessary for expense claims and VAT refunds. Following a pilot in five cities, the programme was launched across all Lenta hypermarkets in February 2017.

IT

We rely on state-of-the-art business applications to support all our operations – from human resources and stock control to finance and logistics.

During the year we developed and launched several major IT projects to improve our internal systems and processes including invoicing, pricing and management of supply chain contracts. We also embraced the use of PDA (personal digital assistant) technology. Solutions using these handheld electronic information devices were rolled out for several key processes including inventory management and receipt of goods into stores. At the end of the year, over 90% of receiving – including alcohol – was processed using PDA, with the roll-out completed early in the new year.

Lenta's critical services are now concentrated in two new facilities. Construction of our own data centre near St. Petersburg began in February and commissioning and testing took place in early 2018.

A back-up centre in Moscow provides support in the event of a major incident at the main site, and will also distribute the load on peak days.

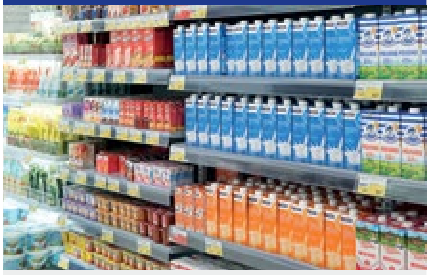
Between them, the new data centres will provide Lenta's systems with additional reliability and fault tolerance – with the ability to rapidly expand capacity expansion as the Company grows.

Applying a modular approach to their construction means we are able to link any future expenditure to the Company's actual growth rate.

During the year we also implemented the new QlikView software, which enables managers to accelerate data collection and analyse large amounts of information extremely quickly; from high-level content to more detailed analysis. It also facilitates the creation of more informative and interactive reports.

In December we launched a pilot scheme to evaluate an NCR self-scanning solution in three stores in St. Petersburg.

Real-time stock management



A new SAP CAR point of sale data management system went live in August and was completed by October. This provides us with real-time online access to store stock levels, which greatly enhances our planning activities.

Doing the right thing

Our CSR pillars

Recruiting, training and retaining great staff
→ Read more on page 45

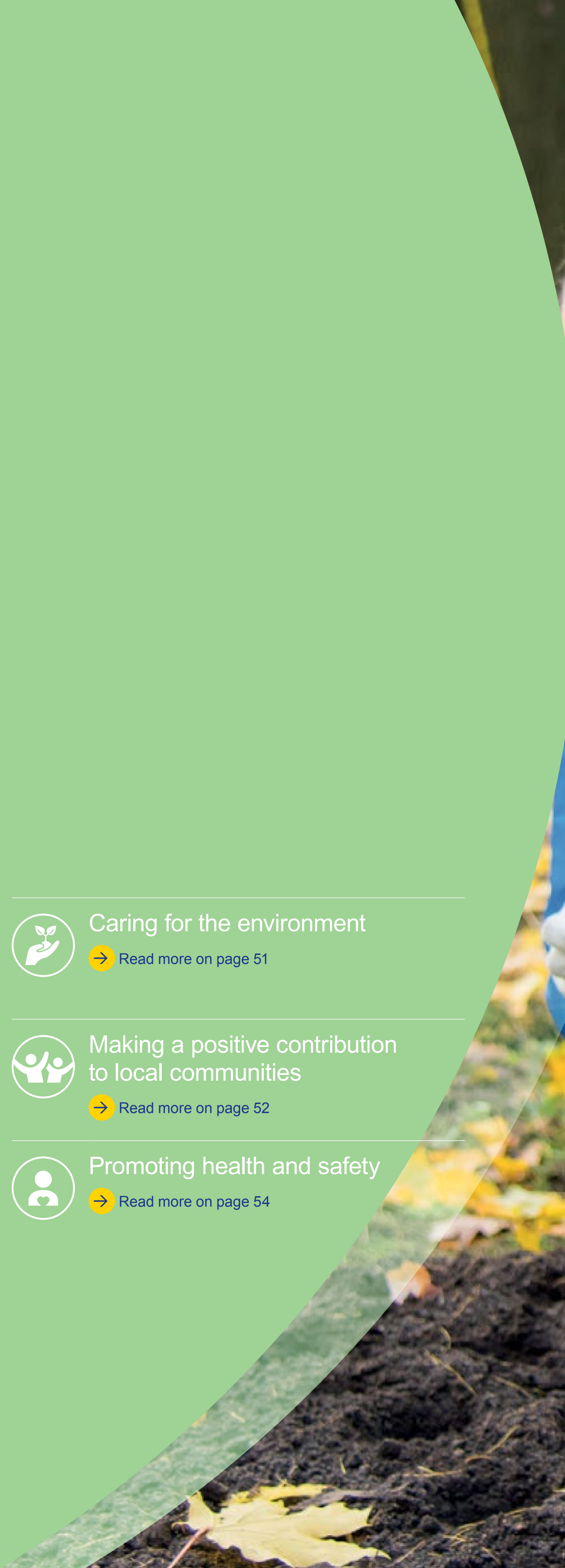
Caring for the environment
→ Read more on page 51

Pricing and customer satisfaction
→ Read more on page 49

Making a positive contribution to local communities
→ Read more on page 52

Local sourcing
→ Read more on page 50

Promoting health and safety
→ Read more on page 54



Creating value for all our stakeholders – especially our communities and our employees – lies at the heart of what we do; corporate social responsibility is thus embedded in the way Lenta operates. It plays a part in every aspect of our business – from sourcing our products to selecting the most appropriate locations for our stores.

We have a well-established programme that encompasses our environmental and community activities. Behaving responsibly is an integral part of the long-term strategy that will ultimately underpin our success. Our approach to corporate social responsibility is therefore based around a deep understanding of local community needs wherever we operate.

Our six pillars

Our Corporate Social Responsibility (CSR) agenda is supported by six pillars. These shape our approach to social responsibility and influence our daily interactions with stakeholders.

Within the context of the six pillars there are specific goals. These are primarily focused on further investment in the development of our employees, cooperation with local communities, partners and suppliers, supporting our ‘value for money’ proposition in our stores and further project implementation in the field of environmental protection.

The Lenta way

Our ethics policy

Lenta's Ethics Policy sets out the standards and rules applied with which all employees must comply. It defines our obligations to behave ethically and exhibit the high standards of behaviour we expect of our people.

These include:

- no improper payments to authorities or business partners;
- upholding the integrity and good name of the Company in developing long-term relationships with customers, communities and suppliers;
- strict prohibition against directly or indirectly offering, paying, soliciting or accepting bribes or kickbacks in any form;
- no conflicts between personal interests and those of the Company;
- abiding by Lenta's corporate rules and standards, which impose stricter ethical restrictions on employees than those provided in current legislation.

Established in 2011, the Company's Ethics Committee reviews complaints and non-compliance on a regular basis. Its work is overseen by the Audit Committee and the Board. Failure to comply with the Ethics Policy may lead to disciplinary action, including dismissal.

Customers, employees and suppliers can contact the Ethics Committee in a variety of ways: anonymously through the Lenta website and Company Hotline, or via information desks in our stores. In 2017, 510 calls were received via the Company Hotline, up slightly on 2016, indicating the increased level of trust in this method of reporting.

Although the overall number of complaints rose, the average number per store decreased markedly. Ethics Committee reports on the Hotline were reviewed at four Audit Committee meetings during 2017.

The Lenta Way is a set of core principles that underpin our business and the way we operate. These principles – in tandem with our ethics policy – form the basis of our approach to CSR issues and support our ambitions for long-term sustainable 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. Customer satisfaction is the key to our development and improvement.

Providing customers with low prices every day

We have always been the price leader and we are committed to providing our customers with quality products 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 for 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.

Recruiting, training and retaining great staff

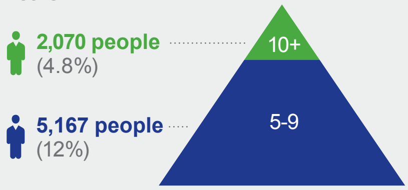
Teamwork, innovation and trust lie at the heart of our culture – and our people are the key to our long-term success. Recruiting, training and retaining enthusiastic, committed individuals with the right skills helps us provide great customer service.

Employee retention

Lenta has an above-average retention rate for the food retail sector. We place a high priority on investing in our people; we know from experience that this enhances loyalty, increases productivity and improves our service levels.

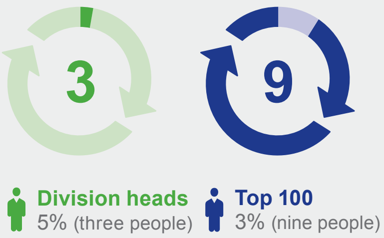
In 2017, voluntary turnover was 30%, up slightly versus 2016 but still among the lowest in the food retail sector. At the same time, competition in this sector of the labour market remains intense, as the years 2017 – 2020 represent a 'demographic gap' due to the low birth rate in the 1990s. To ensure our salaries remain attractive, we indexed employee salaries in 2017 and this led to an improvement in retention in the latter part of the year.

Employee length of service
Years



Average seniority: 2.3yrs

Turnover of senior staff
2014–17



Our programme of promotion from within and job rotations – combined with individual career plans and recognition initiatives – plays a part in staff retention.

A variety of employee engagement initiatives foster a positive working environment and strong team spirit. These include in-store 'gamification' projects, which use aspects of game playing, such as competitions and point-scoring, sports events, New Year celebrations for employees' children and a range of charitable activities.

We pride ourselves on providing rewarding and challenging careers at all levels of seniority. In 2017 we also maintained our excellent retention record at managerial level, thanks to a combination of development opportunities, competitive salaries and our short- and long-term incentive programmes.

People development

We provide our employees with a variety of training opportunities, tailored to their experience and knowledge. These include all employee categories and help colleagues to support Lenta's growth and advance their own careers.

Management training

Our managers ensure consistency of performance standards and help forge a strong organisational culture. In a fast growing company such as Lenta, their role is therefore vital – and we have an ongoing requirement to develop new managers to support our expansion.

Following a complete overhaul in 2016, the Lenta Leader 2.0 programme is now well established. In 2017, we trained 102 managers, 60% of whom were store managers. Constructive feedback from the previous year's participants resulted in improvements to the structure of the programme and to 50% of the modules.

At the end of the programme, every Lenta Leader graduate completes a questionnaire and receives expert feedback. This contains detailed recommendations on personal development. In future, focused development based on the questionnaire will become a compulsory element of the programme and career path of our managers.

In 2017, over 1,500 office, store and distribution centre staff participated in our 'Efficient management' training programme. Aimed at developing managerial skills, the programme covers various aspects of management including goal-setting, planning, analysis and decision-making, creating efficient teams and motivation. The programme is run by in-house trainers and participants are encouraged to share their experience with colleagues.

> **"In 2017, we delivered over 2,400,000 man-hours of training, with an average of 68 hours per person."**

In 2017, we continued to develop a culture of providing constructive feedback to colleagues. Some 2,000 managers were trained in how to provide supportive and efficient feedback to their subordinates.

In 2017, four Lenta managers were studying for MBA qualifications with the UK's Open University.

Store and specialist staff training

Our store employees are the public face of Lenta – and therefore the primary focus of our training efforts. Each store runs a comprehensive induction programme for new employees, which sets out Lenta's values, history and structure – as well as our policies and standards. In 2017, more than 17,200 employees participated in our induction programme and some 12,000 people were trained as part of the performance management process roll-out.

In 2017, we delivered over 2,400,000 man-hours of training, with an average of 68 hours per person. This compares with an average of 44.8 hours per person in 2016. Approximately 90% of our training uses Lenta's own resources and expertise, which helps us to keep costs down. This year, the cost of one learning hour was RUB 19 compared with RUB 27 in 2016. Remote courses have proved to be particularly effective – and in 2017 we increased the amount of remote training we provided by over 100%. E-learning comprised some 8.5% of our total training in 2017.

Recruitment and career development

We provide numerous opportunities for Lenta employees to advance their careers and fulfil their potential. We actively encourage the ambitions and aspirations of all our people – and promote from within wherever we can. Many aspects of recruitment are centralised, including job posting, advertising, candidate attraction and phone interviews. The final stages of selection are however conducted in individual stores and distribution centres. We created around 7,441 new jobs in 2017, and a total of 15,240 employees were recruited into new roles.

During the year, over two thirds of vacancies were filled by our own employees and 51% of directors of newly opened stores were internal candidates. In all, some 4,300 individuals were promoted into new roles and over 9,500 employees benefited from horizontal moves within the organisation.

The speed of our growth means we pay particular attention not just to our recruitment processes and protocols, but also to the task of succession planning. The richest source of our future managers is our pool of 2,500 section managers. Our 'Grow with Lenta' Business Case Challenge enables us to identify those individuals with the ambition and potential to progress.

Training

Hospitality
15,000+
employees

HACCP
18,000
people approx

IT training
80
employees approx

In-house trainers prepared to run internal programmes

1,058

Remuneration

We aim to provide a range of attractive employment opportunities and careers, with competitive wages, health benefits, uniforms and all necessary protective equipment. Our HR policy is to acknowledge high performance with high rewards. We measure 'performance' not only against business results, but also through our values and competencies model.

All employees are included in our performance management process, which helps us evaluate their achievements and identify their future potential. Performance evaluation is linked to pay, ensuring that the highest contributors obtain higher bonuses and pay rises where applicable.

In line with a set of established principles, financial support is available for employees who find themselves in difficult circumstances.

During the year we introduced several initiatives to support and motivate our employees. Salaries were reviewed and index-linked, resulting in an average increase for store staff of 7% and for office and regional division staff of 5%.

A new long term incentive plan was approved for middle managers.

We continued to automate and integrate our HR processes using the Lumesse talent management suite. During the year we launched Reimbursement Management, Career and Succession modules. We also centralised and automated the bonus calculation process for our store employees.

Diversity

We value and respect diversity – and offer employment opportunities to all able candidates. Recruitment or promotion decisions are based purely around the professional knowledge and competence of the individual in question.

Each Lenta store provides a minimum of five job opportunities for people with special needs – and every distribution centre offers three of these positions. In 2017, 107 vacancies were filled by candidates from this group. In line with our policy to provide a wide range of opportunities for people with special needs, we actively support recruitment and fair pay for people working from home.

Employee engagement

There are strong links between employee engagement, business performance and customer satisfaction. We therefore work hard to ensure our employees remain aware of Lenta's progress and plans. Our 'gamification' motivational project rewards employees with 'Lenta points' for demonstrating behaviours that support the Company's ethos. Points can be exchanged for a variety of prizes: from T-shirts to household appliances. Colleagues achieving the most points are recognised for their contribution, with best practices and ideas shared between stores.

In 2017, 91 Lenta employees were awarded a Letter of Gratitude from the Ministry of Industry and Trade of the Russian Federation. The annual awards take into account various criteria and recognise employees' achievements and length of service.

Looking ahead

Providing a supportive and collaborative environment brings out the very best in our people. In the year ahead we will continue to develop the ways in which we inspire, motivate and incentivise our people to deliver outstanding service to our customers.

Employees	Male	Female
Number of employees	**13,455** 29%	**32,723** 71%
HQ and Regional divisions employees	**592** 32%	**1,249** 68%
Middle and senior managers	**240** 45%	**298** 55%

“Lenta’s loyalty card guarantees a discount of 5% on all purchases and its popularity continued to escalate in 2017.”

Pricing and customer satisfaction

‘Value for money’ lies at the heart of Lenta’s pricing proposition, hence our wide range of high quality products is competitively priced. In 2017 we continued investing into end prices for our customers despite the difficult economic conditions, aiming to give them best value for money.

In retail, great customer service is also a key differentiator – so our in-store employees are trained to actively engage with customers and deliver the very best customer care. We continued to analyse information sourced from loyalty card use to identify and create better promotions for our customers – giving them more of what they want, when they want it.

Lenta’s loyalty card guarantees a discount of 5% on all purchases and its popularity continued to escalate in 2017.

During the year we launched: ‘Happy Birthday!’ – a new campaign to reward active Lenta loyalty cardholders. Customers receive a personalised birthday greeting from Lenta, accompanied by a special 15% discount on all product ranges, including on items already covered by a different promotion. In addition to the birthday itself, the offer will be valid a week on either side of the customer’s special day.

The full-scale launch was preceded by ‘soft’ launches in three pilot regions, all of which proved highly popular with customers. The campaign will run indefinitely and is being launched across the chain’s entire footprint.

The ‘Happy Birthday!’ campaign is yet another step in the expansion of our loyalty programme. All active cardholders receive a guaranteed discount of 5% on all products, as well as access to even greater reductions on products in store. Active cardholders also regularly receive tailored offers for previously purchased products, and receive coupons at the checkout, offering discounts on their next purchases.

The Lenta Social Programme operates in every store. It provides needy citizens with an additional discount of between 3% and 8% on essential food and selected household items. At the end of 2017 there were over 2.26 million participants in the Programme, 428,000 of whom joined during the year.

The total discounts for participants in Lenta’s Social Programme amounted to RUB 13.6 million in 2017, amounting to an average saving of RUB 7,600 per customer during the year.

Looking ahead

We will continue to find ways to make our customers’ shopping budgets go further, whether through attractive promotions on our most popular ranges – or investing in pricing to deliver great value. We will also maintain the development our client-oriented approach, implementing new services and communicating with our customers in ways that suit them best. To this end we are developing a variety of digital tools including a mobile app.

Local sourcing

Sourcing products locally is a distinguishing feature of our strategy – and one that is appreciated by our customers. In 2017 94% of our products were sourced from Russian suppliers, including 20.6% from regional suppliers. 47.6% of our fresh food was locally purchased.

Strengthening our relationships with local suppliers continued to be a key focus for us in 2017. Such alliances bring mutual benefits not just to Lenta, but to producers as well. Eliminating intermediaries and dealing directly with producers enables us to negotiate better prices. Our customers appreciate the consistent quality and freshness of locally grown produce and the shorter distances to our stores mean lead times and logistics costs – such as fuel consumption – are reduced.

We know which farmers grow which products for us. Local provenance and traceability mean we can demonstrate transparency throughout the supply chain. Every product we sell must also meet the necessary consumer information requirements and comply with the relevant safety, quality and packaging standards.

Our Growers Platform project was launched in 2015 to increase direct fruit and vegetable supplies from producers. The project reduces delivery times and enables Lenta to offer higher quality products to customers, ensuring a fresh supply of vegetables, mushrooms, salads, and seasonal fruit is available in our stores. Several types of salad: cauliflower, broccoli, savoy cabbage, kohlrabi and premium quality potatoes are grown exclusively for us. Unique regional product varieties are also supplied, such as rose tomatoes, peaches, apricots, apples and sweet cherries – all of which can only be found in Lenta stores.

To date, Growers Platform has delivered an impressive performance. Having started with seven partners, we have increased the number of suppliers by 15 times and the number of SKUs by 30 times.

Located across 30 Russian regions, partners include large agribusiness players such as AFG National, Step Agricultural Holding and Sad-Gigant Trading House, as well as smaller farmers who have attained new levels in agricultural production with Lenta's help.

Growers Platform

Share	14.3% (vs planned 8.9%)
2016	33 growers from 16 regions
2017	70 growers from 14 regions added
Geography	103 growers/30 regions

By the end of the year, the Growers Platform accounted for 14.3% of Lenta's total fresh fruit and vegetables supply.

The number of internal quality audits conducted in 2017 rose slightly compared with 2016, with each store reviewed on a quarterly basis – and new stores twice quarterly. The self-assessment system was extended to take account of amended legislation regarding veterinary and phytosanitary requirements.

We continued to conduct regular quality audits of our suppliers. We conducted 7,764 laboratory tests on products during the year. This included 5,589 suppliers' goods and 2,175 private label and directly imported goods, and represented increases in the number of tests of 16% for branded goods, 31% for private labels and direct import goods on 2016. In 2017, 14 suppliers of branded goods failed our quality audit – and were therefore unable to sell their goods in our stores.

We operate according to the requirements of the HACCP food safety system. This internationally recognised method is regularly updated in line with the growth of our business and any changes in State regulations.

"In 2017 we replaced the fluorescent lighting in 223 stores."

Looking ahead

Stocking locally produced goods on our shelves is a key differentiator for Lenta. We know that our customers appreciate the growing variety and high quality of these products. This element of our strategy sets us apart from the competition and will continue to be an area of focus in the years ahead as we forge new relationships with suppliers and provide ongoing support to our local and regional economies.

60% of our total waste material is recycled

Caring for the environment

We remain wholeheartedly committed to reducing our impact on the environment. Whether caused by our use of materials, energy, transportation or waste disposal, our aim is to reduce the adverse effect of our activities to a minimum.

We aim to comply with all relevant legislation relating to our operations – and we work closely with local authorities and communities when planning new store sites. We comply with the environmental standards applicable to us under Russian law and regulations.

In 2017, we initiated 133 projects – complete with all the relevant documentation – for waste disposal and emissions in line with legislation.

Waste

Lenta produces several types of waste, which is removed for us by third-party contractors. During 2017 we reduced the amount we produced and continued to improve our recycling rates. Our centralised waste collection scheme was rolled out in five of our six Divisions.

Energy

In 2017 we replaced the fluorescent lighting in 80 supermarkets and 143 hypermarkets.

Used batteries damage the environment due to their heavy metal content. It is estimated that a single discarded battery can pollute up to 20 sqm of soil or 400 litres of water. During the year we expanded our used battery collection project in St. Petersburg. Starting with eco-boxes in nine stores, we ended the year with collection points in 28 stores and approximately 10,000 kg of batteries were collected for safe disposal during the year. We plan to expand the project in 2018 into other cities where we have a presence.

Looking ahead

Our approach to our environmental activities is one of ongoing improvement. We continue to drive our recycling efforts and energy efficiency initiatives.

Making a positive contribution to local communities

In keeping with our reputation as a socially responsible company, Lenta plays an active role in the communities where our stores are located.

Each new hypermarket we open has a significant impact on regional economics in terms of developing local territories, reducing food prices, supporting local suppliers, generating 250 new jobs and growing human capital through training and development. Every new store means new taxes for the region's budget and salaries for its citizens.

In 2017, a wide range of customer groups continued to be a focus for Lenta's community activities. In December, customers at our stores in St. Petersburg, Togliatti, Penza and Chelyabinsk were able to donate money and buy a variety of essential products – as well as toys and confectionery for children. These were subsequently donated to needy citizens via 32 non-profit organisations. The campaign lasted 13 days, involved 18 hypermarkets and collected donations totalling RUB 1,139,000 – of which RUB 698,000 were purchased goods.

We also undertook various locally based waste management initiatives.

The Company acts systematically, building long-term relationships with regional administrations. We have agreements on social and economic cooperation with authorities in Kemerovo Region, Tomsk Region, Volgograd Region, Republic of Karelia, Saratov Region and Rostov Region. These alliances help Lenta to improve the quality of its retail operations and strengthen its cooperation with local government to provide coordinated support to people in need.

Looking ahead

We remain fully committed to supporting community and environmental initiatives in cities where we have a presence, including festivals, competitions, charity events and educational projects.

The year ahead will see us redouble our efforts to engage with and support those who live and work close to our stores. We will also develop new educational programmes for our customers, including children and socially vulnerable groups.

December donations totalling (RUB)

1,139,000

> "Around 6,000 children from 170 social institutions throughout Russia benefited from our customers' generosity."

Lenta events

New Year's Tree of Wishes

In December we held our annual 'Tree of Wishes' charity event to help children in institutional foster care. Christmas trees were decorated with children's wish cards in 179 Lenta hypermarkets across 76 Russian cities. Customers chose a child's wish card from the tree and purchased the New Year's present listed within. Lenta collected all the gifts and sent them to participating foster care homes and institutions, ensuring that every child received a gift from Santa Claus during the New Year's celebrations. Around 6,000 children from 170 social institutions throughout Russia benefited from our customers' generosity. The employee-initiated event was first held in 2015 in five stores in the North West Region of Russia.

Tulip Festivals

For the fifth year running, and in conjunction with our supplier, we presented the city of St. Petersburg with a gift of Dutch tulip bulbs. Some 30,000 bulbs are presented to the city every autumn for the annual Tulip Festival, which takes place in Spring on Elagin Island. The upcoming 2018 festival will feature 3,000 sqm of gardens, with 160,000 flowers comprising 130 varieties. The Tulip Festival is a landmark event in the city's year. Its success inspired Lenta to extend our involvement in the project to Ekaterinburg – and in autumn 2017, our employees helped to plant over 50,000 bulbs in Mayakovsky Park. Plans for 2018 include donations of bulbs to parks in Novosibirsk and Rostov-on-Don.

Kazan City Racing and Safe Wheel

For the fourth time, Lenta sponsored the Kazan City Racing motorsport show in Tatarstan; the principal highlight of the City Day of Kazan. This featured classic soviet cars participating in the international 'Moscow Classic Grand Prix' race series, as well as the 'Safe Wheel' school for young car enthusiasts, which helps them learn essential skills for safe driving.

Best in profession

Lenta was represented by 32 colleagues in the annual St. Petersburg Government Awards for the 'Best in Occupation in the field of Trade and Services in St. Petersburg 2017'. Julia Davydova (Lenta-264) was awarded the 'Best cashier-controller' by a committee, which included representatives of the city authorities, educational institutions and consumer market professionals, beating over 50 competitors to win the award.

Activities for sick children

In October, in partnership with Mars Chocolate, we supported a chocolate-making masterclass at the SPU GUAZ Children's Hospice, which provides palliative care for young people in St. Petersburg. The children had the chance to learn about chocolate and were able to create their own sweets. Another event is planned for 2018.

Caring for older citizens

Timed to coincide with Victory Day in May, we ran a campaign with partners from SCA to collect personal care products for veterans and elderly people. We offered a discount on Tena products, which customers could purchase and place in boxes in our stores for distribution to retirement homes via the Starost charity.

Nature conservation in Rostov

In October Lenta hosted 'Let's Save Nature Together': a sports and ecological initiative in Aviators Park, Rostov-on-Don. Over 80 employees participated, removing over 90 bags of rubbish and preparing the park for the coming winter. A Lenta avenue of mountain ash, maple and linden trees was also planted in the park. As part of the initiative, employees also organised a bike relay ride and dance 'flashmob'.

No more rubbish in Vsevolozhsk

In September, 'We Will Make It': a substantial clean-up operation, took place in Vsevolozhsk, Leningrad region. Although Lenta keeps the streets close to its stores clean, employees joined residents and participants from environmental organisations and other local employers to clear the wider neighbourhood of almost a tonne of rubbish, including tyres and heavy waste.

Promoting health and safety

We are fully committed to creating and maintaining a safe environment for our employees and customers.

As part of our Active Safety programme, all Lenta store managers conduct daily and monthly 'safety walks' to identify any potential risks to staff and customers, ensure the staff's hazard awareness and check safety equipment. Employees are encouraged to report every incident, no matter how small, so that the cause can be identified and any recurrence prevented.

In 2017, risk checks were carried out in a total of 146 stores and distribution centres, 35 of which were being checked for the second time since the programme roll-out. Results of the checks were included in each store's (or distribution centre's) annual targets.

The injury rate rose by 0.04% compared to the 2016 rate; this was attributable to the considerable growth in store numbers. Working time lost due to injuries represented 0.06% of total hours worked.

Our principal health and safety targets in 2017 were the maintenance of high safety standards across Lenta and the automation of various processes to further enhance employee safety. We centralised various processes into specific groups; for example: a group for investigation and analysis of near misses and another for ecological projects.

We also streamlined the flow of documentation such as registers and instructions – and automated the process of compulsory training on legislation. A new electronic 'Risk-Check' module for risk management also was developed and implemented, reducing the time spent to create a risk report from 18 hours to 90 minutes.

Number of injuries
per 100,000 working hours

Looking ahead

In the year ahead, we will continue implementing our 'Active Safety' module across Lenta to identify potential risks for employees and customers and raise awareness of potential hazards.

We will also establish a separate Quality Assurance Group for supermarkets, which will be responsible for updating all relevant requirements and enhance cooperation on quality issues. A new system of claims processing and quality control for Lenta private label goods will also be implemented in 2018.

Goals for 2018

In addition to our ongoing CSR programmes, we are focusing closely on a specific set of goals for 2018:

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

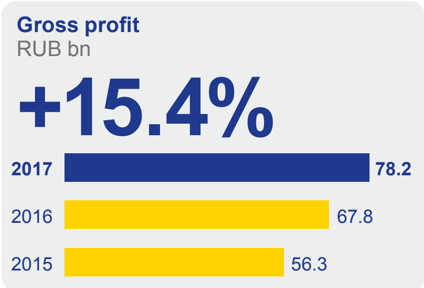
Another successful year

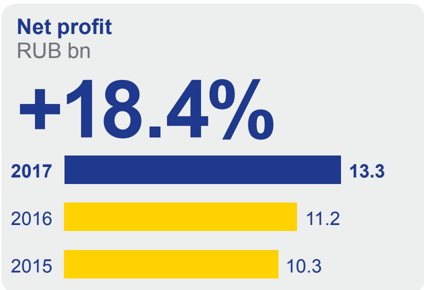
We increased our profits and sustained our healthy balance sheet of previous years, thanks to increased productivity, sales and space growth.

Jago Lemmens
Chief Financial Officer

Dear Shareholders

Lenta delivered a strong overall performance in 2017. We achieved robust sales growth of 19.2%, combined with notable improvements in supplier conditions, supply chain efficiency and in-store productivity. These beneficial effects were however partly offset by price investments – mostly linked to higher promotion share and one-off accounting effects of the new Trade Law. Adjusted EBITDA rose 11.8% to RUB 35.5bn, (2016: RUB 31.8bn) but adjusted EBITDA margin declined 0.7pp to 9.7% (2016: 10.4%).



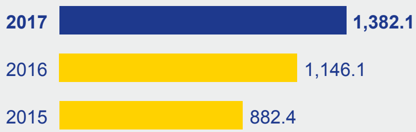


Sales

Total sales in 2017 grew 19.2% to RUB 365.2bn, compared with growth of 21.2% in 2016. This was due to sales from new stores opened during the year, new stores opened in 2016 that are not yet part of the like-for-like panel and a like-for-like sales increase of 0.9%. We grew net selling space by 20.6% compared with 29.9% in 2016.

Selling space
'000 sqm

+20.6%



Y-on-Y growth	1H 2017	2H 2017	2017	2016
Total sales	16.7%	21.3%	**19.2%**	21.2%
LFL sales	-1.8%	3.2%	**0.9%**	3.9%
LFL traffic	-2.4%	-0.4%	**-1.4%**	-0.1%
LFL ticket	0.6%	3.6%	**2.3%**	4.0%

Sales growth came under pressure in the first half of 2017 due to continuing falls in real consumer incomes and declining inflation, which led to shelf price deflation and higher promotion share. Management initiatives delivered a significant uplift in sales growth during the second half of 2017.

Gross margin

Gross margin decreased by -0.7pp to 21.4%. This was due to additional price investments and one-off accounting effects of the new Trade Law, which were not fully compensated by improved supplier conditions, increased supply-chain efficiency and in-store production improvements.

The average distance for goods transportation reduced by 5% to 553km/pallet in 2017 compared with 579km/pallet in 2016. Combined with a higher centralisation ratio of 53.7%, this led to a reduction in supply chain costs as % of sales to 1.0% in 2017, compared with 1.2% of sales in 2016. In-store production costs improved by 19bps, while shrinkage remained flat despite rapid expansion of Lenta's hypermarket format and an increase in the proportion of supermarkets.

Selling, general and administrative expenses (SG&A)

SG&A slightly increased to 15.3% of sales (0.15pp higher than 2016) due to higher depreciation expenses linked to expansion, which more than offset continuous operational improvements and increased productivity.

Continued operational improvements in the stores led to higher productivity, which resulted in 12bps reduction of labour costs as a percentage of sales (5.6% in 2017). Marketing costs and other costs as a percentage of sales remained almost unchanged.

Adjusted SG&A as a percentage of sales increased only 0.1pp to 11.5% in 2017 compared with 2016, primarily due to increases in utilities and communal payments. Total SG&A costs were affected predominantly by increased depreciation, while rent expenses remained almost flat at 1.2% of total sales.

RUB total sales

365.2bn

RUB gross profit

78.2bn

RUB operating profit

25.6bn

EBITDA

Adjusted EBITDA (reported EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs and income) reached RUB 35.5bn in 2017, up 11.8% (2016: RUB 31.8bn), with an adjusted EBITDA margin of 9.7% (2016: 10.4%).

RUB (millions)	2017	2016	% Change 2017 – 2016
Adjusted EBITDA	**35,495**	31,759	11.8%
One-off expenses and income[1]	**5**	369	—
Reported EBITDA[2]	**35,490**	31,390	13.1%

1 One-off expenses and income in 2016 were professional fees associated with M&A activity.

2 Reported EBITDA includes all operating income and expenses excluding interest, tax, depreciation, amortization and impairment of non-financial assets as well as certain other expenses.

Interest

Net interest expense increased 13.7% to RUB 10.5bn compared with 2016 (RUB 9.2bn). This was due largely to a higher average level of borrowing, which was partly offset by a reduction in interest rates. Lenta's weighted average cost of debt in 2017 decreased to 10.3% (160bps lower than 2016). The Company reduced its cost of debt throughout the year from 10.9% in the first quarter to 9.7% in the fourth quarter, mainly due to the combined effects of continuing reductions in MosPrime rates, refinancing of high cost debt and improvements in the terms and conditions of its major long-term loan facilities. We expect further significant reductions in the effective cost of debt in 2018.

Tax

The effective tax rate decreased from 23.0% in 2016 to 12.6% in 2017. While the effective tax rate in 2016 was affected by a one-off permanent difference related to the Kesko acquisition, which generated a taxable gain, the much lower effective tax rate in 2017 was attributable to a one-off positive effect, mainly driven by recognition of tax loss carry forward of the Kesko entities acquired in 2016. The underlying effective tax rate remained stable.

Net income

Net profit of RUB 13.3bn was up 18.4%, almost in line with sales growth (2016: RUB 11.2bn) with a margin of 3.6%. This was driven principally by EBITDA growth and a lower effective tax rate of 12.6%, partly offset by increased depreciation and higher interest expenses. Net profit margin of 3.6% remained almost flat.

Income statement highlights

RUB (millions)	1H 2016	1H 2017	2H 2016	2H 2017	2016	2017	% Change 2017 – 2016
Total sales	**140,087**	**163,531**	**166,267**	**201,647**	**306,352**	**365,178**	**19.2%**
Gross profit	**30,656**	**35,534**	**37,112**	**42,701**	**67,768**	**78,236**	**15.4%**
Gross margin	21.9%	21.7%	22.3%	21.2%	22.1%	21.4%	-0.7pp
SG&A, % of sales	**15.5%**	**15.9%**	**14.9%**	**14.8%**	**15.2%**	**15.3%**	**-0.15pp**
Adjusted SG&A[3], % of sales	11.7%	11.8%	11.2%	11.3%	11.4%	11.5%	0.1pp
Adjusted EBITDAR[4]	**15,372**	**17,601**	**19,822**	**22,106**	**35,195**	**39,706**	**12.8%**
Adjusted EBITDAR margin	11.0%	10.8%	11.9%	11.0%	11.5%	10.9%	-0.6pp
Rental expenses, % of sales	1.2%	1.2%	1.0%	1.1%	1.1%	1.2%	0.03pp
Adjusted EBITDA	**13,676**	**15,623**	**18,084**	**19,871**	**31,759**	**35,495**	**11.8%**
Adjusted EBITDA margin	9.8%	9.6%	10.9%	9.9%	10.4%	9.7%	-0.7pp
Operating profit	**10,076**	**10,880**	**13,619**	**14,696**	**23,695**	**25,577**	**7.9%**
Profit before income tax	5,650	5,560	8,903	9,611	14,553	15,172	4.3%
Net profit	**4,326**	**4,492**	**6,876**	**8,772**	**11,202**	**13,264**	**18.4%**
Net profit margin	3.1%	2.7%	4.1%	4.4%	3.7%	3.6%	-0.02pp

3 Adjusted SG&A is SG&A before rent paid on land, equipment and premises leases, depreciation and one-off non-operating costs, including professional fees related to M&A activity.

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

Capital expenditure

Capital expenditure in 2017 was 49.7% lower than in 2016, amounting to RUB 27.3bn. This reduction mainly reflected the effect of slower organic expansion, a historically high proportion of new rented selling space (54% in 2017 compared with 15% in 2016) a higher proportion of supermarkets in the total space added (17% in 2017 compared with 5% in 2016), and lower investments in land. Other significant factors included lower pre-investments in future pipeline than in previous years, while the structure of our real estate deals resulted in deferring a greater share of investments in new stores into the following year. Capital expenditure was funded primarily by operating cash flow and – to a lesser extent – by debt.

Cash flow

Net cash generated from operating activities, before net interest and income taxes paid, was RUB 34.8bn compared with RUB 27.9bn in 2016, an increase of 24.8%. This was primarily driven by working capital movements and higher EBITDA.

Net debt and leverage

As of 31 December 2017, net debt was RUB 92.8bn. Net debt to adjusted EBITDA stood at 2.6x, lease adjusted net debt to adjusted EBITDAR[5] at 3.2x and adjusted EBITDA to net interest was at 3.4x. As of 31 December 2016, net debt to adjusted EBITDA stood at 2.8x, lease adjusted net debt to adjusted EBITDAR at 3.3x and adjusted EBITDA to net interest was 3.4x.

As of 31 December 2017 total debt was RUB 107.1bn, with a cash balance of RUB 14.3bn, giving net debt of RUB 92.8bn. All of Lenta's debt is denominated in Russian Roubles; 82% of it is long-term, with an average maturity of around 1.9 years.

As the trading environment continues to recover, the economy will continue to challenge Lenta and its customers. However our proven low price/low cost business model and our robust financial position mean we are well placed to cope with the vagaries of the prevailing market conditions. We remain committed to strengthening the business, maintaining tight cost controls and delivering profitable growth.

Jago Lemmens
Chief Financial Officer

5 Lease adjusted Net Debt calculated as Net Debt plus operating leases multiplied by capitalization rate of 8.0x in accordance with credit rating agencies approach.

Principal risks and uncertainties

Risk management

We define risk as 'an uncertain future event that could affect the Company's ability to achieve its objectives.' Understanding how different risks potentially influence our business is integral to the decision-making process at Lenta. We continuously monitor all material risks to our operations, taking action as necessary to mitigate and manage them – and anticipate new ones.

Our risk management process applies across all functions and comprises four main stages:

- identification;
- assessment;
- response;
- monitoring, reporting and escalation.

Stage 1 – Risk identification

To ensure a comprehensive risk profile, we conduct a 'top down' strategic risk assessment on an annual basis. This supplements a quarterly functional 'bottom up' evaluation, which identifies risks at operational levels in the company. Risk identification is also embedded into key processes including budgeting, business planning, capital expenditure and performance management.

Stage 2 – Risk assessment

Risks are assessed to determine their likelihood and potential impact. They are assessed on a 'Current' and 'Target' basis, which helps to inform management oversight and privatisation. Risks are assessed over a three-year time horizon using Lenta's Risk Assessment Criteria, which comprise four-point probability and severity scales.

Stage 3 – Risk response

When the Current severity of a risk exceeds acceptable levels, action may need to be taken to bring it in line with the Target risk position. Risk Owners retain accountability for managing the risk, with details of all planned activities and delivery milestones set out in risk response plans.

Stage 4 – Risk monitoring, reporting and escalation

This involves the timely tracking, capture and sharing of risk information to enable review and notification of changes in risk exposure by management. It supports understanding and enables decisions on risk response to be taken, including management interventions to avoid a risk occurring – or reduce its impact should it occur.

The entire process is supported by a governance structure that clearly defines risk-related roles and responsibilities at each level of the Company. The Lenta Board has overall accountability for ensuring that risks are effectively managed across the business. The Audit Committee oversees and challenges the effectiveness of our approach. The management team provides risk oversight of commercial operations and undertakes a biannual 'top down' assessment for the Audit Committee and Board to review. Functional heads across the business are accountable for implementing the risk management activity in their respective areas.

Risk Management Policy

Our Risk Management Policy sets out the principles and standards to be adhered to throughout Lenta and establishes a common approach and minimum requirements for risk management activities within the Company. The policy provides a common language for risk and provides us with multiple benefits, including:

- informed decision-making to help deliver consistent and improved business performance through avoiding unwanted surprises and achievement of opportunities;
- identification and management of key risks that could have a material impact on the business;
- clear accountability and ownership of risk management;
- an improved view of key controls, their effectiveness and gaps in the control environment;
- a clear path for the functions to raise significant risks to the Senior Management team, Audit Committee and Board;
- a proactive, risk-aware culture across the business;
- assurance to the Board and Audit Committee that processes and behaviours are embedded to ensure significant risks are consistently identified, understood and effectively managed.

Risk management reporting and escalation

Board
Accountable for ensuring a sound system of internal control and risk management is in place

Audit Committee
Oversight and challenge of the principal risks, effectiveness of risk management and assurance activities

Senior Management team
Oversight of the identification, review and ongoing monitoring of Lenta's principal risks. Review and challenge of the risks submitted from the Functions

Head of Risk Management
Responsible for the risk management framework and coordination of management activities

Functions
Functions are accountable for implementing the Risk Management policy in their respective area and ensuring timely and robust submissions of significant risks to the Head of Risk Management

Strategy, oversight and communications

The policy is owned by the Chief Financial Officer and is reviewed on an annual basis. Compliance with the policy is mandatory for all levels of management within Lenta; guidance on how to apply the process and supporting tools are provided via a dedicated Risk Management intranet site. Risk Management awareness and training is provided to all staff commensurate with their roles and responsibilities.

The policy provides us with a comprehensive and robust framework, enabling us to ensure that risk is managed to a consistently high standard across all of our operations.

The risk landscape

Several events and developments occurred in 2017 that could have a potentially severe impact on the business.

A new trade law was implemented in July 2016, which reduced back margins on food supply to a maximum of 5% of purchases – and also reduced the payment terms. Any new agreements after 13 July had to comply with the new law, with existing agreements compliant by 1 January 2017.

Lenta ensured that all annual negotiations were concluded in time and all agreements with suppliers signed. We had also already switched a large part of our fresh food supplies to a net-net basis (without back margin) from around mid-2015. In the second half of 2016, all existing agreements were renegotiated for application in 2017; with the objective of ensuring that the new terms were at least the same as, or better than, those applicable in 2016. This objective was met.

The new trade law had a significant effect on the competitive landscape. A significant number of suppliers raised their base pricing much faster than inflation, but at the same time increased support for promotions. This led to an increase in promotional activity among all retailers, with the biggest change among operators of smaller format stores which historically did relatively few promotions. A side effect of these changes was increased switching between products and a reduction in customer loyalty to specific consumer goods brands. Using its customer data analysis based on loyalty card use, Lenta detected these changes rapidly and took measures to ensure our hypermarkets remained an attractive shopping destination.

The large number of openings and the potential risk of erosion of standards is high on our agenda. Lenta is actively working on organisational measures to strengthen and empower its more junior managers to deliver the best shopping experience to our customers across Russia.

A continuous positive development was the decrease in interest rates. This reduced interest rate risk related to our growth, which requires additional funding above our own generated cash flows. We see our incremental borrowing rates for the coming year flattening out between 7.5-8.0%.

The population of working age has been shrinking rapidly at the base of the age pyramid due to low birthrates since the collapse of the Soviet Union. This is resulting in a very low inflow of young people compared to five years ago, which may in turn result in pressure on wages.

Principal risks and uncertainties continued

The risk management process is closely aligned to our strategic objectives. We identified 17 principal risks that could potentially have a negative impact on our ability to deliver on our goals.

These are set out below, along with their likely impacts and the mitigating actions taken in each case. Each risk is graded according to how the possible impact would affect the achievement of our strategic priorities.

Our strategic priorities

- **A** Become a top 3 multi-format food retailer and the biggest hypermarket player in Russia, enabling further benefits of scale in supplier terms and fixed cost efficiency.
- **B** Continuous focus on profitable growth, carefully balancing capex and returns (target IRR of 20%) with the aim to continue to deliver market-leading returns.
- **C** Maintain healthy balance sheet with conservative approach to leverage.
- **D** Continue investing in management development to ensure Lenta's retail team remains one of the most effective in the industry.
- **E** Double selling space during the four years from 2016 to end 2020.
- **F** Develop alternative models to add to our growth.

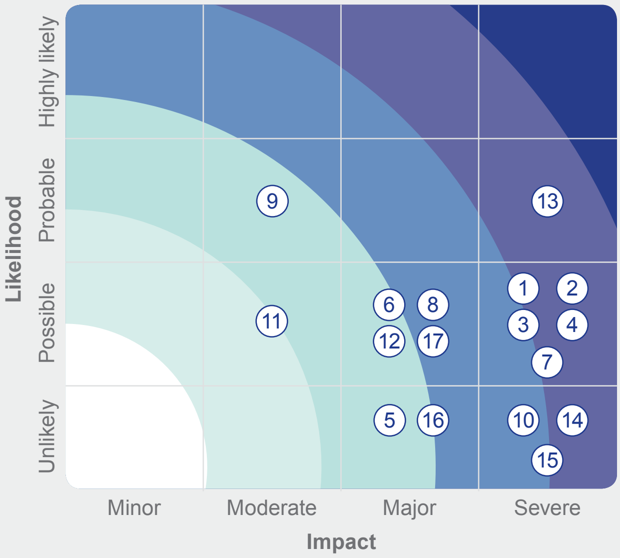
Risk categories

> Strategic
> Operational
> Financial
> Legal and compliance

Strategic risks

Risk	No. on map	Impact	Strategic priorities that would be affected
Regulation resulting in major additional compliance costs and increase in other operational cost	1	Government may introduce regulation of stores in areas such as disabled access or food production standards that result in significant compliance costs and/or adjustment of the business model.	B
Retail regulation of price/margin	2	Government may introduce further regulations in the retail sector, e.g. controls over price or front margin, which could erode sales and margins and/or require changes in the business model.	B C E
Major decline in economy	3	There may be further major decline in Russia's economy, devaluation of the Rouble and inflation, resulting in customers cutting back on purchases and reduced sales.	B C E

Principal risks



Key: ◯ Current risk assessed after controls

Change in 2017	How we manage it
In 2017 Lenta prepared for new legal obligations regarding digitalisation and tracking of quality certificates in the supply chain of fresh goods. This was a complex project since there are multiple government institutions involved with different views; hence targets are constantly changing. Lenta is preparing to track excise labels by bottle and not batches. The government is planning a similar excise label tracking system for tobacco. New regulations on outsourced labour have increased its cost and increases in road tax are making transport more expensive.	Follow up on legislative initiatives and engage with retail associations in ongoing lobbying. Continued investment in people and IT resources to ensure our operational systems will be able to cope with these changes.
Since implementation of the new retail law in July 2016, no new changes have been announced – and parties are considering the effects of the new law. There remains a constant risk of changes in the regulation of the Russian retail sector, which can affect consumers and retailers. The industry has thus become even more alert to new initiatives.	Follow up on legislative initiatives and engage with retail association in ongoing lobbying.
The Russian economy emerged from recession and returned to modest growth in 2017. Food inflation fell significantly and CPI dropped below the Russian Central Bank's target of 4%. Disposable income is improving, but increases in energy tariffs and communal payments continue to suppress the effect of growing wages in the bigger companies. Real disposable income growth remained negative during the full year.	Actively follow up on main economic indicators and adjust assortment in stores.

Strategic risks continued

Risk	No. on map	Impact	Strategic priorities that would be affected
Increased competition	4	Lenta could face markedly increased competition as a result of competitor consolidation, or changes in competitor strategies or funding. This could lead to increased price competition and a resulting impact on Lenta's growth and margins. The new retail law – which led to an increase in supplier support for promotions in all retail formats – resulted in a increase of promotional share among all players. However, this also resulted in increased margin pressure, even among the largest retailers in the second half of the year. The top two retailers, Lenta and few niche players gained share relative to most other competitors. Lenta accounted for much of the growth in hypermarkets and once more hypermarkets and once more acquired a mid-sized player.	A B C E
Competitive sourcing	5	Lenta may not be able to gain access to products at the 'lowest price', due to competitors pursuing vertical integration or having 'better' relationships with producers.	A B C
New store location	6	New store site selection could be compromised due to the desire to meet rapid growth targets. This results in a fall in average revenue per store and Lenta missing forecast revenue targets.	B E
Lack of innovation and adaptation	7	Technological developments are moving extremely fast. Big data use, social media and digital marketing capabilities and robotisation are changing the world. They are also changing the way consumers gather information and how they are influenced – and hence their shopping behaviour. All these developments have a considerable influence on the cost of servicing customers. A lack of adaptation may render our commercial proposition obsolete, our marketing ineffective and may lead to loss of competitiveness compared to peers.	A B F

Operational risks

Risk	No. on map	Impact	Strategic priorities that would be affected
Erosion of standards	8	Continued rapid expansion could lead to inconsistent application of the Company's commercial and operational standards, resulting in a substandard product offer (assortment, price and quality) or customer service that damages Lenta's profitability and brand.	B D E

Change in 2017	How we manage it
The new retail law – and the resulting more generous support of FMCG through promotions in all retail formats – resulted in a strong increase of promotional share among all players. However, even the top two players started to experience margin pressure in the second half of the year. Market growth is mainly driven by the top two, Lenta and few selected niche players. Lenta dominated the growth in hypermarkets and once more acquired a mid-sized player in the market.	Actively monitor competitors' behaviour and changes, understand structural changes in the market.
Since the import ban was introduced in 2014, there has been a scarcity of milk and of certain fruit and vegetables, driving retailers to look for new sources. Certain high quality products (e.g. certain dairy and processed meat products) remain unavailable. Local agriculture and farming has picked up considerably. However, some sectors, such as meat and dairy remain problematic due to lack of supply and competition.	Lenta established a separate sourcing team at the end of 2015. This resulted in an increase in local sourcing and many long-term agreements with local growers. There has also been an increase in direct imports, as the new trade law leads to additional benefits from this route in some instances. In 2017, Lenta became member of EMD, the largest retail purchasing alliance in Europe. This gives it access to private label producers across Europe that will allow it to significantly strengthen Lenta's private label offer.
Competition for sites from shopping centre developments and peers remains low. This has reduced competition for sites, with more locations being available for Lenta. On the other hand, the slow economic development means that new store ramp ups may be slower in some cities, particularly smaller cities.	Lenta has a robust and rigorous investment approval process, combined with a strong post investment process. Investments over the last two years have consequently been steered largely towards bigger cities, existing and wealthy smaller cities that currently offer better prospects. Lenta is experimenting with low capex and lean management models to ensure increased profitability of existing stores, as well as potentially opening up smaller cities in a profitable way.
Developments continue to move apace and peers are making increasing use of digital marketing tools.	Lenta has a history of using big data analysis derived from its loyalty card for category management and individual promotions. Lenta is in process of increasing the use of digital marketing possibilities and has started an initiative to organise innovation in a structured way.

Change in 2017	How we manage it
Lenta added record space in 2017 and has grown the number of employees significantly.	The Company's comprehensive management development programme ensures that it has high calibre managers for new stores and a consistent, Company-wide understanding of operational standards. Lenta also has rigorous in-store quality assurance processes and commercial KPIs are followed-up on a daily and weekly basis. Operations and commercial teams collaborate to ensure that prices, offer and service are in line with corporate standards and are adapted to local requirements. There are also regular senior management meetings to ensure the maintenance of Lenta's commercial and operational standards.

Principal risks and uncertainties continued

Operational risks continued

Risk	No. on map	Impact	Strategic priorities that would be affected
Supply availability	9	A 'suppliers' market' may result in Lenta struggling to purchase the full range of products required to meet customer demand, or suppliers simply not delivering the necessary quantities to Lenta, resulting in lost sales and customers.	A B C
IT system error and data theft	10	A technical malfunction (e.g. change control), could result in an inability to operate a key supply chain system, limiting stock availability or producing errors in pricing, resulting in loss of revenue and potentially long-term customer loyalty. A cyber attack/theft could lead to the loss of personal or valuable commercial data, resulting in negative media headlines, loss of commercial advantage or fines and regulatory investigation.	B
Management succession	11	Lenta may not be able to attract management with the necessary skills and experience to support its growth plans, due to a lack of suitably experienced individuals in the country and a reluctance of international candidates to move to Russia. This would result in further management stretch and inappropriate execution of the strategy.	A B C D E F
Product quality issues	12	Inadequate performance of suppliers or Lenta's own production for high-risk products (e.g. meat, dairy, fish) could result in the sale of contaminated food, potentially causing customer health issues, negative media coverage, regulatory investigation and reputational damage.	A B

Financial risks

Risk	No. on map	Impact	Strategic priorities that would be affected
Tax	13	Russia's taxation system is changing constantly and new rules are often ambiguous, leading to uncertainties in the tax position.	B C
Interest rate risk	14	Lenta's debt portfolio is partly in variable interest rates, potentially leading to a large increase in interest cost and potential breach of covenants.	B C
Source of financing	15	Lenta's growth requires additional funding on top of its own-generated cash flow. During disruptions in the banking system, or because of a too high leverage, Lenta may not be able to get the sourcing needed to fulfil its growth plan.	A B C E F

Change in 2017	How we manage it
See Risk 5.	See Risk 5.
Lenta operates sophisticated business systems that automate or support daily decision-making. Disruptions of major systems could have a significant impact on the business. Lenta is a data-rich company; for example it uses customer data more and more intensively. Although not financially sensitive, information on customer shopping habits should not be disclosed to any third party.	The Company has comprehensive procedures in place to ensure continuous IT operations. A comprehensive external audit of IT controls and cyber security was conducted in 2016 and its recommendations were implemented in 2017. A thorough audit will be conducted every two years.
Lenta became increasingly attractive compared to most other employers because of the career opportunities it offers in a growing company. Lenta further enhanced its management training programmes in 2017, extending the Lenta Leader programme to more people, to prepare selected managers for promotion to higher management levels.	Lenta's high growth and high standards mean the Company is a preferred employer in food retail, which guarantees a constant inflow of new talent. A strong training programme and well-developed annual performance appraisal processes enable Lenta to identify and develop in-house talent. A low personnel turnover compared to the market shows that it manages this risk well. Lenta has a clear succession plan for its senior management.
The share of locally produced food is increasing. However, standards in the food industry are often very basic compared to Lenta's own. Maintaining standards can depend on the retailer's ability to ensure compliance by suppliers. The number of stores with own production operations and related risks is growing.	Lenta's Quality Assurance team works with our commercial team to identify suppliers most likely to deliver substandard goods. New suppliers are audited and Lenta provides free advice to suppliers that need to improve their standards. A risk-based audit approach is applied to all existing suppliers. Self-audit practices are used in in-store production to ensure proper follow up of standards.

Change in 2017	How we manage it
Tax authorities appear to take a tougher stance in court on tax structuring – and are finding support in the courts for that.	The Company will follow up changes in legislation and court practice and reconsider, when necessary, its tax structure.
Since the interest rate rise at the end of 2014, rates have reduced significantly. Incremental borrowing rates have dropped to levels not experienced in Lenta's history.	Lenta ensures that a reasonable part of debt is in fixed rates or covers upward risk with caps. Lenta introduced new rules to determine the amount of floating rate debt in its portfolio. These focus on a maximum allowable effect on net income and limits for net debt/EBITDA and interest covers to be maintained under certain stress scenarios.
Lenta significantly increased limits with most of its banks ahead of its funding requirements.	The Company has a diversified portfolio of lenders to reduce dependency on limited sources. It ensures it has generous limits approved and undrawn debt available. Lenta also conducts regular stress tests of projected funding requirements and leverage under a variety of negative scenarios to ensure that the company would have adequate funding and that leverage would remain within covenants even with very pessimistic assumptions.

Legal and compliance risks

Risk	No. on map	Impact	Strategic priorities that would be affected
Compliance to regulations and internal standards regarding store operations	16	Health and safety failings, customer/staff error or inadequate design in store construction and store systems could cause a serious accident (e.g. fire or roof collapse), potentially leading to death and injuries, negative media headlines and fines. Failures could also lead to store closures by relevant authorities because of non-compliance with safety or environmental regulations.	A B
Lenta employees involved in unethical behaviour	17	Russia's business environment could lead to an employee acting unethically (paying or accepting a bribe) resulting in a breach of anti-bribery regulations, police investigations and negative media headlines.	A B C D E F

Viability statement

Lenta's long-term goal is to become a top three multi-format food retailer in Russia. Lenta also aims to remain the largest hypermarket player in Russia, measured by selling space and total sales.

Our low price/low cost business model is aimed at generating market-leading sales densities, by consistently implementing our strategy of everyday low prices (EDLP) combined with deep and frequent promotions. Low cost is driven by the combination of high sales densities with efficient business processes and store designs, which optimise store operating and supply chain costs. This is supported by our increasing scale, which enables us to negotiate improved conditions from suppliers.

As a food retailer, Lenta generates large amounts of cash daily – in a relatively predictable way. We prefer to own the majority of our hypermarkets, as this allows us to build stores in our own format to support our low cost operations and supply chain. Building our own stores also gives us better control of the delivery of our development pipeline. However, this growth is capital intensive, requiring additional funding over and above our own cash flow generation.

We depend on banks and the financial markets to fund this gap. Therefore, our strategy is to maintain a strong balance sheet to ensure we have access to capital markets to fund our growth. As part of managing our viability, we ensure our debt has relatively long maturities and limited interest rate risk.

The principal risk affecting Lenta is the impact of significant changes in consumer spending – either due to economic developments or reduced appeal of our commercial offer. We have seen that our model is quickly accepted in new cities where we choose to operate. However, strong economic disturbances will impact our business – along with other retailers – and will influence our ability to generate the required cash flow. This in turn will affect the level of ambition we are able to apply to our expansion programme.

Lenta has a long-term planning horizon. This stretches over the current year and four consecutive years, in line with our long-term growth targets. Our approach to the viability of the business is also influenced by the construction cycle of our new stores.

We closely monitor the construction cycle, since a reduction in capex is the main – and most secure – method of preserving cash flow, should operational cash flow be lower than expected.

Cancellation of planned projects before the commitment has been made has the most impact, whereas cancelling store investments already under construction leads to capex being spent without any prospect that it will generate returns in the near future.

Taking the above factors into account, the Board reviews the viability of the business between four and six times a year, when the management team proposes capex commitments for new store construction.

Change in 2017	How we manage it
The high number of new store openings means that there is an increased risk of a mishap in the period before the opening. More new and relatively inexperienced colleagues are involved in the management of our stores and store processes.	Construction standards are rigorously controlled. Comprehensive training and clear procedures ensure that all employees have a thorough understanding of EHS processes. The Audit Committee regularly tracks the EHS status of all operations. A clear investment programme to address non-standard situations is agreed and executed.
	Lenta has a clear ethical policy. Third parties with whom Lenta cooperates are informed of the policy and are expected to comply with it.

The most important factor affecting the Company's access to capital markets to fund growth is a strong balance sheet. Hence the focus of the analysis is on the impact on leverage. Management models the impact of various risk scenarios on sales, EBITDA and generation of operating cash flow, as well as the combined impact of various scenarios happening at the same time. The resultant leverage is reviewed to ensure that in all cases we remain comfortably below our bank covenants, giving the Board confidence that the potential to reduce investment cash outflows is substantial enough to remain viable.

The Directors have determined that the long-term planning horizon over the existing year and four consecutive years is an appropriate timeframe for assessment of the long-term viability of Lenta. The Directors have assessed the viability of Lenta over this period, taking into account the Company's current position and the potential impact of the scenarios described above. Based on the results of our testing, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during this period.

Corporate Governance

Introduction from the Chairman

Dear shareholders

As Lenta's Chairman, one of my principal responsibilities is the oversight and promotion of good corporate governance. The way in which we conduct ourselves affects every aspect of our business – and 'doing the right thing' is an essential component not just in our current success, but in our long-term sustainability.

We are committed to showing that Lenta operates with the highest levels of integrity and transparency. I am therefore pleased to present this overview of Lenta's governance framework.

John Oliver
Chairman

Towards best practice

Although we are not required to comply with the UK Corporate Governance Code ('the Code'), we believe that following its provisions – so far as is appropriate and practicable – is in the best interests of our stakeholders. We review our governance framework on an ongoing basis, and we believe the refinements and improvements of recent years have established us as a 'Best practice' governance model for a Russian operating company.

Objectives and responsibilities

The Board's main objective is to ensure Lenta's long-term success and guarantee sustained returns for its shareholders. This includes setting strategic goals, overseeing our financial and human resource structures, reviewing management performance and determining the Company's risk appetite. The Board sets the 'tone at the top', helping to establish the management culture of the Company.

Lenta is exposed to a range of risks: financial, operational and compliance. It is the Board's responsibility to ensure that the Company's risk management measures, internal controls and compliance functions are appropriate and effective. The Audit Committee is responsible for oversight of the Company's risk management framework.

Investor relations

Regular shareholder engagement is an important aspect of good corporate governance. During the year, the CEO, CFO and I, supported by the Lenta's investor relations team and – where appropriate – other members of the Board and Senior Management, met with institutional shareholders and sell-side analysts. The Board receives regular updates from the Head of Investor Relations on the team's activities – especially with regard to shareholder sentiment and feedback.

As a Board, we are responsible to our shareholders. The Company's governance framework blends leadership with collaboration, and these underpin our robust decision-making process. We are also driven by our complementary role to advise and support the executive team in the implementation of our strategy. Specific responsibilities are delegated to the four principal Board Committees: Audit, Remuneration, Nomination and Capital Expenditure. Details of their roles, responsibilities and activities during the year are set out in their respective sections on pages 84 to 95.

Looking ahead

Lenta's 2017 performance highlights our ability to anticipate what our customers want and give it to them how, when and where they want it. Our excellent results are proof of that. Our committed Board, our high calibre senior management team and our robust corporate governance structure will together help secure Lenta's long-term, sustainable future.

John Oliver
Chairman

Effective and responsible Board

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

"Our committed Board, our high calibre senior management team and our robust corporate governance structure will together help secure Lenta's long-term, sustainable future."

John Oliver
Chairman

John Oliver (59)
Chairman

Jan Dunning (58)
Chief Executive Officer (CEO)

Jago Lemmens (49)
Chief Financial Officer (CFO)

Michael Lynch-Bell (64)
Director

Stephen Johnson (54)
Senior Independent Director

Anton Artemyev (57)
Director

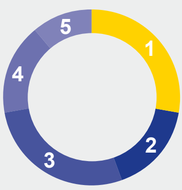
Dmitry Shvets (45)
Director

Martin Elling (64)
Director

Steven Hellman (53)
Director

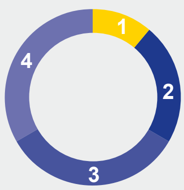
Board expertise

1. Financial
2. Retail
3. Strategy
4. Marketing
5. Technology



Tenure of Non-executive Directors

1. 0-2 years
2. 3-4 years
3. 5-6 years
4. >7 years



Board nationality

Russia
Netherlands
UK
US

John Oliver (59)
Chairman

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

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. Advisor to Vita Group.

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

Jan Dunning (58)
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 (49)
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 24 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 (64)
Director

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

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 Deputy Chair and Senior Independent Director of KazMinerals Plc, Senior Independent Director and Audit Committee Chairman of Gem Diamonds Limited, Chairman at Seven Energy Ltd and a non-executive Director of Barloworld Limited. He is also active with charity 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 (54)
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.

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, Steve 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. 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.

Steven Hellman (53)
Director

Steven Hellman has been a non-executive Director of Lenta Ltd since 2017.

Experience
Steven has over 25 years' experience in banking, legal services and operations across a broad range of industries and geographies. From 2004 to 2016 he held various senior positions at Credit Suisse in investment banking, securities sales & trading and private banking, including six years serving as a Managing Director and Regional CEO for Russia and the CIS. Prior to working for Credit Suisse he held a number of senior roles at Oak Advisory, Credit Suisse First Boston, Lehman Brothers, Unisite and Bank of America. He began his career with international law firm Latham & Watkins in Los Angeles and then with Salans, Hertzfeld & Heilbronn in Moscow.

Other roles
Steven is President of Hellman Capital Management, LLC.

Qualifications
Steven graduated from the University of California, Berkeley with a Bachelor of Arts degree in Soviet Studies (1986) and a Juris Doctor degree (1989).

Dmitry Shvets (45)
Director

C

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

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 (64)
Director

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

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 (57)
Director

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

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. Anton is also a Board member of HTT BWH OY (Finland), a private daughter company of Hartwall Capital OY.

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.

Board changes in 2017
On 30 November 2017, Stephen Peel stepped down from the Board and on 1 December 2017, Steven Hellman was appointed as TPG nominee in his place.

Senior Management team

Under the leadership 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 (58)
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 74 of this report.

Jago Lemmens (49)
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 74 of this report.

Jan Dunning (58)
Chief Executive Officer (CEO)

Jago Lemmens (49)
Chief Financial Officer (CFO)

Edward Doeffinger (61)
Chief Operational Officer (COO)

Herman Tinga (60)
Chief Commercial Officer

Tatiana Yurkevich (45)
HR Director

Sergey Prokofiev (49)
Legal and Government Relations Director

Joern Arnhold (47)
Supply Chain Director

Maxim Shchegolev (51)
Integration and Format Development Director

Bert Vukkink (57)
Chief Marketing Officer

Edward Doeffinger (61)
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 adviser 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.

Herman Tinga (60)
Chief Commercial Officer

Herman Tinga joined Lenta in 2013 as Chief Commercial Officer.

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 32 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 (45)
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 17 years in HR management, she has held senior positions 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 Programme 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 and an MBA in Strategy from International Management Institute Link (the UK's Open University).

Sergey Prokofiev (49)
Legal and Government Relations 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 (47)
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.

Bert Vukkink (57)
Chief Marketing Officer

Bert Vukkink was appointed Lenta Chief Marketing Officer in 2017.

Experience
Prior to his current role, Bert worked with Lenta as an independent marketing consultant. Prior to this he spent 12 years in retail as Marketing Director roles with Metro Cash & Carry in Kazakhstan and Ukraine and with Makro Cash & Carry Netherlands. Before entering the retail industry he worked for 13 years in a variety of marketing roles with major international FMCG brands including Rothmans and L'Oreal.

Qualifications
Bert holds a BA in Economics and a marketing diploma from INSEAD, France.

Maxim Shchegolev (51)
Integration and Format Development Director

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

Experience
Prior to joining Lenta, Maxim held the executive positions of Administrative Director, Director of Trade Development and Director of O'Key group. During his 15 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 in Start company. 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.

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 whole Board is available to attend the AGM but it is not a requirement that each member attends.

The Board does not consider that the above areas of non-compliance expose the Company to any additional risks.

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 interests of the Group's various stakeholders and promoting high standards of corporate governance.

There is a clear distinction between the role of Chairman and CEO. Updated descriptions of the roles were agreed by the Board in 2017 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.

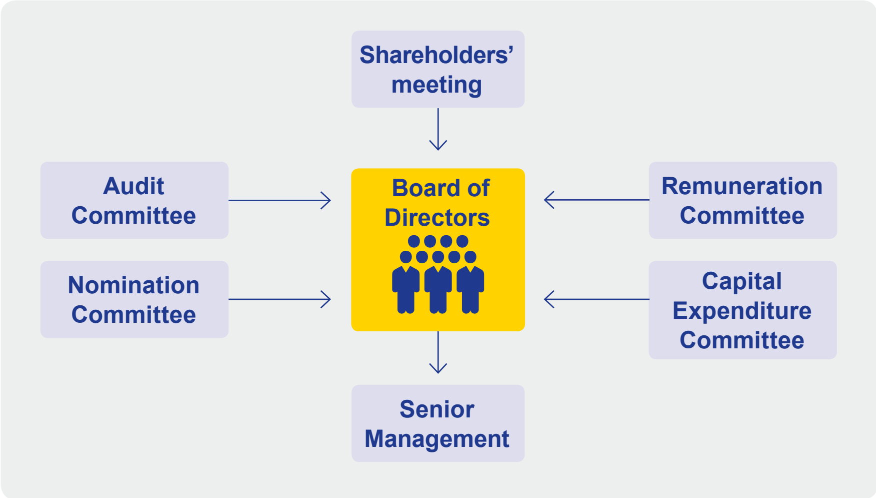
Stephen Johnson was the Senior Independent Director ('SID') throughout the year ending 31 December 2017.

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:

- 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 an essential independent element to the Board – and a solid foundation for strong 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.



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. The Board discharges some of its responsibilities directly and discharges others through Board Committees and the Senior Management team. This includes approval of the strategy, for which it has collective responsibility, 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.

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 the 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.

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.

Board of 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. As shown below, our Directors have a wide range of complementary skills and experience. 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.

Position	Name	Cat.	Director since	Committees: Audit	Nomination	Remuneration	Capex
Chairman	John Oliver	TPG	2009		●	●	●
Sen. INED	Stephen Johnson	INED	2010	●	C	C	●
Director	Michael Lynch-Bell	INED	2013	C	●	●	
Director	Anton Artemyev	INED	2013	●	●	●	
Director	Dmitry Shvets	TPG	2009		●	●	C
Director	Steven Hellman	TPG	2017				
Director	Martin Elling	EBRD	2011				●
Director	Jan Dunning	CEO	2013				
Director	Jago Lemmens	CFO	2013				

● **Audit Committee (three Directors)**
→ Read more on page 86

● **Nomination Committee (five Directors)**
→ Read more on page 84

● **Remuneration Committee (five Directors)**
→ Read more on page 89

● **Capex Committee (four Directors)**
→ Read more on page 95

Stephen Peel was a member of the Board until his resignation on 30 November 2017. He did not serve on any of the Board committees. Steven Hellman joined the Board with effect from 1 December 2017.

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: one Director whilst it holds an interest in 5% or more of the shares. 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.

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.

Board focus during the year

In 2017, the Board considered a wide range of matters, including:

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

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 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.

The Board also holds regular update calls during the year, but participation is not mandatory.

Board and committee attendance during the year	Board (7 meetings)	Audit (11 meetings)	Capex (13 meetings)	Nomination (3 meetings)	Remuneration (4 meetings)
John Oliver	7		13	3	4
Jan Dunning	7				
Stephen Johnson	7	11	13	3	4
Michael Lynch-Bell	7	11		3	4
Jago Lemmens	7				
Anton Artemyev	7	11		3	4
Dmitry Shvets	7		13	3	4
Stephen Peel (until his resignation on 30 November 2017)	7				
Martin Elling	7		12		

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

Changes to the Board in 2017

On 30 November 2017 Stephen Peel stepped down from the Board. Steven Hellman was appointed on 1 December 2017.

Length of service and independence of non-executive Directors

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

The following Board meetings are scheduled for 2018.

Planned meetings for 2018	Board	Audit	Capex	Nomination	Remuneration
Meeting	7	11	8	4	4
Board call	5				

The terms of reference for Lenta's Board Committees were last 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.

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 84.

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, ordinarily, 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.

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 and responsibilities of the Nomination Committee include:

- ensuring that proper procedures are established for the nomination, selection and training of the Company's Directors and Senior Management;
- keeping under review the size, structure, balance of skills, experience, independence, knowledge and general diversity of the Board to ensure the balance and composition of the Board and its Committees remains appropriate;
- making recommendations to the Board on Directors' conflicts of interest for authorisation, where appropriate;
- making recommendations to the Board regarding the appointment of new Directors, and identifying, interviewing, selecting, and determining the independence of candidates with suitable industry or key competency experience;
- reviewing Board level, Senior Management and Company-wide succession planning and other human resources-related matters;
- reviewing the leadership needs of the Company, both executive and non-executive, to ensure the continued ability of the organisation to compete in the marketplace.

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

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. There are four Committee meetings scheduled for 2018.

Dear Shareholder

2017 was a mainly a year of consolidation for the Nomination Committee. Its focus was on monitoring the success of the performance appraisal system, continuing to ensure that the Company's succession planning process is fit for purpose and also ensuring that the Board's performance was appraised and developed.

Performance appraisal system

As previously described, Lenta now has a very well developed system for performance appraisal across all functions. This is embedded in the way the Company works and is used not only to manage performance, but also to identify high performers with development needs and the potential to move into more senior roles. Finally and importantly, the appraisal system is an important input to the Company's succession planning process.

The Committee receives regular reports on the conduct of the appraisal process and the outputs from appraisals for all levels of employees, with particular focus on the more senior levels in the management team.

During the year Lenta promoted around 4,300 people within the business, as well as providing 316,000 man hours of external training and development investment for its employees.

Succession planning

Lenta continues to have a well-structured approach to succession planning. This is kept under constant review within the business and is regularly examined by the Committee. With a very stable team at the top, it is critical that development opportunities exist for less senior colleagues. As a high growth business, Lenta continues to be able to offer significant and exciting opportunities for its high-performing employees.

Board performance

Lenta believes that the Board's performance should be assessed each year. Every three years an external review will be performed. During the year an internal Board assessment was carried out. Board members (both executive and non-executive) expressed a high degree of satisfaction with the way the Board worked, how it reached its decisions and the way each individual Director was able to participate and have their views heard. Some areas for improvement were identified; these have been reported back to the Board and an action plan agreed.

During the year the Committee also led the search for a new non-executive Director, which culminated in the successful appointment of Steven Hellman.

Stephen Johnson
Chairman
Nomination Committee

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 assumes ultimate responsibility for ensuring the Company has appropriate risk management and internal controls in place – and has delegated responsibility to the Audit Committee to review their effectiveness. 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 60 to 69.

The Board commissioned a review of the effectiveness of the Company's risk management and internal controls in late 2015, assisted by external consultants. As a result, recommendations resulting from that review were considered and implementation commenced in 2016. This included the launch of a Risk Management Policy and Risk Matrix and a Head of Risk Management was also appointed. Implementation of the recommendations was completed during 2017.

Colleagues are required to confirm annually that they have 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.

The Head of Internal Audit reports regularly to the Chairman 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)

The membership of the Committee is fully Code compliant and includes retail, liquidity, financial, risk management and geographic expertise. The Chairman is deemed to be the member with recent and relevant financial experience.

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 and risk management, compliance with financial reporting requirements and the scope, results and cost effectiveness of the external audit and the internal audit function.

There are eleven Committee meetings scheduled for 2018.

Dear Shareholders

I am delighted to present the report of the Audit Committee. This report sets out the Committee's responsibilities, how it discharged its duties during the year and the key matters that were discussed at our meetings.

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 2017, 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 reviewed the implementation of the recommendations of the risk management function review and received reports from the newly appointed risk manager. As the Company has made a long-term viability statement in this Annual Report, the Committee also considered management's assumptions and disclosures relating to it.

We received recommendations on improving the Company's IT security and control systems and followed-up with the implementation of these recommendations. Most were implemented in 2017, while others will be implemented in 2018.

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.

Looking forward to the next 12 months, the Committee will continue to focus on the audit and assurance processes within the business, including the monitoring of key risks and tax developments that might affect the Group. Together with management, the Committee will also assess the implications of new and proposed accounting standards.

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 Chair, CEO and CFO are invited to attend all committee meetings. The Company Secretary, Head of Internal Audit, Chief Legal Counsel and the external auditor are also normally invited to attend Committee meetings, other than those that are called solely to approve the financial disclosures in the Company announcements made in respect of the full year preliminary announcement and March and September quarters.

Other members of Senior Management are invited to attend to discuss any matters relevant to them. At the end of each meeting, where they are in attendance, the Committee offers both the external auditor and Head of Internal Audit the opportunity to meet with them without members of senior management being present.

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 2017. 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. During the year Alexander Grebeniuk was appointed as the lead audit engagement partner for EY, in compliance with the five-year rotation of requirements for individuals fulfilling the role.

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. During the coming year the audit will be put out to tender for audits commencing with the 2019 financial year.

Ernst & Young LLC was reappointed as the Company's auditor by shareholders at the 2016 AGM. Professional fees billed by Ernst & Young LLC are shown in the table below.

Auditor's fees (Ernst & Young LLC) ('000 RUB)	2017	2016
Audit of consolidated financial statements	23,628	25,186
Consulting and other non-audit services	8,971	20,725
Total fees	32,599	45,911

Role of the Audit Committee

The key roles and responsibilities of the Audit Committee include:

- 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 and the long-term viability statement;
- reviewing the Company's internal controls, including financial controls and updated risk management systems;
- reviewing the Company's IT security measures and IT control systems
- reviewing the content of the Annual Report and Accounts when requested by the Board;
- reviewing reports on changes in tax legislation and management's proposed response
- reviewing the Company's significant insurance arrangements;
- reviewing the Company's treasury policy;
- reviewing the Company's procedures for detecting and preventing bribery and fraud;
- reviewing the Company's compliance with the UK Corporate Governance Code;
- overseeing and reviewing the Internal Audit function, its terms of reference, effectiveness, plan, budget and reporting;
- reviewing the Company's speak-up policy and receiving reports on matters raised via the speak-up facilities;
- recommending the appointment of the external auditor and overseeing the relationship;
- reviewing the terms of reference of the Committee, the results of the performance evaluation and the training requirements of Committee members;
- reporting to the Board on how the Committee has discharged its responsibilities.

A copy of the Committee's full terms of reference is available on the Company's website: http://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.

New accounting standards

The Committee considered the application of new accounting standard IFRS 16, Leases, and the projected impact that applying the standard would have on the Group's financial statements. The Committee agreed with management that the standard would not be adopted early and that it would be applied for accounting periods commencing on 1 January 2019.

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.

Ethics Committee

The Committee reviewed the work of the Ethics Committee; in particular its report on the Company hotline. The Audit Committee approved measures taken by management to mitigate risks of impropriety and hold culpable employees to account.

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.

The annual report also includes a long-term viability statement, which can be found on page 68. The Committee considered the statement and approved management's disclosures.

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

Remuneration Committee report

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 92 to 93. The Directors' interests in the Company's share capital are set out on page 93.

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 2017 and has four meetings scheduled for 2018.

The key roles and responsibilities of the Remuneration Committee include:

- determining and recommending the broad policy for executive remuneration within the Group;
- determining, on behalf of the Board, the remuneration of the executive Directors and senior management;
- approving the design of, and determining targets for any performance-related plans;
- making recommendations regarding employee equity participation schemes;
- determining the policy for and scope of service agreements and termination payments.

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

Dear Shareholders

The principal task of the Remuneration Committee is to ensure that Lenta is able to recruit, motivate and retain the right talented and experienced people, enabling it to continue delivering its growth plans as well as managing successfully an increasingly large and diverse business.

The Committee seeks to do this in several ways:

- Salaries: Base salaries are kept under review with internal and external benchmarking. The Committee works closely with the management team to ensure that necessary salary increases are identified and implemented in a timely manner.
- Annual Bonus: Lenta operates a Company-wide annual bonus plan. The KPIs for this plan are set annually by the Committee in consultation with the CEO and HR Director. The Committee is mindful that the annual bonus payments are not just a reward for great performance but a significant element in retaining and recruiting good people. During 2017, performance against the 2016 bonus plan was assessed and an overall payment of 73% of the maximum was agreed.
- Long-Term Incentive Plans: The Company operates a number of long-term incentive plans for both senior and middle management. These are designed to ensure reward for – and retention of – managers against a set of performance criteria, which are aligned with shareholder interests.

During the year the Committee spent considerable time reviewing its approach to each of these remuneration elements using internal resources and external consultants. Whilst the Committee remains content that, overall, Lenta's approach to remuneration is satisfactory, it is very conscious that all aspects of remuneration policy need to be kept under regular review to ensure they remain fit for purpose – and at least in line with relevant market comparators.

It is also important that all elements of reward are genuinely reflective of the actual performance of the business. This is particularly true in respect of the long-term incentives available for the senior management team. The Committee will ensure that any identified changes are implemented in a timely and effective manner.

Long-Term Incentive Programme for Senior Management

In order to ensure retention of the Senior Management team beyond the Management Incentive Programme vesting period (which vests in 2018/2019), the Remuneration Committee implemented a long-term incentive programme for this group, commencing in 2016. The programme operates according to the following rules:

- shares are granted annually with a vesting period of three years;
- the amount of shares depends on job grade (percentage of annual salary), share price and individual performance evaluation of the manager;
- the final amount of vesting shares is subject to a financial performance co-efficient for three years preceding the vesting date;
- a manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-competition and non-solicitation.

The LTIP 2017 with a vesting date in 2020 was approved, granting a total of 131,580 shares, which represents around 120% of the annual salary of this group (including Currency Adjustment Pay).

Long-Term Incentive Programme for middle managers

2017 was the first year in which the Long-term incentive programme for middle managers began vesting. Thirty eight managers were allocated a total of 29,243 shares.

The Committee also approved a new annual long-term incentive plan with a vesting period of three years for 92 key middle managers. The total value of this award is 73,976 shares, which represents around 44% 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.

2017 Annual Bonus Scheme approval

The Committee approved the bonus KPIs, target and payout scales for 2017.

Salary review in comparison to labour market

The Committee reviewed the labour market situation and salary dynamics in Russia, based on Mercer and Hay surveys. Based on this data and the Company's experience and observations relating to staff turnover and staff availability, it was decided to apply an overall company salary indexation of 2% in September-October 2018.

In addition, specific store positions in different regions received higher salary increases based on competitiveness vs the labour market, contributing to an additional 5% increase of base salary. Head office employees also received a merit increase in 2017, based on competitive position of the salary vs the market and individual performance results. The total head office increase averaged 5%, including 2% indexation.

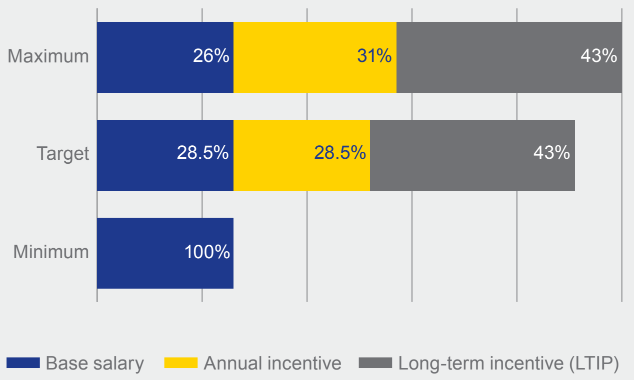
The Board and management believe salary and benefits are competitive with existing market.

Summary of Senior Management Team remuneration policy

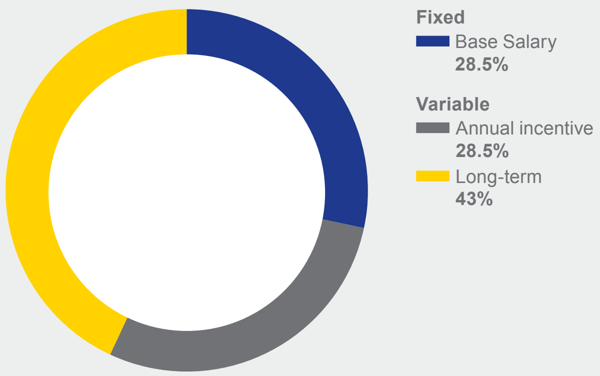
Element	Principles	Opportunity
Base pay	Base pay is reviewed annually by the Remuneration Committee, considering a number of factors, including: → Individual performance evaluation → Salaries in comparable roles in the same industry and activities scope.	There is no set maximum or minimum, it is in line with labour market trends and/or individual role scope changes.
Currency adjustment	According to Russian legislation, base salaries are fixed in Roubles, which leads to a negative pay trend for senior management with a drop in the RUB/EUR rate. To maintain competitive pay levels, currency adjustment pay is used as decided by the Committee in 2014.	Currency adjustment pay is the difference between individual salary calculated in Euro at recruitment and current RUB salary expressed in Euro. For some senior managers, only partial compensation is applied.
Benefits	→ Company car, for some Directors with a driver → Medical insurance with family coverage → Relocation support → Partial reimbursement of school fees for expatriates' children attending school in Russia.	There are maximums set for each compensation element depending on the job grade.
Annual bonus	All senior management are eligible for the annual bonus scheme, which is a discretionary, non-contractual scheme. Performance is measured against quantifiable financial targets, which are set at the start of the year and approved by the Remuneration Committee. In addition to financial targets, the bonus may be affected by the individual performance evaluation, which may increase or decrease the payout. Annual bonus is paid on the condition that a 'threshold' level of EBITDA is achieved.	Total maximum annual bonus opportunity for senior management is 120% of annual base pay.
Management incentive plan	Eight senior managers are eligible for the share-settled Management Incentive Plan (MIP). Participating managers are allocated a specified number of phantom shares, in relation to which their entitlement under the MIP is calculated. The plan is based on share price dynamics vs. IPO price in RUB and is subject to a hurdle reference price. The plan has fixed vesting periods. A senior manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-competition and non-solicitation covenants.	There is no maximum set for the MIP; actual reward depends on the number of phantom shares allocated and share price development.
Long-term incentive plan	All senior managers are eligible for the share-based long-term incentive plan (LTIP) as decided by the Remuneration Committee. LTIP is a conditional grant of shares depending on the job grade, base salary share price. Shares vesting depend on Company performance during the three years following the allocation. Vesting period is three years from the grant date. A senior manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-competition and non-solicitation covenants.	Maximum LTIP annual value is 150% of annual salary; the actual amount varies between senior managers based on their job grade and individual performance evaluation.

Pay structure of CEO, CFO and Senior management team

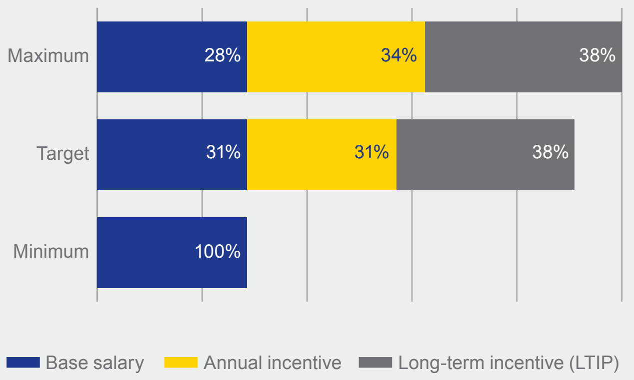
Chief Executive Officer (Jan Dunning)



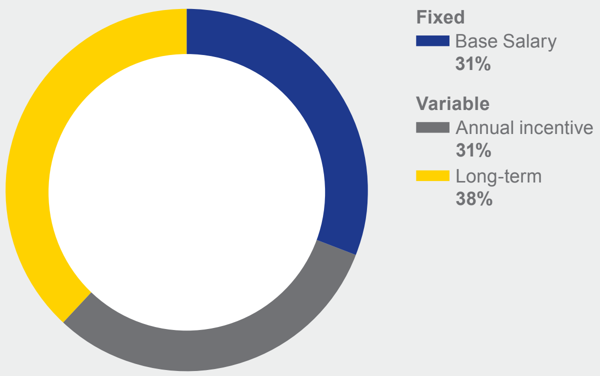
CEO total cash reward (fixed vs. variable at target)



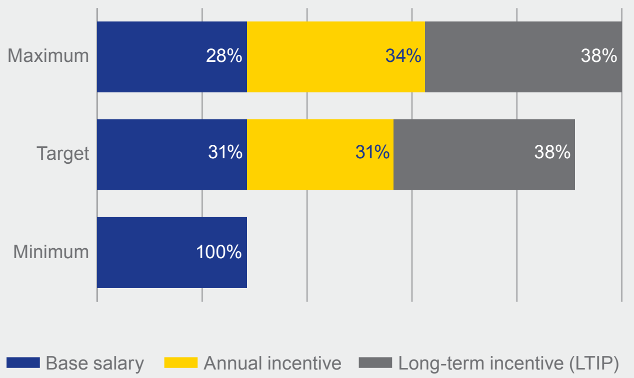
Chief Financial Officer (Jago Lemmens)



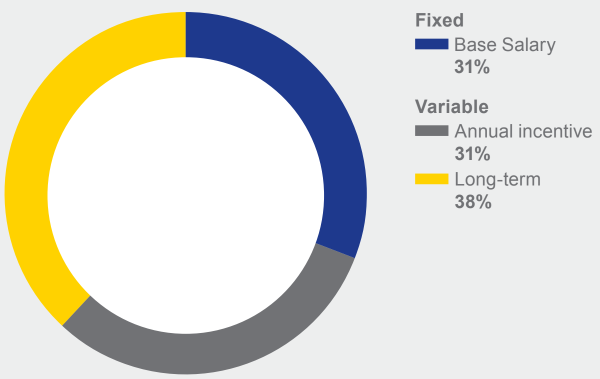
CFO total cash reward (fixed vs. variable at target)



Other Senior Management team members



Other Senior Management team members total cash reward (fixed vs. variable at target)



Pay structure of CEO, CFO and Senior management team continued

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	23/09/2011	01/04/2012
Jago Lemmens	102,823	1,516	764	23/09/2011	01/04/2012
Herman Tinga					
1st grant	102,823	1,516	1,375	01/04/2013	01/04/2013
2nd grant	35,000	1,516	1,375	01/04/2013	01/04/2014
3rd grant	42,000	2,214	1,375	01/04/2013	01/04/2019
Edward Doeffinger	102,823	1,516	764	23/09/2011	01/04/2012
Joern Arnhold	85,686	1,516	764	23/09/2011	01/04/2012
Sergey Prokofiev	35,988	1,516	1,375	01/04/2013	01/04/2013
Maxim Shchegolev	35,988	1,516	1,375	01/04/2013	01/04/2013
Tatiana Yurkevich	35,988	1,516	1,375	01/04/2013	01/04/2013

On 23 June 2017 the Company allotted and issued 98,217 new ordinary shares (491,085 additional global depositary receipts) in connection with its management incentive plan ("MIP") and long term incentive plan ("LTIP"). 332,365 new GDRs (66,473 new shares) were delivered to existing employees of Lenta and its subsidiaries to satisfy outstanding awards under the MIP and up to a further 158,720 (31,744 new shares) new GDRs were delivered to existing employees as their awards under the LTIP. The holdings of the recipients under the MIP and holdings of the senior management as of 31 December 2017 are summarised below:

Manager	Total holding as of 31 Dec 2016 (interest in shares)	Shares granted under the MIP	Total holding as of 31 Dec 2017 (interest in shares)	Approximate holding as of 31 Dec 2017 (% of share capital)
Jan Dunning[1]	549,538	19,314	568,852	0.56%
Jago Lemmens[2]	105,737	9,657	115,394	0.11%
Edward Doeffinger	93,397	9,657	103,054	0.10%
Joern Arnhold	86,497	8,048	94,545	0.09%
Herman Tinga	7,044	9,657	16,701	0.01%
Sergey Prokofiev	12	3,380	3,392	Less than 0.01%
Maxim Shchegolev	12	3,380	3,392	Less than 0.01%
Tatiana Yurkevich	12	3,380	3,392	Less than 0.01%

1 Including through his vehicle Golden Healer Agreements Limited.

2 Including through his vehicle Ergo United Limited.

						Vesting schedule				
	Number of phantom shares total	Vested shares	Base price (RUB)	Hurdle reference price (RUB)	Hurdle reference date	2017	2018	2019	2020	2021
Wave 1	496,978	99,396	1,516	764	23/09/2011	149,093	248,489			
Wave 2	245,787	49,157	1,516	1,375	01/04/2013	63,236	105,394	10,500		17,500
Wave 2[3]	42,000		2,214	1,375	01/04/2013			21,000	21,000	

3 Herman Tinga 2016 additional tranche.

The total Senior Management LTIP 2017 allocation is equal to 131,580 shares, which represents around 120% of the annual salary of this group.

Summary of non-executive Directors' remuneration policy

Element	Principles and opportunities
Letter of appointment	→ 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.
Chairman and non-executive Director	→ Fees are reviewed periodically by the Committee taking into consideration: • Time commitment, demands and the responsibility of the role; and • External market practice. • 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.
Additional fees	→ Additional fees are paid for undertaking the extra responsibilities of: • Board Chairman • Senior Independent Director • Committee Chairman.
Other benefits	→ 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. → No further benefits are provided to the Chairman or non-executive Directors.
Recruitment	→ 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.

Non-executive Directors' Fees

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

Interests of non-executive Directors in Lenta shares are summarised in the table below:

Name of Director	Total holding as of 31 Dec 2017 (interest in shares)	Approximate holding as of 31 Dec 2017 (% 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 0.01%

Strategic alignment of pay

The table below shows the integration between Lenta's financial key performance indicators and the senior remuneration framework for 2016/17. This clearly demonstrates a clear linkage between performance metrics, payments to Directors and business performance over the short and long term.

Financial objectives	KPI	Incentive scheme
Company revenue	Turnover	Annual Bonus Scheme Performance coefficient for LTIP scheme
Increase earnings and returns	EBITDA	Annual Bonus Scheme Performance coefficient for LTIP scheme
Increase shareholder value	Share price	MIP, LTIP
Non-financial objectives	**KPI**	**Incentive scheme**
Efficient operations	Productivity	Annual Bonus Scheme
Sales space growth	Number of stores opened and in pipeline	Annual Bonus Scheme

Annual bonus scheme

Target bonus (% of base salary) **X** 50% of Target bonus OEBITDA multiplier **X** 50% of Target bonus Sales multiplier **X** Individual performance coefficient **X** EUR/RUB base to actual rate adjustment **=** Bonus achieved (as % of base salary)

In April 2017, the 2016 annual bonus award was completed, with an overall award across the Company for those participating in the scheme of 73% of the maximum.

Within this overall award, the Senior Management team was awarded annual bonuses averaging 80% of the maximum, with the CEO achieving 80%. The Committee also agreed the annual bonus targets for 2017, providing for similarly stretching performance.

Stephen Johnson
Chairman
Remuneration Committee

Capital Expenditure Committee report

Committee members:

- Dmitry Shvets (Major Shareholder nominee, Chairman)
- Stephen Johnson (Independent)
- John Oliver (Major Shareholder nominee)
- Martin Elling (Major Shareholder nominee)

There are four Committee meetings scheduled for 2018; this number may be increased as necessary.

The key roles and responsibilities of the Capital Expenditure Committee include:

- advising the Board with regard to the overall capital expenditure strategy of the Group;
- reviewing the Company's processes for approving capital expenditure projects;
- setting the limits of authority for capex-related decisions;
- reviewing and approving all capex and mergers and acquisitions projects within the Committee's limits of authority;
- reviewing and making recommendations on how the overall capex plan aligns with the Company's strategy;
- endeavouring to ensure that improvement programmes relating to the design, construction and operation of new stores are defined and implemented in cooperation with management;
- monitoring capex projects' returns and making adjustments to the capex processes to reflect the lessons learned.

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

Dear Shareholders

2017 was another successful year for Lenta as it maintained a healthy rate of expansion – opening 40 hypermarkets and 49 supermarkets in Russia. We completed a deal to lease 14 well located hypermarkets from Sedmoy Kontinent under the Nash brand in Moscow and other regions and acquired 22 stores from Holiday Group in Siberia, both of which represented an excellent strategic fit for Lenta.

This meant a lot of work 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 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 2017, the Capital Expenditure Committee focused on a number of issues on behalf of the Board. We considered more than 120 new investment proposals including new store projects and acquisitions (where investment proposals included more than one store), as well as 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 transitioned to the new form of investment proposal ('IP') with even higher standards to ensure the best overview and forecasts against the backdrop of the large number of promising new IPs that the expansion team developed in 2017. 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. This cooperation enabled the smooth integration of the new assets of Nash and Holiday.

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.

We also paid close attention to stores with weaker relative performance opened in previous years to ensure any specific lessons learned can be taken into account when reviewing, opening and operating new stores in the future.

Dmitry Shvets
Chairman
Capital Expenditure Committee

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 investor, 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.

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.

Schedule of investor calls in 2018

Month	Date	Day	Moscow time
January	25	Thursday	17.00 – 18.00
March	15	Thursday	17.00 – 18.00
April	19	Thursday	17.00 – 18.00
July	18	Wednesday	17.00 – 18.00
August	29	Wednesday	17.00 – 18.00
October	18	Thursday	17.00 – 18.00

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

27 April 2018

Financial statements

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

for the year ended 31 December 2017

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 2017 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 2017 were approved by management on 28 February 2018.

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

Jan Dunning
(CEO of Lenta Limited)

Jago Lemmens
(CFO of Lenta Limited)

Independent auditor's report

To the Shareholders and Board of Directors of Lenta Limited

Opinion

We have audited the consolidated financial statements of Lenta Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of construction costs	
The Group incurs significant expenditures related to the construction of new retail stores, a part of which was capitalised under IAS 16 *Property, Plant and Equipment.* Capitalisation of construction costs was a matter of most significance in our audit because the additions of property, plant and equipment for the year ended 31 December 2017 are significant to the consolidated financial statements. In addition, management judgement is required in the determination of costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Information in respect of property, plant and equipment is disclosed in Note 9 to the consolidated financial statements.	We obtained understanding of the Group's capitalisation policy and tested controls over authorisation, timeliness and accuracy of recording property, plant and equipment additions. We compared the Group's investment budget with actual capital expenditures. On a sample basis we tested capital expenditures to supporting documents. We analysed the aging of assets under construction.
Recognition of suppliers' allowances	
The Group receives various types of allowances from suppliers in connection with the purchase of goods for resale in the form of volume rebates and other payments. The recognition of allowances was a matter of most significance in our audit because of its material impact on trade and other receivables, cost of goods sold and inventories. In addition, management exercises judgement in determining the period over which these allowances should be recognised considering the nature and the level of fulfilment of the Group's obligations and estimates of purchase volumes. Information about suppliers' rebates receivable and accounts receivable on suppliers' advertising is disclosed in Note 15 to the consolidated financial statements.	We understood and tested the design and operating effectiveness of internal controls over the recognition of allowances from suppliers. We agreed the terms of providing allowances to supporting documents approved by individual suppliers. We analysed the assumptions underlying management estimates of amounts receivable. On a sample basis we received direct confirmations of outstanding balances from suppliers. We agreed the balances of suppliers' allowances receivables to the post year-end cash settlements.

Other information included in the Group's Annual report 2017

Other information consists of the information included in the Group's annual report 2017, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.Y. Grebeniuk.

A.Y. Grebeniuk
Partner
Ernst & Young LLC
28 February 2018

Details of the audited entity

Name: Lenta Limited

Registered 16 July 2003.

Address: Road Town, Tortola, BVI.

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Совершенствуя бизнес,
улучшаем мир

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Consolidated statement of financial position

as at 31 December 2017 (in thousands of Russian roubles)

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	9	**170,308,406**	147,812,289
Prepayments for construction	10	**2,818,543**	7,741,743
Leasehold rights	11	**3,075,027**	3,744,009
Intangible assets other than leasehold rights	12	**1,816,716**	1,890,176
Long-term portion of cash flow hedging instruments	32	**—**	62,618
Other non-current assets		**226,741**	199,131
Deferred tax assets	23	**—**	123,508
Total non-current assets		**178,245,433**	161,573,474
Current assets			
Inventories	14	**36,933,128**	27,490,941
Trade and other receivables	15	**10,957,360**	17,035,789
Advances paid	16	**2,862,446**	2,669,761
Taxes recoverable	17	**2,874,174**	3,920,940
Prepaid expenses		**124,915**	131,932
Short-term portion of cash flow hedging instruments	32	**8,179**	309,592
Cash and cash equivalents	18	**14,301,859**	13,037,767
		68,062,061	64,596,722
Assets held for sale	13	**423,094**	—
Total current assets		**68,485,155**	64,596,722
Total assets		**246,730,588**	226,170,196
Equity and liabilities			
Equity			
Share capital	19, 21	**284**	284
Additional paid-in capital	19	**26,480,481**	26,216,147
Share options	29	**825,176**	668,200
Hedging reserve	19	**164,886**	431,570
Retained earnings		**44,316,449**	31,052,910
Total equity		**71,787,276**	58,369,111
Liabilities			
Non-current liabilities			
Long-term borrowings	22	**62,194,204**	66,955,931
Long-term portion of cash flow hedging instruments	32	**—**	2,137
Deferred tax liabilities	23	**8,386,732**	7,359,998
Total non-current liabilities		**70,580,936**	74,318,066
Current liabilities			
Trade and other payables	24	**57,259,762**	56,171,598
Short-term borrowings and short-term portion of long-term borrowings	22	**44,888,131**	35,245,120
Short-term portion of cash flow hedging instruments	32	**18,049**	46,588
Advances received		**514,909**	340,062
Other taxes payable	25	**1,131,099**	1,111,306
Current income tax payable		**550,426**	568,345
Total current liabilities		**104,362,376**	93,483,019
Total liabilities		**174,943,312**	167,801,085
Total equity and liabilities		**246,730,588**	226,170,196

The accompanying notes on pages 106 to 144 are an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017 (in thousands of Russian roubles)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales		**365,177,586**	306,352,092
Cost of sales	26	**(286,942,078)**	(238,584,029)
Gross profit		**78,235,508**	67,768,063
Selling, general and administrative expenses	27	**(55,917,584)**	(46,442,510)
Impairment of assets held for sale	13	**(222,147)**	—
Other operating income	28	**4,129,232**	3,086,079
Other operating expenses	28	**(648,445)**	(716,375)
Operating profit		**25,576,564**	23,695,257
Interest expense		**(10,942,820)**	(10,084,573)
Interest income		**445,751**	851,813
Foreign exchange gains		**92,398**	90,751
Profit before income tax		**15,171,893**	14,553,248
Income tax expense	23	**(1,908,354)**	(3,351,220)
Profit for the year		**13,263,539**	11,202,028
Other comprehensive income (OCI)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss from cash flow hedges	20	**(333,355)**	(366,340)
Income tax relating to the components of OCI	23	**66,671**	73,268
Other comprehensive loss for the year, net of tax		**(266,684)**	(293,072)
Total comprehensive income for the year, net of tax		**12,996,855**	10,908,956
Earnings per share (in thousands of Russian roubles per share) (Note 20)			
– basic and diluted, for profit for the year attributable to equity holders of the parent		**0.136**	0.115

The accompanying notes on pages 106 to 144 are an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2017 (in thousands of Russian roubles)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before income tax		**15,171,893**	14,553,248
Adjustments for:			
Net loss on disposal of property, plant and equipment	28	**21,450**	262,048
Net loss on disposal of intangible assets	28	**26,009**	—
Net loss on disposal of leasehold rights	28	**—**	1,279
Interest expense		**10,942,820**	10,084,573
Interest income		**(445,751)**	(851,813)
Inventory (reversal of write-down)/write-down to NRV	14	**(333,945)**	325,443
Change in provision for impairment of receivables, advances and prepayments for construction	10, 15, 28	**221,491**	178,504
Depreciation and amortisation	9, 27	**9,691,447**	7,694,569
Impairment of assets held for sale	13	**222,147**	—
Share options expense	29	**421,310**	330,184
		35,938,871	32,578,035
Movements in working capital			
Increase/(decrease) in trade and other receivables		**5,887,028**	(3,399,994)
Increase in advances paid	16	**(199,504)**	(406,727)
Decrease/(increase) in prepaid expenses		**3,572**	(33,427)
Increase in inventories	14	**(9,108,242)**	(4,821,288)
Increase in trade and other payables	24	**1,081,029**	5,159,820
Increase in advances received		**174,847**	115,017
Increase/(decrease) in net other taxes payable	17, 25	**1,055,881**	(1,281,209)
Cash from operating activities		**34,833,482**	27,910,227
Income taxes paid		**(709,360)**	(289,411)
Interest received		**473,319**	942,997
Interest paid		**(10,852,902)**	(8,845,027)
Net cash generated from operating activities		**23,744,539**	19,718,786
Cash flows from investing activities			
Purchases of property, plant and equipment		**(26,761,134)**	(41,688,957)
Acquisition of subsidiaries, net of cash acquired	7	**—**	(11,100,481)
Settlements on acquisition of subsidiaries	7	**117,961**	—
Purchases of intangible assets other than leasehold rights		**(377,301)**	(1,088,745)
Purchases of leasehold rights		**(462,099)**	(630,989)
Proceeds from sale of property, plant and equipment		**207,315**	251,937
Net cash used in investing activities		**(27,275,258)**	(54,257,235)
Cash flows from financing activities			
Proceeds from borrowings	31	**127,210,525**	65,422,079
Repayments of borrowings	31	**(122,415,714)**	(40,283,231)
Repayment of obligations under financial lease		**—**	(18,577)
Net cash generated from financing activities		**4,794,811**	25,120,271
Net increase/(decrease) in cash and cash equivalents		**1,264,092**	(9,418,178)
Cash and cash equivalents at the beginning of the year	18	**13,037,767**	22,455,945
Cash and cash equivalents at the end of the year	18	**14,301,859**	13,037,767

The accompanying notes on pages 106 to 144 are an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2017 (in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2017	**284**	**26,216,147**	**431,570**	**668,200**	**31,052,910**	**58,369,111**
Profit for the year	**—**	**—**			**13,263,539**	**13,263,539**
Other comprehensive income/(loss)	**—**	**—**	**(266,684)**	**—**	**—**	**(266,684)**
Total comprehensive income/(loss)	**—**	**—**	**(266,684)**	**—**	**13,263,539**	**12,996,855**
Share-based payments (Note 29)	**—**	**—**	**—**	**421,310**	**—**	**421,310**
Issue of shares (Note 19, 29)	**—**	**264,334**	**—**	**(264,334)**	**—**	**—**
Balance at 31 December 2017	**284**	**26,480,481**	**164,886**	**825,176**	**44,316,449**	**71,787,276**
Balance at 1 January 2016	284	26,216,147	724,642	338,016	19,850,882	47,129,971
Profit for the year	—	—	—	—	11,202,028	11,202,028
Other comprehensive income/(loss)	—	—	(293,072)	—	—	(293,072)
Total comprehensive income/(loss)	—	—	(293,072)	—	11,202,028	10,908,956
Share-based payments	—	—	—	330,184	—	330,184
Balance at 31 December 2016	284	26,216,147	431,570	668,200	31,052,910	58,369,111

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.

The accompanying notes on pages 106 to 144 are an integral part of these financial statements.

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 P.O. Box 3340, Road Town, Tortola, BVI. The registered office of the Group's main operating entity, Lenta LLC, is located at 112, Lit. B, Savushkina Street, 197374, Saint Petersburg, Russia.

Starting from March 2014 the Company's shares were listed on the London Stock Exchange and Moscow Exchange in the form of Global Depositary Receipts (GDR).

At 31 December 2017 and 2016 the Group has 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. Other subsidiaries are property or investment holding companies by their nature.

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 foreseeable future, which take into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, and 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 2017, the Group had net current liabilities of RUB 35,877,221 (net current liabilities at 31 December 2016: 28,886,297).

Unused credit facilities available as of 31 December 2017 were RUB 61,550,000. Management believes that operating cash flows and available borrowing capacity will provide the Group with 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 2017. 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.

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 in the consolidated statement of 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 from 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.

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.

2. Basis of preparation and significant accounting policies continued

2.3 Summary of significant accounting policies continued

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 31.

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 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 categorised 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 categorisation (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 from 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 capitalised and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

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	2 to 15

Leasehold rights

Leasehold rights acquired as part of hypermarket and supermarket development projects are separately reported at cost less accumulated amortisation and accumulated impairment losses. These leasehold rights are amortised 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.

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 unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. Basis of preparation and significant accounting policies continued

2.3 Summary of significant accounting policies continued

Impairment of non-financial assets continued

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.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of 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 utilised. 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 utilised.

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 utilised.

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.

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 realisable value. Cost of inventory is determined on the weighted average basis. Net realisable 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 capitalised 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 recognises 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.

2. Basis of preparation and significant accounting policies continued

2.3 Summary of significant accounting policies continued

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 29). 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 29).

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.

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 are 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 a 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.

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.

2. Basis of preparation and significant accounting policies continued

2.3 Summary of significant accounting policies continued

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.

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 from the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised 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.

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 recognised 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 recognised 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.

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.

Assets held for sale

In September 2017 management decided to put up for auction one object under construction and 10 land plots, of which nine plots are owned on a freehold basis and 1 plot is in leasehold. Assets are classified as held for sale for the following reasons:

- Plots are available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification;
- In September 2017 the Group entered into a contract with the auction house.

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 short terms 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 33 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. 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.

3. Significant accounting judgments, estimates and assumptions continued

Tax legislation continued

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 29.

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 2016, except for the adoption of new or revised standards and interpretations effective as of 1 January 2017.

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group has provided the information in Note 31.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance.

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments do not have any impact on the Group as there has been no entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale during the period.

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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: 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 providing comparative information is not compulsory. The Group made a choice to continue applying IAS 39 *Financial Instruments: Recognition and Measurement* to all existing hedge contracts (Note 32).

The Group will adopt the new standard on the required effective date and has elected to apply the limited exemption in IFRS 9 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are to be recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This 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 2018 when the Group will adopt IFRS 9.

Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification requirements of IFRS 9.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principle and interest.

The Group analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Derecognition: modification of debt not treated as extinguishment

IFRS 9 requires the Group to revise the carrying amount of the debt instrument when a modification is not accounted for as an extinguishment to reflect the net present value of the revised cash flows discounted at the original effective interest rate together with a corresponding profit or loss. The approach applied by the Group under IAS 39 allowed not to revise the carrying amount of the debt instrument and to amortise debt instrument using the updated effective interest rate. Based on the assessments undertaken to the date, the change in the accounting policy will result in decrease in the carrying value of borrowings by up to RUB 800,000. The Group is still assessing the potential effect on its consolidated financial statements.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or at FV through OCI, except for investments in equity instruments.

Loss allowances are measured on either of the following bases:

- 12-month basis – these are expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- Lifetime basis – these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The Group holds accounts receivable with no financing component and which have maturities of less than 12 months at amortised cost and therefore has adopted an approach similar to the simplified approach to ECLs.

Other financial assets at amortised cost include short-term deposits. The Group will apply general approach to providing for expected credit losses in relation to such financial assets.

Based on the assessments undertaken to the date, the Group has estimated that the loss allowance on accounts receivable could be amounted up to RUB 700,000 with related deferred tax effect of RUB 140,000. The loss allowance for other financial assets held at amortised cost determined as insignificant.

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions. Therefore, the Group determined that no significant allowances are required at 31 December 2017 in connection with the adoption of the new impairment model under 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 plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group has performed a detailed impact assessment of IFRS 9.

Sale of goods

The Group is in the business of retail trade. The Group expects the revenue recognition to occur when control of the asset is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Adoption of IFRS 15 is not expected to have any impact on the Groups revenue and profit or loss.

Loyalty points programmes

Under IFRIC 13 *Customer Loyalty Programmes*, the loyalty programme offered by the Group results in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under IFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on relative stand-alone selling price instead of allocation using the fair value of points issued, i.e. residual approach, as it did under IFRIC 13. The Group determined that the change in the accounting policy will not have material impact on Group's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

5. Standards issued but not yet effective continued

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17). A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applied to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFSR 15. This standard is not applicable to the Group.

IAS 40 Investment property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

The amendments will eliminate diversity in practice. The amendments are effective for annual periods beginning on or after 1 January 2018.

These amendments are not expected to have any impact on the Group.

Annual improvements cycle – 2014-2016 (issued in December 2016)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendments to IFRS 1

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.These amendments are not expected to have any impact on the Group.

IAS 28 Investments in Associates and Joint Ventures – Amendments to IAS 28

The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments are not expected to have any impact on the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) the beginning of the reporting period in which the entity first applies the interpretation or (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.

However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addressed the accounting for income taxes when tax treatment involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levied outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addressed the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for the annual reporting periods beginning on or after 1 January 2019, but certain transitions reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

for the year ended 31 December 2017 (in thousands of Russian roubles)

5. Standards issued but not yet effective continued

Annual improvements to IFRSs 2015-2017 cycle

The IASB has issued the annual improvements to IFRS standards 2015-2017 cycle. The amendments affect four standards:

- IFRS 3 *Business Combinations*;
- IFRS 11 *Joint Arrangements*;
- IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments are effective for annual periods beginning on or after 1 January 2019 and have no impact on 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 intermediate holding subsidiary Zoronvo Holdings Limited, which is 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;
- Centralised Group structure (commercial, operational, logistic, finance, HR and IT functions are centralised).

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyse 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, amortisation (EBITDA).

The accounting policies used for the operating segment are the same as accounting policies applied for the consolidated financial statements.

The segment information for the year ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales	**365,177,586**	306,352,092
EBITDA	**35,490,158**	31,389,826

Reconciliation of EBITDA to IFRS profit for the year is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
EBITDA	**35,490,158**	31,389,826
Interest expense	**(10,942,820)**	(10,084,573)
Interest income	**445,751**	851,813
Income tax expense (see Note 23)	**(1,908,354)**	(3,351,220)
Depreciation/amortisation (see Note 9, 11, 12, 27)	**(9,691,447)**	(7,694,569)
Impairment of assets held for sale (see Note 13)	**(222,147)**	—
Foreign exchange gains	**92,398**	90,751
Profit for the year	**13,263,539**	11,202,028

7. Acquisition of subsidiaries

On 30 November 2016 the Group purchased the Kesko food retail business in Russia ("KFR"), operating under the K-Ruoka brand. The Group became the owner of 100% participatory interests in six KFR companies registered in Russia and dealing in food and non-food retail business through a chain of 11 hypermarkets. As a result, cost of acquisition of all of the participatory interests in six KFR companies for the Group amounted to RUB 11,296,152, including cash consideration paid of RUB 11,414,113, less adjustment for working capital of RUB 117,961 at acquisition date.

During 2017 the Group finalised purchase price allocation for acquisitions occurred in 2016, which resulted in no change from provisional values.

The fair values of the identifiable assets and liabilities of KFR as at the date of acquisition were:

	Fair value recognized on acquisition
Property, plant and equipment (Note 9)	9,992,668
Prepayments for construction	10,590
Leasehold rights (Note 11)	751,919
Deferred tax assets (Note 23)	208,137
Inventories	213,364
Trade and other receivable	123,296
Advances paid	47,398
VAT and other taxes recoverable	312,766
Cash and cash equivalents	313,632
Deferred tax liability (Note 23)	(74,296)
Trade and other payables	(589,532)
Advances received	(5,340)
Current income tax payable	(8,450)
Fair value of the identifiable net assets	**11,296,152**
Total acquisition cost	**11,296,152**

During the year ended 31 December 2016 cash flow of acquisition was as follows:

	Cash flow of acquisition
Cash paid	11,414,113
Less cash acquired with subsidiaries	(313,632)
Net cash flow on acquisition	**11,100,481**

Cash inflows refunded in 2017 upon finalisation of working capital adjustment and purchase price fixing amounted to RUB 117,961.

On 28 September 2017 all 6 KFR companies were merged into main operational subsidiary of the Group Lenta LLC.

for the year ended 31 December 2017 (in thousands of Russian roubles)

8. 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 2017	31 December 2016
EBRD		
Accrued liabilities	—	75
TPG Capital		
Accrued liabilities	**6,192**	3,260

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2017	Year ended 31 December 2016
EBRD		
Repayments of borrowings	—	(4,554,240)
Interest expense	—	340,077
Business trip expenses	—	155
Consulting services	—	75
TPG Capital		
Directors fee	**12,121**	28,784
Business trip expenses	**1,237**	1,214

Remuneration to the members of the Board of Directors and key management personnel is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Short-term benefits	**527,821**	666,246
Long-term benefits (share-based payments, Note 29)	**343,345**	280,693
Termination benefits	**8,462**	—
Total remuneration	**879,628**	946,939

9. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2017	**17,870,601**	**10,063,825**	**100,491,459**	**42,961,063**	**3,288,066**	**174,675,014**
Additions	**—**	**—**	**—**	**313**	**31,575,451**	**31,575,764**
Transfers from construction in progress	**2,739,073**	**1,403,505**	**17,701,414**	**10,261,262**	**(32,105,254)**	**—**
Transfers from leasehold rights	**898,288**	**—**	**—**	**—**	**—**	**898,288**
Transfers to assets held for sale	**(378,611)**	**—**	**—**	**—**	**(124,298)**	**(502,909)**
Disposals	**(119,348)**	**—**	**(71,155)**	**(274,001)**	**(47,166)**	**(511,670)**
Balance at 31 December 2017	**21,010,003**	**11,467,330**	**118,121,718**	**52,948,637**	**2,586,799**	**206,134,487**
Accumulated depreciation and impairment						
Balance at 1 January 2017	**—**	**1,300,128**	**11,325,932**	**14,236,665**	**—**	**26,862,725**
Charge for the year	**—**	**346,383**	**3,678,008**	**5,151,841**	**—**	**9,176,232**
Disposals	**—**	**—**	**(3,309)**	**(209,567)**	**—**	**(212,876)**
Balance at 31 December 2017	**—**	**1,646,511**	**15,000,631**	**19,178,939**	**—**	**35,826,081**
Net book value						
Balance at 1 January 2017	**17,870,601**	**8,763,697**	**89,165,527**	**28,724,398**	**3,288,066**	**147,812,289**
Balance at 31 December 2016	**21,010,003**	**9,820,819**	**103,121,087**	**33,769,698**	**2,586,799**	**170,308,406**

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2016	12,582,774	7,116,578	71,205,405	29,434,011	3,564,759	123,903,527
Additions	19,046	—	—	66	41,041,432	41,060,544
Transfers from construction in progress	3,397,951	2,642,680	23,360,680	11,769,060	(41,170,371)	—
Transfers from leasehold rights	618,314	—	—	—	—	618,314
Acquisition of subsidiaries (Note 7)	1,253,373	309,987	6,089,079	2,323,192	17,037	9,992,668
Disposals	(857)	(5,420)	(163,705)	(565,266)	(164,791)	(900,039)
Balance at 31 December 2016	17,870,601	10,063,825	100,491,459	42,961,063	3,288,066	174,675,014
Accumulated depreciation and impairment						
Balance at 1 January 2016	—	1,041,933	8,647,931	10,197,205	—	19,887,069
Charge for the year	—	258,724	2,702,141	4,376,332	—	7,337,197
Disposals	—	(529)	(24,140)	(336,872)	—	(361,541)
Balance at 31 December 2016	—	1,300,128	11,325,932	14,236,665	—	26,862,725
Net book value						
Balance at 1 January 2016	12,582,774	6,074,645	62,557,474	19,236,806	3,564,759	104,016,458
Balance at 31 December 2016	17,870,601	8,763,697	89,165,527	28,724,398	3,288,066	147,812,289

During the years ended 31 December 2017 and 2016 the Group is not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalisation. Thus, no borrowings costs were capitalised during those periods.

No property, plant and equipment is held by the Group under finance leases at 31 December 2017 and as at 31 December 2016.

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9. Property, plant and equipment continued

Depreciation and amortisation expense

The amount of depreciation charged during the year ended 31 December 2017 and year ended 31 December 2016 is presented within depreciation and amortisation 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 2017	Year ended 31 December 2016
Depreciation of property, plant and equipment (Note 9)	**9,176,232**	7,337,197
Amortisation of intangible assets (Note 12)	**424,753**	290,898
Leasehold rights amortisation (Note 11)	**90,462**	66,474
Total depreciation and amortisation	**9,691,447**	7,694,569

See Note 30 for capital commitments.

10. Prepayments for construction

Prepayments for construction are represented by advances given to the constructors for the building of the stores and to suppliers.

Prepayments are regularly monitored on the subject of impairment. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment 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 prepayments. As at 31 December 2017 the Group impaired RUB 125,749 of prepayments (31 December 2016: RUB 378,672).

11. Leasehold rights

Leasehold rights as at 31 December 2017 consist of the following:

	Leasehold rights
Cost	
At 1 January 2017	**3,979,647**
Additions	**462,099**
Transfer to PPE	**(946,465)**
Transfer to assets held for sale	**(153,000)**
At 31 December 2017	**3,342,281**
Accumulated amortisation	
At 1 January 2017	**235,638**
Charge for the year	**90,462**
Transfer to PPE	**(48,178)**
Transfer to assets held for sale	**(10,668)**
At 31 December 2017	**267,254**
Net book value	
At 1 January 2017	**3,744,009**
At 31 December 2017	**3,075,027**

Leasehold rights as at 31 December 2016 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2016	3,255,655
Additions	630,989
Acquisition of subsidiaries	751,919
Disposals	(1,279)
Transfer to PPE	(657,637)
At 31 December 2016	3,979,647
Accumulated amortisation	
At 1 January 2016	208,487
Charge for the year	66,474
Transfer to PPE	(39,323)
At 31 December 2016	235,638
Net book value	
At 1 January 2016	3,047,168
At 31 December 2016	3,744,009

Amortisation expense is included in selling, general and administrative expenses (Note 27).

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12. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2017 consist of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2017	**3,167,431**	**549**	**3,167,980**
Additions	**377,301**	**—**	**377,301**
Disposals	**(83,124)**	**—**	**(83,124)**
At 31 December 2017	**3,461,608**	**549**	**3,462,157**
Accumulated amortisation			
At 1 January 2017	**1,277,256**	**549**	**1,277,805**
Amortisation for the period	**424,753**	**—**	**424,753**
Disposals	**(57,117)**	**—**	**(57,117)**
At 31 December 2017	**1,644,892**	**549**	**1,645,441**
Net book value			
At 1 January 2017	**1,890,176**	**—**	**1,890,176**
At 31 December 2017	**1,816,716**	**—**	**1,816,716**

Intangible assets other than leasehold rights as at 31 December 2016 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2016	2,078,687	549	2,079,236
Additions	1,088,745	—	1,088,745
At 31 December 2016	3,167,432	549	3,167,981
Accumulated amortisation			
At 1 January 2016	986,358	549	986,907
Amortisation for the period	290,898	—	290,898
At 31 December 2016	1,277,256	549	1,277,805
Net book value			
At 1 January 2016	1,092,329	—	1,092,329
At 31 December 2016	1,890,176	—	1,890,176

Amortisation expense is included in selling, general and administrative expenses (Note 27). As of 31 December 2017 and 2016 the trademarks are fully amortised.

13. Assets held for sale

Upon the decision of the Board of Directors the Group publicly announced its committed plan to sell one object under construction and ten land plots.

The sale of assets is expected to be completed within a year from the reporting date. At 30 September 2017, assets were classified as assets held for sale.

Immediately before the classification of the land plots and the object under construction as assets held for sale, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified. Following the classification, a write-down of RUB 222,147 was recognised in December 2017 to reduce the carrying amount of the assets to their fair value less costs to sell.

14. Inventories

	31 December 2017	31 December 2016
Goods for resale (at lower of cost and net realisable value)	**35,969,948**	26,191,962
Raw materials	**963,180**	1,298,979
Total inventories	**36,933,128**	27,490,941

Raw materials are represented by inventories used in own production process in butchery, bakery and culinary.

	31 December 2017	31 December 2016
Goods for resale (at cost)	**36,881,127**	27,437,087
Write down to net realisable value	**(911,179)**	(1,245,125)
Goods for resale (at lower of cost and net realisable value)	**35,969,948**	26,191,962

During the reporting period the Group accounted for reversal of write down of inventories to their net realisable 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 2017 in the amount of RUB 333,945.

During the year ended 31 December 2016 the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the amount of RUB 325,443.

15. Trade and other receivables

	31 December 2017	31 December 2016
Accounts receivable on rental and other services and on suppliers' advertising	**7,908,931**	12,892,578
Suppliers' rebates receivable	**2,944,202**	3,858,738
Other receivables	**261,143**	352,258
Provision for impairment of receivables	**(156,916)**	(67,785)
Total trade and other receivables	**10,957,360**	17,035,789

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 recognised 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.

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.

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15. Trade and other receivables continued

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2017:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	**29,007**	**10,057**	**13,397**	**2,825,699**	**2,878,160**
Accounts receivable on rental and other services	**388,767**	**5,485**	**16,963**	**7,434,682**	**7,845,897**
Other receivables	**62,623**	**5,291**	**7,647**	**157,742**	**233,303**
Total	**480,397**	**20,833**	**38,007**	**10,418,123**	**10,957,360**

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2016:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	322,208	5,613	22,260	3,486,694	3,836,775
Accounts receivable on rental and other services	758,337	53,411	60,141	11,975,546	12,847,435
Other receivables	64,594	9,814	20,689	256,482	351,579
Total	1,145,139	68,838	103,090	15,718,722	17,035,789

16. Advances paid

	31 December 2017	31 December 2016
Advances to suppliers of goods	**565,998**	1,162,541
Advances for services	**1,686,414**	1,109,412
Guarantee payments under lease contracts	**610,034**	397,808
Total advances paid	**2,862,446**	2,669,761

17. Taxes recoverable

Taxes recoverable as at 31 December 2017 are represented by a VAT recoverable of RUB 2,874,174 (31 December 2016: RUB 3,920,940).

18. Cash and cash equivalents

	31 December 2017	31 December 2016
Rouble short-term deposits	**2,540,825**	5,669,714
Rouble denominated cash in transit	**7,135,388**	5,272,838
Rouble denominated cash on hand and balances with banks	**4,530,925**	2,062,814
Foreign currency denominated cash on hand and balances with banks	**94,721**	32,401
Total cash and cash equivalents	**14,301,859**	13,037,767

Cash in transit represents cash receipts made during the last day of the reporting period (29-31 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's 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.

19. Issued capital and reserves

Issued capital

As at 31 December 2017 the Company's share capital is comprised of 97,416,963 authorised and issued ordinary shares (as at 31 December 2016: 97,318,746) with equal voting rights. Paid value of shares with no par value is fully accounted for within additional paid-in capital.

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 realisable 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 are declared for the years ended 31 December 2017 and 2016.

The movements in the number of shares for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017 No.	31 December 2016 No.
Authorised share capital (ordinary shares)	**unlimited**	unlimited
Issued and fully paid	**97,416,963**	97,318,746

	31 December 2017 No.	31 December 2016 No.
Balance of shares outstanding at beginning of financial year	**97,318,746**	97,318,746
Additional issue of shares	**98,217**	—
Balance of shares outstanding at the end of financial year	**97,416,963**	97,318,746

In June 2017 the Group issued 98,217 shares of no par value with respect to long-term incentive plans to certain members of management (31,744 shares) and share value appreciation rights to top management (66,473 shares) (see Note 29). The issued shares were transferred into GDR and distributed to relevant participants.

Total expense for the services received from the employees previously recognised with respect to issued shares under long-term incentive plans was RUB 53,647. Total expense for the services received from the employees recognised with respect to shares issued under share value appreciation rights was RUB 210,687.

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 29 for further details of these plans.

Hedging reserve

The hedging reserve is used to recognise the effective portion of the gain or loss from the hedging instrument and later reclassified to profit or loss when the hedge item affects profit or loss.

20. Components of other comprehensive income (OCI)

	31 December 2017	31 December 2016
Cash flow hedges		
Reclassification during the year to profit or loss	**(212,248)**	(410,581)
Related tax effect	**42,450**	82,116
Gain/(loss) arising during the year	**(121,107)**	44,241
Related tax effect	**24,221**	(8,848)
Net loss during the year	**(266,684)**	(293,072)

21. Earnings per share

	Year ended 31 December 2017	Year ended 31 December 2016
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	**0.136**	0.115

The calculation of basic earnings per share for reporting periods is based on the profit attributable to shareholders (for the year ended 31 December 2017: RUB 13,263,539, for the year ended 31 December 2016: RUB 11,202,028) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	31 December 2017	31 December 2016
Number of issued shares at the beginning of period	**97,318,746**	97,318,746
Number of shares issued on 14 June 2017	**98,217**	—
Number of shares at the end of reporting period	**97,416,963**	97,318,746
Weighted average number of shares	**97,327,428**	97,318,746

The Group has issued share-based payments' (Note 29) 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.

22. Borrowings

Short-term borrowings:

	Currency	31 December 2017	31 December 2016
Fixed rate long-term bonds (liability for interests)	RUB	**39,333**	713,803
Fixed rate long-term bank loans (liability for interests)	RUB	**115,400**	32,612
Floating rate long-term bank loans (liability for interests)	RUB	**609,503**	803,918
Fixed rate short-term bonds (liability for interests)	RUB	**719,442**	—
Fixed rate short-term bank loans (liability for interests)	RUB	**49,591**	82,853
Floating rate short-term bank loans (liability for interests)	RUB	**—**	3,266
Short-term portion of floating rate long-term bank loans	RUB	**—**	3,270,650
Short-term portion of fixed rate long-term bank loans	RUB	**26,390,004**	11,400,000
Short-term portion of fixed rate long-term bonds	RUB	**16,964,858**	—
Fixed rate short-term bank loans	RUB	**—**	18,938,018
Total short-term borrowings and short-term portion of long-term borrowings		**44,888,131**	35,245,120

Long-term borrowings:

	Currency	31 December 2017	31 December 2016
Fixed rate bonds	RUB	**4,993,339**	16,958,600
Fixed rate long-term bank loans	RUB	**31,410,105**	16,931,549
Floating rate long-term bank loans	RUB	**25,790,760**	33,065,782
Total long-term borrowings		**62,194,204**	66,955,931

The Groups' borrowings as at 31 December 2017 and 2016 are denominated in Russian roubles and are not secured by any pledge.

On 25 April 2017 the Group signed 3 year non-revolving credit line of RUB 5,000,000 with VTB Bank PJSC. The loan bears financial covenant.

On 16 May 2017 the Group signed 3 year non-revolving credit line of RUB 10,000,000 with Sberbank PJSC. The loan bears financial covenant.

On 30 May 2017 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralised storage was completed in the amount of RUB 5,000,000 with a nominal value of one thousand roubles each, 8.7% coupon rate, 1,092 days to maturity.

On 21 August 2017 the Group signed 3 year revolving credit line of RUB 5,000,000 with Credit Bank of Moscow PJSC. The loan bears financial covenant.

During the year ended 31 December 2017 the Group received RUB 108,151,429 under credit agreements concluded before 1 January 2017 and repaid RUB 123,237,143.

As at 31 December 2017 the Group had RUB 61,550,000 of unused credit facilities (as at 31 December 2016: RUB 44,150,000).

As at 31 December 2017 the Group is in compliance with all financial covenants of loan agreements.

23. Income taxes

The Group's income tax expense for the year ended 31 December 2017 and 31 December 2016 is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax expense	**691,450**	1,137,425
Deferred tax expense	**1,216,904**	2,213,795
Income tax expense recognised in profit for the year	**1,908,354**	3,351,220
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	**(66,671)**	(73,268)
Income tax (benefit)/expense recognised in OCI	**(66,671)**	(73,268)

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax	**15,171,900**	14,553,248
Theoretical tax charge at 20%	**(3,034,380)**	(2,910,649)
Difference in tax rates for foreign companies and specific tax regime in Russia	**69,752**	(101,269)
Add tax effect of non-deductible expenses	**(161,859)**	(339,302)
– share option expenses	**(84,262)**	(66,037)
– others	**(77,597)**	(273,265)
Recognition of previously unrecognised tax losses	**1,218,133**	
Income tax expense	**(1,908,354)**	(3,351,220)

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23. Income taxes continued

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.

	1 January 2017	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2017
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	**(7,488,361)**	**(1,124,362)**	**—**	**(8,612,723)**
Leasehold rights	**(430,827)**	**(115,560)**	**—**	**(546,387)**
Unused vacation and employee bonuses accrual	**261,671**	**(65,518)**	**—**	**196,153**
Suppliers' bonuses	**(874)**	**(302,986)**	**—**	**(303,860)**
Borrowings	**(129,273)**	**13,828**	**—**	**(115,445)**
Intangible assets other than leasehold rights	**(24,076)**	**3,473**	**—**	**(20,603)**
Inventory	**570,280**	**(250,681)**	**—**	**319,599**
Provision for impairment of receivables, advances and prepayments for construction	**79,949**	**30,304**	**—**	**110,253**
Consulting and other accruals	**121,539**	**43,674**	**—**	**165,213**
Cash flow hedging instruments	**(158,236)**	**—**	**66,671**	**(91,565)**
Tax losses carried forward	**—**	**543,499**	**—**	**543,499**
Other	**(38,282)**	**7,425**	**—**	**(30,857)**
Total net deferred tax liabilities	**(7,236,490)**	**(1,216,904)**	**66,671**	**(8,386,723)**

	1 January 2016	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	Deferred tax on acquisition of subsidiaries (Note 7)	31 December 2016
Tax effect of (taxable) deductible temporary differences					
Property, plant and equipment	(5,116,612)	(2,429,169)	—	57,420	(7,488,361)
Leasehold rights	(428,445)	(2,382)	—	—	(430,827)
Unused vacation and employee bonuses accrual	257,209	4,462	—	—	261,671
Suppliers' bonuses	(70,733)	69,859	—	—	(874)
Borrowings	(194,331)	65,058	—	—	(129,273)
Intangible assets other than leasehold rights	(20,769)	(3,307)	—	—	(24,076)
Inventory	415,175	96,393	—	58,712	570,280
Provision for impairment of receivables, advances and prepayments for construction	48,059	30,029	—	1,861	79,949
Finance leasing	3,418	(3,418)	—	—	—
Consulting and other accruals	65,920	39,532	—	16,087	121,539
Customs duty payable	37,618	(37,618)	—	—	—
Cash flow hedging instruments	(227,606)	(3,898)	73,268	—	(158,236)
Other	1,293	(39,336)	—	(239)	(38,282)
Total net deferred tax liabilities	(5,229,804)	(2,213,795)	73,268	133,841	(7,236,490)

The temporary taxable differences associates with undistributed earnings of subsidiaries amount to RUB 61,556,675 and RUB 59,399,304 as of 31 December 2017 and 2016, respectively. A deferred tax liability on these temporary differences was not recognised, because management believes that it is in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

As of 31 December 2017 the Group has tax losses of RUB 2,717,500 that are available indefinitely for offsetting against future taxable profits.

24. Trade and other payables

	31 December 2017	31 December 2016
Trade payables	**46,716,600**	46,612,578
Accrued liabilities and other creditors	**5,400,930**	4,437,082
Payables for purchases of property, plant and equipment	**5,142,232**	5,121,938
Total trade and other payables	**57,259,762**	56,171,598

The trade and other payables are denominated in:

	31 December 2017	31 December 2016
Russian roubles	**56,281,962**	55,569,398
USD	**699,959**	418,393
EUR	**277,266**	165,950
GBP	**575**	17,857
Total trade and other payables	**57,259,762**	56,171,598

25. Other taxes payable

	31 December 2017	31 December 2016
Social taxes	**482,221**	559,625
Property tax	**410,756**	381,379
Personal income tax	**200,096**	157,637
Other taxes	**38,026**	12,665
Total other taxes payable	**1,131,099**	1,111,306

26. Cost of sales

Cost of sales for the years ended 31 December 2017 and 31 December 2016 consists of the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Cost of goods sold	**252,221,409**	204,373,681
Cost of own production	**24,257,480**	24,810,938
Supply chain cost	**3,780,289**	3,795,679
Losses due to inventory shortages and write down to net realisable value	**6,682,900**	5,603,731
Total cost of sales	**286,942,078**	238,584,029

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of sales for the year ended 31 December 2017 includes employee benefits expense of RUB 6,327,761 (year ended 31 December 2016: RUB 4,904,358) of which contributions to state pension fund are comprised of RUB 860,233 (year ended 31 December 2016: RUB 704,788).

The cost of own production consists of the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Raw materials	**18,751,044**	20,497,106
Labour costs	**4,411,435**	3,492,856
Utilities	**898,094**	700,859
Repairs and maintenance	**196,907**	120,117
Total cost of own production	**24,257,480**	24,810,938

for the year ended 31 December 2017 (in thousands of Russian roubles)

27. Selling, general and administrative expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefits	**20,434,789**	17,522,506
Depreciation and amortisation (Note 9, 11, 12)	**9,691,447**	7,694,569
Advertising	**3,982,726**	3,324,415
Premises lease	**3,903,568**	3,167,843
Utilities and communal payments	**3,687,108**	2,959,131
Professional fees	**2,782,995**	2,615,199
Cleaning	**2,298,450**	1,789,987
Repairs and maintenance	**2,013,451**	1,636,793
Security services	**1,634,708**	1,300,135
Taxes other than income tax	**1,688,681**	1,263,223
Land and equipment lease	**308,075**	267,793
Pre-opening costs	**995,158**	743,348
Other	**2,496,428**	2,157,568
Total selling, general and administrative expenses	**55,917,584**	46,442,510

Employee benefits for the year ended 31 December 2017 include contributions to state pension fund of RUB 2,620,860 (year ended 31 December 2016: RUB 2,234,917).

Pre-opening costs for the year ended 31 December 2017 include employee benefits of RUB 561,197 (year ended 31 December 2016: RUB 414,530) of which contributions to state pension fund are comprised RUB 70,579 (year ended 31 December 2016: RUB 46,496).

Professional fees for the year ended 31 December 2017 include fees billed by Ernst & Young LLC: for the audit of the consolidated financial statements in the amount of RUB 23,628 (for the year ended 31 December 2016: RUB 25,186) and for consulting and other non audit services in the amount of RUB 8,971 (for the year ended 31 December 2016: RUB 20,725).

28. Other operating income and expenses

Other operating income is comprised of the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Rental income	**1,296,371**	973,959
Penalties due by suppliers	**1,089,179**	788,786
Sale of secondary materials	**755,505**	497,245
Advertising income	**718,264**	488,599
Gain on property, plant and equipment disposal	**90,565**	17,165
Amounts received from lawsuit settlement	**—**	188,089
Other	**179,348**	132,236
Total other operating income	**4,129,232**	3,086,079

Other operating expenses are comprised of the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Change in provision for impairment of receivables, advances and prepayments for construction (Note 10,15)	**221,491**	178,504
Loss from fixed assets and intangible assets disposal	**138,024**	280,492
Penalties from government authorities	**110,907**	18,185
Penalties for breach of a contracts with suppliers and lessors	**37,706**	61,653
Amounts paid in settlement of lawsuit	**10,287**	125,870
Non-recoverable VAT	**10,669**	9,259
Other	**119,361**	42,412
Total other operating expenses	**648,445**	716,375

29. Share-based payments

Long-term incentive plan

During the year 2014 the Group approved a long-term incentive plan (LTIP) to certain members of management, according to which the Company granted award shares in 2014, 2015, 2016 and 2017 along with the 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.

In June 2017 the Group issued 31,744 shares of nor par value with respect to LTIP Tranche 2014 (see Note 19). Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 53,647.

The vesting date of 100% of Tranche 2015 is 1 April 2018. The vesting dates of awards granted during the year 2016 are 31 December 2018 and 1 April 2019. The vesting date of 100% of newly granted in the year 2017 award is 1 April 2020.

The fair value of the award shares was estimated based on the GDR price on Moscow Exchange on the award grant date.

Total expense recognised for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2017 and the year ended 31 December 2016 is shown in the following table:

	Year ended 31 December 2017	Year ended 31 December 2016
Expense arising from the equity-settled long-term incentive plan payments	289,462	139,355

Share value appreciation rights

During the 2013 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

In June 2017 the Group issued 66,473 shares of no par value with respect to share value appreciation rights to top management (see Note 19). Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 210,687. The shares were transferred into GDR and distributed to relevant participants.

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2017 was 0.44 years (31 December 2016: 1.76 years).

The weighted average exercise price for options outstanding as at 31 December 2017 is RUB 1.585 (31 December 2016: RUB 1.562).

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29. Share-based payments continued

The weighted average fair value of options outstanding as at 31 December 2017 is RUB 0.94 (year ended 31 December 2016: RUB 0.89).

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 2017	Year ended 31 December 2016
Expense arising from the equity-settled SVARs transaction	131,848	190,828

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.

30. Commitments

Capital expenditure commitments

At 31 December 2017 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 14,089,672 net of VAT (31 December 2016: RUB 21,055,701 net of VAT).

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	**5,561,773**	4,353,739
Later than 1 year and not later than 5 years	**22,635,742**	17,616,198
Later than 5 years	**33,561,979**	32,311,175
Total operating lease commitments	**61,759,494**	54,281,112

31. Financial instruments

Categories of financial instruments

	31 December 2017	31 December 2016
Financial assets measured at fair value		
Cash flow hedging instruments	**8,179**	372,210
Financial assets measured at amortised cost		
Cash	**14,301,859**	13,037,767
Trade and other receivables	**10,957,360**	17,035,789
Total financial assets measured at amortised cost	**25,259,219**	30,073,556
Financial liabilities measured at fair value		
Cash flow hedging instruments	**18,049**	48,725
Financial liabilities measured at amortised cost		
Floating rate long-term borrowings	**26,400,263**	33,869,700
Fixed rate long-term borrowings and bonds	**36,558,178**	34,636,564
Fixed rate short-term borrowings and bonds	**44,123,894**	30,420,871
Floating rate short-term borrowings	**—**	3,273,916
Trade and other payables	**57,259,762**	56,171,598
Total financial liabilities measured at amortised cost	**164,342,097**	158,372,649

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 2017:

	31 December 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	**8,179**	**—**	**8,179**	**—**
Financial liabilities measured at fair value				
Cash flow hedging instruments	**18,049**	**—**	**18,049**	**—**
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	**23,276,798**	**23,276,798**	**—**	**—**
Floating rate borrowings	**26,400,263**	**—**	**26,400,263**	**—**
Fixed rate borrowings	**57,621,654**	**—**	**57,621,654**	**—**

	31 December 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	372,210	—	372,210	—
Financial liabilities measured at fair value				
Cash flow hedging instruments	48,725	—	48,725	—
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	18,260,825	18,260,825	—	—
Floating rate borrowings	37,143,616	—	37,143,616	—
Fixed rate borrowings	47,002,207	—	47,002,207	—

During the year ending 31 December 2017 and 31 December 2016, there are no transfers between Level 1, Level 2 and Level 3 of 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 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash flow hedging instruments	**8,179**	**8,179**	372,210	372,210
Financial liabilities				
Interest-bearing loans and borrowings				
Floating rate borrowings	**26,400,263**	**26,400,263**	37,143,616	37,143,616
Fixed rate borrowings and bonds	**80,682,072**	**80,898,452**	65,057,435	65,263,032
Derivative liabilities				
Cash flow hedging instruments	**18,049**	**18,049**	48,725	48,725
Total financial liabilities	**107,100,384**	**107,316,764**	102,249,776	102,455,373

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.

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31. Financial instruments continued

Fair values continued

The following methods and assumptions are 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 own non-performance risk as at 31 December 2017 and 31 December 2016 is assessed to be insignificant.
- 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 2017 and 31 December 2016, 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.

Changes in liabilities arising from financing activities

	1 January 2017	Proceeds from borrowings	Repayments of borrowings	Other	31 December 2017
Borrowings	102,201,051	127,210,525	(122,415,714)	86,473	107,082,335

The 'Other' column includes the effect of accrued but not yet paid interest on interest bearing loans. Group classifies interest paid as cash flows from operating activities.

32. Hedge and hedging instruments

In 2013-2015 the Group entered into interest rate swaps and caps provided by VTB Bank PJSC 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 the earlier of the expiry date or the fourth settlement date for the floating amounts paid by VTB Bank PJSC to the Group.

As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2017	Notional amount 2016	Fixed interest rate	Fixed commission	Effective date	Expiry date
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 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 2017	31 December 2016
Non-current asset	—	62,618
Current assets	**8,179**	309,592
Non-current liability	—	(2,137)
Current liability	**(18,049)**	(46,588)
Net derivative (liability)/asset	**(9,870)**	323,485

The Group performs fair value assessment of the fair values of swaps and caps at the reporting date:

	31 December 2017	31 December 2016
Swaps	**8,179**	372,210
Caps	**(18,049)**	(48,725)
Net derivative (liability)/asset	**(9,870)**	323,485

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 on or loss from the hedging instrument was recognised in other comprehensive income in hedging reserve.

The effect from changes in fair value of financial instruments is recognised as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit or loss		
Ineffective portion of the change in the fair value of cash flow hedging instruments	**—**	—
Reclassification from hedge reserve into interest expense	**212,248**	410,581
	212,248	410,581
Other comprehensive income		
Effective portion of the change in the fair value of cash flow hedging instruments	**(121,107)**	44,241
Reclassification from hedge reserve into interest expense	**(212,248)**	(410,581)
	(333,355)	(366,340)

33. Financial risk management

The Group's principal financial liabilities, other than derivatives, are comprised 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 summarised 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 years ended 31 December 2017 and 2016, the Group does 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.

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33. Financial risk management continued

At 31 December 2017 and at 31 December 2016 there are 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 2017	**11.00%**	**(76,995)**
	-11.00%	**76,995**
Year ended 2016	20.00%	(83,682)
	-20.00%	83,682

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 2017	**12.50%**	**(34,657)**
	-12.50%	**34,657**
Year ended 2016	20.00%	(33,195)
	-20.00%	33,195

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.

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 2017 these obligations are represented with long-term borrowing (Note 22), 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 32).

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	
	50 bp increase	150 bp decrease	50 bp increase	150 bp decrease
2017				
Variable rate instruments	**(157,434)**	**472,303**	**—**	**—**
Interest rate swaps and caps	**67,063**	**(201,188)**	**20,858**	**(62,501)**
Cash flow sensitivity (net)	**(90,371)**	**271,115**	**20,858**	**(62,501)**

	Profit or loss		OCI	
	200 bp increase	400 bp decrease	200 bp increase	400 bp decrease
2016				
Variable rate instruments	(775,287)	1,550,574	—	—
Interest rate swaps and caps	337,619	(576,600)	313,312	(647,145)
Cash flow sensitivity (net)	(437,668)	973,974	313,312	(647,145)

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 2017 all of the Group's borrowings are 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 32 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 2017 is as follows:

	31 December 2017
Total floating rate borrowings (gross of direct issue costs)	25,790,760
Less notional amount of interest rate financial instruments (Note 32)	(24,300,000)
Net exposure to interest rate fluctuations	1,490,760
% of floating rate borrowings exposed to interest rate fluctuations	6%

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 recognised, 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 14,067,804 (31 December 2016: RUB 12,853,791).

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33. Financial risk management continued

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 analyses its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 bases 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 2017

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	**52,153,762**	**64,796,766**	**7,838,694**	**124,789,222**
Trade and other payables	**57,259,762**	**—**	**—**	**57,259,762**
Amounts payable under swaps and caps	**18,049**	**—**	**—**	**18,049**
Total	**109,431,573**	**64,796,766**	**7,838,694**	**182,067,033**

31 December 2016

	Less than 12 months	1-5 years	Over 5 years	Total
Borrowings	43,797,302	68,974,211	14,415,411	127,186,924
Trade and other payables	56,171,598	—	—	56,171,598
Amounts payable under swaps and caps	58,106	16,238	—	74,344
Total	100,027,006	68,990,449	14,415,411	183,432,866

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation 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 22, 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 19.

Net debt of the Group is comprises of the following:

	31 December 2017	31 December 2016
Borrowings	**107,082,335**	102,201,051
Cash and cash equivalents (Note 18)	**(14,301,859)**	(13,037,767)
Net debt	**92,780,476**	89,163,284

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.

34. 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.

The future stability of the Russian economy is largely dependent upon economic reforms, development of the legal, tax and regulatory frameworks, and the effectiveness of financial and monetary measures undertaken by the government of the Russian Federation.

While the current political situation in the country is relatively stable, the fall in crude oil prices, significant devaluation of the Russian ruble and sanctions imposed on Russia have had an adverse impact on the Russian economy.

While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects. Capital markets instability may result in significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

However, in case changes in the Russian Federation have an adverse effect, the Company will make every effort to mitigate the negative implications on the Company's financial position and financial performance.

The risks of military conflict, state of emergency in the country where the Company operates are assessed as low and thus are unlikely to have a significant effect on the Company's activities. In order to mitigate the risk of terrorist attacks, the Company has provided for additional measures to ensure work security.

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 15,805 as at 31 December 2017 (31 December 2016: RUB 511,656). 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 characterised 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 483,211 (31 December 2016: RUB 288,582). No tax provisions are recorded as at 31 December 2017 and 31 December 2016. 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 containing a short lease term 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 are accrued as at 31 December 2017 and 31 December 2016.

34. Contingencies continued

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 recognised 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.

35. Events occurring after the reporting period

On 7 February 2018 the Group received RUB 4,100,000 under credit agreement with UniCredit Bank JSC with maturity period of 4 years. The loan bears financial covenant.

On 22 January 2018 coupons 6-11 on BO 03 series bonds issued in August 2015 were reset at 7.25% per annum, put option right on early redemption after 3 years (February 2021). On 5 February 2018 the Group executed an offer of BO 03 series bonds with total nominal value of RUB 4,461,535.

Appendices

List of cities as of 31 December 2017

Number on the map	Cities[1]	Number of hypermarkets	Number of supermarkets	Number of distribution centres
1	Achinsk	1	—	
2	Almetyevsk	1	—	
3	Armavir	1	—	
4	Astrakhan	2	—	
5	Balakovo	1	—	
6	Barnaul	3	—	
7	Belgorod	2	—	
8	Biysk	1	—	
9	Bratsk	1	—	
10	Bryansk	1	—	
11	Cheboksary	1	—	
12	Chelyabinsk	6	—	
13	Cherepovets	3	—	
14	Cherkessk	1	—	
15	Dimitrovgrad	1	—	
16	Ekaterinburg	3	8	1
17	Engels	2	—	
18	Grozny	1	—	
19	Irkutsk	2	—	
20	Ivanovo	3	1	
21	Izhevsk	1	—	
22	Kaluga	2	2	
23	Kamensk-Uralsky	1	—	
24	Kazan	4	—	
25	Kemerovo	3	—	
26	Khanty-Mansiysk	1	—	
27	Kostroma	1	—	
28	Krasnodar	3	—	
29	Krasnoyarsk	5	—	
30	Kursk	1	—	
31	Lipetsk	2	—	
32	Magnitogorsk	2	—	
33	Moscow	24	43	2
34	Murmansk	1	—	
35	Naberezhnye Chelny	1	—	
36	Nizhnekamsk	1	—	
37	Nizhniy Novgorod	4	—	
38	Nizhniy Tagil	2	—	
39	Novocherkassk	1	—	
40	Novokuznetsk	5	—	
41	Novorossiysk	2	—	
42	Novoshakhtinsk	1	—	
43	Novosibirsk	7	15	1
44	Obninsk	1	—	
45	Omsk	6	—	

Number on the map	Cities[1]	Number of hypermarkets	Number of supermarkets	Number of distribution centres
46	Orel	1	—	
47	Orenburg	5	—	
48	Orsk	1	—	
49	Penza	2	—	
50	Perm	2	—	
51	Petrozavodsk	2	—	
52	Prokopievsk	1	—	
53	Pskov	1	—	
54	Rostov-on-Don	4	—	1
55	Ryazan	3	—	
56	Samara	3	—	
57	Saransk	1	—	
58	Saratov	3	—	
59	Shakhty	1	—	
60	Smolensk	1	—	
61	St. Petersburg	36	25	2
62	Stavropol	2	—	
63	Sterlitamak	1	—	
64	Surgut	2	—	
65	Syktyvkar	2	—	
66	Taganrog	2	—	
67	Tobolsk	1	—	
68	Togliatti	2	—	1
69	Tomsk	3	—	
70	Tula	1	1	
71	Tver	1	—	
72	Tyumen	5	—	
73	Ufa	4	—	
74	Ulyanovsk	2	—	
75	Velikiy Novgorod	2	—	
76	Vladimir	1	1	
77	Volgograd	4	—	
78	Vologda	1	—	
79	Volzhskiy	1	—	
80	Voronezh	2	—	
81	Yaroslavl	4	—	
82	Yoshkar Ola	1	—	
83	Yurga	1	—	
84	Zheleznovodsk	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'.

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
CAGR	Compounded annual growth rate
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
FTE	full-time equivalent
gamification	the application of game-design elements and game principles in non-game contexts. Gamification commonly employs game design elements which are used in non-game contexts to improve user engagement, organisational productivity, flow, learning, crowdsourcing, employee recruitment and evaluation, ease of use, usefulness of systems, physical exercise, traffic violations, voter apathy, and more.
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
sqm	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

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 2016 and 2015 was 152 (125 hypermarkets and 27 supermarkets) and 109 (91 hypermarkets and 18 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. → Leverage: The ratio of net debt to Adjusted EBITDA is net debt divided by Adjusted EBITDA. → Interest cover: 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. → Fixed charge cover: 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.

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.

Notes

Notes

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