CHAMPIONING OUR CUSTOMERS

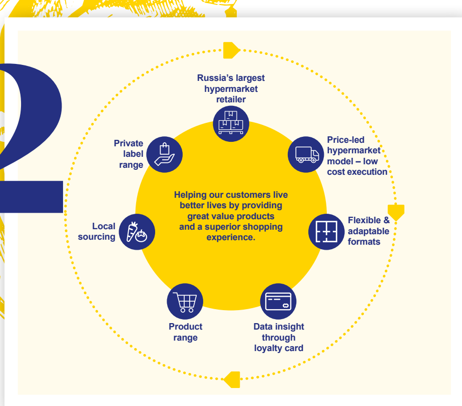
ANNUAL REPORT
ISSUE 2018

CUSTOMER FOCUSED

CONTENTS

The retailer of choice

P.21


Russia's largest hypermarket retailer
Price-led hypermarket model – low cost execution
Flexible & adaptable formats
Data insight through loyalty card
Product range
Local sourcing
Private label range
Helping our customers live better lives by providing great value products and a superior shopping experience.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ЛЕНТА

PROGRESS IN A CHALLENGING ENVIRONMENT

The key to Lenta's continuing success is our robust and flexible business model. It underpins everything we do and forms the basis for our decision-making and planning processes.

LENTA IS A ROBUST BUSINESS – AND IT HAS A BRIGHT FUTURE

John Oliver
Chairman

In a difficult year, Lenta delivered a good performance. 2018 was characterised by economic headwinds and dwindling consumer confidence – all of which presented the retail industry with considerable challenges.

Consistent execution of our strategy and a clear understanding of our customers' requirements ensures that the products on our shelves are appealing, affordable – and of high quality.

MANAGEMENT CHANGES

Our senior management team implements the strategies set by the Board. During the year we made several changes to this leadership group.

After nearly a decade, we have a new Chief Executive Officer: Herman Tinga, following the departure of Jan Dunning. Herman was formerly Lenta's Chief Commercial Officer; he played a leading role in building our world-class commercial operations and nobody knows our business better.

In April 2019, Rud Pedersen took over from Jago Lemmens as Lenta's Chief Financial Officer. Rud's excellent track record and business acumen made him the outstanding candidate for this role.

We appointed Dmitry Bogod as Chief Strategy Officer. With his experience of Russian and international retailers, Dmitry has exceptional credentials – and will ensure that we have greater clarity of purpose and a sharper strategic focus across the Company.

Full year sales (RUB)

413.6bn

Ruslan Isamailov was promoted to Supermarket Format Director and will be responsible for implementing the development strategy and improving the operating model for this format.

Digitalisation is transforming the retail sector, making the shopping experience more convenient, more enjoyable and increasingly personalised. This is a key priority area for Lenta and – with the appointment of Sergey Korotkov as Chief Information Officer – we are evaluating new and exciting ways to engage with our customer base.

The members of our refreshed senior team bring experience, energy and enthusiasm to their new roles. I have every confidence they will inspire their colleagues and that – notwithstanding the prevailing tough conditions – Lenta will thrive under their leadership.

CORPORATE GOVERNANCE

As effective guardians of the Lenta brand and its reputation, the Board is committed to upholding the highest standards of corporate governance. Lenta is fortunate to benefit from the considerable experience and knowledge of my fellow directors, who are unafraid to scrutinise, challenge and dissect every issue we consider, which is exactly as it should be.

At the AGM in June, we welcomed Julia Solovieva to the Board. She has already brought fresh perspective and insight to our discussions, thanks to her extensive Russian and international experience in the digital, media and telecoms sectors. Julia replaced Anton Artemyev, who had been a Director for the last five years.

OUR PEOPLE

We are extremely lucky to have such a talented and dedicated workforce. Whenever I meet our employees, I am always impressed by their commitment to the Company and pride in what they do, which exemplifies the Lenta spirit. I am grateful to them all for their hard work and loyalty.

LOOKING FORWARD

In 2018, Lenta delivered a creditable performance in tough circumstances – although it fell short of our own expectations. The retail environment remains intensely challenging; hence we have reined-in our aggressive short-term growth ambitions. However, we are confident that the efficiency improvements now underway will facilitate a return to more vigorous expansion in due course.

In the year ahead Lenta plans to focus its efforts on improving performance and efficiency. The Company retains its focus on prudent capital allocation – and decision-making will favour those initiatives and activities that deliver strong returns on investment.

As this report goes to press, the ownership structure of Lenta is changing. On 1 April, Severgroup agreed to purchase the 42% share in Lenta owned by TPG and EBRD. The transactions are expected to close by 1 May, triggering an immediate Mandatory Tender Offer by Severgroup for the remainder of Lenta's shares.

Whatever the outcome of this process, I wish to place on record my immense pride in the Company and all that it has achieved. We have built a robust, dynamic business, which I believe has a bright future. It has been my privilege to serve as its Chairman.

John Oliver
Chairman

STRENGTHENING OUR POSITION

2018 was a challenging year for Lenta – and the retail sector overall. Our financial results were impacted by the weakness in the third quarter, but we recovered strongly towards the end of the year – and have seen this momentum continue into 2019.

WE KEPT OUR OFFER RELEVANT, APPEALING AND AFFORDABLE

Herman Tinga
CEO

THE MARKETPLACE

The macro and consumer environment were tough last year – and the Russian economy remained under pressure into 2019. Western sanctions and a weaker Rouble pushed prices up – and disposable incomes were hit by increases in energy tariffs, fuel and transport costs. Against this background, competition amongst retailers inevitably escalated, with excessive selling space growth combined with high levels of promotional activity.

The battle to secure – and retain – the loyalty of consumers with squeezed household budgets is intense. Successful players must therefore be innovative and agile if they are to anticipate and respond to changing shopping habits. In the face of growing competition, Lenta's customer-focused initiatives during the year helped to ensure that we kept our offer relevant, appealing and affordable.

2018 PERFORMANCE

Despite the tough environment, Lenta achieved market-leading profitability. Our full year sales grew 13.2% to RUB 413.6 billion (2017: RUB 365.2 billion), including like-for-like retail sales growth of 1.3%. Our headline sales growth was affected by structural changes in our small wholesale business, but strong operating cash flows and reduced capital expenditure brought us closer to positive free cash flow.

Adjusted EBITDA margin

8.8%

Our total selling space at the year end stood at 1,467,482 sqm, up 6.1% on 2017. We established a presence in four new cities in Russia, bringing the total number of cities with a Lenta store to 88. We opened 13 new hypermarkets and 38 new supermarkets on a net basis.

Lenta has a strong market position in hypermarkets and the long-term fundamentals of this business remain very attractive. We also have the right strategy – and a highly capable team to execute it. Much of our effort in 2018 was focused on emphasising the points of difference between Lenta and its competitors. We continued to attract customers away from both federal and local competitors in 2018 – and our sales growth outpaced selling space growth.

We believe that our supermarkets business also has great potential and we are well positioned to succeed. While our 2018 results were not as good as we had originally expected, growth accelerated significantly towards the year end and profitability improved. This showed that our work to improve the performance of this business was beginning to pay off, albeit not as quickly as we would have wished.

STRENGTHENING OUR TEAM

The increasingly competitive retail environment has sharpened our focus on strategy, innovation and digitalisation. To develop and accelerate our activity in these crucial areas, we made three important additions to our senior management team in the second half of the year. Dmitry Bogod joined us as Chief Strategy Officer and Sergey Korotkov was appointed as Chief Information Officer. Both bring valuable knowledge and considerable experience to Lenta and will help us drive the business forward with renewed clarity and vigour.

With the appointment of Ruslan Ismailov in January 2019, we have another excellent new leader – for our supermarkets business. He is highly experienced and knows Lenta well. I am confident that he and his team will deliver a significant improvement in our supermarkets business model, customer experience and financial performance in the year ahead.

In April 2019, Rud Pedersen assumed the role of Chief Financial Officer, taking over from Jago Lemmens.

STRATEGY IN ACTION

In 2018 we introduced a series of initiatives aimed at driving sales and increasing our profitability, competitiveness and returns.

We continued to leverage data-driven insights obtained from customers' use of the Lenta loyalty card. This valuable information enabled us to refine our assortment, plan our store layouts and manage our promotional activity. It also helped us create new customer-focused marketing tools across various media. Behind the scenes, we continued to develop our logistics operations and supply chain to support our network of stores.

Towards the end of the year we began to see the positive effects of these efforts, which will become increasingly evident in 2019.

LOOKING AHEAD

Our balance sheet remains strong and we are working towards a positive free cash flow position. We will continue to invest in IT and our supply chain, aiming to drive sales up and costs down. We also see opportunities to renovate some of our older stores; implementing new concepts, which should attract new customers and deliver strong returns.

We will continue to grow and strengthen our market position in both store formats, but our organic expansion will proceed at a slower pace than in prior years. We will, however, continue to evaluate attractive acquisition opportunities whenever they arise. The fundamentals of Lenta's business are strong and we remain optimistic about the future.

Herman Tinga
Chief Executive Officer

RUSSIA'S LARGEST HYPERMARKET OPERATOR

With 244 hypermarkets and 135 supermarkets, **Lenta is Russia's largest hypermarket operator by selling space and the country's third largest food retailer.**

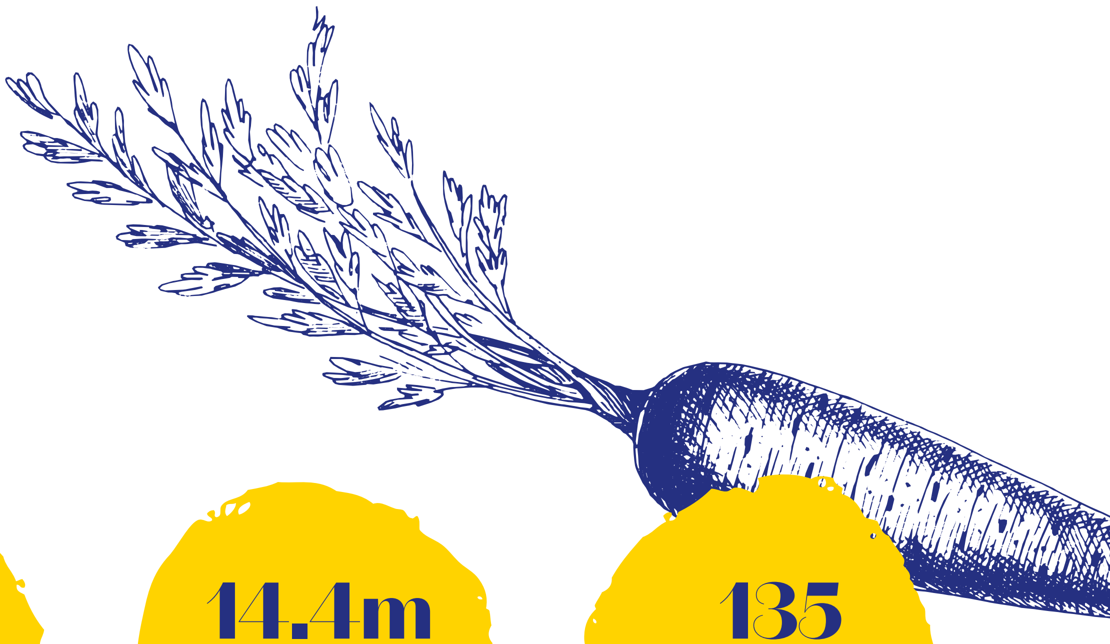
WHAT WE DO

Our conveniently located stores sell a wide variety of high quality, great value products including food, household goods and clothing.

OUR STRATEGY

We have a continuous focus on profitable growth; aiming to balance capital expenditure with strong shareholder returns and a healthy balance sheet.

No.1 hypermarket operator



No. 3
food retailer in Russia
Read more on p18

14.4m
active cardholders
Read more on p26

135
supermarkets
Read more on p20

244
hypermarkets
Read more on p20

28,500
SKUs in a standard hypermarket
Read more on p22

45,759
people work for us (FTE)
Read more on p31

51
new stores opened during the year (net)
Read more on p20

88
cities have at least one Lenta store
Read more on p10, 138-139

1.47m
square metres of selling space
Read more on p8, 17, 18-20, 43

A YEAR OF PROGRESS

FINANCIAL

Revenue (RUB, bn)

+13.2%

Gross profit (RUB, bn)

+13.5%

Adjusted EBITDA (RUB, bn)

+2.0%

Net profit (RUB, bn)

–11%

OPERATIONAL

Retail sales

+1.3%

Selling space (sqm)

+6.1%

Stores

+51

Active cardholders (m)

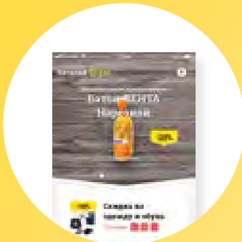
+17%

KEY EVENTS

2018

February
We launched a co-branded loyalty programme with Raiffeisenbank, which combines our existing loyalty programme benefits with the bank's bonus point cashbacks.

October
GDR buyback programme
In October we announced a GDR buyback programme. Total purchases of RUB 981 million were made (0.93% of the GDRs quoted on the exchange at an average price of $3.28). On 2 April 2019, we announced the termination of the programme.



October
The Lenta mobile App was introduced, with the number of installations exceeding 1.4 million by February 2019, in the four months following its launch.

November
We announced the appointment of Rud Pedersen as Chief Financial Officer. Rud took up the CFO role and became a director of the company on 1 April 2019.

December
New Chief Executive Officer
Herman Tinga was appointed CEO. Formerly our Chief Commercial Officer, he has played a key role in building Lenta's world-class commercial operations.

December
Taking our non-food ranges to the next level
We signed a strategic partnership with Li & Fung, a leading global sourcing agency of non-food products. This alliance will enhance the quality of Lenta's ranges and improve efficiency.

REACHING NEW CUSTOMERS

In 2018 we continued to expand our store network, opening 13 hypermarkets and 38 supermarkets on a net basis. At the end of 2018 Lenta had a total of 379 stores, comprising 244 hypermarkets and 135 supermarkets.

We entered four new cities during the year and now have a presence in 88 cities across Russia.

Largest hypermarket operator by sales and selling space

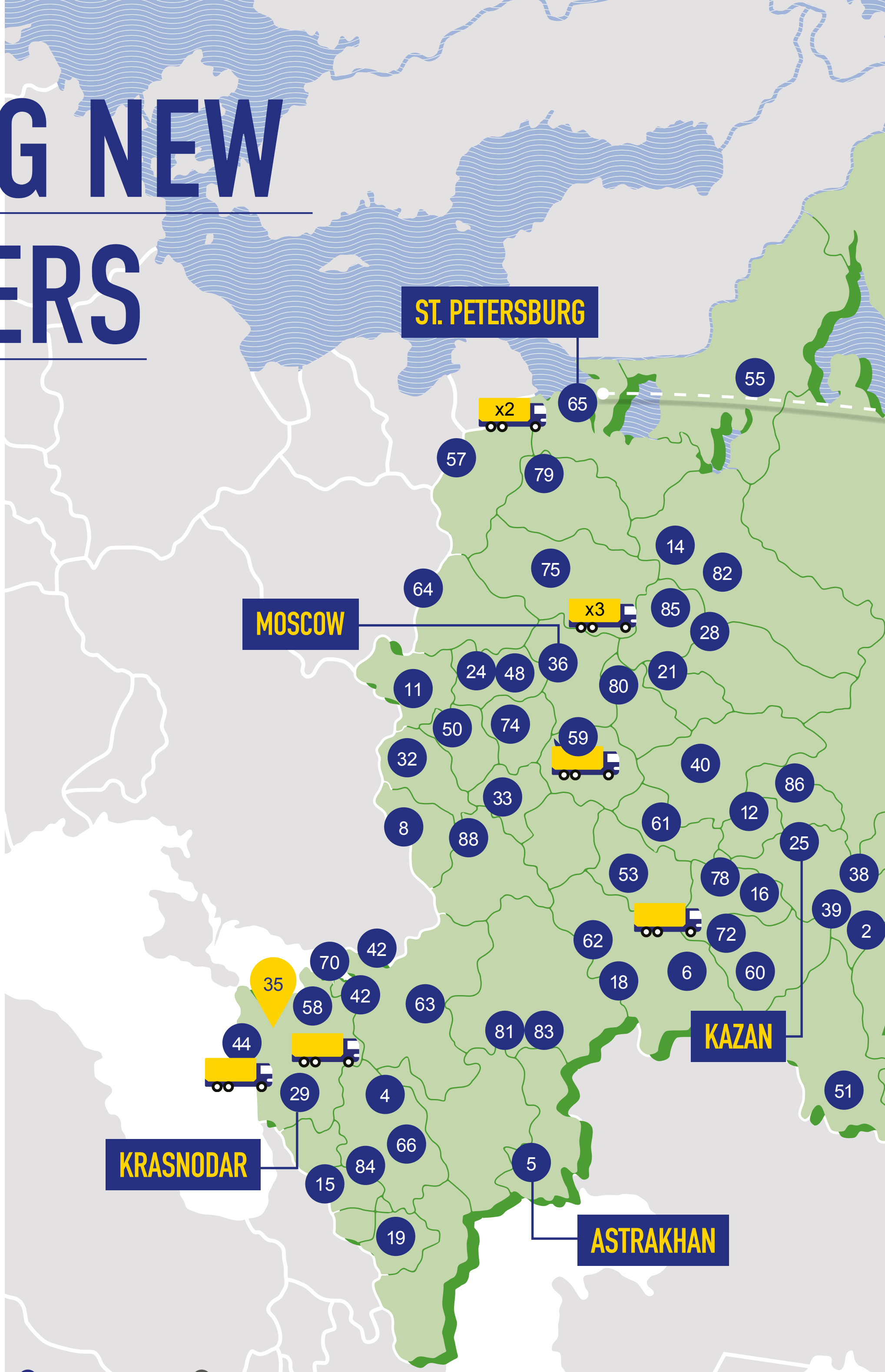
1st

Stores

379

Cities

88



	Hypermarkets	Supermarkets
1 Achinsk	1	
2 Almetyevsk	1	
3 Arkhangelsk	1	
4 Armavir	1	
5 Astrakhan	2	
6 Balakovo	1	
7 Barnaul	3	4
8 Belgorod	2	
9 Biysk	1	
10 Bratsk	1	
11 Bryansk	1	
12 Cheboksary	1	
13 Chelyabinsk	6	
14 Cherepovets	3	
15 Cherkessk	1	
16 Dimitrovgrad	1	
17 Ekaterinburg	4	10
18 Engels	2	
19 Grozny	1	
20 Irkutsk	2	
21 Ivanovo	3	1
22 Izhevsk	3	
23 Kaluga	1	2
24 Kamensk-Uralsky	1	
25 Kazan	5	
26 Kemerovo	3	9
27 Khanty-Mansiysk	1	
28 Kostroma	1	
29 Krasnodar	3	
30 Krasnoyarsk	5	
31 Kurgan	1	
32 Kursk	1	
33 Lipetsk	2	
34 Magnitogorsk	2	
35 Maykop	1	
36 Moscow	25	49
37 Murmansk	2	
38 Naberezhnye Chelny	2	

39 Nizhnekamsk 1
40 Nizhniy Novgorod 4
41 Nizhniy Tagil 2
42 Novocherkassk 1
43 Novokuznetsk 5 1
44 Novorossiysk 2
45 Novoshakhtinsk 1
46 Novosibirsk 7 25
47 Noyabrsk 1

48 Obninsk 1
49 Omsk 6
50 Orel 1
51 Orenburg 5
52 Orsk 1
53 Penza 2
54 Perm 2
55 Petrozavodsk 2
56 Prokopievsk 1

57 Pskov 2
58 Rostov-on-Don 4
59 Ryazan 3
60 Samara 3
61 Saransk 1
62 Saratov 3
63 Shakhty 1
64 Smolensk 1
65 St. Petersburg 37 31

66 Stavropol 2
67 Sterlitamak 1
68 Surgut 2
69 Syktyvkar 2
70 Taganrog 2
71 Tobolsk 1
72 Togliatti 2
73 Tomsk 3 1
74 Tula 1 1

75 Tver 1
76 Tyumen 5
77 Ufa 4
78 Ulyanovsk 2
79 Velikiy Novgorod 2
80 Vladimir 1 1
81 Volgograd 4
82 Vologda 1
83 Volzhskiy 1

84 Voronezh 2
85 Yaroslavl 5
86 Yoshkar Ola 1
87 Yurga 1
88 Zheleznovodsk 1

HOW WE CREATE VALUE

Our high growth, distinctive business model enables us to offer competitively priced, high quality products to our customers.

01 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

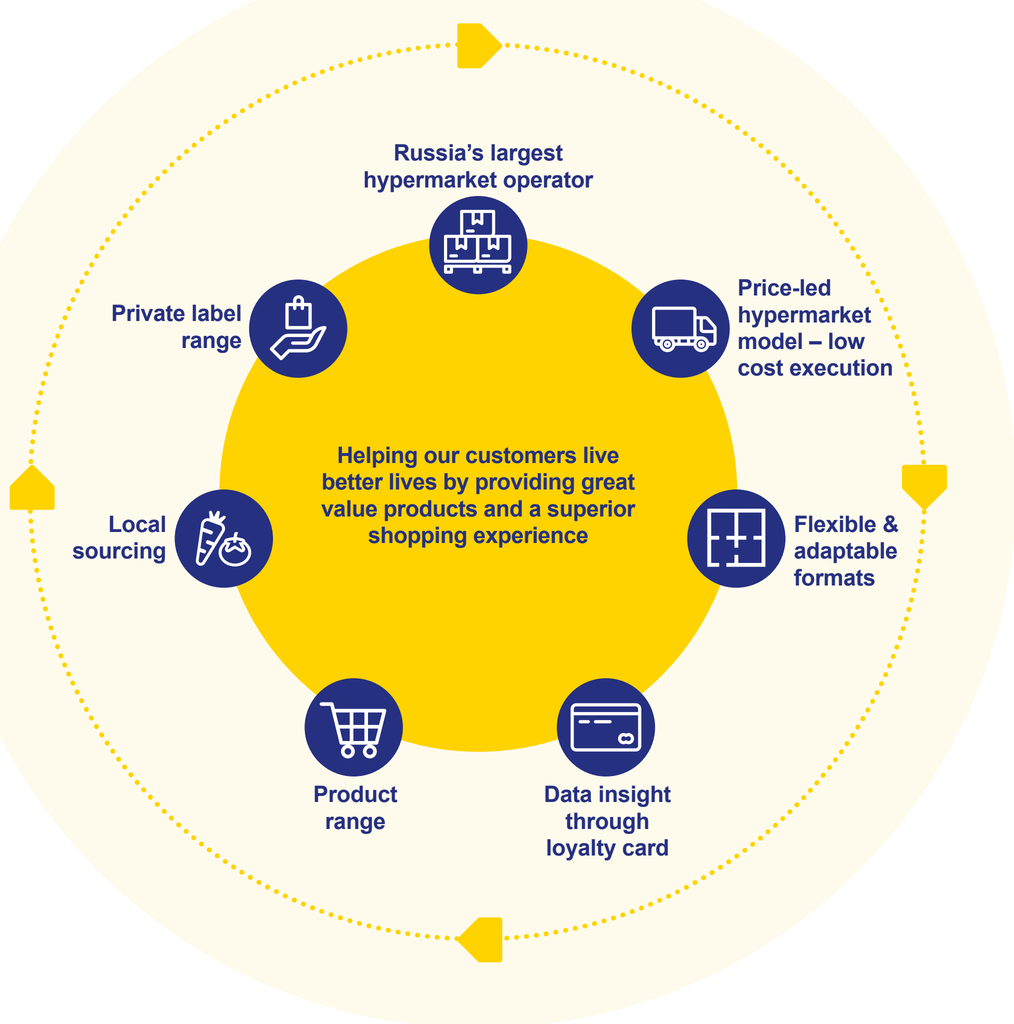
Employees
A well-trained, motivated and engaged workforce across our business

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

02 OUR KEY DIFFERENTIATORS



Market trends and opportunities
Read more on page 14

Risk management
Read more on page 46

Our strategic priorities keep us focused as we grow: investing in our people, expanding our business and unlocking value.

03 STRATEGIC PRIORITIES

Profitable growth with the aim of sustaining market-leading returns

Maintain healthy balance sheet with conservative approach to leverage

Continue investing in management to ensure that our team remains one of the most effective in the industry

Develop digital capabilities to stay at the forefront of industry innovations

Establish further differentiation from competition through better tailored proposition for all customer segments

Further improve offering with direct imports, strategic partnerships and protected sourcing platforms

Number one retailer for customer satisfaction

04 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
- Number one partner for suppliers amongst Russian retailers
- Local suppliers benefit from Lenta success
- 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

36.2bn
Adjusted EBITDA (RUB)

45,759
Employees

14.7bn
Taxes (RUB)

275
Environmental projects

Strong governance
Read more on page 56

Corporate social responsibility
Read more on page 28

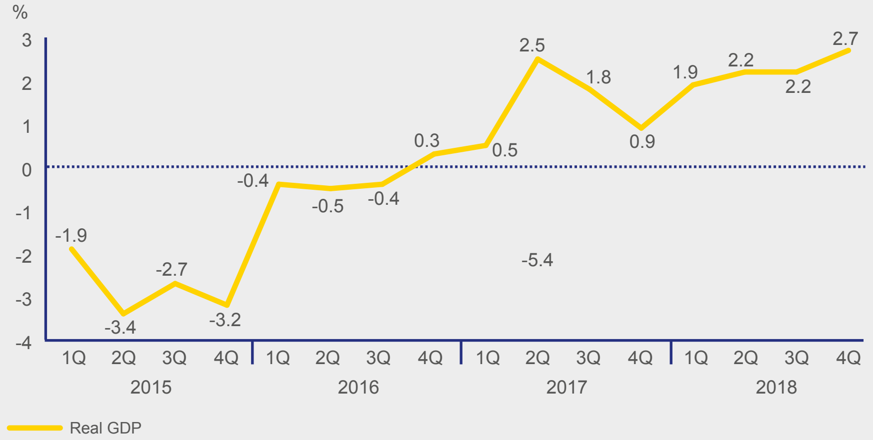
MARKET OVERVIEW

The grocery retail sector in Russia remained challenging throughout 2018, for retailers and customers alike. With household budgets facing multiple pressures – and no sign of any respite – consumers were forced to become increasingly disciplined when planning and spending their household budgets.

Russian GDP grew at 2.3%, compared with the World Bank's global growth figure of more than 3.3%. A weak macro environment prevailed, with inflation accelerating and the central bank raising its key interest rate. The country's economy continued to experience multiple problems, including low levels of labour efficiency and insufficient diversification – which combined to suppress sustainable growth.

Several factors contributed to a fall in real incomes for the fifth year in a row. These included the abolition of the annual indexation of pensions and other social payments, depreciation of the Rouble and the increased cost of fuel, utilities and communal payments. Any wage growth was largely offset by higher taxes. A VAT increase in January 2019 will put further pressure on spending power.

Real GDP %



Source: Rosstat

Household income %

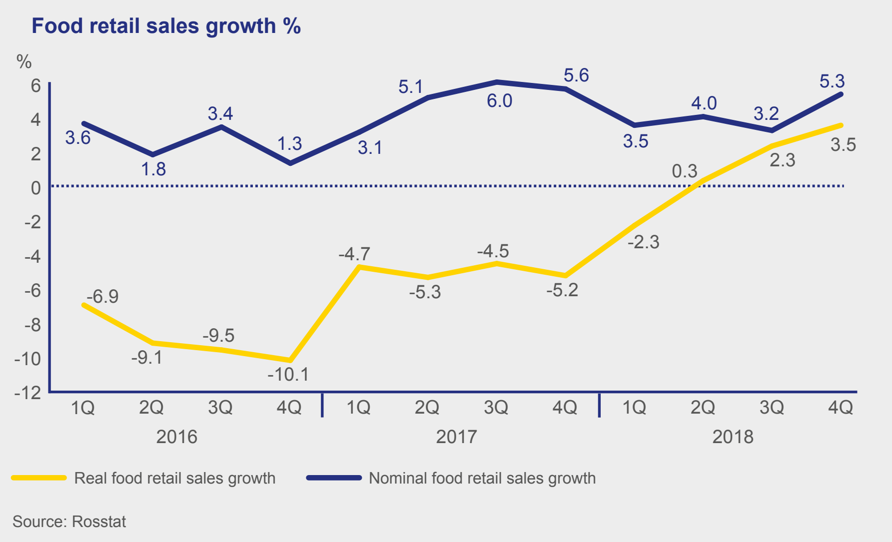
Source: Rosstat

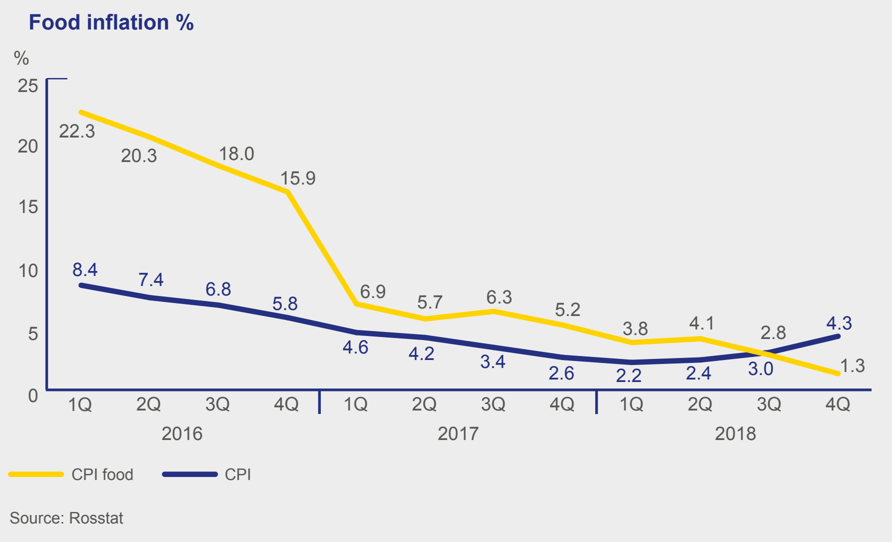
COMPETITIVE ENVIRONMENT

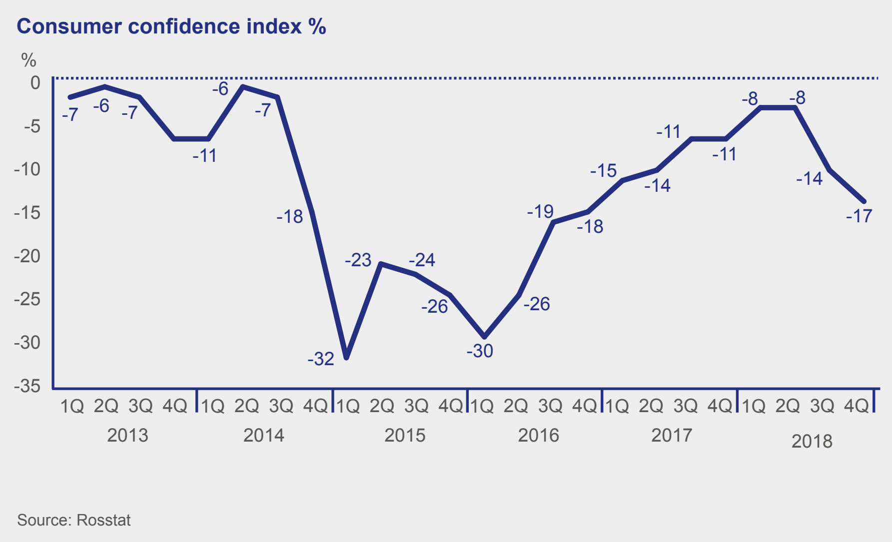
The food retail sector experienced low single-digit sales growth in 2018. This was the inevitable consequence of weak consumer purchasing power and depressed consumer confidence.

Consumers paid close attention to promotions and special offers and loyalty programmes became increasingly influential. The share of private label sales increased, although these products also often competed with and sometimes lost out to branded goods promotions.

As retailers competed for a share of customers' limited budgets, this led to pressure on pricing and margins for many of the existing players. In response, retailers refined their strategies as they sought new ways to keep customers visiting their stores. Actions taken included changes in assortment and promotional strategy, launching new concepts, renovation of existing stores and opening in new locations. Against this background, Lenta's hypermarkets weathered the storm and benefited from increased sales.







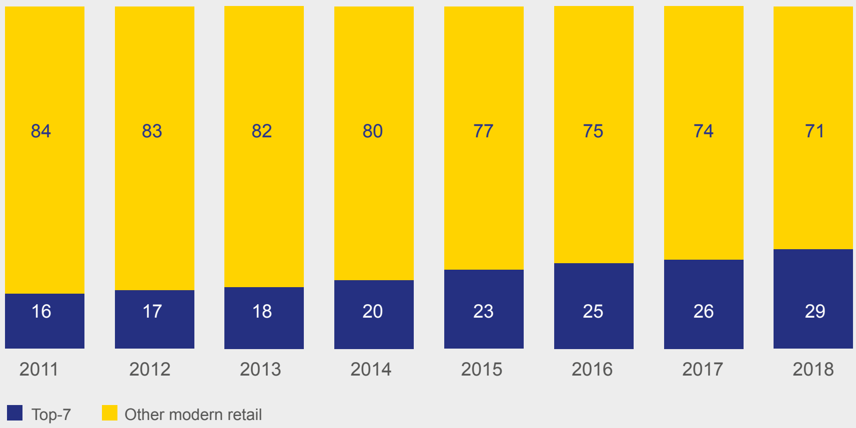
The Russian grocery market remains fragmented by international standards, the Top-7 share of 29% in 2018 was less than half the share of the Top-7 in many of the more mature Western European markets.

The market share of the largest retailers has increased significantly over the last several years, particularly the share of the top 3 retailers – Lenta, Magnit and X5 – and also Krasnoye & Beloye.

Returns on capital in the sector have come under pressure due to in large part to pressure on margins linked to increased competition on price and promotions. A key underlying cause was weakened consumer purchasing power, but this has been compounded in recent years by selling space growth in excess of market growth and the high cost of capital.

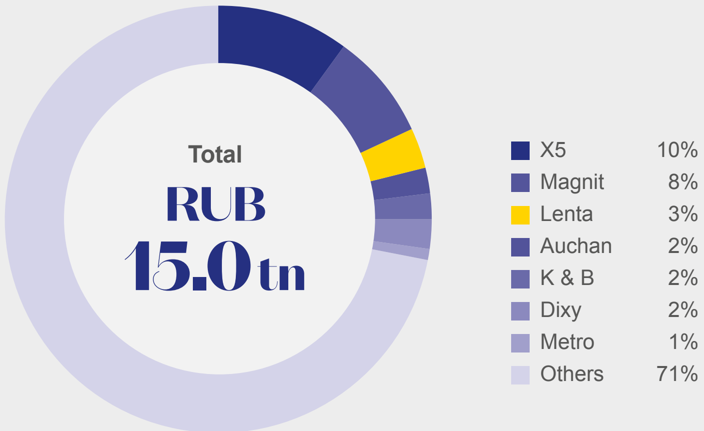
Growth of total selling space slowed in 2017 and 2018, but remained above nominal market growth. Selling space growth remains concentrated, with only four of the top 7 retailers (X5, Magnit, Lenta and K&B) adding significant amounts of new selling space – excluding these four players, aggregate selling space of all other market participants was roughly flat in 2017 and 2018.

Share of grocery retail sales %



Note 1: Share of Top -7 is calculated as a % of total food retail sales.
Note 2: In 2018 Krasnoye & Beloye replaced O'Key in Top-7.
Source: Infoline, Rosstat.

Top 7 share of grocery retailer sales %



Note: Company sales include non-food.
Source: Rostat, Infoline.

Selling space growth in the hypermarket segment has decelerated steadily over the last 5 years and was flat in 2018. During this period Lenta grew relatively rapidly while other hypermarket retailers slowed or stopped expansion. In 2017 and 2018 Lenta also slowed its rate of expansion somewhat, while the aggregate selling space of other players in the hypermarket segment actually declined.

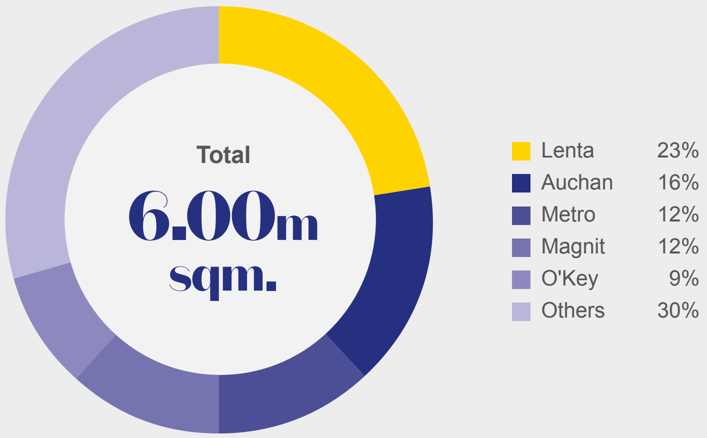
As a result of its rapid growth over the last 5 years, Lenta has become the leading hypermarket retailer and entered the top 5 in the supermarket segment (by selling space) in 2018.

GROWTH POTENTIAL

Looking ahead, it appears likely that 2019 will be just as challenging as 2018, if not more so. Customers still want good products from names that they trust, but value for money is more critical than ever. Sentiment remains fragile; the negative effects of the VAT increase will increasingly be felt and household spending remains under considerable pressure.

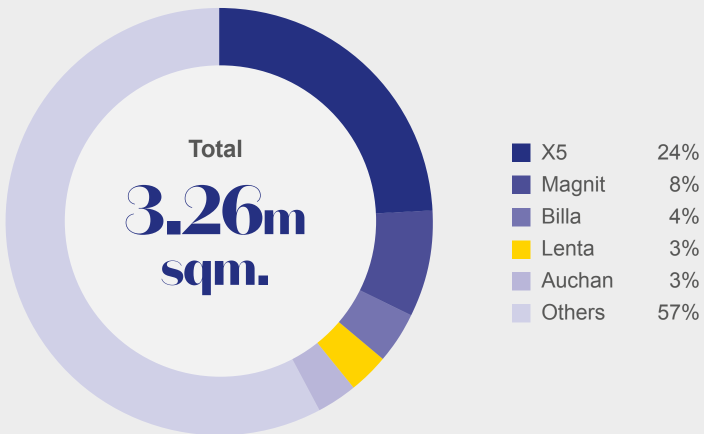
Growth is therefore expected to be modest. Several of the major players, including Lenta, have indicated that they will open fewer stores – or defer planned openings – in the year ahead. There will be a sharper focus on efficiency, improvements to the customer offer, assortment and marketing. Further consolidation across the sector is likely.

Top 5 selling space – hypermarkets



Source: Infoline, public filings.

Top 5 selling space – supermarkets



Source: Infoline, public filings.

ROBUST SALES GROWTH

In 2018 Lenta continued to grow across all key regions. We entered four new cities and now have a presence in 88 cities across Russia.

HIGHLIGHTS OF THE YEAR

Total sales for the year increased	Our like-for-like sales grew	Net selling space increased	Lenta is the third largest food retailer in Russia
+13.2%	+1.3%	+6.1%	No. 3

2018 was a challenging year for food retailers, with strong competition for customers in a tough trading environment. Despite this, Lenta delivered robust sales growth as a result of listening – and responding – to our customers' changing requirements.

Total sales for the year increased 13.2% to RUB 413.6 billion (2017: RUB 365.2 billion) compared with 19.2% in 2017. Retail sales grew 13.6% to RUB 392.1 billion (2017: RUB 345.0 billion) and wholesales increased 6.0%. Our like-for-like retail sales grew 1.3% (excluding wholesales growth of 5.3%) and our average like-for-like ticket grew by 0.8%. Like-for-like traffic grew by 0.5%. Net selling space increased by 6.1% compared with 20.6% in 2017.

Lenta's success is founded on a proven low price/low cost business model. It gives us the flexibility we need to adapt to changing consumer habits and tastes – and accommodate the vagaries of Russia's national and regional economies. We aim to provide a wide range of high quality products in stores that offer a rewarding shopping experience, enabling us to attract new customers – and strengthen the loyalty of our existing clientele.

In 2018 Lenta continued to grow rapidly in all key regions. We entered four new cities and now have a presence in 88 cities across Russia. During the year we added a total of 13 hypermarkets and 38 supermarkets on a net basis. We added net new selling space of 84,700 sqm, giving us a total of 1,467,482 sqm at the year end, a year-on-year increase of 6.1%.

STORE FORMATS

We evaluate precisely the right store size and format for each individual neighbourhood.

We work hard at the initial planning stage to identify precisely the right store format and size for every location. This provides us with the confidence that, once open, the store will flourish in its neighbourhood and deliver the required return on our investment. The planning process also enables us to carefully position complementary new stores in areas where we already have a presence, deepening our footprint in these locations.

Although a more capital-intensive option, our ownership of the majority of our stores protects us from rental inflation. It also enables us to design and construct stores that are precisely aligned to the requirements of a specific catchment area. In 2018, the proportion of selling space leased by Lenta increased slightly from 24% to 25%.

Space planning

JDA PLANOGRAM GENERATOR

In 2018 Lenta received the JDA Real Results Award for its successful implementation of the JDA Space Management solution.

Merchandising at Lenta involves many integrated processes including category and store format management, inventory planning and optimisation and in-store presentation. The flexibility of any IT solution and a wide range of display planning tools are key success factors.

The JDA programme quickly and easily creates convenient reports for analysis. By automatically grouping products according to given attributes, and taking into account the specifics of store equipment, it calculates the optimum shelf stock for each product – and for each store. The database is integrated with SAP and JDA Demand and Fulfilment systems for prompt two-way data exchange. The programme also features a 3D modelling capability, which enables users to visualise displays and sales areas before implementing physical changes in store.

The system generates around 700 planograms a month for Lenta and delivers tangible sales improvements. For example, changing the location of the 'Muesli Bars' category and integrating it with 'Kashi' cereals, saw like-for-like sales increase by 11.5% and consumer penetration increased by 22%; relocating chocolate spread adjacent to cookies saw a sales increase of 10%.

HYPERMARKETS

All our price-led hypermarkets provide an extensive range of fresh food, groceries and household goods. They represent around 90% of our business and are mainly situated in or near residential districts with good transport links. Most are open on a 24/7 basis.

Each of our three hypermarket formats: ‘Standard’, ‘Compact’ and ‘Supercompact’ – is configured to best suit the area in which is situated. With average selling space of 7,100 sqm, 4,900 sqm and 3,100 sqm respectively – and three variants of the ‘Compact’ format, we have complete flexibility as to how we tailor a store to a particular location. The stores are differentiated in terms of their pricing, promotion and product assortment.

Our underlying hypermarket business improved during the year, thanks to a combination of management initiatives and tactical changes. Customers reacted positively to the improvements we made to our offering, range, marketing and communication. Retail sales grew 1.3%, with a like-for-like average ticket growth of 0.8%. We continued to attract customers from our federal competitors and regional chains, concentrating on differentiating Lenta to win business from smaller formats.

We extended our lead in this format in 2018, opening 13 new stores on a net basis. We opened hypermarkets in four new cities: Kurgan, Maykop, Noyabrsk and Arkhangelsk – and improved our market position across all key regions. We operate 37 hypermarkets in St Petersburg, with 25 stores in Moscow. Four store openings planned for 2018 were deferred until 2019 due to unavoidable bureaucratic delays.

This store format continues to show considerable potential and we have a clear strategy to grow our hypermarket business. In 2019 we plan to open around eight new hypermarkets as part of our organic expansion. This includes stores that were part of the previous year’s pipeline, but postponed until the current year.

SUPERMARKETS

Our neighbourhood-based supermarkets give Lenta a presence in locations where a hypermarket would not be feasible. They are focused principally on customers who make frequent shopping trips for everyday essentials – often on foot or via public transport.

We opened 38 supermarkets on a net basis in 2018. Lenta now has a total of 135 supermarkets in five regions (Moscow, St Petersburg, Central, Siberia and Ural regions) and we delivered 34.9% growth in total selling space in 2018. This format’s share of Lenta’s selling space rose 7.8% during the year.

The performance of our supermarkets in 2018 was below our initial expectations, with like-for-like retail sales growth of 1.2% and an average ticket increase of 0.4%. We adjusted the assortment and made several key operational improvements during the year, which delivered higher like-for-like growth and a year-on-year improvement in EBITDA in the fourth quarter. While we are pleased with the impact of these changes, we are not yet satisfied with progress.

A series of initiatives is planned for 2019 to improve the competitiveness and profitability of our supermarkets – and the business has been rejuvenated under the leadership of Ruslan Ismailov. He and his team are already refining the strategy to improve our customer value proposition and market position.

We believe strongly in the potential of this business; it is now back on track and well positioned to succeed. The Company is scheduled to open around seven new supermarkets in 2019.

> **CUSTOMERS REACTED POSITIVELY TO THE IMPROVEMENTS WE MADE TO OUR OFFERING, RANGE, MARKETING AND COMMUNICATION**

EXPERIENCE

Whatever their size, we carefully plan every one our stores to help deliver an enjoyable shopping experience.

To our customers, every Lenta store has a familiar layout. Our products are logically and attractively arranged throughout the premises – and we ensure that our fresh food ranges, fruit and vegetables are prominently displayed. Promotions are placed in high traffic areas – such as close to the store entrance – to attract maximum attention.

Providing a rewarding and stress-free visit to our stores is essential in such a competitive market. At the start of the year we launched a number of new projects aimed at improving customer experience by reducing time at the checkout.

> WE LAUNCHED SEVERAL NEW PROJECTS AIMED AT IMPROVING THE CUSTOMER EXPERIENCE

We piloted ITAB TwinFlow self-checkout counters in our hypermarkets in St Petersburg. Unlike conventional self-checkouts, these are fitted with a conveyor belt that moves items to the bagging area. With a divided bagging area, the checkouts can potentially accommodate two people almost simultaneously. Already widely used in Western European and Scandinavian countries, Lenta is the first retail chain in Russia to trial this technology.

We also tested Lenta-SCAN: an innovative in-store self-scanning system in three St Petersburg hypermarkets. This enables customers to self-scan their items with a hand-held device and bag their items, considerably reducing their shopping time. The scanners recognise the customer via their loyalty card and display appropriate personalised offers on screen. Fifty scanners were installed in participating stores for the duration of the trial.

At the beginning of 2019, we equipped all our hypermarkets in St Petersburg and Moscow with Lenta-SCAN. Using self-service solutions, our shoppers can check out much faster than through a conventional checkout. Feedback on these initiatives – from customers and store staff alike – has been extremely positive.

WINE AT LENTA: EXPERT ADVICE AND WIDER CHOICE

2018 saw the introduction of sommeliers into eight of our St Petersburg stores. These experts help customers select the wine that best suits their taste, food pairing and price. Fridays and Saturdays see the sommeliers hold in-store tastings to showcase different wine styles on offer. An eight-month pilot delivered RUB 28.8 million of additional sales in these stores. Lenta's wine sales increased by 2.5% in 2018, and grew 5.7% in the first two months of 2019.

New activities include the introduction of non-standard bottle sizes – from 0.2 to 1.5 litres – and the placement of wines in our Cheese, Fish and Meat sections. Our Wine assortment includes natural, biodynamic and eco- options – and we are actively developing a non-alcoholic segment.

CATERING FOR ALL TASTES

ASSORTMENT

We offer our customers a broad range of carefully selected, high quality products.

Most of Lenta's Standard format hypermarkets carry approximately 28,500 SKUs. This is fewer than several of our leading competitors; it means we are able to make the most of cost efficiencies across the supply chain – and pass these benefits on to our customers.

In 2018, sales of fresh food amounted to 41.1% of our combined hypermarket and supermarket sales. Dry groceries comprised 46.8% of sales and non-food categories including clothing, household goods and seasonal items amounted to 12.1% of sales.

During the year we continued to implement a series of initiatives designed to increase the attractiveness of our offering to customers. These included changes to our assortment and the addition of new private label product ranges to our portfolio of brands. We also enhanced our marketing activity, loyalty programme and customer communications.

In 2018, we identified several groups of specific 'hero' food categories: wine, fish, culinary & bakery and fresh fruit and vegetables – that strongly distinguish Lenta from its competitors. Our aim is to make Lenta the primary destination for these products by offering improved assortments, higher quality and more appealing presentation. A range of in-store initiatives will promote these categories and will feature recipe ideas, cookery demonstrations and tasting sessions to emphasise the variety, freshness and quality of our products. Additional specialist training for staff will create in-store experts for these product groups.

Our customers are increasingly choosing healthier options and eco-friendly products. To address this trend, we created a dedicated 'Healthy World' section for our stores. This brings together a cross-category assortment of around 1,500 SKUs that are good for our customers. These include sugar- and gluten-free items as well as natural cosmetics and domestic cleaning products.

Assembling this collection under a clear banner and making it easy to find boosted sales of these products – all of which were previously available in our stores, but in separate sections. Customers responded enthusiastically to pilots of the scheme in St Petersburg and Moscow – and we will be rolling it out more widely in 2019.

WHOLESALE

Lenta has historically operated a relatively small wholesale business. This involves bulk sales of a small number of SKUs at low margins – and is principally driven by suppliers' desire to use retailers as an additional distribution channel to large customers. Over the last five years, volumes of wholesales have varied, comprising between 3% and 7% of total sales.

Developments in this market, including significant changes in distribution strategy by a small number of key suppliers, resulted in a steep decline in wholesales in 2018. We expect this trend to continue in the year ahead. To improve clarity of the underlying trends in our core retail business, we will be reporting sales to wholesale customers separately in future.

1,100

SKUs added in 2018

PRIVATE LABEL VALUE

Private label sales grew by 20% compared with 2017, with like-for-like sales up 7.3%. Excluding our '365' brand, like-for-like sales of private labels rose 23% and our own brands now account for 12.8% of our total sales.

We continued to develop our main 'Lenta' brand – as well as our other exclusive brands: Dolce Albero, Frelia, Little Times and Bonvida. We introduced a new sweets and snacks range: 'Lenta Kids' – and enhanced our ranges with various imported goods, to further differentiate us from our competitors.

We introduced 1,100 new private label goods in 2018, boosting sales growth for this part of our business and providing a firm base for further sustainable development. We aim to launch another 1,300 SKUs in 2019.

In February we announced the launch of Bonvida, Lenta's first private label specifically aimed at small business customers. The label encompasses 105 everyday items across a variety of categories that are most frequently purchased by these customers. These include cheeses, olive oil and sausages as well as spices, coffee, frozen fish and seafood.

This launch follows the successful introduction of Lenta PRO – our dedicated loyalty programme for corporate customers – in 2017. The initiative enhances our appeal to businesses by offering quality products from leading producers at discounts of up to 9% in our hypermarkets. Dedicated paypoints provide these customers with the necessary VAT invoices for their purchases.

We worked hard during the year to promote the scheme, both in store and through regular communication with our customers through a variety of media. In 2018, Lenta PRO like-for-like sales increased 119%.

In December we announced a strategic partnership with Li & Fung, a leading global sourcing agency for non-food products. The agreement will enable us to upgrade our non-food private label ranges, improving the overall quality and efficiency of supply. We expect to introduce at least 2,000 new distinctive SKUs to optimise our existing offering and differentiate us further in this important segment.

> OUR PRIVATE LABELS PROVIDE US WITH A FIRM BASE FOR FURTHER SUSTAINABLE DEVELOPMENT

We are extremely proud of the progress we have made with our private labels. In March 2018, Lenta's private label team was recognised as the best in the market – and our Frelia brands as the best private label in non-food – at the International Private Label Show.

In November 22 of our private label SKUs were recognised for their high quality at the international Guarantee of Quality 2018 event organised by The Council of the Federation of the Russian Federation.

In March 2019, at the International Private Label Show, Lenta was awarded 'Breakthrough of the Year' and our 'Little Times' brand was recognised as the best non-food private label.

SOURCING

The supportive, enduring relationships we forge with suppliers deliver a range of mutual benefits.

SUPPLIER RELATIONSHIPS

A key aspect of Lenta's continuing success is the strength of our links with suppliers. We endeavour to support all our suppliers and help them grow their businesses profitably. Throughout 2018, our commercial team worked hard to improve supplier terms for Lenta, while also forging new – and reinforcing existing – relationships. During the year we refined our procurement processes to improve efficiency and introduced unified buying procedures and more detailed planning for all product categories.

We work closely with suppliers, sharing our data and offering them the opportunity to introduce new products and broader ranges to our customers. In November we received the highest score in a survey by Advantage Group, which included a mutual assessment of the quality of relationship between manufacturers and retailers.

The survey included questions on strategy, category management, supply chain, stores performance and cooperation with suppliers.

Our membership of EMD allows us to benefit from being part of the world's largest FMCG purchasing network. The ability to access a wide variety of high quality products boosted our private label product offering in 2018 – and we will add to our portfolio of EMD-sourced products in 2019.

DIRECT IMPORTS

Sales of directly imported of dry foods more than doubled compared with 2017. We added sixteen new suppliers and nine new countries to our portfolio in 2018. These included the UK, US, Canada and Turkey, bringing the total to 39. These products represent a genuine point of difference, with almost 100 SKUs exclusive to Lenta. Many compare favourably with the alternatives: for example our Dolce Albero pasta is produced in Italy's Muggia region – and is the same price as a Russian-produced version.

Direct imports comprised almost a quarter of the fruit and vegetables sold by Lenta in 2018. We expanded our assortment to include new varieties including iceberg lettuce from Egypt, melons from Honduras and lychees from Madagascar. We drove significant growth in direct imports of dried and frozen products – and refined and automated various aspects of our contracting and replenishment process in Europe.

Our approach to imports – unique in the Russian market – aims to provide authentic versions of countries' traditional specialties such as Dutch waffles and Canadian maple syrup. In 2018, this contributed to a doubling of sales of directly imported goods.

SUPPLY CHAIN

The growth of our store network depends on an efficient, flexible and sophisticated supply chain to keep the shelves full. Our stores are served by a combination of Lenta's own distribution centres and direct deliveries from our suppliers.

We operate 12 distribution centres, which operate on a 24/7 basis. Designed for maximum operating efficiency, they are strategically located, with the capacity to service over 250 hypermarkets and 250 supermarkets. Eight centres are owned by Lenta and four are rented, with a total of approximately 270,000 sqm at the year end. During the year we added more than 20,000 sqm of warehouse space to support our volume growth.

We continued to invest in our supply chain throughout 2018. In April we announced the opening of a dedicated vegetable storage facility in Ryazan Region.

The 6,786 sqm facility features state-of-the-art building and cooling technologies – and is used primarily for winter storage and processing of potatoes, carrots, cabbages and onions.

Our existing sales enable full use of the warehouse, ensuring maximum operational efficiency – with the ten-hectare site allowing for six-fold expansion in future.

The warehouse has enabled us to take full control of this important link in the root vegetable supply chain for our stores. We are now able to ensure that the best quality locally grown produce reaches our customers all year round at competitive prices. We can also expand our cooperation with farms that lack their own infrastructure.

The centralisation ratio in 2018 increased to 57.0% for Lenta's hypermarkets and supermarkets compared with 53.7% in 2017.

Lenta's extensive fleet of trucks is a crucial link in our supply chain. Owning and operating our trucks – as opposed to contracting out all transportation – provides us with significant advantages, namely cost savings and greater reliability. During the year, our owned trucks transported 67.2% of total deliveries to our stores, compared with 57.5% in 2017. At the year end, we owned 330 delivery trucks, an increase of 12% on 2017.

INTELLIGENCE

Understanding the way our customers shop helps us provide more of what they want.

CLOSE TO THE CUSTOMER

During the year we maintained our focus on digital marketing activities, enabling us to reach customers with individually tailored special offers to boost traffic and basket size.

The Lenta Loyalty Card programme is key to our relationship with our customers. Cardholders are entitled to a guaranteed 5% discount on all products in our stores. They also benefit from additional in-store promotional discounts of up to 50% and tailored offers based on their previous buying habits and product preferences.

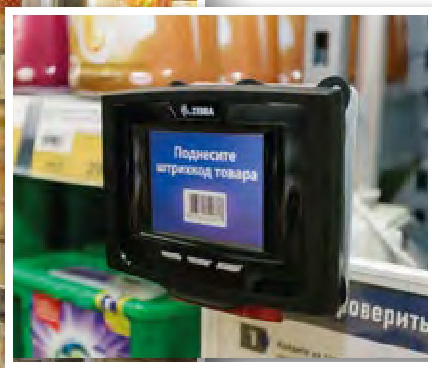
The number of active cardholders rose to 14.4 million in 2018, an increase of 17% year-on-year. Some 96% of transactions were made with our loyalty card during the year, an increase of approximately 2% on 2017.

For those customers most in need, Lenta's Social Programme provides additional help in the form of extra discounts. These range between 3% and 8% and apply to certain essential products.

Data derived from loyalty card use is essential to helping us understand when and how our customers shop, how much they spend and on which products. In particular, this valuable information helps us create the most appropriate ways to encourage and reward shoppers through targeted promotions, pricing, product choice and a better in-store experience.

Using our established set of ten broad customer profiles, we are able to anticipate which products will appeal to specific types of customers. Tailored offers not only encourage loyalty, but also increase the frequency of visits to our stores and the number of products that people buy.

Towards the end of the year we launched the Lenta mobile App, which allows us to communicate directly with consumers and share personalised offers. Just 12 weeks after launch, the App had already been installed by 1.4 million customers. Going forward we will continue to improve the App with a series of upgrades to boost its functionality.



IT

Almost all Lenta's operations depend to some extent upon leading-edge business applications. In 2018 we continued to invest in key IT projects to improve the efficiency and transparency of our processes.

The ability to correctly evaluate future performance of potential store locations gives us a significant competitive advantage in the modern food retail market. We have previously used North Analytics algorithms to predict potential store revenues. In September we announced our intention to continue using their cutting-edge technology to select the best new store locations and evaluate potential acquisition targets. Using mobile technology, Lenta staff will now be able to assess locations in the field and reduce the time required to make decisions on high-potential locations.

> WE CONTINUED TO INVEST IN KEY IT PROJECTS TO IMPROVE THE EFFICIENCY AND TRANSPARENCY OF OUR PROCESSES

Automated merchandising process

ACCOLADES FOR LENTA'S AUTOMATED MERCHANDISING PROCESS

The sxConnect 2018 international conference took place in Berlin in April. Aimed at large retailers and companies that develop innovations for the sector, the event's theme was 'On the eve of disruption. How the digitized store is changing the game.'

Alla Ivochkina, JDA Retail Manager, and Daria Zhbanova, IT Projects Manager, presented on a joint initiative for automation of merchandising processes. Lenta is a leader when it comes to providing stores with planograms that take into account sales specifics and store equipment. Only a small number of international retailers have a similarly high level of process automation.

The JDA DnF system calculates a required order from suppliers and receives daily updates on shelf stock on all goods and stores. The system ensures purchasing accuracy and stock optimisation. Lenta's success in Berlin was crowned by the news that this solution for automation of merchandising had been selected as a finalist in the international JDA Real Results awards held in the US.

COMMITTED TO ACTING RESPONSIBLY

OUR CSR PILLARS

RECRUITING, TRAINING AND RETAINING GREAT STAFF

Read more on page 31

CARING FOR THE ENVIRONMENT

Read more on page 37

PRICING AND CUSTOMER SATISFACTION

Read more on page 35

SUPPORTING LOCAL COMMUNITIES

Read more on page 38

LOCAL SOURCING

Read more on page 36

PROMOTING HEALTH AND SAFETY

Read more on page 40

A commitment to corporate social responsibility is embedded in the way Lenta operates. We aim to create value for all our stakeholders, especially the people who work for us – and the neighbourhoods we serve. Our commitment to doing the right thing extends throughout our business – from sourcing the products we sell to finding the right locations for our stores.

We believe that behaving responsibly is critical to our long-term success. Based on a deep understanding of local needs, our well-established CSR programme encompasses a wide range of activities that benefit the environment and the community.

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.

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 2018.

> CREATING VALUE FOR OUR STAKEHOLDERS – ESPECIALLY OUR COMMUNITIES AND EMPLOYEES – LIES AT THE HEART OF EVERYTHING WE DO

The Lenta Way is a set of core principles that underpin our business and the way we operate. These principles, along 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 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.

Innovation and the constant generation of 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

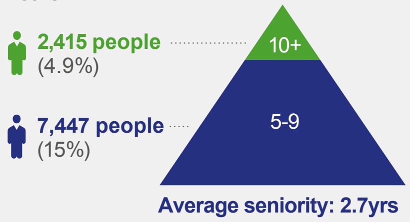
Lenta's culture is based around teamwork, innovation and trust – and our people are critical to our long-term success. Recruiting, training and retaining enthusiastic, committed individuals with the right skills enables us to provide great customer service.

EMPLOYEE RETENTION
Lenta has an above-average staff retention rate for the food retail sector. We place great importance on investing in our people; we know from experience that this enhances customer loyalty, boosts productivity and improves our service levels.

Voluntary staff turnover in 2018 was 29.5%, down slightly on 2017. This is among the lowest in the food retail sector, reported by the Korn Ferry Compensation Report 2018 to be 64.4%. At the same time, competition in this sector of the labour market remains intense; the years 2017 – 2020 represent a 'demographic gap' due to the low birth rate in the 1990s. To help ensure retention, additional discounts for employees were implemented during the year, along with an incentive programme for periods of high sales.

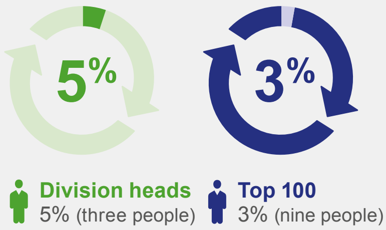
EMPLOYEE LENGTH OF SERVICE

Years



TURNOVER OF SENIOR STAFF

2014–18



A variety of employee engagement initiatives help to promote a positive working environment and strong team spirit. Wherever we operate, we hold events to engage and entertain our employees and their families: from competitions to environmental and charity events.

We pride ourselves on providing rewarding and challenging careers at all levels of seniority. Our programme of promotion from within and job rotation – combined with individual career plans and recognition initiatives – plays an important role in staff retention. Voluntary turnover among our 130 key managers was 3.7%, compared with the sector average of 5.2% (Korn Ferry Compensation Report 2018). Over 70% of our top 30 managers have been working for the Company for more than five years.

MANAGEMENT DEVELOPMENT

Our managers ensure consistency of performance standards across the Company and help to forge a strong organisational culture within Lenta. Their role is therefore vital – so we are constantly developing our leaders. We continued to develop a culture of efficient people management. We expect our managers to act as role models for their subordinates, ready to share knowledge and experience, and with the ability to develop themselves and their teams.

Our Lenta Leader 2.0 programme has been established for three years. The programme provides business skills development. In 2018, we refined the approach to project work of the participants to increase focus on cross-functional cooperation. This enabled students both to efficiently exchange best practice and achieve better outcomes.

In 2018, 115 managers completed the programme, 56% of whom were store managers.

Prior to the programme each participant receives a 360 degree feedback on their competencies which is used to identify key areas for development and as a follow-up of the programme, during the year following the training, every Lenta Leader graduate takes a personality questionnaire and receives detailed recommendations on further personal development.

To date, over 15,000 employees have benefited from our internal soft skills programmes. During 2018, Lenta almost doubled the number of in-house trainers to over 2,000. Almost all trainers are managers from our stores or department heads from Lenta's headquarters who perfprm training roles in addition to their everyday work. This approach enhances levels of trust and enriches the learning experience through the use of practical, business-specific examples.

In 2018, we continued to develop people management skills of our leaders. Some 1,500 managers were trained in how to provide supportive and efficient feedback to their subordinates. In 2018, five Lenta managers were studying for pre-MBA qualifications with the UK's Open University.

"WE DO OUR BEST TO ENSURE THAT EACH EMPLOYEE FEELS THEIR RELATIONSHIP WITH LENTA IS MORE THAN JUST A JOB – AND THAT THEY ARE PROUD TO BE PART OF OUR TEAM"

STORE AND SPECIALIST STAFF TRAINING

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

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 culture – as well as our policies and standards. In 2018, more than 18,500 employees participated in our induction programme.

All new employees are supported by mentors in their first months of work in Lenta. During the year, some 9,000 employees undertook mentoring training and became mentors, almost twice as many as in 2017.

In 2018, we delivered over 2.2 million hours of training. On-line training activities have proven to be highly efficient and effective, which is why most of our new courses are delivered in this format. We more than doubled the amount of on-line training delivered in 2018, which enabled us to reduce the number of training hours per employee to an average of 50 hours compared with 68 hours in 2017.

Over 85% of training in Lenta was conducted using internal resources, with online training comprising 17% of overall training delivered; twice as much as last year. In 2018, one training hour cost on average RUB 22 compared with RUB 19 in 2017.

External experts were used to provide specialists knowledge in new products and technologies.

RECRUITMENT AND CAREER DEVELOPMENT

We encourage the ambitions and aspirations of all our people – and promote from within wherever we can. We therefore provide numerous opportunities for employees to advance their careers and fulfil their potential. In 2018, we created 4,304 new jobs and employed 2,865 newcomers and 564 internal candidates.

During the year, over 3,800 employees were promoted and approximately 6,500 colleagues were transferred to new roles through horizontal moves as a result of our strong succession planning process. Over a third of vacancies were filled by our own employees and over 60% of store manager vacancies were filled by internal candidates.

We actively recruit and develop young talent. In 2018, 153 students completed an internship at Lenta's headquarters, 30 of whom were subsequently employed by the Company.

We use leading edge, efficient processes and technology to recruit personnel. Many aspects of the hiring process are centralised, including the placement of vacancies, CV processing and phone prescreening, which is done at our Federal Recruitment Center.

The final stages of selection are conducted in individual stores and distribution centres. The number of candidates hired through our Recruitment Centre in 2018 increased by 76% from 2017.

We do our best to make each employee feel their relationship with Lenta is more than just a job — and that they are proud to be a part of the Lenta team. Competitions, events for employees' children, sports tournaments and environmental activities are organised throughout the year to bring colleagues together outside the work environment.

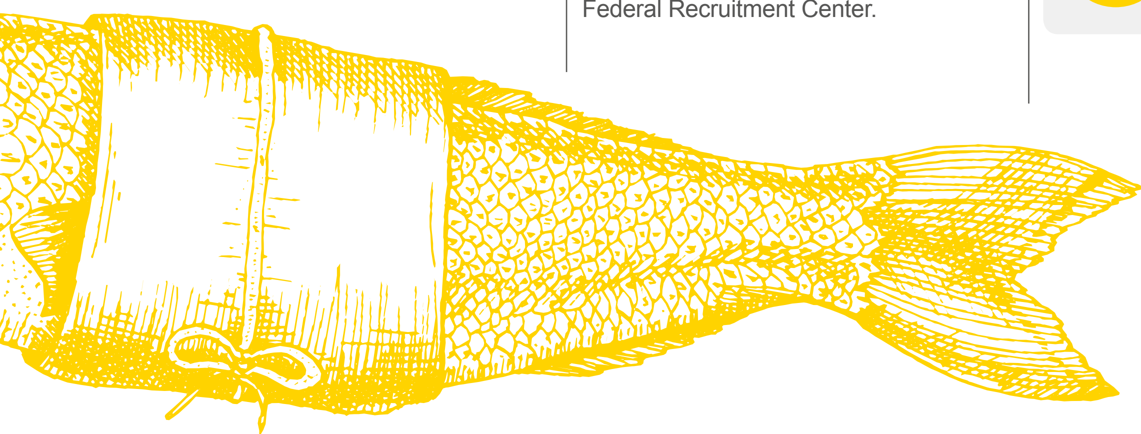
We have more than 1,700 section managers in our stores: a valuable resource base for future store management positions. In 2018, the Company's 'We Grow Together' motivational championship was held for the third time, designed to identify high potential individuals keen to develop their careers in Lenta. In 2018, we launched a new development programme: Lenta ROSTa, in which every participant has an individual development programme and a mentor.

TRAINING

Feedback training
1,500+
managers

Supervision & mentoring
9,000+
employees

In-house trainers
2,000+



In the current challenging trading conditions, flexibility and rapid responses to changes in consumer demand are critical success factors for retailers.

We know that internal candidates for management positions adapt to new positions more quickly, since they are familiar with our standards, procedures and business processes. We therefore pay particular attention to succession planning, which enables us to promptly fill open positions with internal candidates.

During the year, over 3,800 employees were promoted and approximately 6,500 colleagues transferred to new roles through lateral moves as a result of our strong succession planning process. Over a third of vacancies were filled by our own employees and over 60% of store manager vacancies were filled by internal candidates.

REMUNERATION

We aim to provide 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 our 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.

The process ensures constructive dialogue between managers and their subordinates, stimulates productivity, rewards achievement and encourages professional development. In line with a set of established principles, financial support is available for employees who find themselves in difficult circumstances.

During the year, within motivational initiatives, we reviewed the salaries of our key employees, which resulted in average base salary increases of 3.1%.

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.

DIVERSITY

Lenta values and respects diversity; we offer employment opportunities to all able candidates. Recruitment or promotion decisions are based purely on the professional knowledge and competence of the individual in question as well as their potential.

Every Lenta store provides an average of six job opportunities for people with special needs – and every distribution centre offers eight of these positions.

DIVERSITY		
NUMBER OF EMPLOYEES	29%	71%
HQ AND REGIONAL DIVISIONS EMPLOYEES	32%	68%
MIDDLE AND SENIOR MANAGEMENT	45%	55%

In 2018, 155 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 of – and fair pay for – people working from home.

EMPLOYEE ENGAGEMENT

Employee engagement, business performance and customer satisfaction are closely linked. We therefore work hard to ensure our employees are kept informed 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 receive special recognition, with best practices and ideas shared freely between stores.

In 2018, 93 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

We continue to work at devising new ways to support and motivate our employees, ensuring that they remain fulfilled in their roles and deliver outstanding service to our customers.

PRICING AND CUSTOMER SATISFACTION

Our pricing proposition is based simply around providing value for money, hence our extensive range of high quality products is competitively priced. Despite the difficult economic conditions in 2018, we continued investing into pricing for our customers, aiming to help them make their budgets go further.

Great customer service is a key differentiator in retail – so our store employees are trained to engage with customers and provide the very best care and attention. Ongoing analysis of information obtained from loyalty card use enabled us to identify and create even more attractive promotions for our customers throughout the year.

Lenta's Social Programme provides needy citizens with an additional discount of between 3% and 8% on essential food and selected household items. During the year, we launched the Programme in all Lenta supermarkets – and it now operates in all our stores. At the end of 2018 there were over 2.7 million participants, 565,000 of whom joined during the year. The total savings in 2018 amounted to approximately RUB 6,166 per customer.

LOOKING AHEAD

We will continue to help our customers' stretch their budgets, through attractive promotions on our most popular ranges and investing in pricing to deliver great value. We will also maintain our customer-focused approach, implementing new services and communicating with shoppers in the ways that suit them best.

LOCAL SOURCING

In 2018 over 93% of our products were sourced from Russian suppliers, including 20.1% from regional suppliers. 47.6% of our fresh food was locally purchased. Sourcing locally produced items is a distinguishing feature of Lenta's strategy – and one that our customers recognise and appreciate.

Our relationships with local suppliers went from strength to strength in 2018. These alliances deliver joint benefits to Lenta and producers alike. The ability to deal directly with producers allows us to obtain better prices. Shorter distances to our stores mean that lead times and transport costs are reduced, while our customers benefit from the consistent quality and freshness of locally grown produce.

We know the farmers who grow products for us. This traceability means we can show complete transparency throughout our supply chain. All the products we sell must also meet the relevant consumer information requirements; they must also comply with the appropriate standards on safety, quality and packaging.

Lenta's Growers Platform project was launched in 2015. Designed to increase direct fruit and vegetable supplies from producers, it shortens delivery times and enables us to sell higher quality ranges of fresh vegetables, mushrooms, salads and seasonal fruit in our stores. Several types of salad, cauliflower, broccoli, savoy cabbage, kohlrabi and premium quality potatoes are grown exclusively for Lenta. We also supply varieties that are unique to specific regions, including rose tomatoes, peaches, apricots, apples and sweet cherries – which are sold exclusively in Lenta stores. Having started with seven partners, the number of Growers Platform suppliers now stands at over 200.

Located across 44 Russian regions, our partners include large agribusinesses such as AFG National, Step Agricultural Holding and Sad-Gigant Trading House. We also work with smaller farmers who have been able to attain new agricultural production levels with our assistance. At the end of the year, supplies from Growers Platform accounted for 22.3% of Lenta's total fresh fruit and vegetables, compared with 14.3% in 2017.

We continued to conduct regular quality audits of our suppliers and carried out 10,778 laboratory tests during the year. This included 7,228 suppliers' goods and 3,550 private label and direct imports, representing an increase in the number of tests of 44% for branded goods and 63% for private labels and direct imports. In 2018, 9% of suppliers of branded goods failed our quality audit – and were therefore unable to sell their products in our stores.

Lenta adheres 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.

LOOKING AHEAD

We know our customers appreciate the wide variety and consistently high quality of locally produced goods. Sourcing and providing an extensive range of these products sets us apart from the competition. This differentiation is a key aspect of our strategy; we will continue to cultivate new relationships with suppliers and support our local and regional economies.

CARING FOR THE ENVIRONMENT

Caring for the environment is a key aspect of Lenta's business. We seek to minimise any negative impact on the environment – whether through the use of raw materials and equipment, energy consumption, transportation of goods or waste disposal.

We work hard to take care of the cities where we operate; striving to make them cleaner, more beautiful and more pleasant places to live. Through our participation in a variety of environmental campaigns, we encourage Lenta's employees to play an active role in developing a positive culture of care for the environment.

WASTE

Lenta produces various types of waste, which is removed for us by third party contractors. During the year we reduced the amount of waste produced and continued to improve our recycling rates; we now recycle 60% of our total waste. In 2018, we initiated 275 waste disposal and emissions reduction projects – all of which were fully compliant with the appropriate legislation.

We also continued to roll out a variety of initiatives in connection with our waste reduction ambitions. 2019 will see the extension of our centralised waste collection scheme to include 30 hypermarkets in Siberia, and our supermarkets in Moscow, increasing our volume of recycled waste this region by approximately 60%.

ENERGY

We installed energy saving covers to our chiller cabinets in 238 hypermarkets and also piloted the installation of glass doors on vertical fridges. We plan roll these out to all our newly opened hypermarkets – as well as those stores with the highest levels of energy consumption.

During the year we converted 33 hypermarkets and ten supermarkets to energy-efficient LED lighting – and will continue this programme in the year ahead.

OF OUR TOTAL WASTE MATERIAL IS RECYCLED

Lenta's customer battery collection project was originally launched in St Petersburg in December 2016. Several stores joined the project the following year and in 2018, in partnership with Duracell, we expanded the project to accept batteries from the wider public.

A single used battery has the potential to pollute 20 sqm of land. Collection of used batteries through Lenta's project ensures their proper disposal at the only Megapolysource battery recycling plant in Russia. Materials obtained from processing the batteries can be used in the production of a variety of items including pencils, mineral fertilizers and railway tracks.

YEAR	NUMBER OF PARTICIPATING STORES	NUMBER OF PARTICIPATING CITIES	SENT FOR PROCESSING, TONNES
2016	21	1	0
2017	28	1	10
2018	194	51	28
2019[1]	245	88	50

1. Planned for 2019.

In July we installed our first separated waste collection point for paper, plastic and glass in the car park of one of our Togliatti hypermarkets. An additional two collection points were added during the year. Waste is sent for recycling into secondary raw materials, which will help the city significantly reduce the amount of garbage transported to landfill. Between July and October, approximately two tonnes of rubbish was taken, half of which went for recycling.

In October one of our St Petersburg stores installed an automated machine to accept PET bottles and aluminium cans from customers. This pilot project paved the way for us to expand our infrastructure of waste collection points and at the start of 2019, we installed 11 machines in the city.

Lenta also participated in national and international environmental initiatives in 2018. As a partner of the 'Clean Games' ecological project, we provided the event organisers in 20 Russian cities with essential products for the games including food and prizes for the participants. Our involvement highlighted the principles of responsible behaviour to our employees – and many of them took part in local clean-ups. We are continuing to work with the organisers in 2019, extending Lenta's involvement across more cities.

Lenta also played a key role World Clean-up Day, which took place on 15 September. We supported a range of activities, providing food and equipment for participants engaged in clean-up and rubbish sorting in 44 cities across Russia.

SUPPORTING LOCAL COMMUNITIES

We strive to improve the quality of life of children and families in difficult circumstances; we also support elderly people and those who need our help. Through a variety of charitable projects, we aim to increase levels of socialisation and unleash the creative potential of young Russians.

In August, 211 of Lenta's hypermarkets from 77 cities took part in our 'Help to get a child to school' scheme. The Company contributed supplies and stationery worth around RUB 1.5 million to 192 social institutions as well as low income families in need of support. Donations included 1,175 backpacks, 30,000 notebooks and 10,000 sets of pens. Employees personally congratulated the children from the sponsored institutions on the Day of Knowledge.

Lenta's 'Christmas Tree of Wishes' campaign is now an established feature of our calendar. Children from local orphanages and institutions place their 'wish' on Christmas trees near the tills in our hypermarkets – and our customers can choose a card and buy the gift. The first campaign involved five stores in two cities in 2015. In 2018, 229 stores in 88 cities took part, making the wishes of 12,500 children come true.

YEAR	RECIPIENTS	NUMBER OF PARTICIPATING STORES	PARTICIPATING CITIES
2015		5	2
2016	about 200	32	8
2017	6,400	191	77
2018	12,500	229	88

RESTORING THE NATURAL ENVIRONMENT

In 2018 we became a partner of the 'More Oxygen' project to restore forests in Russia. In October, we provided financial support and employee volunteers to plant four forests in Krasnodar Territory and the Volgograd Region: a total of 20,000 new trees. In the year ahead, we will continue to cooperate with the 'ECA' Green Movement to restore forest areas of the country.

Lenta is also an information partner of the annual 'Our forest. Plant your tree' project in the Moscow region. In September, employees from Lenta's Domodedovo hypermarket joined the action, helping other companies, schoolchildren and residents plant more than 12,700 trees and shrubs in the city.

New trees planted

20,000

'Lenta of good cities' is a charity event that benefits a wide range of non-profit organisations. In December, NPO volunteers accepted donations of goods from Lenta hypermarket customers and passed them on to those in need. Originally held in St Petersburg in 2006, the 2018 event collected RUB 2 million-worth of goods for deserving causes.

In April, the second 'Your love is in your care' campaign took place across 30 Lenta hypermarkets. Personal hygiene products were collected at the stores and distributed among the homes for the elderly in Moscow, Leningrad and Tula regions. The campaign was organised jointly by Lenta, the Old Age to Joy Foundation for Elderly People and Essity.

During the year Lenta also supported several other projects aimed at benefiting older people. These included the Dobry Gorod Peterburg charitable foundation's 'Active Longevity' programme, which promotes maintenance of an active lifestyle. We also supplied gift baskets to veterans in local nursing homes on the Day of the Elderly Person.

In August, Lenta was the principal partner of the 'Be with the City' project located in Palace Square, St Petersburg. The project provides residents with information about their neighbours in the city who need support and help – and how to go about providing it.

Since 2013, Lenta has been a partner of the spring Tulip Festival in St Petersburg, donating 30,000 Dutch tulip bulbs every autumn.

In 2017, we expanded the geography of the Festival – and in 2018 bulbs were also planted in Yekaterinburg, Rostov-on-Don, Novosibirsk and Biysk. 2019 will see Samara included for the first time. Our employees also planted over 1,500 trees and shrubs and 3,000 annual flowers in 2018 as part of the Kazan Blossom promotion.

PROMOTING HEALTH AND SAFETY

Lenta is fully committed to creating and maintaining a safe environment for our employees and customers.

All Lenta store managers conduct daily and monthly 'safety walks' as part of our Active Safety programme. They aim 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 safety-related incident, no matter how small, so that the cause can be identified and any likelihood of reocurrence eliminated.

In 2018, risk checks were conducted in a total of 183 stores and distribution centres. Of these, 87 sites were being checked for the second time and 24 for the third time since the programme roll-out. Results of the checks were included in each store's (or distribution centre's) annual targets.

Our injury rate was unchanged from last year, despite the Company opening new stores in 2018. Working time lost due to injuries represented 0.07% of total hours worked.

Lenta's main health and safety targets in 2018 continued to be the maintenance of high standards across the Company – and the automation of various processes to improve 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.

In 2018, we obtained waste management permits from supervisory bodies for 275 of our stores, both hypermarkets and supermarkets. This enables us to comply with environmental legislation, calculate and control pollutant emissions to minimise any negative impact on the environment.

Number of injuries
per 100,000 working hours

GOALS FOR 2019

In addition to our ongoing CSR programmes, we are focusing closely on a specific set of goals for 2019

- 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.

AN ENCOURAGING YEAR

Lenta demonstrated robust sales growth in 2018, combined with notable improvements in supplier conditions, like-for-like store productivity and an improved supply chain result.

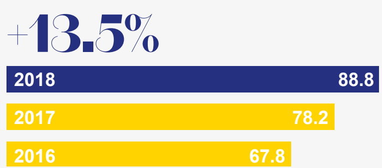
WE REMAIN FOCUSED ON STRENGTHENING THE BUSINESS

Rud Pedersen
Chief Financial Officer

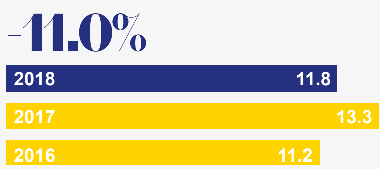
DEAR SHAREHOLDERS

The beneficial effects of increased sales, better supplier terms and store productivity were however largely offset by price investments. These were mostly linked to higher promotion share, increase in shrinkage, salary indexation, growth in depreciation, rental expenses and marketing costs. This led to a 2.0% increase in adjusted EBITDA to RUB 36.2bn (2017: RUB 35.5bn), but a decline in adjusted EBITDA margin of 97bps to 8.8%.

Gross profit (RUB, bn)



Net profit (RUB, bn)



Adjusted EBITDA (RUB)

36.2bn

YOY GROWTH	1H 2018	2H 2018	2018	2017
Total sales	**18.2%**	**9.2%**	**13.2%**	19.2%
Retail sales	15.4%	12.2%	13.6%	16.8%
LFL retail sales	**1.7%**	**0.9%**	**1.3%**	0.9%
LFL retail traffic	1.2%	-0.1%	0.5%	-1.4%
LFL retail ticket	0.5%	1.0%	0.8%	2.3%

SALES

Total sales in 2018 increased 13.2% to RUB 413.5bn, compared with growth of 19.2% in 2017. Retail sales rose 13.6%, due to growth from stores opened in 2018, stores opened in 2017 that are not yet part of the like-for-like panel and a like-for-like retail sales increase of 1.3%. We recorded a 6.1% increase in net selling space. Wholesales grew 6.0%.

Sales growth in the second half of 2018 slowed slightly compared to the first half of the year. This was due to a significant drop in wholesale volumes in the fourth quarter, slower selling space growth in the second half, and negative like-for-like retail sales growth in the third quarter – offset by a return to positive growth in the fourth quarter.

GROSS MARGIN

Gross margin increased by 0.05pp to 21.5%, as we continued to benefit from improved supplier terms and increased supply chain profitability. The positive effect of these trends was offset by further investments in pricing and promotions and increased shrinkage. Growth of promotional share as a percentage of sales of almost 4pp was compensated by higher promotional margin.

Shrinkage put pressure on gross profit margin, growing 0.67pp year-on-year to 2.5% in 2018. This was due to changes in procurement (including increases in direct import operations and direct contracts with suppliers and farmers), an increased share of fresh food and rapid expansion in Lenta's supermarket format.

An increase in transportation efficiency and a higher centralisation ratio of 56.9% were partly offset by an increase in transportation tariffs, leading to a slight growth in supply chain cost as a proportion of sales to 1.2% in 2018. However, this was more than fully compensated by higher supply chain income versus the previous year.

88.8bn
RUB gross profit

24.2bn
RUB operating profit

+6.1%
selling space

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

Total SG&A increased to 16.7% of sales in 2018 from 15.3% in 2017. This was due principally to increased depreciation linked to expansion and rent expenses arising from the high volume of new leased space opened at the end of 2017.

Personnel costs increased by 50bps as a percentage of sales to 6.1% in 2018. Operational efficiencies in stores were more than offset by increased FTEs coming from expansion and new stores ramping up as well as full year effect of above inflation indexation of salaries in October 2017.

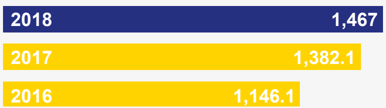
Marketing costs grew 16bps due to additional investments in new technologies.

Professional fees grew 15bps, driven by the implementation of new software and services tools and rapid growth in customer debit and credit card payments. Increases in cleaning costs, utilities and communal payments were related to a significant hike in tariffs.

Adjusted SG&A as a percentage of sales increased by 0.9pp to 12.4% in 2018, primarily due to increases in personnel expenses, marketing costs, cleaning, utilities and communal payments.

Selling space ('000 sqm)

+6.1%



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 36.2bn in 2018 (2017: RUB 35.5bn), with an adjusted EBITDA margin of 8.8% (2017: 9.7%).

INTEREST

Net interest expenses decreased 13.4% to RUB 9.1bn, compared with RUB 10.5bn in 2017. This was due to higher average levels of borrowing being more than offset by a reduction in interest rates. Lenta's weighted average cost of debt in 2018 decreased to 8.6% (164bps lower than 2017).

The Company reduced its cost of debt in 2018 from 9.1% in the first quarter to 8.3% in the fourth quarter. This was mainly due to the combined effects of improvements in the terms and conditions of its major long-term loan facilities, refinancing of high cost debt and resetting coupon rates under bond issues to lower levels.

This result was achieved despite visible increases in MosPrime rates in the second half of 2018. Lenta protected itself from potential rate increases by borrowing at fixed rates available in the second half of 2018 to refinance debt falling due in 2019. At the year end, 98% of the Company's debt portfolio was long-term with extended maturity and 77% of the total debt was at fixed rate with only one variable rate loan linked to MosPrime.

TAX

The effective tax rate increased from 12.6% in 2017 to 20.4% in 2018. The much lower effective tax rate in 2017 was attributable to a one-off positive effect, which was 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 11.8bn was down 11.1% (2017: RUB 13.3bn), due mainly to increased depreciation and a higher effective tax rate of 20.4%. Net profit margin declined to 2.9%.

EBITDA RUB (MILLIONS)	2017	2018	% CHANGE 2018 – 2017
Adjusted EBITDA	35,495	**36,294**	2.3%
One-off Expenses and income	5	**–**	–
Reported EBITDA[1]	35,490	**36,294**	2.3%

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

INCOME STATEMENT HIGHLIGHTS RUB (MILLIONS)	1H 2017	1H 2018	2H 2017	2H 2018	2017	2018	% CHANGE 2018 – 2017
Total sales	**163,531**	**193,220**	**201,647**	**220,342**	**365,178**	**413,562**	13.2%
Gross profit	**35,534**	**42,319**	**42,701**	**46,475**	**78,236**	**88,794**	13.5%
Gross margin	21.7%	21.9%	21.2%	21.1%	21.4%	**21.5%**	0.05p.p
SG&A, % of sales	**15.9%**	**17.2%**	**14.9%**	**16.3%**	**15.4%**	**16.7%**	**0.89p.p**
Adjusted SG&A[1], % of sales	11.8%	12.6%	11.3%	12.1%	11.5%	**12.3%**	0.84p.p
Adjusted EBITDAR	**17,601**	**19,986**	**22,106**	**22,294**	**39,706**	**42,280**	**6.5%**
Adjusted EBITDAR margin	10.8%	10.3%	11.0%	10.1%	10.9%	**10.2%**	-0.65p.p
Rental expenses, % of sales	1.2%	1.5%	1.1%	1.4%	1.2%	**1.4%**	0.29p.p
Adjusted EBITDA[2]	**15,623**	**17,112**	**19,871**	**19,182**	**35,495**	**36,294**	**2.3%**
Adjusted EBITDA margin	9.6%	8.9%	9.9%	8.7%	9.7%	**8.8%**	-0.94p.p
Operating profit	**10,880**	**11,027**	**14,696**	**13,158**	**25,577**	**24,184**	**-5.4%**
Profit before income tax	5,560	6,354	9,611	8,564	15,172	**14,917**	-1.7%
Net profit	**4,492**	**5,161**	**8,772**	**6,650**	**13,264**	**11,810**	**-11.0%**
Net profit margin	2.7%	2.7%	4.4%	3.1%	3.6%	**2.9%**	-0.78p.p

1. 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.
2. Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.

CAPITAL EXPENDITURE

Capital expenditures in 2018 were 18.8% lower than in 2017, amounting to RUB 22.1bn. This reduction mainly reflected the effect of slower organic expansion in both store formats, a higher proportion of supermarkets in total space addition (35% in 2018 compared with 17% in 2017) and lower pre-investments in future pipeline than in previous years. Capital expenditures were almost fully funded by operating cash flow.

CASH FLOW

Net cash generated from operating activities before net interest and income taxes paid amounted to RUB 32.4bn, compared with RUB 34.8bn in 2017. The decrease of 6.9% was mainly attributable to working capital movements. The significant increase of inventories in 2018 compared to 2017 was related to extension of the assortment. A decrease of accounts payable was driven by rapid growth of direct import operations with pre-payment terms, but higher margin.

NET DEBT AND LEVERAGE

As of 31 December 2018, net debt was RUB 93.3bn. Net debt to adjusted EBITDA stood at 2.6x, lease adjusted net debt to adjusted EBITDAR at 3.3x and adjusted EBITDA to net interest was 3.9x. As of 31 December 2017, net debt to adjusted EBITDA stood at 2.6x, lease adjusted net debt to adjusted EBITDAR at 3.2x and adjusted EBITDA to net interest was 3.4x.

Net debt was flat, while gross debt and cash increased as new long-term loan facilities with relatively low fixed rates were secured early in the second half of 2018. These enabled Lenta to secure a stable cost of debt amidst rising market rates, with sufficient cash at the year end to cover all refinancing needs in 2019 and part of 2020.

As of 31 December 2018 total debt was RUB 127.1bn, with a cash balance of RUB 33.8bn. All debt is denominated in Russian Roubles; 98% of it is long-term with an average maturity of around two years.

Lenta's proven low price/low cost business model and solid financial position mean we are well placed to withstand the challenges presented by current market and economic conditions. We remain focused on strengthening the business, keeping our costs under tight control and continuing to deliver profitable growth.

Rud Pedersen
Chief Financial Officer

UNDERSTANDING OUR RISKS

RISK MANAGEMENT

Lenta defines risk as ‘an uncertain future event that could affect the Company’s ability to achieve its objectives.’ Understanding how various risks potentially influence our business is integral to the decision-making process within the Company. We monitor all material risks to our operations on an ongoing basis, acting whenever necessary to mitigate and manage them. We also anticipate and evaluate new threats as and when they arise.

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

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

Stage 1 – Risk identification
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. These activities enable us to create a comprehensive risk profile. Risk identification is also embedded into key business processes including budgeting, planning, capital expenditure and performance management.

Stage 2 – Risk assessment
Risks are individually assessed to determine their likelihood of occurrence – and potential impact on the business. They are evaluated on a ‘Current’ and ‘Target’ basis, which helps to inform management oversight. Risks are assessed over a three-year timescale using Lenta’s Risk Assessment Criteria, which comprise four-point probability and severity scales.

Stage 3 – Risk response
When the ‘Current’ severity of a specific risk exceeds acceptable levels, action may be needed to align it with the ‘Target’ risk position. Risk Owners are accountable for managing the risk, with details of planned mitigation 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 decision-making on appropriate responses, including management interventions to avoid a risk becoming reality in the first place – or reduce its impact after the event.

The process is supported by a governance structure that clearly defines risk-related roles and responsibilities at each level within Lenta. The Board has overall accountability for ensuring that risks are effectively managed across the business.

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 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 within the Company are responsible for implementing risk management activities in their areas.

RISK MANAGEMENT POLICY

Lenta's Risk Management Policy provides us with a comprehensive and robust framework, enabling us to ensure that risk is managed to a consistently high standard across all our operations. It sets out the Company's principles and standards – and establishes a common approach and minimum requirements for risk management activities. The policy provides a common 'language' for risk and delivers multiple benefits, including:

- informed decision-making to help deliver consistent and improved business performance through the avoidance of unwanted surprises – and the 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 within the Company; and
- assurance to the Board and Audit Committee that processes and behaviours are embedded to ensure significant risks are consistently identified, understood and effectively managed.

The Risk Management Policy is owned by the Chief Financial Officer and is reviewed annually. Compliance is mandatory for all levels of management. 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 RISK LANDSCAPE

The risk landscape changed significantly during the year. In the first six months, there were hopes for a pick-up in consumer spending and interest rates declined. To reduce interest rate risk, Lenta secured additional long-term funding in the first half of the year at relatively low cost. The second half of the year brought surprises – with more sanctions and a sudden increase in interest rates. This resulted in greater insecurity among consumers, which impacted our sales in Q3 and in part of Q4.

In 2018, changes in retailers' promotional tactics – including 'crazy days' on specific assortments and increasingly personalised promotions – challenged Lenta's commercial team to find ways of obtaining supplier funding for these activities. The team became more adept at this during the year, managing to sustain our gross profit margin, despite a higher promotional share.

The main risk identified by the Board was a further increase in interest rates. We therefore decided to extend maturities on existing loans and borrow additional two-to-three year funds to cover all cash needs for capital expenditure and debt repayments in 2019. With no need to borrow in the current year, interest costs for 2019 will be stable and predictable.

The risk of increased regulations on retail activities also materialised. In July, a new system of exchanging digital hygiene certificates between suppliers and retailers came into force. Despite regulations continuing to change during implementation – and poor preparation by many suppliers, our fresh food supplies were uninterrupted.

New regulations to track alcohol excise labels at single label – as opposed to range – levels meant Lenta had to alter its methods of receiving goods, but we experienced no disruption in supply. Nevertheless these measures led to increased operating and control costs to ensure proper compliance.

The risk management process is closely aligned to our strategic objectives. We identified 18 principal risks that could potentially have a negative impact on our ability to deliver on our goals.

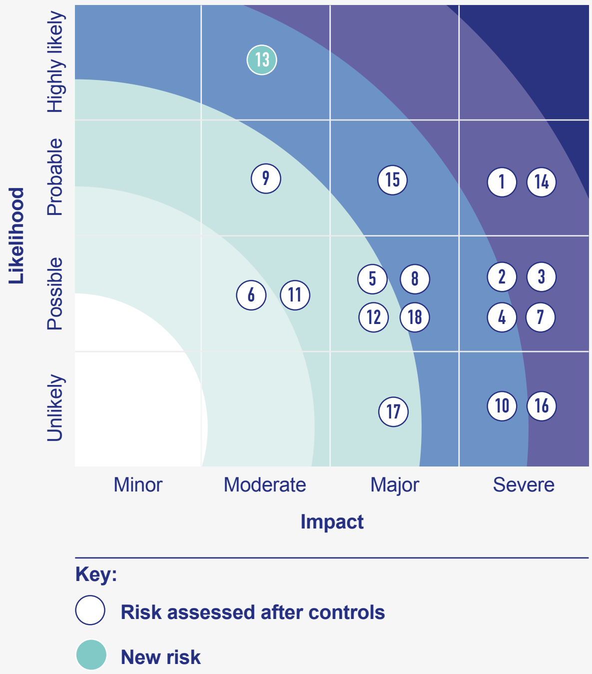
These are set out below, along with their likely impacts and the mitigating actions taken in each case. Each risk is graded according to how the possible impact would affect the achievement of our strategic priorities.

OUR STRATEGIC PRIORITIES

- **A** Profitable growth with the aim of sustaining market-leading returns
- **B** Maintain healthy balance sheet with conservative approach to leverage
- **C** Continue investing in management to ensure that our team remains one of the most effective in the industry
- **D** Develop digital capabilities to stay at the forefront of industry innovations
- **E** Establish further differentiation from competition through better tailored proposition for all customer segments
- **F** Further improve offering with direct imports, strategic partnerships, and protected sourcing platforms
- **G** Number one retailer for customer satisfaction

No on map	Risk	Impact	Strategic priorities that would be affected	Trend
	STRATEGIC RISKS			
1	**Regulation resulting in major additional compliance costs and increase in other operational costs**	Government may introduce regulation of stores in areas such as disabled access or food production standards, resulting in significant compliance costs and/or adjustments to the business model. Other measures may affect suppliers' cost structures, leading to price increases for Lenta.	A B	
2	**Retail regulation of price/margin**	Government may introduce of further trade laws, e.g. controls over price or front margin. These could erode sales and margins and/or require changes to the business model.	A B	

PRINCIPAL RISKS



RISK DESCRIPTION

1. Regulation resulting in major additional compliance costs and increase in other operational costs
2. Retail regulation of price/margin
3. Major decline in economy
4. Increased competition
5. Competitive sourcing
6. New store location
7. Lack of innovation and adaptation
8. Erosion of standards
9. Supply availability
10. IT system error and data theft
11. Management succession
12. Product quality issues
13. Risk of loss of wholesale transactions
14. Tax risk
15. Interest rate risk
16. Source of financing
17. Compliance with regulations and internal standards regarding store operations
18. Lenta employees involved in unethical behaviour

How we manage it	Change in 2018
Monitor legislative initiatives and engage in ongoing lobbying with retail associations. Continued investment in people and IT resources to ensure our operational systems are capable of managing such changes.	Lenta completed preparations for new legal obligations regarding digitalisation and tracking of quality certificates in the fresh goods supply chain, which went live on 1 July. This remains a complex project, since it involves multiple government institutions with different views; hence targets are constantly changing. The system will require further upgrading in 2019, so the Company will remain exposed to some risk of fines. We also implemented process changes to track excise labels by bottle rather than batch. A similar excise label tracking system for tobacco is scheduled for early 2019. New regulations on outsourced labour have increased its cost and rises in road tax are making transport more costly.
Monitor legislative initiatives and engage in ongoing lobbying with retail associations.	The July 2016 legislation prompted a sharp increase in promotional activity across the market, but since then the situation has remained relatively stable. However, at the year end, an amendment to the trade law was implemented which limits the returns of goods with a shelf life of less than 30 days to suppliers. This will lead to increased shrinkage levels in food retail. There remains a constant risk of regulatory change in the Russian retail sector, which can affect consumers and retailers. The industry is therefore increasingly alert to new initiatives.

No on map	Risk	Impact	Strategic priorities that would be affected	Trend
	STRATEGIC RISKS (CONT.)			
3	**Major decline in economy**	There may be further major decline in Russia's economy, devaluation of the Rouble and inflation, resulting in reduced sales as customers curtail their spending.	A B	
4	**Increased competition**	Lenta could face markedly increased competition as a result of competitor desperation, consolidation – or a major competitor benefiting from more effective management team or additional funding. This could lead to a price war, with a resulting impact on Lenta's growth and margins.	A B G	
5	**Competitive sourcing**	Lenta may not be able to gain access to produce at the 'lowest price', due to competitors pursuing vertical integration or having 'better' relationships with producers.	A E F G	
6	**New store location**	New store site selection could be compromised due to the desire to meet rapid growth targets. This could result in a fall in average revenue per store and Lenta missing forecast revenue targets.	A	
7	**Lack of innovation and adaptation**	Technological developments move extremely fast. Big data, social media and digital marketing capabilities and robotisation are changing the way consumers gather information and how they are influenced – and alters their shopping behaviour. Such developments have a considerable influence on cost of servicing customers. A lack of flexibility may render our commercial proposition obsolete, our marketing ineffective and could lead to reduced competitiveness.	A D E F G	

How we manage it	Change in 2018
Actively monitor the main economic indicators and adjust our offer in our stores as appropriate.	The Russian economy began to deteriorate during the latter half of 2018. Food inflation reduced significantly in the first half, but a renewed Rouble devaluation as a result of new sanctions started driving up prices again. Real disposable income was hit by increases in energy tariffs, petrol prices, public transport prices and communal payments. Real disposable income growth became positive for a short period, but turned negative at the end of the year.
Actively monitor competitors' behaviour and changes, understand structural changes in the market and implement changes to our own format.	Market growth is mainly driven by the top two, Lenta and few niche players in alcohol, dairy and children's goods. Service levels in a number of supermarket players improved significantly, especially in Moscow.
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 a member of EMD, the largest retail purchasing alliance in Europe. This gave the Company access to private label producers across Europe in 2018, significantly increasing its private label assortment.	Lenta has not only grown its local sourcing activity, but also significantly increased direct sourcing from farmers in Russia, and direct imports of fresh and unique dry food (private label) goods.
Lenta has a robust and rigorous investment approval system, 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. The Company is experimenting with low capex and lean management models to ensure better profitability of existing stores, as well as potentially opening up smaller cities in a profitable way.	Competition for sites from shopping centre developments and peers remains low, resulting in more locations being available for Lenta. However, the sluggish rate of economic development means that new store ramp-ups may be slower in some locations, particularly smaller cities. Lenta's more modest growth targets mean the Company is focused exclusively on the best locations.
Lenta has a history of using big data analysis derived from its loyalty card for category management and individual promotions. The Company is increasing the use of digital marketing options and has started an initiative to organise innovation in a structured way. Lenta has strengthened its organisational capability to manage innovation effectively by appointing Dmitry Bogod to the new senior role of Chief Strategy Officer and appointing Sergey Korotkov as Chief Information Officer, as well as strengthening its marketing department and allocating increased funding for innovations.	Developments continue to move very swiftly and peers are making increasing use of digital marketing tools.

No on map	Risk	Impact	Strategic priorities that would be affected	Trend
	OPERATIONAL RISKS			
8	**Erosion of standards**	Continued rapid expansion could lead to inconsistent application of the Company's commercial and operational standards. This could result in a substandard product offer (assortment, price and quality) or levels of customer service that damage Lenta's profitability and brand.	A G	
9	**Supply availability**	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 E F G	
10	**IT system error and data theft**	A technical malfunction (e.g. change control), could result in an inability to operate a key supply chain system, limiting stock availability or causing pricing errors, 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. Greater openness of systems with apps and personal cabinets increases this risk.	D G	
11	**Management succession**	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 management in the country and a reluctance of international candidates to move to Russia. This could result in management pressures and inappropriate execution of the strategy.	C	
12	**Product quality issues**	A lack of independent supplier on-boarding and ongoing health and safety audits for high risk products (e.g. meat, dairy and fish), could result in the sale of contaminated food. This could cause customer illness or even loss of life, negative media headlines and a regulatory investigation.	A F G	
13	**Loss of wholesale transactions**	A change in major suppliers' distribution strategies may lead to a significant decline in wholesales.	A	

How we manage it	Change in 2018
The Company's comprehensive management development programme ensures that it has high calibre managers for new stores and a consistent, Company-wide understanding of its 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 aligned with corporate standards and are adapted to local conditions. Regular senior management meetings ensure the maintenance of Lenta's commercial and operational standards.	With slower space growth and an increasing focus on like-for-like performance, this risk is declining.
See risk 5.	See risk 5.
Extensive existing procedures ensure continuity of Lenta's IT operations. A comprehensive external audit of IT controls and cyber security was conducted in 2016 and its recommendations were implemented during 2017 and 2018. A comprehensive audit will be conducted once every two years.	Lenta operates sophisticated business systems that automate or support daily decision-making. Lenta is a data-rich company – and uses customer data more and more intensively. Although not financially sensitive, information on customer shopping habits should not be disclosed to any third party. With the adoption of various apps and the option for customers to maintain their own personal data, risks are increasing.
Lenta's fast growth and high standards mean it 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. Low staff turnover compared to the market shows that it manages this risk well. Lenta has a clear succession plan for senior management.	Lenta became increasingly attractive for employees compared to many other companies because of the career opportunities it offers. The Company enhanced its management training programmes in 2018, extending the Lenta Leader programme to more employees to prepare selected managers for promotion to higher management levels. The Company signed a new retention scheme with the management team in 2018.
Lenta's Quality Assurance team works with its commercial team to identify suppliers that are 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 during in-store production to ensure compliance with standards.	The share of locally produced food is increasing. However, safety standards in the food industry are often very basic compared to Lenta's own, with responsibility often lying more with the retailer than the supplier. The number of stores with own production operations and related risks is growing.
Lenta is exploring new channels and suppliers.	At the end of 2018, Lenta noted that several suppliers were offering significantly lower wholesale transactions. As a result, the Company lost a significant amount of wholesale business in Q4 2018 and expects this to continue in 2019.

No on map	Risk	Impact	Strategic priorities that would be affected	Trend
	FINANCIAL RISKS			
14	**Tax risk**	Russia's taxation system is changing constantly and new rules are often ambiguous, leading to uncertainties in the tax position.	A B	
15	**Interest rate risk**	Lenta's debt portfolio is partly in variable interest rates, potentially leading to a large increase in interest cost – and potential breach of covenants	A B	
16	**Source of financing**	Lenta is moving from a phase of rapid growth requiring significant additional external financing to a more moderate growth phase in which expansion can be fully financed from operating cash flows. Nonetheless, refinancing of many existing loans will be required. During disruptions in the banking system or because of a too high leverage, Lenta may not be able to obtain the external financing required to roll over its debts.	A B	
	LEGAL & COMPLIANCE RISKS			
17	**Compliance with regulations and internal standards regarding store operations**	Health and safety failings, customer/staff error or inadequate store construction or system design could cause a disaster (eg roof collapse), leading to deaths and injuries, negative media headlines and fines. Stores could be closed by relevant authorities because of non-compliance with safety or environmental regulations.	A B	
18	**Lenta employees involved in unethical behaviour**	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 C	

VIABILITY STATEMENT

Lenta's long-term goal is to strengthen its leadership in the hypermarket segment while delivering attractive returns to shareholders and developing a strong multi-format platform for growth.

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 and sophistication, which enables us to negotiate improved conditions with 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 optimised to our requirements 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. Historically, this growth was capital intensive, requiring additional funding over and above our own cash flow generation. Looking forward, from 2019 onward the company expects to expand at somewhat slower rate, with lower (though still substantial) capital expenditures, which is expected to result in positive free cash flow after capital expenditure and financing costs.

Lenta continues to depend on banks and the financial markets for a significant proportion of its funding. Therefore, our policy is to maintain a strong balance sheet to ensure the company has access to capital markets. 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, severe economic disturbances would impact our business – along with other retailers – and would therefore influence our cash generation and debt service capacity. This in turn will affect

How we manage it	Change in 2018
The Company monitors changes in legislation and court practice and reconsiders, when necessary, its tax structure.	The tax authorities appear to take a tougher stance on tax structuring – and are finding support in the courts for this approach.
Lenta ensures that a reasonable element of its debt is in fixed rates – or covers upward risk with caps. The Company 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.	After an initial drop, interest rates increased again from summer 2018 on the back of new sanctions and a devaluation of the Rouble. Lenta increased fixed rate borrowings in 2H 2018 and extended maturities to reduce any impact of further rate increases on its cost of debt.
The Company has a diverse portfolio of lenders to reduce its 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 it would have adequate funding – and that leverage would remain within covenants – even with very pessimistic assumptions.	Lenta significantly increased limits with most of its banks ahead of its funding plans. With interest rates increasing and considering relatively short maturities, Lenta decided to borrrow additional money in the second half of the year and extended its maturities. As a result, Lenta had sufficient cash at hand at the year end to be able to service all debt repayments in 2019.
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.	The reduced number of new store openings means that this risk is stabilising and could go down. There are more experienced employees to support new stores and enforce proper standards in these new stores.
Lenta has a clear ethical policy which is widely known and communicated within the Company. Third parties with whom Lenta cooperates are actively informed about this policy.	There were no changes in 2018.

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.

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 including lease adjusted leverage, as well as other ratios including interest cover and fixed charge cover which takes rent into account. 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 and other key ratios are 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.

ROBUST AND EFFECTIVE LEADERSHIP

Acting with openness, fairness and integrity is essential to our sustainable success.

“WE ASPIRE TO BE A ‘BEST PRACTICE’ EXAMPLE FOR A RUSSIAN OPERATING COMPANY”

John Oliver
Chairman

DEAR SHAREHOLDERS

My responsibilities as Chairman of Lenta include the oversight and promotion of the highest standards of corporate governance. All aspects of our business are influenced by how we conduct ourselves.

This report sets out an overview of our governance practices; I am pleased to share it.

BEST PRACTICE

Lenta is not required to comply with the UK Corporate Governance Code (‘the Code’). However we believe that adhering to its provisions – as far as is reasonably practicable and appropriate – is in the best interests of our shareholders.

Recent years have seen us implement a series of improvements to our governance model – and we aspire to be a ‘best practice’ example for a Russian operating company. We continue to review and refine our governance framework on an ongoing basis.

OBJECTIVES AND RESPONSIBILITIES

The principal objective of Lenta's Board is to secure the Company's long-term success and deliver sustainable returns for its shareholders. This involves a range of tasks including establishment of strategic goals, oversight of financial and human resources, review of management performance and determination of our risk appetite. In addition, we play a vital complementary role in providing advice and support to the executive team as they implement Lenta's strategy. We also set the overall tone for the management culture of the Company.

Lenta's governance framework combines leadership with collaboration and delegation – and these are the foundations of our robust decision-making process. Specific responsibilities are delegated to the four Board Committees: Audit, Remuneration, Nomination and Capital Expenditure. Details of their remits are set out on pages 74 to 88, along with their activities during the year.

Lenta is exposed to a variety of financial, operational and compliance risks. The Board is responsible for ensuring that the measures in place to mitigate these are both appropriate and effective. The Company's risk management framework is overseen by the Audit Committee.

INVESTOR RELATIONS

Engaging with shareholders on a regular basis is an essential component of effective corporate governance. Along with the CEO and CFO, members of the Board and I met with institutional shareholders and sell-side analysts during the year. Our investor relations team ensures that we are kept fully appraised of their activities – as well as any variations in shareholder sentiment towards Lenta.

LOOKING FORWARD

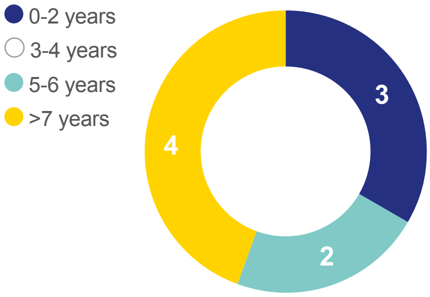
We are driven by the desire to secure a sustainable future for Lenta and its stakeholders. Despite the multiple challenges and distractions of the prevailing tough trading environment, we remain wholeheartedly committed to maintaining the highest standards of corporate governance across the business.

John Oliver
Chairman

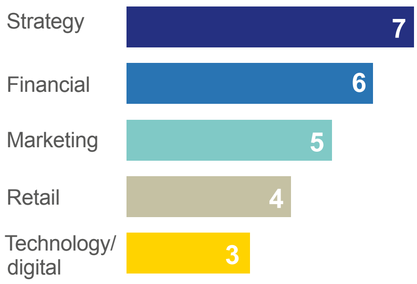
COMMITTED TO RESPONSIBLE STEWARDSHIP

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

Tenure of Non-executive Directors



Board expertise



Board nationality

1. Russia	2
2. Netherlands	2
3. UK	3
4. US	1
5. Denmark	1

Board committees: ● Capital Expenditure ● Nomination ● Remuneration ● Audit

1

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 and CEO of GE IT Solutions Europe. 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 and then worked for Boston Consulting Group before joining GE.

Other roles
Senior Advisor to TPG and a non-executive director of Yandex-Market.

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

2

HERMAN TINGA (61)
Chief Executive Officer

Herman Tinga joined Lenta in 2013 as Chief Commercial Officer and was appointed CEO in December 2018.

Experience
Prior to joining Lenta, Herman was Non-Food Global Category Management & Sourcing Director at Metro AG. He has 32 years' experience in retail and cash & carry. Herman has held Board and VP positions with METRO Cash & Carry in Netherlands and Russia and senior management roles in Dutch department stores chain V&D as well as supervisory roles with Electric City and shoe importer REMO. At Metro Cash & Carry he was involved as international Sponsor in sourcing across Asia and Europe and helped lead the development of customer-centric category management for Metro group.

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

3

RUD PEDERSEN (49)
Chief Financial Officer

Rud Pedersen was appointed Chief Financial Officer on 1 April 2019.

Experience
Before his current role, Rud served as CFO of Carlsberg Eastern Europe and was responsible for operations in five FSU markets. Over the last 25 years he has held a number of senior management positions in a diverse range of businesses including FMCG, fashion and apparel retail and pharma. Rud has had experience in regional and group-level roles, including Cadbury (Russia), Astrazeneca (Belgium), Levi Strauss (Belgium) and IC Group (Denmark). He started his career with Deloitte.

Qualifications
Rud holds the Master of Science degree in International Business Administration & Commercial Law from Aarhus School of Business (Denmark). He also has an EMBA from London Business School (UK).

4

JULIA SOLOVIEVA (46)
Independent non-executive Director

Julia Solovieva was appointed an independent non-executive Director of Lenta Ltd in 2018.

Experience
Julia has over 20 years' experience in the internet search, media, retail and telecoms sectors. She joined Google in 2013 as Managing Director/Country Manager Russia. From 2007 to 2012 she held various senior positions including the role of President at Prof-Media, one of Russia's largest media groups. Prior to this she held various corporate development and other leadership roles in the telecoms sector and also has experience in strategy consulting with Booz Allen Hamilton Netherlands and as Director of Operations for Mary Kay Russia and CIS.

Other roles
Julia is Director, Business Operations Emerging Markets EMEA, Google.

Qualifications
Julia holds an MBA from Harvard Business School and a BA in foreign languages from Moscow State Linguistic University.

5

STEVEN HELLMAN (54)
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. From 2004 to 2016 he held senior positions at Credit Suisse in investment banking, securities sales & trading and private banking, including six years as a Managing Director and Regional CEO for Russia and the CIS. He had previously 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 currently Chief Restructuring Officer for FESCO.

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

6

C

MICHAEL LYNCH-BELL (65)
Director

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

Experience
Michael was a member of Ernst & Young's audit practice from 1974 to 1997, becoming a partner in 1985. As well as supervising the audit of several multinational groups, he advised 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 advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.

Other roles
Michael is 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 holds a BA in Economics and Accounting from Sheffield University. He is an English Chartered Accountant and was awarded an Honorary Doctorate of Humane Letters from Schiller International University.

7

STEPHEN JOHNSON (55)
Senior Independent Director

Steve 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
Steve 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
Steve 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
Steve graduated from Cambridge University with an Engineering degree.

8

DMITRY SHVETS (46)
Director

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').

9

MARTIN ELLING (65)
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.

AN EXPERIENCED LEADERSHIP 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.

1

HERMAN TINGA (61)
Chief Executive Officer

Herman Tinga joined Lenta in 2013 as Chief Commercial Officer and was appointed CEO in December 2018. Herman's biography can be found on page 59.

2

RUD PEDERSEN (49)
Chief Financial Officer[1]

Rud Pedersen was appointed Chief Financial Officer on 1 April 2019. Rud's biography can be found on page 59.

1. Jago Lemmens served as Chief Financial Officer until his retirement on 1 April 2019.

3

EDWARD DOEFFINGER (62)
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. He has over 30 years experience in the retail industry. Edward started his career in Germany where he held several positions in wholesale companies and at the Trade Ministry of the GDR before joining Metro Cash & Carry in 1991. He held senior operational and development positions with Metro Cash & Carry in Hungary and China before moving to Russia in 2001.

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

4

DMITRY BOGOD (35)
Chief Strategy Officer

Dmitry Bogod joined Lenta in 2018 as Chief Strategy Officer.

Experience
Dmitry has over ten years of experience in strategy consulting for international companies. Before joining Lenta, Dmitry was an associate partner in McKinsey's Moscow office, where he focused on strategy and marketing projects for Russian and international retailers and FMCGs. Prior to that, Dmitry worked at Oliver Wyman, advising companies on consumer related strategy and operational topics. Prior to consulting, Dmitry worked with Aon Benfield Securities, RBC Capital Markets, and Manulife Financial.

Qualifications
Dmitry has an Honours Bachelor of Science Degree in Applied Mathematics from the University of Toronto.

5

TATIANA YURKEVICH (46)

Human Resources 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).

6

SERGEY PROKOFIEV (50)

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 an 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.

7

JOERN ARNHOLD (48)

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.

8

MAXIM SHCHEGOLEV (52)

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 positions of Administrative Director and Director of Trade Development of O'Key group. He has 15 years' experience in the retail industry, including Director of Expansion for O'Key and a similar position in Start company. He is responsible for landplot acquisition, 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.

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TATIANA SAFUTINA (48)

Commercial Department Director

Tatiana Safutina joined Lenta in April 2015 as Commercial Director, Fresh Food.

Experience

Tatiana has more than 20 years' experience in the Russian food retail sector. Prior to joining Lenta, she was with the O'KEY retail chain for ten years, where she worked her way up from Head of Deli and Fresh Food in St. Petersburg to the company's Head of Fresh Food. Before that, Tatiana oversaw the procurement of fresh produce at AKT Zdorovye and Uniland in St. Petersburg.

Qualifications

Tatiana holds a degree from Saint-Petersburg State Institute of Technology.

10

JAAP VAN VREDEN (57)

Sourcing and Procurement Director

Jaap van Vreden joined Lenta as Procurement Director in 2015.

Experience

Jaap has over 30 years' international experience in the retail industry across sourcing, procurement, marketing and brand management. Prior to joining Lenta, he was a consultant for Li & Fung and implemented category and procurement management in supermarket and hypermarket chains. Earlier in his career, Jaap worked as CCO for Modis in Russia and for over eight years held VP positions in Ahold USA and CEE.

Qualifications

Jaap holds a diploma in Retail, Economic and Administrative studies from the Deltion College in the Netherlands.

11

RUSLAN ISMAILOV (41)

Supermarket Format Director

Ruslan Ismailov was appointed Supermarket Format Director in 2019.

Experience

Ruslan has over sixteen years' experience in retail and FMCG companies. Prior to joining Lenta in 2007, he held operational positions in Metro Cash & Carry. In Lenta, Ruslan previously served as Regional Director, Chief Operational Officer and Divisional Director.

Qualifications

Ruslan has a bachelor's degree in International Economic Relations from the State University of Customer Cooperation, Moscow.

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SERGEY KOROTKOV (48)

Chief Information Officer

Sergey Korotkov joined Lenta in 2018 as Chief Information Officer.

Experience

Sergey has extensive expertise in information technology, supported by 25 years of experience in both Russian and international companies. Before joining Lenta, Sergey was most recently Senior Vice President and CIO at Gloria Jeans, where he led the company's digital transformation. Prior to that, he was CIO at Dixy Group, where he led the development and implementation of its IT strategy. He has also held similar positions at PepsiCo, Transaero Airlines, and Bristol-Myers Squibb Russia.

Qualifications

Sergey graduated with honours from Moscow State University with a Master's Degree in Applied Mathematics.

CORPORATE GOVERNANCE REPORT

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 2016 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.

The Code was revised in July 2018 for application to accounting periods beginning on or after 1 January 2019. We have begun our own review of the new Code, and are putting necessary processes in place to ensure that we will be in substantial compliance with these changes during the 2019 financial year.

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.

THE KEY ROLES AND RESPONSIBILITIES OF THE SID INCLUDE:

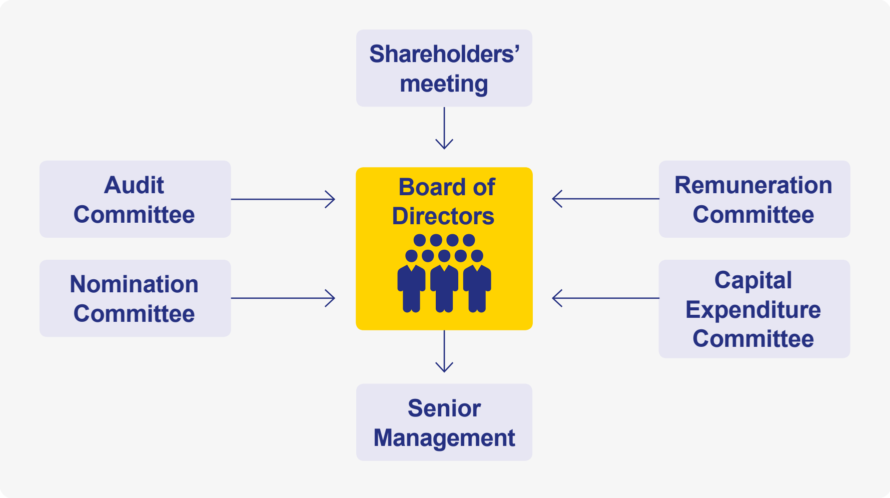
- acting as a sounding board for the Chairman;
- serving as an intermediary for the other Directors when necessary;
- being available to assist in resolving shareholder concerns, should alternative channels be exhausted;
- holding at least one meeting each year with the non-executive Directors without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

Stephen Johnson was the Senior Independent Director ('SID') throughout the year ending 31 December 2018.

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.

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, Julia Solovieva 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 Ms Solovieva.

Mr Johnson carried out remunerated consultancy work for Lenta and one of its Major Shareholders, TPG Capital, prior to 2014. He was remunerated as Chairman of another TPG Capital investee company during the period 2015-18, but currently has no ongoing business relationship with any TPG entities. The Board is satisfied that these factors had no effect on his independence.

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.

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[1]	Julia Solovieva[1]	INED	2018	●	●	●	
Director	Dmitry Shvets	TPG	2009		●	●	C
Director	Steven Hellman	TPG	2017				●
Director	Martin Elling	EBRD	2011				●
Director	Herman Tinga	CEO	2018				
Director	Rud Pedersen	CFO	2019				

● **Audit Committee (3 Directors)**
Read more on page 76

● **Nomination Committee (5 Directors)**
Read more on page 74

● **Remuneration Committee (5 Directors)**
Read more on page 79

● **Capex Committee (5 Directors)**
Read more on page 87

1. Julia Solovieva was elected to serve as an independent Director at the AGM on 22 June 2018. She replaced Anton Artemyev, who served as an independent Director and was a member of the Audit, Nomination and Remuneration Committees.

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.

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

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

BOARD FOCUS DURING THE YEAR

In 2018, 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 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.

ANTI-BRIBERY AND CORRUPTION

Lenta Group has in place a Compliance Programme, which includes our Ethics Policy, Hotline and Corporate Guidelines. The purpose of the Programme is to assist in the prevention of unlawful activities by individuals and to comply with current Russian legislation and best practice.

The Board takes a firm stance on bribery and corruption and attaches the utmost importance to the Programme in clarifying the standards expected of all employees of the Group.

The Foundation of the Programme is our Ethics Policy, along with the subset of policies and internal guidelines, which provide a process for operating in accordance with the rules in specific situations. These policies and guidelines include procedures for dealing with public officials, giving and receipt of gifts and hospitality, due diligence processes carried out on third party business partners, and policies on conflicts of interest.

Regular awareness campaigns are carried out across Lenta, and monitoring and assurance of processes is undertaken by both the Internal Audit Team and external advisers. Anti-bribery and corruption clauses are included in contracts with the Group's business partners. Lenta's Compliance Officer and Ethics Committee investigates hotline complaints of unethical behaviour. As a result appropriate measures are taken to enhance control and compliance with the Programme.

Lenta LLC undertakes due diligence checks on potential suppliers, customers, consultants, agents, distributors and other business partners to check they are suitable to do business with, are reputable and ethical and do not commit or engage in any form of violations.

During 2018, new employees were trained on the Compliance Programme. The Group's policies were reviewed and updated during the year. A number of these policies can be viewed on the corporate website at http://lentainvestor.ru/en/about/corporate-governance/internal-policies.

RISK MANAGEMENT AND CONTROL

The Board has overall responsibility for risk management and determines the Group's risk strategy, assesses and approves risk appetite and monitors risk exposure consistent with strategic priorities. The Board has established a Group-wide system of risk management and internal control, which identifies and enables risk management and the Board to evaluate and manage the Group's principal risks. Due to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss and is designed to manage rather than eliminate risk. The effectiveness of the Group's system of internal control is regularly reviewed by the Board, as is the Group's risk management framework, with specific consideration given to material financial. operational and sustainability risks and controls, with appropriate steps taken to address any issues identified. During 2018, no significant internal control failings were identified.

The Board has authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems. Each Board Committee provides updates on any risks considered within its remit when providing regular updates to the Board.

The Board confirms that throughout 2018 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with Principle C.2 of the Code and the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council. The Group's approach to risk management, the risks identified and how it profiles these risks is set out in the Risk management overview and Principal risks section on pages 46 to 55.

INTERNAL AUDIT

Internal Audit provides independent, objective assurance to the Group designed to improve the Group's operations and safeguard the Group's assets and integrity. It advises management on the extent to which systems of internal control and governance processes are appropriate and effective to manage business risk, safeguard the Group's resources and maintain compliance with the Group's policies and legal and regulatory requirements. It 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. Internal Audit's work is focused on the Group's principal risks; the Head of Internal Audit and the Group Risk function work together when considering the appropriate scope and focus of internal audits. The programme of work of the Internal Audit department is considered and approved by the Audit Committee, subject to any additional suggestions from the Committee. The audit plan has space for ad hoc audits as required by the Committee or management.

Under the Internal Audit plan, a number of audits take place across the Group's operations and functions to identify areas for improvement of the Group's internal controls. Findings are reported to relevant operational management who put in place processes for strengthening controls. 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 Chair of the Audit Committee and attends Audit Committee meetings four times a year to present the findings from internal audits.

POLITICAL DONATIONS

It is the policy of the Group not to give any money for political purposes, nor to make any donations to any political organisations. No such expenditure was incurred during the year.

BOARD COMMITTEES

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.

2018 attendance

DIRECTOR	BOARD	AUDIT	CAPEX	NOMINATION	REMUNERATION
John Oliver	7	–	11	4	6
Jan Dunning (until his replacement by Herman Tinga on 7 December 2018)[1]	7	–	–	–	–
Herman Tinga (from his appointment on 7 December 2018)[1]	–	–	–	–	–
Stephen Johnson	7	12	11	4	6
Michael Lynch-Bell	7	12	–	4	6
Anton Artemyev (until his retirement on 22 June 2018)[2]	3	7	–	1	2
Julia Solovieva (from her appointment on 22 June 2018)[2]	4	5	–	3	4
Jago Lemmens[3]	7	–	–	–	–
Dmitry Shvets	7	–	11	4	6
Martin Elling	7	–	11	–	–
Steven Hellman	7	–	11	–	–

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

CHANGES TO THE BOARD IN 2018

1. Herman Tinga was appointed CEO on 7 December 2018 to replace Jan Dunning who served as CEO up to this date.
2. Julia Solovieva was appointed as an Independent Non-Executive Director at the Lenta AGM on 22 June replacing Anton Artemyev who served up to this date.
3. Rud Pedersen was appointed CFO on 1 April 2019 to replace Jago Lemmens who served as CFO up to this date.

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
Julia Solovieva (Independent)	Since 2018	Considered to be independent by the Board

The following Board and Committee meetings are scheduled for 2019.

2019 planned

	BOARD	AUDIT	CAPEX	NOMINATION	REMUNERATION
Meeting	7	10	12	4	6
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.

EFFECTIVENESS

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

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

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

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

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

Board papers are, 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

Stephen Johnson
Chairman

COMMITTEE MEMBERS

Stephen Johnson
(Independent, Chairman)

Michael Lynch-Bell
(Independent)

Julia Solovieva
(Independent)

John Oliver
(Major Shareholder nominee)

Dmitry Shvets
(Major Shareholder nominee)

DEAR SHAREHOLDERS

2018 was a busy year for the Nomination Committee. During the year we undertook the planned replacement of our Chief Financial Officer Jago Lemmens. The Committee put in place a thorough external search process using external search firm Egon Zehnder (which has no connection with the Company), and created a high quality short list of well-qualified candidates. Following a rigorous interview process, in September 2018 the Board gave unanimous approval for the Committee's recommendation to appoint Rud Pedersen as CFO. Rud joined Lenta on 1 April 2019 following completion of his notice period. Following the decision to appoint Rud, the Nomination Committee put in place suitable handover arrangements with Jago Lemmens to ensure an orderly transition.

On 27 November 2018 Jan Dunning, Chief Executive Officer of Lenta, informed the Board of his intention to resign forthwith. As this decision was unexpected, the Nomination Committee immediately approached the previously identified internal candidates using the Company's well-established succession planning process.

Following a brief process, the Committee was delighted to recommend to the Board the appointment of Herman Tinga, formerly Lenta's Commercial Director, as the new CEO of the Company. The Board approved Herman's appointment on 7 December 2018.

The Company was also able to promote Tatiana Safutina from her position as Commercial Director, Fresh Food to the role of Commercial Department Director.

The Committee recommended the appointment of a new independent non-executive director to replace Anton Artemyev, who was retiring at the 2018 Annual General Meeting. The Committee appointed SpencerStuart (which has no connection with the Company) as external search consultant to identify candidates for the non-executive role and Julia Solovieva was identified and chosen. We are delighted to welcome Julia to the Board and as a member of the Audit, Nominations and Remuneration committees with effect from 22 June 2018.

In addition to these important Board and senior management changes, the Committee focused on several other issues. These included 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.

ROLE AND RESPONSIBILITIES

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 2019.

PERFORMANCE APPRAISAL SYSTEM

Lenta has a very well developed system for performance appraisal across all functions in the business. This is embedded in the way the Company works and is used to manage performance and identify high achievers with development needs and the potential to move into more senior roles.

Lenta's appraisal system plays an important part in 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 of the management team.

During the year Lenta promoted around 3,800 people within the business, as well as providing 2.2m man hours of external training and development investment for its employees.

SUCCESSION PLANNING

Lenta continues to be able to offer significant and exciting opportunities for its high-performing employees. The recent internal promotions of Herman Tinga as CEO, Tatiana Safutina as Commercial Department Director and Ruslan Ismailov as Supermarket Format Director are testament to the robust approach that Lenta takes to succession planning. One of our key objectives is to ensure there are ample opportunities for talented people to progress their careers at Lenta – and that any vacant positions can be filled with the minimum of disruption to the business.

Our approach is kept under constant review within the business and is regularly examined by the Committee.

BOARD PERFORMANCE

Lenta's policy is to assess Board performance annually, with an external review every three years. An external Board assessment was carried out in 2018 by Prism CoSec (which has no connection with the Company). The review was completed just before the end of the year; a draft report is currently being considered by the Nominations Committee.

Stephen Johnson
Chairman
Nomination Committee

AUDIT COMMITTEE REPORT

Michael Lynch-Bell
Chairman

COMMITTEE MEMBERS

Michael Lynch-Bell
(Independent, Chairman)

Julia Solovieva
(Independent)

Stephen Johnson
(Independent)

DEAR SHAREHOLDERS

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

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

In 2018, 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 reports from our risk manager and the recommendations for changes to our risk matrix. 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 continued to monitor the implementation of the recommendations from the IT security review completed during 2018.

With the appointment of our new Head of Internal Audit we took the opportunity to review the internal audit programme and the resources it needs. We also oversaw the implementation of an updated reporting and recommendation monitoring framework.

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 ahead to the coming year, the Committee will maintain its focus on the audit and assurance processes within the business. These include the monitoring of key risks as well as tax developments that might affect the Group.

In conjunction with management, the Committee will also review and assess the implications of new and proposed accounting standards.

Julia Solovieva replaced Anton Artemyev on the Committee following her appointment as a Director at the AGM in June. 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, as well as 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.

ROLE AND RESPONSIBILITIES

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.

The Audit Committee's main responsibilities involve overseeing, monitoring and reviewing the Company's financial reporting, internal control and assurance processes. Although the Committee's terms of reference set out very specific duties, it serves a much wider purpose in reassuring shareholders that their interests are properly protected with regard to the Company's financial management and reporting.

The Committee regularly reports to the Board on the matters it discusses. The Board has delegated responsibility to the Committee for reviewing the Company's procedures and system of internal control in relation to risk management, with a focus on the methodology used by senior management. It also oversees the internal and external audit processes that report to it.

The Chairman, 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 usually invited to attend meetings, with the exception of those called solely to approve the financial disclosures in Company announcements made in respect of the full year preliminary results and March and September quarters.

Other members of senior management are invited to attend to discuss any matters specifically 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 undertaken. It also reviewed the performance and effectiveness of the external auditor in respect of the year ended 31 December 2018.

Consideration was given to the performance, objectivity, independence, resources and relevant experience of the external auditor. In this process, the Committee 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.

The Committee also performed its annual review of the policies on the external auditor's independence and objectivity, their use for non-audit services and the recruitment of former employees of the external auditor.

To safeguard auditor objectivity and independence, the Committee oversees the process for the approval of all non-audit services provided by EY.

Consideration is given to whether it is in Lenta's best interests that 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.

As indicated in last year's annual report, we put the audit out for tender for audits commencing with the 2019 financial year. Following a competitive tender Ernst & Young LLC (EY) was reappointed as the Company's auditor for the following 7 years.

EY will be put forward for reappointment as the Company's auditor by shareholders at the 2019 AGM. Professional fees billed by Ernst & Young LLC are shown in the table below.

AUDITOR'S FEES

(Ernst & Young LLC)

	2018 '000 RUB	2017 '000 RUB
Audit of consolidated financial statements	**27,510**	23,628
Consulting and other non-audit services	**3,613**	8,971
Total fees	**31,123**	32,599

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE

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

Impairment

An assessment of indicators of impairment at our poorly performing stores was made, and none were found that would have led to a provision against their underlying value. Management did propose that certain assets should be written off and the Committee agreed with their recommendation.

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 pages 54-55. 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

Stephen Johnson
Chairman

COMMITTEE MEMBERS

Stephen Johnson
(Independent, Chairman)

Michael Lynch-Bell
(Independent)

Julia Solovieva
(Independent)

John Oliver
(Major Shareholder nominee)

Dmitry Shvets
(Major Shareholder nominee)

The work of the Remuneration Committee is set out on pages 79 to 86. The interests in the Company's share capital held by Senior Management and the remuneration received by the Chairman and the non-executive Directors are set out on pages 84 to 85. The Directors' interests in the Company's share capital are set out on page 85.

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 also a significant element in retaining and recruiting good people. During 2018, performance against the 2017 bonus plan was assessed and an overall payment of 53% 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.

ROLE AND RESPONSIBILITIES

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.

LONG-TERM INCENTIVE PROGRAMME FOR SENIOR MANAGEMENT

The Company operates a number of long-term incentive plans for both senior and middle management.

During the year the Committee spent considerable time reviewing its approach to each of these remuneration elements. This review focused on a number of areas. First, was the Lenta programme competitive when measured against similar Russian retailers; and second, did the programme still achieve its aims of both retaining important colleagues and incentivising strong performance?

The review concluded that the Lenta LTI programme does indeed require some changes in order to continue to achieve its aims. Firstly, the Lenta LTI programme is entirely based on performance shares. There is no guaranteed cash element. An analysis of LTI programmes of Russian retail companies demonstrated that majority of them choose a deferred cash-based solution in current macro economic conditions (Korn Ferry Compensation Report for Russian retail sector 2018). The Lenta plan needs to incorporate a cash element as a result.

Secondly, the Lenta LTI programme has 3 layers of performance hurdle – first of all the vesting of the LTIs over 3 years is dependent on certain operational performance criteria being hit; second, the individual manager has to remain in post for the 3 year period; and third the ultimate value of the award is entirely dependent on the share price at the point of time of vesting. Given the high volatility in short-term operating metrics in the Russian retail market resulting from the impact of multiple external factors outside of the management team's control and the fact that medium-term share price performance has become decoupled from actual operational results, the Review concluded that the original retention objective of the programme was no longer being achieved as a result of the high uncertainty about quantum of award at the end of 3 years. This also requires some amendment to the programme.

As a result of this Review the Committee has decided to make a number of changes to the LTI programme for both senior and middle management to assure long-term employee retention and to keep alignment between management and shareholder interests.

1. From 2019 the LTI programme, vesting in 2022, will consist of two equal parts, one shares and one cash based. The total LTIP allocation amount will remain the same as a percent of salary.
2. To ensure retention of key managers between 2019 and 2022, two types of cash-based Special Awards were approved in addition to share-based LTIP. These awards are one-off and are designed to ensure that historic share and LTIP awards made to senior management retain their effectiveness.
3. For senior management the operational performance criteria will be removed for the 2016, 2017 and 2018 LTIPs. As these awards are all in shares, the ultimate monetary value of award still depends on the share price dynamic, thus keeping management interests aligned with those of shareholders. All other criteria, particularly those relating to vesting and therefore retention have been retained.

OVERVIEW OF LONG-TERM INCENTIVE PROGRAMME FOR SENIOR MANAGEMENT IN 2018

SHARE-BASED AWARDS

The Long-Term Incentive Programme for Senior Management was launched in 2016, first vesting expected in 2019, in order to ensure retention of the Senior Management team beyond the Management Incentive Programme vesting period (which vests in 2018/2019).

Starting from 2018, 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;
- 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 2018 with a vesting date in 2021 was approved, granting a total of 179,147 shares, which represents around 120% of the annual salary of this group (including Currency Adjustment Pay).

SPECIAL ONE-OFF AWARD 2018

This programme is cash based and aimed to protect the value of the long-term incentives and retain Senior Management.

Special Management Award Programme was granted in Q4, 2018 to 7 key senior managers on the following conditions:

- full vesting period is 4 years, each year vesting a certain percentage.
- the amount of award was defined individually and fixed in cash;
- a manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, noncompetition and non-solicitation.

OVERVIEW OF LONG-TERM INCENTIVE PROGRAMME FOR MIDDLE MANAGERS 2018

SHARE-BASED PROGRAMME

2018 was the second year in which the Long-term incentive programme for middle managers began vesting. Forty seven managers were allocated a total of 21,800 shares.

The Committee also approved a new annual long-term incentive plan with a vesting period of three years for 86 key middle managers. The total value of this award is 69,279 shares, which represents around 45% 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.

SPECIAL ONE-OFF AWARD FOR MIDDLE MANGERS

As explained earlier, to ensure the retention of key managers, special one-off cash awards were approved. For middle managers the programme was offered to high performers critical for business.

The Special Award Programme was granted in Q4, 2018 to 56 key middle and upper managers on the following conditions:

- full vesting period is 3 years, vesting in equal parts each year.
- the amount of award was defined individually and fixed in cash;
- a manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, noncompetition and non-solicitation.

2018 ANNUAL BONUS SCHEME APPROVAL

The Committee approved the bonus KPIs, target and payout scales for 2018.

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, it was decided not to apply an overall company salary indexation in 2018.

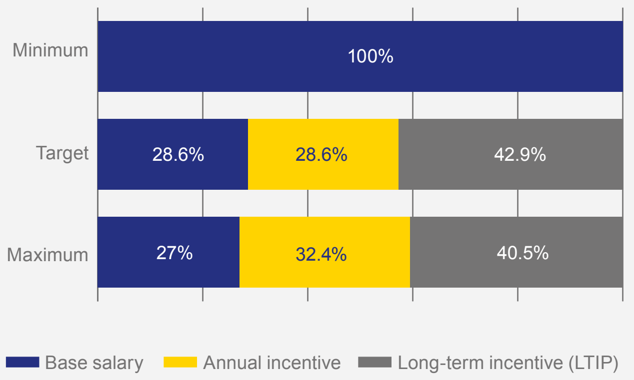
Specific store level positions in different regions and key employees in head office received salary increases based on competitiveness vs the labour market, contributing to 3% increase of base salary. The Board and management believe salary and benefits are competitive with existing market.

SUMMARY OF SENIOR MANAGEMENT TEAM REMUNERATION POLICY

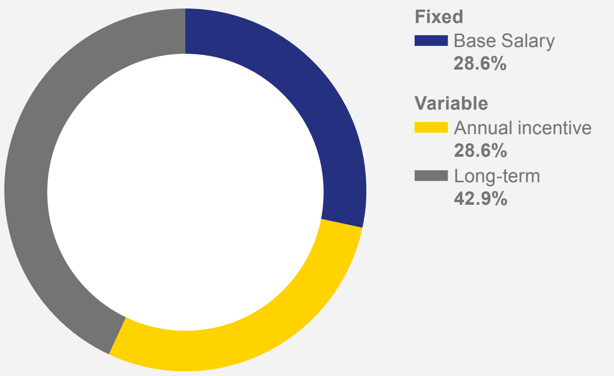
Element	Principles	Opportunity
Base pay	Base pay is reviewed annually by the Remuneration Committee, considering a number of factors, including: • Individual performance evaluation • Salaries in comparable roles in the same industry and activities scope.	There is no set maximum or minimum, it is in line 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	Six 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 nonsolicitation 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.
Special Management Award Programme	Participants of MIP (6 senior managers) are eligible for one time award in the form of deferred cash award conditioned on his/her employment with Lenta and compliance with certain covenants.	Set individually

PAY STRUCTURE OF CEO, CFO AND SENIOR MANAGEMENT TEAM

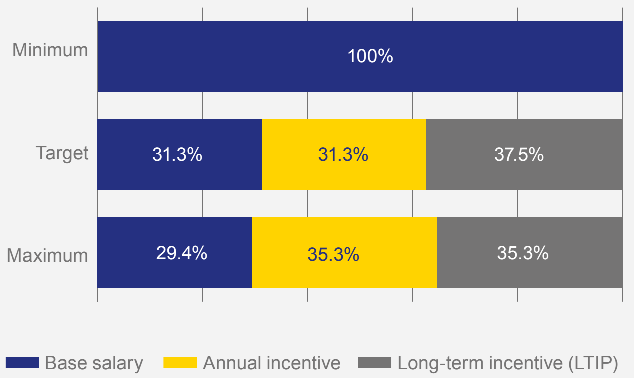
Chief Executive Officer (Herman Tinga)



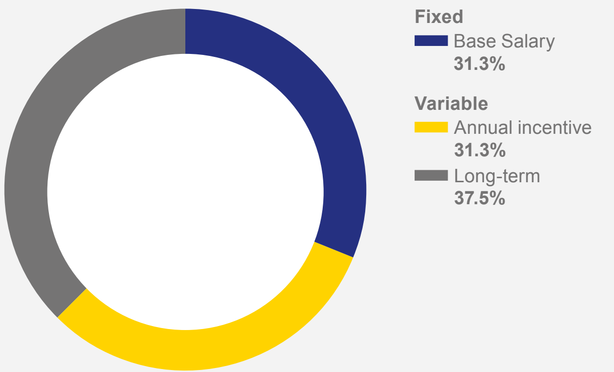
CEO total cash reward (fixed vs. variable target)



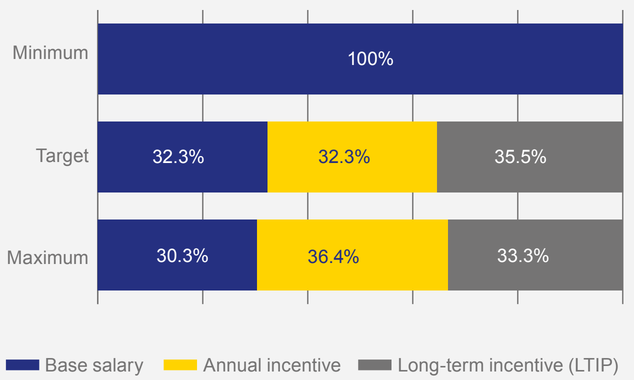
Chief Financial Officer (Rud Pedersen)



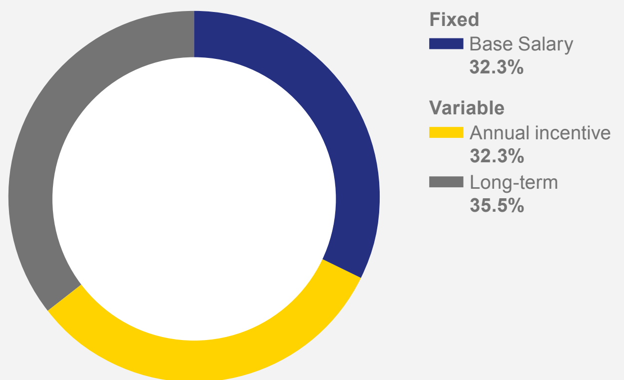
CFO total cash reward (fixed vs. variable target)



Other Senior Team members



Other Senior Team members total cash reward



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
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 Schegolev	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

Summary of MIP conditions by two allocation waves is shown below

	NUMBER OF PHANTOM SHARES TOTAL	VESTED SHARES	BASE PRICE (RUB)	HURDLE REFERENCE PRICE (RUB)	HURDLE REFERENCE DATE	VESTING SCHEDULE				
						2017	2018	2019	2020	2021
Wave 1	188,509	35,422	1,516	764	23.09.2011	56,553	94,255	–	–	–
Wave 2	245,787	46,166	1,516	1,375	01.04.2013	73,736	122,894	10,500	–	17,500
Wave 2[1]	42,000	–	2,214	1,375	01.04.2013	–	–	21,000	21,000	–

1. Herman Tinga 2016 additional tranche.

On 06 July 2018 the Company allotted and issued 91,302 new ordinary shares (456,510 additional global depositary receipts) in connection with its management incentive plan ("MIP") and long term incentive plan ("LTIP"). 347,510 new GDRs (69,502 new shares) were delivered to existing employees of Lenta and its subsidiaries to satisfy outstanding awards under the MIP and up to a further 109,000 (21,800 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 2018 are summarised below:

MANAGER	TOTAL HOLDINGS AS OF 31 DEC 2017 (INTEREST IN SHARES)	SHARES GRANTED UNDER THE MIP IN 2018	TOTAL HOLDINGS AS OF 31 DEC 2018 (INTEREST IN SHARES)	APPROXIMATE HOLDING AS OF 31 DEC 2018 (% OF SHARE CAPITAL)
Herman Tinga	18,874	12,896	31,770	0.03%
Edward Doeffinger	103,054	9,621	112,675	0.12%
Joern Arnhold	94,545	8,018	102,563	0.09%
Sergey Prokofiev	3,392	3,368	6,760	Less than 0.01%
Maxim Shchegolev	4,277	3,368	7,645	Less than 0.01%
Tatiana Yurkevich	3,392	3,368	6,760	Less than 0.01%

1. There have been no changes to Senior Managements shareholding's between 31 December 2018 and the date of this report.
2. Jago Lemmens who retired from his CFO role on 1 April 2019 held 115,394 shares and 125,015 shares respectively on 31 December 17 and 31 December 18.

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 2018 (INTEREST IN SHARES)	APPROXIMATE HOLDING AS OF 31 DEC 2018 (% 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%

There have been no changes to Directors' shareholdings between 31 December 2018 and the date of this report.

STRATEGIC ALIGNMENT OF PAY

The table below shows the integration between Lenta's financial key performance indicators and the senior remuneration framework for 2017/18. This clearly demonstrates a clear linkage between performance metrics, payments to Managers and business performance over the short and long term.

FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Company revenue	Turnover	Annual Bonus Scheme
Increase earnings and returns	EBITDA	Annual Bonus 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 X 35% of Target bonus OEBITDA multiplier X 30% of Target bonus Sales multiplier X 35% of Sales LFL multiplier X Individual performance coefficient X EUR/RUB base to actual rate adjustment = Bonus achieved (as % of base salary)

In April 2018, the 2017 annual bonus award was completed, with an overall award across the Company for those participating in the scheme of 53% of the maximum.

Within this overall award, the Senior Management team was awarded annual bonuses averaging 54% of the maximum, with the CEO achieving 60%. The Committee also agreed the annual bonus targets for 2018, providing for similarly stretching performance.

CAPITAL EXPENDITURE COMMITTEE REPORT

Dmitry Shvets
Chairman

COMMITTEE MEMBERS

Dmitry Shvets
(Major Shareholder nominee, Chairman)

Stephen Johnson
(Independent)

John Oliver
(Major Shareholder nominee)

Martin Elling
(Major Shareholder nominee)

Steven Hellman
(Major Shareholder nominee)

DEAR SHAREHOLDERS

2018 was a challenging year for the Russian retail sector and Lenta. We opened 13 hypermarkets and 38 supermarkets in Russia, but did not meet our initial guidance.

Capital expenditure in 2018 amounted to RUB 22.1bn, a decrease of 18.8% compared to 2017 (RUB 27.3bn). This was due mainly to the slower rate of expansion compared to the prior year, as well as lower pre-investments in land and stores to be opened in future years.

We announced that we will rein-in our organic expansion in future to focus on operational efficiency and returns and will review this decision when the macro situation improves.

The economic environment remained challenging. In this context, the Committee paid particular attention to balancing capital expenditure for land purchases and the construction and fitting-out of stores 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.

ROLE AND RESPONSIBILITIES

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.

There are twelve Committee meetings scheduled for 2019; this number may be increased as necessary.

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.**

ACTIVITIES DURING THE YEAR

During 2018, the Capital Expenditure Committee focused on a number of issues on the Board's behalf. It continued to evaluate the best opportunities in the market; reviewing and making recommendations to the Board on the Company's investment strategy, policy and risk management.

The Committee approved 28 investment proposals for new stores in 2018, laying the foundations for future organic growth. It also approved new investments in Lenta's logistics infrastructure, including the expansion of the Company's truck fleet, the construction of two new distribution centres and the extension of an existing distribution centre.

We also worked together with management on improving the efficiency of the existing stores and maintaining their strict compliance with all applicable regulations. We continued to focus on the post-IP evaluation process to ensure that any lessons learned are applied in future store and other investment projects.

The Committee also reviewed and evaluated several potential acquisition opportunities.

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 2019

MONTH	DATE	DAY	MOSCOW TIME
January	24	Thursday	17.00 – 18.00
February	22	Friday	17.00 – 18.00
April	25	Thursday	15.00 – 16.00
July	25	Thursday	16.00 – 17.00
August	28	Wednesday	16.00 – 17.00
October	23	Wednesday	16.00 – 17.00

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 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholder 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 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 2018 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 2018 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 7 to the consolidated financial statements.	We obtained understanding of the Group's capitalisation policies 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 14 to the consolidated financial statements.	We understood and tested 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 GROUP'S ANNUAL REPORT 2018

Other information consists of the information included in Group's annual report 2018, 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 do 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 identified above when it becomes available 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 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 the 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 N.V. Lebedeva.

N.V. Lebedeva
Partner
Ernst & Young LLC

21 February 2019

Details of the audited entity
Name: Lenta Limited

Incorporated under the laws of the BVI on 16 July 2003, State Registration Number 1058643.

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.

EY
Совершенствуя бизнес,
улучшаем мир

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

Ernst & Young LLC is a member of Self-regulated organisation 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 organisations, main registration number 11603050648.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 2018 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 2018 were approved by Management on 20 February 2019.

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

Herman Tinga
(CEO of Lenta Limited)

Jago Lemmens
(CFO of Lenta Limited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018 (in thousands of Russian roubles)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017 (RESTATED)[1]
Assets			
Non-current assets			
Property, plant and equipment	7	**177,024,063**	170,308,406
Prepayments for construction	8	**4,929,794**	2,818,543
Leasehold rights	9	**3,170,537**	3,075,027
Intangible assets other than leasehold rights	11	**1,905,890**	1,816,716
Other non-current assets	12	**896,928**	675,676
Total non-current assets		**187,927,212**	178,694,368
Current assets			
Inventories	13	**41,500,851**	36,933,128
Trade and other receivables	14	**11,272,602**	10,957,360
Advances paid	15	**2,772,184**	2,413,511
Taxes recoverable	16	**992,378**	2,874,174
Prepaid expenses		**123,101**	124,915
Short-term portion of cash flow hedging instruments	31	**–**	8,179
Cash and cash equivalents	17	**33,804,860**	14,301,859
		90,465,976	67,613,126
Assets held for sale		**–**	423,094
Total current assets		**90,465,976**	68,036,220
Total assets		**278,393,188**	246,730,588
Equity and liabilities			
Equity			
Share capital	18, 20	**284**	284
Additional paid-in capital	18	**26,935,025**	26,480,481
Share options	28	**633,165**	825,176
Hedging reserve	18	**–**	164,886
Treasury shares		**(291,091)**	–
Retained earnings		**55,473,276**	44,316,449
Total equity		**82,750,659**	71,787,276
Liabilities			
Non-current liabilities			
Long-term borrowings	21	**106,341,291**	62,194,204
Deferred tax liabilities	22	**10,039,756**	8,386,732
Total non-current liabilities		**116,381,047**	70,580,936
Current liabilities			
Trade and other payables	23	**56,133,840**	57,259,762
Short-term borrowings and short-term portion of long-term borrowings	21	**20,738,998**	44,888,131
Short-term portion of cash flow hedging instruments		**–**	18,049
Contract liabilities		**350,378**	221,824
Advances received		**148,543**	293,085
Other taxes payable	24	**1,041,123**	1,131,099
Current income tax payable		**848,600**	550,426
Total current liabilities		**79,261,482**	104,362,376
Total liabilities		**195,642,529**	174,943,312
Total equity and liabilities		**278,393,188**	246,730,588

1. Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 4.

The accompanying notes on pages 98 to 137 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018 (in thousands of Russian roubles)

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Sales		**413,562,197**	365,177,586
Cost of sales	25	**(324,767,890)**	(286,942,078)
Gross profit		**88,794,307**	78,235,508
Selling, general and administrative expenses	26	**(69,227,059)**	(56,139,731)
Other operating income	27	**4,993,245**	4,129,232
Other operating expenses	27	**(476,040)**	(648,445)
Operating profit		**24,084,453**	25,576,564
Interest expense		**(9,699,272)**	(10,942,820)
Interest income		**608,472**	445,751
Foreign exchange (losses)/gains		**(176,371)**	92,398
Profit before income tax		**14,817,282**	15,171,893
Income tax expense	22	**(3,022,988)**	(1,908,354)
Profit for the year		**11,794,294**	13,263,539
Other comprehensive income (OCI)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss from cash flow hedges	19, 31	**(206,108)**	(333,355)
Income tax relating to the cash flow hedges	22	**41,222**	66,671
Other comprehensive loss for the year, net of tax		**(164,886)**	(266,684)
Total comprehensive income for the year, net of tax		**11,629,408**	12,996,855
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		**0.121**	0.136

The accompanying notes on pages 98 to 137 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018 (in thousands of Russian roubles)

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Cash flows from operating activities			
Profit before income tax		**14,817,282**	15,171,893
Adjustments for:			
Net loss on disposal of property, plant and equipment	27	**26,483**	21,450
Loss on disposal of intangible assets	27	**–**	26,009
Interest expense		**9,699,272**	10,942,820
Interest income		**(608,472)**	(445,751)
Inventory write-down to net realisable value/reversal of inventory write-down to net realisable value	13	**397,251**	(333,945)
Expected credit losses of accounts receivable, impairment/reversal of impairment of advances paid and prepayments for construction		**109,168**	221,491
Depreciation, amortisation and impairment	7, 26	**12,109,707**	9,913,594
Share options expense	28	**265,261**	421,310
		36,815,952	35,938,871
Movements in working capital			
(Increase)/decrease in trade and other receivables		**(684,178)**	5,887,028
Increase in advances paid	15	**(548,409)**	(199,504)
(Increase)/decrease in prepaid expenses		**(20,686)**	3,572
Increase in inventories	13	**(4,964,974)**	(9,108,242)
Increase in trade and other payables	23	**42,165**	1,081,029
(Decrease)/increase in contract liabilities and advances received		**(15,988)**	174,847
Increase in net other taxes payable	16, 24	**1,791,820**	1,055,881
Cash from operating activities		**32,415,702**	34,833,482
Income taxes paid		**(871,201)**	(709,360)
Interest received		**522,871**	473,319
Interest paid		**(10,440,177)**	(10,852,902)
Net cash generated from operating activities		**21,627,195**	23,744,539
Cash flows from investing activities			
Purchases of property, plant and equipment		**(21,411,263)**	(26,761,134)
Settlements on acquisition of subsidiaries[1]		**–**	117,961
Purchases of intangible assets other than leasehold rights		**(642,512)**	(377,301)
Purchases of leasehold rights		**(267,640)**	(462,099)
Proceeds from sale of property, plant and equipment		**177,087**	207,315
Net cash used in investing activities		**(22,144,328)**	(27,275,258)
Cash flows from financing activities			
Proceeds from borrowings	30	**132,183,000**	127,210,525
Repayments of borrowings	30	**(111,871,775)**	(122,415,714)
Purchase of treasury shares	18	**(291,091)**	–
Net cash generated from financing activities		**20,020,134**	4,794,811
Net decrease in cash and cash equivalents		**19,503,001**	1,264,092
Cash and cash equivalents at the beginning of the year	17	**14,301,859**	13,037,767
Cash and cash equivalents at the end of the year	17	**33,804,860**	14,301,859

1. Cash inflows refunded from the seller of Kesko subsidiaries acquired by the Group in November 2016 upon finalisation of working capital adjustment and purchase price fixing.

The accompanying notes on pages 98 to 137 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018 (in thousands of Russian roubles)

	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	HEDGING RESERVE	TREASURY SHARES	SHARE OPTIONS RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 January 2018	**284**	**26,480,481**	**164,886**	**–**	**825,176**	**44,316,449**	**71,787,276**
Change in the accounting policies due to application of IFRS 9 (Note 4)	**–**	**–**	**–**	**–**	**–**	**(637,467)**	**(637,467)**
Balance at 1 January 2018 (restated)	**284**	**26,480,481**	**164,886**	**–**	**825,176**	**43,678,982**	**71,149,809**
Profit for the year						**11,794,294**	**11,794,294**
Other comprehensive loss	**–**	**–**	**(164,886)**	**–**	**–**	**–**	**(164,886)**
Total comprehensive (loss)/income	**–**	**–**	**(164,886)**	**–**	**–**	**11,794,294**	**11,629,408**
Share-based payments (Note 28)	**–**	**–**	**–**	**–**	**265,261**	**–**	**265,261**
Issue of shares (Note 18, 28)		**454,544**	**–**	**–**	**(457,272)**	**–**	**(2,728)**
Purchase of shares (Note 18)	**–**	**–**	**–**	**(291,091)**	**–**	**–**	**(291,091)**
Balance at 31 December 2018	**284**	**26,935,025**	**–**	**(291,091)**	**633,165**	**55,473,276**	**82,750,659**
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 loss	–	–	(266,684)	–	–	–	(266,684)
Total comprehensive (loss)/income	–	–	(266,684)	–	–	13,263,539	12,996,855
Share-based payments (Note 28)	–	–	–	–	421,310	–	421,310
Issue of shares (Note 18, 28)	–	264,334	–	–	(264,334)	–	–
Balance at 31 December 2017	284	26,480,481	164,886	–	825,176	44,316,449	71,787,276

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.

Treasury shares: Treasury shares are own equity instruments reacquired by the Group.

The accompanying notes on pages 98 to 137 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018 (in thousands of Russian roubles)

1. THE LENTA GROUP AND ITS OPERATIONS

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

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company's registered address is at 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 are listed on the London Stock Exchange and Moscow Exchange in the form of Global Depositary Receipts (GDR).

At 31 December 2018 and 2017 the Group has one main operational subsidiary, Lenta LLC (100% owned), a legal entity registered under the laws of the Russian Federation. 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 2018, the Group had net current assets of RUB 11,204,494 (net current liabilities at 31 December 2017: 36,326,156).

Unused credit facilities available as of 31 December 2018 were RUB 83,300,000. 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 2018. 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 30.

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 reassessing 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.

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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 from contracts with customers
The sole source of revenue from contracts with customers is retail sales.

The Group recognises revenue when control of the goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The loyalty programme offered by the Group gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty programme based on relative stand-alone selling price and recognise as a contract liability.

Other income
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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Employee benefits

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

Share-based payments

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

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

That cost is recognised, together with a corresponding increase in share options reserve in equity, over the period in which the performance and/ or service conditions are fulfilled in employee benefits expense (Note 28). 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 28).

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

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.

Before 1 January 2018, loans and receivables were measured at amortised cost using the effective interest rate method.

From 1 January 2018, the Group only measures amounts of loans and receivables at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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

Before 1 January 2018 financial assets were assessed for indicators of impairment at each reporting date. Financial assets were 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 was 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 was 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 was uncollectible, it was written off against the allowance account. Subsequent recoveries of amounts previously written off were credited against the allowance account. Changes in the carrying amount of the allowance account were 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 could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed did not exceed what the amortised cost would have been had the impairment not been recognised.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for all debt instruments not held at fair value through profit or loss by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

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.

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 remeasured 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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

JUDGMENTS CONTINUED

Assets versus business acquisition

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

ESTIMATES AND ASSUMPTIONS

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

LEASES RENEWAL ASSUMPTION

It is presumed that the initial land leases contracted for 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.

Compensation from insurance company for fire case

In November 2018 as the result of fire in one of the stores the Group incurred losses on property, plant and equipment disposal, inventory disposal and interruption of operations since the fire case till 31 December 2018. The damage incurred was insured and management believes that indemnification for losses is virtually certain. See Note 14 for further description.

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 30 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.

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 28.

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 2017, except for the adoption of new or revised standards and interpretations effective as of 1 January 2018.

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 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 standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In accordance with the transition provisions of IFRS 15 the Group has elected full retrospective method of adoption.

The Group is in the retail business and sells its goods through stores operated by the Group. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of the goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Prior to adoption of IFRS 15, 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. 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 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, considering the relative stand-alone selling prices, the amount allocated to the loyalty programmes should not be significantly different from the previous accounting policy.

The deferred revenue in amount of RUB 221,824 as of 31 December 2017 was reclassified to contract liabilities in the consolidated statement of financial position.

IFRS 9 Financial Instruments

The Group applies, for the first time, IFRS 9 *Financial Instruments*. The nature and effect of the introduced changes are disclosed below.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. The Group made a choice to continue applying IAS 39 *Financial Instruments: Recognition and Measurement* to all existing hedge contracts (Note 31).

As a result of the change in accounting policy financial assets were classified as those to be measured subsequently at amortised cost and with no need for retrospective adjustments due to absence of changes in classification of assets measured at amortised cost.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The loss allowance on accounts receivable amounted to RUB 562,678. For other debt financial assets (i.e., loans), the ECL is based on the 12-month ECL. The loss allowance for other financial assets held at amortised cost was determined as insignificant.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 9 Financial Instruments continued

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 1 January 2018 in connection with the adoption of the new impairment model under IFRS 9.

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. The change in the accounting policy resulted in increase in the carrying value of borrowings by RUB 234,156.

The Group adopted the new standard with the initial application date of 1 January 2018 and had elected to apply the limited exemption in IFRS 9 relating to transition for classification and measurement and impairment, and accordingly did not restate comparative periods in the year of initial application. As a consequence, any adjustments to carrying amounts of financial assets or liabilities were recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

Impact on the consolidated statement of financial position as at 1 January 2018:

	AMOUNT PREVIOUSLY REPORTED	IFRS 9 ADJUSTMENTS	AMOUNT AFTER CHANGE IN POLICY
Current assets			
Trade and other receivables	10,957,360	(562,678)	10,394,682
Equity			
Retained earnings	44,316,449	(637,467)	43,678,982
Non-current liabilities			
Long-term borrowings	62,194,204	324,305	62,518,509
Deferred tax liabilities	8,386,732	(159,367)	8,227,365
Current liabilities			
Short-term borrowings and short-term portion of long-term borrowings	44,888,131	(90,149)	44,797,982

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 non-monetary 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. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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. These amendments do not have any impact on the Group's consolidated financial statements as the Group has no property that can meet definition of investment property.

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

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 Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces 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 relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify 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.

These amendments do not have any impact on the Group's consolidated financial statements as the Group is neither a venture capital organisation, nor other qualifying entity.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements as the Group is not a first-time adopter.

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

RECLASSIFICATIONS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Certain reclassifications were done in terms of reclassifications of security payments under lease agreements.

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 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.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE CONTINUED

IFRS 16 Leases continued

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 is effective for annual periods beginning on or after 1 January 2019. The Group plans to adopt IFRS 16 using the modified retrospective approach. Under this approach the comparatives will not be restated. Lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16 with corresponding effect recorded in retained earnings. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition and allows the Group to elect how to measure right-of-use assets on lease-by-lease basis:

- At amount as if IFRS 16 had been applied from lease commencement;
- At amount equal to liability (adjusted for accruals and prepayments).

The Group elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elects to use the exemptions proposed by the standard:

- On lease contracts for which the lease terms ends within 12 months as of the date of initial application;
- On lease contracts for which the underlying asset is of low value;
- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component.

The Group is in the process of finalising the analysis of the potential effect of IFRS 16 on its consolidated financial statements. The Group estimates the possible impact that application of IFRS 16 will have on the financial statements in the period of initial application as follows: increase in the amount of lease liabilities by RUB 37,300 m +/-5%, increase in the amount of right-of-use assets by RUB 35,700 m +/-5% with the corresponding difference recognised as a decrease in equity.

Due to the adoption of IFRS 16, the Group's operating profit will improve, while its depreciation expense and interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

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 IFRS 15. This standard is not applicable to the Group.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments are not expected to have any impact on the Group.

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures.*

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

ANNUAL IMPROVEMENTS 2015-2017 CYCLE (ISSUED IN DECEMBER 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE CONTINUED

ANNUAL IMPROVEMENTS 2015-2017 CYCLE (ISSUED IN DECEMBER 2017) CONTINUED

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. The amendments are effective from 1 January 2019, with early application permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 3 *Business Combinations* – Definition of a Business

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted and must be disclosed. These amendments are currently not applicable to the Group.

Amendments to IAS 1 and IAS 8 – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on an Group's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgments are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the *Conceptual Framework for Financial Reporting* (the Conceptual Framework) in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework is effective for annual periods beginning on or after 1 January 2020. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

6. 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 2018	31 DECEMBER 2017
TPG Capital		
Accrued liabilities	–	6,192

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
TPG Capital		
Directors fee	**14,193**	12,121
Business trip expenses	**299**	1,237

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

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Short-term benefits	**586,771**	527,821
Long-term benefits (share-based payments, Note 28)	**165,538**	343,345
Termination benefits	**31,821**	8,462
Total remuneration	**784,130**	879,628

7. PROPERTY, PLANT AND EQUIPMENT

	LAND	LAND IMPROVEMENTS	BUILDINGS	MACHINERY AND EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
Cost						
Balance at 1 January 2018	**21,010,003**	**11,467,330**	**118,121,718**	**52,948,637**	**2,586,799**	**206,134,487**
Additions	**–**	**–**	**–**	**–**	**18,174,541**	**18,174,541**
Transfers from construction in progress	**763,483**	**902,322**	**7,578,287**	**7,689,055**	**(16,933,147)**	**–**
Transfers from leasehold rights	**171,868**	**–**	**–**	**–**	**–**	**171,868**
Transfers from assets held for sale	**323,094**	**–**	**–**	**–**	**–**	**323,094**
Disposals	**(31,382)**	**(11,496)**	**(874,908)**	**(651,009)**	**(57,877)**	**(1,626,672)**
Balance at 31 December 2018	**22,237,066**	**12,358,156**	**124,825,097**	**59,986,683**	**3,770,316**	**223,177,318**
Accumulated depreciation and impairment						
Balance at 1 January 2018	**–**	**1,646,511**	**15,000,631**	**19,178,939**	**–**	**35,826,081**
Charge for the year	**–**	**400,454**	**4,704,031**	**6,351,622**	**–**	**11,456,107**
Disposals	**–**	**(2,693)**	**(626,826)**	**(499,414)**	**–**	**(1,128,933)**
Balance at 31 December 2018	**–**	**2,044,272**	**19,077,836**	**25,031,147**	**–**	**46,153,255**
Net book value						
Balance at 1 January 2018	**21,010,003**	**9,820,819**	**103,121,087**	**33,769,698**	**2,586,799**	**170,308,406**
Balance at 31 December 2018	**22,237,066**	**10,313,884**	**105,747,261**	**34,955,536**	**3,770,316**	**177,024,063**

	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 2017	21,010,003	9,820,819	103,121,087	33,769,698	2,586,799	170,308,406

During the years ended 31 December 2018 and 2017 the Group was not involved in acquisition or contribution 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 2018 and as at 31 December 2017.

DEPRECIATION AND AMORTISATION EXPENSE

The amount of depreciation charged during the year ended 31 December 2018 and year ended 31 December 2017 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 2018	YEAR ENDED 31 DECEMBER 2017
Depreciation and impairment of property, plant and equipment	**11,456,107**	9,176,232
Amortisation of intangible assets (Note 11)	**553,338**	424,753
Impairment of assets held for sale	**–**	222,147
Leasehold rights amortisation (Note 9)	**100,262**	90,462
Total depreciation, amortisation and impairment	**12,109,707**	9,913,594

See Note 29 for capital commitments.

8. PREPAYMENTS FOR CONSTRUCTION

Prepayments for construction are made to the contractors 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 2018 the Group accounted for the reversal of impairment of prepayments in the amount of RUB 22,291 (31 December 2017: the Group impaired RUB 125,749 of prepayments).

9. LEASEHOLD RIGHTS

Leasehold rights as at 31 December 2018 consist of the following:

	LEASEHOLD RIGHTS
Cost	
At 1 January 2018	**3,342,281**
Additions	**267,640**
Transfer to PPE	**(190,294)**
Transfer from assets held for sale	**100,000**
At 31 December 2018	**3,519,627**
Accumulated amortisation	
At 1 January 2018	**267,254**
Charge for the year	**100,262**
Transfer to PPE	**(18,426)**
Transfer to assets held for sale	**–**
At 31 December 2018	**349,090**
Net book value	
At 1 January 2018	**3,075,027**
At 31 December 2018	**3,170,537**

9. LEASEHOLD RIGHTS CONTINUED

Leasehold rights as at 31 December 2017 consisted 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

Amortisation expense is included in selling, general and administrative expenses (Note 26).

10. 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). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

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 2018 and 2017 is as follows:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Sales	**413,562,197**	365,177,586
EBITDA	**36,194,160**	35,490,158

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

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
EBITDA	**36,194,160**	35,490,158
Interest expense	**(9,699,272)**	(10,942,820)
Interest income	**608,472**	445,751
Income tax expense (see Note 22)	**(3,022,988)**	(1,908,354)
Depreciation/amortisation and impairment (see Note 7, 9, 11, 26)	**(12,109,707)**	(9,913,594)
Foreign exchange gains	**(176,371)**	92,398
Profit for the year	**11,794,294**	13,263,539

11. INTANGIBLE ASSETS OTHER THAN LEASEHOLD RIGHTS

Intangible assets other than leasehold rights as at 31 December 2018 consist of the following:

	SOFTWARE	TRADE MARKS	TOTAL
Cost			
At 1 January 2018	**3,461,608**	**549**	**3,462,157**
Additions	**642,512**	**–**	**642,512**
Disposals	**(199,666)**	**(549)**	**(200,215)**
At 31 December 2018	**3,904,454**	**–**	**3,904,454**
Accumulated amortisation			
At 1 January 2018	**1,644,892**	**549**	**1,645,441**
Amortisation for the year	**553,338**	**–**	**553,338**
Disposals	**(199,666)**	**(549)**	**(200,215)**
At 31 December 2018	**1,998,564**	**–**	**1,998,564**
Net book value			
At 1 January 2018	**1,816,716**	**–**	**1,816,716**
At 31 December 2018	**1,905,890**	**–**	**1,905,890**

Intangible assets other than leasehold rights as at 31 December 2017 consisted 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 year	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

Amortisation expense is included in selling, general and administrative expenses (Note 26). As of 31 December 2018 and 2017 the trademarks are fully amortised.

12. OTHER NON-CURRENT ASSETS

Other non-current assets are represented by long-term advances given to the lessors and guarantee payments under lease contracts.

13. INVENTORIES

	31 DECEMBER 2018	31 DECEMBER 2017
Goods for resale (at lower of cost and net realisable value)	**40,193,130**	35,969,948
Raw materials	**1,307,721**	963,180
Total inventories	**41,500,851**	36,933,128

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

	31 DECEMBER 2018	31 DECEMBER 2017
Goods for resale (at cost)	**41,495,079**	36,881,127
Write down to net realisable value	**(1,301,949)**	(911,179)
Goods for resale (at lower of cost and net realisable value)	**40,193,130**	35,969,948

During the reporting period the Group accounted for write down of inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 in the amount of RUB 397,251 (31 December 2017: reversal of write down in the amount of RUB 333,945).

14. TRADE AND OTHER RECEIVABLES

	31 DECEMBER 2018	31 DECEMBER 2017
Accounts receivable on rental and other services and on suppliers' advertising	**6,627,239**	7,908,931
Suppliers' rebates receivable	**4,065,760**	2,944,202
Other receivables	**844,002**	261,143
Expected credit losses of accounts receivable	**(264,399)**	(156,916)
Total trade and other receivables	**11,272,602**	10,957,360

As at 31 December 2018 the Group recognised within the other receivables the amount due from insurance company of RUB 655,018 which relates to compensation for lost property, plant, and equipment of RUB 271,541, lost inventory of RUB 186,568 and for interruption of operations of RUB 196,909 as the result of fire case in one of the stores.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables as at 31 December 2018 using a provision matrix:

	CURRENT	<60 DAYS OVERDUE	60-120 DAYS OVERDUE	>120 DAYS OVERDUE	TOTAL
Expected credit loss rate	**0%-1.5%**	**3%-5%**	**20%-40%**	**70%-100%**	
Estimated total gross carrying amount at default	**10,749,050**	**598,869**	**23,848**	**165,234**	**11,537,001**
Expected credit loss	**118,461**	**17,359**	**9,437**	**119,142**	**264,399**

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

As at 1 January 2018[1]	**719,594**
Provision for expected credit losses	**(86,312)**
Write-off	**(368,883)**
As at 31 December 2018	**264,399**

1. Opening balance is adjusted in accordance with the change in the accounting policies due to application of IFRS 9 (Note 4).

Ageing of trade and other receivables that were 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

The Group does not hold any collateral or other credit enhancements over these balances.

15. ADVANCES PAID

	31 DECEMBER 2018	31 DECEMBER 2017
Advances to suppliers of goods	**1,242,760**	1,847,513
Advances for services	**1,529,424**	565,998
Total advances paid	**2,772,184**	2,413,511

16. TAXES RECOVERABLE

Taxes recoverable as at 31 December 2018 are represented by a VAT recoverable of RUB 992,378 (31 December 2017: RUB 2,874,174).

17. CASH AND CASH EQUIVALENTS

	31 DECEMBER 2018	31 DECEMBER 2017
Rouble short-term deposits	**15,086,436**	2,540,825
Rouble denominated cash in transit	**6,837,498**	7,135,388
Rouble denominated cash on hand and balances with banks	**11,706,057**	4,530,925
Foreign currency denominated cash on hand and balances with banks	**174,869**	94,721
Total cash and cash equivalents	**33,804,860**	14,301,859

Cash in transit represents cash receipts made during the last days 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.

18. ISSUED CAPITAL AND RESERVES

ISSUED CAPITAL

As at 31 December 2018 the Company's share capital is comprised of 97,508,265 authorised and issued ordinary shares (as at 31 December 2017: 97,416,963) 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 2018 and 2017.

The movements in the number of shares for the years ended 31 December 2018 and 2017 are as follows:

	31 DECEMBER 2018 NO.	31 DECEMBER 2017 NO.
Authorised share capital (ordinary shares)	**unlimited**	unlimited
Issued and fully paid (no par value)	**97,508,265**	97,416,963
Treasury shares	**(235,319)**	–

	31 DECEMBER 2018 NO.	31 DECEMBER 2017 NO.
Balance of shares outstanding at beginning of financial year	**97,416,963**	97,318,746
Additional issue of shares	**91,302**	98,217
Shares buy-back	**(235,319)**	–
Balance of shares outstanding at the end of financial year	**97,272,946**	97,416,963

During the year ended 31 December 2018 the Group issued 91,302 shares of no par value with respect to long-term incentive plans to certain members of management (21,800 shares) and share value appreciation rights to top management (69,502 shares) (see Note 28).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 52,040. Total expense for the services received from the employees recognised with respect to shares issued under share value appreciation rights was RUB 405,232.

In October 2018 the Group launched GDR repurchase programme up to an aggregate value of RUB 11,600,000, as the result of which 235,319 shares were repurchased at the year end.

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 28 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.

19. COMPONENTS OF OTHER COMPREHENSIVE INCOME (OCI)

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Cash flow hedges		
Reclassification during the year to profit or loss	**(203,887)**	(212,248)
Related tax effect	**40,778**	42,450
Gain/(loss) arising during the year	**(2,221)**	(121,107)
Related tax effect	**444**	24,221
Net loss during the year	**(164,886)**	(266,684)

20. EARNINGS PER SHARE

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
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	**0.121**	0.136

The calculation of basic earnings per share for reporting periods is based on the profit attributable to shareholders (for the year ended 31 December 2018: RUB 11,794,294, for the year ended 31 December 2017: RUB 13,263,539) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Number of issued shares at the beginning of period	**97,416,963**	97,318,746
Number of shares issued in June 2017	**–**	98,217
Number of shares issued in July 2018	**91,302**	–
Number of shares repurchased in November-December 2018	**(235,319)**	–
Number of shares at the end of reporting period	**97,272,946**	97,416,963
Weighted average number of shares	**97,445,815**	97,327,428

The Group has issued share-based payments (Note 28) 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.

21. BORROWINGS

SHORT-TERM BORROWINGS:

	CURRENCY	31 DECEMBER 2018	31 DECEMBER 2017
Fixed rate long-term bonds (liability for interests)	RUB	**56,680**	39,333
Fixed rate long-term bank loans (liability for interests)	RUB	**208,537**	115,400
Floating rate long-term bank loans (liability for interests)	RUB	**564,138**	609,503
Fixed rate short-term bonds (liability for interests)	RUB	**1**	719,442
Fixed rate short-term bank loans (liability for interests)	RUB	**38,258**	49,591
Short-term portion of fixed rate long-term bank loans	RUB	**19,871,363**	26,390,004
Short-term portion of fixed rate long-term bonds	RUB	**21**	16,964,858
Total short-term borrowings and short-term portion of long-term borrowings		**20,738,998**	44,888,131

LONG-TERM BORROWINGS:

	CURRENCY	31 DECEMBER 2018	31 DECEMBER 2017
Fixed rate bonds	RUB	**5,559,870**	4,993,339
Fixed rate long-term bank loans	RUB	**74,648,179**	31,410,105
Floating rate long-term bank loans	RUB	**26,133,242**	25,790,760
Total long-term borrowings		**106,341,291**	62,194,204

The Groups' borrowings as at 31 December 2018 and 2017 are denominated in Russian roubles and are not secured by any pledge.

On 5 February 2018 the Group executed an offer of BO-03 series bonds with total nominal value of RUB 4,461,535.

On 6 February 2018 the Group signed 4 year loan agreement of RUB 4,100,000 with UniCredit Bank JSC. The loan bears financial covenant.

On 27 February 2018 the Group signed master agreement on general terms and conditions for short-term lending transactions with UniCredit Bank JSC for 1 year with auto-prolongation.

On 10 April 2018 the Group signed non-revolving credit line of RUB 15,000,000 with Sberbank PJSC with maturity date 7 January 2021. The loan bears financial covenant.

On 15 June 2018 the Group signed master agreement on general terms and conditions for lending transactions with Gazprombank JSC for indefinite term.

On 30 August 2018 the Group executed an offer of 03 series bonds with total value of RUB 3,975,928.

On 5 September 2018 the Group signed non-revolving credit line of RUB 10,000,000 with Rosbank PJSC with maturity date 5 March 2020. The loan bears financial covenant.

On 6 September 2018 the Group executed an offer of 01 series bonds with total value of RUB 2,998,648.

On 10 September 2018 the Group executed an offer of BO-06 series bonds with total nominal value of RUB 4,999,950.

On 23 October 2018 the Group signed non-revolving credit line of RUB 15,000,000 with Sberbank PJSC with maturity date 1 February 2021. The loan bears financial covenant.

On 26 October 2018 the Group signed loan agreement of RUB 5,000,000 with Promsvyazbank PJSC with maturity date 19 November 2021. The loan bears financial covenant.

On 14 December 2018 the Group signed non-revolving credit line of RUB 5,000,000 with Sberbank PJSC with maturity date 13 December 2021. The loan bears financial covenant.

During the year ended 31 December 2018 the Group received RUB 76,300,000 under credit agreements concluded before 1 January 2018 and repaid RUB 93,535,714.

As at 31 December 2018 the Group had RUB 83,300,000 of unused credit facilities (as at 31 December 2017: RUB 61,550,000).

As at 31 December 2018 the Group is in compliance with all financial covenants of loan agreements.

22. INCOME TAXES

The Group's income tax expense for the year ended 31 December 2018 and 31 December 2017 is as follows:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Current tax expense	**1,169,375**	691,450
Deferred tax expense	**1,853,613**	1,216,904
Income tax expense recognised in profit for the year	**3,022,988**	1,908,354
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	**(41,222)**	(66,671)
Income tax benefit recognised in OCI	**(41,222)**	(66,671)

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Profit before tax	**14,817,282**	15,171,893
Theoretical tax charge at 20% being statutory tax rate in Russia	**(2,963,456)**	(3,034,379)
Difference in tax rates for foreign companies and specific tax regime in Russia	**133,176**	69,752
Add tax effect of non-taxable income and non-deductible expenses:	**(192,708)**	(161,860)
– share option expenses	**(53,052)**	(84,262)
– others	**(139,656)**	(77,598)
Recognition of previously unrecognised tax losses	**–**	1,218,133
Income tax expense	**(3,022,988)**	(1,908,354)

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 2018	CHANGE IN THE ACCOUNTING POLICIES DUE TO THE APPLICATION OF IFRS 9 (NOTE 4)	DIFFERENCES IN RECOGNITION AND REVERSALS RECOGNISED IN PROFIT OR LOSS	DIFFERENCES IN RECOGNITION AND REVERSALS RECOGNISED IN OTHER COMPREHENSIVE INCOME	31 DECEMBER 2018
Tax effect of (taxable)/deductible temporary differences					
Property, plant and equipment	**(8,612,723)**	**–**	**(1,693,650)**	**–**	**(10,306,373)**
Leasehold rights	**(546,387)**	**–**	**(162)**	**–**	**(546,549)**
Unused vacation and employee bonuses accrual	**196,153**	**–**	**57,231**	**–**	**253,384**
Suppliers' bonuses	**(303,860)**	**–**	**273,016**	**–**	**(30,844)**
Borrowings	**(115,445)**	**46,831**	**5,730**	**–**	**(62,884)**
Intangible assets other than leasehold rights	**(20,603)**	**–**	**(11,131)**	**–**	**(31,734)**
Inventory	**319,599**	**–**	**95,612**	**–**	**415,211**
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	**110,253**	**112,536**	**(97,893)**	**–**	**124,896**
Accrued liabilities	**165,213**	**–**	**94,513**	**–**	**259,726**
Cash flow hedging instruments	**(91,565)**	**–**	**50,343**	**41,222**	**–**
Tax losses carried forward	**543,499**	**–**	**(543,499)**	**–**	**–**
Other	**(30,866)**	**–**	**(83,723)**	**–**	**(114,589)**
Total net deferred tax liabilities	**(8,386,732)**	**159,367**	**(1,853,613)**	**41,222**	**(10,039,756)**

22. INCOME TAXES CONTINUED

	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
Accrued liabilities	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	–	(30,866)
Total net deferred tax liabilities	(7,236,490)	(1,216,904)	66,671	(8,386,732)

The temporary taxable differences associates with undistributed earnings of subsidiaries amount to RUB 66,696,688 and RUB 61,556,675 as of 31 December 2018 and 2017, 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.

23. TRADE AND OTHER PAYABLES

	31 DECEMBER 2018	31 DECEMBER 2017
Trade payables	**46,495,464**	46,716,600
Accrued liabilities and other creditors	**5,864,692**	5,400,930
Payables for purchases of property, plant and equipment	**3,773,684**	5,142,232
Total trade and other payables	**56,133,840**	57,259,762

The trade and other payables are denominated in:

	31 DECEMBER 2018	31 DECEMBER 2017
Russian roubles	**55,241,343**	56,281,962
USD	**653,509**	699,959
EUR	**238,953**	277,266
GBP	**35**	575
Total trade and other payables	**56,133,840**	57,259,762

24. OTHER TAXES PAYABLE

	31 DECEMBER 2018	31 DECEMBER 2017
Social taxes	**675,487**	482,221
Property tax	**123,213**	410,756
Personal income tax	**223,012**	200,096
Other taxes	**19,411**	38,026
Total other taxes payable	**1,041,123**	**1,131,099**

25. COST OF SALES

Cost of sales for the years ended 31 December 2018 and 31 December 2017 consists of the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Cost of goods sold	**287,236,892**	252,221,409
Cost of own production	**22,428,545**	24,257,480
Supply chain cost	**4,775,548**	3,780,289
Losses due to inventory shortages and write down to net realisable value	**10,326,905**	6,682,900
Total cost of sales	**324,767,890**	286,942,078

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

Cost of sales for the year ended 31 December 2018 includes employee benefits expense of RUB 8,016,548 (year ended 31 December 2017: RUB 6,327,761) of which contributions to state pension fund are comprised of RUB 1,105,764 (year ended 31 December 2017: RUB 860,233).

The cost of own production consists of the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Raw materials	**15,749,849**	18,751,044
Labour costs	**5,417,029**	4,411,435
Utilities	**996,781**	898,094
Repairs and maintenance	**264,886**	196,907
Total cost of own production	**22,428,545**	24,257,480

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Employee benefits	**25,202,051**	20,434,789
Depreciation, amortisation and impairment (Note 7, 9, 11)	**12,109,707**	9,913,594
Advertising	**5,192,138**	3,982,726
Premises lease	**5,693,249**	3,903,568
Utilities and communal payments	**4,498,633**	3,687,108
Professional fees	**3,786,449**	2,782,995
Cleaning	**2,872,270**	2,298,450
Repairs and maintenance	**2,688,597**	2,013,451
Security services	**1,871,794**	1,634,708
Taxes other than income tax	**1,458,187**	1,688,681
Land and equipment lease	**292,157**	308,075
Pre-opening costs	**561,031**	995,158
Other	**3,000,796**	2,496,428
Total selling, general and administrative expenses	**69,227,059**	56,139,731

Employee benefits for the year ended 31 December 2018 include contributions to state pension fund of RUB 3,243,018 (year ended 31 December 2017: RUB 2,620,860).

Pre-opening costs for the year ended 31 December 2018 include employee benefits of RUB 267,042 (year ended 31 December 2017: RUB 561,197) of which contributions to state pension fund are comprised RUB 31,375 (year ended 31 December 2017: RUB 70,579).

Professional fees for the year ended 31 December 2018 include fees billed by Ernst & Young LLC: for the audit of the consolidated financial statements in the amount of RUB 27,510 (for the year ended 31 December 2017: RUB 23,628) and for consulting and other non-audit services in the amount of RUB 3,613 (for the year ended 31 December 2017: RUB 8,971).

27. OTHER OPERATING INCOME AND EXPENSES

Other operating income is comprised of the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Rental income	**1,693,100**	1,296,371
Penalties due by suppliers	**1,034,121**	1,089,179
Sale of secondary materials	**1,020,253**	755,505
Advertising income	**718,859**	718,264
Gain on property, plant and equipment disposal	**140,994**	90,565
Compensation from insurance company (Note 14)	**196,909**	–
Other	**189,009**	179,348
Total other operating income	**4,993,245**	4,129,232

Other operating expenses are comprised of the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Expected credit losses of accounts receivable, write-off and impairment of advances paid and prepayments for construction	**109,168**	221,491
Loss from fixed assets and intangible assets disposal	**167,477**	138,024
Penalties from government authorities	**39,455**	110,907
Penalties for breach of a contracts with suppliers and lessors	**21,996**	37,706
Amounts paid in settlement of lawsuit	**–**	10,287
Non-recoverable VAT	**10,117**	10,669
Other	**127,827**	119,361
Total other operating expenses	**476,040**	648,445

28. 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, 2017 and 2018 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.

As of the year ended 31 December 2018 Tranche 2014 and Tranche 2015 fully vested.

In July 2018 the Group issued 21,800 shares of nor par value with respect to LTIP Tranche 2015. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 52,102. Shares were transferred into GDR and distributed to relevant participants.

The vesting dates of award granted during the year 2016 are 31 December 2018 and 1 April 2019. With respect to Tranche 2016 no shares were issued in 2018, the Group plans to release shares in the first half of 2019.

The vesting dates of 100% of Tranche 2017 and 100% of Tranche 2018 awards are 1 April 2020 and 30 April 2021 respectively.

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 2018 and the year ended 31 December 2017 is shown in the following table:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Expense arising from the equity-settled long-term incentive plan payments	**219,041**	289,462

28. SHARE-BASED PAYMENTS CONTINUED

SHARE VALUE APPRECIATION RIGHTS

During the year 2013 and the year 2016 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 Limited based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

In April 2018 SVARs of 2013 year fully vested. In July 2018 the Group issued 69,502 shares of nor par value. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 387,419. The shares were transferred into GDR and distributed to relevant participants.

MOVEMENTS DURING THE YEAR

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2018 was 0.79 year (31 December 2017: 0.44 years).

The weighted average exercise price for options outstanding as at 31 December 2018 is RUB 2.214 (31 December 2017: RUB 1.585).

The weighted average fair value of options outstanding as at 31 December 2018 is RUB 0.91 (31 December 2017: RUB 0.94).

The expense recognised for the services received from the employees covered by SVARs plan during the year is shown in the following table:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Expense arising from the equity-settled SVARs transaction	**46,220**	131,848

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.

29. COMMITMENTS

CAPITAL EXPENDITURE COMMITMENTS

At 31 December 2018 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 11,489,981 net of VAT (31 December 2017: RUB 14,089,672 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 2018	31 DECEMBER 2017
Not later than 1 year	**6,152,827**	5,561,773
Later than 1 year and not later than 5 years	**21,875,021**	22,635,742
Later than 5 years	**36,033,801**	33,561,979
Total operating lease commitments	**64,061,649**	61,759,494

30. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	31 DECEMBER 2018	31 DECEMBER 2017
Financial assets measured at fair value		
Cash flow hedging instruments	**–**	8,179
Financial assets measured at amortised cost		
Cash	**33,804,860**	14,301,859
Trade and other receivables	**11,272,602**	10,957,360
Total financial assets measured at amortised cost	**45,077,462**	25,259,219
Financial liabilities measured at fair value		
Cash flow hedging instruments	**–**	18,049
Financial liabilities measured at amortised cost		
Floating rate long-term borrowings	**26,697,380**	26,400,263
Fixed rate long-term borrowings and bonds	**80,473,264**	36,558,178
Fixed rate short-term borrowings and bonds	**19,909,645**	44,123,894
Trade and other payables	**56,133,840**	57,259,762
Total financial liabilities measured at amortised cost	**183,214,129**	164,342,097

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 2018:

	31 DECEMBER 2018	LEVEL 1	LEVEL 2	LEVEL 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	**5,662,373**	**5,662,373**	**–**	**–**
Floating rate borrowings	**26,697,380**	**–**	**26,697,380**	**–**
Fixed rate borrowings	**93,370,478**	**–**	**93,370,478**	**–**

	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	–

During the year ended 31 December 2018 and 31 December 2017, there are no transfers between Level 1, Level 2 and Level 3 of fair value measurements.

30. FINANCIAL INSTRUMENTS

FAIR VALUES

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 2018		31 DECEMBER 2017	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash flow hedging instruments	–	–	8,179	8,179
Financial liabilities				
Interest-bearing loans and borrowings				
Floating rate borrowings	**26,697,380**	**26,697,380**	26,400,263	26,400,263
Fixed rate borrowings and bonds	**100,382,909**	**99,032,851**	80,682,072	80,898,452
Derivative liabilities				
Cash flow hedging instruments	–	–	18,049	18,049
Total financial liabilities	**127,080,289**	**125,730,231**	107,100,384	107,316,764

The management assessed that the carrying amounts of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their fair values largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions 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 2018 and 31 December 2017 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, 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

	31 DECEMBER 2017	PROCEEDS FROM BORROWINGS	REPAYMENTS OF BORROWINGS	RECLASS-IFICATIONS	CHANGE IN THE ACCOUNTING POLICIES DUE TO APPLICATION OF IFRS 9 (NOTE 4)	OTHER	31 DECEMBER 2018
Long-term borrowings	62,194,204	64,683,000	(5,000,000)	(15,799,792)	324,305	(60,426)	**106,341,291**
Short-term borrowings	44,888,131	67,500,000	(106,871,775)	15,799,792	(90,149)	(487,001)	**20,738,998**
Total	**107,082,335**	**132,183,000**	**(111,871,775)**	–	**234,156**	**(547,427)**	**127,080,289**

	31 DECEMBER 2016	PROCEEDS FROM BORROWINGS	REPAYMENTS OF BORROWINGS	RECLASS-IFICATIONS	OTHER	31 DECEMBER 2017
Long-term borrowings	66,955,931	20,880,525	(1,400,000)	(24,377,036)	134,784	62,194,204
Short-term borrowings	35,245,120	106,330,000	(121,015,714)	24,377,036	(48,311)	44,888,131
Total	**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.

31. 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.

As at 31 December 2018 the Group interest rate financial instruments are expired.

	NOTIONAL AMOUNT 2018	NOTIONAL AMOUNT 2017	FIXED INTEREST RATE	FIXED COMMISSION	EFFECTIVE DATE	EXPIRY DATE
Type of instrument						
Interest rate swap	**–**	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	**–**	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	**–**	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	**–**	900,000	12.00%	0.45%	31 December 2013	12 November 2018

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 2018	YEAR ENDED 31 DECEMBER 2017
Profit or loss		
Ineffective portion of the change in the fair value of cash flow hedging instruments	**–**	–
Reclassification from hedge reserve into interest expense	**203,887**	212,248
	203,887	212,248
Other comprehensive income		
Effective portion of the change in the fair value of cash flow hedging instruments	**(2,221)**	(121,107)
Reclassification from hedge reserve into interest expense	**(203,887)**	(212,248)
	(206,108)	(333,355)

32. 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.

32. FINANCIAL RISK MANAGEMENT CONTINUED

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 2018 and 2017, 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.

At 31 December 2018 and at 31 December 2017 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 2018	**14.00%**	**(91,491)**
	-14.00%	**91,491**
Year ended 2017	11.00%	(76,995)
	-11.00%	76,995

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 2018	**14.00%**	**(33,453)**
	-14.00%	**33,453**
Year ended 2017	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 2018 and 31 December 2017 these obligations are represented with long-term borrowing (Note 21), which bears interest of MosPrime 1-3m plus margin. In order to hedge the risk of rising MosPrime interest rate, in 2013-2015 the Group entered into interest rate swaps and caps (Note 31), which are expired at the end of the reporting period.

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	
	75 BP INCREASE	100 BP DECREASE	75 BP INCREASE	100 BP DECREASE
2018				
Variable rate instruments	**(196,875)**	**262,500**	**–**	**–**
Cash flow sensitivity	**(196,875)**	**262,500**	**–**	**–**

	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)

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 2018 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.

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 uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 33,539,189 (31 December 2017: RUB 14,067,804).

32. 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 2018 and 31 December 2017 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 2018

	LESS THAN 12 MONTHS	1–5 YEARS	OVER 5 YEARS	TOTAL
Borrowings	**30,637,465**	**117,172,663**	**–**	**147,810,128**
Trade and other payables	**56,133,840**	**–**	**–**	**56,133,840**
Total	**86,771,305**	**117,172,663**	**–**	**203,943,968**

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

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 21, 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 18.

Net debt of the Group is comprises of the following:

	31 DECEMBER 2018	31 DECEMBER 2017
Borrowings	**127,080,289**	107,082,335
Cash and cash equivalents (Note 17)	**(33,804,860)**	(14,301,859)
Net debt	**93,275,429**	92,780,476

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.

33. 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 economic, financial and monetary measures undertaken by the government of the Russian Federation.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

LEGAL CONTINGENCIES

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 36,538 as at 31 December 2018 (31 December 2017: RUB 15,805). 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 975,898 (31 December 2017: RUB 483,211). Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

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.

34. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no significant events after the reporting date other than disclosed elsewhere in the consolidated financial statements.

COMPANIES SUBSIDIARIES

The Company had the following subsidiaries as at 31 December 2018 and 2017:

COMPANY NAME	BENEFICIAL OWNERSHIP
Lenta LLC	100%
Zoronvo holdings Ltd	100%
Lenta-2 LLC	100%
Lenta LTIP Ltd	100%
TRK-Volzhskiy LLC	100%
TK-Zheleznodorozhniy LLC	100%

LIST OF CITIES AS OF 31 DECEMBER 2018

NUMBER ON THE MAP	CITIES[1]	NUMBER OF HYPERMARKETS	NUMBER OF SUPERMARKETS	NUMBER OF DISTRIBUTION CENTRES
1	Achinsk	1		
2	Almetyevsk	1		
3	Arkhangelsk	1		---
4	Armavir	1		
5	Astrakhan	2		
6	Balakovo	1		
7	Barnaul	3	4	
8	Belgorod	2		
9	Biysk	1		
10	Bratsk	1		
11	Bryansk	1		
12	Cheboksary	1		
13	Chelyabinsk	6		
14	Cherepovets	3		
15	Cherkessk	1		
16	Dimitrovgrad	1		
17	Ekaterinburg	4	10	1
18	Engels	2		
19	Grozny	1		
20	Irkutsk	2		
21	Ivanovo	3	1	
22	Izhevsk	3		
23	Kaluga	1	2	
24	Kamensk-Uralsky	1		
25	Kazan	5		
26	Kemerovo	3	9	
27	Khanty-Mansiysk	1		
28	Kostroma	1		
29	Krasnodar	3		
30	Krasnoyarsk	5		
31	Kurgan	1		
32	Kursk	1		
33	Lipetsk	2		
34	Magnitogorsk	2		
35	Maykop	1		
36	Moscow	25	49	3
37	Murmansk	2		
38	Naberezhnye Chelny	2		

NUMBER ON THE MAP	CITIES[1]	NUMBER OF HYPERMARKETS	NUMBER OF SUPERMARKETS	NUMBER OF DISTRIBUTION CENTRES
39	Nizhnekamsk	1		
40	Nizhniy Novgorod	4		
41	Nizhniy Tagil	2		
42	Novocherkassk	1		
43	Novokuznetsk	5	1	
44	Novorossiysk	2		1
45	Novoshakhtinsk	1		
46	Novosibirsk	7	25	2
47	Noyabrsk	1		---
48	Obninsk	1	1	
49	Omsk	6		
50	Orel	1		
51	Orenburg	5		
52	Orsk	1		
53	Penza	2		
54	Perm	2		
55	Petrozavodsk	2		
56	Prokopievsk	1		
57	Pskov	2		
58	Rostov-on-Don	4		1
59	Ryazan	3		1
60	Samara	3		
61	Saransk	1		
62	Saratov	3		
63	Shakhty	1		
64	Smolensk	1		
65	St. Petersburg	37	31	2
66	Stavropol	2		
67	Sterlitamak	1		
68	Surgut	2		
69	Syktyvkar	2		
70	Taganrog	2		
71	Tobolsk	1		
72	Togliatti	2		1
73	Tomsk	3	1	
74	Tula	1	1	
75	Tver	1		
76	Tyumen	5		
77	Ufa	4		
78	Ulyanovsk	2		
79	Velikiy Novgorod	2		
80	Vladimir	1	1	
81	Volgograd	4		
82	Vologda	1		
83	Volzhskiy	1		
84	Voronezh	2		
85	Yaroslavl	5		
86	Yoshkar Ola	1		
87	Yurga	1		
88	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
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
sq.m	square metre(s)
ticket	the receipt issued to a customer for his/her basket (the amount spent by a customer on a shopping trip)
total selling space	the area inside our stores used to sell products, excluding areas rented out to third parties, own-production areas, storage areas and the space between store entry and the cash desk line
traffic	the number of tickets issued for the period under review

FURTHER INFORMATION

In this annual report, we present certain operating and financial information regarding our hypermarkets and supermarkets, which we define as follows:

Adjusted EBITDA	EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of sales
Adjusted EBITDAR	Adjusted EBITDA before rent paid on land, equipment and premises leases
Adjusted EBITDAR margin	Adjusted EBITDAR as a percentage of sales
EBITDA	Profit for the period before foreign exchange gains/losses, revaluation of financial instruments at fair value through profit or loss, reversal of impairment of non-financial assets, other expenses, depreciation and amortisation, interest and tax. The reconciliation of EBITDA to IFRS profit is presented in tabular format in note 6 to the Consolidated Financial Statements.
like-for-like sales	We distinguish between sales attributable to new stores and sales attributable to existing stores. We consider the sales generated by stores until the end of the 12th full calendar month of their operation to be sales attributable to new stores. Accordingly, like-for-like sales begin with the comparison of the 13th full calendar month of operations of a store to its first full calendar month of operations, assuming the store has not subsequently closed, expanded or down sized. The number of stores in our like-for-like panel as of 31 December 2018: was 295 (219 hypermarkets and 77 supermarkets). The number of stores in our like-for-like panel as of 31 December 2017: was 213 (171 hypermarkets and 42 supermarkets). 'Like-for-like average ticket growth', 'like-for-like average price growth per article', 'like-for-like traffic growth', and 'like-for-like average sales density' are calculated using the same methodology as like-for-like sales.
Other metrics	• Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents. • The ratio of net debt to Adjusted EBITDA is net debt divided by Adjusted EBITDA. The ratio of Adjusted EBITDA to net interest expense is Adjusted EBITDA divided by net interest expense, which is calculated as interest expense less interest income. • The ratio of Adjusted EBITDAR to net interest expense plus rental expense ratio is Adjusted EBITDAR divided by the sum of net interest expense and rental expenses. • CROCI is defined as Adjusted EBITDA over average capital invested. • Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year. • Adjusted SG&A/Sales is SG&A, excluding expenses on land and equipment leases, premises leases, depreciation and amortisation and one-off expenses as a proportion of sales.

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 judgment, 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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