Lenta Limited and subsidiaries

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2018

Contents

Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2018

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

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries (the "Group") as of 30 June 2018, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* ("IAS 34").

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

- Applying consistently the accounting principles prescribed by IAS 34;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- Preparing the interim condensed consolidated financial information on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

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 interim condensed consolidated financial statements of the Group comply with IAS 34;
- 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 interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were approved by management on 27 August 2018:

On behalf of management as authorised by the Board of Directors:

Jan Dunning (CEO of Lenta Limited)	Jago Lemmens (CFO of Lenta Limited)

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Report on Review of Interim Financial Information

To the shareholders of
Lenta Limited

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Lenta Limited and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, the interim condensed consolidated statement of profit or losses and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of Lenta Limited is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

P.F. Seregin
Partner
Ernst & Young LLC

27 August 2018

Details of the 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.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Interim condensed consolidated statement of financial position as at 30 June 2018

(in thousands of Russian roubles)

	Note	30 June 2018 (unaudited)	31 December 2017 (restated)*
Assets			
Non-current assets			
Property, plant and equipment	6	171,620,570	170,308,406
Prepayments for construction	7	4,208,735	2,818,543
Leasehold rights	8	3,277,161	3,075,027
Intangible assets other than leasehold rights	9	1,646,053	1,816,716
Other non-current assets	10	728,511	675,676
Total non-current assets		**181,481,030**	**178,694,368**
Current assets			
Inventories	11	36,764,044	36,933,128
Trade and other receivable	12	7,761,310	10,957,360
Advances paid	13	3,250,166	2,413,511
Income tax prepaid		1,054,730	–
Taxes recoverable		–	2,874,174
Prepaid expenses		104,538	124,915
Short-term portion of cash flow hedging instruments	28	–	8,179
Cash and cash equivalents	14	4,944,358	14,301,859
		53,879,146	**67,613,126**
Assets held for sale		–	423,094
Total current assets		**53,879,146**	**68,036,220**
Total assets		**235,360,176**	**246,730,588**
Equity and liabilities			
Equity			
Share capital	15	284	284
Additional paid-in capital	15	26,480,481	26,480,481
Share options	15, 25	1,034,371	825,176
Hedging reserve	15	29,077	164,886
Retained earnings		49,411,628	44,316,449
Total equity		**76,955,841**	**71,787,276**
Liabilities			
Non-current liabilities			
Long-term borrowings	18	83,452,165	62,194,204
Deferred tax liabilities		10,513,364	8,386,732
Total non-current liabilities		**93,965,529**	**70,580,936**
Current liabilities			
Trade and other payables	20	37,029,627	57,259,762
Advances received		413,976	293,085
Contract liabilities		168,188	221,824
Other taxes payable	21	1,942,940	1,131,099
Current income tax payable		–	550,426
Short-term portion of cash flow hedging instruments	28	1,971	18,049
Short-term borrowings and short-term portion of long-term borrowings	18	24,882,104	44,888,131
Total current liabilities		**64,438,806**	**104,362,376**
Total liabilities		**158,404,335**	**174,943,312**
Total equity and liabilities		**235,360,176**	**246,730,588**

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 2.

The accompanying notes on pages 10-36 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018

(in thousands of Russian roubles)

	Note	Six months ended 30 June 2018, unaudited	Six months ended 30 June 2017, unaudited
Sales		193,220,200	163,530,864
Cost of sales	22	(150,900,928)	(127,996,370)
Gross profit		**42,319,272**	**35,534,494**
Selling, general and administrative expenses	23	(33,243,184)	(26,012,030)
Other operating income	24	2,185,785	1,725,515
Other operating expenses	24	(235,272)	(367,646)
Operating profit		**11,026,601**	**10,880,333**
Interest expense		(4,736,684)	(5,638,086)
Interest income		137,263	237,278
Foreign exchange (loss)/gain		(73,559)	80,871
Profit before income tax		**6,353,621**	**5,560,396**
Income tax expense	19	(1,192,949)	(1,068,697)
Profit for the period		**5,160,672**	**4,491,699**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss on cash flow hedges	16	(169,761)	(238,725)
Income tax relating to the components of OCI	19	33,952	47,745
Other comprehensive loss for the period, net of tax		**(135,809)**	**(190,980)**
Total comprehensive income for the period, net of tax		**5,024,863**	**4,300,719**
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		0.055	0.046

The accompanying notes on pages 10-36 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2018

(in thousands of Russian roubles)

	Note	Six months ended 30 June 2018, unaudited	Six months ended 30 June 2017, unaudited
Cash flows from operating activities			
Profit before income tax		**6,353,621**	**5,560,396**
Adjustments for:			
Net loss on disposal of property, plant and equipment		65,416	42,813
Loss on disposal of intangible assets		–	19,666
Interest expense		4,736,684	5,638,086
Interest income		(137,263)	(237,278)
Inventory write-down to net realisable value / (reversal of inventory write-down to net realisable value)	11	255,522	(57,479)
Expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	7, 12, 24	81,183	190,474
Depreciation and other charges	6, 8, 9, 23	6,085,095	4,738,653
Share options expense	25	209,195	190,281
		17,649,453	**16,085,612**
Movements in working capital			
Decrease in trade and other receivables		2,519,654	9,134,019
(Increase)/decrease in advances paid	13	(863,706)	164,269
Increase in prepaid expenses		(873)	(1,652)
Increase in inventories	11	(86,438)	(123,522)
Decrease in trade and other payables	20	(17,891,223)	(20,683,977)
Increase in contract liabilities and advances received		67,255	70,015
Increase in net other taxes payable	21	3,686,015	2,625,926
Cash from operating activities		**5,080,137**	**7,270,690**
Income taxes paid		(621,147)	(1,097,940)
Interest received		138,099	243,714
Interest paid		(5,250,322)	(6,319,528)
Net cash (used)/generated from operating activities		**(653,233)**	**96,936**
Cash flows from investing activities			
Purchases of property, plant and equipment		(10,463,758)	(9,756,454)
Settlements on acquisition of subsidiaries*		–	78,869
Purchases of intangible assets other than leasehold rights	9	(183,568)	(192,774)
Purchases of leasehold rights		(150,000)	(119,735)
Proceeds from sale of property, plant and equipment		1,950	34,270
Net cash used in investing activities		**(10,795,376)**	**(9,955,824)**
Cash flows from financing activities			
Proceeds from borrowings		70,245,500	87,146,875
Repayments of borrowings		(68,154,392)	(78,834,857)
Net cash generated from financing activities		**2,091,108**	**8,312,018**
Net decrease in cash and cash equivalents		**(9,357,501)**	**(1,546,870)**
Cash and cash equivalents at the beginning of the period	14	14,301,859	13,037,767
Cash and cash equivalents at the end of the period	14	**4,944,358**	**11,490,897**

* 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 10-36 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 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 2)	–	–	–	–	–	(65,493)	**(65,493)**
Balance at 1 January 2018 (restated)	**284**	**26,480,481**	**164,886**	**–**	**825,176**	**44,250,956**	**71,721,783**
Profit for the period	–	–	–	–	–	5,160,672	**5,160,672**
Other comprehensive loss	–	–	(135,809)	–	–	–	**(135,809)**
Total comprehensive (loss)/income	**–**	**–**	**(135,809)**	**–**	**–**	**5,160,672**	**5,024,863**
Share-based payments (Note 25)	–	–	–	–	209,195	–	**209,195**
Balance at 30 June 2018 (unaudited)	**284**	**26,480,481**	**29,077**	**–**	**1,034,371**	**49,411,628**	**76,955,841**

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2017	**284**	**26,216,147**	**431,570**	**–**	**668,200**	**31,052,910**	**58,369,111**
Profit for the period	–	–	–	–	–	4,491,699	**4,491,699**
Other comprehensive loss	–	–	(190,980)	–	–	–	**(190,980)**
Total comprehensive (loss)/income	**–**	**–**	**(190,980)**	**–**	**–**	**4,491,699**	**4,300,719**
Share-based payments (Note 25)	–	–	–	–	190,281	–	**190,281**
Issue of shares (Note 15, 25)	–	264,334	–	(53,647)	(210,687)	–	**–**
Balance at 30 June 2017 (unaudited)	**284**	**26,480,481**	**240,590**	**(53,647)**	**647,794**	**35,544,609**	**62,860,111**

Notes

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

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

The accompanying notes on pages 10-36 are an integral part of these unaudited interim condensed consolidated financial statements.

1. The Lenta Group and its operations

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

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company’s registered address is at 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 30 June 2018 and 31 December 2017 the Group had one main operational fully owned subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The principal activity of Lenta LLC is retail trade. Other subsidiaries are property or investment holding companies by their nature.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s financial statements for the year ended 31 December 2017.

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, 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 interim financial information for these condensed consolidated financial statements.

Changes in accounting policies and estimates

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the interim condensed 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, noted 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.

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

Changes in accounting policies and estimates (continued)

The standard requires entities to exercise judgement, 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 asset 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 be insignificantly 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*. As required by IAS 34, the nature and effect of these 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.

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.

(in thousands of Russian roubles)

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

Changes in accounting policies and estimates (continued)

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.

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 decrease in the carrying value of borrowings by RUB 480,811.

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	(65,493)	44,250,956
Non-current liabilities			
Long-term borrowings	62,194,204	(390,662)	61,803,542
Deferred tax liabilities	8,386,732	(16,374)	8,370,358
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 interim condensed consolidated financial statements of the Group.

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

Changes in accounting policies and estimates (continued)

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.

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

Changes in accounting policies and estimates (continued)

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.

3. 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 and newly incorporated wholly owned subsidiary Lenta LTIP Limited (BVI), which are eliminated on consolidation. Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segment represented by stores into one reportable 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).

(in thousands of Russian roubles)

3. Operating segments (continued)

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyse performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA).

The accounting policies used for the management purposes are the same as accounting policies applied for the consolidated financial statements.

The segment information for the six months ended 30 June 2018 and 30 June 2017, respectively, is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Sales	193,220,200	163,530,864
EBITDA	17,111,696	15,618,986

Reconciliation of EBITDA to IFRS profit for the six months ended 30 June 2018 and 30 June 2017 is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
EBITDA	**17,111,696**	**15,618,986**
Interest expense	(4,736,684)	(5,638,086)
Interest income	137,263	237,278
Income tax expense (see Note 19)	(1,192,949)	(1,068,697)
Depreciation, amortisation and impairment (see Notes 6, 8, 9, 23)	(6,085,095)	(4,738,653)
Foreign exchange (loss)/gain	(73,559)	80,871
Profit for the period	**5,160,672**	**4,491,699**

4. Seasonality of operations

The retail sales are subject to seasonal fluctuations with the higher demand on the eve of holidays. Particularly, relatively higher revenues are usually expected on New Year's Eve in relation to the whole assortment of goods. This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by IAS 34 *Interim Financial Reporting*.

5. 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 interim condensed consolidated financial statements include the following balances with related parties:

(in thousands of Russian roubles)

5. Balances and transactions with related parties (continued)

Entities with significant influence over the Group:

	30 June 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:

	Six months ended 30 June 2018	Six months ended 30 June 2017
TPG Capital		
Business trip expenses	–	234
Directors fee	6,948	5,929

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

	Six months ended 30 June 2018	Six months ended 30 June 2017
Short-term benefits	298,610	202,418
Long-term benefits (share-based payments, Note 25)	154,162	174,791
Termination benefits	–	8,462
Total remuneration	**452,772**	**385,671**

6. Property, plant and equipment

	Land	Land improve-ments	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	–	–	–	–	6,743,398	**6,743,398**
Transfers from construction in progress	479,255	511,082	2,951,841	2,553,143	(6,495,321)	**–**
Transfers from leasehold rights	286	–	–	–	–	**286**
Transfers from assets held for sale	323,094	–	–	–	–	**323,094**
Disposals	(2,000)	–	(4,264)	(156,600)	(25,481)	**(188,345)**
Balance at 30 June 2018	**21,810,638**	**11,978,412**	**121,069,295**	**55,345,180**	**2,809,395**	**213,012,920**
Accumulated depreciation and impairment						
Balance at 1 January 2018	**–**	**1,646,511**	**15,000,631**	**19,178,939**	**–**	**35,826,081**
Charge for the period	–	201,260	2,353,315	3,128,709	–	**5,683,284**
Disposals	–	–	(2,609)	(114,406)	–	**(117,015)**
Balance at 30 June 2018	**–**	**1,847,771**	**17,351,337**	**22,193,242**	**–**	**41,392,350**
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 30 June 2018	**21,810,638**	**10,130,641**	**103,717,958**	**33,151,938**	**2,809,395**	**171,620,570**

(in thousands of Russian roubles)

6. Property, plant and equipment (continued)

	Land	Land improve-ments	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	–	–	–	53	6,201,687	**6,201,740**
Transfers from construction in progress	419,200	423,351	2,581,244	2,162,981	(5,586,776)	**–**
Transfers from leasehold rights	571,501	–	–	–	–	**571,501**
Disposals	(31,630)	–	(3,576)	(129,045)	(17,593)	**(181,844)**
Balance at 30 June 2017	**18,829,672**	**10,487,176**	**103,069,127**	**44,995,052**	**3,885,384**	**181,266,411**
Accumulated depreciation and impairment						
Balance at 1 January 2017	**–**	**1,300,128**	**11,325,932**	**14,236,665**	**–**	**26,862,725**
Charge for the period	–	171,017	1,797,028	2,506,376	–	**4,474,421**
Disposals	–	–	(1,684)	(99,416)	–	**(101,100)**
Balance at 30 June 2017	**–**	**1,471,145**	**13,121,276**	**16,643,625**	**–**	**31,236,046**
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 30 June 2017	**18,829,672**	**9,016,031**	**89,947,851**	**28,351,427**	**3,885,384**	**150,030,365**

During the six months ended 30 June 2018 and the six months ended 30 June 2017 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalisation. Thus, no borrowings costs were capitalised during those periods.

No property, plant and equipment is held by the Group under finance leases at 30 June 2018 and as at 31 December 2017.

The amount of depreciation charged and impairment during the six months ended 30 June 2018 and the six months ended 30 June 2017 is presented within depreciation, amortisation and impairment in the Group's interim condensed consolidated statement of profit or loss and other comprehensive income and interim condensed consolidated statement of cash flows as follows:

	Six months ended 30 June 2018	**Six months ended 30 June 2017**
Depreciation and impairment of property, plant and equipment (Note 6)	5,683,284	4,474,421
Amortisation of intangible assets (Note 9)	354,231	217,259
Leasehold rights amortisation (Note 8)	47,580	46,973
Total depreciation, amortisation and impairment	**6,085,095**	**4,738,653**

See Note 26 for capital commitments.

(in thousands of Russian roubles)

7. Prepayments for construction

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

Prepayments are regularly monitored on the subject of impairment. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of prepayments. As at 30 June 2018 the Group impaired RUB 495 983 of prepayments (31 December 2017: RUB 504 421).

8. Leasehold rights

Leasehold rights as at 30 June 2018 consist of the following:

	Leasehold rights
Cost	
At 1 January 2018	**3,342,281**
Additions	150,000
Transfer from assets held for sale	100,000
Transfer to PPE	(294)
At 30 June 2018	**3,591,987**
Accumulated amortisation	
At 1 January 2018	**267,254**
Charge for the period	47,580
Transfer to PPE	(8)
At 30 June 2018	**314,826**
Net book value	
At 1 January 2018	**3,075,027**
At 30 June 2018	**3,277,161**

Leasehold rights as at 30 June 2017 consist of the following:

	Leasehold rights
Cost	
At 1 January 2017	**3,979,647**
Additions	119,735
Transfer to PPE	(597,103)
At 30 June 2017	**3,502,279**
Accumulated amortisation	
At 1 January 2017	**235,638**
Charge for the period	46,973
Transfer to PPE	(25,602)
At 30 June 2017	**257,009**
Net book value	
At 1 January 2017	**3,744,009**
At 30 June 2017	**3,245,270**

Amortisation expense is included in selling, general and administrative expenses (Note 23).

(in thousands of Russian roubles)

9. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 30 June 2018 consist of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2018	**3,461,608**	**549**	**3,462,157**
Additions	183,568	–	**183,568**
Disposals	(199,665)	(549)	**(200,214)**
At 30 June 2018	**3,445,511**	**–**	**3,445,511**
Accumulated amortisation			
At 1 January 2018	**1,644,892**	**549**	**1,645,441**
Amortisation for the period	354,231	–	**354,231**
Disposals	(199,665)	(549)	**(200,214)**
At 30 June 2018	**1,799,458**	**–**	**1,799,458**
Net book value			
At 1 January 2018	**1,816,716**	**–**	**1,816,716**
At 30 June 2018	**1,646,053**	**–**	**1,646,053**

Intangible assets other than leasehold rights as at 30 June 2017 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2017	**3,167,432**	**549**	**3,167,981**
Additions	192,774	–	**192,774**
Disposals	(75,692)	–	**(75,692)**
At 30 June 2017	**3,284,514**	**549**	**3,285,063**
Accumulated amortisation			
At 1 January 2017	**1,277,256**	**549**	**1,277,805**
Amortisation for the period	217,259	–	**217,259**
Disposals	(56,026)	–	**(56,026)**
At 30 June 2017	**1,438,489**	**549**	**1,439,038**
Net book value			
At 1 January 2017	**1,890,176**	**–**	**1,890,176**
At 30 June 2017	**1,846,025**	**–**	**1,846,025**

Amortisation expense is included in selling, general and administrative expenses (Note 23).

10. Other non-current assets

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

(in thousands of Russian roubles)

11. Inventories

	30 June 2018	31 December 2017
Goods for resale (at lower of cost and net realisable value)	35,764,189	35,969,948
Raw materials	999,855	963,180
Total inventories	**36,764,044**	**36,933,128**

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

	30 June 2018	31 December 2017
Goods for resale (at cost)	36,930,890	36,881,127
Write down to net realizable value	(1,166,701)	(911,179)
Goods for resale (at lower of cost and net realisable value)	**35,764,189**	**35,969,948**

During the reporting period the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 in the amount of RUB 255,522.

During the six months ended 30 June 2017 the Group accounted for reversal of write down of inventories to their net realisable value, which resulted in recognition of reversal of expenses within cost of sales in the amount of: RUB 57,479.

12. Trade and other receivables

	30 June 2018	31 December 2017
Accounts receivable on rental and other services and on suppliers' advertising	5,968,711	7,908,931
Suppliers' rebates receivable	2,190,830	2,944,202
Other receivables	168,598	261,143
Expected credit losses of accounts receivable	(566,829)	(156,916)
Total trade and other receivables	**7,761,310**	**10,957,360**

Receivables are due normally within 25 days according to the terms of standard contracts. Outstanding receivables are regularly monitored.

Amounts receivable from suppliers and accounts receivable on rental and other services disclosed above include amounts (see below for ageing analysis) that are past due at the end of the reporting period for which the Group has not recognised expected credit losses for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(in thousands of Russian roubles)

12. Trade and other receivables (continued)

Ageing of trade and other receivables that are past due but not impaired as at 30 June 2018:

	0-60 days overdue	**60-120 days overdue**	**120-365 days overdue**	**Neither past due nor impaired**	**Total**
Accounts receivable on rental and other services	185,142	9,074	50,248	5,389,970	**5,634,434**
Suppliers' volume rebates receivable	34,505	14,397	11,868	1,931,883	**1,992,653**
Other receivables	24,343	1,581	7,931	100,368	**134,223**
Total	**243,990**	**25,052**	**70,047**	**7,422,221**	**7,761,310**

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**

13. Advances paid

	30 June 2018	**31 December 2017**
Advances for services	2,613,389	1,847,513
Advances to suppliers of goods	636,777	565,998
Total advances paid	**3,250,166**	**2,413,511**

14. Cash and cash equivalents

	30 June 2018	**31 December 2017**
Rouble denominated cash in transit	2,221,267	7,135,388
Rouble denominated cash on hand and balances with banks	1,644,914	4,530,925
Rouble short-term deposits	1,000,000	2,540,825
Foreign currency denominated cash on hand and balances with banks	78,177	94,721
Total cash and cash equivalents	**4,944,358**	**14,301,859**

Cash in transit represents cash receipts made during the last days of the reporting period (30 June or 29-31 December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period.

(in thousands of Russian roubles)

14. Cash and cash equivalents (continued)

Significant rouble denominated cash in transit results 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.

15. Issued capital and reserves

As at 30 June 2018 the Company's share capital is comprised of 97,416,963 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 in the amount limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the six months ended 30 June 2018 and for the year ended 31 December 2017.

The movements in the number of shares for the six months ended 30 June 2018 and for the six months ended 30 June 2017 are as follows:

	30 June 2018, No.	**30 June 2017, No.**
Authorized share capital (ordinary shares with no par value)	unlimited	unlimited
Issued and fully paid (no par value)	97,416,963	97,416,963
Treasury shares	–	(31,744)

	Six months ended 30 June 2018, No.	**Six months ended 30 June 2017, No.**
Balance of shares outstanding at the beginning of reporting period	**97,416,963**	**97,318,746**
Additional issue of shares	–	98,217
Share-buyback	–	(31,744)
Balance of shares outstanding at the end of reporting period	**97,416,963**	**97,385,219**

15. Issued capital and reserves (continued)

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 25 for further details of these plans.

Hedging reserve

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

16. Components of other comprehensive income (OCI)

	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash flow hedges		
Reclassification during the period to profit or loss	(166,625)	(151,830)
Related tax effect	33,325	30,366
Loss arising during the period	(3,136)	(86,895)
Related tax effect	627	17,379
Net loss during the period	**(135,809)**	**(190,980)**

17. Earnings per share

	Six months ended 30 June 2018	Six months ended 30 June 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	0.055	0.046

The calculation of basic earnings per share for reporting periods is based on the profit attributable to shareholders (for the six months ended 30 June 2018: RUB 5,160,672, for the six months ended 30 June 2017: RUB 4,491,699) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Six months ended 30 June 2018	Six months ended 30 June 2017
Number of issued shares at the beginning of reporting period	**97,416,963**	**97,318,746**
Number of shares issued on 14 June 2017	–	98,217
Share-buyback on 20 June 2017	–	(31,744)
Number of shares at the end of reporting period	97,416,963	97,385,219
Weighted average number of shares	**97,416,963**	**97,325,674**

The Group has issued share-based payments' (Note 25) 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.

(in thousands of Russian roubles)

18. Borrowings

Short-term borrowings:

	Currency	30 June 2018	31 December 2017
Fixed rate long-term bonds (liability for interests)	RUB	52,407	39,333
Fixed rate long-term bank loans (liability for interests)	RUB	131,926	115,400
Floating rate long-term bank loans (liability for interests)	RUB	510,775	609,503
Fixed rate short-term bonds (liability for interests)	RUB	462,387	719,442
Fixed rate short-term bank loans (liability for interests)	RUB	13,685	49,591
Short-term portion of fixed rate long-term bank loans	RUB	11,131,403	26,390,004
Short-term portion of fixed rate long-term bonds	RUB	11,979,521	16,964,858
Fixed rate short-term bank loans	RUB	600,000	–
Total short-term borrowings and short-term portion of long-term borrowings		**24,882,104**	**44,888,131**

Long-term borrowings:

	Currency	30 June 2018	31 December 2017
Fixed rate bonds	RUB	5,533,051	4,993,339
Fixed rate long-term bank loans	RUB	52,443,522	31,410,105
Floating rate long-term bank loans	RUB	25,475,592	25,790,760
Total long-term borrowings		**83,452,165**	**62,194,204**

The Groups' borrowings as at 30 June 2018 and 31 December 2017 are denominated in Russian roubles.

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

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.

During six months ended 30 June 2018 the Group received RUB 49,138,985 under credit agreements concluded before 1 January 2018 and repaid RUB 66,693,377.

(in thousands of Russian roubles)

18. Borrowings (continued)

As at 30 June 2018 the Group had RUB 78,650,000 of unused credit facilities (as at 31 December 2017: RUB 61,550,000).

As at 30 June 2018 the Group is in compliance with all financial covenants of loan agreements.

19. Income taxes

The Group's income tax expense for the six months ended 30 June 2018 and 30 June 2017 is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Current tax expense	3,128	16,856
Deferred tax expense	2,176,958	1,051,841
Adjustments in respect of current income tax of previous periods	(987,137)	–
Income tax expense recognised in profit or loss	**1,192,949**	**1,068,697**
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	(33,952)	(47,745)
Income tax benefit recognised in OCI	**(33,952)**	**(47,745)**

	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit before tax	**6,353,621**	**5,560,396**
Theoretical tax charge at 20%	**(1,270,724)**	**(1,112,079)**
Difference in tax rates for foreign companies	42,467	36,412
Add tax effect of non-taxable income and non-deductible expenses	35,308	6,970
- share option expenses	(41,839)	(38,056)
- others	77,147	45,026
Income tax expense	**1,192,949**	**1,068,697**

20. Trade and other payables

	30 June 2018	31 December 2017
Trade payables	28,945,270	46,716,600
Accrued liabilities and other creditors	5,701,680	5,400,930
Payables for purchases of property, plant and equipment	2,382,677	5,142,232
Total trade and other payables	**37,029,627**	**57,259,762**

(in thousands of Russian roubles)

20. Trade and other payables (continued)

The trade and other payables are denominated in:

	30 June 2018	31 December 2017
Russian roubles	36,075,741	56,281,962
USD	755,030	699,959
EUR	198,856	277,266
GBP	–	575
Total trade and other payables	**37,029,627**	**57,259,762**

21. Other taxes payable

	30 June 2018	31 December 2017
VAT payable	822,870	–
Social taxes	500,792	482,221
Property tax	391,471	410,756
Personal income tax	183,263	200,096
Other taxes	44,544	38,026
Total other taxes payable	**1,942,940**	**1,131,099**

22. Cost of sales

Cost of sales for the six months ended 30 June 2018 and 30 June 2017 consists of the following:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Cost of goods sold	133,564,397	110,785,253
Cost of own production	10,157,035	12,589,966
Supply chain cost	2,172,966	1,481,288
Losses due to inventory shortages and write down to net realisable value	5,006,530	3,139,863
Total cost of sales	**150,900,928**	**127,996,370**

Cost of sales for the six months ended 30 June 2018 includes employee benefits expense of RUB 3,872,041 (for the six months ended 30 June 2017: RUB 2,954,332) of which contributions to state pension fund comprised RUB 549,488 (for the six months ended 30 June 2017: RUB 412,446).

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

(in thousands of Russian roubles)

22. Cost of sales (continued)

The cost of own production consists of the following:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Raw materials	6,913,493	9,985,456
Labour costs	2,635,650	2,092,617
Utilities	492,455	429,188
Repairs and maintenance	110,787	78,351
Other	4,650	4,354
Total cost of own production	**10,157,035**	**12,589,966**

23. Selling, general and administrative expenses

	Six months ended 30 June 2018	Six months ended 30 June 2017
Employee benefits	12,482,292	9,575,384
Depreciation, amortisation and impairment (Note 6)	6,085,095	4,738,653
Premises lease	2,725,746	1,815,968
Utilities and communal payments	2,248,924	1,749,154
Advertising	1,945,685	1,714,422
Professional fees	1,658,776	1,287,262
Cleaning	1,433,038	1,152,380
Repairs and maintenance	1,159,048	880,703
Security services	911,626	800,881
Taxes other than income tax	888,980	838,597
Land and equipment lease	148,084	161,559
Pre-opening costs	179,694	182,499
Other	1,376,196	1,114,568
Total selling, general and administrative expenses	**33,243,184**	**26,012,030**

Employee benefits for the six months ended 30 June 2018 include contributions to state pension fund of RUB 1,697,897 (for the six months ended 30 June 2017: RUB 1,362,106).

Pre-opening costs for the six months ended 30 June 2018 include employee benefits of RUB 58,475 (for the six months ended 30 June 2017: RUB 94,623) of which contributions to state pension fund amount to RUB 7,462 (for the six months ended 30 June 2017: RUB 13,212).

Professional fees for the six months ended 30 June 2018 include fees billed by Ernst & Young LLC: for the audit and review of the consolidated financial statements in the amount of RUB 12,614 (for the six months ended 30 June 2017: RUB 11,699) and for consulting and other non-audit services in the amount of RUB 2,320 (for the six months ended 30 June 2017: RUB 5,732).

(in thousands of Russian roubles)

24. Other operating income and expenses

Other operating income is comprised of the following:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Rental income	790,369	591,849
Penalties due by suppliers	411,397	432,289
Sale of secondary materials	487,914	321,877
Advertising income	378,939	291,129
Gain on property, plant and equipment disposal	1,052	4,717
Other	116,114	83,654
Total other operating income	**2,185,785**	**1,725,515**

Other operating expenses are comprised of the following:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction (Notes 7, 12)	81,183	190,474
Loss on fixed assets and intangible assets disposal	66,468	67,196
Penalties for breach of contracts with suppliers and lessors	10,108	30,060
Penalties from government authorities	17,068	13,975
Other	60,445	65,941
Total other operating expenses	**235,272**	**367,646**

25. Share-based payments

Long-term incentive plan

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

The monetary amount of the award to be granted to the participants of the plan was calculated based on the annual base salary on the grant date, target award interest, business results co-efficient and individual performance rating co-efficient.

In June 2017 the Group issued 31,744 shares of nor par value with respect to LTIP Tranche 2014. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 53,647. In April 2018 Tranche 2015 was fully vested. In July 2018 the Group issued due 21,800 shares of nor par value (see Note 30).

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

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

(in thousands of Russian roubles)

25. Share-based payments (continued)

Long-term incentive plan (continued)

Total expense recognised for the services received from the employees covered by long-term incentive plan for the six months ended 30 June 2018 and for the six months ended 30 June 2017 is shown in the following table:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Expense arising from the equity-settled long-term incentive plan payments	171,524	112,506

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 June 2017 the Group issued 66,473 shares of no par value with respect to share value appreciation rights to top management. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 210,687. In April 2018 SVARs of 2013 year fully vested. In July 2018 the Group issued due 69,502 shares of nor par value (see Note 30).

The weighted average remaining contractual life for the SVARs outstanding as at 30 June 2018 was 1.29 year (31 December 2017: 0.44 years).

The weighted average exercise price for options outstanding as at 30 June 2018 is RUB 2.214 (31 December 2017: RUB 1.585).

The weighted average fair value of options outstanding as at 30 June 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 six months 2018 and the six months 2017 is shown in the following table:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Expense arising from the equity-settled SVARs transaction	37,671	77,775

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.

(in thousands of Russian roubles)

26. Commitments

Capital expenditure commitments

At 30 June 2018 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 15,865,895 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:

	30 June 2018	31 December 2017
Not later than 1 year	6,004,206	5,561,773
Later than 1 year and not later than 5 years	22,980,372	22,635,742
Later than 5 years	32,565,978	33,561,979
Total operating lease commitments	**61,550,556**	**61,759,494**

27. Financial instruments

Categories of financial instruments

	30 June 2018	31 December 2017
Financial assets measured at fair value		
Cash flow hedging instruments	–	8,179
Financial assets measured at amortised cost		
Cash	4,944,358	14,301,859
Trade and other receivables	7,761,310	10,957,360
Total financial assets measured at amortised cost	**12,705,668**	**25,259,219**
Financial liabilities measured at fair value		
Cash flow hedging instruments	1,971	18,049
Financial liabilities measured at amortised cost		
Floating rate long-term borrowings	25,986,367	26,400,263
Fixed rate long-term borrowings and bonds	58,160,906	36,558,178
Fixed rate short-term borrowings and bonds	24,186,996	44,123,894
Floating rate short-term borrowings	–	–
Trade and other payables	37,029,627	57,259,762
Total financial liabilities measured at amortised cost	**145,363,896**	**164,342,097**

(in thousands of Russian roubles)

27. Financial instruments (continued)

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 30 June 2018 are:

	30 June 2018	**Level 1**	**Level 2**	**Level 3**
Financial liabilities measured at fair value				
Cash flow hedging instruments	1,971	–	1,971	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	18,467,050	18,467,050	–	–
Fixed rate borrowings	64,417,620	–	64,417,620	–
Floating rate borrowings	25,986,367	–	25,986,367	–

	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	23,276,797	23,276,797	–	–
Fixed rate borrowings	57,621,655	–	57,621,655	–
Floating rate borrowings	26,400,263	–	26,400,263	–

During the reporting periods ending 30 June 2018 and 31 December 2017, there were no transfers between Level 1, Level 2 and Level 3 of fair value measurements.

(in thousands of Russian roubles)

27. Financial instruments (continued)

Fair values (continued)

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:

	30 June 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	25,986,367	25,986,367	26,400,263	26,400,263
Fixed rate borrowings and bonds	82,347,902	82,884,670	80,682,072	80,898,452
Derivative liabilities				
Cash flow hedging instruments	1,971	1,971	18,049	18,049
Total financial liabilities	**108,336,240**	**108,873,008**	**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 amounts 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 30 June 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 30 June 2018 and 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.

(in thousands of Russian roubles)

28. Hedge and hedging instruments

In 2013-2015 the Group entered into interest rate swaps and caps provided by VTB Bank PJSC to mitigate the risk of a rising MosPrime interest rate. Caps provide security for four quarters during the whole period of the agreement, so the termination date would be the earlier of the expiry date and the fourth settlement date for the floating amounts paid by VTB to the Group.

Type of instrument	Notional amount 2018	Notional amount 2017	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	900,000	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	900,000	900,000	12.00%	0.45%	31 December 2013	12 November 2018

Derivative financial instruments are classified in the statement of financial position as follows:

	30 June 2018	31 December 2017
Current assets	–	8,179
Current liability	(1,971)	(18,049)
Net derivative liability	**(1,971)**	**(9,870)**

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

	30 June 2018	31 December 2017
Swaps	(494)	8,179
Caps	(1,477)	(18,049)
Net derivative liability	**(1,971)**	**(9,870)**

Starting 1 July 2013 the Group applied cash flow hedge accounting for swaps and caps that meet prescribed criteria, including preparation of all necessary documentation. Hedge accounting was applied prospectively from designation.

Retrospective and prospective effectiveness of cash flow hedges (swaps and caps) was measured by the Group using the “dollar offset” method. The effective portion of the gain or loss on the hedging instrument was recognised in other comprehensive income and accumulated in hedging reserve.

(in thousands of Russian roubles)

28. Hedge and hedging instruments (continued)

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

	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit or loss		
Ineffective portion of change in fair value of cash flow hedging instruments	–	–
Reclassification from hedge reserve into interest expense	166,625	151,830
	166,625	**151,830**
Other comprehensive income		
Effective portion of change in fair value of cash flow hedging instruments	(3,136)	(86,895)
Reclassification from hedge reserve into interest expense	(166,625)	(151,830)
	(169,761)	**(238,725)**

29. Contingencies

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed, consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits.
A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

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

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

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

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

29. Contingencies (continued)

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 143,729 as at 30 June 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 has not been disclosed in these interim condensed 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 482,662 (31 December 2017: RUB 483,211). No tax provisions are recorded as at 30 June 2018 and 31 December 2017. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots containing a short lease term expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect are accrued as at 30 June 2018 and 31 December 2017.

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.

30. Events occurring after the reporting period

In July 2018 the Group approved a long-term incentive plan (LTIP) to certain members of management. The vesting date of 100% of newly granted in the year 2018 award is 1 April 2021.

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. 20,901 shares were transferred into GDR and distributed to relevant participants. 899 shares are retained by the Group as treasury shares until their forthcoming transfer to employees.

In July 2018 the Group issued 69,502 shares of no par value with respect to share value appreciation rights to top management. 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.