

**Lenta Limited and subsidiaries**

Consolidated financial statements

*For the year ended 31 December 2015*

## Lenta Limited and subsidiaries

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### **Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2015**

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

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

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

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

Management is also responsible for:

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

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

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



Jan Dunning  
(CEO of Lenta Ltd)



Jago Lemmens  
(CFO of Lenta Ltd)



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## Independent auditors' report

To the Shareholders of Lenta Limited

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

### ***Management's responsibility for the consolidated financial statements***

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

### ***Auditors' responsibility***

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

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

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



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### **Opinion**

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

*Ernst & Young LLC*

15 February 2016

Saint Petersburg, Russia

## Lenta Limited and subsidiaries

### Consolidated statement of financial position as at 31 December 2015 (in thousands of Russian rubles)

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

The accompanying notes on pages 9-65 are an integral part of these financial statements.

## Lenta Limited and subsidiaries

### Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 (in thousands of Russian rubles)

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

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

## Lenta Limited and subsidiaries

### Consolidated statement of cash flows for the year ended 31 December 2015 (in thousands of Russian rubles)

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

The accompanying notes on pages 9-65 are an integral part of these financial statements.



## Lenta Limited and subsidiaries

### Consolidated statement of changes in equity for the year ended 31 December 2015 (in thousands of Russian rubles)

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

### 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.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

#### **1. The Lenta Group and its operations**

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

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

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

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

#### **2. Basis of preparation and significant accounting policies**

##### **Statement of compliance**

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

##### **2.1 Basis of preparation**

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

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### 2.1 Basis of preparation (continued)

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

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

##### 2.2 Basis of consolidation

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

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

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

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

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

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.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.2 Basis of consolidation (continued)**

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

##### **2.3 Summary of significant accounting policies**

###### ***Business combinations and goodwill***

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

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

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

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

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

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

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***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.

###### ***Fair value measurement***

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

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

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

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

#### ***Functional and presentation currency***

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

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### 2.3 Summary of significant accounting policies (continued)

###### ***Property, plant and equipment***

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

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:

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

###### ***Leasehold rights***

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***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.



## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***Impairment of non-financial assets***

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

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

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

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

###### ***Income taxes***

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

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

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

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

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

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

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

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

#### ***Inventories***

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***Borrowing costs***

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

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

###### ***Revenue recognition***

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

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

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

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

###### ***Suppliers' allowances***

The Group receives various types of allowances from vendors in the form of volume discounts and other payments. Allowances received from suppliers are recorded against the cost of goods sold in the period the products are sold. Where allowances with a supplier cover more than one year, the allowances are recognised in the period in which they are earned.

###### ***Employee benefits***

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***Share-based payments***

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

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

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

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

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

###### ***Pre-opening costs***

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

###### ***Segment reporting***

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### ***Seasonality***

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

###### ***Financial assets***

###### ***General description***

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

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

###### ***Loans and receivables***

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

###### ***Cash and cash equivalents***

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

###### ***Impairment of financial assets***

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

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

### **2.3 Summary of significant accounting policies (continued)**

#### *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.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### **2.3 Summary of significant accounting policies (continued)**

###### *Earnings per share*

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

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

###### *Classification as debt or equity*

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

###### *Financial liabilities*

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

###### *Derecognition of financial liabilities*

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

###### *Offsetting of financial instruments*

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

##### ***Derivative financial instruments and hedge accounting***

###### *Initial recognition and subsequent measurement*

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### 2.3 Summary of significant accounting policies (continued)

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 on the hedging instrument is recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss as other operating expenses.

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

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

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

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

##### *Current versus non-current classification*

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

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



## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

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

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

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

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

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

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

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

#### 3. Significant accounting judgments, estimates and assumptions

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

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

##### **Judgments**

##### ***Operating lease commitments – Group as lessor***

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

##### ***Assets versus business acquisition***

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

##### **Estimates and assumptions**

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

##### ***Leases renewal assumption***

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

##### ***Inventory valuation***

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

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### Estimates and assumptions (continued)

###### *Tax legislation*

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

###### *Fair value measurement of financial instruments*

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

###### *Impairment of non-financial assets*

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

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### Estimates and assumptions (continued)

###### *Share-based payments*

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

#### 4. Adoption of new or revised standards and interpretations

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

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

##### ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

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

##### ***Annual improvements 2010-2012 cycle***

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

###### *IFRS 2 Share-based Payment*

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

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

##### ***Annual improvements 2010-2012 cycle (continued)***

###### *IFRS 3 Business Combinations*

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

###### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

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

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

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

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

###### *IAS 24 Related Party Disclosures*

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

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

##### *Annual improvements 2011-2013 cycle*

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

##### *IFRS 3 Business Combinations*

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

##### *IFRS 13 Fair Value Measurement*

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

##### *IAS 40 Investment Property*

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

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

#### 5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 5. Standards issued but not yet effective (continued)

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

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

#### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

#### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 5. Standards issued but not yet effective (continued)

##### ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

##### ***Annual improvements 2012-2014 cycle***

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

##### *IFRS 7 Financial Instruments: Disclosures*

###### *(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

###### *(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

##### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.



### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 5. Standards issued but not yet effective (continued)

##### *IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

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

##### ***Amendments to IAS 1 Disclosure Initiative***

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ▶ the materiality requirements in IAS 1;
- ▶ that specific line items in the statement of profit or loss and OCI and the statement of financial position may be disaggregated;
- ▶ that entities have flexibility as to the order in which they present the notes to financial statements;
- ▶ that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### ***Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception***

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 5. Standards issued but not yet effective (continued)

##### **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. Under IFRS 16 a lessee is required to recognise assets and liabilities arising from a lease. The new standard is applicable to all lease and sublease contracts except for leases of certain types of intangibles and some other specific assets and will supersede all current requirements for lease recognition and disclosure under IFRS. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

##### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses**

The amendments to IAS 12 clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The clarifications refer to accounting for deferred tax assets when an entity:

- ▶ has deductible temporary differences relating to unrealised losses on debt instruments that are classified as available-for-sale financial assets and measured at fair value;
- ▶ is not allowed to deduct unrealised losses for tax purposes;
- ▶ has the ability and intention to hold the debt instruments until the unrealised loss reverses; and
- ▶ has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise those deductible temporary differences.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### **Amendments to IAS 7 Statement of Cash Flows**

Amendments to IAS 7 *Statement of Cash Flows* were issued on 29 January 2016 as a response to requests from investors for information that helps them better understand changes in a company's debt. The amendments require companies to provide information of changes in their financing liabilities will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017 with early application permitted. These amendments will result in additional disclosures made by the Group.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 6. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry.

The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned subsidiaries Lakatomo Holdings Ltd and Lenta Luxemburg S.a.r.l., which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segments represented by stores into one reportable operating segment. Within the segment all business components are similar in respect of:

- ▶ the products;
- ▶ the customers;
- ▶ centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized).

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

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

The segment information for the year ended 31 December 2015 and 2014 is as follows:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Sales	252,763,075	193,988,240
EBITDA	28,018,435	21,318,157

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

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
<b>EBITDA</b>	<b>28,018,435</b>	<b>21,318,157</b>
Interest expense	(10,044,858)	(6,910,890)
Interest income	767,905	99,821
Income tax expense (see Note 21)	(2,584,010)	(1,852,541)
Depreciation/amortization (see Note 8, 10, 11, 25)	(5,686,264)	(3,658,953)
Ineffective portion of the change in fair value of cash flow hedging instruments (see Note 30)	6,308	(19,488)
Other expenses	-	(41,165)
Foreign exchange (loss)/gain	(189,423)	140,166
<b>Profit for the year</b>	<b>10,288,093</b>	<b>9,075,107</b>

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 7. Balances and transactions with related parties

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

The consolidated financial statements include the following balances with related parties:

Entities with significant influence over the Group:

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>EBRD</b>		
Long-term loans payable	4,520,527	4,519,663
Accrued liabilities	6,559	5,063
Interest accrued	1,691	3,325
<b>TPG Capital</b>		
Accrued liabilities	13,848	4,644

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
<b>EBRD</b>		
Proceeds from borrowings	-	4,554,240
Interest expense	833,200	28,467
Directors fee	25,483	10,301
Business trip expenses	323	5,643
<b>TPG Capital</b>		
Directors fee	23,642	14,772
Business trip expenses	19,919	8,867
Consulting services	2,807	19,430
Monitoring fee	-	42,723
<b>VTB Capital*</b>		
Proceeds from borrowings	-	5,000,000
Repayment of borrowings	-	3,150,000
Interest expense and commission on loans	-	618,719
Finance leasing charge	-	1,225
Interest income on deposits	-	(3,511)

\* Management of the Group concluded that starting from March 2014 year VTB Capital is not a related party due to lack of influence on operational activity of the Group following the reduction of its share in equity capital as the result of sale of shares during IPO.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 7. Balances and transactions with related parties (continued)

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

	Year ended 31 December 2015	Year ended 31 December 2014
Short-term benefits	682,421	397,442
Long-term benefits (share-based payments, Note 27)	158,645	83,411
<b>Total remuneration</b>	<b>841,066</b>	<b>480,853</b>

#### 8. Property, plant and equipment

	Land	Land improve- ments	Buildings	Machinery and equipment	Assets under construction	Total
<b>Cost</b>						
<b>Balance at 1 January 2015</b>	<b>9,971,338</b>	<b>5,488,814</b>	<b>54,610,275</b>	<b>21,331,730</b>	<b>4,542,748</b>	<b>95,944,905</b>
Additions	-	-	87,269	611	27,642,190	27,730,070
Transfers from construction in progress	2,035,686	1,650,598	16,510,017	8,370,416	(28,566,717)	-
Transfers from leasehold rights	655,359	-	-	-	-	655,359
Disposals	(79,609)	(22,834)	(2,156)	(268,746)	(53,462)	(426,807)
<b>Balance at 31 December 2015</b>	<b>12,582,774</b>	<b>7,116,578</b>	<b>71,205,405</b>	<b>29,434,011</b>	<b>3,564,759</b>	<b>123,903,527</b>
<b>Accumulated depreciation and impairment</b>						
<b>Balance at 1 January 2015</b>	-	848,274	6,621,417	7,257,007	-	14,726,698
Charge for the year	-	193,659	2,028,335	3,138,721	-	5,360,715
Disposals	-	-	(1,821)	(198,523)	-	(200,344)
<b>Balance at 31 December 2015</b>	-	<b>1,041,933</b>	<b>8,647,931</b>	<b>10,197,205</b>	-	<b>19,887,069</b>
<b>Net book value</b>						
<b>Balance at 1 January 2015</b>	<b>9,971,338</b>	<b>4,640,540</b>	<b>47,988,858</b>	<b>14,074,723</b>	<b>4,542,748</b>	<b>81,218,207</b>
<b>Balance at 31 December 2015</b>	<b>12,582,774</b>	<b>6,074,645</b>	<b>62,557,474</b>	<b>19,236,806</b>	<b>3,564,759</b>	<b>104,016,458</b>
<b>Cost</b>						
<b>Balance at 1 January 2014</b>	<b>4,959,072</b>	<b>3,802,799</b>	<b>36,612,066</b>	<b>13,836,780</b>	<b>3,747,966</b>	<b>62,958,683</b>
Additions	674,215	148,758	2,299,843	38,668	29,662,056	32,823,540
Transfers from construction in progress	3,804,904	1,537,257	15,718,418	7,758,373	(28,818,952)	-
Transfers from leasehold rights	534,591	-	-	-	-	534,591
Disposals	(1,444)	-	(20,052)	(302,091)	(48,322)	(371,909)
<b>Balance at 31 December 2014</b>	<b>9,971,338</b>	<b>5,488,814</b>	<b>54,610,275</b>	<b>21,331,730</b>	<b>4,542,748</b>	<b>95,944,905</b>
<b>Accumulated depreciation and impairment</b>						
<b>Balance at 1 January 2014</b>	-	715,616	5,300,628	5,555,663	-	11,571,907
Charge for the year	-	132,658	1,329,571	1,958,317	-	3,420,546
Disposals	-	-	(8,782)	(256,973)	-	(265,755)
<b>Balance at 31 December 2014</b>	-	<b>848,274</b>	<b>6,621,417</b>	<b>7,257,007</b>	-	<b>14,726,698</b>
<b>Net book value</b>						
<b>Balance at 1 January 2014</b>	<b>4,959,072</b>	<b>3,087,183</b>	<b>31,311,438</b>	<b>8,281,117</b>	<b>3,747,966</b>	<b>51,386,776</b>
<b>Balance at 31 December 2014</b>	<b>9,971,338</b>	<b>4,640,540</b>	<b>47,988,858</b>	<b>14,074,723</b>	<b>4,542,748</b>	<b>81,218,207</b>

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 8. Property, plant and equipment (continued)

Land and buildings with a carrying amount of RUB 3,956,848 thousand (31 December 2014: RUB 26,015,987 thousand) are pledged under secured loan agreements (see Note 20).

During the year ended 31 December 2015 and year ended 31 December 2014 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2015 was RUB 37,532 thousand (31 December 2014: RUB 50,091 thousand). Leased assets are pledged as security for the related finance lease. Additions during the year ended 31 December 2015 include no property, plant and equipment under finance leases.

#### Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2015 and year ended 31 December 2014 is presented within depreciation and amortization in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Depreciation of property, plant and equipment (Note 8)	5,360,715	3,420,546
Amortization of intangible assets (Note 11)	257,940	171,154
Leasehold rights amortization (Note 10)	67,609	67,253
<b>Total depreciation and amortization</b>	<b>5,686,264</b>	<b>3,658,953</b>

See Note 28 for capital commitments.

#### 9. Prepayments for construction

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 10. Leasehold rights

Leasehold rights as at 31 December 2015 consisted of the following:

	<u>Leasehold rights</u>
<b>Cost</b>	
<b>At 1 January 2015</b>	<b>3,486,162</b>
Additions	557,827
Disposals	(63,559)
Transfer to PPE	(724,775)
<b>At 31 December 2015</b>	<b>3,255,655</b>
<b>Accumulated amortization and impairment</b>	
<b>At 1 January 2015</b>	<b>214,618</b>
Charge for the year	67,609
Disposals	(4,324)
Transfer to PPE	(69,416)
<b>At 31 December 2015</b>	<b>208,487</b>
<b>Net book value</b>	
<b>At 1 January 2015</b>	<b>3,271,544</b>
<b>At 31 December 2015</b>	<b>3,047,168</b>

Leasehold rights as at 31 December 2014 consisted of the following:

	<u>Leasehold rights</u>
<b>Cost</b>	
<b>At 1 January 2014</b>	<b>2,956,519</b>
Additions	1,101,724
Transfer to PPE	(572,081)
<b>At 31 December 2014</b>	<b>3,486,162</b>
<b>Accumulated amortization and impairment</b>	
<b>At 1 January 2014</b>	<b>184,855</b>
Charge for the year	67,253
Transfer to PPE	(37,490)
<b>At 31 December 2014</b>	<b>214,618</b>
<b>Net book value</b>	
<b>At 1 January 2014</b>	<b>2,771,664</b>
<b>At 31 December 2014</b>	<b>3,271,544</b>

Amortization expense is included in selling, general and administrative expenses (Note 25).

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 11. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2015 consisted of the following:

	<u>Software</u>	<u>Trade marks</u>	<u>Total</u>
<b>Cost</b>			
<b>At 1 January 2015</b>	<b>1,603,385</b>	<b>549</b>	<b>1,603,934</b>
Additions	486,224	-	486,224
Disposals	(10,922)	-	(10,922)
<b>At 31 December 2015</b>	<b>2,078,687</b>	<b>549</b>	<b>2,079,236</b>
<b>Accumulated amortization</b>			
<b>At 1 January 2015</b>	<b>732,870</b>	<b>533</b>	<b>733,403</b>
Amortization for the period	257,924	16	257,940
Disposals	(4,436)	-	(4,436)
<b>At 31 December 2015</b>	<b>986,358</b>	<b>549</b>	<b>986,907</b>
<b>Net book value</b>			
<b>At 1 January 2015</b>	<b>870,515</b>	<b>16</b>	<b>870,531</b>
<b>At 31 December 2015</b>	<b>1,092,329</b>	<b>-</b>	<b>1,092,329</b>

Intangible assets other than leasehold rights as at 31 December 2014 consisted of the following:

	<u>Software</u>	<u>Trade marks</u>	<u>Total</u>
<b>Cost</b>			
<b>At 1 January 2014</b>	<b>1,184,858</b>	<b>549</b>	<b>1,185,407</b>
Additions	419,367	-	419,367
Disposals	(840)	-	(840)
<b>At 31 December 2014</b>	<b>1,603,385</b>	<b>549</b>	<b>1,603,934</b>
<b>Accumulated amortization</b>			
<b>At 1 January 2014</b>	<b>561,738</b>	<b>511</b>	<b>562,249</b>
Amortization for the period	171,132	22	171,154
<b>At 31 December 2014</b>	<b>732,870</b>	<b>533</b>	<b>733,403</b>
<b>Net book value</b>			
<b>At 1 January 2014</b>	<b>623,120</b>	<b>38</b>	<b>623,158</b>
<b>At 31 December 2014</b>	<b>870,515</b>	<b>16</b>	<b>870,531</b>

Amortization expense is included in selling, general and administrative expenses (Note 25).



## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 12. Inventories

	<b>31 December 2015</b>	<b>31 December 2014</b>
Goods for resale	21,809,738	18,729,075
Raw materials	971,994	900,306
<b>Total inventories</b>	<b>22,781,732</b>	<b>19,629,381</b>

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

During the reporting period the Group accounted for reversal of write down of inventories to their net realizable value, which resulted in recognition of reversal of expenses within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 in the amount of RUB 38,710 thousand. During the year ended 31 December 2014 the Group wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the amount of RUB 255,357 thousand.

#### 13. Trade and other receivables

	<b>31 December 2015</b>	<b>31 December 2014</b>
Accounts receivable on rental and other services and on suppliers' advertising	9,727,574	7,857,515
Suppliers' rebates receivable	3,643,232	3,333,612
Other receivables	307,105	190,874
Bad debt allowance	(31,017)	(10,753)
<b>Total trade and other receivables</b>	<b>13,646,894</b>	<b>11,371,248</b>

Receivables are due normally within 25 days according to the terms of standard contracts. Outstanding receivables are regularly monitored. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Usually for receivables over 365 days the allowance for doubtful debts is 100%, unless there are strong indications from the nature of the agreement underlying the debt that no allowance is needed as the long term of the receivable is in line with the agreement. Allowances for doubtful debts are recognized against receivables of under 365 days based on estimated irrecoverable amounts determined by reference to past default experience of each particular counterparty and an analysis of the counterparty's current financial position.

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 13. Trade and other receivables (continued)

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2015:

	<b>0-60 days overdue</b>	<b>60-120 days overdue</b>	<b>120-365 days overdue</b>	<b>Neither past due nor impaired</b>	<b>Total</b>
Suppliers' volume rebates receivable	87,469	8,326	30,827	3,513,960	<b>3,640,582</b>
Accounts receivable on rental and other services	1,206,134	45,621	43,801	8,406,211	<b>9,701,767</b>
Other receivables	80,450	4,157	1,376	218,562	<b>304,545</b>
<b>Total</b>	<b>1,374,053</b>	<b>58,104</b>	<b>76,004</b>	<b>12,138,733</b>	<b>13,646,894</b>

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2014:

	<b>0-60 days overdue</b>	<b>60-120 days overdue</b>	<b>120-365 days overdue</b>	<b>Neither past due nor impaired</b>	<b>Total</b>
Suppliers' volume rebates receivable	120,015	13,431	11,185	3,186,987	<b>3,331,618</b>
Accounts receivable on rental and other services	1,092,350	93,732	35,057	6,627,620	<b>7,848,759</b>
Other receivables	68,035	1,777	88	120,971	<b>190,871</b>
<b>Total</b>	<b>1,280,400</b>	<b>108,940</b>	<b>46,330</b>	<b>9,935,578</b>	<b>11,371,248</b>

#### 14. Advances paid

	<b>31 December 2015</b>	<b>31 December 2014</b>
Advances to suppliers of goods	788,124	821,958
Advances for services	1,066,570	1,607,285
Guarantee payments under lease contracts	410,217	321,483
<b>Total advances paid</b>	<b>2,264,911</b>	<b>2,750,726</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 15. Taxes recoverable

Taxes recoverable as at 31 December 2015 are represented by a VAT receivable of RUB 417,114 thousand (31 December 2014: RUB 1,847,669 thousand) and input VAT that has not yet been claimed for reimbursement from tax authorities of RUB 840,650 thousand (31 December 2014: RUB 568,936 thousand).

#### 16. Cash and cash equivalents

	<u>31 December 2015</u>	<u>31 December 2014</u>
Ruble short-term deposits	16,612,228	8,954,088
Ruble denominated cash in transit	2,258,241	1,802,739
Ruble denominated cash on hand and balances with banks	3,556,009	1,258,676
Foreign currency denominated cash on hand and balances with banks	<u>29,467</u>	<u>20,282</u>
<b>Total cash and cash equivalents</b>	<b><u>22,455,945</u></b>	<b><u>12,035,785</u></b>

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

Significant ruble denominated cash in transit result from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on non-banking days, the amount of cash in transit increases.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

#### 17. Issued capital and reserves

##### Issued capital

As at 31 December 2015 the Company's share capital was comprised of 97,318,746 authorized and issued ordinary shares (as at 31 December 2014: 86,053,394) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the year ended 31 December 2015 and for the year ended 31 December 2014.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 17. Issued capital and reserves (continued)

##### Issued capital (continued)

The movements in the number of shares the year ended 31 December 2015 and for the year ended 31 December 2014 were as follows.

	<b>31 December 2015 No.</b>	<b>31 December 2014 No.</b>
Authorized share capital (ordinary shares with no par value)	unlimited	unlimited
Issued and fully paid (no par value)	97,318,746	86,053,394
	<b>31 December 2015 No.</b>	<b>31 December 2014 No.</b>
<b>Balance of shares outstanding at beginning of financial year</b>	<b>86,053,394</b>	<b>86,052,995</b>
Additional issue of shares	11,265,352	399
<b>Balance of shares outstanding at the end of financial year</b>	<b>97,318,746</b>	<b>86,053,394</b>

In year 2015 11,265,352 ordinary shares were issued by the Group for a cash consideration of RUB 21,788,593 thousand net of directly attributable issuance costs. The whole amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

During 2014 year 399 ordinary shares were issued by the Group within the share-based payment scheme.

##### Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 27 for further details of these plans.

##### Hedging reserve

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

#### 18. Components of other comprehensive income (OCI)

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
<b>Cash flow hedges</b>		
Reclassification during the year to profit or loss	(1,800,556)	(108,492)
Related tax effect	360,111	21,698
(Loss)/gain arising during the year	(525,963)	3,394,512
Related tax effect	105,193	(678,902)
<b>Net (loss)/gain during the year, net of tax</b>	<b>(1,861,215)</b>	<b>2,628,816</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 19. Earnings per share

	Year ended 31 December 2015	Year ended 31 December 2014
Earnings per share (in thousands of Russian rubles per share) - basic and diluted, for profit for the period attributable to equity holders of the parent	0.112	0.105

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2015: RUB 10,288,093 thousand for the year ended 31 December 2014: RUB 9,075,107 thousand) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2015	Year ended 31 December 2014
<b>Number of issued shares at the beginning of period</b>	<b>86,053,394</b>	<b>86,052,995</b>
Number of shares issued in October 2015	4,225,352	-
Number of shares issued in March 2015	7,040,000	-
Number of shares issued in April 2014	-	399
<b>Number of shares at the end of reporting period</b>	<b>97,318,746</b>	<b>86,053,394</b>
Weighted average number of shares	92,252,707	86,053,244

The Group has issued share-based payments (Note 27) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material effect on dilution of earnings per share for the periods presented.

#### 20. Borrowings

Short-term borrowings:

	Currency	31 December 2015	31 December 2014
Fixed rate bonds (liability for interests)	RUB	760,097	317,351
Fixed rate long-term bank loans (liability for interests)	RUB	30,138	30,069
Floating rate long-term bank loans (liability for interests)	RUB	14,575	33,128
Short-term portion of fixed rate long-term bank loans	RUB	-	5,798,205
Fixed rate short-term bank loans	RUB	-	6,516,669
Fixed rate bonds	RUB	9,968,467	-
<b>Total short-term borrowings and short- term portion of long-term borrowings</b>		<b>10,773,277</b>	<b>12,695,422</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 20. Borrowings (continued)

Long-term borrowings:

	<u>Currency</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Fixed rate bonds	RUB	9,973,156	9,962,655
Fixed rate long-term bank loans	RUB	9,951,940	9,915,884
Floating rate long-term bank loans	RUB	45,224,001	38,641,409
<b>Total long-term borrowings</b>		<b><u>65,149,097</u></b>	<b><u>58,519,948</u></b>

The Groups' borrowings as at 31 December 2015 and 31 December 2014 are denominated in Russian rubles.

In March 2015 the Group signed revolving credit line of RUB 15,000,000 thousand with VTB Bank OJSC. The credit line has covenants with respect to the Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 25 June 2015 the Group entered into 7 year loan agreement of RUB 37,300,000 thousand with VTB Bank OJSC. At the reporting date the Group drew down RUB 30,000,000 thousand, these funds were utilized on early prepayment of loan from VTB Capital Plc. The loan has covenants with respect to the Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 6 August 2015 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralized storage was completed in the amount of RUB 5,000,000 thousand with a nominal value of RUB 1 thousand each, a 12.4% coupon rate, 3,640 days to maturity and put option right on early redemption after 2.5 years.

On 10 September 2015 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralized storage was completed in the amount of RUB 5,000,000 thousand with a nominal value of RUB 1 thousand each, a 12.4% coupon rate, 3,640 days to maturity and put option right on early redemption after 3 years.

The funds raised from the issue of the bonds are used on business expansion.

On 21 September 2015 the Group entered into revolving credit line of RUB 3,500,000 thousand with Bank Saint-Petersburg OJSC.

On 23 October 2015 the Group signed revolving credit line of RUB 5,000,000 thousand with Russian Agricultural Bank. The credit line has covenants with respect to the Net debt / EBITDA, EBITDA / Net interest expense ratios and net assets.

During the year ended 31 December 2015 the Group received RUB 44,200,000 thousand under credit agreements concluded before 1 January 2015 and repaid RUB 79,515,000 thousand.

As at 31 December 2015 the Group had RUB 45,300,000 thousand of unused credit facilities (as at 31 December 2014: RUB 36,260,000 thousand).

As at 31 December 2015 the Group was in compliance with all financial covenants of loan agreements.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 21. Income taxes

The Group's income tax expense for the year ended 31 December 2015 and 31 December 2014 is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense	632,900	948,213
Deferred tax expense	1,944,919	1,408,690
Adjustments in respect of current income tax of previous year	6,191	(504,362)
<b>Income tax expense recognized in profit for the year</b>	<b>2,584,010</b>	<b>1,852,541</b>
	Year ended 31 December 2015	Year ended 31 December 2014
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	(465,304)	657,204
<b>Income tax (benefit)/expense recognized in OCI</b>	<b>(465,304)</b>	<b>657,204</b>
	Year ended 31 December 2015	Year ended 31 December 2014
<b>Profit before tax</b>	<b>12,872,103</b>	<b>10,927,648</b>
<b>Theoretical tax charge at 20%</b>	<b>(2,574,421)</b>	<b>(2,185,530)</b>
Difference in tax rates for foreign companies	157,125	(49,202)
Add tax effect of non-deductible expenses	(160,523)	(122,171)
- share option expenses	(36,825)	(22,359)
- others	(123,698)	(99,812)
Adjustments in respect of current income tax of previous years	(6,191)	504,362
<b>Income tax expense</b>	<b>2,584,010</b>	<b>1,852,541</b>

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.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 21. Income taxes (continued)

In 2014 the Company re-submitted income tax declarations for 2011-2013 years and deducted expenses on stock losses in full that resulted in recognition of an adjustment in respect of current income tax related to previous years.

	1 January 2015	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehen- sive income	31 December 2015
<b>Tax effect of (taxable)/deductible temporary differences</b>				
Property, plant and equipment	(3,241,091)	(1,875,521)	-	(5,116,612)
Leasehold rights	(450,356)	21,911	-	(428,445)
Unused vacation and employee bonuses accrual	144,820	112,389	-	257,209
Suppliers' bonuses	(157,358)	86,625	-	(70,733)
Borrowings	(79,040)	(115,291)	-	(194,331)
Intangible assets other than leasehold rights	(17,386)	(3,383)	-	(20,769)
Inventory	586,189	(171,014)	-	415,175
Bad debt allowance	13,236	34,823	-	48,059
Finance leasing	6,947	(3,529)	-	3,418
Consulting and other accruals	46,769	19,151	-	65,920
Customs duty payable	30,677	6,941	-	37,618
Cash flow hedging instruments	(634,903)	(58,007)	465,304	(227,606)
Other	1,307	(14)	-	1,293
<b>Total deferred tax (liabilities)/assets</b>	<b>(3,750,189)</b>	<b>(1,944,919)</b>	<b>465,304</b>	<b>(5,229,804)</b>



## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 21. Income taxes (continued)

	1 January 2014	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehen- sive income	31 December 2014
<b>Tax effect of (taxable)/deductible temporary differences</b>				
Property, plant and equipment	(1,821,403)	(1,419,688)	-	(3,241,091)
Leasehold rights	(324,476)	(125,880)	-	(450,356)
Unused vacation and employee bonuses accrual	113,970	30,850	-	144,820
Suppliers' bonuses	(249,097)	91,739	-	(157,358)
Borrowings	(84,661)	5,621	-	(79,040)
Intangible assets other than leasehold rights	(6,150)	(11,236)	-	(17,386)
Inventory	516,753	69,436	-	586,189
Bad debt allowance	10,535	2,701	-	13,236
Finance leasing	10,627	(3,680)	-	6,947
Consulting and other accruals	98,954	(52,185)	-	46,769
Customs duty payable	30,677	-	-	30,677
Cash flow hedging instruments	18,404	3,897	(657,204)	(634,903)
Other	1,572	(265)	-	1,307
<b>Total deferred tax (liabilities)/assets</b>	<b>(1,684,295)</b>	<b>(1,408,690)</b>	<b>(657,204)</b>	<b>(3,750,189)</b>

The temporary taxable differences associated with undistributed earnings of subsidiaries amount to RUB 54,229,761 thousand and RUB 27,207,916 thousand as of 31 December 2015 and 2014, respectively. A deferred tax liability on these temporary differences was not recognized, because management believed that it was in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

#### 22. Trade and other payables

	31 December 2015	31 December 2014
Trade payables	42,002,004	41,081,087
Accrued liabilities and other creditors	3,586,669	3,138,048
Payables for purchases of property, plant and equipment	3,231,534	4,154,254
<b>Total trade and other payables</b>	<b>48,820,207</b>	<b>48,373,389</b>

The trade and other payables were denominated in:

	31 December 2015	31 December 2014
Russian rubles	48,601,870	48,171,738
USD	122,582	137,556
EUR	94,991	60,848
GBP	764	3,247
<b>Total trade and other payables</b>	<b>48,820,207</b>	<b>48,373,389</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 23. Other taxes payable

	<b>31 December 2015</b>	<b>31 December 2014</b>
Social taxes	490,231	332,956
Property tax	270,774	241,299
Personal income tax	134,089	120,691
Other taxes	31,990	203,232
<b>Total other taxes payable</b>	<b>927,084</b>	<b>898,178</b>

#### 24. Cost of sales

Cost of sales for the years ended 31 December 2015 and 31 December 2014 consisted of the following:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014 (reclassified)</b>
Cost of goods sold	167,408,885	126,742,396
Cost of own production	21,710,294	17,048,666
Supply chain cost	3,185,448	3,136,580
Losses due to inventory shortages and write down to net realisable value	4,153,283	3,324,324
<b>Total cost of sales</b>	<b>196,457,910</b>	<b>150,251,966</b>

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

The cost of own production consisted of the following:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Raw materials	17,925,511	13,880,282
Labour costs	2,947,684	2,533,421
Utilities	752,180	576,911
Repairs and maintenance	84,919	58,052
<b>Total cost of own production</b>	<b>21,710,294</b>	<b>17,048,666</b>

Cost of sales for the year ended 31 December 2015 included employee benefits expense of RUB 4,092,406 thousand (year ended 31 December 2014: RUB 3,465,640 thousand) of which contributions to state pension fund comprised RUB 609,388 thousand (year ended 31 December 2014: RUB 530,316 thousand).

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 25. Selling, general and administrative expenses

	Year ended 31 December 2015	Year ended 31 December 2014 (reclassified)
Employee benefits	14,558,823	11,988,045
Depreciation and amortization (Note 8, 10, 11)	5,671,219	3,658,951
Premises lease	2,349,035	1,103,157
Advertising	2,313,536	1,971,926
Utilities and communal payments	1,964,640	1,360,833
Professional fees	1,822,108	2,001,603
Cleaning	1,432,304	1,136,447
Repairs and maintenance	1,264,894	896,847
Taxes other than income tax	1,096,846	907,981
Security services	973,180	793,401
Land and equipment lease	323,045	306,302
Pre-opening costs	640,596	663,063
Other	1,634,545	1,197,051
<b>Total selling, general and administrative expenses</b>	<b>36,044,771</b>	<b>27,985,607</b>

From 1 January 2015 the Group presents expenses on IT consumables and compensations for operational cost under premises lease agreements as other expenses within selling, general and administrative expenses. Comparative amounts disclosed for the year 2014 as repairs and maintenance expenses were respectively adjusted in the amount of RUB 267,387 thousands.

Employee benefits for the year ended 31 December 2015 included contributions to state pension fund of RUB 1,844,088 thousand (year ended 31 December 2014: RUB 1,572,217 thousand).

Pre-opening costs for the year ended 31 December 2015 included employee benefits of RUB 360,904 thousand (year ended 31 December 2015: RUB 415,108 thousand) of which contributions to state pension fund comprised RUB 39,742 thousand (year ended 31 December 2014: RUB 49,391 thousand).

Pre-opening costs for the year ended 31 December 2015 included depreciation expense of RUB 15,045 thousand (for the year ended 31 December 2014: RUB 2 thousand).

#### 26. Other operating income and expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Penalties due by suppliers	904,528	789,557
Rental income	752,755	482,455
Income from IPO	-	420,111
Advertising income	422,002	387,297
Gain on property, plant and equipment disposal	62,250	1,801
Sale of secondary materials	295,743	125,433
Other	147,032	60,476
<b>Total other operating income</b>	<b>2,584,310</b>	<b>2,267,130</b>

IPO income is represented by the Group's share of stabilization profit made by the Stabilizing Manager on buying back shares subject to overallotment option and a one off payment to the Group as an income share in Depositary's fees charged to GDR holders.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 26. Other operating income and expenses (continued)

Other operating expenses comprised of the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Loss from fixed assets and leasehold rights disposal	181,567	96,345
Change in bad debt allowance	194,665	15,073
Penalties from government authorities	65,351	7,725
Penalties for breach of a contracts with suppliers	1,311	185,437
Other	69,639	54,013
<b>Total other operating expenses</b>	<b>512,533</b>	<b>358,593</b>

#### 27. Share-based payments

##### Share value appreciation rights

During the 2014 year the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Ltd based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

##### Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, SVARs during the year:

	2015 Number	2015 WAEP	2014 Number	2014 WAEP
<b>Outstanding at 1 January</b>	<b>594,211</b>	<b>49.84 USD</b>	<b>742,765</b>	<b>49.84 USD</b>
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(123,975)	49.84 USD
Expired during the year	-	-	(24,579)	49.84 USD
<b>Outstanding at 31 December</b>	<b>594,211</b>	<b>1,516 RUB</b>	<b>594,211</b>	<b>49.84 USD</b>
Exercisable at 31 December	-	-	-	-

During the year 2014 the Group issued 399 shares with respect to SVARs that were exercised during the period and credited additional paid-in capital with the amount of RUB 20,400 thousand.

With respect to vested 24,579 SVARs that expired during the period ended 31 December 2014 the Group transferred amount of RUB 3,013 thousand from share options reserve to retained earnings.

In March 2015 modifications to the SVARs were agreed including deferral of exercise date of SVARs that are to be vested in April 2015 by one year. In consequence of modification weighted average fair value of options granted increased up to RUB 0.40 thousand.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 27. Share-based payments (continued)

##### Movements during the year (continued)

On 17 July 2015 the Remuneration Committee of Lenta Ltd agreed on certain changes in the management long-term incentive plan, which is based on Share Value Appreciation Rights. Whereas the plan has been set up using financial parameters denominated in USD, all financial parameters are now changed into Russian rubles using the exchange rate on the date of the grant (1 April 2013). As a result, the Exercise price for the remaining outstanding options will be changed from USD 49.84 to 1,516 Russian rubles per share. The vesting schedule has been revised and fixed, as a result of which the remaining 80% of the initial grant will now vest in 2 stages: 30% on 1 April 2017 and the remaining 50% on 1 April 2018. In consequence of modification weighted average fair value of options granted increased up to RUB 0.86 thousand.

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2015 was 2.3 years (31 December 2014: 3.3 years).

The exercise price for options outstanding as at 31 December 2015 was RUB 1,516 thousand and as at 31 December 2014 was USD 49.84 (RUB 2.8 thousand).

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

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Expense arising from the equity-settled SVARs transaction	155,199	78,966

The fair value of the management SVARs is estimated at the grant date using the Black Scholes option pricing model, taking into account the terms and conditions upon which the SVARs were granted.

##### Long-term incentive plan

During the year 2014 the Group approved a long-term incentive plan (LTIP) to certain members of middle management (not including top management), whereunder the Company granted award shares on 1 April 2014 (Tranche 2014) and on 1 October 2015 (Tranche 2015) along with communication of the terms of award to participants.

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

To determine the number of ordinary shares subject to award the monetary amount of the award was divided by the Company's share price calculated based on the following:

- ▶ the price of GDR at IPO on LSE (10\$) translated to RUB using ex-change rate as at the date for offering, i.e. 27 February 2014 (Tranche 2014);
- ▶ the average price of GDR on LSE (6.6\$) for the 1<sup>st</sup> quarter 2015 translated to RUB using average ex-change rate (Tranche 2015).

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 27. Share-based payments (continued)

##### Long-term incentive plan (continued)

Under terms of Tranche 2014 the shares are to be released in phases:

- ▶ 1<sup>st</sup> 25% on the first anniversary of the award (1 April 2015);
- ▶ 2<sup>d</sup> 25% on the second anniversary of the award (1 April 2016);
- ▶ 50% on the third anniversary of the award (1 April 2017), provided that employment conditions are met.

With respect to the first phase no shares were issued in April 2015, the Group plans to release shares in the first half of 2016.

The vesting date of Tranche 2015 is 1 April 2018.

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

The expense recognized for the services received from the employees covered by long-term incentive plan during the year is shown in the following table:

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
Expense arising from the equity-settled long-term incentive plan payments	28,925	32,829

#### 28. Commitments

##### Capital expenditure commitments

At 31 December 2015 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 19,370,442 thousand (31 December 2014: RUB 12,709,553 thousand).

##### Operating lease commitments

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Not later than 1 year	3,786,074	2,800,096
Later than 1 year and not later than 5 years	14,664,366	10,356,566
Later than 5 years	33,247,702	27,394,299
<b>Total operating lease commitments</b>	<b><u>51,698,142</u></b>	<b><u>40,550,961</u></b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 29. Financial instruments

##### Categories of financial instruments

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Financial assets</b>		
Cash	22,455,945	12,035,785
Trade and other receivables	13,646,894	11,371,248
At fair value through OCI	794,464	2,735,177
<b>Financial liabilities</b>		
At fair value through OCI	124,128	28,357
<b>At amortised cost</b>		
Floating rate long-term borrowings	45,224,001	38,641,409
Fixed rate long-term borrowings	19,925,096	19,878,539
Fixed rate short-term borrowings and short-term portion of long-term borrowings	9,968,467	12,314,874
Short term liability for interests	804,810	380,548
Trade and other payables	47,058,158	46,979,088
Long-term obligations under finance leases	18,577	35,465
<b>Total financial liabilities at amortised cost</b>	<u><b>122,999,109</b></u>	<u><b>118,229,923</b></u>

##### Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures of fair value measurement hierarchy for financial assets and financial liabilities as at 31 December 2015:

	<u>31 December 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets measured at fair value</b>				
Cash flow hedging instruments	794,464	-	794,464	-
<b>Financial liabilities measured at fair value</b>				
Cash flow hedging instruments	124,128	-	124,128	-
<b>Financial liabilities for which fair values are disclosed</b>				
Fixed rate bonds	19,872,900	19,872,900	-	-
Floating rate borrowings	46,835,306	-	46,835,306	-
Fixed rate borrowings	9,449,769	-	9,449,769	-
Obligations under finance leases	18,577	-	18,577	-

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 29. Financial instruments (continued)

##### Fair values (continued)

	<u>31 December 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets measured at fair value</b>				
Cash flow hedging instruments	2,735,177	-	2,735,177	-
<b>Financial liabilities measured at fair value</b>				
Cash flow hedging instruments	28,357	-	28,357	-
<b>Financial liabilities for which fair values are disclosed</b>				
Fixed rate bonds	10,322,951	10,322,951	-	-
Floating rate borrowings	54,122,762	-	54,122,762	-
Fixed rate borrowings	21,310,270	-	21,310,270	-
Obligations under finance leases	35,465	-	35,465	-

During the year ending 31 December 2015, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	<u>31 December 2015</u>		<u>31 December 2014</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<b>Financial assets</b>				
Cash flow hedging instruments	794,464	794,464	2,735,177	2,735,177
<b>Financial liabilities</b>				
<b>Interest-bearing loans and borrowings</b>				
Obligations under finance leases	18,577	18,577	35,465	35,465
Floating rate borrowings	45,224,001	46,835,306	38,641,409	54,122,762
Fixed rate borrowings	29,893,563	29,322,669	32,193,413	31,633,221
<b>Derivative liabilities</b>				
Cash flow hedging instruments	124,128	124,128	28,357	28,357
<b>Total financial liabilities</b>	<u>75,260,269</u>	<u>76,300,680</u>	<u>70,898,644</u>	<u>85,819,805</u>

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.



## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 29. Financial instruments (continued)

##### Fair values (continued)

The following methods and assumptions were used to estimate the fair values:

- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.
- ▶ The fair value of bonds is based on the price quotations at the reporting date at Moscow exchange where transactions with bonds take place with sufficient frequency and volume.
- ▶ The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 31 December 2015 and 31 December 2014, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

#### 30. Hedge and hedging instruments

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate. Caps provide security for 4 quarters during the full periods of the agreement, so the termination date would be the earlier of the expiry date or the fourth settlement date for the floating amounts paid by VTB to the Group.

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

Type of instrument	Notional amount 2015	Notional amount 2014	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	–	6,250,000	7.33%	n/a	30 September 2011	31 March 2015
Interest rate swap	–	3,000,000	8.00%	n/a	30 September 2011	31 March 2015
Interest rate swap	–	3,250,000	8.15%	n/a	30 September 2011	31 March 2015
Interest rate swap	12,500,000	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate swap	1,000,000	1,000,000	15.35%	n/a	31 December 2014	31 December 2016
Interest rate cap	10,000,000	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	900,000	12.00%	0.45%	31 December 2013	12 November 2018

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 30. Hedge and hedging instruments (continued)

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Non-current asset	355,414	765,257
Current assets	439,050	1,969,920
Non-current liability	(24,564)	(28,357)
Current liability	(99,564)	-
<b>Net derivative asset</b>	<b>670,336</b>	<b>2,706,820</b>

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Swaps	755,481	2,154,537
Caps	(85,145)	552,283
<b>Net derivative asset</b>	<b>670,336</b>	<b>2,706,820</b>

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

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

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

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
<b>Profit or loss</b>		
Ineffective portion of the change in the fair value of cash flow hedging instruments	6,308	(19,488)
Reclassification from hedge reserve into interest expense	1,800,556	108,492
	<b>1,806,864</b>	<b>89,004</b>
<b>Other comprehensive income</b>		
Effective portion of the change in the fair value of cash flow hedging instruments	(525,963)	3,394,512
Reclassification from hedge reserve into interest expense	(1,800,556)	(108,492)
	<b>(2,326,519)</b>	<b>3,286,020</b>

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 31. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialists that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

##### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, cash equivalents and derivative financial instruments.

##### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

During the year ended 31 December 2015 and year ended 31 December 2014, the Group did not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

At 31 December 2015 and at 31 December 2014 there were no significant amounts in foreign currencies.

Whenever possible, the Group tries to mitigate the exposure to foreign currency risk by matching the statement of financial position, and revenue and expense items in the relevant currency.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 31. Financial risk management (continued)

##### 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.

	<u>Change in USD rate</u>	<u>Effect on profit before tax</u>
Year ended 2015	40.00%	(49,033)
	-13.00%	15,936
Year ended 2014	28.54%	(39,259)
	-28.54%	39,259

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant.

	<u>Change in EUR rate</u>	<u>Effect on profit before tax</u>
Year ended 2015	43.00%	(40,846)
	-15.00%	14,249
Year ended 2014	29.58%	(17,999)
	-29.58%	17,999

Foreign currency exchange rate reasonable possible change range was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is derived from statistical data, in particular time series analysis.

##### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2015 these obligations are represented with long-term borrowing (Note 20), which bears interest of MosPrime 1-3m plus margin. In order to hedge the risk of rising MosPrime interest rate, the Group entered into interest rate swaps and caps (Note 30).

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 31. Financial risk management (continued)

##### Interest rate sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in MosPrime rates, on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and OCI are affected through the impact on floating rate borrowings, as follows:

	Profit or loss		OCI	
	600 bp increase	500 bp decrease	600 bp increase	500 bp decrease
<b>2015</b>				
Variable rate instruments	(2,647,200)	2,647,200	-	-
Interest rate swaps and caps	1,519,500	(855,009)	1,761,327	(1,358,130)
<b>Cash flow sensitivity (net)</b>	<b>(1,127,700)</b>	<b>1,792,191</b>	<b>1,761,327</b>	<b>(1,358,130)</b>

	Profit or loss		OCI	
	932 bp increase	932 bp decrease	932 bp increase	932 bp decrease
<b>2014</b>				
Variable rate instruments	(3,122,160)	3,122,160	-	-
Interest rate swaps and caps	1,948,129	(629,572)	3,801,430	(4,020,129)
<b>Cash flow sensitivity (net)</b>	<b>(1,174,031)</b>	<b>2,492,588</b>	<b>3,801,430</b>	<b>(4,020,129)</b>

The range of reasonable possible changes in MosPrime rate was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is based on risk metrics that are derived from statistical data, in particular time series analysis.

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2015 all of the Group's borrowings were denominated in Russian rubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 30 of these financial statements. The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 2015 was as follows:

	<b>31 December 2015</b>
Total floating rate borrowings (gross of direct issue costs)	46,054,240
Less notional amount of interest rate financial instruments (Note 30)	(25,300,000)
<b>Net exposure to interest rate fluctuations</b>	<b>20,754,240</b>
% of floating rate borrowings exposed to interest rate fluctuations	45%

### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

#### **31. Financial risk management (continued)**

##### **Credit risk**

Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables.

In determining the recoverability of receivables the Group performs a risk analysis considering the credit quality of the counterparty, the ageing of the outstanding amount and any past default experience.

##### **Trade receivables**

The Group has no significant concentrations of credit risk. Concentration of credit risk with respect to receivables is limited due to the Company's customer and vendor base being large and unrelated. Credit is only extended to counterparties subject to strict approval procedures. The Group trades only with recognized, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards.

##### **Cash and cash equivalents**

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 22,317,167 thousand (31 December 2014: RUB 11,927,252 thousand).

##### **Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cash flows, so that it can determine its funding needs.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 31. Financial risk management (continued)

##### Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015, 31 December 2014 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MosPrime index) existing at the reporting date:

31 December 2015

	<u>Less than 12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Borrowings	19,945,156	72,189,546	15,328,782	<b>107,463,484</b>
Trade and other payables	47,058,158	-	-	<b>47,058,158</b>
Amounts payable under swaps and caps	100,216	74,344	-	<b>174,560</b>
Finance leasing	19,850	-	-	<b>19,850</b>
<b>Total</b>	<b><u>67,123,380</u></b>	<b><u>72,263,890</u></b>	<b><u>15,328,782</u></b>	<b><u>154,716,052</u></b>

31 December 2014

	<u>Less than 12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Borrowings	26,241,580	85,765,949	3,697,212	<b>115,704,741</b>
Trade and other payables	46,979,088	-	-	<b>46,979,088</b>
Amounts payable under swaps and caps	-	30,753	-	<b>30,753</b>
Finance leasing	21,136	19,850	-	<b>40,986</b>
<b>Total</b>	<b><u>73,241,804</u></b>	<b><u>85,816,552</u></b>	<b><u>3,697,212</u></b>	<b><u>162,755,568</u></b>

##### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. The Group is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt, requirements to diversification of funding sources. Dividends are to be declared based on the capital requirements of the business and with reference to continuing compliance with the financial policy.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, obligations under finance leases less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)

#### 31. Financial risk management (continued)

##### Capital management (continued)

Net debt of the Group is comprised of the following:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Borrowings	75,922,374	71,215,370
Obligations under finance leases	18,577	35,465
Cash and cash equivalents (Note 16)	(22,455,945)	(12,035,785)
<b>Net debt</b>	<b>53,485,006</b>	<b>59,215,050</b>

Net debt is a non-IFRS indicator and, therefore, its calculation may differ between companies, however it is one of the key indicators that are commonly used by investors and other users of financial statements in order to evaluate financial condition of the Group.

#### 32. Contingencies

##### Operating environment of the Group

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

By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's Security* signed on 6 August 2014 and Executive Order of the President of Russia *On Prolongation of Special Economic Measures to Protect the Russian Federation's Security* signed on 24 June 2015 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's and Russian citizens Security from the criminal and other illegal actions and the application of special economic measures against Turkey* signed on 28 November 2015 it was prohibited to import into the territory of the Russian Federation certain products from Turkey. The following countries are under embargo: EU countries, USA, Australia, Canada, Norway and Turkey. A specific list of goods in respect of which the restrictions are imposed was determined by the Russian Government. The list includes meat and dairy products, fish, vegetables, fruits, nuts and some other products. The Group's management believes that these measures do not have material impact on the Group's operation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.



## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2015 (in thousands of Russian rubles)**

#### **32. Contingencies (continued)**

##### **Operating environment of the Group (continued)**

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015.

The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

##### **Legal contingencies**

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 6,449 thousand as at 31 December 2015 (31 December 2014: RUB 1,841 thousand). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

##### **Russian Federation tax and regulatory environment**

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 126,793 thousand (31 December 2014: RUB 1,030,479 thousand). No tax provisions were recorded as at 31 December 2015 and 31 December 2014. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

##### **Land leases**

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2015 and 31 December 2014.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015  
(in thousands of Russian rubles)**

### **32. Contingencies (continued)**

#### **Environmental matters**

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

### **33. Events occurring after the reporting period**

On 27 January 2016 the Group received RUB 7,000,000 thousand under non-revolving credit line agreement of with PJSC Rosbank with maturity period of 3 years. The loan bears covenants with respect to Net debt / EBITDA and EBITDA / Net interest expense ratios.