LENTA PUBLISHES REVIEWED IFRS FINANCIAL RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2019

St. Petersburg, Russia; 28 August 2019 – Lenta Ltd ("Lenta" or the "Company"), one of the largest retail chains in Russia, today announces its reviewed consolidated IFRS results for the half year ending 30 June 2019.

1H 2019 Financial Highlights:

- Total sales grew 3.1% in 1H 2019 to Rub 199.2bn (1H 2018: Rub 193.2bn), including retail sales growth of 7.2% and wholesale decline of 62.2%;
- Gross margin of 22.5% (+0.6p.p vs. 1H 2018) increased as a share of low-margin wholesales business declined in total sales, while retail margin remained almost flat;
- SG&A rose to 19.1% of sales (+2.0p.p vs. 1H 2018) due to combined effects of the higher personnel cost, rent expenses, rise in depreciation, as well as increases in utility and communal costs;
- EBITDA of Rub 16.1bn, down 5.7% (1H 2018: Rub 17.1bn) with a margin of 8.1% (1H 2018: 8.9%);
- Non-cash expenses of c. Rub 10.2bn, including impairment of assets of approx. Rub 9.0bn and depreciation from change in useful life of land improvements of approx. Rub 1.2bn;
- Net interest expenses of Rub 4.7bn, an increase of 1.8% compared to 1H 2018 (Rub 4.6bn) as an increase in gross debt offset a decline in average cost of debt;
- Net Loss[1] of Rub 4.5bn with negative Net Profit margin of 2.2% compared to Net Profit of Rub 5.2bn in 1H 2018 with Net Profit margin of 2.7%;
- Net cash generated from operating activities, before net interest and income taxes paid, of Rub 6.1bn compared to Rub 5.1bn in 1H 2018 with an increase of 20.8% linked to movements in working capital;
- Capital expenditures of Rub 5.6bn, a decrease of 46.7% compared to 1H 2018 (Rub 10.5bn) due to slower pace of expansion;
- Net Debt of Rub 99.3bn as of 30 June 2019 vs. Rub 93.3bn as at the end of 2018; and
- Net Debt/EBITDA of 2.7x compared to 2.6x as at 31 December 2018.

1H 2019 Operational Highlights:

- Three new hypermarkets and one supermarket were opened during the first half of 2019 while one hypermarket and four supermarkets were closed;
- Total store count reached 377 stores at 30 June 2019, comprising 246 hypermarkets and 131 supermarkets;
- Total selling space increased to 1,472,937 sq.m as at 30 June 2019 (+5.0% vs. 30 June 2018);
- LFL retail sales growth[2] of 2.9% excluding VAT vs. 1H 2018. This is the equivalent of LFL retail sales growth of 3.7% including VAT, due to an increase in VAT from 1 January 2019;
- LFL average ticket increased by 0.7%;
- LFL traffic growth of 2.1%; and
- Number of active loyalty cardholders[3] increased to 15.2m (+13.5% y-o-y) with around 97% of transactions in the second quarter made using the loyalty card.

Events during and after the reported period:

- Severgroup LLC acquired a combined total of 78.73% of Lenta's issued and outstanding voting shares from TPG, EBRD and minority shareholders upon completion of the mandatory tender offer;
- The Board used its authority to fill the four vacated seats on the Board with the nominees of Severgroup;

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[1] *Net Loss equates to "(Loss)/Profit for the period" in the attached IFRS Financial Statements*

[2] *Lenta's stores are included in the LFL store base starting 12 months after the end of the month in which they are opened. The Company has not made any changes to the methodology of LFL calculation; both total sales growth and LFL sales growth are reported excluding VAT as the best measure to evaluate y-o-y performance*

[3] *Cardholders who made at least 2 purchases at Lenta during the 12 months to 30 June 2019 are considered active.*

- On 2nd August 2019 Maxim Bakhtin has resigned as non-executive director from Board of Directors of Lenta Ltd;
- The Board made a decision to appoint Tomas Korganas, Director for Strategy and M&A of Severgroup, as Lenta's Non-executive Director with an immediate effect; and
- The Company has received first tranche of Rub 0.5bn of insurance payment related to the fire accident in Lenta store in St. Petersburg in November 2018.

Lenta's **Chief Executive Officer, Herman Tinga** said:

"In the first half of the year Lenta again proved its competitive strength and ability to remain attractive for customers. We continued to see further inflows of new unique customers to our stores from other market players, both large federal and smaller regional retail chains. In addition, despite continued intense promotional activity across the industry, we were able to maintain our retail gross margins y-o-y. Against this, the macro and consumer environment remained challenging with further pressure on customer wallets, resulting in negative growth of real disposable household income and a growing consumer debt burden. This combined with fast growth of selling space in the industry and continuing price competition resulted in lower visit frequency and smaller basket size. I continue to believe that Lenta's leadership position in the hypermarket sector and its growing customer base provide a very strong platform which will be beneficial for us when the economic situation improves."

Lenta's **Chief Financial Officer, Rud Pedersen** commented:

"Lenta is entering a new period in its development, adapting to a challenging macroeconomic and competitive environment and taking into account the vision of our new strategic majority shareholder. After more than five years of being growth focused in an underpenetrated market, we have to change our focus to operating efficiencies across the entire business. As Lenta's store base mature while the potential for further organic expansion in our core hypermarket format becomes increasingly more difficult, we must put additional efforts into supporting LFL sales growth in our stores to create a strong platform for implementation of a new strategy".

Store Network Development and Performance Review

Lenta opened three hypermarkets and one supermarket during 1H 2019, while one hypermarket and four supermarkets were closed, taking the total number of hypermarkets to 246 and supermarkets to 131. The Company did not enter any new cities during the period and remained present in 88 cities[4] across the country. Total selling space as at 30 June 2019 increased to 1,472,937sq.m, up 5.0% year-on-year.

Since the end of the reported period Lenta closed one leased hypermarket in Novokuznetsk and three leased supermarkets[5], as a result of which total store count reached 245 hypermarkets and 129 supermarkets with selling space as at the date of this announcement at 1,467,974 sq.m.

In 1H 2019 the Company took a decision to run bottom-up store performance review to identify stores which have low potential to reach expected returns. As a result of this review the Company closed seven supermarkets and may close up to nine hypermarkets.

Hypermarkets:

- Two hypermarkets were closed since the beginning of the year;
- Further seven hypermarkets may be closed subject to rent negotiation;
- Total selling space of these seven stores is 33,011 sq.m, which represents 2.2% of total selling space and c. 1.2% of total sales in 2018;
- Total amount of impairment related to the above mentioned hypermarkets of around Rub 1.6bn is reflected in the financial statements for 1H 2019.

[4] According to Lenta's methodology for calculating number of cities of presence, since 1 May 2015 all cities located in Moscow City and the Moscow region are shown as Moscow, and all cities located in the Leningrad region and St. Petersburg are shown as St. Petersburg.

[5] Closed supermarkets were located in Moscow, St.Petersburg and Vladimir and represented a combined total of 2,015 sq.m. of selling space.

Supermarkets:

- Seven supermarkets were closed since the beginning of the year and there are no plans to make further closures in the format;
- Total selling space of these stores was 5,224 sq.m, which represented 0.4% of the Company's total selling space and 0.3% of total sales in 2018;
- Total amount of impairment related to the closure of the supermarkets is not material and is reflected in the financial statements for 1H 2019.

Operating Performance

YoY growth	**1Q 2019**	**2Q 2019**	**1H 2019**
Total sales	**6.0%**	**0.4%**	**3.1%**
Retail sales	*9.9%*	*4.7%*	*7.2%*
LFL retail sales (excl.VAT)	**5.0%**	**0.8%**	**2.9%**
LFL traffic	*3.8%*	*0.6%*	*2.1%*
LFL ticket	*1.2%*	*0.2%*	*0.7%*

Lenta's total retail sales in 1H 2019 increased 7.2% compared to 1H 2018 due to an increase in sales from new stores opened in 2019 and new stores opened in 2018 which are not yet part of the like-for-like panel, supported by 2.9% increase in like-for-like sales. Net selling space increased by 5.0% as of 30 June 2019 compared to 30 June 2018.

1H 2019 Financial Performance

	IAS 17			**IFRS 16**	
RUB (millions)	**1H 2018**	**1H 2019**	**% Change 1H 2019 – 1H 2018**	**IFRS 16 impact**	**1H 2019**
Total sales	**193,220**	**199,211**	**3.1%**	**-**	**199,211**
Gross profit	**42,319**	**44,855**	**6.0%**	**187**	**45,043**
Gross margin	*21.9%*	*22.5%*	*0.6p.p*	*0.1p.p*	*22.6%*
SG&A, % of sales	**17.1%**	**19.1%**	**2.0p.p**	**(0.3p.p)**	**18.8%**
Adjusted SG&A[6], % of sales	*12.6%*	*13.9%*	*1.3p.p*	*(0.0p.p)*	*13.9%*
EBITDAR[7]	**19,986**	**19,235**	**(3.8%)**	**187**	**19,422**
EBITDAR margin	*10.3%*	*9.7%*	*(0.7p.p)*	*0.1p.p*	*9.7%*
Rental expenses, % of sales	*1.5%*	*1.5%*	*0.0p.p*	*(1.2p.p)*	*0.3%*
EBITDA	**17,112**	**16,144**	**(5.7%)**	**2,680**	**18,824**
EBITDA margin	*8.9%*	*8.1%*	*(0.8p.p)*	*1.3p.p*	*9.4%*
Operating profit before impairment	**11,226**	**8,756**	**-22.0%**	**833**	**9,589**
Impairment	(200)	(9,005)	45.0x	-	(9,005)
Operating profit/(loss)	**11,027**	**(250)**	**(102.3%)**	**833**	**583**
Profit before income tax	6,354	(4,829)	(176.0%)	(470)	(5,299)
Net Profit	**5,161**	**(4,453)**	**(186.3%)**	**(376)**	**(4,829)**
Net profit margin	*2.7%*	*(2.2%)*	*(4.9p.p)*	*(0.2p.p)*	*(2.4%)*

[6] Adjusted SG&A is SG&A before rent paid on land, equipment and premises leases, depreciation
[7] EBITDAR is EBITDA before rent paid on land, equipment and premises leases

Gross profit margin increased to 22.5% from 21.9% in the first half of 2018. The positive effect primarily came from a substantial decline in a share of a low-margin wholesales business in the Company's total sales. Retail margin stood almost flat as an increase in promo share as % of sales in the first half of the year by 2.p.p. y-o-y was mostly compensated by a combined effect of better promo margin and better coverage of promo activities by suppliers.

Expansion of the Company's own production and increased volumes led to a rise in related costs by 46 bps. Share of shrinkage marginally increased by 6 bps as a result of ongoing changes in procurement (including increases in direct import operations and direct contracts with suppliers and farmers) and higher share of fresh food categories.

Supply-chain cost as % of sales rose by 17 bps to 1.3% in 1H 2019 vs 1.1% in 1H 2018. This was mainly driven by higher fuel prices and increased personnel expenses following an expansion of own truck fleet. Nonetheless higher transport costs were largely offset by an increase in the share of deliveries by own truck fleet, increase in supply-chain income and ongoing improvements in transportation efficiency. The Company's average centralization ratio increased to 60.5% from 55.6% in the first half of 2018.

Personnel costs as % of sales grew by 62 bps y-o-y due to lower sales densities in the new stores opened in the second half of 2018, and one-off expenses related to management compensation. Professional fees were higher as % of sales by 30 bps due to an increase in consulting services, while increased utilities, cleaning and communal costs by 34 bps were mainly caused by a country-wide rise in tariffs.

As a result, Adjusted SG&A as % of sales increased by 1.3.p.p to 13.9% in 1H 2019 compared to 1H 2018.

Rental expenses increased by 6 bps to 1.5% of sales as a result of indexation of rental fees linked to CPI.

Following the factors mentioned above, EBITDA in the first half of 2019 reached Rub 16.1bn and EBITDA margin stood at 8.1%.

Depreciation as % of sales increased by 66 bps y-o-y, which was mainly due to the Company reviewed economic useful life of land improvements from 30 years to 7 years (as practice has proven that factual useful life of land improvements does not exceed 7 years). Consequently, the Company recognized additional non-cash expense of around Rub 1.2bn.

Total SG&A as % of sales increased to 19.1% in the reported period, up from 17.1% in 1H 2018.

In the reported period the Company's management took a decision to reassess its impairment of assets. As at 30 June Lenta performed impairment test of assets at the lowest level of aggregation of assets that is able to generate independent cash Inflows, which is generally at the individual store level. Impairment charge was made on 77 stores (38 hypermarkets and 39 supermarkets), including closed stores, stores that may be closed, plus two projects under construction, and cover land, land improvements, buildings and equipment. The Company recognised one-off non-cash impairment loss of approximately Rub 9.0bn for 1H 2019.

Net interest expenses increased by 1.8% to Rub 4.7bn as an increase in gross debt outpaced the reduction of the cost of debt. Overall, the weighted-average effective interest cost decreased 37 bps from 8.84% for 1H 2018 to 8.47% for 1H 2019 through the combined effects of improvements in the terms and conditions of major long-term loan facilities, debt repayments and refinancing.

In the reported period the Company recognized Net Loss of Rub 4.5bn compared to Net Profit of Rub 5.2bn in the first half of 2018. This was mainly due to negative impact from above mentioned one-off non-cash items in the total amount of Rub 10.2bn. The Company recognised a tax benefit in the amount of Rub 376m in the first half of the year, which substantially reduced effective tax rate to 7.8% from 18.8% in 1H 2018.

Cash Flow and Balance Sheet

Net cash generated from operating activities before net interest and income taxes paid amounted to Rub 6.1bn compared to Rub 5.1bn in 1H 2018 (+20.8%). This increase was mainly attributable to positive developments in working capital. Inventory declined due to more efficient supply-chain processes and increased centralization ratio. Lower decrease in trade payables this year compared to 1H 2018 was due to better supplier conditions.

Capital expenditures in 1H 2019 were 46.7% lower than in 1H 2018 and amounted to Rub 5.6bn, reflecting slower pace of store openings in the reported period vs last year. At 30 June 2019 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling Rub 6.7bn net of VAT (31 December 2018: Rub 11.5bn net of VAT).

RUB (millions)	IAS 17			IFRS 16	
	1H 2018	**1H 2019**	**Change 1H 2019 – 1H 2018**	**IFRS 16 impact**	**1H 2019**
Cash flow from operating activities	**17,649**	**16,807**	**(4.8%)**	**2,680**	**19,487**
Movements in working capital	*(12,569)*	*(10,672)*	*(15.1%)*	*74*	*(10,745)*
Net interest and income taxes paid	(5,733)	*(5,064)*	*(11.7%)*	*(1,398)*	*(6,461)*
Net cash flow from operating activities	**(653)**	**1,072**	**2.6x**	**1,209**	**2,281**
Net cash flow from investing activities	**(10,795)**	**(5,814)**	**(46.1%)**	**22**	**(5,792)**
Net cash flow from financing activities	**2,091**	**41,907**	**20.0x**	**(1,231)**	**40,676**
Net increase/(decrease) in cash and cash equivalents	**(9,358)**	**37,165**	**5.0x**	**-**	**37,165**

As of 30 June 2019, the Company had a gross debt of Rub 170.3bn and a cash balance of Rub 71.0bn, giving Net Debt of Rub 99.3bn. In addition, Lenta had Rub 70.8bn of undrawn short- and long-term facilities.

New long-term loan facilities with relatively low fixed rates were placed early in the first quarter of 2019 and shortly after the closure of the second quarter. These facilities enabled the Company to secure a lower cost of debt with sufficient cash on hand to cover all of Lenta's refinancing needs in 2019 and part of 2020. All of Lenta's debt is denominated in Russian Rubles and unsecured. 79% of debt is long-term of which 35% is due within one year. Average debt maturity is around 1.4 years.

RUB (millions)	**30 June 2019**	**31 December 2018**	**30 June 2018**
Gross debt	**170,260**	**127,080**	**108,334**
Long-term debt	*87,064*	*106,341*	*83,452*
Short-term debt	*83,197*	*20,739*	*24,882*
Cash and cash equivalents	**70,969**	**33,805**	**4,944**
Net Debt	**99,291**	**93,275**	**103,390**
Net Debt/EBITDA	*2.7x*	*2.6x*	*2.8x*

As of 30 June 2019, Net Debt to EBITDA stood at 2.7x, Lease Adjusted Net Debt to EBITDAR[8] at 3.6x and EBITDA to Net Interest at 3.8x. As of 31 December 2018, Net Debt to EBITDA stood at 2.6x, Lease Adjusted Net Debt to EBITDAR at 3.3x and EBITDA to Net Interest was at 3.9x.

[8] *Lease adjusted Net Debt calculated as Net Debt plus operating leases multiplied by capitalization rate of 8.0x in accordance with credit rating agencies approach*

Impact of IFRS 16

Since 1 January 2019 Lenta has applied IFRS 16, which changes the accounting principles for operating leases, using the modified retrospective approach under which the prior year figures in the financial statement were not restated.

Under IFRS 16, Lenta's gross profit increased by Rub 187m due to a reduced supply chain cost by a respective amount related to an operating lease of distribution centres. As a result, gross profit margin stood at 22.6% vs. 22.5% under IAS 17.

SG&A expenses decreased by Rub 645m mainly due to exclusion of lease expenses of Rub 2.5bn under the new standard. At the same time, the Company recognized additional depreciation of around Rub 1.8bn. Operating profit before impairment amounted to Rub 9.6bn under IFRS 16 vs. Rub Rub 8.8bn under IAS 17. Adjusted for impairment, operating profit was at Rub 583m under the new standard vs. operating loss of Rub 250m under IAS 17.

Interest expenses under IFRS 16 increased by Rub 1.4bn related to interest expenses on lease liabilities, while income tax benefit increased by Rub 93m due to additional depreciation expenses. As a result, Net Loss under the new standard reached Rub 4.8bn vs. Rub 4.5bn under IAS 17.

The net changes in cash position has not changed under IFRS 16 vs. IAS 17, while the relevant reclassifications were made within the cash flow statement.

Changes in Corporate Structure

Lenta's Board of Directors made a decision to establish a representative office of Lenta Ltd. (holding company registered in the British Virgin Islands) in Russia which would serve the purposes of representation of Lenta's interests in the country.

As a result, Russia will be considered as the place of management and control of the Company. The representative office is expected to be opened in Saint-Petersburg in October 2019. Lenta's CFO, Rud Pedersen will be appointed as the head of the representative office.

The appropriate application will be made to the Russian tax authorities for the Company to be registered as a Russian tax resident.

This decision is aimed to rationalize corporate structure of the Group to allow for a more optimal capital allocation, optimize cost of compliance and improve corporate governance standards reflecting recent changes in Lenta's shareholder structure.

The Company is considering further steps to optimize the Group's holding structure and respective announcement will be made as and when this may be required. Lenta does not expect any implications for GDR-holders and any impact on financial results.

Guidance

The Company confirms hypermarket opening target for the full year of 2019 of eight new stores on a gross basis. Lenta made a decision to revise supermarket opening target from seven to three new stores on a gross basis. The decision reflects challenging macroeconomic conditions and strict approach to return requirement.

Company's full year guidance for capital expenditures has been revised from Rub 15bn to Rub 17bn. This reflects actual expenditures in the first half of the year and committed amount for the second half as well as additional investments in supply chain capacity, centralized production facilities, upgrades of IT-systems and digitalization, further development of Lenta's "Hero categories" and other efficiency-related investments.

The full set of accounts for Lenta Ltd. for 1H 2019 and financial years of 2011-2018 are available at www.lentainvestor.com

About Lenta

Lenta is the largest hypermarket chain in Russia and the country's third largest retail chain. The Company was founded in 1993 in St. Petersburg. Lenta operates 245 hypermarkets in 88 cities across Russia and 129 supermarkets in Moscow, St. Petersburg, and the Siberia, Urals and Central regions, with a total of approximately 1,467,974 sq.m. of selling space. The average Lenta hypermarket store has selling space of approximately 5,500 sq.m. The average Lenta supermarket store has selling space of approximately 800 sq.m. The Company operates 12 distribution centers.

The Company's price-led hypermarket formats are differentiated in terms of their promotion and pricing strategies as well as their local product assortment. The Company employed approximately 50,509 people as of 30 June 2019[9].

The Company's management team combines a mix of local knowledge and international expertise coupled with extensive operational experience in Russia. Lenta's largest shareholders include Severgroup, which is committed to maintaining high standards of corporate governance. Lenta is listed on the London Stock Exchange and on the Moscow Exchange and trades under the ticker: 'LNTA'

A brief video summary on Lenta's business and its Big Data initiative can be seen here.

For further information please visit www.lentainvestor.com, or contact:

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Forward looking statements:

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the fact that they do not only relate to historical or current events. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "expected", "plan", "goal", "believe", or other words of similar meaning.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond Lenta's control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements.

Any forward-looking statements made by or on behalf of Lenta speak only as at the date of this announcement. Save as required by any applicable laws or regulations, Lenta undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

[9] *FTE (full-time equivalent). Average FTE for 1H2019 was 51,470 employees*