YEAR OF MILESTONES
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Lenta is one of the leading Russian retailers and the largest hypermarket operator.

- **249** hypermarkets and supermarkets
- **131** DCs
- **88 Cities**
- **12** DCs

Highest NPS Score

NR 1 Partner for Suppliers
FINANCIAL

RETAIL SALES

+4.0%

GROSS PROFIT (RUB, BN)

+3.2%

FREE CASH FLOW

17 BN

OPERATIONAL

LOYALTY CARD HOLDERS

+10.1%

STORES

+11

SELLING SPACE (SQM)

+1.5%
I am proud, as Chairman, to present you with Lenta’s Annual Report for 2019.

In June 2019, Severgroup became Lenta’s majority shareholder, with a 78.73% stake. We see great potential in this business that, every day, is improving people’s quality of life. We also see potential in the Russian retail industry as a whole, which is now undergoing an important transformation to meet customers’ growing demands.

Widely known as an efficient grocery retailer with one of the highest growth rates in the market, Lenta is a unique asset with strong competitive advantages. Lenta and Severgroup have complementary qualities: Lenta has a highly professional management team and excellent corporate culture. Severgroup has experience in building and managing large businesses and deep expertise in both industrial and consumer sectors as well as in the digital & IT sectors. We are confident that combining these two entities will enhance Lenta’s prospects for growth in the digital & IT sectors. We are confident that we can already tell you about our core strategic priorities to ensure growth of the business:

- **Client-centric business.** We aim to become the first-choice retail company for the Russian consumer. We plan to grow our market share and become the most innovative and client-centric retailer in Russia. At the same time, we will work on improving the efficiency and agility of the business.
- **Strong free cash flow generation.** Our target is to generate sufficient cash flow to be able to support our growth ambitions and ensure strong returns to our shareholders.
- **Digital transformation.** Severgroup has broad experience in using cutting-edge technologies and solutions for big data analysis, machine learning, and predictive analytics. I am confident that Lenta will benefit from this expertise in combination with its own profound knowledge in this field. Together, we will continue to provide an excellent shopping experience to our customers.

**Strategic Report**

Together with Lenta’s management team, we are working on a new strategy for the business. We plan to announce it later this year but I can already tell you about our core strategic priorities to ensure growth of the business:

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**Changes in the Corporate Structure**

Lenta’s Board of Directors made a decision to establish a representative office of Lenta Plc in Russia which would serve the purpose of representing Lenta’s interests in the country. As a result, Russia is considered to be the place of management and control of the Company. The representative office was opened in Saint-Petersburg in October 2019. Lenta’s CFO Rud Pedersen was appointed head of the representative office. This decision is designed to rationalise the corporate structure of the Group to allow more optimal capital allocation, optimise cost of compliance and improve corporate governance standards, reflecting the recent changes in Lenta’s shareholder structure.

On February 21, 2020, Lenta accomplished its incorporation in Cyprus in the form of a public limited liability company (“Lenta PLC”). This was followed by amendments to and the replacement of the current Memorandum and Articles of Association. This should pave the way for a more optimal capital allocation going forward, while allowing us to realise efficiencies in the cost of compliance and improved corporate governance.

**Outlook**

Lenta is well-positioned for the future. The Company generated positive free cash flow in 2019 and retained its leadership in the hypermarket format. Our main goal for 2020 is to become a truly client-centric business that continually innovates. We have to find a new successful retail model and lead the changes in the sector. We have clear priorities for 2020 and are close to finalising the new strategy. I have great confidence that, together with the Company’s team, we will make Lenta the most innovative player in the sector and that it will become the first choice for daily shopping for millions of Russian consumers.

On behalf of the Board, I would like to thank our dedicated employees and shareholders for their continued support.
2019 represented both a challenging and an exciting year for Lenta. We faced a tough operating environment. This was as a result of both decreasing disposable household income and increased growth of retail space, coupled with aggressive promotional activity in the industry.

We retained our leadership in the hypermarket format; we attracted new customers, and achieved the highest Net Promoter Score (NPS) in the sector, which demonstrates our appeal to customers. We grew sales and we delivered positive free cash flow. However, shoppers came to our stores less frequently and bought fewer items, and our investments in price and expansion meant our EBITDA margins declined. Against that background and although many things were positive in 2019, we did not deliver on our expectations for the year.

With Sevagroup becoming a majority shareholder, the year was a turning point for us at Lenta, giving us real confidence to plan for the long term.

DEAR SHAREHOLDERS,

We started developing our longer-term strategy for the business with a view to creating sustainable competitive advantage. We see this as the next phase of growth for a multi-format retailer. Work is still under way on our new strategy, which will include continued focus on the quality of our offer and further improvements in our customer value proposition. We are also planning to invest in the IT platform, enhancing our digital capabilities and our loyalty programme in order to reach out to new and existing clients. We will also be looking for further value-adding opportunities as we expand our store network.

BUSINESS ENVIRONMENT

The macroeconomic and consumer environment remained challenging, with further pressure on customer wallets resulting in declining real disposable household income and a growing consumer debt burden.

The market remained very price-competitive due to the weak macroeconomic environment combined with the rapid expansion of retail chains. Consumers continued to be price-sensitive, with more options available for making daily grocery purchases, while the retail chains have been focused on driving customer traffic by enhancing promotional activity.

PERFORMANCE

In 2019, we opened eight hypermarkets and three supermarkets, as our guidance indicated. Our selling space grew by 15%. Total sales grew 10% in 2019 to Rub 4,172bn (2018: Rub 4,136bn), including retail sales growth of 4% to Rub 4,079bn (2018: Rub 3,922bn) and an expected decline of 55.5% in wholesale segment.

Our EBITDA margin in 2019 declined to 8.1% from 8.8% in the previous year, affected by a lower growth rate and economic headwinds. At the same time, we generated positive free cash flow, which proves that our business is financially healthy, and gives us options to invest for further growth.

In 2019, we presented a brand new vision of shopping space. We re-opened one of our hypermarkets in Saint-Petersburg which had been damaged by a fire.

We completely changed the layout of the store so it could meet the needs of different shopping missions. We put our Hero categories centre stage, and we filled the store with innovative equipment that helps to enhance both customer experience and service.

We believe these changes will help us to deliver solid traffic and basket size and pave the way for in-store improvements across the chain.

Our supermarkets delivered strong sales growth of 27.5% in 2019. This format had previously proved challenging for us. But the appointment of a dedicated team and implementation of initiatives to improve customer value proposition of our supermarkets meant we saw significant improvements on EBITDA level which remained positive throughout 2019.

We have been working to enhance our shopping experience and client communication both for hypermarkets and supermarkets. In 2019 we introduced a series of initiatives aimed at driving sales and increasing our profitability, competitiveness and returns. We have also put significant efforts into developing our product ranges, shaping a unique and attractive selection of goods to drive footfall across our stores.

In 2019 we also focused on the optimisation of our logistics and on enhancing our capacity to support further growth. With the pilot of our own delivery service, we reinforced our ambition to enter the on-line segment of grocery retail.

We continued to leverage data-driven insights obtained from the Lenta loyalty card. These valuable insights enabled us to refine our product ranges, plan our store layouts and manage promotional activity. It also helped us create new customer-focused marketing tools across various media.

Our supermarket delivered strong sales growth of 27.5% in 2019.

Source: Sberbank CIB Iconov Consumer Confidence Tracker.

OUR SUPERMARKETS DELIVERED STRONG SALES GROWTH OF 27.5% IN 2019

2020 we expect to increase our selling space by around a relatively modest 3%. This figure is in line with our decision to focus on improvements in store performance and operational efficiency.

In 2020, we will continue to work on the optimisation of our SG&A expenses. We expect that the implementation of priorities set for this year will result in an EBITDA margin in 2020 above that of 2019.

Although our investments in organic expansion and supply chain will be lower in 2020, the plan to invest around 4% of our sales in capital expenditure. This includes investments in IT, digital marketing and other projects aimed to upgrade and enhance customers’ experience in store, as well as drive operational efficiency.

The current plans for expansion and capital expenditure, as well as further efforts in the optimisation of operating cash flow, will result in positive free cash flow generation by the Company in 2020.

I strongly believe that Lenta’s leadership position in the hypermarket sector and its growing customer base provide a very strong platform for long-term growth. Our intention is clear. We want to be the #1 shopping destination for millions of Russian consumers.
R ussian GDP slowed down to 1.3% in 2019 from 2.5% in 2018, constrained by both external and internal factors. The slowdown of the global economy weighed down the country’s export of goods and services. Domestically, economic growth was restrained by weak dynamics of household income, the Central Bank’s relatively tight monetary policy, as well as the slow implementation of national infrastructure projects.

Consumption continued to be an important factor in driving the Russian economy. For the second year in a row, retail sales outpaced the dynamics of the GDP, growing by 1.8% in real terms although slowing down from 2.8% in 2018. Food retail sales growth inevitably slowed as well from 2.1% in 2018 to 1.4% in 2019, as a result of both weak consumer purchasing power and suppressed consumer confidence.

Real disposable income increased by 0.8% - the highest rate over the last six years – due to the positive dynamics of real wages during the course of the year. Nonetheless, the growth was largely offset by higher inflation, mainly due to increased prices for communal payments and commodities, and the increase in VAT from 18% to 20% from January 2020. These factors forced consumers to be more cautious in their spending.

Even though average inflation was higher in 2019 when compared to the previous year, it came down to 3.0% in December. Food inflation slowed to 2.6% and continued slowing down at the beginning of 2020. Although lower inflation is beneficial for consumers, it can increase pressure on retailers in terms of revenue growth and force companies to intensify promotional activity to hit their targets.

Improvements in household income dynamics and consumer confidence will be the key factors to drive food retail sales. An upside can also come from the government’s recent initiatives. Proposed budget spending of around Rub 400-450 bn to support low-income families, as well as other social payments, could have a positive impact on grocery consumption in the country.

COMPETITIVE ENVIRONMENT

Growth in food retail sales continued to rise in low-sin-
gle-digits. Despite higher real disposable income, consumers are less confident in their future prospects and economic stability and therefore tend to save more. The competition between retailers remained intense during the year, as the need to adapt to changing cus-
tomer habits has come to the fore. Prices remained an important factor in consumers’ choice of grocery store for shopping. This alone was not, however, enough to encourage customers to visit a store frequently. Quality of goods and services, unique selection, in-store communication and digital experience are the key areas for further development of retail chains.

Lenta is well-positioned amid changing market trends. The Company put efforts into enhancing our selection of goods, introducing a wider choice and higher quality of fresh and private label products to gain competitor advantage. Our loyalty programme continued to provide insights that helped us to improve personalised offerings and digital activities that were appreciated by our cus-
tomers. Lenta also started to exploit the potential of the on-line market with projects that do not require heavy capital investments; aiming to strengthen its position in the new fast-evolving business model.

The Russian food retail market remains fragmented by international standards; providing opportunities for further consolidation in the sector. The share of the Top-seven retailers reached 30.5% in 2019 versus 27.5% in 2018, lag-

ging behind much more consolidated western countries, where the Top-five players can account for 50%-70% of the market.

In the previous year, fast-growing retail chain, Krasnoye & Belye, merged with Dixy and Bristo1, which allowed the combined company to replace Lenta in the Top-three.

Total selling space grew by 1.7 million sq.m. in 2019, with a growth rate of 6.8%, compared to 9.0% in the previous year. Selling space growth in the hypermarket segment has decelerated steadily over the last five years, and increased marginally by 0.2% in 2019. Lenta retained its position as a leading hypermarket in the country with the market share of 23% in the segment.

GROWTH POTENTIAL

After years of aggressive growth and a substantial increase in selling space, the competition in the sector gradually started to ease among the large players. Competition on prices and promotions continued to weigh down on margins, forcing more retailers to open fewer stores in order to favour their profitability. Lenta is no exception. The Company has already slowed down its expansion and announced its strong focus on efficiency and margins. The key priorities, therefore, will be improvements in offerings, selection, and communication with customers. Further development of digital tools should help reach a larger audience and attract new customers to stores. At the same time, the market still offers opportunities for further growth and consolidation which can be exploited in case of attractive returns to shareholders.


1YKBK Mega Retail Group Limited.
In 2019, our total sales for the year grew 1.0% to RUB 417.5bn (2018: RUB 413.6bn), including retail sales growth of 4.0% to RUB 408bn (2018: RUB 392.2bn).

The supermarket format demonstrated strong growth, with an increase in like-for-like sales driven by higher traffic thanks to a significant increase in new, unique customers to the format. We continued working on tactical changes to the offering to enhance the attractiveness of stores to customers.

Lenta retained its presence in 88 Russian cities. Our net selling space increased by 15% compared to 6.1% in 2018. The total number of stores amounted to 380, comprising 249 hypermarkets and 131 supermarkets, with total selling space of 1,489,497 sq.m.

During the year, the Company continued to implement a series of initiatives to increase the distinctive attractiveness of Lenta’s offering to customers. These initiatives included changes in product range, marketing, Lenta’s operational results programme and customer communication.

**PRODUCT RANGE**

A wide product range combined with affordable prices is the key reason for customers to choose Lenta. Our clients also appreciate the high quality of goods in our stores, especially fruits and vegetables, meat, fish, bakery and culinary.

That is why we identified these categories, along with wine, as “Hero categories”. We believe that these categories distinguish Lenta from its competitors.

We aimed at making Lenta the primary destination for these products by offering the best selection of products, higher quality and appealing presentation.

In 2019, we continued to work on the development of Hero categories by widening the range and supporting the offer by various marketing activities. We made good use of cross-category promotions such as festivals, tastings, recipes ideas and numerous in-store activities to focus customers’ attention on the variety and quality of our products. We also rearranged relevant sections in some of our stores to draw attention to our Hero categories and exclusive offers.

All our Hero categories showed positive like-for-like retail sales of +3.5% in 2019 versus the previous year and +3.1 ppt versus other food categories.

We worked hard to shape the unique range of products in our stores. We focused on propositions that are available only in Lenta stores that will attract new shoppers to our stores at the same time retaining our loyal customers.

We are proud to be one of the largest bakeries in the country. We bake pastries and varieties of bread in our hypermarkets and supermarkets so that shoppers can enjoy fresh products every day. In March 2019, we introduced Artisan bread into our product range. This is prepared according to an authentic recipe and proved very popular with our customers. By the end of the year, Artisan bread accounted for over 6% of sales in this category.

We focused on expanding our ready-to-eat meals to satisfy the needs of customers who are looking for time-saving solutions. Our offerings include packed salads, sandwiches and a wide range of types of snacks. We care about healthy eaters and offer fresh lemonades, smoothies, milkshakes and fresh salads for them.

The development of the direct import aspect of our private label and direct sourcing strategy has made good use of cross-category promotions such as mini-bottles, magnums and multi-packs. We supported the sales in the category with promotional techniques, such as offering customers different wines at a single price or discounts for the purchase of six bottles. These resulted in the category like-for-like sales increase of 1.3% versus the previous year.

We launched our Healthy World project in 2018 and rolled this out to 221 hypermarkets in 2019 with fruitful results; we enjoyed 37.9% like-for-like sales growth in the categories in 2019 versus 2018. We offer over 1,500 individual items in our sugar- and gluten-free ranges along with natural cosmetics and domestic cleaning products. These products are located together under a single banner, so that customers looking for healthier options or special diets can find them easily and quickly.

**PRIVATE LABEL AND DIRECT SOURCING**

Our Private Label range is one of our key differentiators and gives us great competitive advantage. We offer affordable goods of the highest quality under 13 of our own brands, both food and non-food, in all price segments.

In 2019, retail sales of our own brands reached 14.2% of total sales versus 13.4% in 2018 and we launched 1,207 new product lines.

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Our 365 brand showed +3.5% like-for-like sales, LENTA like-for-like sales grew by 3.2%. Dolce Albero demonstrated an impressive increase of 36.5% as did Bonvida, with +187% like-for-like sales. Sales in our non-food brand, Home Club, grew by 24% in 2019.

Our private labels were recognised for their high quality in the national contest “The Guarantee of Quality” and was awarded 22 medals.

In 2019 we developed our partnerships with Europe’s leading buying alliance, EMD, and with the global sourcing agency for non-food products, Li&Fung. These partnerships bring us new cooperation models with the largest international producers and retailers and enable us to select the best goods at the best prices. This ensures both the uniqueness and the highest quality for our proposition to customers.

With Li&Fung we launched Lenta Far East platform that connects 254 factories. Our cooperative efforts focus on developing Lenta’s non-food private labels and delivering a distinctive customer offering. Li&Fung ensures vendor compliance and assists in organising shipments from Asian countries to Lenta stores.

Our partnership with EMD allows the Company to fully benefit from contracts sourced by the alliance’s negotiations, including those with producers of high-end brands. Joint procurement with other large European retailers enables Lenta to offer customers access to an even broader range of quality products at affordable prices, while also providing a new impetus to the on-going development of Lenta’s private labels. In 2019 we leveraged the efficiency of our cooperation and launched the EMD EU sourcing platform development to source products from EMD members (copy paper, batteries, nuts and dried fruits).

We also launched ‘the nuts platform’, where we source directly from countries such as Chile, and with local packaging facilities to give us fresh products of excellent quality that we can control from field to shelf. We import fresh fruit, frozen fish and seafood directly from 40 countries. Direct suppliers enable us to optimise costs, develop unique customer propositions and offer a wide product range in these categories.

We added six new countries (Bulgaria, Chile, Estonia, Lithuania, Romania, Serbia) to our dry food import portfolio in 2019 and we added 512 new individual products to our ranges. We are committed to delighting our customers by selecting the finest goods from their country of origin and bringing them to our stores.

We are particularly proud of the exclusive range of New Year gifts that we developed with a leading European producer. Thirty six distinctive items of confectionery, coffee and tea were delivered to our stores in plenty of time, and were 85% sold in the run up to the New Year.

In 2019 as part of our Growers platform, we increased the number of growers that supply our stores with exclusive ranges of vegetables, mushrooms, greens and other fresh food from 152 to 175. Fruit and vegetables supplied by growers within the Growers platform now account for 24.2% of our total sales of fruit and vegetables.

Fifty growers supply a series of exclusive ranges under the brand Grown for Lenta. These include 116 individual items of berries, melons, watermelons, cabbage, tomatoes, salads and other fresh foods. The partnership ensures a winning combination of transparency. This leads to us earning our customers’ trust, as they appreciate the quality of goods they find in Lenta stores.

**MARKETING**

The Company has maintained its focus on digital marketing activities, reaching new and existing customers, with offers tailored to each individual to increase both traffic and basket size. The number of active loyalty cardholders increased to 15.8 mn as at 31 December 2019 (+10.1% YoY).

We enhanced the processing of the data derived from our loyalty cards. With some 97% of transactions in our stores being made with the Lenta loyalty cards, this is a valuable source of information about customers’ preferences.

We focused on the improvement of our analytical models and the organisational structure of a dedicated department to align the conclusions we derive from the customer data and business decisions we make.

We segment our customers depending on their needs and life cycle. This enables us to manage our product range and promotions effectively, as well as to predict changes in customers’ preferences to which we can respond in a timely fashion.

Lenta’s Mobile App, launched in October 2018, had attracted more than 4.8 million users by the end of the year. We took further steps to enrich the Mobile App’s functionality, delivering a better customer experience through enhancing personalised promotional offers.

We launched what we call a ‘personal cabinet’ on our web site and on the App, which is where our loyal customers can find personal offers based on their shopping history. They can also track what they bought before, make a shopping list and check the availability of specific products in our stores.

In late 2019 we began to pilot a new approach to the loyalty programme, rewarding customers for purchases in their favourite categories as well as for purchasing goods they never bought before. We also offered them new products at attractive prices. The more the customer shops with Lenta using their loyalty card, the more they benefit from the programme. Initial results of the pilot showed very promising results and we will develop the programme further in 2020 to increase the extent to which we tailor our offer and create reasons to come to Lenta.

**LOGISTICS**

Our well-established, sophisticated logistics ensure the timely delivery of goods to our 380 stores across Russia. We operate 12 distribution centres in strategically chosen locations. Our own fleet, consisting of 330 trucks, provides over 76% of deliveries at a service level of 94%.

The Company continued to work on the optimisation of its logistics. We closed one leased distribution
We operate 12 distribution centers in strategically chosen locations. Our own fleet consisting of 330 trucks provides over 76% of deliveries with a high service level of over 94%.

We began construction of a new 69,000 sq.m distribution centre in Saint-Petersburg that will start operations in 2020. The new warehouses have innovative features such as units with different temperature zones and additional services to enhance optimisation of the Company’s procurement and logistics, especially in fresh, frozen, and fruit and vegetable categories. Other innovations include separate units aimed to serve Lenta’s “Hero categories” and also to support their centralisation and further development. This will also include space for our own production (culinary, confectionery, meat processing etc) and a central bakery to ensure common operational standards across the chain.

RETHINKING CUSTOMER EXPERIENCE
In November 2019 we were pleased to open the new Lenta hypermarket in Saint-Petersburg that we rebuilt after it was burnt down in 2018. The store is built and designed according to a new concept developed in cooperation with the Jos de Vries agency. The concept includes new services, such as a café and food service. We changed the standard layout in order to meet different clients’ needs and to fulfill various customer journeys. The layout design is made for daily and weekly shopping trips as well as for customers who are grab-and-go. All sections are connected with one another to give Lenta customers an excellent range of products to choose from, with a strong emphasis on Hero categories. Fruit and vegetables, culinary and bakery, wine, and fish are furnished with new store equipment to ensure attractiveness and proper presentation of each category.

The hypermarket embraces various innovations using the latest technology, such as contrast and shelf light, self-check-outs and price checkers as well as LED screens for in-store advertising.

By launching this new concept, we represented our vision of a modern unique shopping space where all customers can find exactly what they want. We surprise customers with innovations and creativity. Bright and colourful design along with inspiring graphical concepts are bringing Lenta to a new level as an attractive, interesting store that brings customers convenience combined with an exceptional shopping experience.

We introduced elements of the new concept – café, food service, navigation and decorations – to one of our oldest stores in Saint-Petersburg. In 2020, we will be carefully analysing the customer feedback and reactions to the changes introduced, to fine tune the concept for further roll out.

IN 2019 WE HAVE.Recorded approximately 1bn of sales through this channel coming from around 400,000 on-line orders

ON-LINE
We consider on-line as an important channel in communication with clients. It provides us with more information about the potential of the market without having to invest significant amount of capital. In 2019 we continued to partner with different companies across many of the Russian regions. Our portfolio consists of 18 partners and covers 20 Russian cities.

In 2019 we recorded approximately Rub 1 bn of sales through this channel, coming from around 400,000 on-line orders. This is just slightly above 0.2% of our total retail sales for full-year 2019 and represents 10.3% growth. We see on-line as an important channel to market, working in combination with our physical stores. In November 2019 we launched a pilot of our own online delivery project, LentaXtra. This is aimed at providing customers with purchases within 15-30 minutes. To achieve this, we opened several small dark-stores of around 100-150 sq.m in urban areas. These collect supplies from our distribution centres and hypermarkets, and directly from suppliers. The range is limited to approximate 1,500 individual items and it focuses mainly on fresh and dry food, as well as ready-to-eat meals. We are piloting it in three districts of Moscow.

LOOKING AHEAD
While we do not expect the macroeconomic and competitive environment to ease, we will keep working on improvements in our offer and customer communication in both formats to excel in customer experience.

We, at Lenta, will work on the transformation of our core business and on efficiency improvements. We will implement innovations and undertake various experiments to find solutions that will ensure our growth and support our transformation.

It is our intention to remain the leading hypermarket chain in Russia and to sustain and grow our supermarket business.
Corporate Social Responsibility

We are committed to acting responsibly in everything we do. Creating value for all our stakeholders, especially Lenta employees, is our core objective. We conduct our business based on corporate responsibility principles, whether this is product sourcing or interaction with local communities.

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

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

Customers, employees and suppliers can contact the Ethics Committee in a variety of ways: anonymously through the Lenta website and Company Hotline, or via information desks in our stores.

Our six pillars
Our CSR agenda is founded on six pillars:

- High quality of goods
- Affordable prices
- Respect for everyone
- Innovation and ideas generation
- Eco-friendly price
- Community leadership

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

Along with our Ethics Policy, our CSR principles support our ambitions for long-term sustainable growth.

Recruiting, training and retaining professional staff
The essence of our culture is teamwork, innovation and trust. We recruit the best professionals in the market, we train our people, and we do our best to retain them. Lenta is proud to have a staff retention rate that is above the average for the food retail sector.

Investment in our workforce is our strategic priority. This is the key to customer loyalty through greater productivity and service level. There is intense competition for labour in the retail sector. Low birth rates in the 1990s mean that the years 2017-2020 are affected by a noticeable “demographic gap”. This makes the recruitment of qualified staff a challenge. Our target is to retain a best-in-class workforce that enables the sustainable growth of our business.

In 2019, voluntary staff turnover in Lenta was flat versus 2018 and comprised approximately 50%. To help ensure that we retain our employees, we implemented a number of employee engagement projects in 2019. These include additional incentive programmes, corporate social responsibility and charitable initiatives as well as training and educational activities.

Recruitment and career development
We provide numerous opportunities for our employees to build their careers in the organisation. In 2019, we created 2,746 new jobs.

We pay particular attention to succession planning, which enables us to promptly fill open positions with internal candidates. In 2019, out of 27,582 vacancies, 10,563 were fulfilled by internal candidates.

In 2019, we identified 1,736 of our employees as high potential for promotion. Twenty-six per cent of managerial positions among TOP-1,000 group and 29% of TOP-5,000 employees are supported by personnel reserves, which is sufficient to compensate the turnover in the nearest two years.

During the year, we promoted over 4,000 employees, and approximately 5,000 people were transferred to new roles through horizontal moves, as part of the succession planning process.

Employee engagement
High levels of employee engagement directly influences the Company’s performance and the satisfaction of our customers.

In 2019, 6,444 people from our regional offices and Headquartes took part in a study of our employee engagement. The survey showed quite a high level of engagement of 74%. We received over 14,000 comments and recommendations on how we can improve our business.

Com-Ferry Compensation Report Russia Retail Sector 2019
After processing the feedback, we held 45 focus groups and workshops in which we developed improvement action plans for each department and function.

**MANAGEMENT DEVELOPMENT**

We are constantly developing our leaders. We continued to develop a culture of efficient people management. We expect our managers to act as role models for their team members, ready to share knowledge and experience, and with the ability to develop themselves and their colleagues.

In 2019 we continued the Lenta Leader Programme developed in partnership with the Saint-Petersburg Higher School of Economics; 110 of our managers completed the course.

Higher School of Economics; 110 of our managers completed the course. They worked on 32 group projects focused on innovative business solutions. These projects have been successfully implemented in the Company. The programme started with personal development training. This was a new element of the course, aimed at raising students’ awareness of the importance of the subject.

In 2019 we launched an important new initiative in our management training programme, in which leaders train future leaders at our Headquarters. Previously, our internal trainers carried out training at our stores and distribution centres.

We selected 28 motivated and experienced managers for the role of internal trainers. These are employees who can share their expertise with colleagues, helping to build their skills and improve their competencies. These new internal trainers held 30 training courses in three months in 2019.

We continued to develop our leaders’ people management skills in 2019. Some 105 managers were trained in how to provide supportive and efficient feedback to their team members. Another 127 managers were trained in our Situational Leadership course.

**STORE AND SPECIALIST STAFF TRAINING**

We provide our people with a variety of training opportunities, tailored to their experience and knowledge. This applies to all employee categories and helps colleagues to support Lenta’s growth at the same time as advancing their own careers.

Our store employees are the public face of Lenta, so they are the primary focus of our training efforts. Each store runs a comprehensive induction programme for new employees. This sets out Lenta’s values, history and culture, as well as our policies and standards.

In 2019, more than 18,500 employees undertook mentoring training and became mentors, almost twice as many as in 2018. In 2019, 175 vacancies were filled by candidates from this group. In line with our policy to provide a wide range of opportunities for people with special needs, we actively support recruitment of – and fair pay for – people working from home.

**RENUMERATION**

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

All employees are included in our performance management process, which helps us evaluate their achievements and identify their future potential.

**DIVERSITY**

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

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

In 2019, 175 vacancies were filled by candidates from this group. In line with our policy to provide a wide range of opportunities for people with special needs, we actively support recruitment of – and fair pay for – people working from home.

**PRICING AND CUSTOMER SATISFACTION**

We serve 15.8 million loyal customers in 89 Russian cities. We work hard to provide affordable prices to all types of customers, without compromising on quality. We strive to offer the right range of products for our customers, including large well-known brands, local

In 2019, we delivered over 1.8 million hours of training.

The process ensures constructive dialogue between managers and their team members; it stimulates productivity, rewards achievement and encourages professional development. In line with a set of established principles, financial support is available for employees who find themselves in difficult circumstances.
produce and our private label ranges. In this way, we achieve price efficiency and satisfy the needs of all shoppers who choose Lenta. Despite the challenging economic conditions in 2019, we continued to invest in pricing for our customers and to create attractive promotions for our customers throughout the year. As part of the Social Programme that we operate in all Lenta stores, we provide additional discounts for essential goods for citizens with limited budgets. In 2019, 2.4 million of our customers benefited from this programme; over 317 thousand joined the programme in 2019.

We will continue to help our customers manage within their budgets, through tailored promotions and investment in pricing. We will introduce new ranges of private labels in all price segments to ensure we meet the needs of all our customers. We will also maintain our customer-focused approach, implementing new services and communicating with shoppers in the ways that suit them best.

LOCAL SOURCING
We partner with local producers in the regions throughout our area of operation. Our customers search for local goods in our stores and appreciate the local produce that we offer. In 2019, we sourced over 94% of our products from Russian suppliers, including 20.6% from regional suppliers. Over 24% of our fresh food was purchased locally.

We focus producers who can supply us directly. That way, we can obtain better prices and more consistent quality of locally grown foods. Shorter distances to our stores mean that lead times and transport costs are reduced, which enables us to deliver savings to our customers.

Our Grocers Platform provides opportunities of sustainable growth for small and middle-sized farmers. In 2019, we increased the number of our partners within the programme by 8%.

Our customers appreciate the wide variety and consistently high quality of locally produced goods. Regional economies benefit from such partnerships as do our customers. We will continue to develop new partnerships with local suppliers and growers in 2020. We will focus on differentiating from the competition to offer a unique selection to our customers and provide growth opportunities for our local partners.

CARING FOR THE ENVIRONMENT
We take care of the environment wherever we operate, striving to make them cleaner, more beautiful and more pleasant places to live. Through our participation in a variety of environmental campaigns, we encourage Lenta employees to play an active role in developing a positive culture of care for the environment.

WASTE
Lenta produces various types of waste, which is removed for us by third party contractors. During the year we reduced the amount of waste produced and continued to improve our recycling rates; we now recycle 100% of the cardboard and plastic wrap that we use in our stores and Distribution Centres. In 2019 we centralised our waste collection scheme and increased the volume of recycled waste.

In 2019 all our hypermarkets were equipped with special containers for battery collection within the project we started three years ago. Donations included 2,500 backpacks, 25,000 notebooks and 15,000 sets of pens. Employees personally congratulated 14,000 children from the sponsored institutions on the Day of Knowledge.

Lenta’s “Good Deeds” campaign is a traditional New Year charity activity. Children from local orphanages and institutions place their “wish” on Christmas trees in our stores, and our customers can choose a card and buy the gift. In 2019, 321 stores in 88 cities took part in the project, making the wishes of 14,400 children come true.

In 2019 we continued to invest in pricing for our customers and to create attractive promotions for our own produced dishes and our private label ranges. In this way, we can obtain better prices and more consistent quality of locally grown foods. Shorter distances to our stores mean that lead times and transport costs are reduced, which enables us to deliver savings to our customers.

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We implemented a risk-oriented model in our approach to safety at work and delivered additional training and supporting materials to promote the rules of safe behaviour in the work place. In order to improve the efficiency of training, we automated some related processes. For example, we introduced a robot that reminds employees about training courses and monitors them as they progress through the various stages. This has improved the effectiveness our training, we have been able to reduce time spent training by 70%. We also developed an IT system for registering accidents; this allows our people, in an automated way, to inform management about the case and obtain recommendations on further action.

All Lenta store managers conduct daily and monthly “safety walks” as part of our Active Safety programme. These walks aim to identify any potential risks to staff and customers, ensure that the staff check safety equipment and are fully aware of hazards. Employees are encouraged to report every safety-related incident, no matter how small, so that the cause can be identified and any likelihood of recurrence eliminated.

Our injury rate was unchanged from last year, despite the Company opening new stores in 2019. Lenta’s main health and safety targets in 2019 continued to be the maintenance of high standards across the Company and the automation of various processes to improve employee safety. We centralised various processes into specific groups; for example a group for investigation and analysis of near misses and another for ecological projects.

The Company contributed supplies and stationery worth around Rub 1.5 million to 263 social institutions as well as low income families in need of support.

ENERGY
We piloted the installation of glass doors on vertical fridge units in 2019. As a result, we reduced electricity consumption by over 20%. We plan to roll this out to our stores in 2020.

20% of our hypermarkets and supermarkets are equipped with energy-efficient LED lightning.

SUPPORTING LOCAL COMMUNITIES
We strive to improve the quality of life for children and families in difficult circumstances; we also support elderly people and others who need our help.

In August, 276 Lenta stores in 88 cities took part in our “Help to get a child to school” initiative. The Company contributed supplies and stationery worth around Rub 15 million to 263 social institutions as well as低 income families in need of support.

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In 2019, we have been working on initiatives to achieve operational efficiency and improve our cash flow. Our efforts started to pay off as we saw some improvements in the dynamics of our SG&A in the second half of the year due to optimization of the headcount, our marketing costs, and other operating expenses. Our team also achieved good results in managing working capital, which along with tight control over capital expenditures resulted in a strong free cash flow of around Rub 17bn. Considering a new stage of the company’s development and our own efforts, we maintain our target to remain free cash flow positive and deliver value to our shareholders.

Sales
Total sales grew 10% to Rub 417.5bn (2018: Rub 408.0bn), including retail sales growth of 4.0% to Rub 408.0bn (2018: Rub 399.2bn) and wholesales decline of 55.5%. The figures represent the results in accordance with the standard IFRS 16.

Gross profit margin improved to 22.0% from 21.5% in 2018. The company mainly benefited from higher retail margin as an increase in promo share as % of sales by 4 bps, y-o-y was fully compensated by a combined effect of higher promo margin and better coverage of promo activities by suppliers. Additional positive effect came from a significant decline in share of low-margin wholesale business in the total sales throughout the year. Expansion of the company’s own production and increased volumes led to a rise in related costs by 43 bps. Share of shrinkage increased by 13 bps as a result of ongoing changes in procurement, including increased direct import and direct contracts with suppliers. At the same time, Lenta recorded declining shrinkage in fresh food category as a result of the company’s focused efforts.

GROSS MARGIN

The company reviewed the economic useful life of land improvements and an increase in rental costs linked to the re-assessment of economic useful life of land improvements and an increase in rental costs linked to the indexation of rental fees.

Supply-chain cost as % of sales rose by 17 bps to 13.3% in 2019 vs 12.2% in 2018. An increase was mainly driven by higher fuel prices and higher personnel expenses following an expansion of own truck fleet and launch of new distribution centers. Nonetheless higher transport costs were largely offset by a decrease in the share of deliveries by own truck fleet, increase in supply-chain income versus the previous year and ongoing improvements in transportation efficiency. The company’s average centralization ratio increased to 4.2% from 5.0% in 2018.

Personnel costs as % of sales grew by 56 bps y-o-y due to one-off expenses related to management, compensation and further stores expansion. Professional fees were higher as % of sales by 12 bps mainly due to rapid growth of the share of customer payments by debit and credit cards. Country-wide increase in tariffs resulted in higher utilities, cleaning and communal cost which increased by 1.0 p.p. y-o-y due to one-off expenses related to management, compensation and further stores expansion.

SG&A increased to 18.3% of sales (1.6 p.p. higher vs. 2018) mostly due to higher personnel expenses, higher depreciation linked to reassessment of economic useful life of land improvements and an increase in rental costs linked to the re-assessment of economic useful life of land improvements and an increase in rental costs linked to the indexation of rental fees.

Total sales grew 1.0% to Rub 417.5bn (2018: Rub 413.6bn), including retail sales growth of 4.0% to Rub 408.0bn (2018: Rub 399.2bn) and wholesales decline of 55.5%. The figures represent the results in accordance with the standard IFRS 16.

Net Loss of Rub 2.1bn due to non-cash expenses, with negative Net Profit margin of 0.5% compared to Net Profit of Rub 18.3bn in 2018 with Net Profit margin of 2.9%.

Capital expenditure
Capital expenditures in 2019 were 36.1% lower than in 2018 and amounted to Rub 14.1bn. The reduction mainly reflected the effect of slower organic expansion, tight control over expenses and changes in phasing of payments for some planned non-expansion projects. At 31 December 2019 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling Rub 6.2bn net of VAT (30 June 2019: Rub 6.7bn net of VAT).

Cash flow
Net cash generated from operating activities before net interest and income taxes paid increased by 32.1% and reached Rub 42.1bn compared to Rub 32.4bn in 2018. The company improved its inventory levels, which resulted in better working capital in the reported year. Additional positive impact came from higher trade payables compared to 2018 due to better supplier conditions.

Net debt and leverage
As of 31 December 2019, Net Debt to EBITDA stood at 2.3x, Lease Adjusted Net Debt to EBITDA at 3.2x and EBITDA to Net Interest at 3.7x. As of 31 December 2018, Net Debt to EBITDA stood at 2.6x, Lease Adjusted Net Debt to EBITDA at 3.4x and EBITDA to Net Interest was at 3.9x. The company had a gross debt of Rub 150.5bn and a cash balance of Rub 73.4bn, giving Net Debt of Rub 77.1bn. In addition, Lenta had Rub 89.1bn of undrawn short- and long-term facilities. New long-term loan facilities with lower 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. 69.6% of debt is long-term of which 21.2% is due within one year.

Net income
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RISK MANAGEMENT

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

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

Stage 1 – Risk identification
We conduct a ‘top down’ strategic risk assessment on an annual basis. This supplements a biannual functional ‘bottom up’ evaluation, which identifies risks at operational levels in the Company. These activities enable us to create a comprehensive risk profile.

Risk identification is also embedded into key business processes including budgeting, planning, capital expenditure and performance management.

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

Stage 3 – Risk response
When the ‘Current’ severity of a specific risk exceeds acceptable levels, action may be needed to align it with the ‘Target’ risk position. Risk Owners are accountable for managing the risk, with details of planned mitigation activities and delivery milestones set out in risk response plans.

Stage 4 – Risk monitoring, reporting and escalation
This involves the timely tracking, capture and sharing of risk information to enable review and notification of changes in risk exposure by management. It supports understanding and enables decision making on appropriate responses; these include management interventions to avoid a risk becoming reality in the first place, or to reduce its impact after the event.

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

The Audit Committee oversees and challenges the effectiveness of our approach. The management team provides regular oversight of commercial approaches and undertakes a biannual ‘top down’ assessment for the Audit Committee and Board to review. Functional heads within the Company are responsible for implementing risk management activities in their areas.

Starting in 2020, the Company is planning to update the risk register and perform the above stages twice a year. We have changed our risk management policy with regard to the assessment thresholds of the risk impact. From 2019 onwards, the Company will assess the impact of a risk occurring as a percentage of its annual figure for EBITDA.

As the market has adapted to geo-political tensions and related sanctions, our supply stability risk has decreased significantly and is no longer viewed as an immediate principal risk.

A slower pace of expansion together with a renewed focus on efficiency and company leverage delivered positive cash flow. Consequently, the Company’s external net debt decreased and exposure towards risks associated with having sufficient external financing are reduced. In addition, in the second half of the year, the Central Bank of Russia lowered its interest rates which, together with low inflation, helped to ease the overall financial risks.

With slowed organic expansion and increasing competition from existing and new players in the industry, Lenta needs to update its strategy with a view to ensuring the sustainability of its hypermarket format as well as developing new and sustainable growth opportunities. Otherwise, there is a risk that the Company could find itself entrenched with the majority of its business in the hypermarket segment.

In 2019 our wholesale business declined as expected and it no longer constitutes a significant part of our business. The Company performed a detailed store-by-store analysis and identified a number of significant areas for improvement. Management believes that the Company could find itself entrenched with the majority of its business in the hypermarket segment.

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changing macro-eco...031

changing macro-economic indicators. Rolling 6-month forecast. Continuously keep our customer offer relevant to consumer operating power. Continue to improve our supply chain.

strategic...2, 4, ABG Stable

increased...growth rate and...impact of the consumer environment. To improve in the second half of the year, lower growth of inflations using wages and higher real disposable income. There were no materially negative changes in 2019 to the political environment.

strategic...3, 2, G Decreasing

lower...increase in VAT tax on overall negative impact on the economic growth and consumption in 2019. The consumer environment started to improve in the second half of the year, with slower growth of inflations using wages and higher real disposable income. There were no materially negative changes in 2019 to the political environment.

strategic...2, 4, ABG Stable

actively...ability and...activity and behaviour of customers.1

strategic...3, 2, ABC Stable

increase...of direct imports and local sourcing by taking charge of the full value chain. Consistently purchase power on fewer suppliers. Develop supply chains with new partners and price positioning.

strategic...2, 4, ABCG New

continued focus on talent planning and people development processes in Lenta. Employed existing activity working with an understood workforce. Introduction of employee engagement through CSV and succession planning tools. Ongoing focus by the Board of Directors and management on succession planning.

operations...1, 5, ABCDGF New

increasing labour mobility and...that...other initiatives. Attention of senior and middle management to competitors.

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Lenta continues to engage and cooperate across its value chain with numerous suppliers, partners and authorities both at local, regional and federal level.

Our low price/low cost business model is aimed at generating market-leading sales levels, by consistently applying everyday low prices combined with deep and frequent promotions. Low cost is driven by the combination of high sales volumes with efficient business processes and store designs which, together, optimise store operating and supply chain costs. Our federal reach and sales volumes support this, and so enable us to negotiate competitive conditions with suppliers.

Lenta has significant financial resources, including committed and uncommitted banking and debt facilities. It also has a new long-term investor who became a majority shareholder during 2019. In assessing the Company’s viability, the Directors have assumed that the existing banking and debt facilities will remain in place or mature as intended. The Directors have also considered mitigating actions available to Lenta, including restrictions on capital investment, further cost reduction opportunities and future dividend policy. The Directors have assumed that these mitigating actions can be applied on a timely basis and at insignificant or no cost. Based on the results of our viability assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during this period.
02 Corporate Governance
ALEXEY MOROZHOV, CHAIRMAN
Alexey Morozhov was appointed a non-executive director of Lenta Plc in May 2019.
Board Committees: Nomination, Remuneration, Audit, Operation and Capital Expenditure.
Experience: Born in 1965. Alexey Morozhov has been working for Severstal since 1988. He started his career as a Senior Economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal’s Chief Executive Officer. Between 2002 and 2006 he served as CEO of Severstal Group and was Chair of Severstal’s Board of Directors. From December 2006 to December 2014 Alexey was CEO of Severstal. From December 2014 until May 2015 Alexey Morozhov served as CEO of AO Severstal Management – managing company of PAO Severstal. Alexey was elected Chairman of the Board of Directors of PAO Severstal in May 2015.
Other roles: Currently Alexey is CEO of Severgroup LLC. He is also Head of the Russian Union of Industrialists and Entrepreneurs’ Committee on Integration, Trade and Customs Policy and WTO; Supervisor Board member in Non-Profit Partnership “Russian Steel Association”, Co-chairman of the Northern Dimension Business Council, member of the Russian-German working group responsible for strategic economic and finance issues, Member of the EU-Russia Business Cooperation Council.
Other Selective Directorships: Nord Gold SE, TUI AG.
Qualifications: Alexey graduated from the Leningrad Institute of Engineering and Economics, holds an MBA from the Business School at the University of Northumbria in Newcastle, United Kingdom. He is awarded an Honorary Doctorate of Science from the Saint Petersburg University of Engineering and Economics (2001) and the Northumbria University (2003).

STEVE JOHNSON, SENIOR INDEPENDENT DIRECTOR
Steve Johnson has been an independent non-executive Director of Lenta Plc since 2010. He was appointed as Lenta’s Senior Independent Director in 2013.
Board Committees: Nomination (Chairman), Remuneration, Audit, Operation and Capital Expenditure.
Experience: Steve has over 20 years’ experience in the retail industry, having been part of the team that turned around and successfully sold Asda to Walmart. Whilst at Asda, Steve held several senior positions including Trading Director, Commercial Finance Director and Marketing Director. Following his time at Asda, he was CEO of Focus DIY Ltd and of Woolworths Plc, as well as Sales & Marketing Director at GUS Plc. He started his career in management consultancy with Bain & Co.
Other roles: Steve is currently a non-executive Director of Big Yellow Group Plc. He also works with a number of private equity firms primarily focused on Southern and Eastern Europe.
Qualifications: Steve graduated from Cambridge University, United Kingdom, with an Engineering degree.

MICHAEL LYNCH-BELL, INDEPENDENT DIRECTOR
Michael Lynch-Bell was appointed an independent non-executive Director of Lenta Plc in 2015.
Board Committees: Audit (Chairman), Remuneration (Chairman), Nomination.
Experience: Michael retired from Ernst & Young as Senior Partner in 2012 after a 36-year career with the firm. He was a member of Ernst & Young’s audit practice from 1974 to 1997, becoming a partner in 1981. During this period, as well as supervising and being involved in the audit of a number of multinational groups, he advised a wide range of companies on systems and controls, corporate governance, risk management and accounting issues. In 1997, Michael moved to Ernst & Young’s Transaction Advisory practice where he founded and led its UK IPO and Global Natural Resources transaction teams. He has been involved with the CIS since 1997 and has advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.
Other roles: Michael is also Deputy Chair and Senior Independent Director of Kaz Minerals Plc, Senior Independent Director and Audit Committee Chairman of Gem Diamonds Limited, Chairman of Little Green Pharma Ltd and a non-executive Director of Batworld Limited.
Qualifications: Michael graduated from Sheffield University with a BA in Economics and Accounting in 1974, qualified as an English Chartered Accountant in 1977, and was awarded on Honorary Doctorate of Humane Letters by Schiller International University in 2004.
ALEXEY KULICHENKO, NON-EXECUTIVE DIRECTOR
Alexey Kulichenko was appointed a non-executive Director of Lenta Plc in May 2019.
Experience:
In 1996–2003 Alexey held different managerial positions at Sun Interbrew, starting his career as a cash-flow economist at the Rosor plant in Omsk and ending it as Efficiency Planning and Managing Director. In 2003–2005 Alexey worked as CFO of Uzimilk. In December 2005 he joined JSC Severstal as CFO. In July 2009 he was appointed CFO of JSC Severstal.
Other roles:
Alexey currently serves as CEO of JSC Severstal’s Management – managing company for PAO Severstal and CFO of Severgroup LLC.
Other Selective Directorships: PAO Severstal.
Qualifications: Alexey graduated from Omsk Institute of World Economy with a degree in Economics.

ROMAN VASILKOV, NON-EXECUTIVE DIRECTOR
Roman Vasilkov was appointed a non-executive Director of Lenta Plc in May 2019.
Experience:
Roman Vasilkov joined Severstal in 2006 as an analyst at the Sales department. From 2008 till 2012 he held various positions in Severstal-Invest which is part of Severstal’s Russian Steel division. During this time Roman was responsible for the organization of the company’s AP management system, preparation of management accounting and process-business regulation. In 2012 he joined Corporate Control at Severgroup LLC.
Other roles:
Roman has a Bachelor’s in Financial Management, MIT in 2000.
Other Selective Directorships: Nord Gold SE, Tekel.
Qualifications: Roman graduated from the Military Engineering and Space Academy of Mozhaysky, St. Petersburg. In 2013 he graduated with an MBA from Harvard Business School and a BBA in foreign languages from Moscow State Linguistic University.

TOMAS KORGANAS, NON-EXECUTIVE DIRECTOR
Tomas Korganas was appointed a non-executive Director of Lenta Plc in August 2019.
Experience:
Tomas Korganas started his career at BCG and Goldman Sachs, after that he worked in and led Corporate M&A at GE, Rusal and Symantec for the next 10 years. In 2013, Tomas joined Severstal as Head of Corporate Development and soon after he was asked to assume some role of Severgroup. Since 2018, Tomas is also heading the Strategy at Severgroup.
Other roles:
Tomas currently serves as a Director for Strategy and M&A of Severgroup LLC and Head of Corporate Development of JSC Severstal.
Qualifications: Tomas graduated with B. Sc. in Engineering from Kaunas University of Technology in 1996, and MBA from Sloan School of Management. MIT in 2000.
EDWARD DOEFFINGER,
Chief Operational Officer (Coo)
Edward Doeffinger joined Lenta in 2011 as Chief Operational Officer.
Experience: Prior to joining Lenta, Edward served as Deputy General Director of Metro Cash & Carry Kazakhstan. Before starting his career in 1991 at Metro Cash & Carry (Germany), Edward held several positions in wholesale companies and worked as head of the dry food department at the Trade Ministry of the German Democratic Republic. During his 30 years’ experience in the retail industry he has held senior positions in various countries. In 1994 he obtained his first assignment outside Germany as a board adviser to Metro Cash & Carry in Hungary. After a year in Hungary, Edward became a member of the Metro Jinjiang team (China) and worked as a Store General Director and later as Head of Store Development for several years in China before moving to Russia in 2001. In Russia Edward was responsible for the business operations of Metro Cash & Carry in the Prokholzsky, Ural and Siberian regions. He was also responsible for the Metro Cash & Carry Kazakhstan business operations as a Deputy CEO.
Qualifications: Edward has a degree in Economics from the Hochschule fuer Oekonomie Berlin.

RUD PEDESEN,
Chief Financial Officer
Rud Pedersen was appointed Chief Financial Officer on 1 April 2019.
Experience: Before his current role, Rud served as CFO of Carlsberg Eastern Europe and was responsible for operations in five FSU markets. Over the last 25 years he has held a number of senior management positions in a diverse range of businesses including FMCG, fashion and apparel retail and pharma. Rud has had experience in regional and group level roles, including Cadbury (Russia), Astrazeneca (Belgium), Laxus Strauss (Belgium) and IC Group (Denmark). He started his career with Deloitte.
Qualifications: Rud holds the Master of Science degree in International Business Administration & Commercial Law from Aarhus School of Business (Denmark). He also has an EMBA from London Business School (UK).

HERMAN TINGA,
Chief Executive Officer
Herman Tinga joined Lenta in 2013 as Chief Commercial Officer and was appointed CEO in December 2018.
Experience: Prior to joining Lenta, Herman was Non-Food Global Category Management & Sourcing Director at Metro AG. He has 33 years’ experience in retail and cash & carry. Herman has held board and VP positions with METRO Cash & Carry in Netherlands and Russia and senior management roles in Dutch department store chain V&D as well as supervisory roles with Electric City and shoe importer REMO. At Metro Cash & Carry he was involved as international sponsor in sourcing across Asia and Europe and helped lead the development of customer-centric category management for Metro group.
Qualifications: Herman has a Bachelor’s degree from the Netherlands Institute of Marketing.

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Qualifications: Herman has a Bachelor’s degree from the Netherlands Institute of Marketing.
Dmitry Bogod, Chief Strategy & Marketing Officer

Dmitry Bogod joined Lenta in 2016 as Chief Strategy Officer. Experience: Dmitry has over ten years of experience in strategy consulting for international companies. Before joining Lenta, Dmitry was an associate partner in McKinsey’s Moscow office, where he focused on strategy and marketing projects for Russian and international retailers and FMCGs. Prior to that, Dmitry worked at Oliver Wyman, advising companies on consumer related strategy and operational topics. Prior to consulting, Dmitry worked with Aon Benfield Securities, RBC Capital Markets, and Manulife Financial. Qualifications: Dmitry has an Honours Bachelor of Science Degree in Applied Mathematics from the University of Toronto.

Jaap van Vreeden, Sourcing and Procurement Director

Jaap van Vreeden joined Lenta as Procurement Director in 2015. Experience: Jaap has over 30 years’ international experience in the retail industry across sourcing, procurement, marketing and brand management. Prior to joining Lenta, he was a consultant for Li&Fung and implemented category and procurement management in supermarket and hypermarket chains. Earlier in his career, Jaap worked as CCO for Modis in Russia and for over eight years held VP positions in Ahold USA and CEE. Qualifications: Jaap holds a diploma in Retail, Economic and Administrative studies from the Delft College in the Netherlands.

Tatiana Yurkevich, HR Director

Tatiana Yurkevich joined Lenta in 2012 as Human Resources Director. Experience: Prior to joining Lenta, Tatiana served as Human Resources Director at Fraser Batteries & Confectionery, Russia. During her 17 years in HR management, she has held senior positions including Head of HR at United Heavy Machinery Group and Izhora Plants, and HR Director of Caterpillar European Fabriques and Caterpillar Toms. Tatiana has experience in leading Six Sigma Programme implementation as a Deployment Champion in Caterpillar. Qualifications: Tatiana has a master’s degree in International Economics from St. Petersburg State University as well as English and German language degrees from Novosibirsk State Pedagogical University and an MBA in Strategy from International Management Institute Link (the UK’s Open University).
C O R P O R A T E  
G O V E R N A N C E  
R E P O R T

LENTA  
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S E R G E Y  P R O K O F I E V ,  
L E G A L  A N D  G O V E R N A N C E  
R E L A T I O N S  
D I R E C T O R

Sergey Prokofiev joined Lenta as Legal and Government Relations Director in 2012.
Experience: Prior to joining Lenta, Sergey worked for Metro Cash & Carry for 11 years in different positions including Legal and Compliance Director. He started his career as an expert interpreter and later worked as a lawyer in a major Russian law firm and as a defending attorney at the Moscow City Bar.
Qualifications: Sergey graduated from the Military Institute of Foreign Languages (‘VKIMO’) and the Institute of Law. He holds a PhD in Law from the Institute of Legislation and Comparative Law under the Government of the Russian Federation and an MBA in Strategic Management from California State University.

S E R G E Y  K O R O T K O V ,  
C H I E F  I N F O R M A T I O N  
O F F I C E R

Sergey Korotkov joined Lenta in 2018 as Chief Information Officer.
Experience: Sergey has extensive expertise in information technology, supported by over 25 years of experience in both Russian and international companies. Before joining Lenta, Sergey was most recently Senior Vice President and CIO at Gloria Jeans, where he led the company’s digital transformation. Prior to that, he was CIo at DIry Group, where he led the development and implementation of its IT strategy. He has also held similar positions at PepsiCo, Transaero Airlines, and Bristol-Myers Squibb Russia.
Qualifications: Sergey graduated with honours from Moscow State University with a Master’s Degree in Applied Mathematics.

A N N A  L O G U N O V A ,  
I N T E R N A L  A U D I T  
D I R E C T O R

Anna Logunova joined Lenta in 2011 as Director for Supply Chain Controlling; she was appointed Director for Supply Chain and Investment Controlling in 2013, taking responsibility for Operational Controlling in 2014. Since March 2018, Anna occupies the position of Chief Audit Executive (CAE) in Lenta. Prior to joining Lenta, Anna was Supervisor Costing at Philip Morris International (Russia).
Qualifications: Anna graduated with honours from St. Petersburg State Technical University. She holds a master’s degree in Economics and Management.

V A D I M  M O N A K H O V ,  
D I R E C T O R  O F  B U S I N E S S  
S U P P O R T

Vadim joined Lenta in August 2019 as the Director of Business Support.
Experience: Prior to joining Lenta, Vadim was in charge of security in Utkonos. Before that, Vadim worked in law-enforcement authorities and was fighting organized crime and drug traffic. Vadim retired in the rank of major general.
Qualifications: Vadim graduated from Gorky Higher school of the USSR Ministry of internal Affairs.
CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code (‘the Code’) sets out principles and specific provisions on how a company should be directed and controlled to achieve good standards of corporate governance. As a company incorporated in the British Virgin Islands (BVI) with GDRs admitted to the Official List, we are not required to comply with the provisions of the Code. However, we have chosen to comply with the Code to an appropriate and practicable extent. As of the date of this report, the Board considers that Lenta fully complies in all material respects with the Code, with the exception of the following provisions:

- the Chairman of the Board was not independent on his appointment;
- there is not a majority of independent directors on the Board;
- the whole Board is available to attend the AGM but it is not a requirement that each member attends.

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

The Code was revised in July 2018 for application to accounting periods beginning on or after 1 January 2019. We reviewed new Code, and put necessary procedures in place to ensure that we are in substantial compliance with these changes during the 2019 financial year.

Although BVI law imposes certain general duties on Company directors, (including the duty to act in the best interests of the Company), there is no specific corporate governance code or corporate governance regime in the BVI.

REDOMICATION

Lenta accomplished its incorporation in Cyprus in the form of a public limited liability company and discontinued its incorporation under the laws of the BVI effective February 21, 2020. On July 18, 2019 the Board of Directors passed the resolution on the commencement of the Redomica-

C I S T R A T I G M E R T O R E P O R T 0 4 8 
CORPORATE GOVERNANCE REPORT LENTA ANNUAL REPORT AND ACCOUNTS 2019

the resolution approving the Re-domiciliation, amendments to the new Memorandum and Articles of Association and related matters. A notice to the BVI Registry of Corporate Affairs of the intention to re-domicate to Cyprus was delivered, and an applica-

REGISTRATION ISSUING A temporary certificate of continuation in Cyprus. As from February 21, 2020, Lenta is considered to be a legal entity incorporated in Cyprus. As part of the redomiciliation Lenta Ltd changed its name to Lenta PLC and it is subject to the Cypriot Company Law as amended, other relevant Cypriot legislation, common law principles and EU directives where applicable and implemented in Cyprus. In addition the UK Corporate Governance Code will continue to be applied.

LEADERSHIP

The Chairman leads the Board, ensuring its effectiveness at the same time as taking the interests of the Group’s various stakeholders into account and promoting high standards of corporate governance.

The roles of Chairman and CEO are distinct and separate.

THE CHAIRMAN’S RESPONSIBILITIES INCLUDE:

- ensuring the Directors receive accurate, timely and clear information;
- facilitating the effective contribution of non-executive Directors and engagement between executive and non-executive Directors;
- building an effective Board;
- the induction of new Directors and further training for all Directors as required;
- communicating effectively with shareholders and other stakeholders and ensuring the Board develops an understanding of the view of stakeholders;
- ensuring an annual evaluation of the Board is conducted and leading the performance evaluation of the CEO and non-executive Directors.

THE CEO’S RESPONSIBILITIES INCLUDE:

- leading the development of the Company’s strategic direction and implementing the agreed strategy;
- identifying and executing new business opportunities;
- managing the Group’s risk profile and implementing and maintaining an effective framework of internal controls;
- building and maintaining an effective management team;
- ensuring effective communication with shareholders and regularly updating institutional shareholders on business strategy and performance.

THE KEY ROLES AND RESPONSIBILITIES OF THE SENIOR INDEPENDENT DIRECTOR (SID) INCLUDE:

- acting as a sounding board for the Chairman;
- serving as an intermediary for the other Directors when necessary;
- being available to assist in resolving shareholder concerns, should alternative channels be exhausted;
- holding at least one meeting each year with the non-executive Directors without the Chairman present;
- monitoring the training and development needs of Directors;
- overseeing the Chairman’s appraisal and succession, and
- ensuring that Committee chairman conduct performance evaluations of their Committees.

Stephen Johnson was the SID throughout the year ending 31 December 2019. He was selected for the role thanks to his extensive experience and expertise in both executive and non-executive capacities in the retail world, including international experience.

Though Mr. Johnson has served on the Company Board for more than nine years, the Board of Directors considers him to be independent, due to the following significant factors:

(a) he has not received and does not receive any additional remuneration from the Company apart from a director’s fee, does not participate in the Company’s share option or a performance-related pay scheme, and is not a member of the Company’s pension scheme;

(b) he is not and has not been an employee of the Company or the Group within the last five years, does not have any close family ties with any of the Company’s advisers, directors, and/or employees; and

(c) he holds no cross-directorships and has no significant links with other directors through involvement in other companies or bodies, and does not represent any significant shareholder.

NON-EXECUTIVE DIRECTORS (NEDs)

The NEDs provide an essential independent element to the Board, and a solid foundation for strong corporate governance. They fulfil a vital role in corporate accountability, albeit all Directors are equally accountable under BVI law. NEDs are required to challenge, in a constructive way, the strategies proposed by the executive Directors. They are also responsible for scrutinizing the performance of management in achieving agreed goals and objectives. Furthermore, they play a key role in the functioning of the Board and its Committees. Between them, the current NEDs have an appropriate balance of skills, experience, knowledge and independent judgement to undertake their roles effectively.

MATTRES SPECIFICALLY RESERVED FOR THE DECISION OF THE LENTA LTD BOARD OF DIRECTORS

Management, strategy and planning

The Board is responsible for the overall management of the Group. The Board discharges some of its responsibilities directly and discharges others through Board Committees and the Senior Management team. This includes approval of the strategy, for which it has collective responsibility, business plans and budgets, as well as approval of any material restructuring or reorganisation. It also includes the establishment of material new areas of business. The Board also reviews performance in light of the strategy, objectives, business plans and budgets, ensuring that any necessary corrective action is taken.

Operations and transactions

This includes approval of significant capital and non- capital expenditures as well as any withdrawal of significant asset disposals and any other transactions that could have a material effect on the strategic or financial plans of the Company and the Group, including making or responding to takeover bids.

Capital structure

The Board approves changes relating to capital structure including allotment of shares, reduction of capital (except under employee share plans) and share buybacks. It also approves major changes to the Group’s corporate structure and the Company’s listings or its status as a company limited by shares.

Loans and dividends

This includes approval of any substantial new loan or similar facility (including financial leases) from third parties or material amendment to any such facilities.
including material loans or similar facilities made available to third parties. The Board also oversees the Company’s dividend policy, declaration of interim and recommendation of final dividends and approval of other distributions to shareholders, as well as any new pension schemes or significant changes to existing pension schemes.

Public reporting and controls

The Board meets at least quarterly to review results as well as the Annual Report and Accounts. It also approves material changes in principal accounting policies and practices, treasury policies and related risk management strategy, and framework. It also approves the recommendation of the Audit Committee, the Board recommends to the Shareholders the appointment or removal of the external auditor.

Remuneration

This includes approving the Directors’ and Officers’ insurance cover and remuneration policies and rules relating to share-based incentive schemes. The Board also determines the remuneration policy for executive Directors and certain senior executives. It also approves the remuneration of non-executive Directors.

Corporate Governance

The Board is responsible for the overall performance and that of its Committees and individual Directors. It is responsible for determining the risk appetite of the Group and ensuring maintenance of an effective system of internal control and risk management. It also approves and revises policies, including health, safety and environment policies, share dealing rules, code of conduct, anti-bribery and corruption policy and corporate governance arrangements. The Board also calls any general meetings and approves documents sent to shareholders. It also recommends any changes to the Company’s Memorandum and Articles of Association and considers material litigation or regulatory investigations affecting the Lenta Group. It is responsible for the approval of political donations and the appointment of key corporate advisors.

Other

The Board also considers other matters of strategic or reputational importance likely to have a significant impact on the Company. Where, exceptionally, decisions on matters specifically reserved for the Board are required to be taken urgently between Board meetings, such decisions shall be taken by a Directors’ written resolution pursuant to Article 129 of the Articles of Association of the Company. The Board is responsible for managing the business and may exercise all of its powers in doing so, except to the extent that any such power must be exercised by the shareholders in accordance with applicable BVI law or the Company’s Memorandum and Articles (‘M&A’). The Board also, by virtue of direct or indirect holdings of our shares in our consolidated subsidiaries, provides strategic management of our affairs and those of our consolidated subsidiaries. The day-to-day operations of our operating company, Lenta LLC, are managed by Senior Management as described below.

Board of Directors

The Board is responsible for managing, directs and supervises the business of the Company. The Board oversees the Officers of the Company and succession planning. The Board, in some circumstances, may appoint a Director to fill an empty seat on the Board. The Board may also establish committees and set their responsibilities.

As shown below, our Directors have a wide range of complementary skills and experience. The Board currently consists of nine Directors, of which three – Michael Lynch-Bell, Julia Solovaya and Stephen Johnson – are judged by the Board to be independent Directors according to the provisions of the UK Corporate Governance Code. Our CEO and CFO, who are also the General Director and Chief Financial Officer of Lenta LLC, are Directors, but are ineligible to serve on Board Committees. The remaining four Directors – including the Chairman – were elected by the shareholders pursuant to the nomination rights of the Major Shareholders.

Board Focus during the Year

In 2019, the Board considered a wide range of matters, including:

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

Anti-Bribery and Corruption

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

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

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

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

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

During 2019, new employees were trained on the Compliance Programme. We reviewed and updated the Group’s policies during the year. A number of these policies can be viewed on the corporate website at http://lentainvestor.ru/en/about/corporate-governance/.

Risk Management and Control

The Board has overall responsibility for risk management, and determines the Group’s risk strategy, it also approves risk appetite and monitors risk exposure consistent with strategic priorities. The Board has established a Group-wide system of risk management and internal control, which identifies and enables risk management and the Board to evaluate and manage the Group’s principal risks. Due to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss and is designed to manage rather than eliminate risk. The effectiveness of the Group’s system of internal control is regularly reviewed by the Board, as is the Group’s risk management framework, with specific consideration given to material financial, operational and sustainability risks and controls, with appropriate steps taken to address any issues identified. During 2019, no significant internal control failures were identified.

The Board has appointed an internal auditor to oversee the risk management framework and the effectiveness of the Group’s financial reporting, internal control and assurance systems. Each Board Committee provides updates on any risks considered in its remit when providing regular updates to the Board.

The Board confirms that throughout 2019 and up to the date of approval of the Annual Report and Accounts, rigorous processes have been in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten the Group’s resources and maintain compliance with the Group’s policies and legal and regulatory requirements. It advises on ways in which areas of risk can be addressed and provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal Audit’s work is focused on the Group’s principal risks, the Head of Internal Audit reports to the Risk function work together when considering the appropriate scope and focus of internal audits. The programme of work of the Internal Audit department is considered by the Audit Committee, subject to any additional suggestions from the Committee. The audit plan has space for ad hoc audits as required by the Committee or management.

Under the Internal Audit plan, a number of audits take place across the Group’s operations and functions to identify areas for improvement of the Group’s internal controls. Findings are reported to relevant operational management who put in place processes for strengthening controls as necessary. The Board provides oversight on the implementation of recommendations and reports on progress to senior management and to the Audit Committee. The Head of Internal Audit reports regularly to the Chair of the Audit Committee and
LENTA Annual Report and Accounts 2019

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

EFFECTIVENESS
The appointment of new Directors is led by the Nomination Committee, the majority of whose members are independent non-executive Directors. Details of the appointments process can be found on page 27. All new Directors receive a personalised induction programme, tailored to their experience, background and area of focus. This is designed to develop their knowledge and understanding of the Company’s culture and operations. The programme incorporates a wide-ranging schedule of meetings with Senior Management across the Company, comprehensive briefing materials and opportunities to visit the Company’s operations, including spending time at new store openings, in store and in our distribution network.

All Directors have the opportunity to increase their knowledge of the Company through visits to the Company’s operations, including spending time at new store openings, in store and in our distribution network.

The Board makes a careful assessment of the time commitments required from the Chairman and non-executive Directors to discharge their roles properly. This is discussed with candidates as part of the recruitment process and a commitment to the appropriate time requirements is included in engagement letters. Directors are expected to attend every Board meeting and every meeting of any Committee at which they are a member, unless there are exceptional circumstances preventing their attendance. Scheduled Board and Committee meetings are arranged at least a year in advance to allow Directors to manage other commitments. The Chairman reviews each Director’s development needs as part of the annual performance evaluation process and puts appropriate arrangements in place for specific training. The Nomination Committee reviews the Directors’ skills and experience as a group against those needed to oversee and support the Company’s future operations, and identifies any gaps. Training is arranged to develop the knowledge and skills of the Directors in a variety of areas relevant to Lenta’s business.

Board papers are, ordinarily, circulated a week before each meeting to give the Directors and Committee members sufficient time to fully consider the information. All Directors have access to the Company Secretary and may take independent professional advice at the Company’s expense in conducting their duties.

CONFLICTS OF INTEREST
Directors have a statutory duty to avoid situations in which they have or could have a direct or indirect interest that conflicts or may conflict with the interests of the Company. A Director has a duty to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she has a personal interest. The Board is a procedure for authorising conflicts or potential conflicts of interest. Under this procedure, Directors are required to declare all directorships or other appointments outside the Company that could give rise to a conflict or potential conflict of interest.

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

### BOARD AND COMMITTEE ATTENDANCE DURING THE YEAR

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<tr>
<td>Maxim Bakhtin</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tomas Korganas</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Changes to the Board in 2019

Jago Lemmens retired from his CFO role on 1 April 2019. Rud Pedersen was appointed Chief Financial Officer on 1 April 2019.

Since Severgroup LLC (“Severgroup”), acquired in aggregate 78.73% of the Lenta voting shares (including in the form of GDRs, excluding treasury shares), the Board has used its authority to fill the four vacant seats on the Board:

1. Alexey Mordashov was elected Chairman on 28th of May, 2019.
2. Roman Vasilev was appointed the non-executive Director of Lenta Plc in May 2019.
3. Alexey Kulichenko was appointed the non-executive Director of Lenta Plc in May 2019.
4. Tomas Korganas was appointed the non-executive Director of Lenta Plc in August 2019.

### BOARD COMMITTEES

#### CHANGES TO THE BOARD IN 2019

The following Board and Committee meetings are scheduled for 2020:

<table>
<thead>
<tr>
<th>Committee</th>
<th>Meeting Date</th>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Remuneration</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Nominations</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

The terms of reference for Lenta’s Board were last revised and updated in October 2019 and the Committees terms of reference in December 2019. Details are set out in the Corporate Governance section of the Company website: www.lentainvestor.com/en/about/corporate-governance/internal-policies.
The Audit Committee supports the Board in its responsibilities with regard to corporate reporting and risk management and internal controls, as well as with maintaining a relationship with the Company's external auditor. The Committee’s activities include the review of internal control systems and risk management, compliance with financial reporting requirements and the scope, results and cost effectiveness of the external audit and the internal audit function.

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

In 2019, the Committee reviewed the Company’s financial results, including significant financial reporting and management and corporate reporting. As part of the review of the internal control, risk management and procedures in relation to internal control, the Committee reviewed the tax structuring project and matters related to establishing a representative office of Lenta Plc in Russia. We approved the appointment of Ernst&Young (“EY”) as a consultant for tax monitoring project. The Committee reviewed the reports on the redomiciliation of Lenta Plc and approved the resolution on re-domiciliation to Cyprus fulfilled on the 21st of February, 2020.

We worked on improvements to our insurance arrangements; reviewed the reports from our risk manager and staff’s objectivity, and the related safeguards; we reviewed the Company’s significant financial controls and updated risk management systems; reviewed the Company’s IT security measures and IT control systems; reviewed the content of the Annual Report and Accounts when requested by the Board; reviewing reports on changes in tax legislation and management’s proposed response; reviewing the Company’s significant insurance arrangements; reviewing the Company’s treasury policy; reviewing the Company’s procedures for detecting and preventing bribery and fraud; reviewing the Company’s compliance with the UK Corporate Governance Code; overseeing and reviewing the Internal Audit function, its terms of reference, effectiveness, plan, budget and procedures; reviewing the Company’s speakup policy and receiving reports on matters raised via the speak-up facility; recommending the appointment of the external auditor and overseeing the relationship; reviewing the terms of reference of the Committee, the results of the performance evaluation and the training requirements of Committee members; reporting to the Board on how the Committee has discharged its responsibilities.

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

At the heart of the Committee’s remit is the need to provide confidence in the integrity of Lenta’s processes and procedures in relation to internal control, risk management and corporate reporting.
The Committee received reports on the findings of the external auditor during its half yearly review and annual audit. It reviewed the recommendations made to management by the external auditor and management’s responses, as well as the letters of representation to the external auditor.

As indicated in last year’s annual report, we put the audit out for tender for audits commencing with the 2019 financial year. Following a competitive tender Ernst & Young LLC (EY) was reappointed as the Company’s auditor. Professional fees billed by Ernst & Young LLC are shown in the table below.

### Auditor’s Fees (Ernst & Young LLC)

<table>
<thead>
<tr>
<th>Description</th>
<th>2019 «000 RUB</th>
<th>2018 «000 RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of consolidated financial statements</td>
<td>26,282</td>
<td>21,510</td>
</tr>
<tr>
<td>Consulting and other non-audit services</td>
<td>22,729</td>
<td>3,613</td>
</tr>
<tr>
<td>Total fees</td>
<td>49,011</td>
<td>25,123</td>
</tr>
</tbody>
</table>

**Significant Issues Considered by the Audit Committee**

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

### Impairment

The Company’s management took a decision to reassess its impairment of assets. Impairment charge was made on 103 objects (56 hypermarkets and 47 supermarkets, and 5 objects including land, buildings, construction in progress. Management proposed to make a decision on the stores’ closure subject to rent negotiations. The Committee agreed with their decision.

### Suppliers’ allowances

The Committee reviewed the accounting for and recognition of suppliers allowances received for the provision of services. The review included consideration of the types of allowances received, the period of coverage and the timing of receipt. Based on this review, the Committee is satisfied that the allowances are recognised in the period in which they are earned and that appropriate disclosure has been made in the financial statements.

### Inventories and inventory allowances

The Committee reviewed the accounting for inventories and the recognition of write-downs during the period. The review took into consideration the calculation of the cost of inventories, the identification of slow-moving inventories and the reasons why shrinkage had occurred. Based on this review, the Committee agreed with the accounting treatment and disclosures adopted by management.

### Capital construction

The Committee examined the accounting for capital construction including the recognition of direct costs incurred, the allocation of directly attributable overheads and land lease expense. The review included a consideration of potential fraud risk, the construction tender process and the acquisition or leasing of land. The Committee agreed with the accounting treatment and disclosures adopted by management.

### Ethics Committee

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

### Taxation

The Committee received regular updates on tax developments in Russia from management and the Company’s advisors, together with management’s interpretation of the impact of current tax legislation on the Company. The Committee concurred with management’s judgement on the positions adopted and the related disclosures.

### Going concern

The Committee reviewed management’s adoption of the going concern basis of accounting. Management had taken into account the Company’s financial position, available borrowing facilities, loan covenant compliance, planned store opening programme and the anticipated cash flows and related expenditures from our retail stores. The Committee considered the position taken by management and, taking into account the external auditor’s review, concluded that management’s recommendation to prepare the financial statements on a going concern basis was appropriate. The annual report also includes a long-term viability statement, which can be found on pages 34–35. The Committee considered the statement and approved management’s disclosures.

### Share-based payments

The Committee reviewed the considerations made by management in relation to the accounting for remuneration received by certain employees in the form of share-based payments. In addition, management had evaluated the required disclosures for inclusion in the financial statements. Having challenged the appropriateness of key assumptions used by management, the Committee agreed with management’s assessment and disclosures.

As our competitors target Lenta employees as a highly professional workforce, our objective is to ensure that our succession planning process is fit for purpose and we have well trained professionals to drive our business.
Lenta has a very well-developed system for performance appraisal across all functions in the business. This is embedded in the way the Company works and is used to manage performance and identify high achievers with development needs and the potential to move into more senior roles.

- making recommendations to the Board of Directors’ conflicts of interest for authorisation, where appropriate;
- making recommendations to the Board regarding the appointment of new Directors, and identifying, interviewing, selecting, and determining the independence of candidates with suitable industry or key competency experience;
- reviewing Board level, Senior Management and Company-wide succession planning and other human resources-related matters;
- reviewing the leadership needs of the Company, both executive and non-executive, to ensure the continued ability of the organisation to compete in the marketplace.

A copy of the Committee’s full terms of reference is available on the Company’s website: http://www.lentainvestor.com/en/about/corporate-governance/internal-policies. The Human Resources Director may be invited to attend any meeting of the Committee, except for portions of the meetings where their presence would be inappropriate, as determined by the Committee Chairman. There are four Committee meetings scheduled for 2020.

**PERFORMANCE APPRAISAL SYSTEM**

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

Lenta’s appraisal system plays an important part in the Company’s succession planning process. The Committee receives regular reports on the conduct of the appraisal process and the outputs from appraisals for all levels of employees, with particular focus on the more senior levels of the management team.

During the year Lenta promoted around 4,000 people within the business. We provided 1.8 million man hours of training and development investment for our employees.

**SUCCESION PLANNING**

Lenta continues to be able to offer significant and exciting opportunities for its high-performing employees. One of our key objectives is to ensure there are role model opportunities for talented people to progress their careers at Lenta, and that any vacant positions can be filled with the minimum of disruption to the business.

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

**BOARD PERFORMANCE**

Lenta’s policy is to assess Board performance annually, with an external review every three years. An external Board assessment was carried out in 2018 by Prim CoSec (which has no connection with the Company). In 2019 the Board executed internal evaluation, the results are being analyzed.

The Committee seeks to do this in several ways:

- **Salaries:** Base salaries are kept under review with internal and external benchmarking. The Committee works closely with the management team to ensure that necessary salary increases are identified and implemented in a timely manner.

- **Annual Bonus:** Lenta operates a Company-wide bonus plan, monthly and quarterly for store and DC line personnel, quarterly and annual for head office employees and management in stores and the DCG. The KPIs for this plan are set annually by the Committee in consultation with the CEO and HR Director. The Committee is mindful that the annual bonus payments are not just a reward for great performance but also a significant element in retaining and recruiting good people. During 2019, performance against the 2019 targets was assessed and an overall payout of 50% of the maximum was agreed in the form of a one-time reward. Overall performance was 46.8%, the trigger related to OEBITDA was not met.

- **Long-Term Incentive Plans (LTIPs):** The Company operates a number of long-term incentive plans for both senior and middle management. These are designed to ensure reward for — and retention of — managers against a set of performance criteria, which are aligned with stakeholder interests.

The work of the Remuneration Committee is set out on pages 59 to 61. The interests in the Company’s share capital held by Senior Management and the remuneration received by the Chairman and the non-executive Directors are set out on page 64. The Directors’ interests in the Company’s share capital are set out on page 64.

**ROLE AND RESPONSIBILITIES**

The key roles and responsibilities of the Remuneration Committee include:

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

A copy of the Committee’s full terms of reference is available on the Company’s website: http://www.lentainvestor.com/en/about/corporate-governance/internal-policies.
OVERVIEW OF LONG-TERM INCENTIVE PLAN FOR SENIOR MANAGEMENT IN 2019

SHARE-BASED AWARDS

Starting from 2019, the LTIP operates according to the following rules:
- The LTIP awards are granted annually with a vesting period of three years;
- The amount of award depends on job grade (percentage of annual salary) and individual performance evaluation of the manager;
- The award is then split into two equal parts—shares and cash. The shares-based part of award is determined based on share price for the first quarter of the grant year. The cash award is protected against inflation;
- Manager’s eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-compete, and non-solicitation.

The LTIP 2019 with a vesting date in 2022 was approved, granting a total of 343,336 Shares and 693.8 mn Rub which represents around 197% of the annual salary of this group, this amount includes increased LTIPs granted as part of key talent retention program.

The change of ownership of Lenta had an effect on the LTIP awards of senior management according to their grant agreements. The plans, effective on the moment of change of control, vested proportionate to the time elapsed from grant date by the decision of the Remuneration committee with the remaining part vesting according to the original schedule but no later than 2 years from the change of ownership of Lenta. According to that decision 916.9 mn Rub were paid to Senior management on change of control, 979 mn Rub remaining in the retention program vesting by May, 2021.

Special One Off Awards

These one-off awards were granted in Q4, 2018. These programs are cash based and aim to protect the value of the earlier granted long-term incentives and retain Senior Management.

The award has the following conditions:
- Full vesting period is 4 years, each year vesting a certain percentage (the original vesting schedule was revised due to change of control);
- The amount of award was defined individually and fixed in cash;
- A manager’s eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-compete, and non-solicitation.

The total amount of allocated award: 5,62.2 mn Rub First tranche of the award vested in April 2019 and May 2019 (with the change of ownership of the company payout of 180.2 mn Rub). The remaining 365.9 mn Rub shall be paid over a period of time until May, 2021 according to the clause in award agreements limiting the vesting period to 2 years from change of control, in case it occurs.

Dropping below target pay for the specific labor market. In order to retain staff and DC personnell additional fringe and benefits programs were approved with a very possible impact on overall turnover. A special retention plan was approved by the Remuneration Committee for key managers in Lenta to assure their retention in conditions of high competition for talent. The plan consists of a salary increase calendar, individual training programs and other important employee benefits. In addition, to improve attractiveness, a flexible work schedule and opportunity for remote work were offered as part of the benefits package.

The Committee also approved a new annual long-term incentive plan with a vesting period of three years for 92 key middle managers. The LTIP for middle managers also consists of two parts: cash and share based. The total value of this award is 83,140 shares and 94.9 mn Rub which represents around 44% of this group’s annual salary.
The key terms of each member of Senior Management’s participation in the MIP are set out below:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Number of Phantom Shares Total</th>
<th>Base Price (rub)</th>
<th>Hurdle Reference Price (rub)</th>
<th>Hurdle Reference Date</th>
<th>Vesting Period Commencement Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herman Tinga</td>
<td>1st grant 188,931</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2015</td>
</tr>
<tr>
<td></td>
<td>2nd grant 35,000</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2019</td>
</tr>
<tr>
<td></td>
<td>3rd grant 42,000</td>
<td>2,214</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2019</td>
</tr>
<tr>
<td>Edward Doeffinger</td>
<td>1st grant 102,523</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2012</td>
</tr>
<tr>
<td>Jooern Arnhold</td>
<td>85,686</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2012</td>
</tr>
<tr>
<td>Sergey Prokofiev</td>
<td>35,988</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2013</td>
</tr>
<tr>
<td>Tatiana Yurkevich</td>
<td>35,988</td>
<td>1,516</td>
<td>1,375</td>
<td>01.04.2013</td>
<td>01.04.2013</td>
</tr>
</tbody>
</table>

Summary of MIP conditions by two allocation waves is shown below

<table>
<thead>
<tr>
<th>Wave 1</th>
<th>Wave 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vested Shares</td>
<td>Vested Shares</td>
</tr>
<tr>
<td>388,931</td>
<td>265,787</td>
</tr>
<tr>
<td>Base Price (rub)</td>
<td>Base Price (rub)</td>
</tr>
<tr>
<td>1,516</td>
<td>1,516</td>
</tr>
<tr>
<td>Minimum Reference Price (rub)</td>
<td>Maximum Reference Price (rub)</td>
</tr>
<tr>
<td>1,375</td>
<td>2,214</td>
</tr>
<tr>
<td>Datevesting</td>
<td>Datevesting</td>
</tr>
<tr>
<td>23.09.2011</td>
<td>01.04.2013</td>
</tr>
<tr>
<td>Vesting Period Commencement Date</td>
<td>Vesting Period Commencement Date</td>
</tr>
<tr>
<td>01.04.2013</td>
<td>01.04.2013</td>
</tr>
</tbody>
</table>

**SUMMARY OF NON-EXECUTIVE DIRECTORS’ REMUNERATION POLICY**

<table>
<thead>
<tr>
<th>Element</th>
<th>Principle and Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of appointment</td>
<td>A non-executive Director of Lenta LLC receives a letter of appointment; if they do not receive a letter of appointment, there is no notice period for termination.</td>
</tr>
<tr>
<td>Chairman and non-executive Directors</td>
<td>The fees are reviewed periodically by the Committee in which the independent non-executive Directors are members.</td>
</tr>
<tr>
<td>Time commitment and the responsibility of the role</td>
<td>A non-executive Director’s role includes the period during which the Director serves as a Director.</td>
</tr>
<tr>
<td>External market practice</td>
<td>There has been no increase in the level of fees paid to the independent non-executive Directors since the Company’s IPO.</td>
</tr>
<tr>
<td>Recruitment</td>
<td>Fees for the independent non-executive Directors are determined by the Board as a whole, upon the recommendation of the Remuneration Committee.</td>
</tr>
<tr>
<td>Other benefits</td>
<td>The independent non-executive Directors do not participate, nor do they receive any pension provision.</td>
</tr>
<tr>
<td>Fees for the independent non-executive Directors are determined by the Board as a whole, upon the recommendation of the Remuneration Committee.</td>
<td></td>
</tr>
<tr>
<td>Fees for the independent non-executive Directors are determined by the Board as a whole, upon the recommendation of the Remuneration Committee.</td>
<td>Fees are set at a level sufficient to attract, motivate and retain the world-class talent necessary to contribute to a high-performing board.</td>
</tr>
</tbody>
</table>

**Summary of non-executive Directors’ remuneration policy**

- **Chairman and non-executive Directors**
  - Fees are determined by the Board as a whole, upon the recommendation of the Remuneration Committee.
  - Fees are set at a level sufficient to attract, motivate and retain the world-class talent necessary to contribute to a high-performing board.
NON-EXECUTIVE DIRECTORS’ FEES

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Total Holding as of Dec 31, 2019 (Holders in Shares)</th>
<th>Approximate Holding as of Dec 31, 2019 (70% of Share Capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herman Tinga</td>
<td>3,179</td>
<td>Les than 0.01%</td>
</tr>
</tbody>
</table>

FINANCIAL OBJECTIVES & EPI INCENTIVE SCHEME

<table>
<thead>
<tr>
<th>Financial Objectives</th>
<th>EPI</th>
<th>Incentive Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company revenue</td>
<td>Turnover</td>
<td>Annual Bonus Scheme</td>
</tr>
<tr>
<td>Increase earnings and returns</td>
<td>EBITDA</td>
<td>Annual Bonus Scheme</td>
</tr>
<tr>
<td>Increase shareholder value</td>
<td>Share price</td>
<td>LISP</td>
</tr>
</tbody>
</table>

SHARING ALIGNMENT OF PAY

| The table below shows the integration between Lenta’s financial key performance indicators and the senior remuneration framework for 2019/20. This clearly demonstrates a clear linkage between performance metrics, payments to Managers and business performance over the short and long term. |

<table>
<thead>
<tr>
<th>Financial Key Performance Indicators</th>
<th>Pay Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales space growth</td>
<td>Efficient Operations</td>
</tr>
<tr>
<td>Number of stores opened and in pipeline</td>
<td>Productivity</td>
</tr>
</tbody>
</table>

INTERESTS OF DIRECTORS IN LENTA SHARES ARE SUMMARISED IN THE TABLE BELOW:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Total Holding as of Dec 31, 2019 (Holders in Shares)</th>
<th>Approximate Holding as of Dec 31, 2019 (70% of Share Capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen Johnson</td>
<td>1</td>
<td>Less than 0.01%</td>
</tr>
<tr>
<td>Michael Lynch-Bell</td>
<td>3,200</td>
<td>Less than 0.01%</td>
</tr>
<tr>
<td>Julia Soloveeva</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

In 2019 we opened seven new hypermarkets and three supermarkets in Russia and met our initial guidance. We also restored a hypermarket in Saint-Petersburg that was damaged by fire in November 2018 and renovated one of the oldest stores in Saint-Petersburg.

Capital expenditure in 2019 amounted to RUB 14.1 bn, a decrease of 36.1% compared to 2018, mainly due to lower expansion.

During the year we focused on operational efficiency rather than on organic expansion.

We will review growth opportunities as they occur; the Board and senior management agree however that, in the present circumstances, it is particularly important to maintain an appropriate balance of leverage levels, pursuing investment project returns.

ROLE AND RESPONSIBILITIES

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

- Advising the Board with regard to the overall capital expenditure strategy of the Group;
- Reviewing the Company’s processes for approving capital expenditure projects;
- Approving the limits of authority for capex-related decisions;
- Reviewing and approving all capex and mergers and acquisitions projects within the Committee’s limits of authority;
- Reviewing and making recommendations on how the overall capex plan aligns with the Company’s strategy;
- Undertaking to ensure that improvement programmes relating to the design, construction and operation of new stores are defined and implemented in cooperation with management;

We approved 15 investment proposals in 2019 including opening of new hypermarkets and supermarkets in 2020. We also worked together with management on improving the efficiency of the existing stores and maintaining their compliance with applicable regulations.

ACTIVITIES DURING THE YEAR

In 2019 the Operation and Capex Committee evaluated the best opportunities in the market reviewing and making recommendations to the Board on the Company’s investment strategy, policy and risk management.

We worked on improvements to the Company’s underperforming stores and analysed the feasibility of investments required to increase profitability of these stores. Thus, the Committee approved the remodeling of Lenta-T1 (Saint-Petersburg, Rustaveli street) in line with JdV 1.75 concept to protect Lenta market position.

The Committee also took a decision to extend the selling space of a Lenta-100 (Khanty-Mansiysk), Ural, to deliver sales growth.

The Committee approved investments in Lenta’s logistics infrastructure, informational and technical solutions to develop client-centric activities and processes.

We approved 15 investment proposals in 2019 including opening of new hypermarkets and supermarkets in 2020. We also worked together with management on improving the efficiency of the existing stores and maintaining their compliance with applicable regulations.
IN connection with Severgroup acquiring shares of TPG Capital and EBRD as well as the subsequent mandatory tender offering under which the first mention acquired a shareholding of 77.99% in Lenta Ltd, the Board of Directors of Lenta Ltd appointed on 26th February 2019 a Bid Committee in accordance with Regulation 13.1 of the Articles.

Accordingly the oversight of the mandatory tender offering was delegated to the Bid Committee consisting Stephen Johnson and Michael Lynch-Bell, in light of other previous members of the Board of Directors having acknowledged a potential conflict of interest arising from the possible sale of shares by their respective nominating shareholder, and as such were prohibited from voting pursuant to Regulation 15.5 of the Articles. The Bid Committee was delegated full authority, subject to the restrictions set out in Regulation 13.2 of the Articles, to approve, amend, execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to have approved, executed and done in connection with the mandatory tender offering. Several meetings were held during the period up to and including the completion of the mandatory tender offering. Subsequently the Bid Committee was dissolved 18th July 2019.

RELATIONS WITH SHAREHOLDERS

We are committed to conducting constructive dialogue with shareholders to ensure that we understand what is important to them and enable clear communication of our position. The CEO and CFO hold regular meetings with shareholders and update the Board on the outcomes of those meetings. CFO keeps the Board informed of investor, broker and analyst views, and reports and presents formally to the Board at each scheduled Board meeting.

We support engagement with institutional shareholders as envisaged by the Stewardship Code and have a dedicated investor relations website.

At our AGM, all resolutions are proposed and voted upon individually by shareholders or their proxies. All votes taken during the AGM are by way of a poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting.

SCHEDULE OF INVESTOR CALLS IN 2020

<table>
<thead>
<tr>
<th>MONTH</th>
<th>DATE</th>
<th>DAY</th>
<th>TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>24</td>
<td>Friday</td>
<td>16:00 – 17:00</td>
</tr>
<tr>
<td>February</td>
<td>25</td>
<td>Tuesday</td>
<td>16:00 – 17:00</td>
</tr>
<tr>
<td>April</td>
<td>22</td>
<td>Wednesday</td>
<td>16:00 – 17:00</td>
</tr>
<tr>
<td>July</td>
<td>27</td>
<td>Monday</td>
<td>16:00 – 17:00</td>
</tr>
<tr>
<td>October</td>
<td>21</td>
<td>Wednesday</td>
<td>16:00 – 17:00</td>
</tr>
</tbody>
</table>

RESPONSIBILITY STATEMENT

We, members of the Board, confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of Lenta Plc and its subsidiaries taken as a whole. This annual report includes a fair review of the development and performance of the business and the position of Lenta Plc and its subsidiaries, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

Alexey Mordashov
Chairman, Lenta Plc
21 February 2020
F I N A N C I A L     S T A T E M E N T S
INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF LENTA LTD.

OPINION
We have audited the consolidated financial statements of Lenta Ltd. and its subsidiaries (hereinafter, the “Group”), which comprise the consolidated financial statements as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

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

TRANSITION TO IFRS 16 LEASES
Effective 1 January 2019, the Group adopted IFRS 16 Leases (IFRS 16).

When adopting the new standard, the Group applied a modified retrospective approach.

The adoption of the new standard resulted in the recognition of a right-of-use asset in the amount of RUB 36,307,620 thousand and additional lease liabilities in the amount of RUB 34,120,022 thousand.

The adoption of IFRS 16 was one of the key audit matters because the effect of transition to the new standard is significant and changes in the accounting policy required management to make judgments with respect to approaches. In addition, identifying and processing of lease liabilities, and the valuation of the right-of-use asset and lease liabilities is based on assumptions such as the discount rate and lease term in agreements with extension options.

Information about the adoption of IFRS 16 is disclosed in Note 4 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE GROUP’S 2019 ANNUAL REPORT
Other information consists of the information included in the Group’s 2019 Annual Report, other than the consolidated financial statements and our auditor’s report thereon.

Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in so doing, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group’s financial reporting process.

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

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

• Identify and assess the risks of material misstatement of the consolidat-
ed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.
- Communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the Board of Directors with a statement that we have compiled with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The partner in charge of the audit resulting in this independent auditor’s report is I.Y. Ananyev.

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

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

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

The partner in charge of the audit resulting in this independent auditor’s report is I.Y. Ananyev.

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

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Ltd and its subsidiaries (”the Group”) as at 31 December 2019 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;
- preparing 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 IFRS is 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 also is 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 2019 were approved by management on 21 February 2020. On behalf of the Management as authorised by the Board of Directors.

Herman Tinga
(CEO of Lenta Ltd.)
Rud Pedersen
(CFO of Lenta Ltd.)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(in thousands of Russian roubles)

<table>
<thead>
<tr>
<th>Assets</th>
<th>NOTE</th>
<th>31 DECEMBER 2019</th>
<th>31 DECEMBER 2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>7</td>
<td>171,024,063</td>
<td>165,443,239</td>
</tr>
<tr>
<td>Prepayments for construction</td>
<td>8</td>
<td>2,992,996</td>
<td>2,129,876</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>9</td>
<td>3,170,537</td>
<td>4,929,794</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>10</td>
<td>896,928</td>
<td>444,316</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>20</td>
<td>203,138,787</td>
<td>187,927,212</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>12</td>
<td>41,500,851</td>
<td>38,653,245</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>13</td>
<td>11,272,602</td>
<td>8,604,102</td>
</tr>
<tr>
<td>Advances paid</td>
<td>14</td>
<td>2,772,184</td>
<td>1,582,931</td>
</tr>
<tr>
<td>Total current assets</td>
<td>16</td>
<td>90,465,976</td>
<td>71,654,387</td>
</tr>
<tr>
<td>Total assets</td>
<td>20</td>
<td>325,450,268</td>
<td>278,393,188</td>
</tr>
</tbody>
</table>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian roubles)

<table>
<thead>
<tr>
<th></th>
<th>NOTE</th>
<th>YEAR ENDED 31 DECEMBER 2019</th>
<th>YEAR ENDED 31 DECEMBER 2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td>417,500,015</td>
<td>413,562,197</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>23</td>
<td>(325,482,536)</td>
<td>(324,767,890)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>92,017,479</td>
<td>88,794,307</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>24</td>
<td>(69,094,871)</td>
<td>(70,083,512)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>25</td>
<td>5,047,761</td>
<td>6,993,465</td>
</tr>
<tr>
<td>Operating profit before impairment</td>
<td></td>
<td>24,216,641</td>
<td>24,084,453</td>
</tr>
<tr>
<td>Impairment of non-financial assets</td>
<td>26</td>
<td>(132,188)</td>
<td>(11,849,959)</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td>23,084,453</td>
<td>24,084,453</td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td>(9,699,272)</td>
<td>(15,866,946)</td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td>608,472</td>
<td>3,827,178</td>
</tr>
<tr>
<td>Foreign exchange gains/(losses)</td>
<td></td>
<td>(176,371)</td>
<td>220,503</td>
</tr>
<tr>
<td>E(LOSS)/Profit before income tax</td>
<td></td>
<td>11,794,294</td>
<td>14,817,282</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>20</td>
<td>(3,022,988)</td>
<td>(190,684)</td>
</tr>
<tr>
<td>(LOSS)/Profit for the year</td>
<td></td>
<td>11,629,408</td>
<td>11,526,600</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income to be reclassified to profit or loss in subsequent periods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss from cash flow hedges</td>
<td></td>
<td>(203,108)</td>
<td>(206,108)</td>
</tr>
<tr>
<td>Income tax relating to the cash flow hedges</td>
<td></td>
<td>(4,122)</td>
<td>(203,108)</td>
</tr>
<tr>
<td>Other comprehensive loss for the year, net of tax</td>
<td></td>
<td>11,424,608</td>
<td>11,526,600</td>
</tr>
<tr>
<td>Total comprehensive (loss)/income for the year, net of tax</td>
<td></td>
<td>11,424,608</td>
<td>11,526,600</td>
</tr>
<tr>
<td>E(LOSS)/earnings per share (in thousands of Russian roubles per share) (Note 18)</td>
<td></td>
<td>(0.029)</td>
<td>0.121</td>
</tr>
</tbody>
</table>

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2018 and reflect reclassification described in Note 4.

The accompanying notes on pages 78 to 107 are an integral part of these financial statements.
### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian roubles)

<table>
<thead>
<tr>
<th>NOTE</th>
<th>YEAR ENDED DECEMBER 2019</th>
<th>YEAR ENDED DECEMBER 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands of roubles)</td>
<td>(in thousands of roubles)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities (Loss)/Profit before income tax</strong></td>
<td>(2,605,191)</td>
<td>14,817,282</td>
</tr>
<tr>
<td><strong>Adjustments for:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss on disposal of property, plant and equipment</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Loss on disposal of intangible assets</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Concession of lease contracts</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(15,846,945)</td>
<td>(15,692,722)</td>
</tr>
<tr>
<td>Interest income</td>
<td>(5,823,718)</td>
<td>(6,034,718)</td>
</tr>
<tr>
<td>Inventory write-down to net realisable value</td>
<td>12</td>
<td>313,381</td>
</tr>
<tr>
<td>Net foreign exchange gain attributable to financing activities</td>
<td>(122,220)</td>
<td>(122,220)</td>
</tr>
<tr>
<td>Impairment of advances paid and prepayments for construction, reversal of allowance for expected credit losses of accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>4,110</td>
<td>11,659,679</td>
</tr>
<tr>
<td>Impairment of non-financial assets</td>
<td>4,110</td>
<td>11,604,009</td>
</tr>
<tr>
<td>Share options expense</td>
<td>26</td>
<td>4,355,321</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities (Loss)/Profit before income tax</strong></td>
<td>(2,605,191)</td>
<td>14,817,282</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>33,872,399</td>
<td>32,161,722</td>
</tr>
</tbody>
</table>

**Movements in working capital**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 2019</th>
<th>Year Ended December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decrease/increase in trade and other receivables</strong></td>
<td>13</td>
<td>2,266,306</td>
</tr>
<tr>
<td><strong>Decrease/increase in advances paid</strong></td>
<td>14</td>
<td>999,233</td>
</tr>
<tr>
<td><strong>Decrease/increase in prepaid expenses</strong></td>
<td>15</td>
<td>18,042</td>
</tr>
<tr>
<td><strong>Decrease/increase in inventories</strong></td>
<td>12</td>
<td>2,233,588</td>
</tr>
<tr>
<td><strong>Decrease/increase in trade and other payables</strong></td>
<td>21</td>
<td>(203,309)</td>
</tr>
<tr>
<td><strong>Increase/decrease in contract liabilities and advances received</strong></td>
<td>175,192</td>
<td>19,503,001</td>
</tr>
<tr>
<td><strong>Increase in net other taxes payable</strong></td>
<td>16,223</td>
<td>99,104</td>
</tr>
<tr>
<td><strong>Cash from operating activities</strong></td>
<td>48,434,408</td>
<td>32,419,702</td>
</tr>
</tbody>
</table>

**Income taxes paid**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 2019</th>
<th>Year Ended December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(15,663,909)</td>
<td>(10,440,177)</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>(13,964,105)</td>
<td>(22,144,328)</td>
</tr>
</tbody>
</table>

**Cash flows from investing activities**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 2019</th>
<th>Year Ended December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proceeds from sale of property, plant and equipment</strong></td>
<td>76,970</td>
<td>177,087</td>
</tr>
<tr>
<td><strong>Purchases of intangible assets</strong></td>
<td>(886,872)</td>
<td>(642,512)</td>
</tr>
<tr>
<td><strong>Impairment of non-financial assets</strong></td>
<td>(11,849,959)</td>
<td>(132,188)</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>(18,439,679)</td>
<td>(11,977,519)</td>
</tr>
<tr>
<td><strong>Increase in expected credit losses of accounts receivable</strong></td>
<td>(2,709,023)</td>
<td>(871,201)</td>
</tr>
<tr>
<td><strong>Increase in income taxes</strong></td>
<td>(127,442)</td>
<td>(1,791,820)</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in contract liabilities and advances received</strong></td>
<td>175,192</td>
<td>(15,988)</td>
</tr>
<tr>
<td><strong>Increase in net other taxes payable</strong></td>
<td>16,223</td>
<td>99,104</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>48,434,408</td>
<td>32,419,702</td>
</tr>
</tbody>
</table>

**Cash flows from financing activities**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 2019</th>
<th>Year Ended December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proceeds from borrowings</strong></td>
<td>230,030,804</td>
<td>132,800,000</td>
</tr>
<tr>
<td><strong>Repayments of borrowings</strong></td>
<td>(236,720,812)</td>
<td>(236,720,812)</td>
</tr>
<tr>
<td><strong>Payments for the principal portion of the lease liabilities</strong></td>
<td>(2,848,226)</td>
<td>(2,848,226)</td>
</tr>
<tr>
<td><strong>Purchase of treasury shares</strong></td>
<td>(219,019)</td>
<td>(219,019)</td>
</tr>
<tr>
<td><strong>Net cash generated from financing activities</strong></td>
<td>21,891,900</td>
<td>19,503,001</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the year</strong></td>
<td>33,804,860</td>
<td>14,301,859</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>73,404,760</td>
<td>33,804,860</td>
</tr>
</tbody>
</table>

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian roubles)

<table>
<thead>
<tr>
<th>SHARE CAPITAL</th>
<th>ADDITIONAL PAID-IN CAPITAL</th>
<th>RESERVING RESERVE</th>
<th>TREASURY SHARES</th>
<th>SHARE OPTIONS RESERVE</th>
<th>RETAINED EARNINGS</th>
<th>TOTAL EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>26,935,309</td>
<td>(291,091)</td>
<td>632,165</td>
<td>55,473,276</td>
<td>82,750,659</td>
<td></td>
</tr>
<tr>
<td>Change in the accounting policies due to application of IFRS 16 (Note 4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 1 January 2019</strong></td>
<td>26,935,309</td>
<td>(291,091)</td>
<td>632,165</td>
<td>54,238,545</td>
<td>81,515,928</td>
<td></td>
</tr>
<tr>
<td>Loss for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>27,062,751</td>
<td>(1,011,190)</td>
<td>390,536</td>
<td>78,150,892</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Russian roubles)

<table>
<thead>
<tr>
<th>SHARE CAPITAL</th>
<th>ADDITIONAL PAID-IN CAPITAL</th>
<th>RESERVING RESERVE</th>
<th>TREASURY SHARES</th>
<th>SHARE OPTIONS RESERVE</th>
<th>RETAINED EARNINGS</th>
<th>TOTAL EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January 2018</strong></td>
<td>284</td>
<td>26,480,481</td>
<td>164,866</td>
<td>825,176</td>
<td>44,316,649</td>
<td>71,783,276</td>
</tr>
<tr>
<td>Reclassification (Note 4)</td>
<td>(284)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 1 January 2018 (restated)</strong></td>
<td>26,480,481</td>
<td>164,866</td>
<td>825,176</td>
<td>44,316,649</td>
<td>71,783,276</td>
<td></td>
</tr>
<tr>
<td>Change in the accounting policies due to application of IFRS 16 (Note 4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 1 January 2019</strong></td>
<td>26,480,481</td>
<td>164,866</td>
<td>825,176</td>
<td>43,678,982</td>
<td>71,164,809</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>27,062,751</td>
<td>(1,011,190)</td>
<td>390,536</td>
<td>78,150,892</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2018 and reflect reclassification described in Note 4.

**Notes**

Additional paid-in-capital is the difference between the fair value of consideration received and nominal value of the issued shares. Treasury shares: Treasury shares are own equity instruments reacquired by the Group.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(IN THOUSANDS OF RUSSIAN ROUBLES)

1. THE LENTA GROUP AND ITS OPERATIONS

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

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company’s registered address is at P.O. Box 3340, Road Town, Tortola, BVI. The registered office of the Group’s main operating entity, Lenta LLC, is located at 112, Lit. B, Savushkina Street, 197374, Saint Petersburg.

In September 2019 the Company established a representative office in St. Petersburg.

In October 2019 the Company was registered as a Russian tax resident.

In December 2019 the Company has started the process of its readmission to Cyprus.

Further to obtaining shareholder approval of the readmission on 19 December 2019 the Company applied on 19 December 2019 to the Department of Registrar of Companies and Official Receiver ("DRCOR") for continuity of the Company’s incorporation into Cyprus. The readmission will be effective upon the issue by the DRCOR of a certificate of temporary readmission to Cyprus.

Starting from March 2014 the Company’s shares are listed on the London Stock Exchange and Moscows Exchange in the form of Global Depository Receipts (GDR). The ordinary GDRs were issued on 31 December 2018 the Group has one main operating subsidiary, Lenta LLC (100% owned), a legal entity registered under the laws of the Russian Federation.

Other subsidiaries are property or investment holding companies by their nature.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis 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 foreseeable future, which take into account the current and expected economic situation in Russia, the Group’s financial position, available borrowing facilities, and loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

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

At 31 December 2019, the Group had net current liabilities of RUB 6,846,744 (net current assets at 31 December 2018: 11,204,494).

Unsold credit facilities available as of 31 December 2019 were RUB 991,660,000. Management believes that operating cash flows and available borrowing capacity will provide the Group with adequate resources to fund its liabilities for the next year.

2.2. 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, the Group determines the fair value of the acquiree’s identifiable assets, liabilities assumed or their fair value, maximising the use of observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

1. Level 1 quoted (unadjusted) market prices in active markets for identical assets or liabilities;
2. Level 2 valuation techniques for which all significant unobservable inputs are significant to the fair value measurement as a whole;
3. 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 not recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by assessing categorisation (based on the lowest level input that is significant to the fair value measurement) as a whole at the end of each reporting period.

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

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian rouble ("RUB"), the national currency of the Russian Federation.
The primary economic environment in which operating entities function. Transactions in foreign currencies are initially recorded by the Group’s entities at the functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency as at the date of the statement of financial position. Differences arising on settlement or translation of monetary items are recognised in a foreign currency asset or liability. 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 at a different exchange rate in a different period is treated in line with the recognition of gain or loss from change in fair value of the item.

Property, plant and equipment
Property, plant and equipment are initially recorded at purchase or construction cost. Cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. All other repair and maintenance costs are expensed as incurred. Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Significant costs directly attributable to disposals determined by comparing net proceeds with the respective carrying amount are recognised as gains or losses. 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 connection with the construction. 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 adjusted, if necessary, to reflect an impairment loss.

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.

Leases
The Group has lease contracts for land and buildings. Before the adoption of IFRS 16, the Group classified each of its leases (as leases) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any accrued rent was recognised under advances paid and trade and other payables, respectively.

At initial application and subsequently as well the Group accounts for lease contracts by derecognising the related intangible asset and is required to derecognise the related intangible asset in a business combination.

Intangible assets
Intangible assets acquired separately are measured at 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. Intangible assets are amortised over their useful life, which is the period during which the economic benefits are expected to be derived from the use of the asset. An intangible asset’s useful life is the period over which it is expected to generate benefits to the entity.

Impairment of non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets and disposal groups and tests them for impairment where there is evidence that they may be impaired. Evidence of impairment is required before the asset can be said to be impaired. An impairment loss is recognised immediately in profit or loss. The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are derecognised when the Group is committed to sale, i.e. when the sale is probable and the consideration for the sale is expected to be received. The carrying amounts of non-current assets are reviewed at least at the end of each reporting period. Changes in the carrying amount of non-current assets as a result of an impairment loss are reversed in the period in which the event or the change in the estimating assumptions that led to the impairment loss reverses, if the item is subsequently used or disposed of, or is reversed if the item is subsequently held for sale. Non-current assets are derecognised at the lower of cost or net realisable value. Impairment losses on assets sold as part of a disposal group are recognised in the profit or loss in the period in which the disposal group is derecognised.

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

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

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

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

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

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

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with management’s interpretation of the relevant legislation enacted or substantively enacted as at the reporting date. The income tax charge comprises the provision of the income tax 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 reasonably be estimated, it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, 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 joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are recognised at fair value. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets and liabilities arising from temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

Inventories

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

Borrowing costs

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

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 capitalised rate to the expenditures on that asset. The capitalisation rate is the weight-averaged of the borrowing costs applicable to borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Revenue from contracts with customers

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

The Group recognises revenue when control of the goods and services is transferred to the customer, generally for the retail customers it is considered to have occurred when the time of sale at a portfolio level is considered to have occurred in the stores at the point of sale. Revenue is recognised in the period and is recognised in the interim periods in which they are earned.

Employee benefits

The Group is subject to mandatory contributions to the Russian Federal Employee Benefits Fund for general social insurance benefits, the Russian Pension Fund for certain employees, the Russian Retirement Fund for certain employees and the Russian Social Insurance Fund. As at the end of the financial period, the Group’s contributions are based on statutory rates with reference to employee benefits.

The Russian pension system is a mandatory social insurance in which employees of the Group receive individual equal benefit contributions.

The Group contributes a proportion of its performance on the basis of long-term profit-related performance obligation because it generally provides a material right to the customer. The Group allocates a portion of its performance to the loyalty programme based on relative stand-alone selling price and recognises as a contract liability.

Other income

Income generated from rental of space for the retail 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.

Sale from secondary materials is recognised within the revalued amount in the consolidated statement of profit or loss and other comprehensive income.

The carrying amount of the asset and the sale expected to be made specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalised rate to the expenditures on that asset. The capitalisation rate is the weight-averaged of the borrowing costs applicable to borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
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 numerous retail stores and in various regions within the Russian Federation, the Group’s chief operating decision maker reviews the Group’s performance based on the consolidated reporting of its individual retail outlets and retail store groups reporting performance 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 has one reportable segment under IFRS 8. Segment performance is assessed on a measure of revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

Seasonality

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

Financial assets

Initial measurement

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

Measurement categories of financial assets

The Group classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either:

- Amortised cost; or
- Fair value through profit or loss; or
- Fair value through other comprehensive income; or
- FVOCI; or
- FVPL.

Leases 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.

The Group measures amounts of loans and receivables at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

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

The Group’s business model is not assessed on an instrument-by-instrument basis, but on the basis of the gross book balances and the gross book value of these balances, with observable and unobservable inputs and outputs that might be used in valuation models.

The Group’s business model is determined at the level at which the Group manages the financial assets. Each financial asset is assessed for the relevant business model and, if there is more than one business model, the Group identifies the business model that best reflects the manner in which the Group manages the financial assets.

The Group manages its business model based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management层; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity’s key management层; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity’s key management层; and
- The way those risks are managed; and
- How managers of the business are compensated for (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected future and timing of sales are also important aspects of the Group’s assessment of the business model.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” considerations and is based on cash flows after initial recognition and realise in a way that is different from the Group’s own business model. The Group does not change the classification of the remaining financial assets held in that business model, but it may incorporate such an assessment newly originated or newly purchased financial assets going forward.

The SPPI test

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

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. For financial assets held at amortised cost, if there are repayments of principal or amortisation of the premium/discount.

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

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

Cash and cash equivalents

Cash includes cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments that the Group holds at FVPL, transaction costs are added to the value of the asset, or if the Group has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the asset is recognised at 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 guarantees 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 re-acquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss or 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. Where consideration related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

Ordinary shares are classified as equity. Transaction costs of a share issue are shown within equity as a deduction from the equity.

Additional paid-in capital

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

Earnings per share

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

Classification as debt or equity

Debt and equity instruments are classified as debt or 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 state.
ment of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is no indication that a net basis, to realise the assets and settle the liabilities simultaneously.

**Derivative financial instruments and hedging accounting**

**Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as interest rate swaps and forward currency contracts, to hedge its exposure to future variability in interest rate risk. 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 or liabilities, as applicable, at fair value on the date that the derivative positions hedge the fair value of the Group’s cash flows.

**3.2 Basis of consolidation**

The derivative financial instruments incorporate the financial statements of the Group and affect the reporting date. For the purposes of the Group’s financial statements, the derivative financial instruments are not hedged if they are not effective in offsetting the cash flows arising from the recognised assets and liabilities that they are designed to hedge. The Group designates financial instruments as hedges of its exposure to fair value risks, cash flow risks, and anticipated transactions. The designation of a derivative financial instrument as a hedge of its fair value exposure is based on the relative effectiveness of the hedging instrument and the hedged item.

**Applying the hedge accounting criteria**

Specifically, the Group designates an interest rate swap as a hedge of the change in fair value of a fixed rate loan, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of fair value exposure. The Group also designates an interest rate swap as a hedge of the change in the fair value of a financial asset, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of fair value exposure.

The Group designates as a hedge of its exposure to cash flow risks an interest rate swap which is intended to offset the change in fair value of a fixed rate loan, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of cash flow exposure. The Group also designates as a hedge of its exposure to cash flow risks an interest rate swap which is intended to offset the change in the fair value of a fixed rate loan, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of cash flow exposure.

The Group designates as a hedge of its exposure to both the change in the fair value of a financial asset and the change in the fair value of a fixed rate loan, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of both fair value and cash flow exposures.

The Group designates as a hedge of both the change in the fair value of a financial asset and the change in the fair value of a fixed rate loan, which affects the Group’s results of operations in the period in which the swap is designated as a hedge of both fair value and cash flow exposures.

**Estimates and assumptions**

The key assumptions concerning the future sales, cost of goods sold, and other key assumptions are described in Note 2 above. The Group’s key assumptions and estimates include the carrying amounts of assets and liabilities, the expected useful lives of assets, and the expected future cash flows from the sale of assets. The Group’s key assumptions and estimates include the carrying amounts of assets and liabilities, the expected useful lives of assets, and the expected future cash flows from the sale of assets. The Group’s key assumptions and estimates include the carrying amounts of assets and liabilities, the expected useful lives of assets, and the expected future cash flows from the sale of assets. The Group’s key assumptions and estimates include the carrying amounts of assets and liabilities, the expected useful lives of assets, and the expected future cash flows from the sale of assets. The Group’s key assumptions and estimates include the carrying amounts of assets and liabilities, the expected useful lives of assets, and the expected future cash flows from the sale of assets.
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 28 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 have become impaired. An asset is considered to be impaired 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 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.

Share-based payments
The Group measures the lease liability by discounting lease payments using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses its incremental borrowing rate, adjusted to take into account the specific terms and conditions of a lease, to reflect the interest rate that the Group would pay to borrow.

The right-of-use assets for most leases are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments or leasehold rights previously recognised. In some leases, the right-of-use assets were recognized based on the carrying amount as if the standard had always been applicable, apart from the use of incremental borrowing rate at the date of initial application.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. The lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein:

a) Used a single discount rate to a portfolio of leases with reasonably similar characteristics
b) Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
c) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:

a) Right-of-use assets of RUB 36,357,602 were recognised and presented separately in the statement of financial position.

b) Deferred tax liabilities decreased by RUB 3,010,573 because of the deferred tax impact of the changes in assets and liabilities.

c) The net effect of these adjustments had been adjusted to retained earnings in the amount of RUB (1,234,731) (loss).

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b) Deferred tax liabilities decreased by RUB 3,010,573 because of the deferred tax impact of the changes in assets and liabilities.

c) The net effect of these adjustments had been adjusted to retained earnings in the amount of RUB (1,234,731) (loss).
IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses how entities account for uncertainty over income tax treatments. It clarifies that the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 (income taxes), does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by tax authorities.
- How an entity determines taxable profit, income taxes, and tax losses.
- How an entity considers changes in facts and circumstances.
- An entity’s determination whether to consider each uncertain tax treatment separately or together with other uncertain tax treatments.

The Interpretation advises that the resolution of the uncertainty needs to be followed.

IFRIC clarifies that an entity applies the income tax treatments only if it has a reasonable compensation for the economic benefit available.

IFRIC 23 applies to income taxes and income tax treatment uncertainty.

The new and amended standards and interpretations are effective for fiscal years beginning on or after 1 January 2021. Early adoption is permitted.

Adjusted reserves in the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9 a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments to IFRS 9 also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the amount of the service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the assumptions applied to remeasure the net defined benefit liability (asset), reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group.

IFRS 17 Insurance Contracts

The amendments clarify that an entity takes part in, but does not have joint control of, a joint operation or joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interest in that joint operation are not remeasured.

An entity applies those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group has no qualifying assets, these amendments had no impact on the consolidated financial statements of the Group.

Reclassifications in the consolidated statement of financial position

Reclassification of share capital balance in the amount of EUR 264,927,137, additional paid-in capital was done as the Group’s shares were re-stated to be of no par value.

5. Standards issued but not yet effective

The new and amended standards and interpretations that have not been adopted, 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 new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005, IFRS 17 applies to all types of insurance (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantors and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in Interpretation 12, IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 applies a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

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

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

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments address the definition of whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment
The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be re-instated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

These amendments do not have any impact on the Group’s consolidated financial statements as no hedge effectiveness calculations are affected by the replacement of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.

The Conceptual Framework for Financial Reporting

Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. It is effective for annual periods beginning on or after 1 January 2020.

The Konceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition of assets and liabilities
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

Changes to Conceptual Framework (‘replacement of interest rate benchmark’) Amendments to significant impact on the Group’s consolidated financial statements. Amendments to IAS 1 Presentation of Financial Statements in the amount of liabilities as current or non-current. On 23 January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That the amounts are not affected by the likelihood that an entity will exercise its deferral right
- That only an embedded derivative in a convertible liability is itself an equity instrument

On 30 April 2019 LLC “Severgroup” ("Severgroup") has completed its acquisition of 166,383,595 Lenta GDRs, representing approximately 24.45% of the issued and outstanding voting shares (excluding treasury shares) in the Group from the investment vehicle of TPG Group, Luna Inc., as well as the acquisition of 36,076,870 Lenta GDRs representing approximately 7.47% of the issued and outstanding voting shares (excluding treasury shares) in the Group from the European Bank for Reconstruction and Development ("EBRD", in each case, at a price of US$ 3.60 per Lenta GDR. On 31 December 2019 Severgroup stake represents 709.0% of the share capital or 78.73% of the voting rights.

As a result of the deal Alexey Mordashov becomes the ultimate controlling party of the Group since 30 April 2019 (no ultimate controlling party as of 31 December 2018). TPG and EBRD cease to be related parties starting from May 2019.

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

- The company's remuneration to the Board of Directors and Key Management Personnel is as follows:
- Short-term benefits: 177,647
- Long-term benefits (including share-based payments, Note 26): 165,538
- Fixed-term benefits: 11,102

Total remuneration: 1,953,015

O2 › CORPORATE GOVERNANCE

O3 › FINANCIAL STATEMENTS

O4 › APPENDICES

LENTA LTD. AND SUBSIDIARIES

Chapter 3 – Financial statements

Chapter 2 – Accounting estimates and errors. The amendments must be applied in their entirety to transactions or other events that occur or on the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Materiality

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of “material” across the standards and to simplify certain aspects of the definition. The new definition states that, Information is material if omitting, presenting in a different manner or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Amendments are effective for annual periods beginning on or after 1 January 2020.

The amendments to IFRS 9

The amendments provide temporary reliefs which enable hedge account-
The impairment test has been carried out by comparing recoverable amount of the individual store with its carrying amount. The recoverable amount was defined as the higher of its fair value less costs to sell and value-in-use. 

Due to the number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU. The key assumptions used in determining the value in use are:

- Cash flow forecasts for capital expenditure are based on past experience and forecasts approved by the management and represented by forecasted EBITDA along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period (12 months);
- Cash flow forecasts for capital expenditure and ongoing cash flows are prepared on an undiscounted basis;
- Capital expenditures and obsolescence expenditure being allocated on reasonable basis;
- Carrying value of corporate assets that do not generate independent cash inflows (offices, distribution centers) were allocated to CGUs on consistent basis;
- Projections were made in the functional currency of the Group’s entities, being Russian Ruble, on a pre-tax basis and discounted at the Group’s pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (15.2%).

The Group’s management believes that all of its estimates are reasonable and consistent with the internal reporting and related management’s best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate, consistent with that in the consolidated financial statements.

See Note 27 for capital commitments.

8. PREPAYMENTS FOR CONSTRUCTION

Prepayments for construction are made to contractors building stores and to suppliers. Prepayments are regularly monitored for construction expenditures. As at 31 December 2019 prepayments for construction were impaired in the amount of RUB 236,851 (31 December 2018: RUB 325,092).

9. 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 or operations outside the Russian Federation (excluding investments in its wholly owned intermediate holding subsidiary Zaryano Holdings Limited, 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;
- Centralised Group structure (commercial, operational, logistic, finance, HR and IT functions are centralised).

The Group’s operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyse performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

The segment information for the year ended 31 December 2019 and 2018 is as follows:

<table>
<thead>
<tr>
<th>Segment Information for the Year Ended 31 December</th>
<th>Year Ended 31 December 2019</th>
<th>Year Ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation, impairments and amortisation</td>
<td>203,924,752</td>
<td>203,820,364</td>
</tr>
<tr>
<td>Prepayments for construction</td>
<td>10,385,059</td>
<td>11,072,070</td>
</tr>
<tr>
<td>Year ended 31 December 2019</td>
<td>214,310,373</td>
<td>214,900,434</td>
</tr>
<tr>
<td>Year ended 31 December 2018</td>
<td>214,292,613</td>
<td>214,892,434</td>
</tr>
</tbody>
</table>

See Note 27 for capital commitments.
Reconciliation of EBITDA to IFRS profit for the year is as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>39,505,713</td>
</tr>
<tr>
<td>Interest expense</td>
<td>36,94,160</td>
</tr>
<tr>
<td>Income tax</td>
<td>808,624</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(956,891)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(10,749,050)</td>
</tr>
<tr>
<td>Impairment of non-financial assets</td>
<td>(112,186)</td>
</tr>
<tr>
<td>Foreign exchange gains (loss)</td>
<td>220,503</td>
</tr>
<tr>
<td>(Loss) /profit for the year</td>
<td>(11,794,294)</td>
</tr>
</tbody>
</table>

Intangible assets as at 31 December 2018 consisted of the following:

<table>
<thead>
<tr>
<th>SOFTWARE</th>
<th>TRADE MARKS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>3,468,508</td>
<td>3,462,157</td>
</tr>
<tr>
<td>Additions</td>
<td>642,132</td>
<td>642,132</td>
</tr>
<tr>
<td>Disposals</td>
<td>199,666</td>
<td>(200,215)</td>
</tr>
<tr>
<td>3,460,466</td>
<td>3,460,464</td>
<td></td>
</tr>
</tbody>
</table>

Weaker intangible assets

Reconciliation of EBITDA

<table>
<thead>
<tr>
<th>Notes</th>
<th>Description</th>
<th>Accounting year ended 31 December</th>
<th>Impairment of intangible assets</th>
<th>Amortisation of intangible assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>4, 7, 10</td>
<td>Note</td>
<td>2019</td>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>20</td>
<td>Depreciation and amortisation</td>
<td>3,904,454</td>
<td>549</td>
<td>3,462,157</td>
</tr>
</tbody>
</table>

2019

| Accounts receivable on rental and other services on suppliers’ advertising | 5,423,210 | 6,627,239 |
| Other receivables | 1,816,716 | 1,905,890 |
| Total trade and other receivables | 8,044,102 | 11,272,062 |

As at 31 December 2019, the Group recognized the other receivables the amount due from insurance company of RUB 655,018 which relates to compensation for lost property, plant, and equipment of RUB 271,541, lost inventory of RUB 186,568 and for interruption of operations of RUB 196,909 as the result of fire case in one of the stores. As at 31 December 2019 the compensation was received from the insurance company.

Debtor credit risk is managed in accordance with the Group’s established policy, procedures and control relating to debtor credit risk management. Credit quality of a debtor is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. An analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability–weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Intangible assets as at 31 December 2019 consist of the following:

<table>
<thead>
<tr>
<th>SOFTWARE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>3,904,454</td>
</tr>
<tr>
<td>Additions</td>
<td>642,132</td>
</tr>
<tr>
<td>Disposals</td>
<td>199,666</td>
</tr>
<tr>
<td>5,423,210</td>
<td>6,627,239</td>
</tr>
</tbody>
</table>

12. Inventories

During the reporting year the Group accounted for the write-down of inventories to their net realizable value within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 in the amount of RUB 41,379 (31 December 2018: expenses within cost of sales in the amount of RUB 397,258).

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

14. Advances Paid

Taxes recoverable as at 31 December 2019 are represented by a VAT recoverable of RUB 163,364 (31 December 2018: RUB 992,378).

Cash in transit represents cash receipts during the last days of the reporting period (29–31 December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period. Significant rouble denominated cash in transit result from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year’s Eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on a non-working day, the amount of cash in transit increases.

Year-end inventories are made for varying periods of between one day and three months, depending on

10. Intangible Assets

Amortization expense is included in selling, general and administrative expenses (Note 24).

11. Other Non-current Assets

Other non-current assets are represented by guarantee deposits under lease contracts subject to reimbursement by cash at the end of lease.

12. Inventories

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

Cash in transit is placed in current account balances with banks on a temporary basis.
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 2019 the Company’s share capital is comprised of 97,585,261,932 authorised and issued ordinary shares (as at 31 December 2018: 97,585,261,932) with equal voting rights. Paid value of shares with no par value is fully accounted for within additional paid-in capital.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realisable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company’s primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares are declared for the year ended 31 December 2019 and 2018.

During the year ended 31 December 2019 the Group issued 7,756,977 shares of no par value with respect to long-term incentive plans to certain members of management (see Note 26). Issued shares were distributed to relevant participants.

Total expense for the services received from the employees previously recognised with respect to issued shares under long-term incentive plans was RUB 127,442.

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 26 for further details of these plans.

The Group has issued share-based payments (Note 26) 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 year.

18. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the (loss)/profit attributable to shareholders (loss) for the year ended 31 December 2019: RUB 12,793,974 profit for the year ended 31 December 2018: RUB 11,794,294 and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>Number of issued shares at the beginning of the year</td>
<td>97,272,946</td>
</tr>
<tr>
<td>Number of shares repurchased in November-December 2019</td>
<td>(7,183,435)</td>
</tr>
<tr>
<td>Number of shares repurchased in January-April 2019</td>
<td>(675,203)</td>
</tr>
<tr>
<td>Number of shares at the end of the year</td>
<td>90,678,513</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average number of shares</td>
<td>98,710,307</td>
</tr>
<tr>
<td>(losses)/earnings per share (in thousands of Russian rubles per share)</td>
<td>(0.029)</td>
</tr>
</tbody>
</table>

- Basic and diluted, for (loss)/profit for the year attributable to equity holders of the parent

20. INCOME TAXES

The Group’s income tax expense for the year ended 31 December 2019 and 31 December 2018 is as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>Current tax expense</td>
<td>3,617,269</td>
</tr>
<tr>
<td>Deferred tax expense</td>
<td>(3,222,585)</td>
</tr>
<tr>
<td>Income tax expense recognised in profit for the year</td>
<td>190,684</td>
</tr>
</tbody>
</table>

- Tax effect related to effective portion of change in the fair value of cash flow hedging instruments
- Income tax benefit recognised in OCI

Theoretical tax charge at 20% being statutory tax rate in Russia

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.

As at 31 December 2019 the Group had RUB 89,136,000 of unused credit facilities (as at 31 December 2018: RUB 83,300,000). The loan agreements contain financial and non-financial cove-

- Tax effect of (taxable) / deductible temporary differences
- Provision for expected credit losses of accounts receivable, impairment of advances paid and payments for construction
- Other
- Total net deferred tax liabilities

Other financial and non-financial covenants. As at 31 December 2019 the Group is in compliance with the covenants.
### 21. Trade and Other Payables

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>30 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>46,537,381</td>
</tr>
<tr>
<td>Accrued liabilities and other creditors</td>
<td>6,445,511</td>
</tr>
<tr>
<td>Payables for purchases of property, plant and equipment</td>
<td>1,705,131</td>
</tr>
<tr>
<td>Total trade and other payables</td>
<td>54,689,103</td>
</tr>
</tbody>
</table>

The trade and other payables are denominated in:

- Russian rubles: 35,715,981, 55,341,363
- USD: 605,195, 663,509
- EUR: 2,419,875, 2,368,913
- GBP: 3,946, 35

### 22. Other Taxes Payable

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total trade and other payables payable</td>
<td>54,689,103</td>
</tr>
<tr>
<td>Total other taxes payable</td>
<td>54,133,840</td>
</tr>
<tr>
<td>Social taxes</td>
<td>805,669, 675,467</td>
</tr>
<tr>
<td>Property tax</td>
<td>92,895, 123,213</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>238,766, 223,012</td>
</tr>
<tr>
<td>Other taxes</td>
<td>36,221, 16,411</td>
</tr>
<tr>
<td>Total other taxes payable</td>
<td>1,173,563, 1,041,123</td>
</tr>
</tbody>
</table>

### 23. Cost of Sales

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

Cost of sales for the year ended 31 December 2019 includes employee benefits expense of RUB 3,772,566, (year ended 31 December 2018: RUB 3,726,548), of which contributions to state pension fund are comprised of RUB 1,229,580, (year ended 31 December 2018: RUB 1,105,764).

Cost of sales for the year ended 31 December 2019 includes cost of raw materials used in own production of RUB 4,595,298, (year ended 31 December 2018: RUB 1,746,949).

### 24. Selling, General and Administrative Expenses

#### 24.1. Year Ended 31 December 2019

<table>
<thead>
<tr>
<th>Employees' benefits</th>
<th>28,192,261</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation (Notes 6, 10)</td>
<td>18,326,379, 19,972,539</td>
</tr>
<tr>
<td>Utilities and service payments</td>
<td>4,974,278, 4,970,562</td>
</tr>
<tr>
<td>Professional fees</td>
<td>4,388,221, 3,863,897</td>
</tr>
<tr>
<td>Advertising</td>
<td>3,172,840, 5,272,256</td>
</tr>
<tr>
<td>Owning</td>
<td>5,415,046, 2,885,898</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>5,016,240, 2,542,799</td>
</tr>
<tr>
<td>Security services</td>
<td>1,167,878, 1,893,165</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,598,841, 1,509,046</td>
</tr>
<tr>
<td>Total other operating income</td>
<td>5,067,103, 4,993,245</td>
</tr>
<tr>
<td>Other operating income</td>
<td>246,001, 189,009</td>
</tr>
<tr>
<td>Total other operating income</td>
<td>5,313,104, 5,182,254</td>
</tr>
</tbody>
</table>

In November 2018 as the result of fire in one of the stores the Group incurred losses on property and plant and equipment disposal, inventory disposal and termination of operations since the fire case till November 2019, which were insured and compensated by insurance company.

Other operating expenses are comprised of the following:

<table>
<thead>
<tr>
<th>Year Ended 31 December 2019</th>
<th>Year Ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from property, plant and equipment and intangible assets disposal</td>
<td>382,379, 165,076</td>
</tr>
<tr>
<td>Penalties for termination of contracts with service suppliers</td>
<td>148,291, 209,782</td>
</tr>
<tr>
<td>Non-recoverable VAT</td>
<td>50,312, 10,476</td>
</tr>
<tr>
<td>Penalties from government authorities</td>
<td>53,730, 94,015</td>
</tr>
<tr>
<td>Impairment of allowances paid for and prepayments for construction, reversal of allowance for expired credit losses of accounts receivable</td>
<td>53,173, 152,563</td>
</tr>
<tr>
<td>Other</td>
<td>176,021, 84,462</td>
</tr>
<tr>
<td>Total other operating expenses</td>
<td>935,898, 480,040</td>
</tr>
</tbody>
</table>
In April, Tranche 2017 and Tranche 2018 to senior management were amended to accelerate vesting of 66% (Tranche 2017) and 34% (Tranche 2018) of awards immediately. Vested awards were settled by cash in the amount of RUB 52,990 (Tranche 2017) and RUB 37,603 (Tranche 2018). Also for settlement purposes the Group issued 13,354 (Tranche 2017) and 18,360 (Tranche 2018) shares of no par value.

The vesting dates of remaining awards under the Tranche 2017 and Tranche 2018 are 1 April 2020 and 30 April 2021 respectively. The vesting dates of newly granted awards under the Tranche 2019 to senior management are 1 April 2020 (25%), 1 April 2021 (25%), 1 May 2021 (50%) and 1 April 2021 (15%), 1 May 2021 (31%) respectively. The vesting dates of newly granted awards under the Tranche 2019 to middle management are 1 April 2021 (25%), 1 April 2021 (50%), 1 May 2021 (50%). In May 2019 there was an amendment of vesting terms of the Tranche 2019 for one employee, in accordance to which 100% of the award vested immediately and 29,771 shares were issued and distributed to a participant.

Share value appreciation rights
During the year 2013 and the year 2016 the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Ltd. based on an increase in the share price over a predetermined exercise price, subject to meeting the performance conditions. In April 2018 SVARs of 2013 year fully vested. In June 2018 the Group issued 695,021 shares of no par value. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 405,232. The shares were transferred into GDR and distributed to relevant participants.

Movements during the year
The remaining contractual life for the SVARs outstanding as at 31 December 2019 is 0.26 year (31 December 2018: 0.79 years).

The exercise price for options outstanding as at 31 December 2019 is RUB 2.214 (31 December 2018: RUB 2.214). The vesting dates of newly granted awards under the Tranche 2019 were amended to accelerate vesting of 66% (Tranche 2017) and 34% (Tranche 2018) of awards immediately. Vested awards were settled by cash in the amount of RUB 434,995 (Tranche 2017) and RUB 37,603 (Tranche 2018). Also for settlement purposes the Group issued 13,354 (Tranche 2017) and 18,360 (Tranche 2018) shares of no par value.

The vesting dates of remaining awards under the Tranche 2017 and Tranche 2018 are 1 April 2020 and 30 April 2021 respectively. The vesting dates of newly granted awards under the Tranche 2019 to senior management are 1 April 2020 (25%), 1 April 2021 (25%), 1 May 2021 (50%) and 1 April 2021 (15%), 1 May 2021 (31%) respectively. The vesting dates of newly granted awards under the Tranche 2019 to middle management are 1 April 2021 (25%), 1 April 2021 (50%), 1 May 2021 (50%). In May 2019 there was an amendment of vesting terms of the Tranche 2019 for one employee, in accordance to which 100% of the award vested immediately and 29,771 shares were issued and distributed to a participant.

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

<table>
<thead>
<tr>
<th>Settlement by shares</th>
<th>2018 TRANCHE</th>
<th>2019 TRANCHE</th>
<th>2018 TRANCHE</th>
<th>2019 TRANCHE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares issued in May, 2019</td>
<td>16,182</td>
<td>12,354</td>
<td>18,360</td>
<td>21,771</td>
<td>75,667</td>
</tr>
<tr>
<td>Total expense recognized with regards to shares issued</td>
<td>31,200</td>
<td>25,370</td>
<td>35,432</td>
<td>34,361</td>
<td>122,442</td>
</tr>
<tr>
<td>Settlement by cash payment (USD 3.45 per GDR)</td>
<td>194,592</td>
<td>53,990</td>
<td>37,603</td>
<td>28,186</td>
<td>326,156</td>
</tr>
<tr>
<td>Excess of expenses accrued vs. payment made</td>
<td>191,382</td>
<td>32,809</td>
<td>15,105</td>
<td>24,292</td>
<td>266,206</td>
</tr>
</tbody>
</table>

Total expense recognized for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2019 and for year ended 31 December 2018 is shown in the following table:

<table>
<thead>
<tr>
<th>YEAR ENDED 31 DECEMBER 2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense arising from the equity-settled SVARs transaction</td>
<td>428,246</td>
<td>276,064</td>
</tr>
</tbody>
</table>

In April 2019 SVARs of 2016 year (2,000 phantom shares) expired worthless. Total expense for the services received from the employees previously recognised with respect to expired SVARs was RUB 1,782.

The fair value of the management equity-settled long-term incentive plan payments was RUB 4,434,995.
The Board of Directors reviews and approves policies due to the Group's exposure to foreign currency risk. The only balances that are not materially exposed to foreign currency risk are accounts and cash in transit, loans and trade receivables. Accordingly, the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the level of default over a given time horizon. The calculation reflects the probability–weighted outcome, the time value of money and reasonable and supportable outcome, the time value of money and reasonable and supportable evidence (Profit and Loss) for the purpose of market risk disclosures in accordance with IFRS 7 and is based on risk metrics, in particular time series analysis.

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. Credit rating agencies and credit risk at the reporting date of cash and cash equivalents is RUB 73,086,341 (31 December 2018: RUB 33,539,189).

Liquidity risk
The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding needs. The table below summarises the maturity profile of the Group’s financial liabilities as at 31 December 2019 and 31 December 2018 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.

interest rates. As at 31 December 2018 these obligations were represented with long-term borrowing (Note 19) which were redeemed at the end of the reporting period.

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

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

Credit risk
Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables. In determining the recoverability of receivables the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the level of default over a given time horizon. The calculation reflects the probability–weighted outcome, the time value of money and reasonable and supportable evidence (Profit and Loss) for the purpose of market risk disclosures in accordance with IFRS 7 and is based on risk metrics, in particular time series analysis.

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

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, lease liabilities less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Net debt of the Group comprises of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings</td>
<td>150,541,257</td>
<td>127,080,289</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>32,160,066</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>73,604,766</td>
<td>(33,804,865)</td>
</tr>
<tr>
<td></td>
<td>196,306,089</td>
<td>(73,404,760)</td>
</tr>
<tr>
<td>Net debt</td>
<td>109,296,503</td>
<td>93,275,429</td>
</tr>
</tbody>
</table>

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.

30. Contingencies

Operating environment of the Group
The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed, consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits.

A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group’s operating results.

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

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

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

Legal contingencies
Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 84,015 as at 31 December 2019 (31 December 2018: RUB 36,538).

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.

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 1,750,623 (31 December 2018: RUB 975,898). Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

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

31. Events occurring after the reporting period

The Chinese economy and its outlook have been negatively affected by global trade tensions and the emergence of the Covid-19 coronavirus. Measures to contain the virus may impact business operations around the world. Restrictions on the movement of goods and services could impact the Company’s supply chain.
The Company had the following subsidiaries as at 31 December 2019:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Beneficial Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lenta LLC</td>
<td>100%</td>
</tr>
<tr>
<td>Zorino Holdings Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>TRK-Volzhskiy LLC</td>
<td>100%</td>
</tr>
<tr>
<td>TK-Zheleznodorozhnaya LLC</td>
<td>100%</td>
</tr>
</tbody>
</table>
LIST OF CITIES AS OF 19 FEBRUARY 2020

<table>
<thead>
<tr>
<th>NUMBER</th>
<th>CITY</th>
<th>NUMBER OF HYPERMARKETS</th>
<th>NUMBER OF SUPERMARKETS</th>
<th>NUMBER OF DISTRIBUTION CENTRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>Novosibirsk</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>65</td>
<td>Novosibirsk</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>67</td>
<td>Nizhny Novgorod</td>
<td>7</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>68</td>
<td>Nizhny Novgorod</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>69</td>
<td>Novgorod</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50</td>
<td>Nizhny Novgorod</td>
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<td>0</td>
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<tr>
<td>51</td>
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<td>0</td>
</tr>
<tr>
<td>52</td>
<td>Penza</td>
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</tr>
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<td>53</td>
<td>Perm</td>
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<tr>
<td>54</td>
<td>Petrozavodsk</td>
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<tr>
<td>55</td>
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</tr>
<tr>
<td>56</td>
<td>Pskov</td>
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<td>0</td>
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<tr>
<td>57</td>
<td>Pskov</td>
<td>4</td>
<td>0</td>
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</tr>
<tr>
<td>58</td>
<td>Ryazan</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>59</td>
<td>Saratov</td>
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<td>60</td>
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</tr>
<tr>
<td>61</td>
<td>Saratov</td>
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</tr>
<tr>
<td>62</td>
<td>Shali</td>
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<td>0</td>
</tr>
<tr>
<td>63</td>
<td>Smolensk</td>
<td>1</td>
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<td>0</td>
</tr>
<tr>
<td>64</td>
<td>St. Petersburg</td>
<td>29</td>
<td>29</td>
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</tr>
<tr>
<td>65</td>
<td>Shakhovsk</td>
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</tr>
<tr>
<td>66</td>
<td>Stary Oskol</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>67</td>
<td>Surgut</td>
<td>2</td>
<td>0</td>
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</tr>
<tr>
<td>68</td>
<td>Syktyvkar</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>69</td>
<td>Taganrog</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>70</td>
<td>Taganrog</td>
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<tr>
<td>71</td>
<td>Taganrog</td>
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<td>0</td>
<td>1</td>
</tr>
<tr>
<td>72</td>
<td>Tolmachevo</td>
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<td>0</td>
</tr>
<tr>
<td>73</td>
<td>Tomsk</td>
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<td>1</td>
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</tr>
<tr>
<td>74</td>
<td>Tolyatti</td>
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<tr>
<td>75</td>
<td>Tver</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>76</td>
<td>Tyumen</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>77</td>
<td>Ufa</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>78</td>
<td>Ulyanovsk</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>79</td>
<td>Veliky Novgorod</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80</td>
<td>Vladimir</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>81</td>
<td>Volgograd</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>82</td>
<td>Voronezh</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>83</td>
<td>Voronezh</td>
<td>1</td>
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<td>84</td>
<td>Voronezh</td>
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<td>0</td>
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<td>85</td>
<td>Voronezh</td>
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<tr>
<td>86</td>
<td>Voronezh</td>
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<tr>
<td>87</td>
<td>Voronezh</td>
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</tr>
<tr>
<td>88</td>
<td>Voronezh</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


1 From 1 May 2015, all stores located in Moscow city and the Moscow Region are shown as ‘Moscow’; all stores located in the Leningrad Region and St. Petersburg are shown as ‘St. Petersburg’.

GLOSSARY

Unless otherwise specified, the terms ‘we’, ‘us’, and ‘our’ refer to Lenta Ltd., or where the context allows, to the Lenta business more generally.

the 20% Offering

the initial public offering of our Shares, in the form of GDRs, admitted to trading on the London Stock Exchange and the Moscow Stock Exchange on 5 March 2016.

active cardholder

customer who has purchased goods at one of our stores at least twice in the past 12 months using our loyalty card.

average sales density
total sales during the relevant year divided by the average selling space for that year.

average ticket
the figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year.

the board
the board of directors of Lenta Ltd.

BVI
the British Virgin Islands.

CAGR
Compound annual growth rate.

ebgas
national automated information system for the control of alcohol production and distribution.

FMCG
fast-moving consumer goods – products that are sold quickly and at relatively low cost.

gamification
the application of game design elements and game principles in non-game contexts. Gamification commonly employs game design elements which are used in non-game contexts to improve user engagement, organizational productivity, flow, learning, story-telling, employee recruitment and evaluation, ease of use, usefulness of systems, physical exercise, traffic violations, social safety, and more.

GDRs
global depositary receipts.

in-store availability
the number of SKUs in-store with a positive stock value as a proportion of the total number of active SKUs for sale, calculated based on the availability in-store in availability of all open stores.

LFL
like-for-like.

Net Promoter Score

returns...to the Consolidated Financial Statements.

Adj EBITDA
EBITDA adjusted for non-recurring items and foreign exchange impacts.

Adjusted EBITDAR
Adjusted EBITDA plus depreciation, amortization, interest and taxes.

Adjusted EBITDAR margin
Adjusted EBITDAR as a percentage of sales.

EBITDA
Profit for the period before foreign exchange gains/losses, evaluation of financial instruments, fair value through profit or loss, income from joint ventures, associates, other expenses, depreciation and amortisation, impairment losses on financial assets, changes in the accounting policies, interest and tax. The reconciliation of EBITDA to IFRS profit is presented in tabular format in note 6 to the Consolidated Financial Statements.

EBITDA margin
Profit for the period before foreign exchange gains/losses, evaluation of financial instruments, fair value through profit or loss, income from joint ventures, associates, other expenses, depreciation and amortisation, impairment losses on financial assets, changes in the accounting policies, interest and tax. The reconciliation of EBITDA to IFRS profit is presented in tabular format in note 6 to the Consolidated Financial Statements.

for his/her basket (the amount spent by a customer on a shopping trip).

like-for-like sales growth

were calculated by comparing the sales of two comparable stores for the same period in the preceding year. Like-for-like sales growth was calculated for comparable stores (see note 6 to the Consolidated Financial Statements).

like-for-like traffic growth

are the sales attributable to stores until the end of the 12th full calendar month of their operation to be sales attributable to new stores. Accordingly, like-for-like sales begins with the comparison of the 13th full calendar month of operations of a store to its first full calendar month of operations, assuming the store has not subsequently closed, expanded or downsized. The number of stores in our like-for-like panel as of 31 December 2019 and 2018 was 314 (227 hypermarkets and 87 supermarkets) and 228 (177 hypermarkets and 51 supermarkets) respectively.

like-for-like sales density

the average sales density’ are calculated using the same methodology as like-for-like sales.

like-for-like sales growth

the 2014 Offering

is a stockkeeping unit’, or a number assigned to a particular product to identify the product, product options and manufacturer of the merchandise.

sq.m
square metre(s).

ticket
the receipt issued to a customer for his/her basket (the amount spent by a customer on a shopping trip).

Decision to sell our stores used to sell petroleum, excluding areas rented out to third parties, non-production areas, storage areas and the space between store entry and the cash desk/checkout.

traffic
the number of tickets issued for the period, as a measure of activity.

unadjusted SG&A
Selling, General and Administrative Expenses, which is a major non-production cost presented in the Income statement.

other metrics

Net debt is calculated as the sum of short- and long-term debt (including borrowings and obligations under finance leases, capitalized fees and accrued interest) minus cash and cash equivalents. The ratio of net debt to Adjusted EBITDA is net debt divided by Adjusted EBITDA. The ratio of Adjusted EBITDA to net interest expense is Adjusted EBITDA divided by net interest expenses, which is calculated as interest expenses less interest income. The ratio of Adjusted EBITDA to net interest expense plus rental expense ratio is Adjusted EBITDA divided by our direct operating income, which is calculated as operating income less interest expense. CIRCO is defined as Adjusted EBITDA over average capital invested. Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year. Adjusted SG&A/Sales is SG&A, excluding expenses on ton and equipment leases, premises leases, depreciation and amortisation and one-off expenses as a proportion of sales. FURTHER INFORMATION

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

hypermarkets
are stores located in Moscow city and the Moscow Region are shown as ‘Moscow’; all stores located in the Leningrad Region and St. Petersburg are shown as ‘St. Peterbursk’.