

Independent auditor's report  
on the consolidated financial statements of  
***Lenta Limited and its subsidiaries***  
for the year ended 31 December 2018

*February 2019*

**Independent auditor's report  
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Lenta Limited and its subsidiaries**

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## Independent auditor's report

To the Shareholder and Board of Directors of  
Lenta Limited

### **Opinion**

We have audited the consolidated financial statements of Lenta Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

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



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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.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b><i>Capitalisation of construction costs</i></b></p> <p>The Group incurs significant expenditures related to the construction of new retail stores, a part of which was capitalised under IAS 16 <i>Property, Plant and Equipment</i>. Capitalisation of construction costs was a matter of most significance in our audit because the additions of property, plant and equipment for the year ended 31 December 2018 are significant to the consolidated financial statements. In addition, management judgement is required in the determination of costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Information in respect of property, plant and equipment is disclosed in Note 7 to the consolidated financial statements</p>	<p>We obtained understanding of the Group's capitalisation policies and tested controls over authorisation, timeliness and accuracy of recording property, plant and equipment additions. We compared the Group's investment budget with actual capital expenditures. On a sample basis we tested capital expenditures to supporting documents. We analysed the aging of assets under construction.</p>
<p><b><i>Recognition of suppliers' allowances</i></b></p> <p>The Group receives various types of allowances from suppliers in connection with the purchase of goods for resale in the form of volume rebates and other payments. The recognition of allowances was a matter of most significance in our audit because of its material impact on trade and other receivables, cost of goods sold and inventories. In addition, management exercises judgement in determining the period over which these allowances should be recognised considering the nature and the level of fulfilment of the Group's obligations and estimates of purchase volumes. Information about suppliers' rebates receivable and accounts receivable on suppliers' advertising is disclosed in Note 14 to the consolidated financial statements.</p>	<p>We understood and tested operating effectiveness of internal controls over the recognition of allowances from suppliers. We agreed the terms of providing allowances to supporting documents approved by individual suppliers. We analysed the assumptions underlying management estimates of amounts receivable. On a sample basis we received direct confirmations of outstanding balances from suppliers. We agreed the balances of suppliers' allowances receivables to the post year-end cash settlements.</p>

### ***Other information included in Group's Annual report 2018***

Other information consists of the information included in Group's annual report 2018, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### ***Responsibilities of management and Board of Directors for the consolidated financial statements***

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

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



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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

The partner in charge of the audit resulting in this independent auditor's report is N.V. Lebedeva.

N.V. Lebedeva  
Partner  
Ernst & Young LLC

21 February 2019

**Details of the audited entity**

Name: Lenta Limited  
Incorporated under the laws of the BVI on 16 July 2003, State Registration Number 1058643.  
Address: Road Town, Tortola, BVI.

**Details of the auditor**

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

## Lenta Limited and subsidiaries

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### Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2018

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

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries ("the Group") as at 31 December 2018 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 21 February 2019.

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



\_\_\_\_\_  
Herman Tinga  
(CEO of Lenta Limited)



\_\_\_\_\_  
Jago Lemmens  
(CFO of Lenta Limited)

## Lenta Limited and subsidiaries

### Consolidated statement of financial position as at 31 December 2018

(in thousands of Russian roubles)

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

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

The accompanying notes on pages 13-72 are an integral part of these consolidated financial statements.

## Lenta Limited and subsidiaries

### Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

(in thousands of Russian roubles)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Sales		413,562,197	365,177,586
Cost of sales	25	(324,767,890)	(286,942,078)
<b>Gross profit</b>		<b>88,794,307</b>	<b>78,235,508</b>
Selling, general and administrative expenses	26	(69,227,059)	(56,139,731)
Other operating income	27	4,993,245	4,129,232
Other operating expenses	27	(476,040)	(648,445)
<b>Operating profit</b>		<b>24,084,453</b>	<b>25,576,564</b>
Interest expense		(9,699,272)	(10,942,820)
Interest income		608,472	445,751
Foreign exchange (losses)/gains		(176,371)	92,398
<b>Profit before income tax</b>		<b>14,817,282</b>	<b>15,171,893</b>
Income tax expense	22	(3,022,988)	(1,908,354)
<b>Profit for the year</b>		<b>11,794,294</b>	<b>13,263,539</b>
<b>Other comprehensive income (OCI)</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net loss from cash flow hedges	19, 31	(206,108)	(333,355)
Income tax relating to the cash flow hedges	22	41,222	66,671
<b>Other comprehensive loss for the year, net of tax</b>		<b>(164,886)</b>	<b>(266,684)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>11,629,408</b>	<b>12,996,855</b>
<b>Earnings per share (in thousands of Russian roubles per share) (Note 20)</b>			
- basic and diluted, for profit for the year attributable to equity holders of the parent			
		0.121	0.136

The accompanying notes on pages 13-72 are an integral part of these consolidated financial statements.

## Lenta Limited and subsidiaries

### Consolidated statement of cash flows for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

The accompanying notes on pages 13-72 are an integral part of these consolidated financial statements.

## Lenta Limited and subsidiaries

### Consolidated statement of changes in equity for the year ended 31 December 2018

(in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
<b>Balance at 1 January 2018</b>	284	26,480,481	164,886	-	825,176	44,316,449	71,787,276
Change in the accounting policies due to application of IFRS 9 (Note 4)	-	-	-	-	-	(637,467)	(637,467)
<b>Balance at 1 January 2018 (restated)</b>	284	26,480,481	164,886	-	825,176	43,678,982	71,149,809
Profit for the year	-	-	(164,886)	-	-	11,794,294	11,794,294
Other comprehensive loss	-	-	(164,886)	-	-	-	(164,886)
<b>Total comprehensive (loss)/income</b>	-	-	(164,886)	-	-	11,794,294	11,629,408
Share-based payments (Note 28)	-	-	-	-	265,261	-	265,261
Issue of shares (Note 18, 28)	-	454,544	-	-	(457,272)	-	(2,728)
Purchase of shares (Note 18)	-	-	-	(291,091)	-	-	(291,091)
<b>Balance at 31 December 2018</b>	284	26,935,025	-	(291,091)	633,165	55,473,276	82,750,659
<b>Balance at 1 January 2017</b>	284	26,216,147	431,570	-	668,200	31,052,910	58,369,111
Profit for the year	-	-	(266,684)	-	-	13,263,539	13,263,539
Other comprehensive loss	-	-	(266,684)	-	-	-	(266,684)
<b>Total comprehensive (loss)/income</b>	-	-	(266,684)	-	-	13,263,539	12,996,855
Share-based payments (Note 28)	-	-	-	-	421,310	-	421,310
Issue of shares (Note 18, 28)	-	264,334	-	-	(264,334)	-	-
<b>Balance at 31 December 2017</b>	284	26,480,481	164,886	-	825,176	44,316,449	71,787,276

#### Notes

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

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

The accompanying notes on pages 13-72 are an integral part of these consolidated financial statements.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

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

Starting from March 2014 the Company's shares are listed on the London Stock Exchange and Moscow Exchange in the form of Global Depositary Receipts (GDR).

At 31 December 2018 and 2017 the Group has one main operational subsidiary, Lenta LLC (100% owned), a legal entity registered under the laws of the Russian Federation. Other subsidiaries are property or investment holding companies by their nature.

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

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

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

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

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

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

Management has considered the Group's cash flow forecasts for the foreseeable future, which take into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, and loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

At 31 December 2018, the Group had net current assets of RUB 11,204,494 (net current liabilities at 31 December 2017: 36,326,156).

Unused credit facilities available as of 31 December 2018 were RUB 83,300,000. Management believes that operating cash flows and available borrowing capacity will provide the Group with adequate resources to fund its liabilities for the next year.

##### **2.2 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries) as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

### 2.2 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

### 2.3 Summary of significant accounting policies

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

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

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

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

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

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

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

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ Expected to be realised or intended to sold or consumed in normal operating cycle;
- ▶ Held primarily for the purpose of trading;
- ▶ Expected to be realised within twelve months after the reporting period; or
- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- ▶ It is expected to be settled in normal operating cycle;
- ▶ It is held primarily for the purpose of trading;
- ▶ It is due to be settled within twelve months after the reporting period; or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

### Notes to the consolidated financial statements for the year ended 31 December 2018

*(in thousands of Russian roubles)*

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

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

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

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-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 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.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

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

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

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

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

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

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

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

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Gains and losses on disposals determined by comparing net proceeds with the respective carrying amount are recognised in profit or loss.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate impairment loss has been recognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

#### **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:

	<u>Useful lives in years</u>
Buildings	30
Land improvements	30
Machinery and equipment	2 to 15

#### **Leasehold rights**

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

#### **Finance leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method to write off their cost to their residual values and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets or included into the carrying amount of an asset as appropriate.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

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

#### ***Non-current assets held for sale and discontinued operations***

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

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

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

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

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

#### **Income taxes**

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

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

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

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

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

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

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

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

##### ***Inventories***

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

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

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

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

##### ***Revenue from contracts with customers***

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

*(in thousands of Russian roubles)*

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

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

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

##### ***Other income***

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

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

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

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. These allowances received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

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

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

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

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

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

That cost is recognised, together with a corresponding increase in share options reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (Note 28). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 28).

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

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

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

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

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

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

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

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

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

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

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

###### ***Initial measurement***

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

###### *Measurement categories of financial assets*

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

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

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

###### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

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

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

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

The details of these conditions are outlined below.

###### *Business model assessment*

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

#### *The SPPI test*

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

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

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

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

#### *Cash and cash equivalents*

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

#### *Impairment of financial assets*

Before 1 January 2018 financial assets were assessed for indicators of impairment at each reporting date. Financial assets were impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

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

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

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

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

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions.

#### *Derecognition of financial assets*

A financial asset is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

*(in thousands of Russian roubles)*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### ***Financial liabilities and equity instruments issued by the Group***

##### *Treasury shares*

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

##### *Share capital*

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

##### *Additional paid-in capital*

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

##### *Earnings per share*

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

*(in thousands of Russian roubles)*

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

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

#### *Classification as debt or equity*

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

#### **Financial liabilities**

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

#### *Derecognition of financial liabilities*

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

#### *Offsetting of financial instruments*

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

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

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

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

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

Swaps and caps used by the Group that meet the strict criteria for hedge accounting are accounted for as cash flow hedges. The effective portion of the gain or loss from the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

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

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

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

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

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

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

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

## 3. Significant accounting judgments, estimates and assumptions

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

##### Judgments

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

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

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

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

##### Estimates and assumptions

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

###### *Leases renewal assumption*

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

##### Inventory valuation

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Tax legislation

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

##### *Compensation from insurance company for fire case*

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

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

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 30 for further discussion.

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

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

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Tax legislation (continued)

##### *Share-based payments*

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new or revised standards and interpretations effective as of 1 January 2018.

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

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

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

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

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

Prior to adoption of IFRS 15, the loyalty programme offered by the Group results in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. Under IFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *IFRS 15 Revenue from Contracts with Customers (continued)*

Under IFRS 15, the Group need to allocate a portion of the transaction price to the loyalty programme based on relative stand-alone selling price instead of allocation using the fair value of points issued, i.e. residual approach, as it did under IFRIC 13. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programmes should not be significantly different from the previous accounting policy.

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

##### *IFRS 9 Financial Instruments*

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

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

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

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

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions. Therefore, the Group determined that no significant allowances are required at 1 January 2018 in connection with the adoption of the new impairment model under IFRS 9.

IFRS 9 requires the Group to revise the carrying amount of the debt instrument when a modification is not accounted for as an extinguishment to reflect the net present value of the revised cash flows discounted at the original effective interest rate together with a corresponding profit or loss. The approach applied by the Group under IAS 39 allowed not to revise the carrying amount of the debt instrument and to amortise debt instrument using the updated effective interest rate. The change in the accounting policy resulted in increase in the carrying value of borrowings by RUB 234,156.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *IFRS 9 Financial Instruments (continued)*

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

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

	<u>Amount previously reported</u>	<u>IFRS 9 adjustments</u>	<u>Amount after change in policy</u>
<b>Current assets</b>			
Trade and other receivables	10,957,360	(562,678)	10,394,682
<b>Equity</b>			
Retained earnings	44,316,449	(637,467)	43,678,982
<b>Non-current liabilities</b>			
Long-term borrowings	62,194,204	324,305	62,518,509
Deferred tax liabilities	8,386,732	(159,367)	8,227,365
<b>Current liabilities</b>			
Short-term borrowings and short-term portion of long-term borrowings	44,888,131	(90,149)	44,797,982

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

##### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

##### *Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements as the Group has no property that can meet definition of investment property.

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

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

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Reclassifications in the consolidated statement of financial position

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

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

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

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

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

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

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *IFRS 16 Leases (continued)*

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

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

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

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

##### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17). A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applied to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The interpretation addressed the accounting for income taxes when tax treatment involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levied outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addressed the following:

- ▶ Whether an entity considers uncertain tax treatments separately;
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ▶ How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for the annual reporting periods beginning on or after 1 January 2019, but certain transitions reliefs are available. The Group will apply the interpretation from its effective date.

Since the Group operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis. These amendments are not expected to have significant impact on the Group.

##### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

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

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

##### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group.

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

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

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

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

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

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

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *Annual Improvements 2015-2017 Cycle (issued in December 2017)*

These improvements include:

##### *IFRS 3 Business Combinations*

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

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

##### *IFRS 11 Joint Arrangements*

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

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

##### *IAS 12 Income Taxes*

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

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

##### *IAS 23 Borrowing Costs*

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### *Annual Improvements 2015-2017 Cycle (issued in December 2017) (continued)*

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

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

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

###### *Amendments to IAS 1 and IAS 8 – Definition of Material*

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

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

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

###### *The Conceptual Framework for Financial Reporting*

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

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

Entities with significant influence over the Group:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>TPG Capital</b>		
Accrued liabilities	-	6,192

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
<b>TPG Capital</b>		
Directors fee	14,193	12,121
Business trip expenses	299	1,237

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

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
Short-term benefits	586,771	527,821
Long-term benefits (share-based payments, Note 28)	165,538	343,345
Termination benefits	31,821	8,462
<b>Total remuneration</b>	<b><u>784,130</u></b>	<b><u>879,628</u></b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 7. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
<b>Cost</b>						
Balance at 1 January 2018	21,010,003	11,467,330	118,121,718	52,948,637	2,586,799	206,134,487
Additions	-	-	-	-	18,174,541	18,174,541
Transfers from construction in progress	763,483	902,322	7,578,287	7,689,055	(16,933,147)	-
Transfers from leasehold rights	171,868	-	-	-	-	171,868
Transfers from assets held for sale	323,094	-	-	-	-	323,094
Disposals	(31,382)	(11,496)	(874,908)	(651,009)	(57,877)	(1,626,672)
<b>Balance at 31 December 2018</b>	<b>22,237,066</b>	<b>12,358,156</b>	<b>124,825,097</b>	<b>59,986,683</b>	<b>3,770,316</b>	<b>223,177,318</b>
<b>Accumulated depreciation and impairment</b>						
Balance at 1 January 2018	-	1,646,511	15,000,631	19,178,939	-	35,826,081
Charge for the year	-	400,454	4,704,031	6,351,622	-	11,456,107
Disposals	-	(2,693)	(626,826)	(499,414)	-	(1,128,933)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>2,044,272</b>	<b>19,077,836</b>	<b>25,031,147</b>	<b>-</b>	<b>46,153,255</b>
<b>Net book value</b>						
Balance at 1 January 2018	21,010,003	9,820,819	103,121,087	33,769,698	2,586,799	170,308,406
<b>Balance at 31 December 2018</b>	<b>22,237,066</b>	<b>10,313,884</b>	<b>105,747,261</b>	<b>34,955,536</b>	<b>3,770,316</b>	<b>177,024,063</b>
	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
<b>Cost</b>						
Balance at 1 January 2017	17,870,601	10,063,825	100,491,459	42,961,063	3,288,066	174,675,014
Additions	-	-	-	313	31,575,451	31,575,764
Transfers from construction in progress	2,739,073	1,403,505	17,701,414	10,261,262	(32,105,254)	-
Transfers from leasehold rights	898,288	-	-	-	-	898,288
Transfers to assets held for sale	(378,611)	-	-	-	(124,298)	(502,909)
Disposals	(119,348)	-	(71,155)	(274,001)	(47,166)	(511,670)
<b>Balance at 31 December 2017</b>	<b>21,010,003</b>	<b>11,467,330</b>	<b>118,121,718</b>	<b>52,948,637</b>	<b>2,586,799</b>	<b>206,134,487</b>
<b>Accumulated depreciation and impairment</b>						
Balance at 1 January 2017	-	1,300,128	11,325,932	14,236,665	-	26,862,725
Charge for the year	-	346,383	3,678,008	5,151,841	-	9,176,232
Disposals	-	-	(3,309)	(209,567)	-	(212,876)
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>1,646,511</b>	<b>15,000,631</b>	<b>19,178,939</b>	<b>-</b>	<b>35,826,081</b>
<b>Net book value</b>						
Balance at 1 January 2017	17,870,601	8,763,697	89,165,527	28,724,398	3,288,066	147,812,289
<b>Balance at 31 December 2017</b>	<b>21,010,003</b>	<b>9,820,819</b>	<b>103,121,087</b>	<b>33,769,698</b>	<b>2,586,799</b>	<b>170,308,406</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

During the years ended 31 December 2018 and 2017 the Group was not involved in acquisition or contribution of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalisation. Thus, no borrowings costs were capitalised during those periods.

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

#### Depreciation and amortisation expense

The amount of depreciation charged during the year ended 31 December 2018 and year ended 31 December 2017 is presented within depreciation and amortisation in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Depreciation and impairment of property, plant and equipment	11,456,107	9,176,232
Amortisation of intangible assets (Note 11)	553,338	424,753
Impairment of assets held for sale	-	222,147
Leasehold rights amortisation (Note 9)	100,262	90,462
<b>Total depreciation, amortisation and impairment</b>	<b>12,109,707</b>	<b>9,913,594</b>

See Note 29 for capital commitments.

#### 8. Prepayments for construction

Prepayments for construction are made to the contractors for the building of the stores and to suppliers.

Prepayments are regularly monitored on the subject of impairment. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of prepayments. As at 31 December 2018 the Group accounted for the reversal of impairment of prepayments in the amount of RUB 22,291 (31 December 2017: the Group impaired RUB 125,749 of prepayments).

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 9. Leasehold rights

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

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

Leasehold rights as at 31 December 2017 consisted of the following:

	<u>Leasehold rights</u>
<b>Cost</b>	
<b>At 1 January 2017</b>	<b>3,979,647</b>
Additions	462,099
Transfer to PPE	(946,465)
Transfer to assets held for sale	(153,000)
<b>At 31 December 2017</b>	<b><u>3,342,281</u></b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2017</b>	<b>235,638</b>
Charge for the year	90,462
Transfer to PPE	(48,178)
Transfer to assets held for sale	(10,668)
<b>At 31 December 2017</b>	<b><u>267,254</u></b>
<b>Net book value</b>	
<b>At 1 January 2017</b>	<b><u>3,744,009</u></b>
<b>At 31 December 2017</b>	<b><u>3,075,027</u></b>

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 10. Operating segments

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

The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned intermediate holding subsidiary Zoronvo Holdings Limited, which is eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segments represented by stores into one reportable operating segment. Within the segment all business components are similar in respect of:

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

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

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

The segment information for the year ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Sales	413,562,197	365,177,586
EBITDA	36,194,160	35,490,158

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

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

	<u>Software</u>	<u>Trade marks</u>	<u>Total</u>
<b>Cost</b>			
<b>At 1 January 2018</b>	3,461,608	549	3,462,157
Additions	642,512	-	642,512
Disposals	(199,666)	(549)	(200,215)
<b>At 31 December 2018</b>	<u>3,904,454</u>	<u>-</u>	<u>3,904,454</u>
<b>Accumulated amortisation</b>			
<b>At 1 January 2018</b>	1,644,892	549	1,645,441
Amortisation for the year	553,338	-	553,338
Disposals	(199,666)	(549)	(200,215)
<b>At 31 December 2018</b>	<u>1,998,564</u>	<u>-</u>	<u>1,998,564</u>
<b>Net book value</b>			
<b>At 1 January 2018</b>	<u>1,816,716</u>	<u>-</u>	<u>1,816,716</u>
<b>At 31 December 2018</b>	<u>1,905,890</u>	<u>-</u>	<u>1,905,890</u>

Intangible assets other than leasehold rights as at 31 December 2017 consisted of the following:

	<u>Software</u>	<u>Trade marks</u>	<u>Total</u>
<b>Cost</b>			
<b>At 1 January 2017</b>	3,167,431	549	3,167,980
Additions	377,301	-	377,301
Disposals	(83,124)	-	(83,124)
<b>At 31 December 2017</b>	<u>3,461,608</u>	<u>549</u>	<u>3,462,157</u>
<b>Accumulated amortisation</b>			
<b>At 1 January 2017</b>	1,277,256	549	1,277,805
Amortisation for the year	424,753	-	424,753
Disposals	(57,117)	-	(57,117)
<b>At 31 December 2017</b>	<u>1,644,892</u>	<u>549</u>	<u>1,645,441</u>
<b>Net book value</b>			
<b>At 1 January 2017</b>	<u>1,890,176</u>	<u>-</u>	<u>1,890,176</u>
<b>At 31 December 2017</b>	<u>1,816,716</u>	<u>-</u>	<u>1,816,716</u>

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

#### 12. Other non-current assets

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 13. Inventories

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

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

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

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

#### 14. Trade and other receivables

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

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

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

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

	<u>Current</u>	<u>&lt;60 days overdue</u>	<u>60-120 days overdue</u>	<u>&gt;120 days overdue</u>	<u>Total</u>
Expected credit loss rate	0%-1.5%	3%-5%	20%-40%	70%-100%	
Estimated total gross carrying amount at default	10,749,050	598,869	23,848	165,234	<b>11,537,001</b>
Expected credit loss	118,461	17,359	9,437	119,142	<b>264,399</b>

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

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

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

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2017:

	<u>0-60 days overdue</u>	<u>60-120 days overdue</u>	<u>120-365 days overdue</u>	<u>Neither past due nor impaired</u>	<u>Total</u>
Suppliers' volume rebates receivable	29,007	10,057	13,397	2,825,699	<b>2,878,160</b>
Accounts receivable on rental and other services	388,767	5,485	16,963	7,434,682	<b>7,845,897</b>
Other receivables	62,623	5,291	7,647	157,742	<b>233,303</b>
<b>Total</b>	<b>480,397</b>	<b>20,833</b>	<b>38,007</b>	<b>10,418,123</b>	<b>10,957,360</b>

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

#### 15. Advances paid

	<u>31 December 2018</u>	<u>31 December 2017</u>
Advances to suppliers of goods	1,242,760	1,847,513
Advances for services	1,529,424	565,998
<b>Total advances paid</b>	<b>2,772,184</b>	<b>2,413,511</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 16. Taxes recoverable

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

#### 17. Cash and cash equivalents

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

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

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

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

#### 18. Issued capital and reserves

##### Issued capital

As at 31 December 2018 the Company's share capital is comprised of 97,508,265 authorised and issued ordinary shares (as at 31 December 2017: 97,416,963) with equal voting rights. Paid value of shares with no par value is fully accounted for within additional paid-in capital.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realisable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares are declared for the years ended 31 December 2018 and 2017.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Issued capital (continued)

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

	<b>31 December 2018 No.</b>	<b>31 December 2017 No.</b>
Authorised share capital (ordinary shares)	unlimited	unlimited
Issued and fully paid (no par value)	97,508,265	97,416,963
Treasury shares	(235,319)	-
	<b>31 December 2018 No.</b>	<b>31 December 2017 No.</b>
<b>Balance of shares outstanding at beginning of financial year</b>	<b>97,416,963</b>	<b>97,318,746</b>
Additional issue of shares	91,302	98,217
Shares buy-back	(235,319)	-
<b>Balance of shares outstanding at the end of financial year</b>	<b>97,272,946</b>	<b>97,416,963</b>

During the year ended 31 December 2018 the Group issued 91,302 shares of no par value with respect to long-term incentive plans to certain members of management (21,800 shares) and share value appreciation rights to top management (69,502 shares) (see Note 28). The issued shares were transferred into GDR and distributed to relevant participants.

Total expense for the services received from the employees previously recognised with respect to issued shares under long-term incentive plans was RUB 52,040. Total expense for the services received from the employees recognised with respect to shares issued under share value appreciation rights was RUB 405,232.

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

##### Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 28 for further details of these plans.

##### Hedging reserve

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

#### 20. Earnings per share

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Earnings per share (in thousands of Russian roubles per share)</b>		
- basic and diluted, for profit for the period attributable to equity holders of the parent	0.121	0.136

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Number of issued shares at the beginning of period</b>	<b>97,416,963</b>	<b>97,318,746</b>
Number of shares issued in June 2017	-	98,217
Number of shares issued in July 2018	91,302	-
Number of shares repurchased in November-December 2018	(235,319)	-
<b>Number of shares at the end of reporting period</b>	<b>97,272,946</b>	<b>97,416,963</b>
Weighted average number of shares	97,445,815	97,327,428

The Group has issued share-based payments (Note 28) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material effect on dilution of earnings per share for the periods presented.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

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#### 21. Borrowings

Short-term borrowings:

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

Long-term borrowings:

	<u>Currency</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Fixed rate bonds	RUB	5,559,870	4,993,339
Fixed rate long-term bank loans	RUB	74,648,179	31,410,105
Floating rate long-term bank loans	RUB	26,133,242	25,790,760
<b>Total long-term borrowings</b>		<b><u>106,341,291</u></b>	<b><u>62,194,204</u></b>

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

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

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

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

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

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

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 21. Borrowings (continued)

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

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

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

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

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

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

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

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

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

#### 22. Income taxes

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

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 22. Income tax (continued)

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

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 20% is detailed below.

	1 January 2018	Change in the accounting policies due to the application of IFRS 9 (Note 4)	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehen- sive income	31 December 2018
<b>Tax effect of (taxable)/ deductible temporary differences</b>					
Property, plant and equipment	(8,612,723)	-	(1,693,650)	-	(10,306,373)
Leasehold rights	(546,387)	-	(162)	-	(546,549)
Unused vacation and employee bonuses accrual	196,153	-	57,231	-	253,384
Suppliers' bonuses	(303,860)	-	273,016	-	(30,844)
Borrowings	(115,445)	46,831	5,730	-	(62,884)
Intangible assets other than leasehold rights	(20,603)	-	(11,131)	-	(31,734)
Inventory	319,599	-	95,612	-	415,211
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	110,253	112,536	(97,893)	-	124,896
Accrued liabilities	165,213	-	94,513	-	259,726
Cash flow hedging instruments	(91,565)	-	50,343	41,222	-
Tax losses carried forward	543,499	-	(543,499)	-	-
Other	(30,866)	-	(83,723)	-	(114,589)
<b>Total net deferred tax liabilities</b>	<b>(8,386,732)</b>	<b>159,367</b>	<b>(1,853,613)</b>	<b>41,222</b>	<b>(10,039,756)</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 22. Income tax (continued)

	1 January 2017	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehen- sive income	31 December 2017
<b>Tax effect of (taxable)/ deductible temporary differences</b>				
Property, plant and equipment	(7,488,361)	(1,124,362)	-	(8,612,723)
Leasehold rights	(430,827)	(115,560)	-	(546,387)
Unused vacation and employee bonuses accrual	261,671	(65,518)	-	196,153
Suppliers' bonuses	(874)	(302,986)	-	(303,860)
Borrowings	(129,273)	13,828	-	(115,445)
Intangible assets other than leasehold rights	(24,076)	3,473	-	(20,603)
Inventory	570,280	(250,681)	-	319,599
Provision for impairment of receivables, advances and prepayments for construction	79,949	30,304	-	110,253
Accrued liabilities	121,539	43,674	-	165,213
Cash flow hedging instruments	(158,236)	-	66,671	(91,565)
Tax losses carried forward	-	543,499	-	543,499
Other	(38,282)	7,425	-	(30,866)
<b>Total net deferred tax liabilities</b>	<b>(7,236,490)</b>	<b>(1,216,904)</b>	<b>66,671</b>	<b>(8,386,732)</b>

The temporary taxable differences associates with undistributed earnings of subsidiaries amount to RUB 66,696,688 and RUB 61,556,675 as of 31 December 2018 and 2017, respectively. A deferred tax liability on these temporary differences was not recognised, because management believes that it is in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

#### 23. Trade and other payables

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

The trade and other payables are denominated in:

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 24. Other taxes payable

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

#### 25. Cost of sales

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

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

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

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

The cost of own production consists of the following:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Raw materials	15,749,849	18,751,044
Labour costs	5,417,029	4,411,435
Utilities	996,781	898,094
Repairs and maintenance	264,886	196,907
<b>Total cost of own production</b>	<b>22,428,545</b>	<b>24,257,480</b>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

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

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

#### 27. Other operating income and expenses

Other operating income is comprised of the following:

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

Other operating expenses are comprised of the following:

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

#### 28. Share-based payments

##### Long-term incentive plan

During the year 2014 the Group approved a long-term incentive plan (LTIP) to certain members of management, according to which the Company granted award shares in 2014, 2015, 2016, 2017 and 2018 along with the communication of the terms of award to participants.

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

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

In July 2018 the Group issued 21,800 shares of no par value with respect to LTIP Tranche 2015. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 52,102. Shares were transferred into GDR and distributed to relevant participants.

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

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

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

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

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

Total expense recognised for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2018 and the year ended 31 December 2017 is shown in the following table:

	Year ended 31 December 2018	Year ended 31 December 2017
Expense arising from the equity-settled long-term incentive plan payments	219,041	289,462

##### Share value appreciation rights

During the year 2013 and the year 2016 the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Limited based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

In April 2018 SVARs of 2013 year fully vested. In July 2018 the Group issued 69,502 shares of non par value. Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 387,419. The shares were transferred into GDR and distributed to relevant participants.

##### Movements during the year

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

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

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Expense arising from the equity-settled SVARs transaction	46,220	131,848

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

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#### 29. Commitments

##### Capital expenditure commitments

At 31 December 2018 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 11,489,981 net of VAT (31 December 2017: RUB 14,089,672 net of VAT).

##### Operating lease commitments

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
Not later than 1 year	6,152,827	5,561,773
Later than 1 year and not later than 5 years	21,875,021	22,635,742
Later than 5 years	36,033,801	33,561,979
<b>Total operating lease commitments</b>	<b><u>64,061,649</u></b>	<b><u>61,759,494</u></b>

#### 30. Financial instruments

##### Categories of financial instruments

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

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 30. Financial instruments (continued)

##### Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures of fair value measurement hierarchy for financial assets and financial liabilities as at 31 December 2018:

	<u>31 December 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial liabilities for which fair values are disclosed</b>				
Fixed rate bonds	5,662,373	5,662,373	-	-
Floating rate borrowings	26,697,380	-	26,697,380	-
Fixed rate borrowings	93,370,478	-	93,370,478	-
	<u>31 December 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets measured at fair value</b>				
Cash flow hedging instruments	8,179	-	8,179	-
<b>Financial liabilities measured at fair value</b>				
Cash flow hedging instruments	18,049	-	18,049	-
<b>Financial liabilities for which fair values are disclosed</b>				
Fixed rate bonds	23,276,798	23,276,798	-	-
Floating rate borrowings	26,400,263	-	26,400,263	-
Fixed rate borrowings	57,621,654	-	57,621,654	-

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

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

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<b>Financial assets</b>				
Cash flow hedging instruments	-	-	8,179	8,179
<b>Financial liabilities</b>				
<b>Interest-bearing loans and borrowings</b>				
Floating rate borrowings	26,697,380	26,697,380	26,400,263	26,400,263
Fixed rate borrowings and bonds	100,382,909	99,032,851	80,682,072	80,898,452
<b>Derivative liabilities</b>				
Cash flow hedging instruments	-	-	18,049	18,049
<b>Total financial liabilities</b>	<u>127,080,289</u>	<u>125,730,231</u>	<u>107,100,384</u>	<u>107,316,764</u>

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 30. Financial instruments (continued)

##### Fair values (continued)

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

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

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

- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2018 and 31 December 2017 is assessed to be insignificant.
- ▶ The fair value of bonds is based on the price quotations at the reporting date at Moscow exchange where transactions with bonds take place with sufficient frequency and volume.
- ▶ The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 31 December 2017, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

##### Changes in liabilities arising from financing activities

	31 December 2017	Proceeds from borrowings	Repay- ments of borrowings	Reclas- sifications	Change in the accounting policies due to application of IFRS 9 (Note 4)	Other	31 December 2018
Long-term borrowings	62,194,204	64,683,000	(5,000,000)	(15,799,792)	324,305	(60,426)	106,341,291
Short-term borrowings	44,888,131	67,500,000	(106,871,775)	15,799,792	(90,149)	(487,001)	20,738,998
<b>Total</b>	<b>107,082,335</b>	<b>132,183,000</b>	<b>(111,871,775)</b>	<b>-</b>	<b>234,156</b>	<b>(547,427)</b>	<b>127,080,289</b>
	31 December 2016	Proceeds from borrowings	Repay- ments of borrowings	Reclas- sifications	Other	31 December 2017	
Long-term borrowings	66,955,931	20,880,525	(1,400,000)	(24,377,036)	134,784	62,194,204	
Short-term borrowings	35,245,120	106,330,000	(121,015,714)	24,377,036	(48,311)	44,888,131	
<b>Total</b>	<b>102,201,051</b>	<b>127,210,525</b>	<b>(122,415,714)</b>	<b>-</b>	<b>86,473</b>	<b>107,082,335</b>	

The 'Other' column includes the effect of accrued but not yet paid interest on interest bearing loans. Group classifies interest paid as cash flows from operating activities.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

#### 31. Hedge and hedging instruments

In 2013-2015 the Group entered into interest rate swaps and caps provided by VTB Bank PJSC to mitigate the risk of a rising MosPrime interest rate.

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

	<u>Notional amount 2018</u>	<u>Notional amount 2017</u>	<u>Fixed interest rate</u>	<u>Fixed commis- sion</u>	<u>Effective date</u>	<u>Expiry date</u>
<b>Type of instrument</b>						
Interest rate swap	–	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	–	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	–	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	–	900,000	12.00%	0.45%	31 December 2013	12 November 2018

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

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

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

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
<b>Profit or loss</b>		
Ineffective portion of the change in the fair value of cash flow hedging instruments	–	–
Reclassification from hedge reserve into interest expense	<u>203,887</u>	<u>212,248</u>
	<u><b>203,887</b></u>	<u><b>212,248</b></u>
<b>Other comprehensive income</b>		
Effective portion of the change in the fair value of cash flow hedging instruments	(2,221)	(121,107)
Reclassification from hedge reserve into interest expense	<u>(203,887)</u>	<u>(212,248)</u>
	<u><b>(206,108)</b></u>	<u><b>(333,355)</b></u>

#### 32. Financial risk management

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

## Lenta Limited and subsidiaries

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### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

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

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

##### Market risk

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

##### Foreign currency risk

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

During the years ended 31 December 2018 and 2017, the Group does not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

At 31 December 2018 and at 31 December 2017 there are no significant amounts in foreign currencies.

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

##### Foreign currency sensitivity

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

	<u>Change in USD rate</u>	<u>Effect on profit before tax</u>
Year ended 2018	14.00%	(91,491)
	-14.00%	91,491
Year ended 2017	11.00%	(76,995)
	-11.00%	76,995

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Foreign currency sensitivity (continued)

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

	<u>Change in EUR rate</u>	<u>Effect on profit before tax</u>
Year ended 2018	14.00%	(33,453)
	-14.00%	33,453
Year ended 2017	20.00%	(33,195)
	-20.00%	33,195

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

##### Interest rate risk

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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2018 and 31 December 2017 these obligations are represented with long-term borrowing (Note 21), which bears interest of MosPrime 1-3m plus margin. In order to hedge the risk of rising MosPrime interest rate, in 2013-2015 the Group entered into interest rate swaps and caps (Note 31), which are expired at the end of the reporting period.

##### Interest rate sensitivity

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

	<u>Profit or loss</u>		<u>OCI</u>	
	<u>75 bp increase</u>	<u>100 bp decrease</u>	<u>75 bp increase</u>	<u>100 bp decrease</u>
<b>2018</b>				
Variable rate instruments	(196,875)	262,500	-	-
<b>Cash flow sensitivity</b>	<u>(196,875)</u>	<u>262,500</u>	<u>-</u>	<u>-</u>
	<u>Profit or loss</u>		<u>OCI</u>	
	<u>50 bp increase</u>	<u>150 bp decrease</u>	<u>50 bp increase</u>	<u>150 bp decrease</u>
<b>2017</b>				
Variable rate instruments	(157,434)	472,303	-	-
Interest rate swaps and caps	67,063	(201,188)	20,858	(62,501)
<b>Cash flow sensitivity (net)</b>	<u>(90,371)</u>	<u>271,115</u>	<u>20,858</u>	<u>(62,501)</u>

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

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

##### **Interest rate sensitivity (continued)**

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

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2018 all of the Group's borrowings are denominated in Russian roubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

##### **Credit risk**

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

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

##### **Trade receivables**

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

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

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

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 33,539,189 (31 December 2017: RUB 14,067,804).

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 bases on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MosPrime index) existing at the reporting date:

31 December 2018

	<u>Less than 12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Borrowings	30,637,465	117,172,663	-	147,810,128
Trade and other payables	56,133,840	-	-	56,133,840
<b>Total</b>	<b>86,771,305</b>	<b>117,172,663</b>	<b>-</b>	<b>203,943,968</b>

31 December 2017

	<u>Less than 12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Borrowings	52,153,762	64,796,766	7,838,694	124,789,222
Trade and other payables	57,259,762	-	-	57,259,762
Amounts payable under swaps and caps	18,049	-	-	18,049
<b>Total</b>	<b>109,431,573</b>	<b>64,796,766</b>	<b>7,838,694</b>	<b>182,067,033</b>

##### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while 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.

## Lenta Limited and subsidiaries

### Notes to the consolidated financial statements for the year ended 31 December 2018

(in thousands of Russian roubles)

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

##### Capital management (continued)

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 21, obligations under finance leases less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 18.

Net debt of the Group is comprises of the following:

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

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

#### 33. Contingencies

##### Operating environment of the Group

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

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

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

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

## **Lenta Limited and subsidiaries**

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### **Notes to the consolidated financial statements for the year ended 31 December 2018**

*(in thousands of Russian roubles)*

#### **33. Contingencies (continued)**

##### **Legal contingencies**

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 36,538 as at 31 December 2018 (31 December 2017: RUB 15,805). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group, which have not been disclosed in these consolidated financial statements.

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

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 975,898 (31 December 2017: RUB 483,211). Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

##### **Environmental matters**

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

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

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