



Offering of 38,750,000 Global Depositary Receipts Offer Price: U.S.\$7.10 per GDR (the “Offer Price”)

This is an offering (the “**Offering**”) by Lenta Ltd. (the “**Company**”), a company organised and existing under the laws of the British Virgin Islands (the “**BVI**”), of 21,126,760 global depositary receipts (the “**GDRs**”), representing 4,225,352 ordinary shares of the Company (the “**Shares**”) and by the selling shareholder named herein (the “**Selling Shareholder**”) of 17,623,240 GDRs, representing 3,524,648 ordinary shares of the Company. Five GDRs represent an interest in one Share.

This document (the “**Prospectus**”) has been approved by the United Kingdom Financial Conduct Authority (the “**FCA**”) in accordance with the prospectus rules (the “**Prospectus Rules**”) of the FCA made under section 73A of the Financial Services and Markets Act 2000 (“**FSMA**”) in relation to the admission to listing and to trading of the GDRs. This document is a prospectus relating to the Company prepared in accordance with the Prospectus Rules. Applications have been made (1) to the FCA, in its capacity as competent authority under the FSMA, for a listing of up to 21,126,760 GDRs, to be issued on or about 26 October 2015 (the “**Closing Date**”) to be admitted to the official list of the FCA (the “**Official List**”), and (2) to the London Stock Exchange plc (the “**London Stock Exchange**” or “**LSE**”) for such GDRs to be admitted to trading under the symbol LNTA on the London Stock Exchange’s regulated market for listed securities, which is regulated under the Markets in Financial Instruments Directive 2004/39/EC, through its international order book (the “**IOB**”). Admission to the Official List and to trading on the regulated market (“**London Admission**”) is expected to take place on or about 26 October 2015. Trades in the GDRs executed on the IOB on the date of this Prospectus will settle on a T+2 basis in accordance with the rules of the London Stock Exchange, which would be one day prior to the Closing Date. Accordingly, any trades selling GDRs effected by investors on the date of this Prospectus will be at the sole risk of the seller – the seller will be obliged to deliver GDRs on T+2 in accordance with the rules of the London Stock Exchange, notwithstanding that it will not have received any GDRs pursuant to this Offering at that time.

In connection with the Company’s original admission to the Official List and the London Stock Exchange on 5 March 2014 and subsequent GDR offering completed on 27 March 2015, a total of 465,466,970 GDRs were admitted to the Official List and the London Stock Exchange. There are currently 462,065,995 GDRs in issue. Following the Offering, there will be 486,593,730 GDRs admitted in aggregate, consisting of (i) 462,065,995 existing GDRs, (ii) 21,126,760 GDRs to be issued on or about 26 October 2015, and (iii) up to an additional 3,400,975 GDRs to be issued from time to time against the deposit of Shares with Deutsche Custody NV, as custodian (the “**Custodian**”) acting on behalf of Deutsche Bank Luxembourg S.A., as depositary (the “**Depositary**”).

The Company’s existing GDRs have been admitted to trading on Closed Joint-Stock Company “MICEX Stock Exchange” (“**MICEX**”), a part of the Moscow Exchange Group, since 6 March 2014. Lenta is relying on an understanding with MICEX that the Company’s GDRs have been admitted to trading on MICEX as a class and any new securities of the class are also admitted. Therefore, upon the London Admission, the newly-issued GDRs offered by the Company will become securities of the same class as the existing GDRs and will become eligible for trading on MICEX (the “**MICEX Admission**”). No action by the Company is required for the newly-issued GDRs to be tradable on MICEX upon the London Admission. Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted. No assurance can be given that thereafter the GDRs will continue to be admitted to trading on MICEX. See “*Risk Factors—Risks Relating to the GDRs and the Trading Market—The GDRs may be de-listed from MICEX*”.

The Offering comprises an offering of GDRs (a) within the United States to qualified institutional buyers (“**QIBs**”), as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), or another exemption from, the registration requirements of the Securities Act, and (b) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S under the Securities Act (“**Regulation S**”). The Shares will not be and are not expected to be listed on any exchange.

INVESTMENT IN THE GDRs INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS”.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs by certain U.S. selling agents of the Managers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of these and certain further restrictions on transfers of the GDRs, see “*Plan of Distribution*”, “*Selling and Transfer Restrictions*” and “*Settlement and Delivery*”.

The GDRs are offered by the Managers when, as and if delivered to and accepted by them and subject to their right to reject orders in whole or in part. The GDRs being offered and sold within the United States (the “**Rule 144A GDRs**”) will be evidenced by a Rule 144A Master Global Depositary Receipt (the “**Rule 144A Master GDR**”) registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”) in New York. The GDRs being offered and sold outside the United States (the “**Regulation S GDRs**”) will be evidenced by a Regulation S Master Global Depositary Receipt (the “**Regulation S Master GDR**”) and, together with the Rule 144A Master GDR, the “**Master GDRs**”) registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants, including the Russian National Settlement Depository (“**NSD**”). It is expected that delivery of the GDRs will be made against payment therefor in U.S. Dollars in same day funds through the facilities of DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs, in each case on or about the Closing Date. See “*Settlement and Delivery*”.

Joint Global Coordinators and Joint Bookrunners

Credit Suisse

J.P. Morgan

VTB Capital

The date of this Prospectus is 21 October 2015

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

By accepting delivery of this Prospectus, you agree to the following. This Prospectus is being furnished by the Company solely for the purpose of enabling you to consider the purchase of the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers, the Depositary, the Selling Shareholder or any of their respective affiliates or advisers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Managers that any recipient of this Prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of the GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription or purchase of the GDRs should be based upon such investigation as it deems necessary.

This Prospectus, including the financial information included herein, is in compliance with the Prospectus Rules which are compliant with the provisions of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) for the purpose of giving information with regard to the Company and the GDRs. This Prospectus is a prospectus for the purposes of the Prospectus Directive.

The Company accepts responsibility for the information contained in this Prospectus and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to purchase or otherwise acquire the GDRs. In making an investment decision, you should rely on your own investigation and analysis of the Company, the Company and its consolidated subsidiaries taken as a whole (“Lenta” or the “Group”), the terms of the Offering, including the merits and risks involved, your own determination of the suitability of any such investment, with particular reference to your own investment objectives and experience and any other factors that may be relevant to you in connection with an investment in the GDRs. Any decision to buy the GDRs should be based solely on the information contained in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offering other than those contained in this Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Managers, any of their respective affiliates, advisers or any other person. At any time following the date of this Prospectus, the information contained in this Prospectus may no longer be correct and the Company’s and the Group’s business, financial condition or results of operations may have changed.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own legal, tax, financial and other advisors for legal, tax, business, financial and related advice regarding purchasing the GDRs. None of the Company, the Selling Shareholder or the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Managers are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, the GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed, placed or otherwise dealt with should be understood as including any issue, offer, subscription, placement or dealing by the Managers and any of their respective affiliates acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company and the Selling Shareholder may withdraw the Offering at any time, and the Company, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor. The distribution of this

Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about and observe any such restrictions. See “*Selling and Transfer Restrictions*” and “*Plan of Distribution*”. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholder or the Managers is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The contents of the websites of the Company, the Selling Shareholder and its subsidiaries do not form part of this Prospectus.

NOTICE TO CERTAIN INVESTORS

THE GDRs HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE GDRs OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

This Offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the GDRs which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See “*Plan of Distribution*” and “*Selling and Transfer Restrictions*”.

This Prospectus is being provided (1) to a limited number of investors in the United States reasonably believed to be QIBs for informational use solely in connection with their consideration of the purchase of the GDRs and (2) to investors outside the United States in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EEA INVESTORS

This Prospectus has been prepared on the basis that all offers of GDRs other than the offers contemplated in this Prospectus in the United Kingdom once this Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in the United Kingdom will be made pursuant to an exemption under the Prospectus Directive (including Directive 2010/73/EU, to the extent implemented in the EEA Member States as implemented in the EEA Member States) from the requirement to produce a prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. None of the Company or the Managers has authorised, nor do they authorise, the

making of any offer of the GDRs through any financial intermediary, other than offers made by the Managers, which constitute the final placement of the GDRs contemplated in this Prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (including Directive 2010/73/EU, to the extent implemented in such Member State of the EEA) (each, an “**EEA Relevant Member State**”) who receives any communication in respect of the GDRs or who acquires any GDRs will be deemed to have represented, acknowledged and agreed that (i) it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive (including Directive 2010/73/EU, to the extent implemented in such EEA Relevant Member State, and including any relevant implementing measure in such EEA Relevant Member State) (a “**Qualified Investor**”); (ii) in the case of any GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, the GDRs acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any EEA Relevant Member State other than Qualified Investors or in circumstances in which the prior consent of the Managers has been given to the offer or resale; and (iii) where the GDRs have been acquired by it on behalf of persons in any EEA Relevant Member State other than Qualified Investors, the offer of those GDRs to it is not treated under the Prospectus Directive as having been made to such persons. The Company, the Managers, the Company’s and the Managers’ affiliates and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements, and will not be responsible for any loss occasioned by such reliance. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase the GDRs, provided that publication of a Prospectus would not be required pursuant to Article 3 of the Prospectus Directive.

For the purposes of this representation, the expression an “**offer within the EEA of the GDRs**” in relation to any GDRs in any EEA Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs.

NOTICE TO UNITED KINGDOM INVESTORS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or other persons to whom it may lawfully be communicated (such persons collectively being referred to as “**Relevant Persons**”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This Prospectus does not constitute an offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any GDRs in the Russian Federation, except to the extent permitted under Russian law. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Central Bank of Russia (the “**CBR**”). Therefore, “placement” of the GDRs in Russia is prohibited. Before the MICEX Admission, the GDRs may not be offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to qualified investors within the meaning of Article 51.2 of Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Russian Securities Law**”) or as otherwise may be permitted by Russian law.

NOTICE TO BVI INVESTORS

This Prospectus is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The GDRs are only available to, and any invitation or offer to subscribe, purchase or otherwise acquire such GDRs will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI. Any person who is a member of the public in the BVI (other than solely by virtue of being a company incorporated in the BVI) or who receives this Prospectus in the BVI (other than in the case of a person resident in the BVI solely by virtue of being a company incorporated in the BVI, at its registered office in the BVI) should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE UNITED ARAB EMIRATES

The Offering has not been approved or licensed by the Central Bank of the United Arab Emirates (“UAE”), the Securities and Commodities Authority of the UAE and/or any other relevant licensing authority in the UAE including any licensing authority incorporated under the laws and regulations of any of the free zones established and operating in the territory of the UAE, in particular the Dubai Financial Services Authority (“DFSA”), a regulatory authority of the Dubai International Financial Centre (“DIFC”). The Offering does not constitute a public offer of securities in the UAE, DIFC and/or any other free zone in accordance with the Commercial Companies Law, Federal Law No 2 of 2015, DFSA Markets Law DIFC Law No. 1 of 2012, Markets Rules and NASDAQ Dubai Rules, accordingly, or otherwise. The GDRs may not be offered to the public in the UAE and/or any of the free zones.

NOTICE TO INVESTORS IN QATAR

This document does not, and is not intended to, constitute an invitation for an offer of any investment or financial product in the State of Qatar (including the Qatar Financial Centre) and accordingly should not be construed as such. By receiving this document the person or entity to whom it has been provided understands, acknowledges and agrees that (i) neither this document nor any product referred to in it has been registered, considered, approved or authorised by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or any other authority or agency in the State of Qatar; (ii) neither the Company nor the Selling Shareholder has been authorised or licensed by any such authority to market or sell any products or interests referred to in this document within the State of Qatar; and (iii) all applications in relation to this document should be received, any agreement concluded and any allotments made, from outside Qatar. No marketing of any financial products or services has or will be made from within the State of Qatar. The interests have not been offered, sold or delivered and will not be offered, sold or delivered at any time directly or indirectly in the State of Qatar. This document shall not form the basis of, or be relied on in connection with, any contract in Qatar. Neither the Company or the Selling Shareholder nor persons representing them are, by distributing this document, advising individuals resident in the State of Qatar as to the appropriateness of investing in these financial products. Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice in, or in respect of, the State of Qatar.

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PROSPECTUS SUMMARY

Summaries are made up of disclosure requirements known as “**Elements**”. These Elements are numbered in Sections A—E (A.1—E.7). This summary contains all the Elements required to be included in a summary for this type of securities and the Company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and the Company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.

Section A—Introduction and Warnings		
A.1	Introduction and Warnings.	<p>This summary should be read as an introduction to the Prospectus.</p> <p>Any decision to invest in the GDRs should be based on consideration of the Prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.</p>
A.2	Consent by the issuer or person responsible for drawing up the prospectus to the use of the prospectus for subsequent resale or final placement of securities by financial intermediaries.	Not applicable. The Company has not consented to the use of the Prospectus for subsequent use or final placement of GDRs by financial intermediaries.

Section B—Company		
B.31	Information about the issuer of the underlying Shares.	
B.1	The legal and commercial name of the company.	Lenta Ltd.
B.2	The domicile and legal form of the company, the legislation under which the company operates and its country of incorporation.	The Company is a company limited by shares incorporated under the laws of the BVI under registration number 1058643 with its registered office at the Offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI.
B.3	A description of, and key factors relating to, the nature of the company’s current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of	<p>Lenta is Russia’s second largest hypermarket operator and sixth largest food retailer, as measured by 2014 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, priced hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2014, Lenta achieved the highest sales growth and selling space growth among Russian publicly traded food retailers (based on publicly available information on peer companies).</p> <p>Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in seven of Russia’s nine federal districts. As of 30 June 2015, Lenta had a total of 751,033 sq. m. of selling space, comprised primarily of 116 hypermarkets with an aggregate selling space of 722,118 sq. m. in 62 cities, including Russia’s largest cities of St. Petersburg and Moscow and 60 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the</p>

	<p><i>the principal markets in which the company competes.</i></p>	<p>daily/weekly shopping of a diverse range of customers.</p> <p>Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 23,800 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 95 of its 116 hypermarkets, leasing the remainder. In 2013, Lenta carried out a ‘soft launch’ of its supermarket format in Moscow, and as of 30 June 2015 operated 27 supermarkets, all but one of which are leased. Lenta utilises six distribution centres (with one more expected to be fully operational in late 2015) to supply its hypermarkets and supermarkets, all as part of its supply chain operations.</p> <p>Lenta’s recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. Lenta enjoyed like-for-like sales growth of 11.5% in the first half of 2015, and 10.6% in 2014, compared to 10.0% in 2013 and 13.5% in 2012. Lenta opened 31 new hypermarkets and 14 new supermarkets in 2014, the most stores it has opened in one calendar year in its history. Lenta’s supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently Lenta remains on track to achieve its stated goal of doubling its selling space over the three years ending December 2016.</p> <p>Lenta’s distinctive customer proposition is ‘Value-for-Money’, offering consistently-available products at affordable prices in well-organised stores. Lenta’s practice is to seek to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta continues to adhere to this price leadership strategy even in the current difficult macroeconomic environment. Lenta’s 7.6 million active cardholders (as of 30 June 2015) make consistent use of the Lenta loyalty card with approximately 90% of all sales in the first half of 2015 and 2014 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.</p> <p>Underpinning Lenta’s low-price business model are its operational efficiencies, which are driven by a flexible, low-cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores; Lenta opened two new distribution centres in the first half of 2015 and is currently constructing a new distribution centre in Yekaterinburg that is expected to come into operation late 2015. Once this distribution centre is completed, Lenta will have seven distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In June 2015, Lenta decided, in light of the planned continued expansion of supermarkets operating in and around Moscow, to acquire a dedicated supermarket distribution centre near Moscow that it intends to make operational in 2016. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 30 June 2015, Lenta had 66 trucks and trailers in its own fleet, 14 of which were leased. Lenta’s in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta’s advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.</p>
<p>B.4a</p>	<p><i>A description of the most significant recent trends affecting the company and the industries in which it operates.</i></p>	<p>The most significant recent trends affecting Lenta and the Russian food retail industry include:</p> <ul style="list-style-type: none"> • reduced consumer confidence and purchasing power caused by deteriorating general economic conditions in Russia, rising inflation and devaluation of the Rouble against other currencies in the second half of 2014 and in 2015; • growing penetration of modern retail formats in Russia, but with the top five modern retailers having a relatively small market share compared to other modern developed markets; and • decreasing SG&A in the first half of 2015 due to efficiency measures and a drop in supply chain costs as a percentage of sales to 1.2% (from 1.6% in the first half of 2014) in part as a result of a significant decline in the average distance travelled per pallet of supplies to stores after the new distribution centres in Togliatti and Rostov became operational.
<p>B.4b</p>	<p><i>A description of any known trends affecting the company and the industries in</i></p>	<p>The recent trends affecting Lenta and the Russian food retail industry include:</p> <ul style="list-style-type: none"> • greater price consciousness among Russian consumers; • increasing competition in the Russian food retail sector that is characterised by low levels of consolidation compared to other countries; and

	<i>which it operates.</i>	<ul style="list-style-type: none"> an increasing focus on generating customer loyalty, supported by greater use of direct marketing and so-called “Big Data” (i.e., using the data generated by the recorded purchases of Lenta’s cardholders), enabling a better understanding of what customers buy and targeted marketing efforts. 																																										
B.5	<i>If the company is part of a group, a description of the group and the company’s position within the group.</i>	<p>The Group consists of Lenta Ltd. and its subsidiaries. Lenta Ltd. is the parent company of the Group. Lenta operates through Lenta LLC, a limited liability company organised and existing under the laws of the Russian Federation (with registration number 1037832048605). Lenta LLC holds substantially all of Lenta’s operational assets and conducts substantially all of Lenta’s business. All of Lenta’s stores are owned or leased by Lenta LLC.</p>																																										
B.6	<i>In so far as is known to the company, the name of any person who, directly or indirectly, has an interest in the company’s capital or voting rights which is notifiable under the company’s national law, together with the amount of each such person’s interest. Whether the company’s major shareholders have different voting rights if any. To the extent known to the company, state whether the company is directly or indirectly owned or controlled and by whom and describe the nature of such control.</i>	<p>In general, BVI law does not impose any notification obligations on shareholders, or the BVI company itself, in respect of shareholdings in a BVI company, and the concept of a “notifiable interest” is therefore not a feature of BVI law.</p> <p>By incorporation into the Memorandum & Articles of the Company (the “M&A”), Chapters 3 and 5 of the U.K. Disclosure and Transparency Rules are applicable to the Company and holders of Shares and GDRs as if the Company were a U.K. issuer.</p> <p>Based on notifications submitted to the Company, significant shareholdings (direct or indirect) in the Company are set out below as of the dates indicated. None of the Company’s shareholders has any voting rights that are different from any other holders of the Shares, except in relation to the director nomination rights of two shareholders of the Company: the TPG group (acting through its vehicle Luna Inc.) and the European Bank for Reconstruction and Development (the “EBRD”) (the “Major Shareholders”).</p> <p>Pre-Offering Shareholder Structure</p> <p>The principal shareholders of the Company as of the date of this Prospectus are:</p> <table border="1"> <thead> <tr> <th>Shareholder</th> <th>Number of Shares⁽¹⁾</th> <th>Shareholding</th> </tr> </thead> <tbody> <tr> <td>Luna Inc.</td> <td>33,091,583</td> <td>35.5%</td> </tr> <tr> <td>EBRD.....</td> <td>10,699,875</td> <td>11.5%</td> </tr> <tr> <td>New World Fund, Inc.....</td> <td>4,307,137.8</td> <td>4.6%</td> </tr> <tr> <td>Loren Bough</td> <td>3,558,242</td> <td>3.8%</td> </tr> <tr> <td>Luna Holdings Inc.....</td> <td>3,359,540.8</td> <td>3.6%</td> </tr> <tr> <td>Bestinver Gestion S.A., SGIIC.....</td> <td>2,805,405</td> <td>3.0%</td> </tr> </tbody> </table> <p>Note:</p> <p>(1) Shares may be held indirectly in the form of GDRs. Information on the number of Shares held by the principal shareholders of the Company is based on the TR-1 notifications submitted to the Company.</p> <p>With respect to the Major Shareholders: Luna Inc. is an investment vehicle beneficially owned by the TPG group and incorporated in the Cayman Islands; and EBRD is an international organisation formed by treaty.</p> <p>Post-Offering Shareholder Structure</p> <p>After the completion of the Offering the principal shareholders of the Company will be:</p> <table border="1"> <thead> <tr> <th>Shareholder</th> <th>Number of Shares⁽¹⁾</th> <th>Shareholding</th> </tr> </thead> <tbody> <tr> <td>Luna Inc.</td> <td>33,091,583</td> <td>34.0%</td> </tr> <tr> <td>EBRD.....</td> <td>7,175,227</td> <td>7.4%</td> </tr> <tr> <td>New World Fund, Inc.....</td> <td>4,307,137.8</td> <td>4.4%</td> </tr> <tr> <td>Loren Bough</td> <td>3,558,242</td> <td>3.7%</td> </tr> <tr> <td>Luna Holdings Inc.....</td> <td>3,359,540.8</td> <td>3.5%</td> </tr> <tr> <td>Bestinver Gestion S.A., SGIIC.....</td> <td>2,805,405</td> <td>2.9%</td> </tr> </tbody> </table> <p>Note:</p> <p>(1) Shares may be held indirectly in the form of GDRs. Information on the number of Shares held by the principal shareholders of the Company is based on the TR-1 notifications submitted to the Company.</p> <p>The Major Shareholders (i.e., the TPG group and EBRD) will continue to be in a position to significantly influence the outcome of most matters submitted to shareholders’ meetings for a vote, including, but not limited to, the election or removal of directors (a number of whom will be nominated by the Major Shareholders pursuant to rights embedded in the M&A) and other policy decisions. Additionally, the Major Shareholders will continue to be able to significantly influence the outcome of any vote on any proposed amendment to the M&A, merger proposals, the appointment of directors or any other matter</p>	Shareholder	Number of Shares ⁽¹⁾	Shareholding	Luna Inc.	33,091,583	35.5%	EBRD.....	10,699,875	11.5%	New World Fund, Inc.....	4,307,137.8	4.6%	Loren Bough	3,558,242	3.8%	Luna Holdings Inc.....	3,359,540.8	3.6%	Bestinver Gestion S.A., SGIIC.....	2,805,405	3.0%	Shareholder	Number of Shares ⁽¹⁾	Shareholding	Luna Inc.	33,091,583	34.0%	EBRD.....	7,175,227	7.4%	New World Fund, Inc.....	4,307,137.8	4.4%	Loren Bough	3,558,242	3.7%	Luna Holdings Inc.....	3,359,540.8	3.5%	Bestinver Gestion S.A., SGIIC.....	2,805,405	2.9%
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		submitted to shareholder vote. In addition, the Major Shareholders will continue to be able to exercise significant influence over any decision regarding a change of control of Lenta. Immediately following the Offering, four of the nine members of the Company's board of directors (the "Board of Directors") will be nominees of the Major Shareholders (the "Major Shareholder Nominated Directors").																																																																																																																																																																																																																																										
B.7	<i>Selected historical key financial information regarding the company, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of significant change to the company's financial condition and operating results during or subsequent to the period covered by the historical key financial information.</i>	<p>The financial data set forth below as of 30 June 2015 and 2014 and the six-month periods then ended and 31 December 2014, 2013 and 2012 and for the years then ended have been extracted without material adjustment from the Financial Information. The Financial Information has been prepared in accordance with IFRS. Lenta's functional and presentation currency is the Rouble.</p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">Six months ended 30 June</th> <th colspan="3">Year ended 31 December</th> </tr> <tr> <th></th> <th>2015</th> <th>2014</th> <th>2014</th> <th>2013</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td></td> <td colspan="5" style="text-align: center;">(RUB millions)</td> </tr> <tr> <td colspan="6">Consolidated statement of profit or loss and other comprehensive income data</td> </tr> <tr> <td>Sales.....</td> <td>114,897</td> <td>85,899</td> <td>193,988</td> <td>144,266</td> <td>109,910</td> </tr> <tr> <td>Cost of sales.....</td> <td>(89,921)</td> <td>(67,515)</td> <td>(150,131)</td> <td>(112,805)</td> <td>(87,233)</td> </tr> <tr> <td>Gross profit</td> <td>24,976</td> <td>18,384</td> <td>43,857</td> <td>31,462</td> <td>22,677</td> </tr> <tr> <td>Selling, general and administrative expenses</td> <td>(16,852)</td> <td>(12,943)</td> <td>(28,106)</td> <td>(18,940)</td> 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<td>724</td> <td>2,629</td> <td>(43)</td> <td>—</td> </tr> <tr> <td>Total comprehensive income for the period, net of tax</td> <td>1,443</td> <td>3,403</td> <td>11,704</td> <td>7,104</td> <td>5,176</td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;">As of 30 June</td> <td colspan="3" style="text-align: center;">As of 31 December</td> </tr> <tr> <td></td> <td style="text-align: center;">2015</td> <td style="text-align: center;">2014</td> <td style="text-align: center;">2013</td> <td style="text-align: center;">2012</td> <td></td> </tr> <tr> <td></td> <td colspan="5" style="text-align: center;">(RUB millions)</td> </tr> <tr> <td colspan="6">Consolidated statement of financial position data</td> </tr> <tr> <td>Total non-current assets</td> <td>97,908</td> <td>90,906</td> <td>57,358</td> <td>34,856</td> <td></td> </tr> <tr> <td>Total current assets, of which</td> <td>42,761</td> <td>50,339</td> <td>30,972</td> <td>20,339</td> <td></td> </tr> <tr> <td> Cash and cash 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data						Sales.....	114,897	85,899	193,988	144,266	109,910	Cost of sales.....	(89,921)	(67,515)	(150,131)	(112,805)	(87,233)	Gross profit	24,976	18,384	43,857	31,462	22,677	Selling, general and administrative expenses	(16,852)	(12,943)	(28,106)	(18,940)	(13,456)	Reversal of impairment of non-financial assets.....	—	—	—	—	0	Other operating income.....	1,179	1,235	2,267	1,460	1,118	Other operating expense.....	(289)	(86)	(359)	(181)	(125)	Operating profit	9,015	6,590	17,659	13,801	10,215	Interest expense	(5,353)	(2,934)	(6,911)	(4,342)	(3,217)	Interest income	255	38	100	82	78	Change in fair value of financial instruments at fair value through profit or loss.....	6	—	(19)	(234)	102	Other expenses	—	(43)	(41)	(91)	(215)	Foreign exchange gains/(losses)	(134)	(8)	140	(23)	70	Profit before income tax	3,789	3,643	10,928	9,192	7,032	Income tax expense.....	(824)	(964)	(1,853)	(2,045)	(1,856)	Profit for the period	2,966	2,679	9,075	7,147	5,176	Other comprehensive income						Other comprehensive income to be reclassified to profit or loss in subsequent periods						Net movement of cash flow hedges.....	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Net movement of cash flow hedges.....	(1,904)	905	3,286	(54)	—																																																																																																																																																																																																																																							
Income tax	381	(181)	(657)	11	—																																																																																																																																																																																																																																							
Other comprehensive income for the period, net of tax	(1,523)	724	2,629	(43)	—																																																																																																																																																																																																																																							
Total comprehensive income for the period, net of tax	1,443	3,403	11,704	7,104	5,176																																																																																																																																																																																																																																							
	As of 30 June		As of 31 December																																																																																																																																																																																																																																									
	2015	2014	2013	2012																																																																																																																																																																																																																																								
	(RUB millions)																																																																																																																																																																																																																																											
Consolidated statement of financial position data																																																																																																																																																																																																																																												
Total non-current assets	97,908	90,906	57,358	34,856																																																																																																																																																																																																																																								
Total current assets, of which	42,761	50,339	30,972	20,339																																																																																																																																																																																																																																								
Cash and cash equivalents.....	12,143	12,036	6,212	3,536																																																																																																																																																																																																																																								
Total assets	140,669	141,245	88,330	55,195																																																																																																																																																																																																																																								
Total non-current liabilities.....	59,481	62,334	41,955	25,910																																																																																																																																																																																																																																								
Total current liabilities	50,367	62,181	41,461	30,126																																																																																																																																																																																																																																								
Total liabilities	109,849	124,515	83,415	56,036																																																																																																																																																																																																																																								
Total equity	30,820	16,730	4,915	(841)																																																																																																																																																																																																																																								
Total equity and liabilities	140,669	141,245	88,330	55,195																																																																																																																																																																																																																																								
		Six months	Year ended																																																																																																																																																																																																																																									

	ended 30 June		31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
Consolidated statement of cash flows data					
Net cash generated from operating activities.....	(1,015)	749	15,979	10,936	9,314
Net cash used in investing activities	(11,775)	(11,792)	(35,111)	(23,633)	(15,015)
Net cash generated from financing activities.....	12,897	7,708	24,955	15,372	4,101
Net (decrease)/increase in cash and cash equivalents.	107	(3,335)	5,824	2,676	(1,600)
	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
Other financial data					
Gross margin (%) ⁽¹⁾	21.7	21.4	22.6	21.8	20.6
EBITDA (RUB millions) ⁽²⁾	11,704	8,285	21,318	16,118	11,794
Adjusted EBITDA (RUB millions) ⁽²⁾	11,747	8,122	21,377	16,467	12,771
Adjusted EBITDA margin (%) ⁽²⁾⁽³⁾	10.22	9.5	11.0	11.4	11.6
EBITDAR (RUB millions) ⁽²⁾⁽⁴⁾	12,988	8,870	22,728	16,717	12,316
Adjusted EBITDAR (RUB millions) ⁽⁴⁾⁽⁵⁾	13,030	8,707	22,786	17,076	13,293
Adjusted EBITDAR margin (%) ⁽⁵⁾⁽⁶⁾	11.3	10.1	11.7	11.8	12.1
Net debt (RUB millions) ⁽⁷⁾	59,497	51,010	59,215	39,831	25,341
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽⁷⁾	2.4	2.8	2.8	2.4	2.0
Adjusted EBITDA to net interest expense ratio ⁽²⁾⁽⁸⁾	2.8	3.4	3.1	3.9	4.1
Lease-adjusted net debt to Adjusted EBITDAR ratio ⁽⁵⁾⁽⁹⁾	2.8	3.1	3.1	2.6	2.1
Adjusted EBITDAR to net interest expense plus rental expense ratio ⁽⁵⁾⁽⁸⁾	2.4	3.1	2.8	3.5	3.6
Operating cash flow to Adjusted EBITDA ratio ⁽²⁾⁽¹¹⁾ ..	0.93	1.00	1.06	0.90	0.97
Capital expenditure (RUB millions) ⁽¹²⁾	11,775	11,792	35,111	23,633	15,015
	As of or for the six months ended 30 June		As of or for the year ended 31 December		
	2015	2014	2014	2013	2012
Operational data⁽¹³⁾					
Total selling space (thousands of sq. m.) (as of period-end)	751	542	701	507	376
of which:					
Hypermarkets	722	525	675	495	376
Supermarkets	29	17	27	12	—
Number of stores (as of period-end)	143	96	132	87	56
of which:					
Hypermarkets	116	82	108	77	56
Supermarkets	27	14	24	10	—
Average selling space (thousands of sq. m.)	727	523	568	416	313
Average hypermarket selling space (thousands of sq. m.)	699	509	551	412	313
Average sales density (RUB thousands/sq. m.) ⁽¹⁴⁾	158	164	342	347	351
Average hypermarket sales density (RUB thousands/sq.m.)	158	165	332	348	351
Number of tickets (millions of units) ⁽¹⁵⁾	105	81	176	132	104
Number of hypermarket tickets (millions of units) ⁽¹⁵⁾	97	77	166	130	104
Average store ticket (RUB) ⁽¹⁶⁾	1,091	1,065	1,099	1,092	1,061
Average hypermarket ticket (RUB)	1,133	1,092	1,132	1,100	1,061
Average ticket growth (% change, period-on-period) ⁽¹⁶⁾	2.4	1.2	0.7	2.9	9.3
Traffic growth (% change, period-on-period) ⁽¹⁷⁾	30.6	36.6	33.6	27.5	12.0
Like-for-like sales growth (% change, period-on-period) ⁽¹⁸⁾	11.5	13.8	10.6	10.0	13.5

Like-for-like sales (% of sales) ⁽¹⁸⁾	83.2	82.1	81.5	83.2	92.6
Like-for-like average ticket growth (% change, period-on-period) ⁽¹⁹⁾	6.5	7.3	6.0	8.1	10.1
Like-for-like additional articles per ticket (% change, period-on-period) ⁽²⁰⁾	(5.9)	0.9	(1.8)	2.0	3.1
Like-for-like average price growth per article (% change, period-on-period) ⁽²¹⁾	13.2	6.4	8.0	6.0	6.8
Like-for-like traffic growth (% change, period-on-period) ⁽²²⁾	4.7	6.1	4.4	1.8	3.1
Like-for-like average selling space (thousands of sq. m.) ⁽²³⁾	509	383	415	301	270
Like-for-like average sales density (RUB thousands/sq. m.) ⁽²⁴⁾	188	184	381	399	376
Sales from new stores (RUB millions).....	19,325	15,344	35,870	24,198	8,186
Sales growth from new stores (% change, period-on-period) ⁽²⁵⁾	22.5	24.7	24.9	21.3	9.0
Share of new store sales growth in total sales growth (% of sales) ⁽²⁵⁾	66.6	64.6	72.1	68.2	39.9

Notes:

- (1) Gross margin is calculated as gross profit as a percentage of sales.
- (2) EBITDA is defined as profit for the period before foreign exchange gains/(losses), reversal of impairment of non-financial assets, revaluation of financial instruments at fair value through profit and loss, other expenses, depreciation and amortisation, interest and tax. Adjusted EBITDA is defined as EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to profit for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
Adjusted EBITDA	11,747	8,122	21,377	16,467	12,771
One-off non-operating costs.....	(43)	163	(58)	(350)	(977)
EBITDA	11,704	8,285	21,318	16,118	11,794
Interest expense	(5,353)	(2,934)	(6,911)	(4,342)	(3,217)
Interest income	255	38	100	82	78
Income tax expense	(824)	(964)	(1,853)	(2,045)	(1,856)
Depreciation/amortisation	(2,690)	(1,695)	(3,659)	(2,317)	(1,579)
Reversal of impairment of non-financial assets	—	—	—	—	0
Other expenses	—	(43)	(41)	(91)	(215)
Revaluation of financial instruments at fair value through profit or loss	6	—	(19)	(234)	102
Foreign exchange gains/(losses)	(134)	(8)	140	(23)	70
Profit for the period	2,966	2,679	9,075	7,147	5,176

- (3) Adjusted EBITDA margin is Adjusted EBITDA as a percentage of sales.
- (4) EBITDAR is EBITDA before rent paid on land, equipment and premises leases.
- (5) Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.
- (6) Adjusted EBITDAR margin is Adjusted EBITDAR as a percentage of sales.
- (7) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents.
- (8) Net interest expense is interest expense less interest income.
- (9) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.
- (10) [Intentionally omitted.]
- (11) For the purposes of this ratio, operating cash flow is defined as net cash generated from operating activities less net cash interest paid. The figures given for 30 June 2015 and 2014 are for the 12 months ended on such dates.
- (12) Capital expenditure represents net cash used in investing activities.
- (13) Note like-for-like data in 2013 and 2012 reflect only hypermarket performance (as no supermarkets were in the like-for-like panel in 2013 or prior years).
- (14) Average sales density is total sales during the relevant period divided by the average selling space for that period.
- (15) Ticket means the receipt issued to a customer for his basket.

- (16) Average ticket is calculated by dividing total sales, net of VAT, at all stores during the relevant period by the number of tickets in that period.
- (17) Traffic is the number of tickets issued for the relevant period.
- (18) Like-for-like sales is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (19) Like-for-like average ticket is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (20) Like-for-like additional articles per ticket is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (21) Like-for-like average price growth per article is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (22) Like-for-like traffic is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (23) Like-for-like average selling space is the average of selling space on 1 January of the year and quarterly-end selling space for each quarter of the relevant period for the stores comprising Lenta’s like-for-like panel at the end of such period.
- (24) Like-for-like average sales density is the average sales density for the stores comprising Lenta’s like-for-like panel.
- (25) New store sales comprise sales at stores open for less than 12 full calendar months.

In the six months ended 30 June 2015, profit for the period increased by RUB287 million, or 10.7%, to RUB2,966 million from RUB2,679 million in the six months ended 30 June 2014 mainly due to a 33.8% overall increase in sales, which, in turn, was primarily due to (i) a 22.5% increase in the sales from new stores opened in the first half of 2015 and new stores opened in 2014 not yet part of the like-for-like panel and (ii) a 11.5% increase in like-for-like sales.

Partially offsetting this increase in sales was a 33.2% increase in cost of sales and a 30.2% increase in SG&A. The increase in cost of sales was mainly driven by a 34.4% increase in cost of goods sold, in turn the result of new store openings and greater like-for-like sales, and a 30.1% increase in the cost of own production, reflecting a 29.1% increase in sales of own production. The increase in SG&A was mainly caused by a 22.1% increase in labour costs as a result of the increase in the number of Lenta employees, a 58.2% increase in depreciation and amortisation, mainly due to depreciation taken on Lenta’s newly built stores and distribution centres, a 41.4% increase in utilities and communal payments and a 154.7% increase in the cost of premises leased (reflecting 21 rented hypermarkets and 26 rented supermarkets as of 30 June 2015 compared to 10 rented hypermarkets and 13 rented supermarkets as of 30 June 2014).

In 2014, profit for the year increased by RUB1,928 million, or 27.0%, to RUB9,075 million from RUB7,147 million in 2013 mainly due to a 34.5% overall increase in sales, which, in turn, was primarily due to (i) a 24.9% increase in the sales from new stores opened in 2014 and new stores opened in 2013 not yet part of the like-for-like panel and (ii) a 10.6% increase in like-for-like sales.

Partially offsetting this increase in sales was a 33.1% increase in cost of sales and a 48.4% increase in SG&A. The increase in cost of sales was mainly driven by a 32.3% increase in cost of goods sold, in turn the result of new store openings and greater like-for-like sales, and a 34.7% increase in the cost of own production, which was mainly due to a 33.1% increase in sales of own production. The increase in SG&A was mainly caused by a 40.3% increase in labour costs, due to an increase in Lenta employee headcount partially offset by a decrease in average salaries, a 61.7% increase in depreciation and amortisation, mainly due to depreciation taken on Lenta’s newly built stores, a 58.4% increase in utilities and communal payments and a 45.4% increase in advertising.

In 2013, profit for the year increased by RUB1,971 million, or 38.1%, to RUB7,147 million from RUB5,176 million in 2012 mainly due to a 31.3% overall increase in sales, which, in turn, was primarily due to (i) a 21.3% increase in the sales from new stores opened in 2013 and new stores opened in 2012 not yet part of the like-for-like panel and (ii) a 10.0% increase in like-for-like sales. Partially offsetting this increase in sales was a 29.3% increase in cost of sales and a 40.8% increase in SG&A. The increase in cost of sales was mainly driven by a 28.9% increase in cost of goods sold, in turn the result of new store openings and greater like-for-like sales, and a 32.6% increase in the cost of own production, which was mainly due to a 28.8% increase in sales of own production. The increase in SG&A was mainly caused by a 23.2% increase in labour costs, due to an increase in Lenta employee headcount and an increase in average salaries, a 43.3% increase in depreciation and amortisation, due to depreciation taken on Lenta’s newly built stores and to charges recognised in 2013 arising from capitalised pre-opening expenses, a 131.6% increase in professional fees and a 69.3% increase in advertising.

Total assets as of 30 June 2015 equaled RUB 140,669 million, compared to RUB 141,245 million as of 31 December 2014. This decrease was mainly driven by a 15.1% decrease in current assets (to RUB42,761 million as of 30 June 2015 from RUB50,339 million as of 31 December 2014) partially offset by a 7.7% increase in non-current assets (to RUB97,908 million as of 30 June 2015 from RUB90,906 million as of 31 December 2014). The decrease in current assets was mainly caused by a decrease in inventories (in particular, goods for resale), trade and other receivables (in particular, accounts receivable on rental and other services and on supplier advertising and suppliers’ rebates receivable) and advances

		<p>paid – all these items tend to be higher at year-end in light of December store openings and seasonal shopping patterns. The increase in non-current assets was mainly due to increases in property, plant and equipment and prepayments for construction, which, in turn, were due to Lenta’s expansion.</p> <p>Total assets as of 31 December 2014 equaled RUB 141,245 million, compared to RUB88,330 million as of 31 December 2013. This increase was mainly driven by a 58.5% increase in non-current assets (to RUB90,906 million as of 31 December 2014 from RUB57,358 million as of 31 December 2013) and a 62.5% increase in current assets (to RUB50,339 million as of 31 December 2014 from RUB30,972 million as of 31 December 2013). The increase in non-current assets was mainly due to an increase in property, plant and equipment, which, in turn, was due to Lenta’s expansion, and the increase in current assets was mainly caused by an increase in inventories (in particular, goods for resale), trade and other receivables (in particular, accounts receivable on rental and other services and on supplier advertising and suppliers’ rebates receivable) and cash and cash equivalents.</p> <p>Total assets as of 31 December 2013 equaled RUB88,330 million, compared to RUB55,195 million as of 31 December 2012. This increase was mainly driven by a 64.6% increase in non-current assets (to RUB57,358 million as of 31 December 2013 from RUB34,856 million as of 31 December 2012) and a 52.3% increase in current assets (to RUB30,972 million as of 31 December 2013 from RUB20,339 million as of 31 December 2012). The increase in non-current assets was mainly due to an increase in property, plant and equipment, which, in turn, was due to Lenta’s expansion, and the increase in current assets was mainly caused by an increase in inventories (in particular, goods for resale), trade and other receivables (in particular, accounts receivable on rental and other services and on supplier advertising) and cash and cash equivalents.</p> <p>Total liabilities as of 30 June 2015 equaled RUB109,849 million, compared to RUB124,515 million as of 31 December 2014. This decrease was mainly driven by a 19.0% decrease in current liabilities (to RUB50,367 million as of 30 June 2015 from RUB62,181 million as of 31 December 2014) and a 4.6% decrease in non-current liabilities (to RUB59,481 million as of 30 June 2015 from RUB62,334 million as of 31 December 2014). The decrease in current liabilities was mainly the result of a 32.5% decrease in trade and other payables (to RUB32,667 million as of 30 June 2015 from RUB48,373 million as of 31 December 2014), which reflects that Lenta’s accounts payable position tends to be higher at year-end. The decrease in non-current liabilities was mainly due to a 5.5% decrease in long-term borrowings (to RUB55,275 million as of 30 June 2015 from RUB58,520 million as of 31 December 2014).</p> <p>Total liabilities as of 31 December 2014 equaled RUB124,515 million, compared to RUB83,415 million as of 31 December 2013. This increase was mainly driven by a 48.6% increase in non-current liabilities (to RUB62,334 million as of 31 December 2014 from RUB41,955 million as of 31 December 2013) and a 50.0% increase in current liabilities (to RUB62,181 million as of 31 December 2014 from RUB41,461 million as of 31 December 2013). The increase in non-current liabilities was mainly the result of a 46.9% increase in long-term borrowings (to RUB58,520 million as of 31 December 2014 from RUB39,849 million as of 31 December 2013). The increase in current liabilities was mainly due to a 43.1% increase in trade and other payables (to RUB48,373 million as of 31 December 2014 from RUB33,807 million as of 31 December 2013).</p> <p>Total liabilities as of 31 December 2013 equaled RUB83,415 million, compared to RUB56,036 million as of 31 December 2012. This increase was mainly driven by a 61.9% increase in non-current liabilities (to RUB41,955 million as of 31 December 2013 from RUB25,910 million as of 31 December 2012) and a 37.6% increase in current liabilities (to RUB41,461 million as of 31 December 2013 from RUB30,126 million as of 31 December 2012). The increase in non-current liabilities was mainly the result of a 59.5% increase in long-term borrowings (to RUB39,849 million as of 31 December 2013 from RUB24,979 million as of 31 December 2012). The increase in current liabilities was mainly due to a 35.0% increase in trade and other payables (to RUB33,807 million as of 31 December 2013 from RUB25,044 million as of 31 December 2012).</p> <p>Total equity equaled RUB30,820 as of 30 June 2015, compared to total equity of RUB16,730 million as of 31 December 2014, RUB4,915 million as of 31 December 2013 and negative total equity of RUB841 million as of 31 December 2012. The negative total equity as of 31 December 2012 was mainly due to Lenta’s purchase of Shares from a former shareholder, Svoboda Corporation, for a total cash consideration of RUB15,725 million, which was deducted from equity as treasury shares. These treasury shares were cancelled in 2013.</p> <p>Since 30 June 2015, the end of the last financial period for which financial information has been published, there has been no significant change in Lenta’s financial condition or operating results.</p>
B.8	<i>Selected key pro-forma financial information.</i>	Not applicable; the Prospectus does not include pro-forma financial information.
B.9	<i>Where a profit forecast or estimate is made,</i>	Not applicable; the Prospectus does not include a profit forecast or estimate.

	<i>state the figure.</i>	
B.10	<i>A description of the nature of any qualifications in the audit report on the historical financial information.</i>	Not applicable; there are no qualifications in the audit report on the historical financial information.
B.32	<i>Information about the issuer of the depository receipts, including the name and registered office of the issuer of the depository receipts and the legislation under which the issuer of the depository receipts operates and legal form which it has adopted under the legislation.</i>	The Depository is Deutsche Bank Luxembourg S.A., a société anonyme registered with the Luxembourg trade and companies register under number B. 9164. The registered office of the Depository is located at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg.

Section C—Securities

Section C—Securities		
C.13		
Information about the underlying Shares.		
C.1	<i>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.</i>	Not applicable. The Shares are not being offered or admitted to trading. The Shares are not listed, and are not expected to be listed, on any regulated market and do not have an identification number.
C.2	<i>Currency of the securities issued.</i>	The Shares are not issued in any currency because the Shares do not have par value. Please see C.3.
C.3	<i>The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have not par value.</i>	Prior to the Offering, the Company had 93,093,394 issued, fully paid and outstanding Shares. The Company is authorised to issue an unlimited number of additional Shares. The Shares do not have par value.
C.4	<i>A description of the rights attached to the securities.</i>	<p>All Shares are of no par value and carry identical rights, except that in certain circumstances the Major Shareholders have special voting rights to appoint Major Shareholder Nominated Directors. Each fully paid Share, except for treasury shares, gives its holder the right to:</p> <ul style="list-style-type: none"> • freely transfer such Share, if fully paid, without the consent of other shareholders (save in circumstances explicitly set forth in the M&A); • exercise pre-emptive rights when the Company issues additional Shares for cash but such rights do not apply in respect of: (i) Shares issued up to an aggregate amount of 10% of all Shares each calendar year; (ii) Shares issued to effect or fund acquisition(s) of assets up to an aggregate amount of 10% of all Shares each calendar year; or (iii) Shares issued pursuant to employee share option schemes up to an aggregate amount of 5% of all Shares over any 10-year period; nor do such rights apply where the Board of Directors considers such necessary or expedient in light of legal or practical issues or where holders of Shares holding, alone or with other holders, more than 75% of the Shares, disapply such pre-emptive rights; • vote at a meeting of shareholders or on any written resolution of the shareholders (including in respect of the appointment and removal of directors, subject to the provisions of the M&A);

		<ul style="list-style-type: none"> • receive dividends and distribution of the surplus assets of the Company on its liquidation; • if holding, alone or with other holders, 15% or more of Shares, to propose candidates for appointment as directors; • if holding, alone or with other holders, 15% or more of Shares, to propose the removal of an independent director or an elected director (other than the CEO and CFO and a director nominated by any of the Major Shareholders); • if holding, alone or with other holders, 15% or more of the Shares, demand that the Board of Directors call an extraordinary meeting of shareholders and propose items for inclusion on the agenda of any meeting of shareholders; • if holding, alone or with other holders, 90% or more of all the Shares, instruct the directors to redeem the Shares of the other shareholders; • receive a printed or electronic copy of every balance sheet and profit and loss account, together with the report of the Board of Directors thereon, and a copy of the auditors' report (or a summary financial statement derived from the Company's annual accounts and directors' report); • upon request, receive an extract from the share register showing that shareholder's shareholding; • bring personal, derivative and class actions as permitted by BVI law; and • exercise other shareholder rights provided by the M&A and/or BVI law, <p>in each case subject to applicable law, and the detailed terms set out in the M&A. Five GDRs carry the right to vote one Share, subject to the provisions of the Terms and Conditions of the GDRs and applicable law.</p> <p>The Depositary has agreed to pay holders of the GDRs on the relevant record date the cash dividends or other cash distributions it or the Custodian receives on the underlying Shares, subject to restrictions imposed by applicable law. Subject to applicable law, investors will receive these distributions in proportion to the number of Shares their GDRs represent.</p> <p>Five GDRs represents an interest in one Share on deposit with the Custodian. A holder of GDRs will have the rights set out in the Terms and Conditions of the GDRs and the Master GDRs, which may be summarised as:</p> <ul style="list-style-type: none"> • the right to withdraw the underlying Shares; • the right to receive payment in U.S. Dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the underlying Shares; • the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of assets other than Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such assets); • the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Shares, including pre-emptive rights where such are made available (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. Dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); • the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary; • the right to receive from the Depositary copies received by the Depositary of notices provided by the Company to holders of Shares or other material information, <p>in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs and the Master GDRs.</p>
C.5	<i>A description of any restrictions on the free transferability of the securities.</i>	There are no restrictions on the free transferability of Shares, with the exception of certain restrictions relating to (i) the transfer of a Share to multiple holders, infants or those declared legally incompetent; (ii) Shares recorded in the register of members of the Company as being subject to a security interest; and (iii) the transfer of Shares or interests therein (including GDRs) in circumstances that would trigger a requirement to make a mandatory offer under the terms of the M&A or where certain provisions of the M&A have been breached by the transferor.
C.6	<i>An indication as to whether the securities offered are or will be the</i>	Not applicable. The Shares are not being offered or admitted to trading.

	<i>object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.</i>																							
C.7	<i>A description of dividend policy.</i>	In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; Lenta does not expect to declare any dividends in 2015. In future years, Lenta will consider the pay out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion, its debt profile and leverage ratios. As such, while Lenta's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out.																						
C.14	Information about the depositary receipts.																							
C.1	<i>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.</i>	<p>This Prospectus relates to an admission to listing and to trading of GDRs. Five GDRs represent an interest in one Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The GDRs will be evidenced initially by Master GDRs, each to be issued by the Depositary pursuant to the Deposit Agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs.</p> <p>The security identification numbers of the GDRs offered hereby are as follows:</p> <table> <tr> <td>Regulation S GDRs:</td> <td></td> </tr> <tr> <td>ISIN:</td> <td>US52634T2006</td> </tr> <tr> <td>Common Code:</td> <td>103087686</td> </tr> <tr> <td>CUSIP Number:</td> <td>52634T 200</td> </tr> <tr> <td>Rule 144A GDRs:</td> <td></td> </tr> <tr> <td>ISIN:</td> <td>US52634T1016</td> </tr> <tr> <td>Common Code:</td> <td>103087635</td> </tr> <tr> <td>CUSIP Number:</td> <td>52634T 101</td> </tr> <tr> <td>London Stock Exchange Regulation S GDR trading symbol:</td> <td>LNNTA</td> </tr> <tr> <td>London Stock Exchange Rule 144A GDR trading symbol:</td> <td>LNTR</td> </tr> <tr> <td>MICEX Regulation S GDR trading symbol:</td> <td>LNNTA</td> </tr> </table>	Regulation S GDRs:		ISIN:	US52634T2006	Common Code:	103087686	CUSIP Number:	52634T 200	Rule 144A GDRs:		ISIN:	US52634T1016	Common Code:	103087635	CUSIP Number:	52634T 101	London Stock Exchange Regulation S GDR trading symbol:	LNNTA	London Stock Exchange Rule 144A GDR trading symbol:	LNTR	MICEX Regulation S GDR trading symbol:	LNNTA
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London Stock Exchange Rule 144A GDR trading symbol:	LNTR																							
MICEX Regulation S GDR trading symbol:	LNNTA																							
C.2	<i>Currency of the securities issue.</i>	The GDRs are not denominated in any currency.																						
C.4	<i>A description of the rights attached to the securities.</i>	<p>Five GDRs represent an interest in one Share on deposit with the Custodian on behalf of the Depositary. A holder of GDRs will have the rights set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs, which may be summarised as:</p> <ul style="list-style-type: none"> • the right to withdraw the Deposited Shares (as defined therein) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares; • the right to receive payment in U.S. Dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the Deposited Shares; • the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of property other than Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such property); • the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Shares (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. Dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); 																						

		<ul style="list-style-type: none"> the right to instruct the Depository regarding the exercise of any voting rights notified by the Company to the Depository subject to conditions; and the right to receive from the Depository copies received by the Depository of notices provided by the Company to holders of shares or other material information, <p>in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.</p>
C.5	<i>A description of any restrictions on the free transferability of the securities.</i>	<p>The GDRs are freely transferable, subject to certain transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the EEA and other jurisdictions, contractual lock-ups for certain shareholders and the Company and the Terms and Conditions of the GDRs. The Depository shall refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws.</p> <p>The GDRs are also subject to transfer restrictions in circumstances that would trigger a requirement to make a mandatory offer under the terms of the M&A or where certain provisions of the M&A have been breached in respect of the Shares represented by GDRs.</p> <p>Each purchaser of GDRs within the United States in reliance on Rule 144A of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States. Each purchaser of GDRs offered in reliance on Regulation S of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States.</p>
C.14	<i>Information about the depository receipts.</i>	<p>The Terms and Conditions of the GDRs (as endorsed on each GDR certificate) set out the provisions relating to the exercise of and benefit from the rights attaching to the Shares. The following summarises relevant provisions of the Terms and Conditions of the GDRs relating to the exercise of and benefit from rights attaching to the underlying shares.</p>
	<i>Describe the exercise of and benefit from the rights attaching to the underlying shares, in particular voting rights, the conditions on which the issuer of the depository receipts may exercise such rights, and measures envisaged to obtain the instructions of the depository receipt holders—and the right to share in profits and any liquidations surplus which are not passed on to the holder of the depository receipt.</i>	<p>Distributions</p> <p>Cash Distributions</p> <p>Whenever the Depository shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property (as defined in the Terms and Conditions of the GDRs) in a currency other than U.S. Dollars, the Depository, its Agent (as defined in the Terms and Conditions of the GDRs) or Custodian shall as soon as practicable convert the same into United States Dollars in accordance with the Deposit Agreement. The Depository shall, if practicable in the opinion of the Depository, give notice to the Holders (as defined in the Terms and Conditions of the GDRs) of its receipt of such payment in accordance with the Deposit Agreement, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depository, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of the Deposit Agreement.</p> <p>Whenever the Depository shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depository shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and insofar as the Depository deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depository withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depository shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto.</p> <p>Distribution other than Cash or Shares</p> <p>Whenever the Depository shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depository shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depository may deem equitable and practicable for effecting such distribution; provided that, if and insofar as the Depository deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depository withhold an</p>

amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto.

Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with the Deposit Agreement of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in U.S. Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- if and insofar as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale prior to such sale) and distribute the net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto except to the extent prohibited by applicable law.

Voting Rights

The Company will use reasonable efforts to notify the Depositary of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, and the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. As soon as practicable after receipt from the Company of such notice, the Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the FCA and the admission and disclosure standards of the London Stock Exchange), Russian legal prohibitions (including, without limitation, the listing, admission and trading rules and regulations of MICEX and the CBR) or BVI legal prohibitions against such action exist, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between the Company and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the M&A and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares

	or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depositary, the Depositary shall use its reasonable endeavours, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the M&A and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.
<i>Description of the bank or other guarantee attached to the depository receipts and intended to underwrite the company's obligations.</i>	Not applicable; there is no bank or other guarantee attached to the GDRs.

Section D—Risks

D.2	<p><i>Key information on the key risks that are specific to the issuer of the underlying shares.</i></p> <ul style="list-style-type: none"> • Reduced consumer spending arising from currently deteriorating economic conditions in Russia (arising in large part due to the steep decline in global oil prices and the effects of Western sanctions imposed in connection with the Ukraine crisis) could reduce Lenta's revenues and profitability and adversely affect Lenta's business, financial condition, results of operations and prospects. • Lenta faces significant competition in its current areas of operation, which could lead to a reduction in Lenta's market share and a decline in profitability. • Failure to identify and satisfy consumer preferences could adversely affect Lenta's business, financial condition, results of operations and prospects. • Lenta's operations are subject to seasonal trends, and a failure to adjust to a poor trading performance in any single month or season could leave Lenta with excess inventory that is difficult to liquidate, which could adversely affect its business, financial condition, results of operations and prospects. • Lenta's inability to implement its expansion strategy or execute its capital expenditure plans could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta may pursue expansion through acquisitions, and a failure to successfully carry out such acquisitions could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Failure to acquire or lease land and premises or build new hypermarkets on commercially acceptable terms or failure to renew leases on stores and distribution centres could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • The construction and start of operation of Lenta's hypermarkets is subject to delays and cancellations for a variety of reasons, which may impede its expansion plans and in turn have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta's real estate ownership interests or lease rights and intellectual property rights may be challenged and a decline in the value of Lenta's real estate may impact its ability to comply with its loan agreements or to raise additional financing, any of which may materially adversely affect Lenta's business, financial condition, results of operations and prospects. • An interruption in the operations of a distribution centre could disrupt Lenta's supply chain operations and/or result in substantial property loss. • Lenta's operations may be constrained if it cannot attract or service future debt financing. Lenta's capacity to take on debt is dependent upon its ability to maintain operating performance at a certain level and to service such debt on a timely basis. Any failure to service existing debt may compel Lenta to take certain actions, including delaying capital expenditure and selling real estate, and could put Lenta in default of its obligations, any of which may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta's costs of borrowing have increased in the rising interest rates environment in Russia and increases in interest rates above current levels could negatively impact Lenta's pace of expansion and have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Bonuses, rebates and marketing and other service fees that Lenta obtains from suppliers may be further limited by law (or some of them altogether prohibited), which may result in lower margins and may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Price controls may be imposed on certain goods sold by Lenta, and the current spate in food price inflation may spur such action with the Russian Government empowered to impose maximum retail
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D.5/ D.3	Key information on the key risks that are specific to the securities.	<p>The key risks relating to the GDRs are as follows:</p> <ul style="list-style-type: none"> • The market price of GDRs may be volatile. • The GDRs may be de-listed from MICEX. • The GDRs will trade on more than one market and this may result in increased volatility and price variations between such markets. • GDR holders may have limited recourse against Lenta, its directors and Senior Management. • Corporate governance standards in the BVI, including takeover protections and other general protections given to shareholders, are not of the same standard as those in Western Europe and the United States. • Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Shares. • The voting rights with respect to the Shares represented by the GDRs are limited by the Terms and Conditions of the GDRs and relevant requirements of BVI law. Due to the additional procedural steps involved in communicating with GDR holders, who receive notice indirectly from the Depositary (unlike holders of Shares who receive notice directly from the Company), there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. • The Shares underlying the GDRs are not listed and are illiquid and will remain illiquid. • Future sales of additional GDRs or Shares may have an adverse effect on the trading prices of the GDRs as well as Lenta’s ability to obtain further capital through an offering of equity securities. • Future sales of additional GDRs or Shares, including as part of Lenta’s acquisition strategy, may result in further dilution to holders of its Shares or GDRs. • Lenta has not paid dividends in the past three calendar years and may choose not to pay dividends in the future.
Section E—Offer		
E.1	The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the company or the offeror.	<p>The net proceeds that Lenta will receive from the Offering will be approximately U.S.\$146.7 million (assuming full payment of the discretionary fee to the Managers) after deducting from the gross proceeds to Lenta the total expenses payable by Lenta in connection with the Offering of approximately U.S.\$1 million and underwriting commissions (including the discretionary fee to the Managers) relating to the primary portion of the Offering.</p> <p>The proceeds receivable by the Selling Shareholder from the Offering will be U.S.\$125.1 million before commissions and expenses. Lenta will not receive any proceeds from the sale of the GDRs by the Selling Shareholder.</p>
E.2a	Reasons for the offer, use of proceeds, estimated net amount of the	<p>Lenta intends to use the net proceeds received from the Offering as follows: (i) in the amount of up to RUB8,652 million to fund Lenta’s organic growth under asset acquisition contracts, under which 11 hypermarkets (of which two are scheduled to open in the fourth quarter of 2015 and nine during the first three quarters of 2016) and one distribution centre specially-designed to service Lenta’s Moscow</p>

	<i>proceeds.</i>	supermarkets (which is scheduled to open in the third quarter of 2016) are to be acquired following their construction; and (ii) otherwise for general corporate purposes (up to the amount of proceeds arising from the sale of 7,826,695 GDRs).
E.3	<i>A description of the terms and conditions of the offer.</i>	<p>The Offering comprises 21,126,760 GDRs to be sold by the Company and 17,623,240 GDRs to be sold by the Selling Shareholder, with five GDRs representing an interest in one Share.</p> <p>The Offering is being made by way of an offer of GDRs (1) within the United States to QIBs in reliance on Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in “offshore transactions” in reliance on Regulation S under the Securities Act.</p> <p>The Offer Price is U.S.\$7.10 per GDR.</p> <p>The GDRs are being offered by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.</p> <p>The Managers have applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg, as well as the NSD, and the Rule 144A GDRs accepted for clearance through the DTC.</p> <p>In order to take delivery of the GDRs, investors must pay for them in same-day funds on or about the Closing Date and must have an appropriate securities account.</p>
E.4	<i>A description of any interest that is material to the issue/offer including conflicting interests.</i>	Not applicable.
E.5	<i>Name of the person or entity offering to sell the security.</i>	The GDRs are being offered by the Company and EBRD.
	<i>Lock-up agreements: the parties involved; and indication of the period of the lock up.</i>	Each of the Company, Luna Inc. and EBRD has undertaken to each of the Managers that for a period of 90 days from the date of the Underwriting Agreement, it will not, subject to certain exceptions, without the prior written consent of the Managers, directly or indirectly, offer, issue, lend, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company, Luna Inc. or EBRD, as applicable, or any person acting on its behalf of any Shares or GDRs) or publicly announce an intention to effect any such transaction.
E.6	<i>The amount and percentage of immediate dilution resulting from the offer.</i>	Prior to the Offering, Lenta had 93,093,394 Shares outstanding. Following the Offering, which will include GDRs representing 4,225,352 Shares, Lenta expects to have 97,318,746 Shares outstanding and the Shares currently outstanding will comprise only 95.66% of Lenta’s total share capital.
E.7	<i>Estimated expenses charged to the investor by the company or the offeror.</i>	Not applicable; the investor will not be charged any expenses by the Company, the Selling Shareholder or the Managers in connection with the Offering.

RISK FACTORS

Investment in the GDRs involves a high degree of risk. Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the GDRs. The risks highlighted below, individually or together, could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. If any of these risks materialise, the trading price of the GDRs could decline, and investors may lose some or all of their investment. Prospective investors should note that the risks described below are not the only risks Lenta faces. Lenta has described the risks it considers to be material, but there may be additional risks that Lenta currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

Risks Relating to Lenta's Business and Industry

Risks relating to demand and competition

Lenta's results reflect general economic conditions in Russia, including changes in consumer confidence and spending, which are currently deteriorating.

Lenta's results of operations are sensitive to changes in overall economic conditions in Russia that affect consumer confidence and spending, including discretionary spending on foodstuffs and dry goods. Economic factors such as overall growth, the inflation rate, the Rouble foreign exchange rate, employment levels and general business conditions could reduce consumer spending or change consumer purchasing habits. Lenta's results of operations benefit from the growth of Russia's gross domestic product ("GDP"); conversely, while historically food retail spending has been relatively more resilient than other sectors of the economy during an economic downturn, in a less buoyant economy customers tend to reduce spending both by reducing the volume of their purchases and by shifting their purchasing pattern towards cheaper products. The Russian economy is facing significant challenges in large part due to the steep decline in global oil prices and the effects of Western sanctions imposed in connection with the Ukraine crisis (factors which have also contributed to the weakening of the Rouble, a lack of access to financing for Russian issuers and increased capital flight). Lenta has been experiencing the impact of the economic slowdown in Russia, with consumers becoming more cautious on non-food purchases, although purchases of foodstuffs have not yet been similarly affected (in the first half of 2015, Lenta's like-for-like food sales growth for food items was 13.4% while like-for-like sales of non-food items declined 2.2% compared to the first half of 2014; the effect of the downturn is also borne out by the reduction in Lenta's average sales density and like-for-like articles per ticket during the same period as compared to the respective period of 2014). Another consequence of the downturn is that Lenta's customers are purchasing more goods on promotion (goods sold on promotion increased to 30.4% of Lenta's total sales in the first half of 2015 compared to 27.6% in 2014). The Russian economy is in recession with GDP falling, year-on-year, in 2015 by 2.2% in the first quarter and 4.6% in the second quarter, according to Rosstat. The Russian Ministry of Economic Development in October 2015 predicted that Russian GDP would contract by 3.9% for full year 2015; and the World Bank in September 2015 predicted that Russian GDP would (in the baseline scenario) contract by 3.8% in 2015 and by 0.6% in 2016, and would not start growing until 2017. See "*Risks Relating to Russia—Political, economic and social risks—The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, including the GDRs, as well as Lenta's business, financial condition, results of operations and prospects*" and "*—The Russian economy has fallen into recession in 2015, is suffering from renewed Rouble depreciation, inflation and capital flight, and depends highly on the global pricing of crude oil, which has fallen significantly.*" At the same time, inflation has been increasing while the Rouble has fallen significantly, eroding consumer confidence. As of September 2015, the year-on-year consumer price growth rate was 15.7%, according to Rosstat. The current (as of September 2015) year-to-date annualized rate of inflation for 2015 is 15.9%, with food inflation at 20.2%, according to Rosstat. The Rouble has lost considerable value and exhibited significant volatility, also eroding consumer confidence and purchasing power: the average Rouble/U.S. dollar exchange rate was RUB36.18/\$1 for the third quarter of 2014, RUB46.96/\$1 for the fourth quarter of 2014, RUB62.16/\$1 for the first quarter of 2015, RUB52.63/\$1 for the second quarter of 2015, RUB62.85/\$1 for the third quarter of 2015, and stood at RUB61.44/\$1 as of 20 October 2015. The fall in the Rouble adds to Lenta's costs in that: Lenta imports (directly and indirectly) products (food and non-food) from abroad (with imports comprising 4.8% of Lenta's total supplies in the first half of 2015 compared to 4.3% in the first half of 2014), and even the pricing for Russian domestic products tends to converge with pricing for foreign ones over time. Additionally, equipment used in Lenta's logistics operations (e.g., trucks and forklifts) are mostly imported (or assembled in Russia using foreign components). Reflecting the current trajectory of the Russian economy, as measured by the Russian Consumer Confidence Overall Index reported by the Russian Federal State Statistics Service, Russian

consumer confidence was minus 23 in the second quarter of 2015 (compared to minus 32 in the first quarter, and minus 18 in the fourth quarter of 2014), the lowest levels since 2009 (the index is based on a survey of 5,100 people and consists of five questions regarding their personal finances and perception of the national economy, expressed as the difference between the percentage share of responders who are optimistic versus those who are pessimistic). While Lenta's emphasis on its 'Value-for-Money' proposition and focus on regional/local products in its offering help mitigate the impact of the economic downturn, reduced consumer spending arising from deteriorating economic conditions in Russia could reduce Lenta's revenues and profitability, which in turn could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta faces significant competition in its current areas of operation.

The level of competition in the Russian food retail sector is increasing as retailers in various formats (both modern format stores such as hypermarkets, discounters, supermarkets, convenience stores and cash & carry stores and traditional format independent grocery stores and covered markets) vie to satisfy consumer demand and sophistication while at the same time consumers are coping with a declining Russian economy. Lenta faces competition particularly from other modern format retailers, including both domestic retailers such as Magnit, X5 Retail Group, Dixy, O'Key and foreign retailers such as Auchan and METRO. Operators of modern format stores have been carrying out substantial expansion programmes in recent years. Competition is especially intense in St. Petersburg, which accounts for a greater share of Lenta's revenues than any other single city. In Russia's currently faltering economy, competition is intensifying, especially in respect of the lower-priced end of product assortment (including 'entry-price goods', the lowest-cost choice for a product, which is often the operator's private label product) and with retailers increasing the use of deep promotions to lure clientele and encourage spending in the current market environment.

As of 30 June 2015, Lenta was present in 62 cities with 116 hypermarkets across Russia. Many cities across Russia still remain underpenetrated by modern food retailers. As these markets develop and retail chains expand, rival food retailers will compete on the basis of price, product mix, product quality, location, service and store condition. Lenta's competitiveness depends, *inter alia*, on its ability to offer products in its stores at competitive prices. Lenta's margins may be significantly reduced as a result of price competition with its principal competitors. Current competitors or potential new entrants, including large international retailers, may have greater financial, distribution, purchasing and marketing resources, giving them a competitive advantage. As the Russian market is becoming increasingly saturated with modern retail formats, competition may be expected to intensify. Rapid expansion of e-commerce and internet penetration across Russia may present a challenge for Lenta's non-food sales due to increased competition from online retailers.

The Russian food retail market is fragmented, with a large number of retailers each holding a small market share. Mergers and acquisitions in the food retail market, driven by the proliferation of modern retail formats and scarcity of retail space among other factors, may lead to further industry consolidation. As an example, in March 2013, Auchan significantly increased its market share through an acquisition from the German-based METRO GROUP ("METRO") of its "Real" hypermarkets in Russia. Magnit and X5 Retail Group regularly acquire smaller regional and local chains. If stronger retail operators emerge as a result of consolidation among Lenta's peers, Lenta may lose market share. A loss in market share may lead to a reduction in Lenta's purchasing or negotiating power vis-à-vis suppliers, landlords and sellers of landplots for new store development and in the recognition of the Lenta brand as compared with that of competitors.

In addition, Lenta's ability to compete depends in part on its ability to develop new stores in advantageous locations. In this regard, rival retailers including those who use franchising schemes (which Lenta does not use) or those who are less focused on owning their stores (in contrast to Lenta) may be able to expand more rapidly and at lower cost than Lenta. Competitive pressures resulting from these or other factors could lead to a reduction of Lenta's market share and a decline in profitability and may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Failure to identify and satisfy consumer preferences could materially adversely affect Lenta's business.

Consumer demand for Lenta store formats, and product assortment is directly affected by consumer trends, needs and preferences. Consumer preferences in the markets in which Lenta operates or intends to operate may cease to favour Lenta existing store formats or the products offered by Lenta, for example, as a result of changes in lifestyle and dietary preferences or as a result of national or regional economic conditions. Similarly, local conditions may cause customer preferences to vary from region to region as Lenta continues to expand into new cities. In the current Russian economic downturn, one pattern of behaviour Lenta is observing is that

consumers tend to shop more frequently but purchase smaller baskets of goods. This trend benefits supermarkets and convenience stores rather than hypermarkets. Oftentimes, such consumers return to weekly hypermarket shopping; however, there can be no assurance that the churn will not increase. As a result of changes in customer preferences, traffic in Lenta's stores may decrease (or increase more slowly than in the past) and the average ticket at Lenta's stores may decrease. If Lenta's management is unable to identify and adapt to changes in consumer preferences swiftly, Lenta's inventory may build up and revenue and profitability may decline, which in turn would have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's operations are subject to seasonal trends.

Lenta experiences seasonal fluctuations in its operations, such as a significant increase in operations in December, prior to the New Year holiday season, when there is on average an approximate 50% increase in sales (mostly generated during the final two weeks of the year). There is usually a drop in sales in January and February following the New Year holidays, followed by a rise in sales in March due to International Women's Day on March 8th. In the spring, purchases of meat products tend to fall as some customers observe fasting during Lent. From May through August, considered to be the 'dacha season' when many of Lenta's customers spend weekends at their summer homes, sales patterns change from store to store, depending on location. Sales patterns change again in September, as the 'dacha season' draws to a close. The sale of seasonal products, such as school-related non-food products in August and New Year's decorations and gifts in December, affects interim results. In 2014, approximately 44% of sales were attributed to the first half of the year and 56% to the second half of the year (reflecting not only seasonality but also more stores in operation in the second half of 2014 and maturing of the stores brought into operation in 2013). Poor trading performance in any single month or season, due to failure to adjust the product mix for the relevant period or otherwise, can adversely affect full-year results and leave Lenta with excess inventory that is then difficult to liquidate, which in turn could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Risks relating to strategy

Lenta may not be able to implement its expansion strategy or execute its capital expenditure plans.

Lenta's business has recently expanded rapidly, and Lenta anticipates further significant growth as it pursues its nationwide expansion. The successful implementation of Lenta's expansion strategy depends on its ability to locate and acquire (or lease) appropriate sites on commercially reasonable terms, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel and integrate the new stores into Lenta's supply chain and existing operations in a profitable manner. These expansion plans depend on, amongst other things, economic conditions, the availability of funding, the absence of adverse changes in the regulatory environment and cooperation of local authorities (which in the past have shown resistance in certain cases to federal retail chains such as Lenta, being concerned that they would crowd out local players).

Lenta's general approach of owning (rather than renting) its hypermarkets (and in most cases constructing them) entails significant capital expenditure as Lenta carries out its expansion programme. In 2014, 2013 and 2012, capital expenditure were RUB35,111 million, RUB23,633 million and RUB15,015 million, respectively; total 2015 capital expenditure is currently expected to be approximately RUB35 billion. Capital expenditure in the first half of 2015 was RUB 11,775 million compared to RUB11,792 million in the first half of 2014. To date, Lenta has been able to fund its capital expenditure primarily with its operating cash flows, supplemented by debt financings as well as by the March 2015 equity offering. Given expected operating cash flows and Lenta's current level of debt, Lenta expects it will be able to continue this practice. Lenta currently plans to open at least 30 hypermarkets and 10-15 supermarkets in 2015 (of which 14 hypermarkets and 3 supermarkets had opened as of 30 September 2015). See "*Business – Business Strategy – Benefits of the Offering*". Lenta's management plans to continue to assess capital expenditure in light of sales, cashflow, and EBITDA results, the Rouble interest rate environment and expected return on investment, adjusting expenditures appropriately. As of 30 June 2015, Lenta had contractually committed capital expenditure of RUB15,206 million, most of which will be paid out in the second half of 2015. As of 30 June 2015, Lenta had RUB32,800 million of unutilised funding available under its debt financing facilities (all of which is at current market/floating rates of interest), and RUB12,143 million in cash. In 2014, Lenta's net cash generated from operating activities (after income taxes paid and net interest paid) was RUB15,979 million – such net cash was negative RUB 1,015 million in the first half of 2015 (reflecting in large part the payment of the end-of-year built-up position of accounts payable to suppliers, in keeping with Lenta's typical working capital cycle) compared to RUB 749 million in the first half of 2014. If operating cash flows fall short of projections or if new financing is not available to Lenta on

commercially acceptable terms or at all (whether due to reasons specific to Lenta, its relationship banks or to the debt market generally), Lenta may curtail its expansion plans, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. A slowdown in Lenta's expansion may also prejudice its ability to negotiate better terms with suppliers going forward.

Even if Lenta opens new stores as planned, it may incur unforeseen costs before its new stores become profitable, or these stores may not operate profitably within acceptable time frames or at all. Lenta's pre-opening analysis for a store may prove flawed; due to changed traffic patterns or other circumstances, customer traffic may prove less than forecasted. Where Lenta opens new stores in cities where it already operates, some cannibalisation of sales from existing stores usually happens. The growth in Lenta's business may create significant operational challenges, including: the recruitment, training and retention of suitable staff; effective monitoring of employees' performance; logistics and IT infrastructure; and the financial and internal control procedures in respect of growing business operations. If Lenta is unable to manage its expanding business effectively and profitably, its business, financial condition, results of operations and prospects could suffer.

Lenta may encounter acquisition risks in the expansion of its business.

As part of its expansion strategy, Lenta may pursue growth through mergers or acquisitions of businesses in the Russian retail sector. For example, in 2014 Lenta purchased three hypermarkets in Central Russia from the Bimart firm (which came into operation under the Lenta brand in December 2014); in September 2015 Lenta agreed to acquire three stores and four land plots for development from its competitor O'Key. Future acquisitions could expose Lenta to potential risks, including risks associated with the integration of new operations, assets and personnel, unforeseen or hidden liabilities, the disruption of relationships with suppliers and customers, the diversion of resources from Lenta's existing businesses and technologies, a deterioration in the perception of the Lenta brand, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions and potential loss of, or harm to, relationships with employees and external parties as a result of the integration of new businesses. Future acquisitions could also require Lenta to incur debt or issue equity securities (as is the case for this Offering) potentially dilutive to existing shareholders. In addition, there is no assurance that Lenta would have sufficient resources to complete acquisitions that Lenta considers necessary to ensure that Lenta is able to maintain its market share in significant markets, or that Lenta would not fail to complete such acquisitions for other reasons. Failure to successfully implement acquisitions could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Risks relating to real estate and construction

Lenta may not be able to acquire or lease land and premises or build new hypermarkets on commercially acceptable terms.

Lenta's ability to open new hypermarkets is dependent on acquiring (or leasing) land plots for development or leasing premises in existing structures, such as shopping malls. The real estate market in Russian cities is highly competitive due to the scarcity of high-quality real estate locations for retail stores. As a result, Lenta might need to purchase or lease properties at a high valuation to secure a particular location ahead of Lenta's competitors.

In addition, the government of the Russian Federation (the "**Russian Government**") has from time to time considered proposals that would affect the ability of companies with foreign ownership to acquire land (e.g., by requiring special governmental approval for such acquisition, or by giving domestic companies a preferential right to acquire or lease state-owned real estate). Heightened political tensions between Russia and the West arising out of the Ukraine crisis (or otherwise) might engender renewed consideration and ultimately the enactment of such measures, in which case Lenta's ability to purchase or lease Russian real estate, and thus acquire sites for new stores could be negatively affected.

Lenta relies on dedicated in-house real estate development teams. The composition of these teams will change over time, and there can be no assurance that they will be able to successfully identify and secure suitable real estate opportunities on commercially acceptable terms or at all. Any failure to do so could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

The construction and start of operation of Lenta's hypermarkets is subject to delays and cancellation.

Lenta (or a third-party contractor building a hypermarket to be acquired by Lenta) is required to obtain approvals from various regional or municipal authorities in order to secure rights to undertake construction of

new supermarkets. Russian construction regulations at the federal and regional levels can be complicated, ambiguous and contradictory, and construction approval procedures are susceptible to challenge or reversal. Obtaining approvals entails extensive documentation and an applicant may not be able to accurately predict how long it will take to obtain such approvals or whether it will be able to obtain them at all. In practice, there have been occasions in the past (and there may be such occasions in the future) when requisite construction permits were received with construction of a future Lenta supermarket already in progress and requisite operational permits were received while fit-out work was already ongoing for the store's opening. In such cases, administrative fines may be imposed on Lenta (or a third-party contractor building a supermarket to be acquired by Lenta) or construction of the supermarket may be suspended by authorities until the necessary permits are obtained. As a result, the planned start of operation of Lenta supermarkets or distribution centres may be delayed or cancelled. Construction projects and supermarket openings may also be delayed or be more costly if utilities services, such as electricity, water and gas supply, are difficult to obtain.

There may be a shortage of skilled contractors able to build new supermarkets on time and in compliance with Lenta's requirements. Contractors may fail to meet the quality standards required by Lenta or applicable health and safety requirements. Such failure may result in the imposition of sanctions, which could give rise to negative publicity and have a material adverse effect on Lenta's reputation and disrupt the ability to effectively conduct business. In particular, as Lenta continues to expand into new cities, it may encounter challenges in finding experienced, reliable and loyal contractors in these regions. In the past, Lenta has experienced defects in construction, which in certain instances led to Lenta making claims against contractors. Delays and defects in construction could result in increased costs and postponed supermarket openings. In the first half of 2015, a contractor constructing a Lenta supermarket went bankrupt with the consequence that Lenta lost the prepayment it had made to acquire the supermarket upon completion of construction. As a result of any of these factors, Lenta may not be able to meet its expansion targets as planned, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

A decrease in the value of real estate Lenta owns may impact its ability to comply with the terms of its loan agreements or to raise additional financing.

Lenta has made the strategic choice to own most of its supermarkets, and thus has assembled a substantial real estate portfolio. Lenta has sometimes mortgaged its real estate portfolio to obtain financings on terms it may not otherwise receive on a non-secured basis. Under the terms of such financings, a decrease in the fair market value of Lenta's real estate portfolio can lead to a requirement to mortgage more property to secure its obligations under the financing or to prepay the facility so as to comply with a loan-to-value ratio.

In particular, under the terms of the EBRD Loan Agreement (as defined herein) of RUB4.6 billion, Lenta LLC is obliged to provide an annual valuation report on the pledged property. If the valuation report indicates a decrease in value of the pledged property, EBRD may request Lenta LLC to pledge additional property in order to restore a specified ratio of the outstanding principal amount of the financing to the value of pledged property. Failure by Lenta to meet such requirements, or similar requirements in other financings, the risk of which is magnified in the current recessionary environment with a potential for a decline in real estate prices, may result in Lenta being obliged to repay loans prior to their maturity or incur additional costs, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects and also affect Lenta's ability to attract other debt financings.

Lenta leases some of its stores and one distribution centre, and it may not be able to renew these leases or enter into other leases on acceptable terms.

As of 30 June 2015, Lenta leased 21 out of its 116 supermarkets, 26 of its 27 supermarkets and one of its six distribution centres. There can be no assurance that Lenta will be able to renew its leases as they expire. For example, leases of premises in shopping malls may not be available for extension because landlords may decide to change tenants or demand better commercial terms, which may not be acceptable for Lenta. Lenta's use of leased selling space for its supermarkets is likely to increase in coming years (from 8% as of 31 December 2013, 12% as of 31 December 2014, and 14% as of 30 June 2015 to a targeted maximum of leased selling space of approximately 15-20% over the medium term). If rent prices increase significantly, throughout Russia or in a particular region or city, it may cease to be economically justifiable to lease stores and Lenta may have to discontinue operations at some or all of its leased stores. Any inability to renew leases as they expire or acquire new leases in other favourable locations and sites on acceptable terms, termination of the existing leases or revision of the terms of leases to Lenta's detriment could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's real estate ownership interests or lease rights to real estate properties may be challenged.

Lenta acquires or leases land plots, buildings and premises with a view to operating stores in these locations. Russian real estate legislation at the federal and regional levels is often complicated, ambiguous and contradictory given that following the dissolution of the Soviet Union almost all Russian regions passed their own real estate legislation and over 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Although in 2001 a new Russian land code (the Land Code of the Russian Federation No. 136-FZ, dated 25 October 2001, as amended (the “**Land Code**”)) as well as other federal laws regulating land use and ownership were enacted, it is not always clear which state bodies are authorised to enter into land leases with respect to particular land plots, and the process of surveying and title registration sometimes takes years to complete. As a result, Lenta's ownership of or lease rights to land and buildings may be challenged by government authorities, counterparties or third parties, and establishing Lenta's ownership of or lease rights to this property may take several years. For example, Lenta faced difficulties in obtaining the long-term lease rights to land underlying one of its stores in Siberia. There are also sometimes delays in registering leases to supermarkets in shopping malls, due to failure by the owners of such malls to obtain proper title documentation; currently there is one supermarket and one hypermarket where lease registration remains pending. Lenta enters into three-year term land lease contracts with local authorities for construction of its new stores, and then usually replaces these leases with 49-year term leases after construction is completed. If Lenta does not commence construction within the period of the short-term lease, it may be unable to extend the lease and will lose the land and hence the opportunity to build a new store in the selected location.

Under Russian law, transactions involving real estate may be challenged on various grounds, including where the seller or assignor of rights to real estate acts fraudulently or otherwise does not have the right to dispose of such real estate, where a counterparty breaches internal corporate approval requirements or where a party fails to register the transfer of title in the Unified State Register of Rights to Real Estate and Transactions Therewith (the “**Real Estate Register**”). As a result, defects in the chain of ownership of real estate may lead to invalidation of current ownership, which may affect Lenta's title or lease rights to its real estate. Furthermore, under Russian law, certain encumbrances over real estate (including leases of less than one year and free-of-charge use agreements) do not need to be registered in the Real Estate Register in order to validly encumber the property so that third parties might claim the existence of encumbrances (of which Lenta had no prior knowledge) over Lenta's real estate. In addition, there are often inconsistencies in records contained in the Real Estate Register and the description of real estate contained in the technical cadastre maintained by local technical organisations, which may lead to significant delays in registrations until the inconsistency is cured. Losses of title or lease rights to Lenta's properties may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

An interruption in the operations of a distribution centre could disrupt Lenta's supply chain operations and/or result in substantial property loss.

If operations at one of Lenta's distribution centres were interrupted due to an accident or natural or man-made catastrophe or for other reasons, Lenta could experience a material disruption in its supply chain operations, as well as substantial property loss. Lenta may not be able to rebuild or restore operations in a timely fashion, and its insurance may not cover the resulting loss of property and revenues. Any such event could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.”

Other risks relating to Lenta's business

Lenta's operations may be constrained if it cannot attract or service future debt financing.

Lenta seeks to maintain a strong capital position and prudent approach to leverage. As of 30 June 2015, Lenta's net debt equaled RUB59,497 million and gross debt equaled RUB72,081 million; as of the same date, short-term debt (i.e., coming due in the following 12 months) comprised 22.2% of Lenta's gross debt. In 2014, Lenta's leverage ratio (net debt to Adjusted EBITDA) was 2.77x; in the first half of 2015, the ratio was 2.4x, reflecting in part the retirement of RUB10,825 million of Rouble floating-rate debt by application of the proceeds of the March 2015 equity offering of GDRs. Lenta's debt capacity depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which are outside of Lenta's control (including the prevailing interest rates on Rouble debt, which escalated significantly in December 2014 and has since receded with the CBR announcing a benchmark rate of 17% on 15 December 2014, reduced to 15% on 2 February 2015, 14% on 16 March 2015, 12.5% on 5 May 2015, 11.5% on 16 June 2015 and 11% on 3 August 2015. Lenta may not be able to procure

new debt or re-finance maturing debt on commercially attractive terms or at all, especially as prominent state-controlled Russian banks (including VTB and Sberbank, both lenders to Lenta) cannot themselves access Western capital in light of Western sanctions. If Lenta's cash flow from operating activities is insufficient to service its debt, Lenta could be forced to take certain actions, including delaying or reducing capital or other expenditures or other actions, to restructure or refinance its debt; selling or mortgaging its assets (including real estate properties) or operations; or raising additional equity capital. Lenta might be unable to take any of these actions on favourable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow Lenta to service its debt obligations in full and, in any event, could have a material adverse effect on its business, financial condition, results of operations and prospects. Although Lenta does not currently anticipate defaulting under its current obligations, any such default could result in a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's cost of borrowing has increased as interest rates have risen in Russia, and increases in interest rates above current levels could negatively impact Lenta's pace of expansion.

As noted above, interest rates increased significantly in Russia in 2014 and early 2015, with the CBR's benchmark rate (for its one-week repo auctions) peaking at 17.0% on 16 December 2014, and since receding to a level (established on 3 August 2015) of 11%. Commercial interest rates, including rates applied for Rouble floating interest rate loans, have correspondingly fluctuated, including on Lenta's Rouble floating interest rate borrowings. The MosPrime 3-month rate used on 30 December 2014 to fix the base floating interest rate for Lenta's VTB and EBRD financings was 24.15% (such rate in each case being subject to an increase by a margin provided for under each such financing). As of 30 June 2015, RUB26.8 billion, or 37.1% of Lenta's debt, was Rouble floating rate debt (including short-term debt bearing fixed interest at current market rates when drawn but excluding long-term debt (including the short-term portion thereof) bearing fixed interest and excluding debt with floating interest that Lenta has hedged to reduce its exposure). The Russian interest rate environment will remain a significant factor in determining Lenta's capital expenditure and pace of expansion in 2016 and beyond. Increases in rates of interest in Russia above current levels could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Price controls may be imposed on certain staples sold by Lenta.

Federal or regional authorities may impose price controls on certain goods sold by Lenta, and the current spate in food price inflation may spur such action. The Russian Government in its Resolution No. 769, dated 10 November 2007 (which is no longer in effect but which remains a precedent) permitted the regional authorities to enter into agreements with food producers and retailers to decrease or maintain prices with respect to certain products for the period from November 2007 until April 2008, and subsequently the authorities in Novgorod and in Altai entered into such agreements with retail companies regarding the pricing of milk products, bread and sunflower oil. In late 2014 and early 2015, either mandatory or recommended caps on retailer markups on certain goods were introduced in numerous regions of Russia.

Under the Retail Law, the Russian Government is empowered to impose maximum retail prices for "socially important food products", which comprise meat (beef, pork and lamb), chicken (other than drumsticks), frozen whole fish, butter, sunflower oil, milk, chicken eggs, sand sugar, wheat flour, bread, rice, millet, buckwheat, vermicelli, salt, black tea, potatoes, cabbages, carrots, onions and apples (which items accounted for approximately 10% of Lenta's sales in 2014), for a period of up to 90 days when retail prices have increased over 30% within a 30-day period in a Russian region. A bill introduced for consideration in the Russia Duma in March 2015 would likewise empower the Russian Governmental to impose maximum wholesale (in addition to retail) prices for socially important food products (the Duma has yet to act upon the bill). In each of December 2014 and January 2015, prices for over 20 items of socially important goods, including meat, fish, eggs and flour, grew over 30% within 30 days. During this time, the Russian Ministry of Economic Development has considered imposing price controls on buckwheat, sugar, eggs and cabbage. In January 2015, Russia's Public Prosecutor's Office separately conducted a wave of checks on food prices at major retailers across Russia, including Lenta, Auchan, Dixy Group and X5, to ensure that the price increases were legally permissible and justified. It is expected that governmental agencies will continue to scrutinize retailers' pricing policies, and they may impose price controls if markups are perceived as excessive. In response to these events, in late February 2015 the twelve members of the Russian Retail Companies' Association (including all seven Federal Retail Chains, Lenta being one of them) announced they would each freeze prices on at least twenty socially important food products (as selected by each retailer independently, using the list of socially important food products under the Retail Law as a base for such selection) for a period of two months. In May 2015, some retailers extended the voluntary price freeze for a further two months, to July 2015; others, including Lenta, did not. In August 2015, the Russian

Retail Companies' Association announced that, with food prices stabilising, no further freeze on pricing was under consideration. Nonetheless, any introduction of mandatory price controls on food products (or self-imposed voluntary price freezes) could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Failure to comply with existing governmental regulations, or increased governmental regulation of Lenta's operations, could result in the closure of certain of Lenta's stores, the imposition of substantial penalties, additional costs or slower growth of revenues.

Lenta's operations and properties are subject to regulation by various government entities and agencies, and Lenta is obliged to comply with laws, regulations and rules with respect to, amongst other things, quality standards, health and safety, sanitary rules and consumer protection. This includes obtaining and renewing various permits concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards as well as scheduled and unscheduled checks and audits by the various government authorities. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of the operations of Lenta's stores, the imposition of penalties or the suspension of activity or even closure of Lenta's stores. Under a new regulation that may presage more rigorous oversight, from January 2015, the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare ("**Rospotrebnadzor**") may inspect the premises of retailers without prior notice.

In an action which generated significant publicity, in September 2015, Rospotrebnadzor imposed a fine of RUB25 million on Auchan, one of Lenta's chief competitors, citing violations of sanitary codes (including failures to disinfect equipment and properly dispose of waste) following inspections of Auchan's hypermarkets in Moscow and the Moscow region. A contemporaneous, separate investigation by Rosselkhoznadzor (another Russian governmental agency that carries out sanitary oversight), resulted in a public announcement that it had found traces of chicken, sheep and lamb in Auchan's minced beef, as well as instances of Auchan selling meat past its 'best-before' date; it ordered Auchan to cease the processing and sale of certain meat products. There was some press speculation that Auchan had been singled out for inspections due to its European ownership and as a form of retaliation to ongoing Western sanctions against Russia arising from the Ukraine crisis, a claim denied by the Russian agencies.

Any failure to comply with existing or new laws, regulations and rules may result in the imposition of sanctions, including civil and administrative penalties on Lenta, and imposition of criminal and administrative penalties on its managers. Any decisions, requirements or sanctions taken and imposed by relevant authorities may restrict Lenta's ability to conduct its operations or to do so profitably and, as a result, could have a material adverse effect on Lenta's business, financial condition and results of operations. For example, Lenta operates and contemplates opening hypermarkets located within 50 metres of residential housing. Such practice, while common in the industry, may contradict sanitary rules. While to date Rospotrebnadzor has not taken enforcement action against these stores, there is no assurance that it will not bring such actions against Lenta in the future, possibly resulting in Lenta being forced to close stores.

In addition, Lenta's retail business is subject to mandatory rules for trade in alcohol and tobacco products, which represent a significant portion of its sales. In particular, Lenta's ability to sell alcohol depends on the availability of a licence for the relevant Lenta store, which Lenta is not always able to obtain in time for store openings. Applicable Russian legislation regulates the age of customers, the permitted time and territory for sales of alcohol and tobacco products. For example, sales are prohibited in the neighbourhood of educational and health institutions, sport facilities, airports, and railway stations with the borders of such neighbourhood set by the local authorities. The regional authorities have the right to impose additional restrictions with respect to time, conditions and places for retail of alcohol products, or prohibit all such sales. In respect of tobacco products, from 1 January 2014, new rules on sales on tobacco, including minimum prices and increased tobacco excise duties, became effective in Russia and, from June 2014, the display of tobacco products were generally prohibited, so that a retailer may only display a written list of tobacco products offered for sale. Furthermore, pursuant to the draft law submitted to the State Duma in November 2014, all alcohol products would have to be isolated so that they would not be visible from the rest of the store, nor would signage indicating the location of alcohol products within the store be permitted, which may have the effect of lowering sales. Additional restrictions on sales of alcohol and tobacco may be imposed. If restrictions on the sale of alcohol and tobacco result in lower sales of these products, this may have a material adverse effect on Lenta's business,

financial condition, results of operations and prospects.

Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta's relationship with its suppliers.

In keeping with industry practice, Lenta obtains discounts, rebates and bonuses from its suppliers, typically taking the form of a bonus paid by the supplier to Lenta based on aggregate volumes of goods purchased, as well as other fee income from suppliers arising from services rendered by Lenta (such as advertising, marketing and logistics) and payments of contractual penalties by suppliers. The bonus and service fee payments have historically represented a significant share of Lenta's margins.

Such bonus payments are limited by law. The Retail Law was enacted in response to perceived abusive practices by Russian retailers in demanding volume-based bonuses from suppliers. The Retail Law caps the extent to which retailers can receive volume-based bonuses from suppliers on the original price agreed between the supplier and the retailer for most categories of food supplies at 10% of the original price. Certain staples with a shelf life of less than 10 days—such as bread, bakery products, milk and chicken—cannot be subject to bonus arrangements. Russian suppliers are reportedly lobbying to expand the list of such staples to include pork, beef, eggs and other food products. The Retail Law also limits the time for payment by retailers to suppliers for deliveries to 10, 30 or 45 days from the date of delivery (depending on the shelf life of the relevant food products).

There have been ongoing calls to mandate better terms for suppliers, and various legislative initiatives to that end. For example, in January 2015, a draft amendment to the Retail Law was submitted to the Russian Duma under which the aggregate amount paid by suppliers to retailers for volume-based bonuses, discounts, rebates and marketing fees could not exceed 3% of the original price of the goods supplied. The time for payment by retailers to suppliers for deliveries is proposed to be reduced to 5, 20 days or 35 days (depending on the shelf life of the relevant food products). In May 2015, this draft law passed the first (of a required three) reading in the Russian Duma; the other two readings are now scheduled for October 2015, but a new version of the bill has been prepared by the Ministry of Industry and Trade that provides that volume-based bonuses, discounts, rebates and marketing fees may not exceed 5% of the original price of the goods supplied. Under another proposed amendment, marketing fees would be altogether prohibited. The Russian Federal Antimonopoly Service (the "FAS"), the state agency tasked with policing compliance with the Retail Law, has recently intensified checks and audits of retailers in respect of their compliance with the Retail Law.

Lenta believes that in practice, the combination of volume-based bonuses, fees for services such as marketing efforts and penalties for a supplier's non-performance may provide it with better conditions than those it could negotiate if there would be no such bonuses, and the negotiations with the suppliers would focus solely on the purchase price of the articles being supplied. The current system of combining bonuses, fees and penalties allows Lenta to have the suppliers take into account their overall relationship in light of Lenta's growth path and commercial initiatives (for example, through sharing of information on customer behaviour) and the supplier's performance over the year as opposed to focusing on the proposed price of articles only, in which case Lenta believes there is a risk the discussions would tend to be focused on the production costs of the relevant article, rather than the relative performance of Lenta within the supplier's customer base. Accordingly, if bonus payments were entirely prohibited, or if the proposed amendments to the Retail Law would come into force in current form, Lenta's ability to gain benefits from its growth and its commercial initiatives may be materially affected. If these amendments are enacted, there can be no assurance that Lenta will be able to fully offset their negative impact by negotiating price reductions with its suppliers.

Whether due to overall market conditions, a downturn in Lenta's competitive position, suppliers being able to negotiate better terms, new legislation or to other circumstances, Lenta may not be able to maintain its current level of supplier bonuses and fees which could substantially hurt its margins, while reduction of the statutory caps on days payable could negatively affect its working capital. These factors could have a material adverse effect on Lenta's business, financial condition and results of operations, in particular, its margins and profitability, and prospects.

Lenta is subject to anti-monopoly laws enforced by the FAS, including application of the Retail Law, which may result in certain limitations being imposed on Lenta's activities.

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, as amended (the

“**Competition Law**”), generally prohibits any concerted action, agreement or coordination of business activity that results or may result in (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) reduction or termination of goods production; (e) refusal to enter into contracts with certain buyers (customers), as well as (f) other concerted actions and/or agreements that result or may result in restriction of competition, including (i) imposing unfavourable contractual terms; (ii) fixing disparate prices for the same goods for other than economic or technological reasons; (iii) creating barriers to others entering or exiting a market; and (iv) restricting competition in any other way.

The law does not precisely define wrongful concerted actions or coordination of business activity, and judicial applications of these concepts are inconsistent. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, the FAS and the Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there were legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. For instance, in December 2010 FAS levied an administrative fine against Lenta LLC and other trade chains for their alleged concerted action in restriction of the pricing for buckwheat and flour in July-August 2010. FAS acted because prices had increased in a number of trade chains simultaneously, although Lenta believes these increases were the result of market conditions, not wrongful concerted action. There is a risk that Lenta will similarly be found in violation of the Competition Law if FAS perceives that Lenta’s market behaviour is similar to the behaviour of its competitors and restricts competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on Lenta’s activities, may limit operational flexibility and may result in the imposition of civil or administrative liability on Lenta. Furthermore, Lenta’s managers can be held criminally liable for the prevention, restriction and limitation of competition, *inter alia*, by means of entering into an anti-competitive agreement if it results in (i) large scale damages to individuals, legal entities or the Russian Federation or (ii) Lenta deriving large scale revenues.

The FAS, which has wide powers to investigate possible violations of the Competition Law and the Retail Law, has been active over the last several years in policing the marketing, sales and supply strategies of major participants in the Russian food retail industry and brought charges against market participants, including Lenta, alleging violations of the Competition Law or the Retail Law. The Retail Law prohibits practices whereby a retailer would demand (i) a fee from a supplier to be an eligible supplier for the retailer, (ii) a fee for the right of a supplier to substitute supply with comparable food products, (iii) a supplier to compensate retailer expenses other than expenses arising from the supply and sale of the food products or (iv) a supplier to subscribe to ancillary services such as advertising or marketing services as a precondition to entering into a supply contract. Regional FAS authorities have enforced these prohibitions in various ways.

In February 2015, the Saint-Petersburg regional department of FAS initiated an investigation against Lenta LLC for perceived violation of the Retail Law through improper requirements towards suppliers to conclude contracts for Lenta’s promotional services. As a result of the investigation, a RUB2 million fine was assessed, which is currently being contested by Lenta LLC in court.

In March 2013, the Krasnodar regional department of FAS determined that Lenta had wrongfully discriminated against suppliers, taking the view that Lenta was not entitled to fix different commercial terms and conditions for suppliers of various milk products. The FAS claimed that Lenta should have provided the same payment days, marketing fees and volume rebates to different suppliers and producers. There is no established court practice on this issue. If this became a widespread accepted application of the Retail Law, then Lenta’s relations with its suppliers would significantly change to Lenta’s detriment.

In May 2012, the Rostov regional department of FAS instituted administrative proceedings against Lenta arising out of Lenta’s use of its standard marketing contract with a local supplier, including allegations that the supplier’s entry into the marketing contract was a wrongful precondition to entry into a supply agreement and that fees paid under the marketing contract should count against the 10% cap on the volume rebate or be considered an improper fee for the right to supply the store. FAS imposed a fine of RUB3 million against Lenta and also required Lenta to allow suppliers to terminate their marketing contracts while continuing as suppliers. Lenta took the matter to the Arbitrazh Court of St. Petersburg, and while it obtained two lower court rulings in its favour, in October 2013, the cassation court (a court of second appeal) of the Federal Arbitrazh Court of the North-West District ruled against Lenta on the grounds that the supplier’s entry into the marketing contract was a wrongful precondition to entry into a supply agreement. Lenta’s relations with its suppliers could be negatively affected if the application of the Retail Law in this manner were to become more widespread.

The Retail Law obliges a trade chain to provide its terms and conditions for selecting suppliers to any supplier within 14 days of request (or publish the same on its website). Some regional departments of the FAS have construed this provision to require trade chains to conduct an open tender for suppliers of relevant goods each time a potential new supplier submits a request, but this interpretation has not been supported by court practice, and Lenta does not consider it to be correct. If this became a widespread accepted application of the Retail Law, then Lenta's procurement practices would have to significantly change to Lenta's detriment.

If Lenta's activities are found to be in violation of the Competition Law or the Retail Law, Lenta could be subject to substantial penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, any or all of which could materially adversely affect Lenta's business, financial condition, results of operations and prospects. In addition, potential future adverse amendments to the Competition Law and the Retail Law could also have a material adverse impact on Lenta's business, financial condition, results of operations and prospects. See "*—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta's relationship with its suppliers*" and "*—The Retail Law can limit Lenta's expansion in territories where it has a 25% market share*".

The Retail Law can limit Lenta's expansion in territories where it has a 25% market share.

In addition to imposing a cap on volume discounts available to Russian retailers, the Retail Law limits the ability of a food retail company holding a share of more than 25% of total sales of food products during the preceding financial year within a particular region, municipal area or city district in Russia to acquire or lease additional retail space within such territory. The FAS has the discretionary power to invalidate any transaction made in breach of the Retail Law. In August 2015, the Kemerovo regional department of FAS informed Lenta LLC that its share in total sale of food products in the Novokuznetsky District of the Kemerovo Region in 2014 exceeded 25% and, therefore, Lenta is not permitted to bring into operation any additional retail space within the Novokuznetsky District (which restriction will not have a significant effect on Lenta's financial position or profitability).

Lenta believes that it currently does not hold a 25% or greater share of total sales of food products in any other region where it operates. However, this limitation may restrain the ability of Lenta to open new stores in territories where it already enjoys a significant market share. In addition, the Russian government may further decrease this threshold (for example, there have at times been proposals to reduce the threshold to 15%) which could have a material adverse effect on Lenta's business and its ability to expand its operations.

Increases in prices charged by food producers and reduction in days payable may have a material adverse effect on Lenta's business.

The prices for agricultural commodities are volatile. Food price inflation in Russia reached 15.4% in 2014 and continued at 10.8% in the first half of 2015, in part due to the disruption in supplies arising from the Russian ban on the import of certain foodstuffs from certain Western countries imposed in August 2014 and to the sharp fall in the Rouble in late 2014; in the first half of 2015, food price inflation continued at 10.8%, according to Rosstat, and it is widely expected to remain at elevated levels for some time. The Russian ban on the import of certain foodstuffs from the EU, the United States and other countries has increased Lenta's cost of supplies. See — "*Risks Relating to Russia—Political, economic and social risk—Russian countermeasures to Western economic sanctions, such as the current Russian ban prohibiting the import of certain foodstuffs from Western countries, or other nationalistic legislation aimed to make Russia more self-sufficient or punish foreign interests, could materially adversely affect Lenta's business*". Likewise, suspensions of imports into the Russian Federation of certain goods, which have been imposed from time to time by Rospotrebnadzor (e.g., in respect of products from Belarus, Georgia and Moldova) citing public health concerns also can result in increase of Lenta's cost of supplies and, consequently, retail prices, as well as generally disrupt Lenta's normal supply operations. Moreover, the cost of agricultural commodities (and processed foods) may significantly increase as a result of global or regional adverse natural conditions (including poor harvests and animal diseases), supply/demand dynamics, trade disruptions or otherwise. Although Lenta has a diverse supplier base, it may be a pricetaker for certain suppliers who may pass on higher commodity costs to Lenta. Lenta, in turn, may seek to pass all or a portion of these additional costs on to its customers to maintain its gross profit margins. However, it may not be possible for Lenta to increase its retail prices to offset cost increases, particularly if economic conditions render Lenta's customers unable or unwilling to bear such increase or if Lenta's main competitors choose not to implement such price increases. As competition in the Russian food retail market intensifies, unilateral price increases may lead to declines in sales, loss of customer traffic, loss of market share and other adverse

consequences. Accordingly, Lenta may be significantly constrained in its pricing policy by the actions of competitors. Moreover, in light of the ongoing economic slowdown, Lenta has in certain instances reduced days payable at the request of certain suppliers due to their worsening financial condition. If this trend becomes more widespread, this could negatively affect Lenta's working capital. Price increases by suppliers or other adverse changes to the terms on which they work with Lenta could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Customer complaints, product liability claims, product recalls, health and safety issues, adverse publicity, legal action or other factors could result in a deterioration of the value of the "Lenta" brand name.

As Lenta's success depends to a significant extent upon brand recognition and the goodwill associated with it, the "Lenta" brand name and trademarks are key assets of Lenta's business. The preparation, packaging, transportation, storage and sale of perishable food products and non-food products entail the inherent risk of product contamination, deterioration or defect, which could potentially lead to product recalls, liability claims and adverse publicity. Food and non-food products may contain contaminants that could, in certain cases, cause illness, injury or death. The sale (or alleged sale) of contaminated, deteriorated or defective products may result in a product liability claim or product recall. The risks of product liability claims or product recall obligations are particularly relevant in the context of Lenta's sales of fresh food products. In addition, Lenta sells a range of private label products, and any product liability claim brought against it regarding its private label products could damage Lenta's ability to market its private label products while also tarnishing its general reputation. Negative publicity surrounding any assertion (even when baseless) that the products Lenta sells caused illness, injury or death could tarnish the Lenta brand or image with existing and potential customers. Any customer complaints, product liability claims, product recalls, health and safety issues, adverse publicity, legal action or other factors that deteriorate the value of the "Lenta" brand name could lead to reputational damage and may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta may not be able to enforce its intellectual property rights.

Lenta holds the trademarks "Lenta JEHTA" (in the combination of Latin and Cyrillic letters) and "JEHTA" (in Cyrillic letters) as well as other trademarks. The use of trademarks is a developing area of Russian law, and accordingly conflicts between registrations may arise. Lenta's trademarks and brand name are trademark-protected only on the territory of Russia.

Russia generally offers a lower level of intellectual property rights enforcement than countries in Western jurisdictions. Although Lenta believes it has taken appropriate steps to protect its trademarks and other intellectual property rights, such steps may not prove sufficient and third parties may infringe or challenge its rights. If Lenta is unable to protect existing proprietary rights (such as trademarks, software customised specifically for Lenta or know-how) against infringement or misappropriation, it could materially harm Lenta's financial results and the ability to develop its business. In addition, Lenta may need to engage in litigation in order to enforce its intellectual property rights. If Lenta is unable to protect these rights against infringement, there could be a material adverse effect on its business, financial condition, results of operations and prospects.

Lenta may fail to fulfil the terms of licences, permits and other authorisations, or fail or be unable to renew them on expiration.

Lenta is required to maintain licences, permits and other authorisations, including licences relating to the sale and warehousing of alcohol. Lenta is also required to obtain and renew various permits concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards. Lenta's licences, permits and other authorisations contain various requirements, and if Lenta fails to comply with them, they may be suspended or terminated, possibly leading to temporary or potentially permanent closing of stores, suspension of activities or other adverse consequences. In addition, Lenta cannot be certain that any given licence, permit or authorisation will be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such licence, permit or authorisation.

Any or all of these factors may adversely affect Lenta's ability to obtain or renew necessary licences, permits and authorisations. If Lenta is unable to obtain or renew them or is only able to do so on unfavourable terms, this could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta relies on third-party service providers.

Lenta relies on a variety of third-party service providers in carrying out its operations. In particular, it relies on contractors to carry out the construction of its new stores (and to obtain permits on behalf of Lenta for such construction), on logistical service providers to transport its goods (especially long-haul as well as short-haul truckers), on firms providing security and cleaning for stores and on document storage services (which hold in archives substantially all the accounting records and supply contracts of Lenta). If a third-party service provider materially fails in carrying out its responsibilities, or if Lenta is no longer able to use their services (and cannot find comparable substitute service providers), Lenta's business, financial condition, results of operations and prospects may be materially adversely affected.

Lenta may suffer systems failures and delays and fail to optimise its information technology systems.

Lenta manages its store operations, inventory, logistical operations and finance and accounting through a variety of information technology solutions. These operations are dependent on the integrity of their supporting systems. Lenta's systems and operations may be vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, denial of service, security breaches, internet slowdowns or unavailability and similar events. In addition, third parties or disgruntled employees may attempt to gain access to Lenta's systems to the detriment of Lenta, and Lenta may not be able to protect its systems from all attacks. If such attacks occur, some of the problems Lenta may encounter include theft or destruction of data, including commercial, financial and product information, to its commercial detriment or to its reputational loss. Lenta has contingency plans to deal with such events, but its systems could suffer failures or delays that might cause significant disruption to its operations. Equipment breakdowns may result in productivity losses and potential inoperability of store trading software. Significant systems failures and delays could also cause unanticipated disruptions in service, loss of inventory, decreased customer service and customer satisfaction and harm to Lenta's reputation, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's insurance policies may be insufficient to cover losses arising as a result of business interruption, damage to its property or third-party liabilities.

Lenta maintains property insurance covering all its hypermarkets and supermarkets, business interruption insurance as well as third party liability insurance with respect to retail operations, use of properties, use of retail equipment and advertising and related activities. Although Lenta considers its insurance coverage appropriate, there can be no assurance that, if Lenta suffers material losses or incurs a significant liability, Lenta's insurance policies will be sufficient to cover such losses or liability. For example, a major accident at one or several of Lenta's hypermarkets or distribution centres may lead to substantial property loss that is not fully covered by Lenta's insurance policies and/or may result in a sustained interruption in the operations of Lenta's business. If Lenta's insurance policies are insufficient to cover such losses, liability or interruption, this may materially and adversely affect Lenta's business, financial condition, results of operations and prospects.

Lenta is exposed to certain risks in connection with the substantial use of cash in its operations.

Due to the nature of the retail business and current state of development of the Russian banking sector, Lenta processes a large volume of cash transactions in the course of its operations. Customers at stores typically pay for their purchases in cash (although use of credit and debit cards is increasing). As a result, although Lenta has security systems in place, Lenta is exposed to the risk of loss, theft and robbery, which, if substantial in the aggregate, could have a material adverse on Lenta's business, financial condition, results of operations and prospects.

Lenta is exposed to certain risks in connection with the increasing use of non-cash payments in its operations.

Customers at Lenta stores typically pay for their purchases in cash, but the use of credit and debit cards in Russia is increasing. Card providers such as Visa and MasterCard dominate the local market and thus, together with the administering local banks, are able to charge relatively high fees for the processing of credit card payments. Fees currently payable by Lenta are on average 0.7% of the transaction value (while the cost of collecting hard cash is 0.01% of the transaction value). These fees could increase substantially if Visa and MasterCard increase the rates that they charge to banks and the banks pass on these increases to the clients for which they acquire bank card transactions. Therefore, Lenta is exposed to the risk of a substantial increase in cost with the growing share of card payments, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

The Company is a holding company, with its Russian subsidiary Lenta LLC generating the revenues of the Group in Roubles.

The Company is a holding company that only performs limited administrative functions for the Group. The Company's principal assets are the equity interests that it indirectly holds in Lenta LLC. As a result, the Company is dependent upon dividends and other payments from Lenta LLC (which holds substantially all of the assets of the Group and conducts substantially all the business of the Group) to generate the funds necessary to meet the Group's financial obligations and fund any payment of dividends by the Company, including to holders of GDRs. The revenues of Lenta LLC are predominantly denominated in Roubles. In light of the current economic slowdown facing Russia and the sharp fall in the value of the Rouble, there have been suggestions that the Russian authorities may impose restrictions on the convertibility of capital in an effort to stabilize the value of the Rouble. As such, Lenta LLC may be subject to currency control restrictions imposed by the Russian authorities, which could limit its ability to make foreign-currency payments, including paying out dividends.

Lenta's competitive position depends on its management's experience and expertise, including that of its Senior Management, and Lenta's ability to recruit and retain key personnel.

Lenta's ability to maintain its competitive position and to implement its business strategy is dependent, to a large extent, on the services of its management. No assurance can be given that Lenta will retain its current Senior Management. The loss of or diminution in the services of one or more of Lenta's Senior Management team, or its inability to attract new adequate management personnel could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. Lenta is not insured against damage that may be incurred in case of loss or dismissal of its key managers. In practice, and in part due to legal protections afforded under Russian law, enforcing any 'non-compete' or 'no poaching' undertakings against a former manager in Russia may not be possible.

Lenta's future success will depend, in part, on its ability to continue to attract, retain and motivate key personnel, in particular local store management teams and staff to support its roll-out plans. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. A failure by Lenta to successfully manage its personnel needs could have a material adverse effect on its business, financial condition, results of operations and prospects.

Lenta is significantly influenced by certain of its current shareholders, who will continue to have the largest beneficial Share ownership after the Offering and benefit from certain governance rights under the M&A and whose interests could conflict with the interests of other holders of the GDRs.

Following the Offering, TPG will beneficially own 34.0% of the Shares and EBRD will beneficially own 7.4% of the Shares. Accordingly, TPG and EBRD will continue to be in a position to significantly influence the election or removal of directors (a number of whom will be nominated by them pursuant to rights embedded in the M&A) and other policy decisions. As of the date of this prospectus, TPG nominees comprise three, and EBRD's one, of the nine members of the Company's Board of Directors. Additionally, TPG and EBRD will continue to be able to significantly influence the outcome of any vote on any proposed amendment to the M&A, merger proposals or any other matter submitted to shareholder vote, as well as any decision regarding a change of control of Lenta. The interests of these shareholders could conflict with each other or with those of the holders of the GDRs.

Risks Relating to Russia

Political, economic and social risks

The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, including the GDRs, as well as Lenta's business, financial condition, results of operations and prospects.

The Ukraine crisis, which started in late 2013 and remains unresolved, has brought Russian relations with the West to a post-Cold War low point. Western countries protested when Crimea (which had been part of Ukraine since 1954) entered into the Russian Federation in March 2014 and have complained that Russia is fomenting civil insurrection in east Ukraine.

In response to the Ukraine crisis, the European Union and the United States (as well as other countries such as

Norway, Canada and Australia) have passed a variety of economic sanctions against Russia. One form these sanctions have taken is to identify certain persons as ‘designated nationals’ with the basic practical consequences that U.S. persons cannot do business with them while EU persons cannot provide funds or other economic resources to them, their assets in the EU and United States are subject to seizure and in the case of individuals they can be subject to travel bans. A number of Russian government officials, businessmen, banks and companies have been so designated. Another form these sanctions have taken, with greater consequence for the Russian economy, is ‘sectoral’ sanctions with the basic consequence that several of Russia’s leading banks – including VTB, which is Lenta’s largest lender, and Sberbank, which is also a lender to Lenta – cannot access Western capital (as EU and U.S. persons are prohibited from extending them debt financing in excess of 30 days or dealing in their new equity issuances and providing related services); similar sectoral sanctions have been applied against several prominent Russian oil and gas and defense companies. These sectoral sanctions have had the effect, magnifying over time, of adding to the overall cost of capital in Russia and have been one factor in the rise of lending rates in Russia over the past year. Other Western sanctions have been imposed in respect of, *inter alia*, Russian military defense entities, dual use technologies, sophisticated off-shore oil drilling technologies and doing business in Crimea. As a countermeasure to the Western sanctions, Russia imposed its own sanctions on the import of certain foodstuffs from the EU, the United States and other countries, as described below.

The crisis in Ukraine is ongoing and could escalate. Were full-fledged hostilities to break out between Ukraine and Russia, such would likely cause significant economic disruption. There would likely be calls from the West for a comprehensive sanction regime that would seek to isolate Russia from the world economy. Even the current level of ongoing civil insurrection in eastern Ukraine, if no resolution is forthcoming and Russia is continued to be perceived as acting inimically, may well lead to further strengthening and broadening of sanctions against Russian persons. Various prominent Western politicians have already called for strengthening sanctions. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. If individuals or entities with whom Lenta does business were sanctioned as ‘designated nationals’, this could interfere with Lenta’s operations. Furthermore, ongoing expanded business with sanctioned parties might result in Lenta becoming the subject of expanded U.S. or EU sanctions. In December 2014, the U.S. Congress authorised the U.S. President to impose ‘secondary sanctions’ under which non-U.S. persons engaged in conduct sanctioned by the United States would become the subject of U.S. sanctions. More expansive sanctions targeting broader segments of the Russian economy could also interfere with Lenta’s operations. Accordingly, the Ukraine crisis, for which no resolution appears imminent, could have a material adverse effect on Lenta’s business, financial condition, results of operations and prospects.

Russian military support for the Syrian government could also contribute to a further deterioration in relations with Western governments, and result in the imposition of sanctions, which could materially adversely affect the value of investments in Russia, including the GDRs, as well as Lenta’s business, financial condition, results of operations and prospects.

Another recent point of tension between Russia and Western governments has been the Russian role in the Syrian crisis and its steadfast support for the government of Syria headed by President Bashar al-Assad. In September 2015, direct Russian military support for the Syrian government increased, with Russian military jets carrying out bombing missions on various anti-government rebel forces. According to press reports, Russian planes have carried out such missions not only against Islamic State rebel forces (which are also under attack by U.S.-led forces) but also against the rebel forces generally supported by Western countries. Western governments have generally called for the immediate departure of President Assad, a position which Russia rejects. Concern has been expressed that these uncoordinated military missions of Russia, the United States and other forces in Syria could lead to an accidental confrontation. There have been recent reports that Russian aircraft have strayed into Turkish airspace. Russian military spokesmen have also recently stated that Russian volunteers might become involved in combat on the ground in Syria, further escalating the role of Russia in the conflict and heightening tensions. U.S. and EU officials have stated that they do not view increased Russian military support of the Syrian government as helpful in resolving the ongoing Syrian civil conflict.

The United States, the European Union and a number of other states have imposed economic sanctions against various Syrian government officials and other Syrian nationals in light of the current civil conflict in Syria. A greater Russian role in the Syrian conflict might lead to further sanctions against Russia, including economic sanctions, and may be an additional factor in an overall deterioration in relations between Russia and the West. Accordingly, the Syrian crisis, for which no resolution appears imminent, and Russia’s apparent expanding role in supporting the Syrian government, could lead to international sanctions or other countermeasures by Western countries against Russia, and ultimately have a material adverse effect on Lenta’s business, financial condition,

results of operations and prospects.

Russian countermeasures to Western economic sanctions, such as the current Russian ban prohibiting the import of certain foodstuffs from Western countries, or other nationalistic legislation aimed to make Russia more self-sufficient or punish foreign interests, could materially adversely affect Lenta's business.

In August 2014, in a countermeasure to the Western economic sanctions imposed against Russia in response to the Ukraine crisis, the Russian government imposed a ban on certain food imports from certain countries that had imposed sanctions on Russia: the European Union countries, Norway, the United States, Canada and Australia (and also, since August 2015, Albania, Iceland, Liechtenstein, Montenegro and Ukraine). The ban prohibits the import from these countries to Russia of various food stuffs including beef, pork, poultry, fish, milk and dairy products, vegetables, fruits and nuts. The ban was initially scheduled to expire in August 2015, but has been extended another year to August 2016 (and could be further extended). Lenta has traditionally imported a relatively small proportion of its products (and proportionately imports more non-food items (which are unaffected by the current Russian sanctions) than food items). Lenta has generally been able to establish other lines of supply to replace the banned imports (e.g., by expanding domestic supplies or taking supplies from countries not subject to the Russian sanctions such as Switzerland, South Africa and Argentina) although some items cannot be directly substituted (e.g., goods of specified origin such as French cheeses and Italian Parma hams). The loss of, in particular, certain EU supplies (and the Norwegian supply of salmon) and price hikes by some domestic suppliers have contributed to food price inflation, and some loss of sales at Lenta. Sanctions may escalate so as to include more foreign states from which imports are prohibited and/or more product categories (whether food or non-food).

In similar vein, Russia's current confrontation with the West, primarily over Ukraine, have led to a variety of proposed nationalistic countermeasures. For example, under a draft law submitted to the State Duma in December 2014, the Russian Government could prohibit activities by foreign legal entities (or their affiliates) registered in the countries that have imposed sanctions on Russian persons. Under other proposals, Russian retailers would be required to ensure food products of Russian origin in each type of product assortment comprise at least 50% of its sales of such products or at least 50% of its shelf space. In February 2015, a Russian senator said a bill would be submitted to the Duma this spring prohibiting Russia retailers from directly purchasing agricultural products from abroad. Accordingly, such countermeasures, including a widened ban on Western imports, or nationalistic legislation could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Political and governmental instability could materially adversely affect the value of investments in Russia, including the GDRs, as well as Lenta's business, financial condition, results of operations and prospects.

Since 1991, Russia has evolved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has been uneven, and the composition of the Russian Government, including the prime minister, has at times been unstable. For example, there were six different prime ministers in the period between March 1998 and May 2008.

Vladimir Putin was elected President of Russia in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. In March 2008, Dmitry Medvedev was elected President of Russia, and Mr. Putin served as Prime Minister for his entire administration. In March 2012, Mr. Putin was elected as President and took office on 7 May 2012, for a term of six years; Mr. Medvedev now serves as prime minister. Whilst this has provided governmental stability, opposition organisations have been active since mid-2012. This may in the future lead to increased, or more disruptive, protest activity, popular dissatisfaction and political instability, and possibly a cycle of civil protest followed by increased authoritarianism. Future political instability could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation in Russia also could lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia and the GDRs in particular, as well as on Lenta's business, its ability to obtain financing in the international markets and its financial condition or prospects.

Emerging markets such as Russia are also subject to heightened volatility resulting from political and economic conflicts. Any disruption or reversal of the reform policies or any recurrence of political or governmental

instability or significant terrorist attacks (to which Russia is potentially particularly exposed given ongoing ethnic and religious tensions, notably with peoples and regions from and in the Caucasus and Central Asia) may lead to a deterioration in Russia's investment climate and trading volatility, which could materially adversely affect Lenta's ability to raise equity or debt capital in the international markets, as well as its business, financial condition, results of operations and prospects.

Changes in the Russian Government, the Duma or the presidency, major policy shifts or eventual lack of consensus between the President, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the GDRs in particular.

Deterioration of Russia's relations with other countries could negatively affect the Russian economy and those of the nearby regions.

Over the past several years, Russia has been involved in conflicts, both economic and military, involving neighboring states. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions may be affected by such conflicts and by worsening relations between Russia and its immediate neighbors.

For example, relations between Georgia and Russia, as well as Ukraine and Russia, have at times been strained and resulted in military conflict. In August 2008, there was a military conflict between Georgia and Russia regarding the province of South Ossetia (which Russia subsequently recognised as an independent state). In February and March 2014, hostilities in Crimea and Eastern Ukraine broke out resulting in alleged Russian military intervention. On 21 March 2014, President Putin signed legislation to recognise Crimea's accession to, and status as part of, Russia. Since then, there has been continuing military conflict in Eastern Ukraine, which the current Ukrainian government asserts is sustained by Russian military assistance. The Russian Government has supported greater autonomy for Eastern Ukraine. These events in Ukraine and Crimea have prompted condemnation by members of the international community and have been strongly opposed by the EU and the United States, with a resulting material negative impact on their relationships with Russia. Some have commented that Russia's relations with the US have deteriorated during the past year to lows unseen since the late 1980s. The emergence of new or escalated tensions between Russia and neighboring states or other states could negatively affect the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence may result in reduced liquidity, trading volatility and significant declines in the price of listed securities on companies with significant operations in Russia, and in Lenta's inability to raise debt or equity capital in the international capital markets, which may affect its ability to achieve the level of growth to which it aspires.

Conflicts between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that may hinder the Group's long-term planning ability and could adversely affect the value of investments in Russia, including the value of the GDRs.

Russia is a federation of various sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, sometimes exercising considerable autonomy over their internal affairs pursuant to agreements with the federal authorities and in accordance with applicable laws. In practice, the division of authority between federal and regional authorities, in certain instances, remains uncertain and contested. This uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in its operating environment, any of which may prevent the Group from effectively and efficiently carrying out its business strategy, especially as it expands into new areas of operation in Russia. In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Such tensions and conflicts may effectively preclude Lenta from expanding its operations into certain areas of Russia. In the future, such tensions, military conflict or terrorist activities, or threats thereof, could have significant political and economic consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could disrupt normal economic activity and transport in Russia and materially adversely affect Lenta's business, financial condition, results of operations and prospects, as well as the value of the GDRs.

The Russian economy has fallen into recession in 2015, is suffering from renewed Rouble depreciation,

inflation and capital flight, and depends highly on the global pricing of crude oil, which has fallen significantly.

Russian real GDP growth (period-on-period) slowed to 0.6% in 2014, fell 2.2% in the first quarter of 2015, fell 4.6% in the second quarter of 2015 – putting Russia in recession – and GDP is currently widely predicted to contract by 3-5% for the full year 2015, the worst year for the Russian economy since 2009, when Russian GDP fell 7.8%, according to Rosstat. Given the importance of the energy sector to the Russian economy, a principal reason for this downturn is the fall of global oil prices – the price of the global benchmark Brent crude has fallen from U.S.\$111/bbl on 30 June 2014 to U.S.\$55/bbl on 31 December 2014, stood at U.S.\$ 60.31/bbl on 30 June 2015 and is widely predicted not to significantly recover for some time to come. The international sanctions arising from the Ukraine crisis have also undercut confidence in the Russian economy and added to the cost of capital. The lack of confidence in the Russian economy led to a run on the Rouble in late 2014 and further weakening in 2015: the average Rouble/U.S. dollar exchange rate was RUB36.18/\$1 for the third quarter of 2014, RUB46.96/\$1 for the fourth quarter of 2014, RUB62.16/\$1 for the first quarter of 2015, RUB52.63/\$1 for the second quarter of 2015 and RUB62.85/\$1 for the third quarter of 2015. This has been accompanied by rising inflation (with year-on-year consumer price growth of 6.6% in 2012, 6.5% in 2013, 11.4% in 2014 and a current (as of August 2015) annualized rate of 15.8% for 2015) and a declining trend in real average wages (from 8.4% growth in 2012, to 4.8% in 2013 and 1.2% in 2014, according to Rosstat, and with the Ministry of Economic Development predicting a decline of real wages of up to 9% in 2015). Another indicator of lack of confidence in the Russian economy is increased capital flight, which reached U.S.\$151.5 billion in 2014, compared to U.S.\$61.0 billion in 2013 and U.S.\$53.9 billion in 2012. The weakening of the Russian economy and the deterioration of Government finances (which rely significantly on taxes on oil revenues) has also led to international rating agencies to lower the Russian Federation credit ratings: on 26 January 2015 S&P cut its long-term foreign currency sovereign bond rating for the Russian Federation to ‘BB+’ with negative outlook, and on 20 February 2015 Moody’s cut its sovereign debt rating for the Russian Federation to Ba1 with negative outlook; each of these ratings is below ‘investment grade’. Credit ratings for a number of Russian companies and banks have been lowered in the past months, another factor contributing to an increased cost of capital in the Russian economy.

The ongoing deterioration of the Russian economy could have a material adverse effect on Lenta’s business, financial condition, results of operations and prospects.

Instability in the Russian economy could materially adversely affect Lenta’s business.

Over the last two decades, the Russian economy has experienced or continues to experience at various times:

- significant declines in its GDP and rate of GDP growth;
- high levels of inflation;
- high and fast-growing interest rates;
- unstable credit conditions;
- instability of the Rouble;
- pervasive capital flight;
- high levels of government debt relative to GDP;
- a weakly diversified economy which depends significantly on global prices of commodities;
- sudden price declines in commodities;
- a lack of reform in the banking sector and a weak banking system, providing limited liquidity to Russian enterprises;
- continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;

- high levels of corruption and the penetration of organised crime into the economy;
- widespread tax evasion;
- significant increases in unemployment and underemployment;
- ethnic and religious tensions;
- low personal income levels of a significant part of the Russian population; and
- major deterioration of physical infrastructure.

In the past few years, the Russian economy has been characterised by significant volatility in the debt and equity markets (which experienced significant declines in the second half of 2008), causing market regulators to temporarily suspend trading multiple times on the principal Russian securities exchanges, MICEX and the Russian Trading System (which subsequently merged in 2011, creating the Moscow Exchange). The Russian economy has also been characterised by significant reductions in foreign investment and sharp decreases in GDP. For example, in 2009, Russian GDP declined by 7.8% in real terms; in the first half of 2015 Russian GDP declined by 3.4% in real terms.

As Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices as well as other commodities prices, which historically have been subject to significant volatility over time, as illustrated by the recent decline in crude oil prices. Russian banks, and the Russian economy generally, were adversely affected by the global financial crisis. The Russian economy has fallen into a recession in 2015. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy. Current macroeconomic challenges, low or negative economic growth in the United States, China, Japan and/or Europe and market volatility may provoke or prolong any economic crisis.

As an emerging economy, Russia remains particularly vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors - so-called “contagion effects”. Russia has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments, including the GDRs, will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian markets and the ability of Russian businesses to raise capital in international markets, which in turn could have a material adverse effect on the Russian economy and the Group’s results of operations, financial condition and prospects. In addition, any further declines in oil and gas prices or other commodities pricing could disrupt the Russian economy and materially adversely affect Lenta’s business.

The Russian banking system remains underdeveloped, and another banking crisis in Russia could place severe liquidity constraints on Lenta’s business.

Russia’s banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There is currently a limited number of creditworthy Russian banks (most of which are headquartered in Moscow) with the capacity to service a company of Lenta’s size. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Some banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

With the Russian economy in a recession, the Russian banking sector may experience renewed instability. For example, according to the CBR, the level of non-performing loans in the Russian banking sector has increased from 3.5% in January 2014 to 5.2% in August 2015. The CBR’s December 2014 RUB 127 billion bail-out of Trust Bank, Russia’s 22nd largest bank by assets, the largest bank bail-out in Russian history to date, may be symptomatic of weaknesses in the Russian banking sector. With few exceptions (notably the state-owned banks), the Russian banking system suffers from weak depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and related party transactions. Risk management,

corporate governance and transparency and disclosure often remain below international best practices. During the 2007-2008 global financial crisis, Russian banks were faced with a number of problems simultaneously, such as withdrawal of deposits by customers, payment defaults by borrowers, deteriorating asset values and Rouble depreciation and currency mismatching (foreign currency denominated liabilities against Rouble denominated assets). Current economic circumstances in Russia are putting stress on the Russian banking system. Combined with heightened interest rates – with the key interest rate of the CBR currently at 11% per annum – these circumstances decrease the affordability of consumer credit, putting further pressure on overall consumer purchasing power.

The deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect Lenta's business and its ability to complete banking transactions in Russia.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity, and efforts by the Russian Government to improve the country's infrastructure may result in increased costs for the Group.

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately maintained and developed due to insufficient funding and policy decisions. In some areas, the road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions in Russia are poor, with many roads not meeting minimum requirements for usability and safety, a significant challenge to Lenta's ability to timely provide supplies to its stores across the nation, especially given the relatively long distances involved in making such deliveries. The further deterioration of Russia's physical infrastructure could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations. For example, in certain locations selected for new stores, Lenta itself has had to install necessary infrastructure, such as roads, power and sewage connections, since such services were not provided by local authorities.

Information sourced from Russian third parties has not been verified independently.

In preparing the Prospectus, Lenta has relied on and referred to information from various Russian third-party sources, including certain private companies and institutes and governmental agencies, and has relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning its competitors and the food retail industry has been derived from Russian third-party sources, independent consultants and the official data of Rosstat and the CBR. The information and statistics from Russian sources may at times be less complete or reliable than those of some Western countries and may be produced on a differing basis. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risks relating to the Russian legal system and Russian legislation

Weaknesses relating to the Russian legal system and Russian legislation could adversely affect Lenta's business and prospects.

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime established by the 1993 Federal Constitution, the Civil Code, other federal laws and decrees, orders and regulations issued by the President, the Russian Government, federal ministries and various other authorities, which are, in turn, complemented by regional and local rules and regulations. These legal standards at times overlap with or contradict one another. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system cast doubt on the enforceability and underlying constitutionality of certain laws and result in ambiguities and inconsistencies in their enforcement.

Russia is a civil law jurisdiction, and, as such, judicial precedents have no formal binding effect on subsequent decisions. Among the risks of the current Russian legal system are: the limited availability of judicial and administrative guidance on interpreting Russian legislation; substantial gaps in the regulatory structure due to delay or absence of implementing legislation; the relative inexperience of judges and courts, especially in lower courts, in interpreting Russian legislation and in business and corporate law generally; the relative lack of independence of the judiciary; the difficulty in enforcing court judgments in practice; and corruption and

bankruptcy procedures that are insufficiently developed and subject to abuse. Any of these weaknesses, as well as others, could hinder, delay or prevent the ability of investors to have their rights upheld in a Russian court.

Selective or arbitrary government action could materially adversely affect Lenta's business.

Governmental authorities in Russia have a high degree of discretion and may at times exercise their discretion arbitrarily, without hearing or prior notice, or in a manner that is unduly influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often to further interests different from the formal substance of the claims. The occurrence of such selective or arbitrary action against Lenta could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects, as well as on the value of the GDRs.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effective redress in court proceedings.

The Russian judicial system is not immune from economic and political influences. The Russian court system is understaffed and underfunded, and the quality of justice, duration of legal proceedings, performance of courts and enforcement of judgments remain problematic. Under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions and are not recognised as a source of law. However, in practice, courts usually consider judicial precedents in their decisions. Enforcement of court judgments can in practice be very difficult and time-consuming in Russia. Additionally, court claims are sometimes used in furtherance of political and commercial aims. All of these factors can make judicial decisions in Russia difficult to predict and make effective redress problematic in certain instances.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian Government has enacted legislation to protect property against expropriation and nationalisation. In the event that such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. The expropriation or nationalisation of Lenta's business could materially adversely affect Lenta's business, financial condition, results of operations and prospects.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and Lenta therefore may be subject to a greater than expected tax burden that could materially adversely affect Lenta's business and results of operations.

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, profit tax, value added tax (VAT), property tax and other taxes as well as contributions to social security funds. Laws related to these taxes have been in force for a short period of time compared to tax laws in more developed market economies. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase revenue and continual changes in the interpretation of the existing laws by various authorities. The Russian Government has implemented reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of such reforms was a complete redrafting of the tax law into the Tax Code of the Russian Federation (the "**Russian Tax Code**"). As well as providing greater clarity, this has included the reduction of most "headline" tax rates and the reduction of a number of taxes applicable to businesses.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. The law and legal practice in Russia are not as clearly established as those of Western countries, and there are a number of practical uncertainties associated with the application of Russian tax legislation. Some of these uncertainties are of a general nature, whereas others relate specifically to companies operating in the retail industry. In addition, in some past instances, although it may be viewed as contradictory to the Russian Constitution, Russian tax authorities have applied certain tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period

multiple times.

Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. There are no clear rules or implementation practice for distinguishing between lawful tax optimisation and tax evasion. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. Under current practice, private clarifications issued by the Russian Ministry of Finance in respect of a specific taxpayer's tax position are not binding on Russian tax authorities, and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in such clarifications. During the past several years, the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments as a result of tax audits of companies operating in various industries, including the retail sector. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings against the Russian tax authorities to defend their position. Furthermore, in the absence of a binding upper court instruction, court rulings on tax or related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Current Russian tax legislation is, in general, based upon the formal way in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance over form" approach, which may cause additional tax exposures to arise in the future.

Recently, Russian authorities have adopted several legal acts aimed at strengthening of control over taxpayers and prevention of tax evasion (especially with the use of international tax planning techniques).

On 28 June 2013, a new federal law aiming at countering illegal financial operations was adopted. The new law, amongst other things, imposed additional obligations on taxpayers and granted additional powers to the Russian tax authorities. Further, the law introduced the concept of a "beneficial owner" (which is understood as an individual only) and a requirement for financial institutions to request information on ownership structures of their clients up to the ultimate beneficial owners, including during the account-opening process. The Russian Tax Code has been amended to allow in certain cases for judicial recovery of outstanding tax arrears of subsidiary/ associated companies from principal (dominant or interest holding) companies. These amendments and initiatives may have a significant negative effect on Russian taxpayers and may expose them to additional tax, administrative and criminal risks, as well as to extra costs necessary to secure compliance with the new rules. These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

On 4 November 2014, the Russian Federation ratified the OECD Convention on Mutual Administrative Assistance in Tax Matters. It is planned that the OECD's "Common Reporting Standards" be implemented by Russia by year-end 2018. This would allow improved exchange of information with the tax authorities of other states that currently do not have double tax treaties with Russia.

On 24 November 2014, Federal Law № 376-FZ was adopted, which introduced significant changes to the Tax Code with respect to the taxation of foreign entities and their income in Russia (so-called, "de-offshorization" legislation), including rules regarding controlled foreign corporations ("**CFC**") and concepts regarding the tax residency for legal entities and beneficial ownership of income, as well as providing for the taxation of capital gains from the sale of Russian companies the assets of which are more than 50% (directly or indirectly) comprised of Russian real estate. See "*—Transactions with the GDRs may be subject to Russian withholding tax*". These changes came into force on 1 January 2015.

On 8 June 2015, Federal Law № 150-FZ was adopted, which introduced further amendments to the "de-offshorization" legislation, in particular to the controlled foreign company rules and to the definition of tax residency for legal entities. Further amendments to the "de-offshorization" legislation are expected in late 2015.

Although Russia's tax climate and the quality of tax legislation have generally improved in recent years, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system, and the possibility exists that the Russian Government may impose arbitrary or onerous taxes and penalties in the future. Although it is unclear how these changes would operate, the introduction of such changes could affect the overall tax efficiency of Lenta's operations and result in significant additional tax liabilities. Additional tax exposure could have a material adverse impact on Lenta's business, financial condition, results of operations and prospects.

Russian subsidiaries of the Company are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities.

Russian subsidiaries of the Company, including its main operating subsidiary Lenta LLC, are subject to periodic tax inspections that may result in tax assessments, penalties and interest being claimed from such subsidiaries for prior tax periods. Generally, tax declarations of Russian subsidiaries remain open and subject to audit by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority. Moreover, the Russian tax authorities are allowed to carry out repeat field tax audits in connection with the restructuring or liquidation of a taxpayer or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced. The limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). The Russian Tax Code provides for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” in respect of an inspection and may ultimately seek to review and possibly to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review compliance with applicable tax law beyond the three-year limitation period.

Tax audits may result in additional costs if the relevant authorities conclude that the Russian subsidiaries did not satisfy their tax obligations in any given year. They may also impose additional burdens by diverting the attention of Lenta’s management. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse effect on Lenta’s business, financial condition, results of operations and prospects.

Lenta believes that it has provided adequately for tax liabilities based on its interpretation of applicable Russian tax legislation, official pronouncements and court decisions. There can be no assurance, however, that the interpretations of the relevant tax authorities will not differ from Lenta’s interpretation. This may relate, *inter alia*, to the VAT treatment of bonuses charged by Lenta to its suppliers, profit tax treatment of stock losses revealed in the course of inventory review and losses incurred under the hedge contracts, as well as certain other tax positions. A successful challenge by the tax authorities of Lenta’s provisions for tax liabilities could have a material adverse effect on Lenta’s business, financial condition, results of operations and prospects.

Lenta may be deemed to receive unjustified tax benefit.

On 12 October 2006, the Plenum of the Russian Supreme Arbitration Court issued Ruling No. 53 concerning judicial practice with respect to unjustified tax benefits received by taxpayers. The ruling provides that a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax basis, the receipt of a tax deduction (recovery) or tax concession, the application of a reduced tax rate, the receipt of a right to a refund (offset) or the reimbursement of tax from the budget. The court ruled that a tax benefit itself cannot be regarded as a business objective, and such tax benefit may be deemed unjustified if the true economic intent of transactions is inconsistent with the manner in which they have been accounted for tax purposes or when a transaction lacks a reasonable economic or business purpose. On the other hand, the mere fact that the same economic result might have been obtained with a lesser tax benefit received by the taxpayer should not be treated as grounds for declaring a tax benefit to be unjustified.

There has been little further guidance on the interpretation of this concept by the Russian tax authorities or courts, but it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the ruling was to combat abuse of tax law, based on the available court practice relating to this ruling, the Russian tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been initially intended by the Supreme Arbitration Court.

The above risks and uncertainties complicate Lenta’s tax planning and related business decisions, potentially exposing Lenta to significant penalties and interest for late payments and enforcement measures and could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Russian thin capitalisation rules allow different interpretations which may affect Lenta’s business and the value of the GDRs.

Russian regulations on thin capitalisation rules expressly restrict the ability to deduct interest charged on foreign controlled debt (“**Foreign Controlled Debt**”), which consists of loans and other debt received by a Russian entity (i) from a foreign entity owning, directly or indirectly, more than 20% of the Russian entity’s share capital; (ii) from another Russian entity that is an affiliate of the aforementioned foreign entity; or (iii) which are guaranteed or otherwise secured by such foreign entity or a Russian entity that is an affiliate of that foreign entity.

Although it is not currently envisaged in the Tax Code, Russian court practice demonstrates that in most cases debt towards a foreign affiliated company that is not a direct or indirect parent company may be considered as Foreign Controlled Debt by the Russian tax authorities and courts. Furthermore, a draft law that formally adopts such approach is under consideration by the Russian Duma and passed the first reading in May 2015.

The ability to deduct interest is restricted to the extent that Foreign Controlled Debt exceeds net assets by more than three times. Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

Russian subsidiaries of Lenta may be affected by the thin capitalisation rules in Russia if at any time they are recipients of Foreign Controlled Debt.

The Company may encounter difficulties in obtaining lower rates of Russian withholding income tax for dividends distributed from its Russian subsidiaries.

Dividends paid by Russian subsidiaries to their foreign corporate shareholders are generally subject to Russian withholding income tax at a rate of 15%, although this tax rate may be reduced under an applicable double tax treaty.

Lenta LLC, a Russian company, is the principal operating subsidiary of the Group, and it would generate the source of any future dividends paid out by Lenta. Lenta LLC’s immediate corporate parent is Lenta-2 LLC, and Lenta-2 LLC’s immediate corporate parent is Zoronvo Holdings Limited, a Cyprus company. See “*Business—Organisational Structure*”. Accordingly, at such time (if any) that Lenta LLC upstreams dividends to Lenta-2 LLC, and Lenta-2 LLC in turn upstreams the dividends to Zoronvo Holdings Limited, Lenta intends to rely on the Russia-Cyprus Double Tax Treaty (the “**Russia-Cyprus Tax Treaty**”) for the purposes of the latter dividend distribution.

Under the Russia-Cyprus Tax Treaty, withholding tax on dividends paid by a Russian company to a Cypriot company is set at 5%, provided that the beneficial owner of the dividends has directly invested in the capital of the company not less than the equivalent of €100,000. Otherwise, a 10% tax rate should be applied.

Should Lenta claim protection under the Russia-Cyprus Tax Treaty, there is still a risk that reliance on the reduced rates of 5% or 10% may be challenged by the Russian tax authorities. As a result, there can be no assurance that Lenta would be able to avail itself of the reduced withholding income tax rate in practice.

Specifically, the respective tax risk may also arise due to introduction of “beneficial ownership of income” concept in the Russian Tax Code starting from 1 January 2015. A person with limited powers of disposal of income, acting as an intermediary in favor of another person, not performing other functions and not taking any risks other than paying all income or part of it to another person, cannot be regarded as the beneficial owner of income and no respective protection or reduced tax rates under the double tax treaties would be available. This concept has been applied by Russian courts in several cases with a negative outcome for taxpayers. Therefore, Lenta ought to provide Russian tax authorities with a confirmation that Zoronvo Holdings Limited is the beneficial owner of dividends paid to be able to apply the reduced rates. Otherwise, any dividends paid to Zoronvo Holdings Limited would be subject to withholding tax at the rate of 15%.

New provisions of the Tax Code and Russian de-offshorization policy may result in the inability of the Company’s foreign subsidiaries to claim benefits under a double taxation treaty through structures which historically have benefited from double taxation treaty protection in Russia.

The Company and its foreign subsidiaries may be exposed to taxation in Russia if they are treated as having a Russian permanent establishment or as Russian tax residents.

Russian permanent establishments

Under the Russian Tax Code, foreign legal entities that maintain a permanent establishment in Russia, i.e., that carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities, are subject to Russian tax. Russia's double tax treaties with other countries, including Cyprus and Luxembourg, also contain a similar concept. However, the practical application of taxing foreign legal entities with permanent establishments in Russia is not well developed. As a result, foreign companies with limited operations in Russia that would not rise to the level of creating a permanent establishment under international norms may be at risk of being treated as having a permanent establishment in Russia and hence may be subject to Russian taxation. Although the Company and its foreign subsidiaries intend to conduct their affairs so that they are not treated as having a permanent establishment in Russia, no assurance can be given that they will not be treated as having such a permanent establishment. If the Company and its foreign subsidiaries are treated as having a permanent establishment in Russia, they would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

Only the part of the income of a foreign entity that is attributable to a permanent establishment should be subject to taxation in Russia. The Russian Tax Code contains some attribution rules, which are not sufficiently developed. There is, therefore, a risk that the Russian tax authorities might seek to assess Russian tax on the entire income of a foreign company. Having a permanent establishment in Russia may also have other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty and a potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities.

Recent events in Russia suggest that the tax authorities may more actively seek to investigate and assert that foreign entities operate through a permanent establishment in Russia. Any such taxes or penalties could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Russian tax residency rules

Starting from 1 January 2015, tax residency rules for legal entities have been introduced in the Russian Tax Code. Based on the new rules, the following categories of legal entities should be viewed as Russian tax residents:

- Russian companies;
- foreign companies recognized as tax residents of Russia in accordance with double tax treaties, for the purposes of application of the treaty;
- foreign companies whose place of effective management is in Russia, unless provided otherwise by double tax treaties.

The place of effective management of a foreign company is deemed to be in Russia if, in respect of the foreign company and its activities, at least one of the following conditions is met:

1. The executive management of a company regularly carries out its activity in relation to this company from Russia;
2. Top management functions are exercised by key officials of the company from Russia.

If any of these conditions is simultaneously met in the Russian Federation and in another country, then the Russian Federation may be considered the place of effective management of a foreign company if one of the following criteria is met: bookkeeping or managerial accounting of the company is carried out in Russia; records/workflow management is carried out in Russia; operational personnel management is conducted from Russia.

The Tax Code also provides for a number of cases which should not be viewed as effective management, e.g., preparation for and/or decision-making on the matters included in the competency of the general shareholders meeting, preparation to the meeting of board of directors, certain activities relating to planning and control (strategic planning, budgeting, preparation and compilation of consolidated financial statements and management

accounts, analysis of the foreign company's activity, audit and internal control, adoption of standards, methods and/policies which apply to all or to a substantial part of the subsidiaries of the foreign company).

The tax residency rules create the risk that the Company or its foreign subsidiaries may be claimed Russian tax residents by the tax authorities and thus may be subject to taxation in Russia. Additional Russian taxes or penalties could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

At the same time, if the recipient and beneficial owner of dividend income paid by LLC Lenta-2 is recognized as a Russian tax resident, then Russian withholding tax rules applicable to income paid to foreign recipients should not apply. Dividend income should be taxed in the hands of the recipient of income in accordance with the rules applicable to Russian companies. In particular, dividends should be subject to participation exemption (0% profits tax rate), if at the moment when the decision regarding the dividend distribution is taken the recipient has continuously held at least a 50% share in the distributing entity for at least 365 calendar days.

Lenta may encounter an increase in property taxes due to changes in the Russian system of property taxation.

Starting from 1 January 2014, amendments to the provisions of the Russian Tax Code regulating property tax came into force. Under the new property tax regime, certain real estate, including business centres, offices, shopping centres and retail outlets, should be subject to property tax at their cadastral value, rather than net book value. Cadastral values are expected to be set at a level that approximates fair market value. Property tax rates applicable to real estate taxable at cadastral value should not exceed 1-1.5% per annum depending on the region in 2014-15, with a gradual increase to 2% per annum in 2016 and following years.

In 2015 the new rules will apply with respect to shopping centers and retail outlets in various Russian regions (e.g., Moscow, Moscow Region, Saint-Petersburg, Novosibirsk region and others).

Given the extent of Lenta LLC's real estate portfolio, these changes may result in an increase in Lenta's property taxes.

Lenta may be adversely affected by the introduction of trade levy in Russia.

A new local tax – the trade levy – was introduced in the Tax Code by the Federal Law № 382-FZ of 29 November 2014; the law came into force starting from 1 January 2015. Application of the new levy should start after the municipal authorities or regional legislatures of the cities of federal significance (i.e., Moscow, Saint-Petersburg and Sevastopol) have passed corresponding local acts/regional laws. In the cities of federal significance application of the new rules should start not earlier than 1 July 2015. In other regions the levy can be introduced only after special federal law has been adopted in this respect. As of the date of this Prospectus, the trade levy has only been introduced in Moscow. The relevant legislation came into force starting from 1 July 2015.

Rates of the trade levy should be set by municipal legal acts/ laws of cities of federal significance, but may not exceed the limits established by the Tax Code. The amounts of trade levy may decrease the respective profits tax liabilities.

Introduction of the trade levy in the cities of federal significance and municipalities of other regions where Lenta LLC operates can have an unfavourable impact on the Company.

Transactions with the GDRs may be subject to Russian withholding tax.

Based on the direct provisions of the Tax Code (subp. 5, p.1, art. 309, amended with effect from 1 January 2015 by Federal Law № 376-FZ), profit derived from the sale of shares of companies the assets of which are more than 50% (directly or indirectly) comprised of real estate located in Russia, as well as “derivative financial instruments” based on such shares (other than shares that are regarded as “marketable” – i.e., listed on a stock exchange) should be subject to Russian withholding tax (“WHT”) at the rate of 20%.

Interpretation of the above provisions is associated with a significant level of ambiguity. First, it is not clear whether this norm should be applied to the sale of GDRs (as GDRs are neither shares nor “derivative financial instruments”, as defined). Second, it is not clear whether the exemption of “marketable” shares could be applied (as the Shares are not, and will not be, listed on any stock exchange). Third, there is no guidance on how to

determine whether Russian real estate assets comprise more than 50% of the assets of a holding company such as Lenta Ltd in respect of the assets of its Russian subsidiary Lenta LLC. Finally, the Tax Code does not contain a mechanism for paying Russian WHT when the shares are sold by a foreign seller to a foreign customer; therefore, payment of tax or its collection by the tax authorities would present considerable practical difficulties.

Taking into account the current real estate portfolio of Lenta LLC and plans for its further expansion, the share of its real estate assets may exceed 50% of its total assets. Furthermore, the indirect share of Russian real estate in the total assets of Lenta Ltd may also exceed 50%. Accordingly, there is the risk that transactions with GDRs may be subject to 20% Russian WHT. Application of such WHT, or any assertion by the Russian tax authorities that such WHT applies, may adversely affect the trading price of the GDRs.

Risks Relating to the GDRs and the Trading Market

The price of GDRs may be highly volatile, including due to rebalancings by exchange-traded funds.

Although the GDRs will be admitted to trading on the London Stock Exchange and MICEX (and existing GDRs are listed on both such exchanges), an active, liquid trading market may not be sustained after this Offering on any or both of these markets. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an active liquid trading market for the GDRs is not sustained, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors, including some which are unrelated to Lenta or its performance, such as:

- variations in Lenta's operating results and those of other retail companies;
- market conditions in the broader stock market;
- variations in national and industry growth rates;
- issuance of new or amended analyst reports and research;
- Lenta's performance vis-à-vis its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within Lenta's business sector or in Russia;
- price and volume fluctuations on the London Stock Exchange and MICEX and other stock exchanges. In addition, the market price of the GDRs may decline below the Offer Price; and
- the inclusion of Shares in any stock market index or exchange-traded fund and any subsequent re-weighting (or exclusion) of shares from any such index or fund.

In the future, given the relatively low liquidity in the GDRs, any significant purchases or sell-downs driven by index events such as inclusion, deletion, weighting changes, or other, may have a disproportionate impact on their price.

The GDRs may be de-listed from MICEX.

To date, there have been very few precedents of admission of foreign securities to public trading in Russia and of follow-on offerings of such securities. Russia has only recently codified the rules relating to admission of foreign securities to public offering and trading in Russia, and such rules are still being developed. In particular, the relevant Russian regulations governing the admission eligibility criteria and the listing criteria for foreign securities are not well developed and remain largely untested and open to conflicting interpretations. In many cases, such regulations do not clearly distinguish between the issuer of the foreign depositary receipts and the issuer of the foreign underlying securities. There has been little official guidance from the CBR as to interpretation and implementation of the rules applicable to non-Russian issuers. Consequently, it may not always

be clear how to apply such rules with respect to Lenta. Therefore, the interpretation of the admission eligibility criteria by MICEX or the CBR may be different from the interpretation that Lenta relies on, which may result in subsequent cancellation of the admission to trading for some or all of the GDRs and de-listing of the GDRs from MICEX.

Moreover, the relevant Russian regulations are unclear as to whether any additional admission decision by MICEX is required for the GDRs placed in a follow-on offering, such as the Offering, to be traded on MICEX. Although Lenta is relying on an understanding with MICEX that no application for admission or ancillary documents is required and the newly-issued GDRs will be included into the number of GDRs admitted to trading on MICEX automatically upon confirmation of the London Admission, the relevant regulations allow an interpretation that an additional MICEX admission is required for certain follow-on offerings. If such additional admission were required for the newly-issued GDRs, trading without it could result in suspension of trading in all GDRs on MICEX, in cancellation of the existing admission to trading for some or all of the GDRs and de-listing of the GDRs from MICEX. In addition, given the existing admission of the global depository receipts on Lenta Shares to trading on MICEX, Lenta is subject to regulation under certain Russian securities laws, including the rules relating to insider trading and market manipulation, which have not been fully tailored for non-Russian issuers. In addition, in order to maintain its admission or listing on MICEX, Lenta is required to comply with Russian securities law rules, including certain listing, reporting and disclosure requirements. A material failure to comply with these rules may constitute grounds for de-listing of the GDRs from MICEX. Such compliance may be particularly problematic due to the new, untested nature of the relevant Russian regulations and the lack of official guidance from the CBR on their interpretation and implementation.

Lenta can provide no assurance that it will be able to maintain the admission of GDRs to trading on MICEX or inclusion in the quotation list.

Lenta's GDRs trade on more than one market, and this may result in increased volatility and price variations between such markets.

Lenta's GDRs are traded on the London Stock Exchange and on MICEX. Trading in the GDRs on these markets could be made in different currencies (British pounds, U.S. Dollars and Euros on the London Stock Exchange and Roubles on MICEX) and at different times (due to different time zones, trading days and public holidays in the United Kingdom and Russia). The trading prices of the GDRs on these two markets may differ due to these and other factors. The liquidity of trading in the GDRs on MICEX has been and is likely to remain limited. Trading of a small number of GDRs on that market could adversely impact the price of the GDRs on that market significantly and could, in turn, impact the price on the London Stock Exchange. The GDRs are fully fungible between both markets (except as noted in “—*The GDRs may be de-listed from MICEX.*”). Any decrease in the trading price of the GDRs on one of these markets could cause a decrease in the trading price of the GDRs on the other market. Additionally, as there is no direct trading or settlement between the two stock markets, the time required to move the GDRs from one market to another may vary, and there is no certainty of when GDRs that are moved will be available for trading or settlement.

GDR holders may have limited recourse against the Company, its directors and Senior Management.

The Company is a company organised under the laws of BVI. Certain directors and all Senior Management named in this Prospectus reside outside the United Kingdom (and none resides in the United States), principally in Russia. All of Lenta's assets and a substantial portion of the assets of its directors and Senior Management are located outside the United States and the United Kingdom. Lenta's assets are principally held by its main operating subsidiary, Lenta LLC, a Russian company, which is not a party to the Deposit Agreement, and thus no GDR holder (or shareholder in the Company) is likely to have recourse against Lenta LLC. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company or its directors or Senior Management or to enforce U.S. or U.K. court judgments obtained against the Company or its directors or Senior Management in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Corporate governance standards in the BVI, including takeover protections, are not of the same standard as those in Western Europe and the United States.

There is no corporate governance code or corporate governance regime in the BVI, and Lenta is not required to

comply with the U.K. Corporate Governance Code. Accordingly, there are fewer protections for investors than would otherwise be the case were Lenta required to comply with the U.K. Corporate Governance Code principles on corporate governance or similar standards of other EEA Member States or the United States.

As the Company is incorporated in the BVI, the City Code on Takeovers and Mergers (the “**City Code**”) does not apply to it. The Company is also not subject to the jurisdiction of the Panel on Takeovers and Mergers in the United Kingdom (the “**Takeover Panel**”). The M&A, however, include provisions that broadly reflect certain elements of the City Code, although these will be administered by the Board of Directors, not the Takeover Panel, and the Board of Directors will be able to exercise discretion as regards the application and interpretation of these provisions. See “*Description of Shares and Applicable BVI Legislation—M&A—Mandatory Offer Requirements*”.

As the Company is incorporated under the BVI Business Companies Act, 2004 (the “**BCA**”), the rights of shareholders will be governed by BVI law and the M&A. The rights of shareholders under BVI law, and the corresponding remedies available, differ from the rights of shareholders of companies incorporated in other jurisdictions. For instance, BVI law does not make a distinction between public and private companies and some of the protections and safeguards that investors may expect to find in relation to a public company are not provided for under BVI law. There is also limited statutory protection for minority shareholders, other than the provisions of the BCA permitting derivative actions and providing remedies for unfairly prejudicial, oppressive or unfairly discriminatory conduct.

In any event, BVI law does not treat holders of GDRs as shareholders and, as such, the limited protections available to shareholders will not be directly available to the holders of GDRs. There can be no assurance that the Depositary will exercise rights on behalf of the holders of GDRs and, accordingly, it may be necessary to exchange GDRs for Shares under the terms of the Deposit Agreement in order to enforce these rights.

Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Shares.

In order to raise funding in the future, the Company may issue additional Shares, including in the form of additional GDRs. The M&A provide for pre-emptive rights for holders of Shares when the Company issues additional Shares for cash but such rights do not apply in respect of: (i) Shares issued up to an aggregate amount of 10% of all Shares each calendar year; (ii) Shares issued to effect or fund acquisition(s) of assets up to an aggregate amount of 10% of all Shares each calendar year; or (iii) Shares issued pursuant to employee share option schemes adopted by Lenta up to an aggregate amount of 5% of the Shares over any 10-year period. Pre-emption rights are subject to (i) such exclusions or arrangements the Board of Directors may consider necessary or expedient in relation to legal or practical issues under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory, (ii) adjustment of the pre-emptive offer to avoid fractional entitlements, (iii) disapplication or variation by (a) a resolution approved at a duly convened and constituted meeting of the shareholders of the Company by the affirmative vote of at least 75% of the votes of the Shares entitled to vote thereon which were present at the meeting and were voted or (b) a resolution consented to in writing by 75% of the votes of Shares entitled to vote thereon (either, a “**Special Resolution**”) and (iv) arrangements being made with the Depositary so that holders of GDRs receive equivalent and corresponding pre-emptive rights to those accruing to holders of Shares. Accordingly, holders of GDRs may not be offered full pre-emptive rights on future issuances of Shares, and, as a result, their ownership interest in the Company may be diluted.

Furthermore, holders of GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for Shares represented by GDRs unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company may not adhere to such requirements, and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Shares, and, as a result, their percentage ownership interest in the Company would be reduced.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of BVI law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement and relevant requirements of BVI law. See “*Terms and Conditions of the Global Depositary Receipts*”. Therefore, there are practical limitations upon the ability of GDR holders to

exercise their voting rights due to the additional procedural steps involved in communicating with them. Holders of Shares will receive notice directly from the Company and will be able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide copies of relevant notices and voting materials containing voting instructions to the Depositary (provided that no U.S., English, Russian or BVI legal prohibition exists). The Depositary has undertaken, in turn, as soon as practicable after receipt from the Company, to distribute to GDR holders such notices and voting materials. In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares. The Company will make all reasonable efforts to cause the Depositary to extend voting rights to the GDR holders in a timely manner, but the Company cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Shares underlying GDRs for which the Depositary does not receive timely voting instructions will not be voted.

The Shares underlying the GDRs are not listed and are illiquid.

Unlike many other GDRs traded on the London Stock Exchange, the Shares are neither listed nor traded on any stock exchange, and Lenta does not intend to apply for the listing or admission to trading of its Shares on any stock exchange or register its Shares with any national securities regulator. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under “*Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement*”, may be impossible under national law applicable to such GDR holder or will result in that holder obtaining securities that are significantly less liquid than the GDRs, and the price of those Shares may be discounted as a result of such withdrawal.

Future sales of Shares or GDRs may affect the market price of the GDRs.

Following the Offering, new issuances and sales, or the possibility of new issuances and sales, of a substantial number of Shares, or GDRs, onto the public markets, or a sale of Shares by any significant holders of Shares could have an adverse effect on the trading prices of the GDRs or could affect Lenta’s ability to obtain further capital through an offering of equity securities. Lenta may pursue such new issuances and sales in connection with an acquisition or for other reasons. Subsequent equity offerings may also reduce the percentage ownership of Lenta’s existing shareholders. In addition, Lenta may issue securities convertible or exchangeable for Shares or GDRs.

Lenta has not paid dividends in the past three calendar years and may choose not to pay dividends in the future.

In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; Lenta does not expect to declare any dividends in 2015. In future years, Lenta will consider the pay-out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion, its debt profile and leverage ratios. As such, while Lenta’s policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out. The trading price of the GDRs may be adversely affected if Lenta continues not to declare and pay dividends.

IMPORTANT INFORMATION

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements which reflect Lenta's views with respect to its results of operations, financial condition, business strategy and its plans and objectives for future operations.

These forward-looking statements relate to Lenta and the industries in which it operates. Statements that include the words "expect", "intend", "plan", "believe", "estimate", "project", "anticipate", "will", "target", "aim", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature, or in each case their negative or other variations, or discussions of strategies, plans, objectives, goals, future events or intentions identify forward-looking statements.

These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding Lenta's intentions, beliefs or current expectations concerning, amongst other things, its results of operations, financial condition, liquidity, prospects, growth, strategy and dividend policy and those of the industry in which Lenta operates.

All forward-looking statements included in this Prospectus address matters that involve risks and uncertainties and other important factors beyond Lenta's control that could cause Lenta's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Lenta's present and future business strategies and the environment in which Lenta will operate in the future. Forward-looking statements are not guarantees of future performance. These factors include but are not limited to the following:

- ongoing economic slowdown in Russia;
- significant competition in Lenta's current areas of operation and in connection with its expansion strategy;
- a deterioration of economic conditions in Russia, in particular, a decline in consumer discretionary income or consumer spending;
- adverse changes in consumer preferences;
- poor trading performance as a result of seasonal trends;
- risks related to Lenta's growth strategy, including the inability to generate or raise sufficient capital or secure or maintain necessary resources;
- inability to lease or acquire land and premises or build new hypermarkets on commercially acceptable terms;
- delays or cancellation of Lenta's planned construction of hypermarkets;
- a decline in the value of real estate property owned by Lenta;
- the inability to renew leases on reasonable terms;
- challenges to Lenta's ownership interests or lease rights in land;
- an interruption in the operations of a distribution centre;
- Lenta's inability to attract or service indebtedness;
- failure to comply with existing governmental regulations, or increased governmental regulation of Lenta's operations;
- reduction in supplier discounts, rebates and bonuses;
- increases in prices charged by food producers;
- product liability claims and adverse publicity, deterioration of the value of the "Lenta" brand name and/or general loss of reputation;
- antimonopoly laws and regulations;
- introduction of price caps;

- inability to enforce intellectual property rights;
- failure to fulfil the terms of or renew licences, permits and other authorisations;
- Lenta’s reliance on third party service providers;
- an increase in labour costs or loss of the benefit of migrant labour;
- systems failures and delays;
- insufficient insurance policies;
- certain risks in connection with the substantial use of cash and the increasing use of non-cash payments in Lenta’s operations;
- the ability of Lenta to recruit and retain qualified personnel;
- political, social and governmental instability in Russia;
- sanction regimes imposed by Western states in connection with the Ukraine crisis and Russian countermeasures prohibiting the import of goods into Russia;
- incomplete, unreliable or inaccurate official data and statistics in Russia, in particular with respect to the real estate market;
- changes in, or enforcement of, laws, regulations, taxation or accounting standards or practices; and
- other factors set out under “*Risk Factors*”.

Any forward-looking statements in this Prospectus reflect Lenta’s current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to Lenta’s business, results of operations, financial condition, growth strategy and liquidity.

Any forward-looking statements speak only as of the date of this Prospectus. Subject to any obligations under any applicable law, Lenta undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to Lenta, and those acting on behalf of Lenta, are expressly qualified in their entirety by this section. Prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

Currencies

In this Prospectus, all references to:

- “**RUB**” and “**Rouble**” are to the lawful currency of the Russian Federation;
- “**U.S.\$**” and “**U.S. Dollar**” are to the lawful currency of the United States of America; and
- “**€**” and “**Euro**” are to the lawful currency of the EEA Member States.

Certain Jurisdictions

In this Prospectus, all references to:

- “**BVI**” are to the British Virgin Islands;
- “**Moscow**” are to the City of Moscow together with the Moscow region (oblast) (and further is deemed to include, in the context of discussions herein of Lenta’s operations, Lenta’s one supermarket in the neighboring Kaluga region);
- “**Russia**” and “**Russian Federation**” are to the Russian Federation;
- “**St. Petersburg**” are to the City of St. Petersburg together with the Leningrad region (oblast);
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and
- “**U.S.**” and “**United States**” are to the United States of America.

Certain Other Terms

In this Prospectus, all references to:

- “**active cardholder**” means, in respect of Lenta’s loyalty programme, a Lenta customer who has purchased goods at a Lenta store at least twice in the past 12 months using the Lenta loyalty card;
- “**CAGR**” means compound annual growth rate;
- “**cross-docking**” is a delivery practice whereby full pallets to be delivered to one store are unloaded from an incoming truck and directly loaded into an outbound truck;
- “**cross-docking facility**” means a building with receiving docks and shipping (dispatching) docks;
- “**in-store availability**” is the number of SKUs (as defined below) in-store with a positive stock value as a proportion of the total number of active SKUs for sale, calculated based on the average daily in-store availability of all open stores;
- “**payback period**” means the time required for the cumulative cash flow on an investment to repay the sum of the original investment;
- “**pick-by-line**” is a delivery practice whereby incoming pallets containing goods destined for several stores are immediately opened upon receipt in the distribution centre and reassembled into store-specific outgoing pallets;
- “**regional/local supplier**” means (i) a regional supplier, i.e., a supplier that supplies Lenta stores located in more than one city, but not across all of Lenta’s regions of operations, and (ii) a local supplier, i.e., a supplier that only supplies Lenta store(s) located in one city;
- “**SKU**” means a stock keeping unit, or a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise; and
- “**sq. m.**” are to square metre(s).

Presentation of Certain Financial Information

Lenta’s interim condensed consolidated financial statements as of and for the six months ended 30 June 2015 and Lenta’s historical consolidated financial information as of and for the years ended 31 December 2014, 2013 and 2012 (the “**Financial Information**”) included in this Prospectus have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). IFRS differ in certain significant respects from generally accepted accounting principles in the United States (“**U.S. GAAP**”). Prospective investors should consult their own advisors for an understanding of the differences between IFRS and other accounting principles, including U.S. GAAP, and how these differences might affect the financial information herein. Lenta’s functional and presentation currency is the Rouble.

Presentation of Non-IFRS Information

Lenta has included certain measures in this Prospectus that are not measures defined by IFRS. These include EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA margin, Adjusted EBITDAR margin, net debt, net debt to Adjusted EBITDA, Adjusted EBITDA to net interest expense, lease-adjusted net debt to Adjusted EBITDAR ratio, Adjusted EBITDAR to net interest expense plus rental expense ratio and Adjusted SG&A/Sales ratio.

Lenta defines EBITDA as profit for the period before foreign exchange gains/(losses), revaluation of financial instruments at fair value through profit or loss, reversal of impairment of non-financial assets, other expenses, depreciation and amortisation, interest and tax and Adjusted EBITDA as EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs. Lenta defines EBITDAR as EBITDA before rent paid on land, equipment and premises leases, and Adjusted EBITDAR as Adjusted EBITDA before rent paid on land, equipment and premises leases. Adjusted EBITDA margin is Adjusted EBITDA as a percentage of sales, and Adjusted EBITDAR margin is Adjusted EBITDAR as a percentage of sales.

Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents. The ratio of net debt to Adjusted EBITDA is net debt divided by Adjusted EBITDA. The ratio of Adjusted EBITDA to net interest expense is Adjusted EBITDA divided by net interest expense, which is calculated as interest expense less interest

income. The ratio of Adjusted EBITDAR to net interest expense plus rental expense ratio is Adjusted EBITDAR divided by the sum of net interest expense and rental expenses. Adjusted SG&A/Sales is SG&A, excluding expenses on land and equipment leases, premises leases, depreciation and amortisation and one-off expenses as a proportion of sales.

Lenta has included these measures because it believes that they enhance an investor's understanding of its financial performance. However, these measures should not be used instead of, or considered as alternatives to, its historical financial results based on IFRS. Lenta believes that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and ratios derived from these measures are important supplemental metrics for assessing operating performance. In addition, certain of Lenta's loan agreements contain financial covenants that are based on certain of these measures. See "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*". EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR are not measures calculated in accordance with IFRS, and Lenta's use of these measures may vary from other companies in its industry. EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR have limitations as analytical tools and should not be considered in isolation, or as a substitute for, financial information as reported under IFRS. See "*Selected Consolidated Financial Information and Operating Data*" for a reconciliation of EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR to profit for the period.

Presentation of Operating Information

In this Prospectus, Lenta presents certain operating information regarding its hypermarkets and supermarkets, including the following:

"Additional articles per ticket" mean the increase in the number of products purchased per ticket in one period compared to the preceding period.

"Average sales density" is total sales during the relevant period divided by the average selling space for that period.

"Average selling space" is calculated, in respect of a calendar year, as the average of the total selling space as of 1 January, 31 March, 30 June, 30 September and 31 December of the year and, in respect of the first half of a calendar year, as of 1 January, 31 March and 30 June of such first half.

"Average ticket" is calculated by dividing total sales, net of VAT, at all stores during the relevant period by the number of tickets in that period.

"Like-for-like sales": Lenta distinguishes between sales attributable to new stores and sales attributable to existing stores. Lenta considers the sales generated by stores until the end of the 12th full calendar month of their operation to be sales attributable to new stores. Accordingly, like-for-like sales begin with the comparison of the 13th full calendar month of operations of a store to its first full calendar month of operations, assuming the store has not subsequently closed, expanded or downsized. The number of stores in Lenta's like-for-like panel as of 31 December 2014, 2013 and 2012 was 68, 49 and 41, respectively, and was 81 as of 30 June 2015. **"Like-for-like sales growth"**, **"Like-for-like average ticket growth"**, **"like-for-like additional articles per ticket"**, **"like-for-like average price growth per article"**, **"like-for-like traffic growth"**, **"like-for-like average selling space"**, and **"like-for-like average sales density"** are calculated using the same methodology as like-for-like sales.

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

"Total selling space" is the area inside Lenta stores used to sell products, and excludes areas rented out to third parties, own-production areas, storage areas and the space between store entry and the cash desk line.

"Traffic" means the number of tickets issued for the period under review.

Lenta calculates this operating information on the basis of certain assumptions made by it. As a result, this operating information may not be comparable to similar operating information reported by other companies.

Market and Industry Data

Lenta has derived certain information and statistics in this Prospectus, including certain information and statistics concerning the Russian retail food sector, from private and publicly available information, including principally annual reports, industry publications, market research, press releases, filings under various securities laws, official data published by the CBR, the Federal Service for State Statistics of the Russian Federation (“**Rosstat**”) and the Unified Interagency Information and Statistics System (“**Fedstat**”) and data published by the International Monetary Fund (the “**IMF**”), the International Bank for Reconstruction and Development (the “**World Bank**”), Infoline, O+K and Euromonitor International (“**Euromonitor**”). Such information is contained in this Prospectus under the headings “*Presentation of Financial and Other Information*”, “*Prospectus Summary*”, “*Risk Factors*”, “*Russian Food Retail Industry*”, “*Business*” and “*Operating and Financial Review*”. Where third-party information, data or statistics are set out, they have been accurately reproduced, and, as far as Lenta is aware and is able to ascertain from relevant available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. This information has been accurately reproduced and as far as Lenta is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Rounding

Certain figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Currencies and Exchange Rates

The following table below shows, for the periods indicated, certain information regarding the exchange rate between the Rouble and the U.S. Dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of the Financial Information and other financial information appearing in this Prospectus.

	RUB per U.S.\$1.00			
	High	Low	Period average	Period end
Year ended 31 December				
2014.....	67.79	32.66	37.97	56.26
2013.....	33.47	29.93	31.82	32.73
2012.....	34.04	28.95	31.07	30.37
2011.....	32.68	27.26	29.35	32.20
2010.....	31.78	28.93	30.36	30.48
2009.....	36.43	28.67	31.68	30.24
2015				
January.....	68.93	56.24	61.70	68.93
February.....	69.66	60.71	64.63	61.72
March.....	62.68	56.43	60.23	58.46
April.....	58.35	49.67	52.87	51.70
May.....	52.97	49.18	50.58	52.97
June.....	56.25	52.82	54.50	55.52
July.....	60.22	55.48	57.07	58.99
August.....	70.75	60.35	65.15	66.48
September.....	68.79	65.35	66.77	66.24

Source: CBR.

No representation is made that the Rouble or U.S. Dollar amounts referred to herein could have been or could be converted into Roubles or U.S. Dollars, as the case may be, at these rates, at any particular rate or at all. The exchange rate between the Rouble and the U.S. Dollar quoted by the CBR for 20 October 2015 was RUB61.44 per U.S.\$1.00.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of the BVI. Most of the Company's directors and Senior Management (as defined herein) named in this Prospectus reside outside the United States and the United Kingdom. All of the Company's assets and a substantial portion of the assets of its directors and Senior Management are located outside the United States and the United Kingdom. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company, the Company's directors or Senior Management that are located in jurisdictions outside the United States and the United Kingdom or enforce U.S. or U.K. court judgments obtained against the Company, its directors or Senior Management in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

The European Bank for Reconstruction and Development (the "**EBRD**") is an international organisation formed by treaty. The Agreement Establishing the European Bank for Reconstruction and Development ("**AEB**") contains provisions which accord the EBRD legal status and certain immunities, privileges and exemptions in the territories of each of its members. Under the Headquarters Agreement between the United Kingdom and the EBRD, dated 15 April 1991, the EBRD, within the scope of its official activities, enjoys immunity from jurisdiction, subject to certain limited exceptions including civil actions arising out of its powers to borrow money, guarantee obligations and buy or sell or underwrite securities. Pursuant to Article 46 of the AEB, actions may be brought against the EBRD only in a court of competent jurisdiction in the territory of a country in which it has an office, has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. No action against the EBRD may be brought by its members or persons acting for or deriving claims from its members. The property and assets of the EBRD, wheresoever located and by whomsoever held, are immune from all forms of seizure, attachment or execution before the delivery of final judgment against it. Under Article 47 of the AEB, such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action. According to Article 48 of the AEB, the archives of the EBRD, and in general all documents belonging to it or held by it, are inviolable. Pursuant to Article 51 of the AEB, the governors, alternate governors, directors, alternate directors, officers and employees of the EBRD, including experts performing missions for it, are immune from legal process for acts performed by them in their official capacities, except where the EBRD waives such immunity.

BVI

Under the terms of the deposit agreement between the Company and the Depositary (the "**Deposit Agreement**"), any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein (including any dispute relating to the existence, validity or termination of the Deposit Agreement, or any non-contractual obligation arising therefrom), the Shares or other deposited securities may be referred to and resolved by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), as more fully described in the Deposit Agreement.

Enforcement of Judgments of High Court of England

Any final and conclusive monetary judgment obtained against a person in the High Court of England and in the courts of certain other countries for a definite sum may be registered and enforced as a judgment of the BVI court pursuant to the Reciprocal Enforcement of Judgments Act 1922 (the "**Reciprocal Enforcement Act**"), provided that (i) application is made for registration of the judgment within twelve months of its date or such longer period as the BVI court may allow, (ii) the person against whom judgment was obtained is not appealing or does not have the right or intention to appeal and (iii) the BVI court considers it just and convenient that the judgment be so enforced. If not registered, the judgment may be treated as a debt upon which the foreign judgment creditor may bring an action so that no retrial of the underlying issues giving rise to the original judgment would be necessary. It is necessary that the judgment (not being in respect of penalties, fines, taxes or similar fiscal or revenue obligations of the person in question) is final, for a liquidated sum, was not obtained in a fraudulent manner, is not of a kind the enforcement of which is contrary to the public policy in the BVI, is not contrary to the principles of natural justice and provided that the courts of England had jurisdiction in the matter and the person against whom it was obtained either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process. In appropriate circumstances, a BVI court may give effect in the BVI to other kinds of final foreign judgments, such as declaratory orders, orders for performance of contracts and

injunctions. The same principles apply for judgments obtained in the superior courts of the Bahamas and certain other jurisdictions.

Enforcement of Judgments of Other Foreign Courts

Although there is no statutory enforcement in the BVI of judgments obtained in the courts outside those of England, the Bahamas and certain other jurisdictions, the courts of the BVI will recognise such other foreign judgment and treat it as a cause of action in itself which may be sued upon as a debt at common law so that no retrial of the issues would be necessary, provided that the judgment is not in respect of penalties, fines, taxes or similar fiscal or revenue obligations of the person against whom it was obtained, is final, is for a liquidated sum, was not obtained in a fraudulent manner, is not of a kind the enforcement of which is contrary to the public policy in the BVI, is not contrary to the principles of natural justice and further provided that the courts of the relevant foreign jurisdiction had jurisdiction in the matter, no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI, there is due compliance with the correct procedures under the laws of the BVI and the person against whom it was obtained either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process. In appropriate circumstances, a BVI court may give effect in the BVI to other kinds of final foreign judgments, such as declaratory orders, orders for performance of contracts and injunctions.

Enforcement of Arbitration Awards

The enforcement of arbitration awards in the British Virgin Islands is governed by the Arbitration Act 2013 (the “**Arbitration Act**”). Under the Arbitration Act (which incorporates the provisions of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted by the United Nations Conference on International Commercial Arbitration on 10 June 1958 (the New York Convention)), an arbitration award may, by leave of the British Virgin Islands court, be enforced in the same manner as a judgment or order of the High Court of the Eastern Caribbean Supreme Court, British Virgin Islands Division to the same effect, and where leave is so given, judgment may be entered in terms of the award. Like its predecessor, the Arbitration Act draws a distinction between “Convention Awards” and “Non-Convention Awards”.

Convention Awards

An arbitration award is a Convention Award as defined in the Arbitration Act if it was made in pursuance of an arbitration agreement in the territory of a state which is a party to the New York Convention. The definition of Convention Award in the Arbitration Act now includes awards made in the United Kingdom. Previously, the definition of Convention Award did not extend to awards made in the United Kingdom. Therefore arbitration awards made in the United Kingdom are Convention Awards under the Arbitration Act and are to be enforced as such.

Notwithstanding that enforcement of arbitration awards is by leave of the court, the High Court of the British Virgins Islands has no discretion to refuse enforcement of a Convention Award unless one or more of the following circumstances applies: (a) a party to the arbitration agreement was, under the law applicable to him, under some incapacity; (b) the arbitration agreement was not valid under the law to which the parties subjected it or, failing any indication thereof, under the law of the country where the award was made; (c) the person was not given proper notice of the appointment of the arbitrator or the arbitration proceedings or was otherwise unable to present his case; (d) the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration or contains decisions on matters beyond the submission to arbitration; (e) the composition of the arbitral authority or arbitral procedure was not in accordance with the agreement of the parties or, failing such agreement, with the law of the country where the arbitration took place; or (f) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, it was made; or (g) the award is in respect of a matter which is not capable of settlement by arbitration or it would be contrary to public policy.

Non-Convention Awards

A foreign arbitration award that is not a Convention Award (a Non-Convention Award) may still be recognised and enforced in the BVI with leave of the court as described in the first paragraph above, however the distinction between the enforcement of Non-Convention Awards and Convention Awards in the BVI is that in the case of the former the court retains a greater discretion as to whether or not to allow enforcement. Unlike in the case of Convention Awards where the court has no discretion to refuse enforcement unless one of the grounds identified at (a) to (g) above applies, in the case of a Non-Convention Award the court, in addition to the grounds identified above, may also refuse enforcement “for any other reason the Court considers it just to do so”.

Russia

Lenta's assets are principally held by its main operating subsidiary, Lenta LLC, a Russian company, which is not a party to the Deposit Agreement, and thus no GDR holder (or shareholder in the Company) is likely to have recourse against Lenta LLC under the Deposit Agreement.

To the extent any investor is in a position to enforce any foreign judgment in a Russian court, judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

The Company is not aware of a treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom, the United States or BVI and the Russian Federation.

However, the Company is aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court would be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of any court judgment, or completely deprive investors of effective legal recourse for claims related to their investment in the GDRs.

The Russian Federation is party to the New York Convention. Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh Procedural Code of the Russian Federation (the “**Arbitrazh Procedural Code**”) sets out certain grounds for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change. Therefore, amongst other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or foreign arbitral award in the Russian Federation.

AVAILABLE INFORMATION

The Company will, for so long as any of the GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act (“**Restricted Securities**”), during any period in which it is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Restricted Securities or to any prospective purchaser of such Restricted Securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of GDRs.

THE OFFERING

The Company	Lenta Ltd., a company limited by shares incorporated under the laws of the BVI.
Selling Shareholder	EBRD.
The Offering	<p>The Offering comprises 38,750,000 GDRs (five GDRs representing an interest in one Share) consisting of (i) 21,126,760 newly issued GDRs offered by the Company, and (ii) 17,623,240 GDRs offered by the Selling Shareholder.</p> <p>The Offering is being made by way of an offer of GDRs (1) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S.</p>
Offer Price	U.S.\$7.10 per GDR.
Shares	Prior to the Offering, the Company had 93,093,394 issued Shares, which are fully paid or credited as fully paid and for 92,413,199 out of which 462,065,995 existing GDRs have been issued by the Depositary. In addition, the Company is authorised to issue an unlimited number of additional Shares. Following the Offering, the Company will have 97,318,746 issued and outstanding Shares. The Shares are subject to applicable provisions of BVI law and regulations and the M&A, and have the rights described under “ <i>Description of Shares and Certain Requirements of BVI Law</i> ”.
The GDRs	Each GDR represents one-fifth a Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The GDRs will be evidenced initially by Master GDRs, issued by the Depositary pursuant to the Deposit Agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See “ <i>Terms and Conditions of the Global Depositary Receipts</i> ”.
Closing Date	Expected to be on or about 26 October 2015.
Depositary	Deutsche Bank Luxembourg S.A.
Lock-up	Each of the Company, Luna Inc. and EBRD has undertaken to each of the Managers that for a period of 90 days from the date of the Underwriting Agreement, it will not, subject to certain exceptions, without the prior written consent of the Managers, directly or indirectly, offer, issue, lend, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing (or enter into any transaction which is designed to, or might reasonably be expected to,

result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company, Luna Inc. or EBRD, as applicable, or any person acting on its behalf of any Shares or GDRs) or publicly announce an intention to effect any such transaction.

Voting

If you hold Shares, you will be entitled, upon a poll, to one vote per Share at a shareholders' meeting, subject to certain exceptions described in "*Description of Shares and Certain Requirements of BVI Law*". Under the Deposit Agreement, five GDRs carry the right to vote one Share, subject to the provisions of the GDR Terms and Conditions described under "*Terms and Conditions of the Global Depositary Receipts*" and applicable BVI law and regulations.

The Depositary will endeavour to exercise or cause to be exercised on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to the Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. The Company will notify the Depositary of any resolution to be proposed at any general meeting of shareholders. See "*Terms and Conditions of the Global Depositary Receipts—Voting Rights*".

Taxation

For a discussion of certain U.S., U.K., BVI and Russian tax consequences of purchasing and holding the GDRs, see "*Taxation*".

Transfer Restrictions

The GDRs will be subject to certain restrictions on transfer as described under "*Selling and Transfer Restrictions*", "*Plan of Distribution*" and "*Settlement and Delivery*".

Listing and Trading

The Company has applied to the FCA, in its capacity as competent authority under the FSMA, for the GDRs to be admitted to the Official List of the FCA and to the LSE to admit the GDRs for trading under the symbol LNTA on its market for listed securities, on which the Company's existing GDRs are admitted to trading, through its IOB. The Company expects that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. Subject to the transfer restrictions described under "*Selling and Transfer Restrictions*", "*Plan of Distribution*", "*Settlement and Delivery*" and "*Risk Factors—Risks Relating to the GDRs and the Trading Market—The GDRs may be de-listed from MICEX*", the GDRs will be fungible with the existing GDRs. Trades in the GDRs executed on the IOB on the date of this Prospectus will settle on a T+2 basis in accordance with the rules of the London Stock Exchange, which would be one day prior to the Closing Date. Accordingly, any trades selling GDRs effected by investors on the date of this Prospectus will be at the sole risk of the seller – the seller will be obliged to deliver GDRs on T+2 in accordance with the rules of the London Stock Exchange, notwithstanding that it will not have received any GDRs pursuant to this Offering at that time.

The Company's existing GDRs have been admitted to trading on MICEX since 6 March 2014. Lenta is relying on an understanding with MICEX that the Company's GDRs have been admitted to trading on MICEX as a class and any new securities of the class are also admitted. Therefore, upon the London Admission, the newly-issued GDRs offered by the Company will become securities of the same class as the existing GDRs and will become eligible for trading on MICEX. No action by the Company is required for the newly-issued GDRs to be tradable on MICEX upon the London Admission.

Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted. No assurance can be given that thereafter the GDRs will continue to be admitted to trading on MICEX. See “*Risk Factors—Risks Relating to the GDRs and the Trading Market—The GDRs may be de-listed from MICEX*”.

Payment and Settlement

The GDRs are being offered by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The Managers have applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg, as well as the NSD, and the Rule 144A GDRs accepted for clearance through the DTC.

In order to take delivery of the GDRs, investors must have an appropriate securities account and, in the case of investors in the Offering, must pay for them in same-day funds on or about the Closing Date.

The security identification numbers of the GDRs offered hereby are as follows:

Regulation S GDRs:

ISIN:	US52634T2006
Common Code:	103087686
CUSIP Number:	52634T 200

Rule 144A GDRs:

ISIN:	US52634T1016
Common Code:	103087635
CUSIP Number:	52634T 101

London Stock Exchange Regulation S GDR trading symbol:	LNTA
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London Stock Exchange Rule 144A GDR trading symbol:	LNTR
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MICEX Regulation S GDR trading symbol:	LNTA
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USE OF PROCEEDS

The net proceeds that Lenta will receive from the Offering will be approximately U.S.\$146.7 million (assuming full payment of the discretionary fee to the Managers) after deducting from the gross proceeds to Lenta the total expenses payable by Lenta in connection with the Offering of approximately U.S.\$1 million and underwriting commissions (including the discretionary fee to the Managers) relating to the primary portion of the Offering.

Lenta intends to use the net proceeds received from the Offering as follows: (i) in the amount of up to RUB8,652 million to fund Lenta's organic growth under asset acquisition contracts, under which 11 hypermarkets (of which two are scheduled to open in the fourth quarter of 2015 and nine during the first three quarters of 2016) and one distribution centre specially-designed to service Lenta's Moscow supermarkets (which is scheduled to open in the third quarter of 2016) are to be acquired following their construction; and (ii) otherwise for general corporate purposes (up to the amount of proceeds arising from the sale of 7,826,695 GDRs). See "*Business – Business Strategy – Benefits of the Offering*"; and "*Description of Shares and Applicable BVI Legislation – M&A – Authority to Issue Shares and Pre-emption*".

Lenta will not receive any proceeds from the sale of the GDRs by the Selling Shareholder.

RUSSIAN FOOD RETAIL INDUSTRY

Russia—Economy and Demographics

Economy

Russia was the ninth largest economy globally in 2014, with a nominal GDP of U.S.\$1,861 billion, and the sixth largest economy globally by GDP adjusted for purchasing power parity, at U.S.\$3,577 billion, according to the IMF.

After the profound socio-economic transformation following the break-up of the Soviet Union and the Russian financial crisis in 1998, which included a government default and sharp depreciation of the Rouble, Russia experienced a decade of uninterrupted economic growth with its real GDP almost doubling and a CAGR of real GDP of nearly 7%. This growth was spurred by a strong pricing environment for its export commodities, especially hydrocarbons, together with a strong recovery in domestic industrial production and consumer spending.

In the wake of the 2008 global financial crisis, the Russian economy contracted by 7.8% (in real terms) in 2009, particularly due to a sharp drop in commodity prices. From 2010 through 2012, the Russian economy demonstrated a robust recovery, with growth rates between 3.4% and 4.5% per annum. This economic growth was accompanied by significant growth in average wages and disposable household income, which contributed to a rise in household consumption. But in 2013, the rate of growth in Russia’s real GDP slowed to 1.3% and in 2014 to 0.6%, according to Rosstat. The Russian economy entered into recession in 2015, with GDP falling, year-on-year, by 2.2% in the first quarter and 4.6% in the second quarter, according to Rosstat. The Russian Ministry of Economic Development in October 2015 predicted that Russian GDP would contract by 3.9% for full year 2015; and the World Bank in September 2015 predicted that Russian GDP would (in the baseline scenario) contract by 3.8% in 2015 and by 0.6% in 2016, and would not start growing until 2017. See “*Risk Factors—Risks Relating to Russia—Political, economic and social risks—The Russian economy has fallen into recession in 2015, is suffering from renewed Rouble depreciation, inflation and capital flight, and depends highly on the global pricing of crude oil, which has fallen significantly*”.

While net exports have been a key driver of Russia’s economic growth, with the current account balance (according to the CBR) increasing from U.S.\$29.1 billion in 2002 to U.S.\$71 billion in 2012 (before decreasing to U.S.\$34 billion in 2013 and returning to U.S.\$57 billion in 2014), domestic household consumption has also been a significant contributor, more than doubling in real terms over the same period to reach over U.S.\$1 trillion in 2013 (according to Rosstat), transforming Russia into one of the largest consumer markets in Europe. In 2013, household consumption in Russia increased by 5% in real terms, and in 2014 by 1.9%, according to Rosstat.

The strength and nature of Russia’s economic growth has supported healthy public finances, which in turn helped to create the conditions for sustained, broad-based economic growth, including through the expansion of consumer spending. Russian Government debt amounted to approximately 13.9% of the country’s GDP in 2013 (based on IMF estimates), lower than the majority of developed and developing economies globally. Russia also retains significant international (foreign currency and gold) reserves. Spurred by the growth in commodity prices, total official reserves increased from less than U.S.\$50 billion in 2002 to U.S.\$509.6 billion as of 1 January 2014, according to the CBR; but during 2014 reserves declined (in part due to the CBR’s effort to defend the Rouble) and stood at U.S.\$371.3 billion as of 1 October 2015. The deterioration in Russia’s economy has led to questions being raised about its public finances and to the downgrading of the sovereign credit rating.

Notwithstanding its growth over the past fifteen years, Russia’s GDP per capita (U.S.\$14,317 in 2014) lags significantly behind developed markets, such as the United States, Germany and the United Kingdom. Russia’s GDP per capita was estimated to be higher than countries such as Brazil (U.S.\$11,068) and Turkey (U.S.\$10,518) in 2013, according to estimates of the IMF.

The following table sets forth selected key Russian macroeconomic and social statistics over the past five years:

	2010	2011	2012	2013	2014
GDP in current prices (RUB bn).....	46,308	55,967	62,147	66,194	70,976
GDP in current prices (U.S.\$ bn).....	1,525	1,905	2,018	2,079	1,861
Real GDP growth (%).....	4.5	4.3	3.4	1.3	0.6

	2010	2011	2012	2013	2014
GDP per capita (U.S.\$ thousand).....	10,671	13,320	14,079	14,591	12,718
Household consumption, current prices (RUB bn).....	23,618	27,193	31,019	34,672	38,099
Household consumption (real growth, %).....	5.5	6.8	7.8	5.0	1.9
Consumer Price Index (“CPI”) (average for the year, %).....	8.8	6.1	6.6	6.5	11.4
Urals oil price (average U.S.\$/bbl for the year).....	78.2	109.3	110.4	107.9	97.6
International reserves (U.S.\$bn at year-end).....	479	499	538	510	386
Government debt (% of GDP).....	11.4	11.6	12.7	13.9	17.8
Average monthly cash income (RUB).....	18,958	20,780	23,221	25,928	27,755
Share of cash income spent on consumption (%).....	69.7	73.5	74.2	73.6	75.1
Real disposable income (year-on-year % growth).....	5.9	0.5	4.4	4.0	(1.0)
Average monthly accrued wages (RUB).....	20,952	23,369	26,629	29,792	32,600
Real wages (year-on-year % growth).....	5.2	2.8	8.4	4.8	1.3
Unemployment rate (%).....	7.3	6.5	5.5	5.5	5.2 ⁽¹⁾
Industrial production index (%).....	7.3	5.0	3.4	0.4	1.7
Retail sales (real growth, %).....	6.5	7.1	6.3	3.9	2.5
Food retail (%).....	5.1	3.4	3.6	2.6	(0.1)
Non-food retail (%).....	8.0	10.8	8.6	4.9	4.7

Sources: Rosstat, CBR, Ministry of Economic Development, Ministry of Finance and the IMF.

Note:

(1) Rosstat data as of December 2014.

Population

Russia had a population of 146.3 million, as of 1 January 2015, representing approximately 2% of the world’s population and making it the ninth largest country globally and the most populated country in Europe, considerably ahead of other European countries, including Germany (81 million), Turkey (78 million), France (67 million), and the United Kingdom (64 million), according to official government estimates.

Following the sharp economic downturn in the 1990s, Russia’s population fell from 148.3 million in 1991 to 142.8 million in 2007, according to Rosstat. Since 2008, the population trend has reversed on the back of improving birth rates and immigration flows (and the accession of Crimea to Russia in 2014), with the total population reaching 146.3 million as of 1 January 2015.

Russia is characterised by a relatively high level of urban population of approximately 74%, according to Rosstat. Approximately 12% of the Russian population, or 17.4 million people, live in Russia’s two largest cities—Moscow and St. Petersburg. A further 10% live in the other 13 cities that have a population of over one million. Approximately 50% of the total population lives in cities with a population of at least 100,000 inhabitants, according to Rosstat. The table below illustrates the distribution of Russia’s population between different categories of cities:

	Number of cities	Population	% of total Russia’s population
City of Moscow.....	—	12,108,257	8.4%
City of St. Petersburg.....	—	5,131,942	3.6%
Other cities with over 1 million population.....	13	15,223,988	10.6%
Cities with population between 500,000 and 1 million.....	21	12,754,954	8.9%
Cities with population between 250,000 and 500,000.....	39	13,449,683	9.4%
Cities with population between 100,000 and 250,000.....	90	13,895,593	9.7%
Total		72,564,417	50.5%

Source: Rosstat 2014 (as of 1 January 2014).

As the world’s largest country by territory, Russia is characterised by very significant distances, relatively low population density and significant climate variations in weather across the country and throughout the year. This poses significant challenges for the country’s infrastructure, distribution and logistics systems, and has therefore had a strong influence on the development of the retail industry in Russia. For example, the distance between St. Petersburg and Novosibirsk, the largest urban hub in Western Siberia, is approximately 4,000 kilometres, which is significantly longer than the distance from Poland to Portugal, and approximately equal to the distance between New York City and Los Angeles in the United States.

The table below presents the distribution of the country's population by the nine federal districts of Russia:

Federal district	Population, million	% of total Russian population	Population density (inhabitants per square kilometre)
Central (incl. Moscow).....	38,944,837	26.6	59.7
Volga.....	29,717,813	20.3	28.6
Siberia.....	19,313,880	13.2	3.8
South.....	14,005,541	9.6	33.5
North-West (incl. St Petersburg).....	13,847,170	9.5	8.3
Urals.....	12,276,228	8.4	6.9
North-Caucasus.....	9,659,070	6.6	56.5
Far East.....	6,211,384	4.2	1.0
Crimea (incl. Sevastopol).....	2,294,110	1.6	84.4
Total.....	146.3	100.0	8.5

Source: Rosstat (as of 1 January 2015).

Note:

(1) In March 2014, under a treaty of accession, Crimea joined the Russia Federation with Crimea becoming a federal district and Sevastopol a federal city.

Economic growth has resulted in a gradual increase in average income levels and in a more even distribution of income. The table below illustrates distribution of the country's population by average monthly per capita cash income from 2010 through 2014:

Income range	2010	2011	2012	2013	2014
Below RUB5,000.....	9.4	7.3	5.7	4.2	3.4
RUB5,001-7000.....	9.4	8.1	6.8	5.6	4.8
RUB7,001-10,000.....	14.6	13.4	12.0	10.4	9.4
RUB10,001-14,000.....	16.6	16.2	15.3	14.2	13.4
RUB14,001-19,000.....	15.2	15.6	15.5	15.2	15.0
RUB19,001-27,000.....	14.7	15.9	16.7	17.5	17.8
RUB27,001-45,000.....	13.3	15.1	17.2	19.3	20.7
Over RUB45,000.....	6.8	8.4	10.8	13.6	15.5

Source: Rosstat.

Consumer Spending and the Retail Industry

Food accounts for a very significant portion of Russia's aggregate consumer spending compared with developed economies. Although Russia's economy has grown over the past 10 years, the share of food retail sales in aggregate consumer spending has ranged from 33.2% (in 2005) to 27.7% (in 2013), according to Rosstat:

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	(%)									
Share of food retail sales in total household spending.....	33.2	31.6	28.4	29.1	30.6	29.6	29.5	28.1	27.7	n/a

Source: Rosstat.

During the period of strong economic growth in the mid-2000s, retail sales in Russia grew at an accelerated rate, frequently in excess of 10% per year in real terms. The growth rates after the financial crisis of 2008-2009 were significantly lower. Notably, food retail sales displayed lower volatility in terms of growth rates through the cycle and specifically demonstrated strong counter-cyclical attributes during the 2008-2009 economic crisis. While the country's GDP in 2009 contracted by 7.8%, and the industrial production index by 10.7%, food retail sales decreased by 1.9% in real terms.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retail sales, real growth (%).....	12.8	14.1	16.1	13.7	(5.1)	6.5	7.1	6.3	3.9	2.5
Food retail, real growth (%).....	10.5	11.0	12.6	11.7	(1.9)	5.1	3.4	3.6	2.6	(0.1)
Non-food retail, real growth (%).....	15.1	16.8	19.1	15.3	(8.2)	8.0	10.8	8.6	4.9	4.7

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Industrial production index (%).....	5.1	6.3	6.8	0.6	(10.7)	7.3	5.0	3.4	0.4	1.7

Source: Rosstat.

An important feature of the food retail market is the ability of retailers to pass on inflationary pressures to the end-customer, supporting nominal growth in customer basket, as well as retailers' margins. As illustrated by the table below, while there are significant variations from year to year, over the past ten years growth in food retail prices in Russia has frequently exceeded the CPI as consumer demand for food is characterised by relatively lower elasticity compared with other items of consumer spending of a discretionary nature and as such prices for food products have demonstrated higher cumulative growth over this period.

	Nominal price growth, % to the previous year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Food products ⁽¹⁾	9.6	8.7	15.6	16.5	6.1	12.9	3.9	7.5	7.3	15.4
Non-food products.....	6.4	6.0	6.5	8.0	9.7	5.0	6.7	5.2	4.5	8.1
CPI.....	10.9	9.0	11.9	13.3	8.8	8.8	6.1	6.6	6.5	11.4

Source: Rosstat.

Note:

(1) Including alcoholic beverages.

Traditional Versus Modern Retail Formats in Russia

One of the distinguishing features of the Russian retail market is its high share of 'traditional' retail formats as compared with modern retail formats widely adopted in developed economies as the dominant channel for retail trade. A significant part of the retail selling space in Russia is still represented by older Soviet-era shop formats, where sales are carried out through over-the-counter service, kiosks and traditional covered markets. While the share of modern formats in Russia has grown in recent years, it is still significantly below the levels achieved in the developed markets, as well as in certain emerging markets, such as China. Industry estimates and the precise definitions of modern and traditional retail formats vary across different industry experts, research and marketing institutions, but the under-penetration of modern retail formats in Russia is widely highlighted in industry sources.

According to a number of industry sources, growth in the modern retail format is expected to continue to outpace overall market growth (at the expense of traditional retail formats). This trend is expected to be driven by the substantial economies of scale of large retail chains, including the ability to procure goods at lower prices, the higher customer appeal of modern formats, the higher level of technological sophistication, as well as selected government initiatives aimed at ensuring sufficient quality control and the population's well-being.

Retail formats in Russia

Industry sources categorise the food retail channels in Russia as follows.

Traditional Food Retail Channels

Traditional Food Stores: The most common traditional outlet type is that offering over-the-counter-service. Within traditional food stores one can differentiate between counter-service food stores and counter-service mini-markets, depending on the breadth of the non-food assortment.

Specialised Food Stores: Specialised food stores are stores where a single product range, e.g., confectionary, bakery, dairy, wine stores, etc., covers a minimum of 70% of shelf-space or store turnover.

Impulse kiosks: Kiosks are non-fixed structure outlets without an entrance for customers and with a very small trade area—typically less than 20 sq. m. Their product portfolio typically includes a wide range of impulse FMCG (fast-moving consumer goods) products, such as confectionary, soft drinks, juices and water.

Impulse pavilions: Pavilions are outlets with a non-fixed structure and selling areas of less than 50 sq. m. They have "modern" building construction (glass, aluminum) and entrances for customers. Pavilions have similar impulse products as kiosks but with a larger variety.

Covered market (rynok): A covered market is a traditional marketplace with multiple selling points typically under common administration and under a single roof. The selling points are typically a mix of products, including fruit and vegetable stands, butchers, fishmongers, poulterers, dairy goods, confectionary, baked goods and mixed food outlets (handling packed and loose foodstuffs, such as pasta and grain).

Other formats: Other formats include non-food specialist outlets, such as pharmacies, perfumeries, hardware stores and maternity/baby stores.

Modern Food Retail Formats

Hypermarkets/Supermarkets: Hypermarkets and supermarkets are typically large stores with more than two “check-out counters” and a wide assortment of food and non-food products, primarily personal care and household products. Non-food products account for a minimum of 20% of shelf space/store turnover. Normally, these stores are equipped with scanners and have long working hours, frequently operating around the clock (in part, to re-stock overnight).

The distinction between hypermarkets and supermarkets is made primarily on the basis of store selling space and the number of cash registers. Hypermarkets typically have a trading area of over 2,500 sq. m. and over ten check-out counters. The typical selling area for supermarkets is from 300 to 2,500 sq. m. Further, hypermarkets typically have significant own-production facilities (in-store bakeries, deli counters and other added services) and warehousing and storage functionality, which supermarkets generally do not. A number of industry sources also distinguish between supermarkets and discounters, which offer a narrower range of products than found in a standard supermarket, and compete and market themselves predominantly on price.

Some market analysts also classify cash & carry formats within the hypermarket category. However, cash & carry stores are more commonly classified as wholesale outlets as opposed to retail outlets. Consistent with the regulatory regime applicable to cash & carry operators, the operator sells goods only to customers who are representatives of legal entities or registered “individual entrepreneurs” (as such term is understood under Russian law) and who have entered into a formal contract with the cash & carry operator, and as a result, such operators cannot accept walk-in traffic. Furthermore, purchases entail a separate process of issuing a separate VAT receipt to the purchaser. A cash & carry operator benefits from a different regulatory regime (e.g., exemption from certain consumer rights laws and the requirement to serve all customers) but must then carry out its business as a wholesaler. While in practice a significant portion of cash & carry trade has retail characteristics (with customers buying for their own consumption), cash & carry operators do not compete directly with mainstream retailers for the bulk of their business.

Superettes: Superettes are self-service or mixed-type service food stores and self-service or mixed type service minimarkets. Superettes generally have a selling space of less than 300 sq. m.

Regional Breakdown of the Russian Retail Market

Historically, the retail markets in Moscow and St. Petersburg were often viewed as distinct from the rest of Russia as a result of their size, as well as the consumer sophistication and relatively high levels of disposable income of their populations. However, while Moscow and St. Petersburg continue to account for a significant share of the country’s overall retail sales volumes and are centres of operations of the majority of federal retail chains, their share has been steadily declining over the past decade, particularly for Moscow, as other regions have demonstrated accelerated growth rates. In the early 2000s, Moscow accounted for almost 30% of the country’s aggregate retail sales, while its current share has fallen to approximately 17%.

Region	Share in total country’s retail sales									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Moscow.....	22.5	20.9	18.8	17.0	17.3	17.5	17.4	17.1	17.0	17.0
St. Petersburg.....	4.0	4.1	4.1	4.2	4.2	4.2	3.9	4.0	4.0	3.8
Other regions.....	73.5	75.0	77.1	78.8	78.5	78.4	78.7	79.0	79.0	79.2

Source: Infoline.

Infoline further identifies the 11 regions which have historically made up the greatest portion of total retail sales in Russia; these regions collectively accounted for approximately 51% of the country’s total retail sales in 2013.

According to Infoline, the share of other regions has been steadily growing in recent years, increasing from 44.7% in 2003 to 48.9% in 2014, which further illustrates the trend towards the spread of retail industry presence across the country, and the decreasing importance of any specific region or city.

Region (Federal district)	Share of total sales (2014 %)
Moscow (Central).....	17.0
Moscow Region (Central)	6.1
St. Petersburg (North-West)	3.8
Sverdlovsk region (Urals).....	3.8
Krasnodar region (South)	4.1
Tatarstan (Volga).....	3.0
Bashkortostan (Volga).....	3.0
Rostov region (South).....	2.8
Tyumen region (Urals)	3.0
Samara region (Volga)	2.4
Chelyabinsk region (Urals).....	2.1
Other regions	48.9

Source: Infoline.

Notably, according to certain metrics, some regional cities (such as Yekaterinburg, Nizhny Novgorod and Krasnodar) have outpaced Moscow and St. Petersburg in terms of the penetration of modern food retail formats on a per capita basis.

Market Structure and Competitive Landscape

Key domestic retailers in the modern food retail sector in Russia include the Federal Retail Chains X5 Retail Group, Magnit, Dixy, O’Key and Lenta, which have a significant nationwide presence. Auchan and METRO are the two international retailers that have established a significant presence in the Russian food retail market; however, METRO operates predominantly in the cash & carry format which is generally not viewed as a direct competitor to regular food retail outlets. Auchan has established itself as one of the leading players in the retail market and in June 2015 was the largest hypermarket operator in Russia with 88 hypermarkets with approximately 810,000 square meters of selling space in operation (according to Infoline).

In addition to the main Federal Retail Chains, there are chains with a regional focus, operating primarily in a relatively small number of regions (for example, Seventh Continent in Moscow; Finnish retailers Prisma and Kesko in St. Petersburg; Holiday Classic and Maria Ra in Siberia; and Liniya in Central Russia), or chains specialising in specific segments of the market, e.g., Azbuka Vkusa and Globus, which target the premium segment of highly affluent customers.

While the overall market remains fragmented, large retail chains are the primary drivers of industry growth, actively tapping into the significant white space in the market and aiming to increase market share at the expense of the traditional retail outlets and local players. For example, the two largest Russian retail companies—Magnit and X5 Retail Group—together accounted for 35.6% and 41.9% of the aggregate selling space growth of the 130 largest retail chains in Russia in 2013 and 2014, respectively, according to Infoline.

The table below presents the 10 largest Russian food retailers in terms of total sales (with the top seven often classified as “**Federal Retail Chains**”, and the remaining three being essentially regional) in 2013 and 2014. The Russian grocery retail market is still relatively fragmented compared to many Western European markets.

Company	Total retail sales¹ (RUB billions)	
	2013	2014
Magnit	580	764
X5 Retail Group	533	632
Auchan ⁽²⁾⁽³⁾⁽⁴⁾	329	395
Metro ⁽²⁾⁽³⁾⁽⁵⁾	183	207
Dixy ⁽³⁾	180	229
Lenta	144	194

O'Key.....	138	150
Seventh Continent ⁽²⁾⁽³⁾	59	57
Monetka ⁽²⁾⁽³⁾	52	62
Mariya Ra.....	50	58

Sources: publicly available company disclosure; Infoline.

Notes:

- (1) Sales figures, where sourced from public disclosure, reflect core revenue (i.e., excluding rental, advertising and other income).
- (2) Based on Infoline estimates.
- (3) Not adjusted for non-core revenue due to lack of publicly available disclosure.
- (4) Includes Auchan, Auchan City, Nasha Raduga and Atak. Does not for 2013 include Real (acquired by Auchan in 2013).
- (5) Does not include Real (sold by METRO in 2013).

The table below presents the five largest hypermarket chains in Russia in 2013 and 2014:

Company	Total hypermarket sales (RUB billions)	
	2013	2014
Auchan ⁽¹⁾	287	338
Lenta	143	188
O'Key ⁽²⁾	125	139
Magnit.....	106	140
X5 Retail Group.....	64	69

Sources: publicly available company disclosure; Infoline.

Notes:

- (1) Includes Auchan, Auchan City and Nasha Raduga hypermarket sales. Does not for 2013 include hypermarket sales of Real, acquired by Auchan in 2013.
- (2) O'Key hypermarket core revenue based on selling space split (simple average of reported quarterly selling space), assuming equal sales densities of hypermarkets and supermarkets. May not correspond to actual results.

Hypermarket format in Russia

The hypermarket format has rapidly established itself as a popular format in the Russian grocery retail market. In 2003, there were 26 hypermarkets in Russia generating aggregate sales of less than RUB18 billion; by 2013, there were 705 hypermarkets generating aggregate sales in excess of RUB1 trillion (according to Euromonitor).

According to Infoline, the number of SKUs in Russian hypermarkets varies from approximately 7,000 (hypermarket-discounter) to 35,000-60,000 (large-size hypermarket); the average ticket size typically varies between RUB600 and RUB4,200; and the share of non-food products in the total number of SKUs ranges from 16% to 40%.

The following can be described as typical qualitative features of Russian hypermarkets (according to Infoline):

- Standalone location or in a shopping mall;
- Substantial own storage/warehousing premises or selling space fulfilling warehousing functions;
- Own-production facilities (e.g., bakery, semi-finished products, etc.);
- Shopping gallery; and
- Own parking area.

While the last decade saw a very extensive roll-out of hypermarkets in Russia, the overall penetration of this format in the country remains at a fairly low level compared to other countries.

Two principal groups of hypermarket chains can be distinguished in Russia— the five Federal Retail Chains operating hypermarkets on a nationwide scale (Lenta, Auchan, Karusel (part of X5 Retail Group), Magnit and O'Key) versus the local/regional retail chains. According to Infoline, large federal chains are expected to increase their market shares at the expense of the local and inter-regional players in the coming years.

The penetration of hypermarkets varies widely across Russia. Large and relatively affluent cities will often have low penetration ratios due to complexities of urban planning and limited availability of real estate suitable for the construction of hypermarkets. For example, the established and competitive retail markets of St. Petersburg and Krasnodar had penetration ratios of 13.3 and 17.5 hypermarkets per 1,000,000 inhabitants in 2013, respectively, while at the same time in Moscow the ratio was 4.1 hypermarkets per 1,000,000 inhabitants in 2013, according to Infoline. Overall, at the current stage of market development, according to Infoline, the primary driver for the development of the hypermarket format is the penetration into cities with a population of under 300,000 inhabitants, where there remains ample white space, as many smaller cities still have a very limited presence of modern retail formats, if any.

When comparing the format and performance of Russian hypermarkets to typical Western hypermarkets, the following considerations should be taken into account:

- Country size, fragmented sources of supply and logistics infrastructure—given large distances and challenges in securing uninterrupted in-store availability and inventory replenishment, stores with a significant warehousing/storage capacity such as hypermarkets are well positioned in Russia compared to smaller-scale formats;
- Low market penetration—in many smaller cities hypermarkets are sometimes the only modern food retail channel and have significant first-mover and economies of scale advantages over new entrants using other formats;
- More compact store size and assortment—stores that are classified as hypermarkets in Russia typically have selling space of at least 2,500 sq. m., according to various industry sources, and have a share of non-food SKUs of not more than 40% (according to Infoline), which is lower than in typical Western hypermarkets. A high share of food retail in the total customer basket normally reduces volatility in sales performance because food purchases are generally less sensitive to changes in market conditions than non-food purchases;
- Opening hours—the majority of the Russian hypermarkets operate seven days a week and over 100 hours per week, very frequently operating on an around-the-clock basis, while European stores of similar profile normally operate 70-80 hours per week.

BUSINESS

Overview

Lenta is Russia's second largest hypermarket operator and sixth largest food retailer, as measured by 2014 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, price-led hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2014, Lenta achieved the highest sales growth and selling space growth among Russian publicly traded food retailers (based on publicly available information on peer companies).

Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in seven of Russia's nine federal districts. As of 30 June 2015, Lenta had a total of 751,033 sq. m. of selling space, comprised primarily of 116 hypermarkets with an aggregate selling space of 722,118 sq. m. in 62 cities, including Russia's largest cities of St. Petersburg and Moscow and 60 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the daily/weekly shopping of a diverse range of customers.

Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 23,800 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 95 of its 116 hypermarkets, leasing the remainder. In 2013, Lenta carried out a 'soft launch' of its supermarket format in Moscow, and as of 30 June 2015 operated 27 supermarkets, all but one of which are leased. Lenta utilises six distribution centres (with one more expected to be fully operational in late 2015) to supply its hypermarkets and supermarkets, all as part of its supply chain operations.

Lenta's recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. Lenta enjoyed like-for-like sales growth of 11.5% in the first half of 2015, and 10.6% in 2014, compared to 10.0% in 2013 and 13.5% in 2012. Lenta opened 31 new hypermarkets and 14 new supermarkets in 2014, the most stores it has opened in one calendar year in its history. Lenta's supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently Lenta remains on track to achieve its stated goal of doubling its selling space over the three years ending December 2016.

Lenta's distinctive customer proposition is 'Value-for-Money', offering consistently-available products at affordable prices in well-organised stores. Lenta's practice is to seek to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta continues to adhere to this price leadership strategy even in the current difficult macroeconomic environment. Lenta's 7.6 million active cardholders (as of 30 June 2015) make consistent use of the Lenta loyalty card with approximately 90% of all sales in the first half of 2015 and 2014 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.

Underpinning Lenta's low-price business model are its operational efficiencies, which are driven by a flexible, low-cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores; Lenta opened two new distribution centres in the first half of 2015 and is currently constructing a new distribution centre in Yekaterinburg that is expected to come into operation late 2015. Once this distribution centre is completed, Lenta will have seven distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In June 2015, Lenta decided, in light of the planned continued expansion of supermarkets operating in and around Moscow, to acquire a dedicated supermarket distribution centre near Moscow that it intends to make operational in 2016. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 30 June 2015, Lenta had 66 trucks and trailers in its

own fleet, 14 of which were leased. Lenta's in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta's advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.

Competitive Strengths

Lenta believes that the following key strengths position its business to capitalise on the expected growth of the Russian food retail market and to offer its customers a compelling 'Value-for-Money' proposition:

Distinctive price-led, hypermarket model with broad customer appeal

The Lenta shopping experience provides customers a distinctive combination of low prices and targeted (and often deep discount) promotions, a high-quality and customer-focused product assortment, 'destination categories' (specifically designed to be a set of products perceived by customers as best bought at Lenta stores) and an emphasis on regional/local products. With a particular focus on families and women as core customer groups, Lenta's customers cover a broad demographic range across age, gender, household size, income and marital status. Lenta prioritises customer satisfaction and loyalty, key drivers of its ability to generate high levels of traffic and sales density.

Market-led, low price leadership and targeted promotions across all product categories

Lenta's practice is to seek to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta's loyalty programme has strong appeal to its customer base, with 7.6 million active cardholders as of 30 June 2015 (an increase of 33% compared to 30 June 2014) accounting for approximately 90% of sales at Lenta stores. The loyalty programme also provides Lenta with valuable customer data that can be utilised to assess spending patterns and inform decisions on product range and prices as well as future promotions. In addition to every-day low pricing, frequent and deep promotions are a cornerstone of Lenta's customer proposition, with seasonal, event-driven promotions serving as a key driver of traffic and reinforcing Lenta's 'Value-for-Money' proposition. Goods sold on promotion constituted 27.6% of Lenta's total sales in 2014, increasing to 30.4% of total sales in the first half of 2015 (as customers were especially attracted to promotions during the current economic downturn). Lenta's store layout, including its functional fit-out and high-rack storage, reinforces Lenta's price image to its customers.

Broad product range with disciplined SKU count

Lenta offers a broad product assortment, designed to address the regular shopping needs of all customer segments. At the same time, Lenta is careful to maintain a disciplined SKU count to optimise its in-store stock handling, inventory and supply chain operations, thus achieving operational efficiencies and lower costs. Lenta takes particular care to offer product lines that appeal to its key target customer group of families and women. Lenta establishes certain product categories as 'destination categories' with especially attractive assortments and pricing designed to draw customers to its hypermarkets in areas such as fresh and ultra-fresh food products, drinks, dry groceries, baby care and toys. A prominent example of a 'destination category' which Lenta positions to attract customers to its stores has been its assortment of baby goods (e.g., baby food, clothes and diapers), which also ties to Lenta's key target customer group of families and women. Lenta's private label offerings (11.7% of sales in 2014, growing to 12.8% in the first half of 2015) and the part of its own in-store production that is packaged as private label under the Lenta brand (an additional 3.0% of sales in both 2014 and the first half of 2015) reinforce Lenta's "Value-for-Money" proposition.

Focus on Russian products and regional/local sourcing

In contrast to many of its modern retail competitors, Lenta's business model emphasises regional/local sourcing and a strong focus on Russian products as a key attraction of the Lenta shopping experience, taking into account the strong trust and association with quality that Russian customers place in traditional products. With this emphasis on Russian national and regional/local products, Lenta sourced 24.2% of its products (and 52.7% of fresh food products), as measured by the purchase price paid to suppliers, from regional/local suppliers indigenous to a store's region in the first half of 2015.

Convenient shopping experience

Lenta's stores offer its customers a convenient and efficient one-stop shopping experience, providing them the opportunity to purchase a broad range of products in a single visit. Lenta hypermarkets are typically located in easily accessible (including on foot and by public transport), high-traffic, urban locations in residential areas, and typically open 24 hours a day, seven days a week. Ample parking, standardised, easy-to-navigate store layouts and a range of third-party services (e.g., pharmacies, cafés, drycleaners and travel agents) add to the convenience of the shopping experience. Staff recruitment and training focuses on customer service and interaction.

Leading market position in the Russian food retail market

The hypermarket segment remains significantly underdeveloped in Russia compared to Western European markets (as measured by hypermarkets per one million inhabitants). In addition, the Russian grocery retail market is characterised by a relatively low level of market concentration with the five largest retailers accounting for a significantly lower percentage of total grocery retail sales than the 60-70% level found in some Western and Central and Eastern European markets, suggesting significant growth opportunities through market consolidation.

As of 30 June 2015, Lenta's 116 hypermarkets in 62 cities operated in seven of Russia's nine federal districts from St. Petersburg to Siberia. According to the O+K Retail Market Study conducted in all the cities where Lenta had a hypermarket as of 31 December 2014 Lenta's market share in: St. Petersburg was 15.3%, Novosibirsk 19.6%, Omsk 17.6%, Astrakhan 17.0%, Togliatti 16.0% and Saratov 11.1%. Lenta believes that these local competitive positions reflect the strength of its customer proposition relative to competitors. In many cities, Lenta was the first retailer to introduce a modern format hypermarket, which has facilitated its access to desirable locations for stores and enabled the business to develop a stable and loyal customer base.

Lenta's leading market position, multi-regional presence, proven customer proposition and ability to penetrate a broad range of locations with its different hypermarket formats, for example, by applying a compact or supercompact format where site size is restricted, provide a strong platform to pursue its future expansion. In particular, it enables Lenta to play a key role in capitalising on the anticipated growth of the modern Russian food retail market and increases in consumer spending, with the potential to leverage economies of scale from its existing operational infrastructure. Lenta believes that the medium to long-term prospects of the Russian modern food retail sector remain positive and that it has a proven track record of effectively competing in the sector and growing rapidly. By using the proceeds of the Offering (rather than using other operational cash flows or incurring further debt) to fund the acquisition of 11 hypermarkets and a supermarket distribution centre, Lenta is both strengthening its balance sheet and positioning itself to pursue continued growth.

Strong relationships with key suppliers

Lenta maintains strong relationships with key suppliers while at the same time employing a highly-diversified supplier base. It cultivates and nurtures relationships with regional/local suppliers. The scale and expansion of Lenta's operations make it one of the largest and fastest-growing customers for many suppliers. Typically, Lenta obtains bonuses from suppliers based on aggregate volumes of goods purchased, as well as other fee income from suppliers arising from promotional and logistical services rendered by Lenta. These bonuses and fees, in aggregate, have historically represented a significant share of Lenta's margins. See "*Risk Factors—Risks relating to Lenta's Business and Industry—Other risks relating to Lenta's business—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta's relationship with its suppliers*". Lenta's rapid growth is expected by management (subject to legal and regulatory developments) to result in improving rates of bonuses and fees. This system of bonuses and fees provides Lenta with additional commercial flexibility to determine, in light of the competitive environment and customer preferences, the proportion of such cost savings to pass on to customers, enhancing Lenta's value proposition to customers.

Efficient and highly scalable supply chain operations, IT capacity and HR management

In anticipation of its continued expansion, Lenta has built-up, developed and integrated its supply chain operations, IT capacity and HR management, each designed to be highly scalable.

Supply chain operations

Russia's vast size presents significant logistical challenges to federal food retailers, who need to take into account travel distances, varying climates and time differences when managing their supply chains. Lenta believes the

quality of its supply chain management is critical to its continued success and a prerequisite for further successful roll-out of its stores.

In its supply chain operations, Lenta seeks to achieve an optimal mix of deliveries shipped via its distribution centres and direct deliveries by suppliers to its hypermarkets. Lenta currently utilises six distribution centres with a capacity to serve over 180 stores – two in St. Petersburg (in the North-West federal district), one each in Moscow (in the Central federal district), Novosibirsk (in the Siberia federal district), Rostov-on-Don (in the South federal district) and in Togliatti (in the Volga federal district) – and plans to bring into operation in late 2015 its seventh distribution centre, in Yekaterinburg (in the Urals federal district), at which point Lenta's distribution centres will have the capacity to serve over 200 hypermarkets. Lenta's distribution centres feature efficient cross-dock, pick-by-line and storage processes, enabling the company to achieve low operating costs while driving high levels of in-store availability, which reached 96.7% of Lenta's active SKUs in first half 2015. Lenta is also building up its truck fleet to carry out most deliveries from its distribution centres to its hypermarkets, as is already the case for its St. Petersburg distribution centres and hypermarkets in the North-West federal district, as well as Moscow and Novosibirsk. Fleet ownership provides Lenta with additional control over its supply chain. Lenta's capacity for central distribution lowers its overall cost base as it enables Lenta to select the most efficient flow-type to its stores and generates service fees from suppliers.

In the first half of 2015, Lenta had a centralisation level of 41.8% (measured by the inbound value of goods delivered to hypermarkets via a distribution centre) compared to 37.1% in the first half of 2014; Lenta estimates that 50% is an optimal centralisation level for its hypermarket operations. The openings of the distribution centres in Rostov-on-Don and Togliatti during the first half of 2015 contributed to the increase in the centralisation level and also enabled greater local/regional sourcing of both branded goods and private label goods. Their opening was also the primary reason why the length of truck deliveries – as measured in terms of average kilometres travelled per pallet for all deliveries to stores – fell from 905 km/pallet in the first half of 2014 to 670 km/pallet the first half of 2015. This in turn was an important factor in Lenta's ability to grow its sales in the first half of 2015 by 33.8% (compared to the first half of 2014) while at the same time lowering its supply chain cost, as a percentage of sales, to 1.2% from 1.6% – demonstrating the scalability of Lenta's operations.

Modern, efficient, reliable and scalable IT architecture

Lenta's IT strategy is centred on fully integrated business applications, including SAP, Oracle and JDA, which support supply chain operations, cash and inventory management, centralised purchasing and pricing, and in-store systems, as well as human resources, finance, accounting and other administrative functions. Lenta uses standard software available on the market, employing SAP at its core (including SAP HANA), supplemented by 'best-of-breed' business applications from major vendors. As a result, Lenta expects to benefit from the future development of these software applications. Lenta's IT systems and analytic tools, including the data captured through the Lenta loyalty card, allow management to quickly adapt product mix and pricing, including between regions and stores, and to effectively monitor and improve individual store performance in light of changing customer preferences. Lenta estimates its IT system in its current form to be scalable to support a network of over 500 stores, subject to relatively modest upgrades without the need to replace core applications.

HR strategy to support roll-out

Lenta recognises that an effective HR strategy is crucial to ensure that existing stores operate efficiently and future store roll-out plans are smoothly executed and sustainable. To this end, Lenta has established a divisional HR structure based on geography, with each division split into teams managing 5-6 stores. Lenta believes that the proximity of HR teams to local stores is a key element in the success of its store operations. In addition to the divisional HR teams, Lenta has specialist teams to oversee new store openings. The majority of new store managers in recent years have been sourced internally. Accordingly, Lenta's HR systems are also scalable to Lenta's planned roll-out of new stores.

Low operational costs

To sustain its 'Value-for-Money' proposition to its customers and maintain its low pricing, Lenta emphasises a low-cost approach throughout its business. As noted above, Lenta keeps a disciplined SKU count, manages its supply chain operations for optimal cost efficiency and achieves significant economies of scale with its suppliers. As noted below, Lenta's stress on ownership of the vast majority of stores results in relatively low rental payments as a percentage of sales.

In terms of in-store management, Lenta's use of high-rack storage both minimises double-handling of inventory and helps ensure a high in-store availability of goods. The efficiency of Lenta's in-store management is borne out by its average sales density, which in 2014 was one of the best among Russian publicly traded food retailers, and by its superior Adjusted SG&A/Sales ratio (11.6% in 2014) (in each case based on public filings of peer companies). Lenta's careful monitoring of labour costs also supports Lenta's low cost initiatives. In an effort to gain further operational efficiencies, Lenta is considering centralising in-store production in cities where it has multiple stores. To this end, it has undertaken a programme in St. Petersburg and similar centralisation is planned for certain other cities where Lenta has multiple hypermarkets. Further optimisations in support functions and administrative activities in combination with the initiatives discussed above and the efficiency and scalability of Lenta's supply chain logistics resulted in reduction of the Adjusted SG&A/Sales ratio in the first half of 2015 to 11.2% (compared to 12.1% in the first half of 2014).

Focus on real estate ownership, limiting exposure to rental inflation and enhancing predictability of and control over store roll-out

Lenta's business strategy is to own most of its stores, thereby shielding it from fluctuations in rental prices and the loss of leases, while giving it the flexibility to modify, adapt and re-fit stores without requiring landlord permission. As of 30 June 2015, Lenta owned 83% of its total selling space compared to 85% as of 31 December 2014 and 87% of its total hypermarket selling space compared to 89% as of 31 December 2014. In the medium-term, Lenta plans to own at least 80-85% of its total selling space across all hypermarket formats, reflecting continued emphasis on Lenta's ownership of its hypermarkets but increased use of compact/supercompact hypermarkets, which are often leased. These leased stores are usually within shopping malls rather than stand-alone structures.

A key advantage of real estate ownership is the greater control this provides over Lenta's hypermarket opening plans. By acquiring sites itself, Lenta is able to choose which cities and locations it wishes to expand into rather than being dependent on the readiness of developers or other landlords to provide rented space. Conducting in-house site development ensures greater control and predictability of the timing of new store openings and enables Lenta to optimise format and layout consistency across the entire store portfolio, thereby optimising customer experience while increasing cost efficiency. Lenta intends to adhere to its real estate strategy despite recent changes in macroeconomic environment and the financial markets.

Experienced management team with international and local retailing expertise

Lenta has a highly skilled and experienced management team, combining international best practices with local Russian market knowledge in the food retail sector. The team has detailed knowledge of market trends as well as Lenta's key competitors and provides Lenta with the skills and expertise required to implement its planned expansion.

Lenta's Senior Management consists of eight managers with on average over 20 years of industry experience. Notably, Lenta's CEO Jan Dunning has 30 years of experience in the industry both internationally and in Russia, including seven years with Lenta. Many of Lenta's Senior Management have worked together at previous employers—typically Western European firms with operations in Russia and/or Ukraine—and have a strong history of collaboration. Lenta's management is further supported by its strong corporate governance structures, board composition and institutional shareholder base.

Lenta believes that its strong market position, attractive growth outlook, opportunities for advancement, modern infrastructure and HR strategy will enable the business to continue to attract and develop high-calibre managers.

Strong financial performance

Reflecting the competitive strengths outlined above, Lenta has achieved strong financial results over the last few years, increasing revenues by a CAGR of 29.3% for the three-year period ending 31 December 2014 (2014 sales/2011 sales)^{1/3}—1). This performance is driven both by strong like-for-like sales growth (10.6% in 2014, 10.0% in 2013 and 13.5% in 2012) and growth from sales by new stores (24.9% in 2014, 21.3% in 2013 and 9.0% in 2012). Lenta maintains a high level of sales productivity, with average sales density per sq. m. of RUB340,298 for 2014.

For the three-year period ending 31 December 2014, Lenta increased its Adjusted EBITDA by a CAGR of 33.0% (2014 Adjusted EBITDA/2011 Adjusted EBITDA)^{1/3}—1) and in 2014 achieved an Adjusted EBITDA margin of

11.0%. Lenta's low price, high-volume, low-cost operating model, with its consistent emphasis on cost-control at its head office, in-store operations and supply chain operations, is reflected in its competitive gross margin of 22.6% and a low Adjusted SG&A/Sales ratio of 11.6% in 2014.

In the first half of 2015 Lenta's Adjusted EBITDA grew 44.6% to 10.2% of sales compared to 9.5% in the first half of 2014. This improvement was primarily accomplished by the efficiency and scalability of its supply chain – with supply chain cost falling from 1.6% of sales in the first half of 2014 to 1.2% of sales in the first half of 2015 – and operational efficiency improvements, reducing the Adjusted SG&A/Sales ratio to 11.2% in the first half of 2015 (compared to 12.1% in the first half of 2014).

Lenta's strong financial performance has been supported by its prudent capital position, with a net debt to Adjusted EBITDA ratio of 2.8x as of 31 December 2014 leaving substantial covenant headroom, and an operating cash flow to Adjusted EBITDA ratio of 106% in 2014. Lenta has actively managed its debt portfolio through swaps and caps. In the first half of 2015, Lenta repaid RUB10,825 million of its higher-interest floating-rate Rouble debt by application of the proceeds of the March 2015 equity offering. Together with its strong growth of Adjusted EBITDA in the first half of 2015, this resulted in Lenta's net debt to Adjusted EBITDA ratio falling to 2.4x as of 30 June 2015, compared to 2.8x as of 31 December 2014.

Business Strategy

Lenta's business strategy combines the following elements, aiming to further capitalise on the growth outlook for the Russian retail market, improve its competitive positioning and reinforce its 'Value-for-Money' proposition to the Russian consumer. Lenta expects its strategies to sustain its continued like-for-like growth, roll-out of new stores across Russia and the evolution of its store formats with a somewhat increased proportion of compact and supercompact relative to standard hypermarkets as well as growth in its supermarket format. The scalability of Lenta's operations—in terms of supply chain operations, IT systems and HR management—is a critical factor in implementing these strategies.

Benefits of the Offering

The Offering fits Lenta's overall strategy for long-term growth combined with strong investment returns and a well-funded balance sheet. Importantly, the Offering provides funding to enable the business to further expand in the under-penetrated Russian grocery retail market at a time when economic conditions, while currently difficult in Russia, also create an opportunity to pursue accelerated growth, in part as real estate prices have declined in real terms while some competitors have curtailed their growth due to the challenging environment or financial pressures. Lenta's first half of 2015 financial results, and its third quarter trading results, have confirmed that even in the current challenging economic environment Lenta's low price/low cost business model and customer proposition continue to deliver rapid sales growth and robust returns on investment in both new and like-for-like stores. The net proceeds of the Offering to be received by Lenta are expected to be equivalent to approximately 0.4x of Lenta's Adjusted EBITDA for the twelve months ended on 30 June 2015 at current exchange rates and will enable Lenta to maintain its net debt to adjusted EBITDA ratio comfortably below 3.0x with significantly higher levels of capital expenditure.

As described in "Use of Proceeds", the proceeds of the Offering to be received by Lenta will be primarily devoted to further accelerate Lenta's organic growth, and in particular to acquire, following their construction, a total of 11 hypermarkets (of which two are scheduled to open in the fourth quarter of 2015 and nine during the first three quarters of 2016) and one distribution centre specially-designed to service Lenta's Moscow supermarkets (which is scheduled to open in the third quarter of 2016); these 11 hypermarkets are part of Lenta's previously announced plan to open at least 30 hypermarkets in 2015 and at least 32 hypermarkets in 2016. Lenta is making these asset acquisitions under contracts with several counterparties under which Lenta purchases such assets from them after the relevant building has been constructed to Lenta's specification and certified by the relevant authorities; as such they represent ongoing organic growth of Lenta.

Application of the proceeds of the Offering to fund such acquisitions frees up operating cash flows and debt financing that Lenta would have otherwise used for such acquisitions. The enhanced financial flexibility created by the Offering is thus expected to enable Lenta to accelerate the pace of its organic growth through new store openings of owned stores (in 2016 and beyond) by adding to its land bank and developing these newly-acquired sites, as well as existing owned landplots, more rapidly than would otherwise have been the case. While Lenta's primary growth strategy is focused on organic growth, the financial flexibility created by the Offering also enhances Lenta capacity to pursue opportunities to acquire existing stores from competitors (such as its recent

purchase of three hypermarkets and four landplots from O'Key and the purchase of three hypermarkets from Bimart in late 2014), should attractive opportunities arise.

Accordingly, as a consequence of carrying out the Offering, Lenta would revise its target for 2016 hypermarket openings as follows: in 2016, Lenta would plan to open at least 40 new hypermarkets (significantly more hypermarkets than it has ever opened in a single calendar year), up from its current guidance to open at least 32 hypermarkets in 2016, so that as a consequence of the Offering Lenta expects to open at least an additional eight hypermarkets in 2016. Sufficient additional specific opportunities for own-store construction in 2016 have been identified, so this increase in 2016 guidance is based solely on expected organic growth. Lenta would also expect to pursue a similar or higher rate of organic growth of new hypermarket openings in 2017 and beyond. Lenta expects that as a result of the further acceleration of growth enabled by the Offering, it will significantly exceed its previously communicated goal of doubling selling space over the three year period ending in December 2016.

Continued focus on Lenta's customer proposition to drive like-for-like growth

Lenta intends to support its like-for-like growth by continuing to optimise its strategic choices in the areas of pricing and promotions, category management, merchandising and marketing based upon continued refinements of its commercial strategy and leveraging data-driven customer insights from the Lenta loyalty card.

Lenta's loyalty card programme — with 7.6 million active cardholders as of 30 June 2015 carrying out an average of 1.9 transactions per cardholder per month and accounting for approximately 90% of sales in the first half of 2015 — provides management with significant insights into customer spending habits and trends, allowing for detailed customer segmentation across 'Shopping Missions' (i.e., specific needs, top-up trips, main trips and bulk trips), 'RFV Segments' (e.g., "VIP", "frequent shoppers", "occasional big spenders" segments, as tested by 'recency, frequency and value') and nine distinct customer 'Needs Segments' (e.g., "premium", "families with babies", and "traditional home cooking"). In 2013, Lenta built a comprehensive customer database with analytics specialist emnos GmbH and developed management plans to significantly increase the use of customer insights derived from these data to drive its commercial and marketing strategies, optimising its customer proposition across a range of levers:

- refining price strategy based upon Key Value Items ("KVI's"), defined for each Needs Segment at the city level, which are used to ensure Lenta remains competitive on its most important items;
- improving assortment and shelf layout based upon customer 'Needs Segments' to ensure best possible relevance for each key customer segment;
- analysing customer shopping habits to inform overall store layout design and adjacencies, improving the shopping experience;
- targeting customers with direct mail offerings on a quarterly basis, featuring the products that are most relevant to that individual customer based on the customer's shopping history, which builds loyalty and stimulates additional customer trips;
- giving customers at check-out 'Coupons at Till', based on customers' current baskets, which can be used toward subsequent purchases at Lenta, driving repeat traffic;
- improving the private label offering and its marketing to reinforce Lenta's 'Value-for-Money' proposition to customers; and
- evaluating the effectiveness of in-store promotions, to improve the reach and maximize the appeal of future promotions to customers.

With these initiatives, management intends to increase customer traffic, grow the average basket size and hence generate like-for-like sales growth.

Lenta is taking measures in response to the current difficult macroeconomic environment to spur its like-for-like sales growth, including selectively adding to its SKU count in lower-priced goods (food and non-food), enhancing its private label products offering and emphasizing in its non-food offering essential items of frequent, routine use (e.g. household articles, basic clothes, underwear, stockings – which Lenta refers to as 'food-like non-food items') while decreasing the share of discretionary non-food assortment.

Continue to expand Lenta's hypermarket footprint in both existing and new locations

As one of the leading Russian hypermarket operators, Lenta is well-positioned to take advantage of the opportunities offered by the Russian market both in the cities and regions in which it currently has a presence and in new cities. Lenta's hypermarkets operate in cities ranging in population from roughly 80,000 to over 1,000,000, including Russia's largest cities, Moscow and St. Petersburg. As of 30 June 2015, Lenta had a presence in 59 cities with a population of over 100,000 inhabitants (plus three smaller cities), generally cities with a population over 200,000. Lenta also considers establishing stores in smaller cities with a population below 100,000, as it did in Yurga, a city in the Siberia federal district with a population of approximately 80,000 people. Lenta also has one hypermarket in Zheleznovodsk, a town of approximately 25,000 inhabitants in the North Caucasus federal district, which is designed to serve the neighboring city of Pyatigorsk and its population of approximately 146,000 people.

With respect to Lenta's strategy of expanding its store base in cities where it is already operating, Lenta seeks to be first or second in terms of local market share. Lenta's practice is to leverage its existing supply chain infrastructure, as well as its prior marketing in the city and local reputation as a good employer. Management believes that existing local presence and customer knowledge (drawn in part from information produced by the use of the Lenta loyalty card) helps to select the most suitable sites and formats for Lenta's new stores. Lenta's experience is that the ramp-up of incremental stores opened in cities where Lenta has already been operating is much more rapid and benefits from Lenta having an existing customer base and brand recognition in the city although the opening of new Lenta stores in proximity to existing ones results in some cannibalisation of sales from existing stores.

With respect to Lenta's strategy of penetrating new cities, Lenta plans to both deepen its significant existing presence in the Central, North-West and Siberia federal districts, while accelerating its expansion in the Volga, South, Urals and North Caucasus federal districts, taking advantage of the fragmented competitive environment. Lenta is focused on developing stores that can be serviced efficiently by its supply chain network, which it is expanding in parallel with its store expansion. Supply chain costs are generally lower the closer a store is to a distribution centre, although the impact on supply chain costs of the distance between distribution centres and the stores they serve is much less important for high-volume hypermarkets than for supermarkets and convenience stores.

Through the expansion of its hypermarket operations, Lenta expects to realise ever greater economies of scale and margin gains (as evidenced by the first half of 2015 results), in turn increasing Lenta's flexibility to offer even more competitive pricing in light of the market environment and customer preferences. Lenta believes that its increased scale of operations should enable it to purchase goods from suppliers on more favourable terms, lead to greater uniformity of terms and practice with suppliers, increase its bench of suppliers of quality products and expand its private label offering. Lenta believes all of the above changes will strengthen its competitive position.

Lenta applies rigorous and proven investment criteria when evaluating new store openings. This includes a disciplined approach to choosing new locations with a detailed analysis of new plots along macroeconomic, commercial, technical and site-specific criteria and a careful decision-making process with close collaboration between various departments as well as in-depth involvement of Senior Management and the Board of Directors' capital expenditure committee. On average, newly-opened (owned and leased combined) stores are generally expected to achieve a cash payback period of less than five years. As part of its focus on maintaining returns, Lenta prioritises efforts to reduce costs and enhance efficiencies, one example of which is the use of lower energy-cost equipment, such as freezer lids, in new stores, having introduced an internal energy management system in all of its hypermarkets. Lenta plans to complete the rollout of its centralised energy management system in 2016.

Lenta opened 31 hypermarkets (the most it has ever opened in a calendar year) in 2014, 21 hypermarkets in 2013 and 14 hypermarkets in 2012; and in the first half of 2015, Lenta opened eight hypermarkets. Taking advantage of its expansion experience, standardised hypermarket formats and operational scalability, Lenta remains on track to achieve its stated goal of doubling its hypermarket selling space over the three years ending December 2016. Lenta is pursuing a financially disciplined approach to the store roll-out, and is continuously adapting its plans to the macroeconomic environment and cost of available capital.

Ongoing evolution of Lenta's store formats

Over time, Lenta has developed a standard model 7,000 sq. m. hypermarket format, a compact 5,000 sq. m. format and a supercompact 3,000 sq. m. format (although selling space for individual stores may differ from these standard sizes). The compact and supercompact hypermarkets can be used (i) where Lenta identifies an advantageous location for a store but the size of its land plot cannot accommodate a standard-sized hypermarket,

(ii) to fit available premises for lease, often within a shopping mall or (iii) where the expected customer traffic in the catchment area of the store indicates a smaller store is appropriate. Lenta expects a greater proportion of its compacts and especially its supercompacts may be in leased premises (reflecting that many of them are in shopping malls) than is the case for its standard hypermarket format, but also expects some of its compact and supercompact stores to be owned, stand-alone structures, consistent with its predominant practice for its standard-sized hypermarkets. Compact and supercompact hypermarkets contain substantially the same food assortment and a smaller offering of non-food products than a standard hypermarket. Given that leased premises may not match Lenta's standard hypermarket formats, Lenta has developed practices to adjust its standard formats to the leased space. For example, Lenta has developed a method of managing the various assortments in non-standard stores by defining for each sub-category of product offering (i.e., fresh food, dry food, non-food and private label) three levels of assortment, which can be combined into an overall assortment appropriate for the catchment area and the size of the rented premises. Lenta's hypermarkets range in size from 2,579 sq. m. to 9,058 sq. m., with 6,225 sq. m. being the average size as of 30 June 2015.

In April 2013, Lenta executed a 'soft launch' of its supermarket format in Moscow, marking a further evolution in its store formats. Lenta believes that its supermarket format, with typical selling space of around 1,100 sq. m., is a natural extension of its hypermarket model and will bring the Lenta brand and value proposition to customers in inner-city locations who might otherwise have limited access to a Lenta hypermarket. In particular, the large Moscow market is considered to remain underserved by modern format food retailers. Lenta's decision to operate full-service supermarkets in inner-city sites in Moscow has been driven by the attractive market opportunity combined with limitations on the availability of suitable locations for standalone hypermarkets, congested road networks and prevalence of mall developments.

Lenta's supermarket concept applies the same principles as its hypermarkets—low price and low cost—while prioritising fresh produce and meeting customers' daily and weekly shopping needs. Lenta has assembled an experienced management team to carry out the site identification, fit-out, opening and operation of supermarkets, with commercial management and back-office functions integrated into Lenta's existing management structure.

Lenta currently operates infrastructure to support up to 50 supermarkets. As of 30 June 2015, Lenta operated 27 supermarkets in Moscow. As Lenta expects ongoing expansion of its Moscow supermarket operations, it is acquiring a distribution centre in the Moscow region specially-designed to service supermarkets (the acquisition of which is being funded by the proceeds of this Offering), which is expected to start operations in the third quarter of 2016. Given the success of the Moscow launch, management plans to launch the first Lenta supermarkets in St. Petersburg later this year and is actively considering the roll out of the supermarket format in other cities. Management has also decided to add smaller-format supermarkets to its standard 1,100 sq.m supermarket format to enable Lenta to place its supermarkets in smaller premises while reaching consumers that prefer to shop in smaller stores – one store with a sales area of around 750 sq.m. has been opened and further stores with sales areas of 350 sq.m and 600 sq.m are planned. See "*—Supermarket Roll-out*" for further discussion.

Further leverage Lenta's supply chain operations, IT systems and HR management

Key components of Lenta's operations—its supply chain operations, IT systems and HR management—have been designed for scalability and in anticipation of both Lenta's ongoing roll-out of new hypermarkets/supermarkets, new distribution centres and like-for-like growth.

In its supply chain operations, Lenta strives to have the optimal mix of centralised distribution via its distribution centres and direct distribution by suppliers to its hypermarkets. Lenta currently operates six distribution centres (five of which it owns) with a capacity to serve over 180 hypermarkets and plans to open an owned distribution centre in Yekaterinburg (in the Urals federal district) in late 2015, resulting in Lenta having distribution centres in each of the six federal districts in which it mainly operates and the aggregate capacity to supply over 200 hypermarkets. In the first half of 2015, Lenta had a centralisation level of 41.8% (measured by the inbound value of goods delivered to hypermarkets via a distribution centre); Lenta estimates that 50% is an optimal centralisation level for its hypermarket operations. In parallel, Lenta plans to further build up its fleet of trucks that carry out deliveries from the distribution centres to hypermarkets within a 400 km radius; Lenta's target is for 60% of its deliveries (measured in terms of pallets transported) within 400 km of its distribution centres to be carried out by its truck fleet (in the first half of 2015, 56.6% of such deliveries were carried out using own trucks). At the same time, in certain cases, it is more economical for Lenta to have suppliers continue to supply Lenta stores directly (e.g., for some supplies of dry goods and canned or bottled goods). Lenta periodically adjusts its centralisation levels to try to achieve the best economies in its supply chain operations. A corollary to Lenta's growing network

of distribution centres is a greater ability to take more imported goods directly instead of through intermediaries (decreasing lead times, increasing freshness of perishable goods and improving margins) and to access regional/local suppliers (tying to Lenta's image for selling regional/local goods at more competitive prices).

Lenta's advanced IT systems have been designed for scalability so that at modest cost it would be able to serve a network of significantly more than 500 hypermarkets and supermarkets with multiple distribution centres. Likewise, as deployed over the past two calendar years when Lenta increased its hypermarket count by 92.9% and its hypermarket full-time equivalent ("FTE") count by 68.7%, Lenta has HR managers and systems in place so that managers and store personnel are timely identified, hired and trained in advance for new stores.

History and Development

Established in 1993, Lenta initially focused, under the direction of Mr. Oleg Zherebtsov, on carrying out a wholesale business in St. Petersburg. Subsequently, Lenta moved into retail, opening its first hypermarket in 1999, keeping an emphasis on its low-cost offering while expanding its product range and transitioning to a retail hypermarket format. In the early 2000s the hypermarket format was rolled out, and between 2005 and 2009, Lenta opened 30 new hypermarkets across 17 cities. Although Lenta is headquartered in St. Petersburg and maintains its largest presence there (in terms of total selling space and number of stores as of 30 June 2015), the share of Lenta sales generated by St. Petersburg-based stores has been declining and is expected to continue to decline. Sales of St. Petersburg-based stores comprised 25.5% of total Lenta sales for the first half of 2015, compared to 29.0% in 2014 and 33.7% in 2013.

New institutional shareholders invested into Lenta as it expanded. In May 2007, the EBRD became an investor; in October 2009, TPG and the VTB Capital group became investors, acquiring the stake beneficially owned by Mr. Zherebtsov. In 2010, a dispute arose between a group of shareholders including TPG, EBRD and the VTB Capital group and another group of shareholders. The dispute was primarily over conflicting priorities in relation to Lenta's strategy and governance, including who should serve as the General Director of Lenta LLC. The dispute hampered Lenta's ability to open new hypermarkets and to carry out preparatory work for its roll-out of hypermarkets. The dispute was fully resolved in September 2011, when the other shareholder group fully sold out their shareholdings to TPG, EBRD, the VTB Capital group and Lenta itself.

Since 2011, Lenta has been able to significantly increase its rate of expansion, opening 14 hypermarkets in 2012, 21 in 2013 and a record 31 in 2014; in the first half of 2015, a further 8 hypermarkets were opened. As of 30 June 2015, Lenta operated 116 hypermarkets, the average age of which was 3.7 years.

The following table sets out the number of hypermarkets in each of the federal districts in which Lenta currently operates and the total number of Lenta's hypermarkets as of 31 December of each year, beginning in 2007, and as of 30 June 2015:

Federal district	2007	2008	2009	2010	2011	2012	2013	2014	30/6/15
St. Petersburg.....	13	14	14	14	14	16	16	17	18
North-West (excluding St. Petersburg)...	2	2	2	4	4	6	7	7	8
Moscow	—	—	—	—	—	—	1	5	5
Central (excluding Moscow)	—	1	1	1	2	5	9	16	17
Volga	3	6	6	6	6	8	15	20	21
South	2	4	5	6	7	7	10	14 ⁽¹⁾	14 ⁽¹⁾
Urals	1	1	1	1	1	2	3	6	10
Siberia	5	6	7	7	8	12	16	23	23
Total	26	34	36	39	42	56	77	108	116

(1) Also including one standard hypermarket in Zheleznovodsk, a town in the North Caucasus federal district.

The following table sets out the breakdown by age of Lenta's total selling space as of 30 June 2015, and as of 31 December 2014, 2013 and 2012:

	As of 30 June	As of 31 December		
	2015	2014	2013	2012
Stores less than one year old.....	27.0	27.9	25.9	23.6
Stores 1-3 years old	34.0	31.4	21.7	10.4

	As of 30 June	As of 31 December		
	2015	2014	2013	2012
Stores older than three years.....	39.0	(%) 40.7	52.4	66.0
	100.0	100.0	100.0	100.0

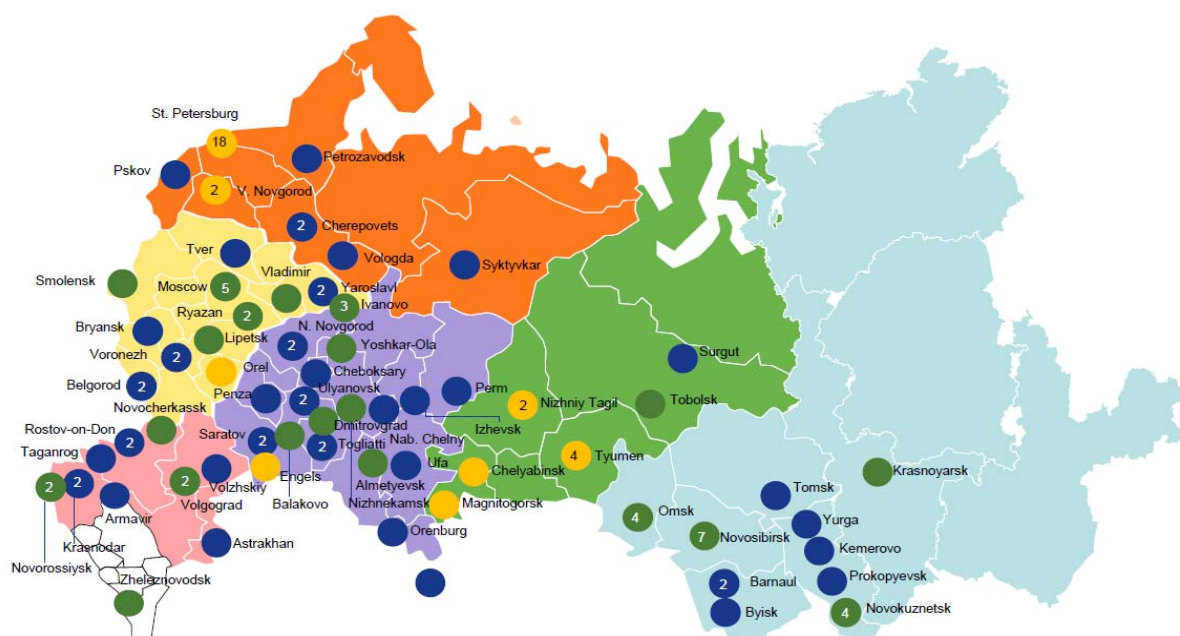
Operations

Overview

Lenta engages in the retail sale of food, beverages and non-food products in Russia through its chain of hypermarkets. As of 30 June 2015, Lenta operated 116 hypermarkets (of which 95 were owned and 21 leased) with a total selling space of 722,118 sq. m. in 62 Russian cities located in seven of the nine federal districts of the Russian Federation (Lenta does not operate in Crimea or the Far East federal districts and has no current plans to do so).

Store Locations and Demographics

The following map of the Russian Federation indicates Lenta's hypermarkets and distribution centres for hypermarkets in each federal district as of 30 June 2015:



Federal districts:

- North West
- Central
- South
- North Caucasus

- Volga
- Urals
- Siberia

- Lenta store
- Indicates # of hypermarkets in the city
- Cities where Lenta hypermarkets opened in 2014
- Cities where Lenta hypermarkets opened in 2015 (to June 30)

The table below sets forth the total number of Lenta hypermarkets in each federal district and the percentage they comprise of all Lenta hypermarkets and total hypermarket selling space as of 30 June 2015:

Federal district	Number of hypermarkets	Percentage of total number of hypermarkets	Percentage of total hypermarket selling space
St. Petersburg.....	18	15.5%	15.9%
North-West (excluding St. Petersburg).....	8	6.9%	6.6%

Federal district	Number of hypermarkets	Percentage of total number of hypermarkets	Percentage of total hypermarket selling space
Moscow	5	4.3%	2.9%
Central (excluding Moscow)	17	14.7%	13.2%
Volga	21	18.1%	19.0%
South ⁽¹⁾	14	12.1%	12.8%
Urals	10	8.6%	9.2%
Siberia	23	19.8%	20.4%
Total	116	100%	100%

(1) Also including one standard hypermarket in Zheleznovods, a town in the North Caucasus federal district.

The following table sets out the number of Lenta's hypermarkets by city, ranked by population, together with the total selling space of the hypermarkets in that city:

	Population⁽¹⁾	Average salary (RUB per month)⁽²⁾	Number of stores	Total selling space (sq. m.)	Percentage of total selling space (%)
Population of more than 1,000,000 people (federal district)					
City of Moscow (Central)	12,108,257	55,485	5	21,067	2.9
City of St. Petersburg (North-West)	5,131,942	36,848	18	110,762	15.3
Novosibirsk (Siberia).....	1,547,910	25,528	7	45,774	6.3
Nizhny Novgorod (Volga).....	1,263,873	23,573	2	14,739	2.0
Omsk (Siberia).....	1,166,092	24,848	4	28,685	4.0
Chelyabinsk (Urals).....	1,156,201	25,651	1	7,018	1.0
Rostov-on-Don (South).....	1,109,835	21,867	2	14,675	2.0
Ufa (Volga).....	1,096,702	22,377	1	7,000	1.0
Krasnoyarsk (Siberia).....	1,035,528	31,623	1	7,000	1.0
Perm (Urals)	1,026,477	24,716	1	7,000	1.0
Volgograd (South)	1,017,985	21,046	2	14,334	2.0
Voronezh (Central)	1,014,610	21,825	2	8,354	1.2
Population of between 500,000 and 1,000,000 people (federal district)					
Saratov (Volga).....	840,785	20,668	2	14,551	2.0
Krasnodar (South).....	805,680	24,063	2	14,686	2.0
Togliatti (Volga).....	718,127	23,470	2	11,245	1.6
Tyumen (Urals).....	679,861	51,009	4	27,786	3.8
Izhevsk (Volga)	637,309	21,053	1	7,000	1.0
Barnaul (Siberia).....	632,784	18,011	2	12,064	1.7
Ulyanovsk (Volga).....	616,672	19,187	2	14,000	1.9
Yaroslavl (Central)	602,400	23,003	2	10,997	1.5
Orenburg (Volga).....	560,046	21,593	1	7,636	1.1
Tomsk (Siberia).....	557,179	29,814	1	7,000	1.0
Novokuznetsk (Siberia)	550,213	25,326	4	20,999	2.9
Kemerevo (Siberia).....	544,006	25,326	1	7,000	1.0
Astrakhan (South).....	530,863	22,736	1	7,354	1.0
Ryazan (Central).....	530,341	21,797	2	10,414	1.4
Nab. Chelny (Volga).....	522,048	26,035	1	7,402	1.0
Penza (Volga)	521,329	20,645	1	7,342	1.0
Lipetsk (Central).....	509,719	21,391	1	5,091	0.7
Population of less than 500,000 people (federal district)					
Cheboksary (Volga).....	468,725	19,338	1	7,000	1.0
Tver (Central)	411,042	22,450	1	7,000	1.0
Ivanovo (Central).....	409,223	18,982	3	18,951	2.6

	Population⁽¹⁾	Average salary (RUB per month)⁽²⁾	Number of stores	Total selling space (sq. m.)	Percentage of total selling space (%)
Bryansk (Central).....	408,472	18,974	1	6,595	0.9
Magnitogorsk (Urals).....	407,775	25,651	1	3,987	0.6
Belgorod (Central).....	379,508	22,221	2	6,966	1.0
Nizhny Tagil (Urals).....	357,280	27,608	2	13,695	1.9
Vladimir (Central).....	350,087	20,927	1	9,058	1.3
Surgut (Urals).....	332,313	54,508	1	7,000	1.0
Smolensk (Central).....	330,961	20,447	1	4,998	0.7
Volzhskiy (South).....	326,841	21,046	1	7,000	1.0
Oryol (Central).....	317,747	19,273	1	7,018	1.0
Cherepovets (North-West).....	316,758	25,127	2	10,527	1.5
Vologda (North-West).....	308,172	25,127	1	7,000	1.0
Petrozavodsk (North-West).....	272,101	27,503	1	5,177	0.7
Yoshkar-Ola (Volga).....	260,352	18,360	1	4,680	0.6
Novorossiysk (South).....	256,580	24,063	2	14,386	2.0
Taganrog (South).....	253,587	21,867	1	2,579	0.3
Syktyvkar (North-West).....	241,982	37,717	1	6,172	0.9
Nizhnekamsk (Volga).....	235,605	26,035	1	7,000	1.0
Velikiy Novgorod (North-West).....	219,971	23,494	2	11,938	1.7
Pskov (North-West).....	206,730	19,743	1	7,133	1.0
Biysk (Siberia).....	204,039	18,011	1	7,000	1.0
Prokopyevsk (Siberia).....	202,672	25,326	1	7,000	1.0
Engels (Volga).....	202,419	20,668	1	5,405	0.7
Balakovo (Volga).....	194,576	20,668	1	5,090	0.7
Armavir (South).....	191,799	24,063	1	5,020	0.7
Novocherkassk (South).....	173,464	21,867	1	5,091	0.7
Almetievsk (Volga).....	149,894	26,035	1	4,681	0.6
Dimitrovgrad (Volga).....	118,513	19,187	1	5,090	0.7
Tobolsk (Urals).....	98,052	51,009	1	7,018	1.0
Yurga (Siberia).....	81,446	25,326	1	4,680	0.6
Zheleznovodsk (North Caucasus) ⁽³⁾	24,438	20,667	1	7,018	1.0
Total			116	22,118	100%

Source: Rosstat.

Notes:

- (1) As of 1 January 2014.
- (2) Average salary for 2013 for the region (oblast) or administrative unit in which the city is located, with the exception of Moscow and St. Petersburg, for which average salary is calculated on a city-wide basis.
- (3) The Zheleznovodsk standard hypermarket is designed to serve the neighboring city of Pyatigorsk and its population of approximately 146,000 people.

Retail Format

Lenta traditionally has operated in the hypermarket format. Lenta's hypermarkets are primarily located in high-density residential areas, with a critical mass of customers within the surrounding catchment area and convenient access to major transport infrastructure (for cars and usually for public transport). Lenta estimates that over two-thirds of its hypermarket customers arrive by car.

Lenta has three standardised sizes for its hypermarkets, deployed in light of the expected customer traffic in the catchment area and the size of the available site: standard—76 stores accounting for 75.6% of total hypermarket selling space; compact - 29 stores accounting for 19.3% of total hypermarket selling space; and super-compact - 11 stores accounting for 5.1% of total hypermarket selling space (in each case as of 30 June 2015). Lenta's hypermarkets range in size from 2,579 sq. m. to 9,058 sq. m. with an average size of 6,225 sq. m. (as of 30 June 2015). The typical features of these formats (in each case as of and for the year ended 30 June 2015) are summarised in the table below:

	Standard	Compact	Supercompact
Total sq. m of selling space	545,952	139,394	36,772

Selling space owned (%)	93.5	69.4	42.9
Number of hypermarkets	76	29	11
Selling space/store (sq. m.)	7,000	5,000	3,000
Total space/store (sq. m.)	13,200	8,900	5,600
Number of parking spaces	500	400	150-200
Plot size (ha)	4.0	2.5-3.0	1.2
SKUs	23,800	20,300	15,000
Non-food space (sq. m.)	2,000	1,300	700
Non-food space share (%)	29	28	19
Non-food sales share (%)	14	14	9
Like-for-like average sales density for 2014 (RUB thousand/sq. m.) ⁽¹⁾	354	437	370
Capex spend/owned store (RUB millions) ⁽²⁾	1,000-1,100	850-1,000	600-700
Capex spend/rented store (RUB millions) ⁽²⁾	250-350	200-270	230-260

Notes:

- (1) In respect of stores opened at least 12 full months by December 2014.
(2) Excludes cost of land (estimated at RUB20-60 million/ha).

As of 30 June 2015, the average size of Lenta's 76 standard hypermarkets was 7,184 sq. m. (reflecting that older vintage standard hypermarkets, developed before the design of the standardised 7,000 sq. m. model, are on average larger stores); of its 29 compact hypermarkets 4,807 sq. m.; and of its 11 supercompact hypermarkets 3,343 sq. m.

The majority of Lenta's hypermarkets are standalone stores, although 25 are located within shopping malls (as of 30 June 2015). The number of stores located within shopping malls is likely to grow in the future given the number of mall developments in Russia, Lenta's growing experience of operating successfully in malls and Lenta's increased use of compact and supercompact hypermarket formats which are more likely to fit available premises within malls. Each of Lenta's hypermarkets has adjacent parking spaces. The availability of parking, ease of access to transportation and urban location allow Lenta to target not only those customers who live within walking distance to the hypermarket (who might typically make frequent, small purchases), but also those who live a short distance from the hypermarket (who might visit less frequently but make more purchases per trip), or those who live some distance away (who might use the store for their weekly shopping, purchasing large volumes). Lenta's standalone hypermarkets typically operate 24 hours a day, seven days a week (with re-stocking usually carried out overnight).

Consistent with Lenta's aim to provide one-stop shopping and increase traffic, Lenta usually includes a side gallery in its hypermarkets in which Lenta rents out space for small stores that provide complementary services or goods, typically dry-cleaners, mobile phone stores, photo services, cafes, pharmacies and travel agencies. Lenta also usually arranges the installation of multiple ATMs in its hypermarkets.

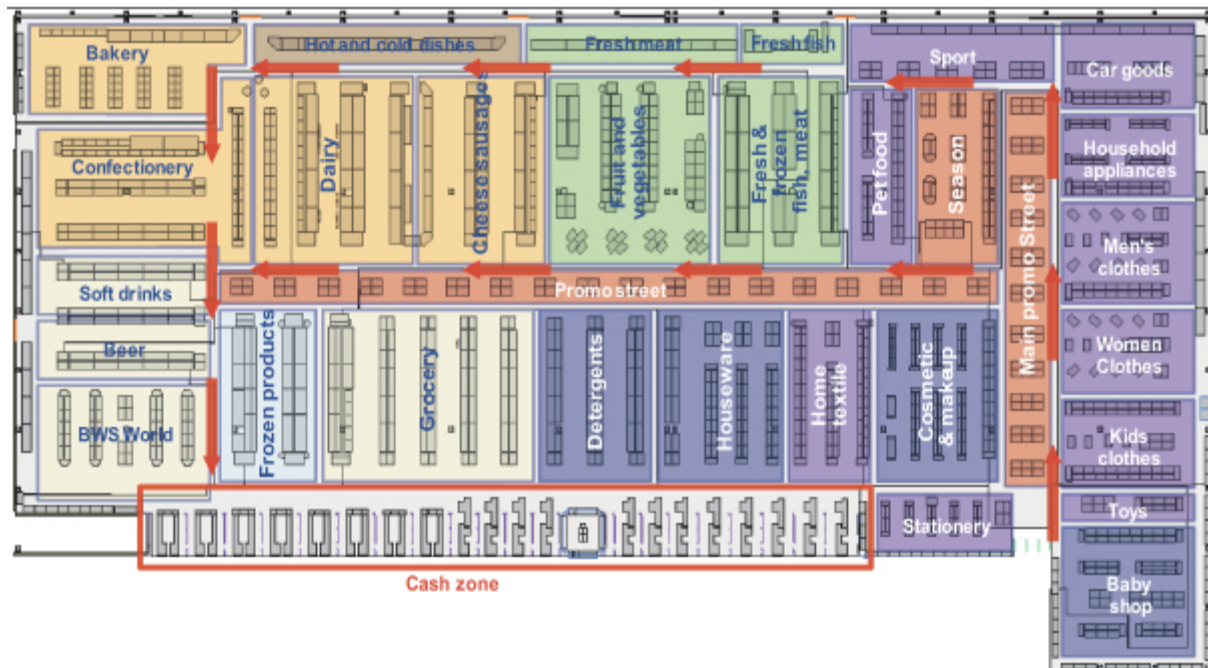
Premises

Store Layouts

Lenta has developed standard layouts and designs (including six standardised planograms) for its three formats of hypermarkets with a clear, logical and easy-to-navigate layout that provides customers an efficient and pleasant shopping experience. Their functional fit-out with high-rack storage visually reinforces Lenta's 'Value-for-Money' proposition to customers. For leased stores, Lenta follows the standard layout to the extent practicable within the premises leased. This standardisation creates a consistent offering, familiar and recognisable to customers, which has been fine-tuned in light of feedback received across the network, and streamlined operating procedures. Lenta's central merchandising team oversees store layout, as well as its conformity to Lenta standards and its adjustment for promotional activities.

Customers have access to large, free-of-charge and well-lit parking areas adjacent to Lenta's hypermarket stores. Lenta's standard layout is intended to provide Lenta's target customers with a convenient shopping experience (including baby rooms) and a logical store layout (starting with its "children's world" area and an alley of special promotions then progressing to the non-food assortment and dry foods and ending with fresh and frozen foods). It features clean, well-lit sales areas, and a broad range of well-presented and easily accessible products laid out in consistent locations across the network. The layout is designed to put particular focus on fresh food products with visually attractive fruit and vegetable displays being centrally located, amidst other fresh items, and includes a prominently placed promotions aisle for weekly offers and specials. Lenta seeks to minimise customer queuing

times by calibrating staff and checkout operation numbers and hiring workers from outside service providers to ensure availability at peak periods without excess capacity and cost. Lenta's use of high racks in the dry food/non-food areas of the stores to store inventory both maximises the sales area of its premises by reducing the space used for storage and reduces in-store handling of inventory (so that goods do not have to be delivered from a separate storage location to re-stock shelves but instead from within the store). This also assists in creating a more efficient replenishment system and makes visibly evident Lenta's focus on efficiency and its 'Value-for-Money' proposition. Re-stocking is typically carried out overnight to minimise the disruption to customers' shopping experience.



New Store Selection

Lenta has substantial experience with the store roll-out process, particularly in light of its recent rapid expansion from 1 January 2013 through 30 June 2015, opening 60 hypermarkets. In total, Lenta has an FTE count of approximately 158 in real estate development and construction, including three development directors, each currently focusing on different regions. The staff is organised into three development teams. Lenta has significantly increased the FTE count directly involved in development and construction in recent years: from 30 as of year-end 2011, to 60 as of year-end 2012, 112 as of year-end 2013, 138 as of year-end 2014 and 158 as of 30 June 2015.

Lenta has a rigorous and effective process to evaluate proposed new store openings, involving a number of departments, including the development and construction, marketing, commercial, central and regional operations and finance departments. This process takes into consideration economic, demographic and strategic factors; commercial factors; technical and physical factors; and environmental and legal factors.

Economic, demographic and strategic factors

Economic, demographic and strategic factors are examined in order to identify target cities in which new stores could be based. In particular, Lenta takes into consideration the number of inhabitants, income levels, unemployment rates, car ownership, socio-demographic composition, local government / administration and the level of competition in each of the cities where it is considering opening stores. Lenta believes it has formats that allow it to operate hypermarkets in cities with over 100,000 inhabitants (and selectively in smaller cities), and that its 'Value-for-Money' proposition makes its stores suitable even in those cities with below-average income levels. Lenta focuses on:

- mixing its store locations between large cities with numerous potential customers but greater competition, and smaller cities with fewer potential customers but typically lower competition (sometimes with no competing federal retailer) and construction costs;
- proximity to distribution centres and integrating new stores into its supply chain network;

- opening stores in areas where Lenta can benefit from existing brand awareness and marketing efforts.

Commercial factors

The most important commercial factor for specific site selection, once a suitable target city has been identified, is location relative to concentrations of population, transportation access and nearby competitors, as these drive footfall, sales volumes and the payback period for the store. For Lenta's hypermarkets, transportation access by car is key. Lenta believes that the primary customer catchment should be measured as approximately 20 minutes driving time from a hypermarket. Lenta, in particular, looks at the comparative wealth of a catchment area compared to the city average; visibility by car, foot and public transport; vehicle density of the road servicing the hypermarket; and the location and nature of competitors.

Technical and physical factors

Lenta considers technical and physical factors for a specific site that might have an impact on total investment, such as proportions and size, utility connectivity, suitability for construction, geological factors, traffic patterns, and the ability to implement Lenta's standard layout and logistical support system. When Lenta leases space in an existing building, it assesses the quality and features of the existing building.

Environmental and legal factors

When considering a store opening, Lenta looks at environmental factors such as the absence of subsoil pollution, and Lenta's ability to comply with environmental and sanitary regulation (including rules regarding minimum distances to residential and public buildings) upon constructing the store. Lenta also carries out a legal review to ensure that the potential plot was privatised properly and that appropriate zoning and permitted usage approvals are in place.

Decision process

All proposals regarding new store openings are first assessed by specialists in Lenta's construction and development department, with input regarding estimates of sales potential from the marketing department. A detailed report on the city and plot location is prepared, together with the sales forecast, and circulated to senior management and local operations teams, setting forth preliminary conclusions regarding the factors discussed above. If the sales forecast indicates a sufficient level of sales, the construction and development department conducts a further examination of the plot, evaluating geological, environmental and utility-connectivity issues, and discusses access and utilities with local authorities, and the legal department oversees legal due diligence of the plot and the purchase structure. The finance department then synthesises these analyses into a comprehensive investment proposal considering the commercial, technical and legal aspects of the proposed store, including a profit and loss and cash flow forecast for a 15-year period, predicated on margins, costs and performance indicators derived from similar existing Lenta stores, which sets out the expected net present value, return on investment, cash payback period and discounted payback period for the project. For new stores (including rented stores), Lenta aims on average to achieve cash payback in less than five years.

This proposal is then put forward for management review. Proposals with the support of management are then submitted for final approval by the capital expenditure committee of the Board of Directors. Upon approval of the capital expenditure committee, Lenta management may carry out the purchase of the landplot. Prior to agreeing to the start of construction of a store, a further management presentation is made to the capital expenditure committee, and the committee again weighs whether to proceed with the project. In deciding whether to go ahead with the project, the capital expenditure committee carries out a sensitivity analysis to measure the expected impact of the capital expenditure needed to acquire the constructed store, taking into account how an economic downturn would affect sales and margins and monitoring capital expenditure so as to ensure Lenta observes its financing covenants and stays within its internal target of a net debt to adjusted EBITDA ratio of not more than 3x. Only upon this final approval are new store projects carried out.

Ownership/Leasing Strategy

As of 30 June 2015, Lenta owned 95 of its 116 hypermarkets in operation comprising 622,809 sq. m. (87%) of its aggregate hypermarket selling space, reflecting that 91 of its hypermarkets were stand-alone premises (90 of which were owned and one was leased) and 25 were part of shopping malls (of which 20 were leased). In the medium term, Lenta plans to own a minimum of 80-85% of its hypermarket selling space. Lenta believes that

ownership provides the business a number of benefits, including: the ability to control development of its own stores so that they can be located on sites and in cities that best meet Lenta's requirements rather than being limited to sites chosen by developers; the timing of store openings is more predictable and assured; protection against rental inflation and against disruption due to the termination of leases; enhanced standardisation across stores; and potential increase in the value of the real estate portfolio. While the ownership strategy requires a higher level of capital expenditure, Lenta believes this strategy is supported by the manifold benefits and disciplined payback targets outlined above.

Where Lenta leases hypermarkets, it aims to conclude contracts of at least 15 years and to secure competitive rent rates, denominated in RUB and with indexation only linked to the CPI index and capped at no more than 8% per annum. Lenta leases (or, for leased stores, subleases) space at its hypermarkets to third party service providers, such as pharmacies and drycleaners. These subleases normally have a term of less than one year.

In 2014, Lenta opened a record 31 hypermarkets and in 2015 through 30 September 2015 a further 14 hypermarkets. As of 30 September 2015, 20 future Lenta hypermarkets were under construction. See "*Store Roll-Out*", below, and "*Operating and Financial Review—Recent Developments—Trading Update—Stores and Space*" for a discussion of Lenta's new store openings.

Store Roll-Out

Lenta has overseen the construction of all of its 91 stand-alone hypermarkets, carefully planning the costs, layout, fit-out of the stores and timing of construction. When using third-party contractors, Lenta maintains tight control over the construction process, which helps keep the timing of new store openings predictable. Lenta employs standardised project design and construction processes (subject to regular review and refinement), for greater efficiency and consistency. Projects are overseen by dedicated construction managers, cost managers and quality managers from Lenta and monitored daily on site by experienced third-party advisors. As of 30 June 2015, Lenta had 158 staff dedicated to site selection and store construction and re-fitting, who have substantial experience in managing each part of the construction cycle.

Third-party contractors are selected from a panel of contractors who have experience working with Lenta or whom Lenta otherwise believes may be suitable partners following a tender process undertaken approximately one month prior to the start of construction, on the basis of their prior experience with similar projects in the relevant region and with Lenta, cost projections, estimated schedule for completion and reputation. Identification and procurement of land plots generally takes up to 15 months. The construction and fitting out of new hypermarkets generally takes six to twelve months to complete from the engagement of the contractor to opening, depending on seasonal restrictions (especially in winter) on construction activity. For example, in Siberia groundwork is generally not feasible in the winter; the construction season for stores in more southern locations is generally longer than for stores in the north. Given that new store construction typically takes six months or longer and construction activity is limited by the harsh Russian winter, stores predominantly tend to open in the fourth quarter and often in December.

Lenta also purchases existing stores for re-fitting and re-branding, and re-fits leased stores upon acquisition of the lease. The average time for re-fitting (from taking possession to the store opening date) for a hypermarket store is usually four months. Lenta estimates that the cost of re-fitting (based on the costs for the hypermarkets acquired in 2014, and including total construction and materials costs and equipment) for a standard-format hypermarket ranges from RUB250 million to RUB350 million.

Store fit-outs and openings are overseen by a dedicated Store Opening Department, coordinating the involvement of other departments and assisting regional operations managers with openings within their areas of responsibility; this focus enables specialisation, greater efficiency and the continued focus of other departments on their roles operating the Lenta network.

The fit-out process takes approximately two to three months, running in parallel with final construction works in relation to constructed stores, with the first products being delivered approximately four weeks prior to opening. Alongside commencement of the fit-out, store management (appointed three to six months before opening, typically initially led by an experienced Lenta manager and assisted until at least a week following opening by a support team from the head office) start recruitment of store staff, and the legal department applies for and obtains all required licences and permits. Opening of the store is publicised by local marketing in the relevant city and accompanied by special offers prepared by the commercial department.

In 2014, Lenta opened a record 31 hypermarkets, expanding to 15 new cities, including 20 openings in the last 35 days of the year. See “*Operating and Financial Review—Recent Developments—Trading Update—Stores and Space*” for a discussion of Lenta’s store pipeline.

To support its pipeline of new store openings, Lenta has made significant investment into its supply chain network, opening its distribution centres in Rostov-on-Don and Togliatti in early 2015, with its seventh distribution centre, in Yekaterinburg, expected to open in late 2015 (see “*Supply Chain Management—Distribution*”); in 2012-2013 Lenta significantly expanded the headcount of its store development team (see “*New Store Selection*”).

The opening of new stores entails significant capital expenditure. In 2014, typical capital expenditure for the opening of: a standard-sized hypermarket was between RUB1,000-1,100 million (for owned stores) and RUB250-350 million (for rented stores); for a compact hypermarket between RUB850-1,000 million (for owned stores) and RUB200-270 million (for rented stores); and for a supercompact hypermarket between RUB600-700 million (for owned stores) and RUB230-260 million (for rented stores). The cost of purchasing or leasing land is excluded from these figures, and is subject to substantial regional variation as well as variation due to technical factors, including road access and connectivity to utilities.

Store maintenance

Lenta conducts regular maintenance for the upkeep of its stores, the implementation of which is overseen by Lenta’s operations team and by an engineer dedicated to each hypermarket.

Maintenance focuses on (i) compliance with all applicable building, sanitary and safety regulations, with regular audits performed by a central team; (ii) the cleanliness of each store, monitored in part by laboratory tests conducted on a quarterly basis; (iii) the upgrade of stores to ensure uniformity of the shopping experience across the Lenta network, including, for example, remodelling store layouts to improve customer routing and product presentation, refitting lighting, and expanding own-production capacity; and (iv) replacement of equipment as it reaches obsolescence.

Customers

Lenta is committed to its customer-focused approach to retailing. Lenta’s commercial managers and retail teams have many years of experience and seek to deliver an attractive, competitive offer for customers across the key attributes of: price, product range, quality availability, service and shopping environment. This underpins Lenta’s broad customer appeal. In-store staff are intensively trained to provide excellent service to customers. See “*Personnel training*”.

Categories and shopping patterns

Lenta has a broad customer base, across age, gender, income, marital status and profession, with a particular focus on attracting families and women, as it believes this customer base has decisive input into the choices made as regards food shopping. Lenta monitors customer purchases to assess the development of its customer base, and, together with the information gathered through Lenta’s loyalty programme and customer surveys, adjusts product assortment and tailors Lenta’s offering for its:

- loyal customers;
- doublers (customers who use multiple Lenta hypermarkets for their shopping); and
- infrequent customers.

Loyalty programme

Lenta has a frequently used and effective loyalty programme. As of 30 June 2015, Lenta had 7.6 million active cardholders. Approximately 90% of sales are made to active cardholders. In applying for a loyalty card, for which Lenta charges a one-time fee of RUB200, the applicant self-reports his/her age, sex, marital status, postal address, email address, home and mobile phone numbers and type of car owned, if any, affording Lenta a wealth of data to inform its customer strategy in the future.

Customers participating in the loyalty programme benefit from:

- a 5% discount on total purchases;
- access to further discounts for special and seasonal offers and promotions (without the loyalty card, the customer does not receive the promotion price), which Lenta believes generates significant customer and brand loyalty;
- virtual bonuses accrued in one period which can be applied to future purchases of private label and branded non-food products in another period, intended to generate traffic in periods of typically lower sales; and
- additional discounts on specified products for certain groups of customers.

These benefits are intended to sustain customer loyalty, bolster Lenta's low-cost reputation, and maintain sales volumes throughout the year. Independent surveys have indicated that shoppers view Lenta's loyalty card programme as providing attractive benefits.

Lenta is able to track the purchases made by each customer using their loyalty card, providing valuable feedback on customer shopping habits. Analysis of the data provided by the loyalty card programme (the wellspring of Lenta's 'Big Data') enables Lenta to fundamentally improve its merchandising, marketing and store design processes, including to:

- distinguish and track various segments of customers based on 'RFV' criteria ('recency, frequency and value'), allowing Lenta to identify its most valuable customers for direct communications;
- segment customers according to their specific shopping habits ('Needs Segments'), which Lenta uses to tailor its assortment and shelf layout to match customer preferences;
- identify KVIs for each customer Needs Segment in each city, which is used to set competitive pricing;
- understand the "Missions" that draw customers to the store (i.e., the main purpose of their visit), to assist with store layout and checkout processes;
- target customers with direct mail offerings on a quarterly basis, featuring the products that are most relevant to that individual customer, building loyalty and stimulating additional customer visits;
- entice customers with product offers, based on their current basket of purchases, by giving them Coupons at Till to be used towards subsequent purchases at Lenta, stimulating repeat traffic;
- understand the effectiveness of in-store promotions, improve their reach and maximize their appeal to customers;
- provide valuable insights into customer shopping habits to inform overall store layout design; and
- measure the growth trajectory of customer Needs Segments, allowing Lenta to understand the evolving Russian consumer marketplace with greater insight.

In 2013, Lenta engaged emnos GmbH, a consultancy firm specialising in this field, to assist Lenta in the analysis of data gathered through the loyalty card programme, which Lenta believes will further develop its capacity to target its offering and promotions to its customers and is having a positive impact on like-for-like sales.

Lenta also engages in regular customer surveys to understand how Lenta and its product assortment are perceived by its customers, allowing Lenta to assess the extent to which it is successful in tailoring its product offerings in line with the needs of its customers.

Shopping conveniences

Consistent with Lenta's focus on families and women as a key customer group, Lenta provides changing rooms, baby-friendly shopping carts and excellent sanitary conditions to encourage visits by families with children. The "children's world" area, typically placed at the entrance of hypermarkets, provides a range of goods to care for infants (with both food and non-food SKUs in one place), telegraphing this 'family-first' emphasis to arriving customers.

Pricing

Lenta's core pricing proposition to its customers is 'Value-for-Money'. As such, Lenta aims to generate profit mainly from high traffic, turnover and a low cost base, not high gross margins. Lenta's practice is to set its pricing

such that its hypermarkets offer customers using the Lenta loyalty card a price advantage of at least 5% across key product categories on the typical product basket compared to the price at its principal local competitor. In addition, Lenta obtains price reports on local competitors (including not only modern retailer competitors but also local grocers and traditional multi-stall covered markets) on at least 1,000 articles no less frequently than weekly, with price reports on certain KVIs, particularly fresh articles, reported as often as every other day. Lenta regularly monitors price-sensitive KVIs against 3-5 local competitors, local KVIs against 1-3 competitors and the promotion prices of competitors as advertised in their catalogues while cross-checking pricing of its private label offerings. Lenta does not price by reference to target margins. Lenta's centralised commercial team can implement price changes at any time at any store, and does so frequently to adjust pricing to the competitive environment.

See "*Risk Factors—Other risks relating to Lenta's business—Price controls may be imposed on certain staples sold by Lenta*".

Product Range

The assortment of products available at Lenta's hypermarkets is regularly revised based on market developments, customer behaviour, information from suppliers, Lenta's understanding of evolving customer needs (based on its analysis of actual purchase behaviour and input from market analysts) and relevance to the Lenta proposition and anticipated impact on margins. Lenta believes that the continual adjustment of its product range and mix, whereby it eliminates underperforming SKUs and adds SKUs based on customer feedback and marketing information on customer behaviour, is a particular attraction to the families and women customer group and increases loyalty. Lenta tailors its assortment to local taste, a differentiating factor vis-à-vis many of Lenta's competitors and of particular importance given the size of Russia and variations in taste across the country. Lenta's assortment includes 'destination categories' specifically designed to be products perceived by customers as best bought at Lenta stores and for which customers should be willing to travel to Lenta stores. These destination categories are selected based on the needs of the main customer target groups, and include products across the fresh food, dry grocery and non-food categories.

Product Assortment

Lenta's assortment is driven by customer preferences with a broad, but disciplined, SKU count intended to satisfy customer demand while at the same time optimising turnover and minimising the inventory of slow-moving SKUs, with an emphasis on popular Russian and regional/local products. In the first half of 2015, the average standard Lenta hypermarket had 24,650 SKUs with 11,710 SKUs of dry food (representing approximately 46.2% of total sales), 4,070 SKUs of fresh food (approximately 42.1% of total sales), and 8,870 SKUs of non-food (approximately 11.7% of sales).

While basic product assortment is centrally controlled to ensure a degree of standardisation across the network, Lenta maintains a product assortment that is adjusted to local conditions and tastes. The selection of these assortments is altered by the commercial team, based on customer feedback and input from the operations team and based on the store-specific understanding of customer behaviour and trends in such behaviour.

Management believes that, given the strong trust and association with quality that Russian customers place with traditional products, regional/local sourcing and a strong focus on Russian assortments, in particular for fresh food products, are a key attraction of the Lenta shopping experience, especially in comparison to many of its modern food retail competitors. Lenta therefore puts a differentiated emphasis on Russian national and specific regional/local products and, in 2014, sourced 24.2% of products (and 52.7% of fresh food products) (as measured by the purchase price paid to suppliers) from regional/local suppliers. Lenta aims to further increase sourcing from regional/local suppliers, both in order to meet customer expectations for regional/local assortment and to leverage supply chain benefits associated with shorter delivery distances and times.

Lenta strives to maintain an in-store availability rate for its products of at least 98% (its in-store availability rate was 97% in each of 2013 and 2014 and was 96.7% in the first half of 2015), to ensure that its customers are able to make their usual purchases. The use of Lenta's in-store, high-rack storage supports the reliable delivery of this goal. Lenta sees this target as an important aspect of its customer service and retention strategy.

In response to the difficult macroeconomic conditions in late 2014 and in the first half of 2015, Lenta has increased the SKU count in its stores (with the number of SKUs in its standard hypermarket rising from 23,800 SKUs in 2014 to 24,650 SKUs in the first half of 2015) to adjust its offer to the changing shopping needs of

customers. As part of this adjustment, Lenta boosted its assortment of lower-priced items within each product category and introduced a wider selection of products in smaller package sizes.

Product Categories

The organisation of Lenta's commercial department is built around the following main product groups: dry food, fresh food (defined so as to include frozen foods) and non-food. In addition, Lenta operates a specialist private label team that works in conjunction with the product group teams to determine the private label assortment and promotions strategy and in conjunction with the marketing team to determine the private label advertising strategy.

Dry Food Products

Approximately 11,710 SKUs in the average standard-format hypermarket fall within the dry food product range. In the first half of 2015, the dry food range represented approximately 47.5% of total SKUs and 46.2% of total sales across all Lenta stores. In the first half of 2015, 85.4% of dry food sales were from branded products and 14.6% were private label, and (measured by the purchase price paid to suppliers) 96.0% of all dry food products were supplied by federal Russian suppliers, 3.9% sourced from regional/local suppliers and 0.1% supplied by direct import suppliers.

The dry food range is defined so as to comprise the following article groups: (i) dry groceries, (ii) baby food, (iii) tea and coffee, (iv) non-alcoholic beverages, including soft drinks, juices and water, (v) alcoholic beverages, (vi) cleaning materials and (vii) cosmetics and personal care.

Fresh Food Products

Lenta places particular emphasis on fresh and ultra-fresh products, including those produced in-store. The availability of fresh food products increases patronage and the frequency of purchases at Lenta stores, as the short shelf life of fresh products requires multiple shopping trips over the course of a week. Accordingly, Lenta offers a wide range of fresh articles with fresh dairy, fruit and vegetables, meat, fish and own-baked bread offered in all hypermarkets. Most hypermarkets have their own butchery and fresh fish counter. Lenta has an assortment of around 50 types of own-baked bread, and produces own-baked cakes in-store. Furthermore, Lenta has a large assortment of own-produced salads and prepared meals, including grilled and smoked meat and fish. In line with Lenta's focus on catering to Russian and regional/local tastes, Lenta's fresh food produce reflects seasonal availability.

Approximately 4,070 SKUs in the average standard-format hypermarket fall within the fresh food product range. In the first half of 2015, the total fresh foods assortment represented 16.5% of total SKUs and 42.1% of total sales across all Lenta stores. In the first half of 2015, 93.2% of fresh food sales were from branded or generic products and 6.8% were private label, with over half, 52.7%, supplied by regional/local Russian suppliers, 44.8% supplied by federal Russian suppliers and 2.5% imported directly by Lenta (measured by the purchase price paid to suppliers).

Lenta continues to review ways to optimise the cost of its own production activities. For example, in St. Petersburg Lenta is in the process of centralising dough production and concentrating production of salads and prepared meals to several locations (as opposed to producing separately in each store) and in-store butcheries are using de-boned meat for carving rather than carcasses. This project was launched in 2013 and its rollout is to continue through 2015. Similar centralisation initiatives are planned for other cities where Lenta has multiple hypermarkets such as Novosibirsk and Rostov-on-Don. Own-produced articles represented 8.3% of total 2014 sales across all Lenta stores and 8.1% in the first half of 2015.

Non-Food Products

The range of non-food products includes the following product groups: (i) household goods, (ii) domestic textiles/basic clothing, (iii) toys, (iv) seasonal goods, such as back-to-school products, gardening products and New Year's decorations, (v) sports and fitness products, (vi) clothing, (vii) car accessories and (viii) home appliances. Household goods and seasonal goods are 'destination categories' that are well represented in all store formats. Other items constituting the non-food product range are offered on a smaller scale. Home appliances consist primarily of kitchen aids and other small appliances.

Approximately 8,870 SKUs in the average standard-format hypermarket fall within the non-food product range. In the first half of 2015, the total non-food assortment represented 36.0% of total SKUs and 11.7% of total sales across all Lenta stores. In the first half of 2015: 73.1% of non-food sales were from branded products and 26.9% were private label and (measured by the purchase price paid to suppliers); 45.6% were imported directly by Lenta (which includes the majority of non-food products Lenta sourced from private label suppliers) and 54.1% were supplied by federal Russian suppliers.

Private Label Products

Lenta’s private label products are essential products of similar or equal quality to like brand-name products sold by Lenta. As a result of high capacity utilisation in the Russian food processing industry, margins on own brand articles tend to be lower than on branded articles, contrary to the situation in more developed markets in Western Europe and the United States. However, because Lenta’s private label products are sold at lower prices than like branded products, their offering is intended to re-enforce Lenta’s ‘Value-for-Money’ proposition to its customers. Sale of private label products also further develops and diversifies Lenta’s supplier base, while allowing Lenta to tailor its assortment to satisfy specific customer needs independent of wider industry trends. In addition, Lenta’s own-production comprised 8.3% of total sales in 2014 (of which 3.0% represented own in-store production that is packaged under the private label Lenta brand) and 8.1% of total sales in the first half of 2015.

The following table shows the share of turnover of Lenta’s private label products (excluding non-branded direct imports and own-production) sold in Lenta stores in the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June	Year ended 31 December		
	2015	2014	2013	2012
Share of food total sales (%).....	10.9	10.0	9.4	9.9
Share of non-food total sales (%)	26.9	22.8	17.1	13.3
Share of total sales (%).....	12.8	11.7	10.5	10.4

As this table demonstrates, Lenta has been successful in expanding the share of turnover of its private label goods in recent years. In the last year, the Russian economic downturn has also motivated Russian consumers to be more frugal and purchase less-expensive private label goods. Lenta expects this trend to continue.

Lenta offers a broad range of goods under its private labels.

Food

Lenta sells products in the dry food category under the brand names “365 Days”, “Lenta”, and “Dolce Albero” and in the fresh food category under “365 Days” and “Lenta”. The “365 Days” brand is used to offer entry-price-point articles. “365 Days” products compete with branded, non-branded and other private label articles, are used over all product categories and have a strong presence in staples such as sugar, oil, flour and pasta. These are usually the lowest-price articles that Lenta sells to its customers. The “Lenta” brand is designed to serve as Lenta’s private label alternative to middle-price and premium brands (and is generally priced approximately 15% lower than such brands) and is used in all dry food categories. The “Dolce Albero” brand is used for high quality sweets and exotic foods that serve as a good quality alternative to branded articles at a reasonable price.

Non-Food

Lenta offers a number of private label brands in the non-food category: (i) “HomeClub”, a lower price alternative for home goods and textiles, storage goods and toys; (ii) “FM” or “Friend Made”, a lower price quality alternative for clothes, underwear, footwear, accessories and luggage; (iii) “SportClub”, a lower price alternative for sporting goods; (iv) “Giardino Club”, a lower price alternative for gardening products; and (v) “Lentel” and “Lentel Premium” for electrical home appliances.

Quality Control and Customer Satisfaction

Lenta has established strict quality control procedures at all of its distribution centres and stores and regularly monitors the quality of merchandise. Quality control is centrally implemented as goods flow through Lenta’s

centralised supply chain system and locally monitored as goods are laid out in Lenta's stores. Lenta audits all its suppliers and their goods, with particular attention paid to suppliers of its private label products and raw materials. A key criterion in the selection of Lenta's suppliers is their ability to supply quality goods.

Lenta's quality assurance department, a team of approximately 41 specialists, is responsible for safeguarding the quality standard of the goods Lenta sells. This applies not only to own-produced and private label goods but also to the goods of branded suppliers. Both private label and branded suppliers are audited before their selection and are subject to repeat audits. Audits are focused on the production process in the supplier's premises, with an emphasis on helping to improve the quality of the production processes of smaller local and regional suppliers (whom Lenta assists in their development needs in order to reduce reliance on federal suppliers). All products and raw materials for suppliers' products and Lenta's own-production facilities are regularly tested with the frequency of testing reflecting the product risk so that, for example, fresh articles and raw materials for own production are tested more frequently than dry goods of reputable suppliers. Lenta carries out regular but unannounced bacteriological testing in its own-production facilities and of its own-production materials, including of local drinking water.

Lenta has a feedback hotline, an in-store book for customer complaints and feedback and an online feedback facility.

Promotions and Marketing

Lenta employs a number of special, seasonal, event-driven and loyalty programme-based discount offers to further increase its price competitiveness. Lenta's marketing strategy aims to increase customer loyalty, build brand awareness, attract new customers within Lenta's current markets and facilitate entry into new markets as new hypermarkets are established. Lenta promotes its brand, and regularly conducts market research via third party marketing agencies, to tailor its marketing strategy to better reach its target demographic.

Lenta maintains a long-term promotional calendar that is updated in light of sales feedback and market opportunities. Lenta's promotional strategy is not supplier-driven. Goods sold in promotions constituted 27.6% of Lenta's total sales in 2014 and 30.4% in the first half of 2015. Promotions are tailored to local conditions, taking into account the disparity in local climates and tastes across Russia. Lenta conducts three main types of regular sales promotions to cardholders:

- weekly promotional deals, particularly on fresh foods that drive customer traffic, advertised on store façade signage, billboards around the relevant city, and local radio/television/internet;
- every two weeks, Lenta publishes a catalogue promoting dry food, fresh food and non-food offers, which is distributed in stores and their catchment areas; and
- seasonal catalogues and event-driven announcements of discounted pricing (e.g., Lenta's anniversary).

In developing and deciding the products and the extent of discounts for its promotions, Lenta takes into account the importance of the promoted products to its customers, the probability of repeated purchases of the promoted products, the likely average amount of the promoted products in a typical customer basket and the margin elasticity between Lenta and the supplier for an increased supply of the promoted goods, all reflecting a methodical approach in which promotions are prioritised by their relevance to both customers and Lenta.

Regular loyalty promotions offer customers points on their Lenta loyalty cards which can be applied for discounts on private label and branded non-food products (and help encourage customer traffic). Targeted promotions, developed on the basis of loyalty card information, are also carried out for specific purposes, such as re-attracting customers whose patronage has declined.

Lenta employs a range of promotional and marketing tools upon the opening of a competitor store in the catchment area of an existing Lenta store to minimise the effect of that opening and preserve its customer base. Lenta carefully monitors projected competitor openings to ensure there is enough time to prepare an appropriate response, and subsequently to adjust its strategy in the relevant area as needed.

In 2014, Lenta spent approximately 1.02% of total sales on marketing (compared to approximately 0.94% in 2013), split into the following categories: (i) outdoor advertising, such as store façade signage, public transport advertisements, billboards and road signs; (ii) printed advertising, principally, catalogues and leaflets;

(iii) marketing, customer and pricing research; (iv) radio and television advertising; (v) in-store decorations and displays; (vi) customer relations activities; and (vii) internet/website marketing (including website offers, e-mail offers to customers and a Lenta mobile telephone app). In the first half of 2015 the marketing expense was approximately 0.8% of total sales (compared to approximately 1.0% in the first half of 2014).

Lenta also, as part of its broader social and community based efforts, participates in charitable and social programmes, building sports facilities and other community infrastructure in the area around Lenta stores.

Lenta’s loyalty card programme is also a key part of its marketing strategy. See “—Customers—Loyalty programme”.

Lenta’s Brand

Lenta believes that its retail concept and customer proposition focused on broad customer appeal combined with its loyalty card and significant investments in marketing and promotion serve as the main drivers continuously enhancing its brand strength in the market. Lenta further believes that the strength of its brand is reflected in its strong like-for-like sales growth rates and proven ability to successfully ramp-up sales of stores in new locations across Russia.

Suppliers

Supplier Base

Lenta’s supplier base is diversified, with, in 2014, no single supplier accounting for more than 3.8% of Lenta’s spending on product supply and the top three suppliers accounting for 9.5% of Lenta’s spending on product supply, the top five 12.9%, the top ten 18.9% and the top twenty-five 29.9%. As of 31 December 2014, Lenta had 2,527 suppliers, manufacturers and distributors, including 1,266 fresh food suppliers, 927 dry food suppliers and 511 non-food suppliers. Lenta benefits by building strong relationships with key suppliers and leveraging the scale of its buying into lower costs. Lenta expects that its continued expansion will further increase its overall purchasing power. Lenta often nurtures and cultivates relationships with small suppliers, especially suppliers providing local/regional content, ideally resulting in higher volumes over the course of the relationship (and thus better pricing). In the case of local suppliers, often in the early stages of cooperation Lenta focuses on helping the local supplier to improve the quality of its product assortment. After the supplier grows into a regional or even federal supplier, its future profitability becomes increasingly dependent on growing its market share. Due to its scale and pace of expansion, its knowledge of customer behaviour and its well-developed supply chain, Lenta is in a position to offer its suppliers the potential for greater market share, which, in turn, enables Lenta to negotiate improved purchasing conditions, thereby increasing its margins and competitiveness.

Lenta’s supplier base is diversified between federal suppliers, regional/local suppliers (who are particularly important for the supply of fresh food) and overseas suppliers (providing direct imports, generally non-food products, to Lenta). The table below sets forth the breakdown amongst these groups for the first half of 2015 by category of goods (measured by the purchase price paid to suppliers) and in aggregate:

Product Category / Type of Supplier	Share of goods⁽¹⁾
Dry food	
Federal (including private label)	96.0%
Regional/local	3.9%
Direct import.....	0.1%
Fresh food	
Regional/local	52.7%
Federal (including private label)	44.8%
Direct import.....	2.5%
Non-food	
Federal	54.1%
Direct import (including private label).....	45.9%

All product categories

Federal	71.0%
Regional/local	24.2%
Direct import.....	4.8%

Note:

(1) In terms of the purchase price paid to suppliers.

In keeping with its strategy to cater to local taste, Lenta aims to increase sourcing from qualified regional/local suppliers, which also reduces supply chain costs. In the first half of 2015, regional/local suppliers became the primary suppliers for Lenta’s fresh food, providing 52.7% of all its fresh food measured by purchase price paid (in 2014: 48.2%). Regional/local suppliers deliver their supplies both to distribution centres and directly to Lenta stores, but as Lenta has opened more distribution centres more regional/local supplies are being delivered via distribution centres than in prior years. Taking supplies from regional/local suppliers also demonstrates to regional/local governments the benefits to the regional/local economy of supporting the opening of Lenta stores. Lenta has dedicated local buying teams to tailor offerings to the local customer base, establishing strong relationships with regional/local suppliers, which often provide better pricing than federal suppliers.

Furthermore, given the growing scale of its purchasing, Lenta has been increasing the percentage of fresh goods, especially fruits and vegetables, imported directly to Lenta without the use and cost of intermediary importers, which shortens lead times, improves margins and enhances quality.

Terms and Conditions of Contracts with Key Suppliers

Lenta’s relations with its suppliers are regulated by a standard supply contract and a standard marketing contract. These contracts are renegotiated every year in the first half of the year. The contracts remain valid until a new contract is signed. Lenta endeavours to minimise deviations from the terms of the standard agreements and therefore the differences between the terms offered to each supplier, and accordingly any deviations are by way of separate schedule to the standard form contracts for ease of monitoring.

The standard supply agreement establishes: (i) Lenta’s purchase price for the goods; (ii) supplier bonuses, which are an important component of total retailer margins in Russia, whereby Lenta receives rebates in the event certain volume and growth targets are achieved; (iii) the terms and scope of any logistic services provided by Lenta; and (iv) the terms for the order, delivery, return and payment of supply. Lenta pays its food suppliers after receiving goods within the time limits established by the Retail Law (currently 10, 30 or 45 days after the date of delivery, depending on the shelf life of the relevant food product).

The standard marketing agreement contemplates the supplier paying Lenta for the services rendered by Lenta in connection with the opening of new stores, the upgrade of existing stores and the sale of new products, as well as other marketing and promotional services.

The main commercial and payment terms are usually negotiated by Lenta’s commercial team and the main supply chain conditions by the supply chain management department. Payment terms for the supply of food, including the use of rebates, are regulated by Russian law, and accordingly there is limited scope for negotiation. See “*Risk Factors—Risks Relating to Lenta’s Business and Industry—Risks relating to competition and demand—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law under current consideration may further impact Lenta’s relationship with its suppliers*”, “*—Risks Relating To Russia—Risks relating to Lenta’s business and industry—Lenta is subject to anti-monopoly laws enforced by the FAS, including application of the Retail Law, which may result in certain limitations being imposed on Lenta’s activities*”, and “*—Risks Relating to Lenta’s Business and Industry—Other risks relating to Lenta’s business—Increases in prices charged by food producers and reduction in days payable may have a material adverse effect on Lenta’s business*”.

Supermarket Roll-out

In April 2013, Lenta executed a ‘soft launch’ of its supermarket format in Moscow, marking a further evolution in the store formats used by Lenta. Lenta’s model supermarket format is designed for 1,000-1,200 sq. m. of selling space, and its supermarkets will generally be rented premises within shopping malls. Lenta has initially rolled-out its supermarket format in Moscow, where prime commercial real estate locations are scarce and expensive but which still remains relatively underpenetrated by modern food retailers. Lenta believes its “Value-for-Money’ proposition will be as attractive to consumers in Moscow as it has proved across the nation, and that the

supermarket format enables Lenta to capture clientele and extend its reach to parts of the market that would otherwise not be served. As of 30 June 2015, Lenta had brought 27 supermarkets into operation with a total of 28,915 sq. m. of selling space; supermarket sales accounted for 4.0% of Lenta's overall the first half of 2015 sales. Lenta management has decided to roll out the first Lenta supermarkets in St. Petersburg later this year and is actively considering the roll out of the supermarket format in other cities based on the encouraging results of this format in Moscow in 2013-2014. Management has also decided to add smaller-format supermarkets to its standard 1,100 sq.m supermarket format to enable Lenta to place its supermarkets in smaller premises while reaching consumers that prefer to shop in smaller stores – one store with a sales area of around 750 sq.m. has been opened and further stores with sales areas of 350 sq.m and 600 sq.m are planned.

Lenta's supermarkets are designed for frequent visits by local customers. The customer catchment area for supermarkets is 20 minutes walking time (as opposed to 20 minutes driving time for Lenta's hypermarkets). Lenta's supermarkets are typically located in high density residential urban areas well-served by public transport and with parking and transport access aimed at commuters and passers-by.

Reflecting the smaller size of supermarkets and their design for frequent visits by customers purchasing fresh food the supermarket assortment emphasises more fresh food products and fewer non-food items: the 1,100 sq.m Lenta supermarket is designed for 6,200 SKUs, with a particular focus on dry and fresh foods.

Lenta believes its supermarket operations should benefit from the following efficiencies:

- disciplined 6,200 SKU count for its typical supermarket with a focus on high-turnover products, a more efficient count than for many of Lenta's competitors;
- multi-skilled employees who can handle different roles as the need arises so that, for example, staff primarily employed in other roles can be moved to checkout duties during peak hours;
- high share of deliveries to the store from Lenta's distribution centre (up to 80% of aggregate goods flow by volume) allowing low handling costs and a high ratio of selling space to back office space in store whilst maintaining high availability levels; and
- use of Lenta's sophisticated information technology systems to minimise handling and optimise supply chain efficiency.

Lenta is expanding its supermarket chain given the potential for growth with high returns on its investment in part due to the relatively low initial capital costs for leased real estate, store fit-out and supply chain.

As of 30 June 2015, Lenta leased all but one of its supermarkets, which in part reflects that its supermarkets are predominantly in high-density urban areas where there is a supply of suitable rented space for supermarket-sized stores (and where property values are high). Lenta's practice of leasing its supermarkets allows for quicker expansion and limits its capital expenditure. Supermarket leases typically have a term of at least seven years with rent rates in line with market rates. Going forward, Lenta intends to lease its supermarkets, although it may purchase a supermarket should an attractive opportunity present itself. Lenta estimates that the average cost of fit-out of a leased supermarket was approximately RUB50-70 million in 2014, depending on the size and technical features of the building. The average time for fit-out for a supermarket (from taking possession to opening) is two to three months. Supermarkets generally reach traffic maturity more quickly than hypermarkets. Results from Lenta supermarkets to date have been encouraging: the 10 supermarkets operating for more than a year as at 31 December 2014 demonstrated robust like-for-like sales growth of 17.2% for the full year, while the like-for-like sales growth for the six months ended 30 June 2015 was 22.0%.

The supermarket format leverages Lenta's existing logistical and supply network as well as its marketing and management capabilities. Lenta seeks to benefit from economies of scale and its aggregated purchasing power as regards its supermarkets by utilising its centralised headquarters and back office staff, particularly with respect to category management, pricing and merchandising, to minimise overheads and leverage existing expertise, and by purchasing products under Lenta's centralised purchasing arrangements. At the same time, Lenta maintains separate supply chains for its supermarkets and hypermarkets, given the different demands of supermarkets and hypermarkets, notably as regards delivery frequency, lead times and centralisation requirements, and with deliveries to supermarkets in much smaller quantities compared to volumes delivered to hypermarkets.

In conjunction with opening its Moscow supermarkets, Lenta initially opened a leased distribution centre in Moscow dedicated to supplying them but ceased using it in July 2014, as it came to the view that using its owned Moscow distribution centre would be more economical. In June 2015, Lenta decided, in light of the planned

continued expansion of supermarkets operating in and around Moscow, to acquire a dedicated supermarket distribution centre near Moscow that is expected to open in the third quarter of 2016.

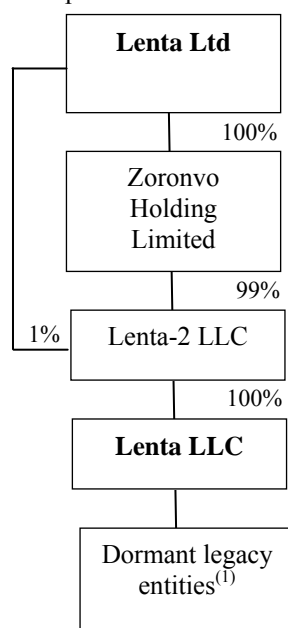
While Lenta’s supermarket business benefits from centralised strategic management and synergies in areas such as commercial relations and finance, senior management focus remains on the core hypermarket business, and the management of day-to-day operations of the supermarkets is executed by a dedicated team.

Lenta believes that its principal competitors for its supermarkets business currently are Atak, Dixy, Magnit and Perekrestok/Pyaterochka (part of the X5 Retail Group), as well as local chains. The largest chains in the supermarket segment currently have much larger networks of supermarkets than Lenta’s initial roll-out of stores, and at least one of them is likely present in the cities where Lenta may open supermarkets.

Organisational Structure

The Company is a company limited by shares incorporated under the laws of the BVI and is the holding company of the Group. The Group operates through Lenta LLC, a limited liability company organised and existing under the laws of the Russian Federation (with registration number 1037832048605). The Group also includes two subsidiaries used as intermediate holding companies, and a small number of subsidiaries incorporated in the Russian Federation held as a result of prior acquisitions. All of Lenta’s stores are owned or leased by Lenta LLC, which is Lenta’s primary operating company and which holds substantially all of Lenta’s operational assets and conducts substantially all of its business.

The following chart sets forth Lenta’s current corporate structure:



Note:

(1) Includes Tekhno-Invest LLC and Service centre on Energetikov LLC, wholly-owned by the Company directly; Panteon LLC, 99.9% owned by Lenta LLC and 0.1% owned by KamTorg LLC; Babyshkina-2 LLC, 99% owned by Lenta LLC and 1% owned by TRK-Volzshkiy LLC; Region-N LLC, 99.9% owned by Lenta LLC and 0.1% owned by Babyshkina-2 LLC; Tosnenskaya Stroitel'naya Kompaniya LLC, 99% owned by Lenta LLC and 1% owned by Panteon LLC; Terminal-Center JSC, 90% owned by Lenta LLC and 10% owned by TRK-Volzshkiy LLC; and 3 other entities (KamTorg LLC, Ufimskaya Gradostroitel'naya Kompaniya LLC and TRK-Volzshkiy LLC), 99.9% owned by Lenta LLC and 0.1% owned by the Company directly.

Lenta LLC is the main operating company of the Lenta group; Zoronvo Holdings Limited and Lenta-2 LLC are holding companies.

The Company’s registered office is at the Offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI, and its telephone number is 1-284-494-6004. The registered office of Lenta LLC, Lenta’s main operating company, and Lenta’s head office, is located at 112 Savushkina Street, St. Petersburg 197374, Russia.

Lenta’s supply, commercial, financial and sales strategies are managed centrally from the head office in St. Petersburg, with implementation in the regions overseen both by the head office and by Lenta’s divisional offices

in Novosibirsk, Rostov-on-Don and Moscow. Retail operations and store management are overseen by Lenta's operations director with the support of the four divisional directors.

Supply Chain Management

Lenta believes that one of its key competitive advantages is its effective supply chain management system tailored to Lenta's high-volume hypermarket model, which enables it to operate across a wide geographic area, keep transportation and handling costs economic, balance supply chain working capital and capital costs and also deliver high in-store product availability reliably for customers. The efficiency of Lenta's store operations, logistics network and warehousing strategy, whereby Lenta minimises storage space and handling cost by placing goods in high racks in the sale areas rather than moving goods from the backroom directly to the sale areas, helps Lenta to sustain its market-led low price leadership.

Lenta manages certain key logistical operations in-house, while outsourcing other operations to third party service providers with whom Lenta looks to build long-term relationships. Lenta currently maintains, and aims to retain, a mix of centralised deliveries via distribution centres and direct deliveries from suppliers to stores, taking into account store and supplier location, supplier capability, store format and product assortment.

Distribution

As of 30 June 2015, Lenta employed six modern distribution centres — two in St. Petersburg and one in each of Moscow, Novosibirsk, Rostov-on-Don and Togliatti — with a total space of 178.359 sq. m. In its supply chain operations, Lenta uses multiple product flows, pursuing the optimal mix of supplies delivered via its distribution centres and supplies delivered directly by suppliers to hypermarkets. For example, sometimes the optimal flow is for federal suppliers of dry goods or of canned/bottled goods to deliver directly to hypermarkets and sometimes the optimal flow is for Lenta to take pallets of different products delivered by nearby suppliers at one of its distribution centres and then assemble and ship them directly to hypermarkets or via another distribution centre. The increased number of owned distribution centres, especially in the regions, enables higher centralisation, leading to economies of scale and lower net distribution costs (which has been borne out by the first half of 2015 results). Furthermore it enables a greater proportion of sourcing directly from federal suppliers instead of their local distributors, an increased proportion of direct imports and a higher degree of local sourcing, all of which is expected to lead to a more relevant and higher quality assortment as well as better margins. Use of the distribution centres can result in swifter supply of goods to Lenta's stores (as opposed to delivery of those particular goods directly to stores) as goods from multiple suppliers can be shipped in a single truck to the stores, increasing delivery frequency while minimising costs by ensuring full truck-loads. Furthermore, when suppliers deliver supplies to distribution centres, they generally pay Lenta a service fee for Lenta's handling the onward transport of such products from the distribution centre to stores; and thus increased centralisation should increase this supplier fee income, wholly or partly offsetting the increased costs incurred.

Based on current supplier capabilities and supplier, store and regional structures, Lenta estimates that a maximum centralisation rate of roughly 50% of its goods destined for hypermarkets (measured by the inbound value of goods received by the store) would be appropriate for shipments via its distribution centres (compared to its current rate of approximately 41.8%). It is also Lenta's intention to increase to 60% the share of its deliveries (measured by pallets) within 400 km of its distribution centres that are carried out by its truck fleet (a level which has been achieved for its St. Petersburg distribution centres). These targets would be adjusted if better economies in supply chain operations would be achieved.

Lenta owns as well as operates five of its six distribution centres with a total space of approximately 149,727 sq. m. These owned distribution centres were designed to Lenta's own specifications; they are able to accommodate large deliveries and execute different goods flows on a multi-temperature basis. These owned distribution centres comprise the hypermarket distribution centre in St. Petersburg and the hypermarket distribution centres Lenta brought into operation in 2013 in Moscow and Novosibirsk and in early 2015 in Rostov and Togliatti. The Moscow distribution centre currently also services Lenta's supermarkets in Moscow, but a new distribution centre specifically designed to supply supermarkets is expected to be acquired in 2016. As a result, Lenta is able to process different product types in one location simultaneously and hold slow moving seasonal or own-brand items as well as high turnover items. Ownership also provides security of tenure and avoids rental cost inflation. Direct hiring and control of staff at distribution and use of Lenta IT helps ensure cost control and effective integration with Lenta's business operation. Separately, Lenta leases a second distribution centre in St. Petersburg, which is mainly used for the direct import of non-food products. Lenta has a long-term lease agreement with the third party owner-operator of this warehouse.

Lenta's hypermarket distribution centres are designed to cater flexibly to three main types of goods flow: storage, cross-docking and pick-by-line. Storage is typically the flow-type employed by supermarkets and small format stores which require more frequent small-volume deliveries. Cross-docking and pick-by-line product flows require less use of space and less labour time than storage flows, but are only practical when high volumes are involved, as is the case when delivering to large-volume hypermarkets. In 2014, in aggregate (as measured by the inbound value of goods received by the store), at Lenta's distribution centres 42% of goods were cross-docked, 17% picked-by-line and 41% stored. Lenta believes that its policy of having dedicated distribution centres for hypermarkets enables it to optimise the various types of goods flow, resulting in lower costs while ensuring high product availability in its stores.

Lenta adheres to strict quality control procedures at all of its distribution centres and regularly monitors the quality of merchandise and inspects packaging. Distribution centres operate 24 hours a day, every day. As of 30 June 2015, the distribution centres owned by Lenta had a total FTE count of 1,296.

The following table sets out certain information concerning Lenta's distribution centres in operation as of 30 June 2015:

Location	Total Space (sq. m.)	Ownership	Function
St. Petersburg (Shushary township).....	29,376	Owned	Full service multi-temperature for hypermarkets
St. Petersburg ⁽¹⁾	28,632	Leased	Non-food imports for hypermarkets
Moscow (Chekhov township).....	41,920	Owned	Full service multi-temperature for hypermarkets and supermarkets
Novosibirsk (Tolmachevsky township in the Novosibirsk region).....	39,119	Owned	Full service multi-temperature for hypermarkets
Rostov	19,656	Owned	Full service multi-temperature for hypermarkets
Togliatti	19,656	Owned	Full service multi-temperature for hypermarkets

Note:

(1) In respect of this 'leased' distribution centre, Lenta has entered into a services agreement with a third-party logistics company under which Lenta is granted the right to use such distribution centre, and is afforded certain logistics services in connection with such use.

Lenta expects to bring one more owned distribution centre into operation in late 2015, in Yekaterinburg (in the Urals federal district), with a total space of approximately 20,000 sq. m. Upon its completion, Lenta's distribution centres in aggregate will have the capacity to service over 200 stores, with Lenta owning a distribution centre in each of the federal districts in which it mainly operates stores. Most of Lenta's stores will be within 400 km of one of its distribution centres, the working radius of Lenta's fleet of trucks, as discussed below.

To ensure that the investment made in its supply chain system is managed efficiently, Lenta has also prioritised the development of its supply chain IT systems. In 2011, Lenta introduced SAP enterprise warehouse management in order to more effectively manage goods flow at its distribution centres. In 2013, it implemented Oracle transport management software, which allows Lenta to optimise incoming and outgoing goods flow and increase truck utilisation, thereby driving down the transport cost per pallet. Lenta is also in the process of introducing JDA Forecast and Replenishment Software, an automated replenishment system that centralises orders and is expected to enhance Lenta's ability to forecast future sales and considerably streamline store operations. Implementation has begun with Lenta's dry-foods assortment and is now being expanded to the fresh food product categories.

Transportation

Own fleet

As of 30 June 2015, Lenta owned (or leased) a fleet of 66 (52 owned and 14 leased) delivery trucks, each with a euro-4 emissions rating, multi-chamber temperature-controlled trailers and a GPS location tracking system. Lenta's truck fleet is based in St. Petersburg, Moscow and Novosibirsk and carries out short-haul deliveries of up

to 400 kilometres, within which third party capacity is limited, particularly at the end-of-year peak season. The use of its truck fleet gives Lenta better reliability and quality of delivery services. Reflecting the high product volumes of its hypermarkets, Lenta's truck deliveries usually comprise a large tractor-trailer (32-pallet capacity) delivering its entire load to a single store. Lenta considers the benefit of operating its own fleet outweighs the cost of acquiring and maintaining the fleet, and Lenta currently intends to increase the size of its fleet up to 150 trucks in 2016 to support its increased utilisation of its expanded set of six (and soon seven) distribution centres (and added 25 trucks to its fleet in early October 2015). In the first half of 2015, approximately 40% of deliveries (measured in terms of pallets transported) were delivered to Lenta stores using Lenta's truck fleet, as compared to 34% in 2014.

Third-party transport service providers

In addition to its truck fleet, Lenta engages a number of third-party transport companies to provide delivery services. Lenta enters into long-term contracts with these delivery companies that contain performance incentives relating to quality and reliability. The performance, pricing and selection of these service providers are periodically reviewed to ensure a high level of delivery service at minimum cost. Service quality is encouraged by a bonus/fine mechanism incorporated in the contracts. Where Lenta imports products, it engages a variety of land and sea transportation operators for transportation from overseas to Russian ports and to Lenta's distribution centres. The customs clearances process is overseen by customs brokers acting on behalf of Lenta.

Competition

The Russian food retail market currently prominently features the domestic retailers Magnit, X5 Retail Group, Dixy, Lenta and O'Key, and the international chains Auchan and METRO. Lenta was ranked as the sixth largest food retailer in Russia (as measured by 2014 sales), based on publicly available information on peer companies and Infoline estimates. Most of the food retailers operate multiple formats. See "*Business—Market structure and competitive landscape*".

Lenta believes that with respect to its hypermarket operations Auchan, O'Key, Magnit hypermarkets and Karusel (part of the X5 Retail Group) are its current principal competitors. Each of these chains has hypermarkets across Russia and may have plans to open, or has already opened, stores in the same cities where Lenta has opened or intends to open hypermarkets, in direct competition with Lenta. See "*Risk Factors—Risks Relating to Lenta's Business and Industry—Risks relating to competition and demand—Lenta faces significant competition in its current areas of operation and in connection with its expansion strategy*". In certain cities, Lenta also competes with smaller, regional players, such as, for example, Holiday Classic and Sibirsky Gigant in Novosibirsk, Prisma in St. Petersburg, Semya in Perm and Liniya in Voronezh. See "*—Supermarket Roll-out*" for a discussion of Lenta's competition in the supermarket sector.

Information Technology

Lenta operates an integrated and centralised IT system (capable of simultaneously processing 20 terabytes of productive data across 3,000 users) that covers all major aspects of its business. Lenta's core SAP ERP system is supported by 'best-of-breed' business-specific applications for logistics, commerce, marketing, operations, warehouse and in-store systems, business analytics and other administrative systems. The system enables management to make efficient pricing and inventory management decisions, facilitates Lenta's budgeting and accounting processes, allows for standardisation of Lenta's operations across its chain of stores and automates routine transactions with suppliers.

Lenta endeavours to use the best available software for each area of its operations. It currently uses SAP systems to manage operations, accounting, business intelligence, human resources, warehouse/inventory levels, and electronic document interchange for supply chain documentation. Lenta uses: Oracle systems for budgeting and financial planning and projections, transportation management and customer relationship management; JDA for central sales forecasting and replenishment/ordering and space management (planograms and store layout); Wincor Nixdorf for its point-of-sale systems; and the systems-to-systems Electronic Data Interchange (EDI) with its suppliers to reduce costs and the potential for errors in order deliveries and invoicing. Lenta is encouraging the expanded use of EDI with its suppliers and is engaging EDI service providers to link the systems of Lenta's suppliers with Lenta's infrastructure. In 2014, Lenta installed SAP HANA and Oracle Exadata, which together improved its IT performance; in 2015, the capacity of these performance-enhancing systems has been increased to ensure Lenta's IT remains scalable to its ongoing expansion.

In-store IT infrastructure employs standardised sets of equipment sourced from leading suppliers such as IBM and Cisco, adapted for each store format to lower installation costs and aid maintenance. In general, Lenta's IT systems are designed for optimal cost-efficiency taking into account fault-tolerance, scalability and performance priorities.

Lenta's IT infrastructure is centralised at its St Petersburg headquarters, with a remote back-up centre. All business-critical systems run on failsafe active clusters, all systems are backed up, and Lenta has a disaster recovery plan in place (including an off-site data centre). Lenta's IT systems feature full redundancy both in terms of applications and data storage. Lenta has an external firm conduct a comprehensive IT security audit on its systems annually.

The system provides for the timely exchange of information between Lenta's stores, distribution centres, regional offices and head office, including demand forecasting, goods ordering from suppliers and distribution to warehouses and stores, price monitoring and price management, marketing activities management, and sales monitoring and reporting.

Lenta's IT platform is scalable to support over 500 stores in all formats in the mid-term. Lenta has a dedicated IT team of approximately 120 staff in the head office and the regions, and has a training programme in place to educate the staff on operating the systems.

Intellectual Property

Under Russian law, the right to use a trademark is acquired upon the trademark's registration with the Federal Service on Intellectual Property (the "**Federal IP Service**"). The "Lenta" trademark ("Лента" in Cyrillic characters) was registered with the Federal IP Service with priority from 19 May 2006 (No. 317082) expiring on 19 May 2016. Lenta holds its trademark "Lenta" ("Лента" in Cyrillic characters) for class 35 of the International Classification of Goods and Services in respect of retail and wholesale trade. It holds its trademark "Lenta Лента" (in Latin and Cyrillic characters, respectively) with priority from 16 July 2010 (No. 454431), expiring on 16 July 2020, for several classes of the International Classification of Goods and Services, such as a range of food and other products as well as for shipping and packaging of goods. Furthermore, it holds seven "Lenta"-related figurative trademarks with different options for corporate brand-book designs. See "*Risk Factors—Other risks relating to Lenta's business—Lenta may not be able to enforce its intellectual property rights*".

As of 31 December 2013, Lenta has also registered 29 trademarks in respect of its private label products, including the following: "365 дней" (in Cyrillic characters) and "Dolce Albero", "Homeclub", "Lentel" and "Giardino Club" (all in Latin characters). All of these trademarks will need to be renewed by 2020.

Lenta has also registered the domain names lenta.com, www.lentainvestor.com, www.lenta-investor.com, www.lentainvestor.ru and www.Лента.рф.

Insurance

Lenta maintains insurance coverage in respect of its stores, equipment, premises and transportation fleet. It maintains business interruption insurance as well as third-party liability insurance with respect to construction (also insuring against the risk of loss of assets), retail operations, use of properties, use of retail equipment, transportation fleet and advertising and related activities. Lenta also provides its employees with medical and other insurance as required by Russian law and maintains directors and officers insurance. Other than where required by law or described above, Lenta does not purchase third-party liability insurance. Lenta's insurance policies currently in force are provided by a number of major Russian insurance companies and by Zurich Insurance.

Environmental Protection

Lenta produces various types of waste, which are removed by third-party waste disposal contractors. Lenta also conducts an environmental review of its land plots prior to constructing new stores or distribution centres. Lenta believes it complies in all material respects with the environmental standards applicable to it under Russian law and regulations. Lenta has not been involved in any material legal proceedings that are, or have been in the 12 months preceding the date of this Prospectus, related to environmental protection issues.

Employees

Reflecting its recent expansion, Lenta's monthly average FTE count was 29,776 in the first half of 2015, 27,219 in 2014, 20,313 in 2013 and 15,326 in 2012. The following table sets out the monthly average FTE count by function for the six months ended 30 June 2015 and for the years ended 31 December 2014, 2013 and 2012:

	Six months ended	Year ended 31 December		
	30 June	2014	2013	2012
In-store personnel.....	27,372	24,812	18,642	14,163
Distribution	1,267	1,230	753	478
Management and other.....	1,137	1,177	918	685
Total	29,776	27,219	20,313	15,326

The following table sets out the FTE count by function as of 30 June 2015 and year-end 2014, 2013 and 2012:

	Month ended	Month ended 31 December		
	30 June	2014	2013	2012
In-store personnel.....	28,083	32,170	25,633	18,359
Distribution	1,386	1,678	1,126	468
Management and other.....	1,186	1,235	1,058	791
Total	30,655	35,084	27,817	19,617

Lenta also outsources some responsibilities, in particular cleaning and security functions, the costs of which are accounted for in SG&A (under the line items "Cleaning services" and "Security services"), and these workers are not included in Lenta's FTE count. Approximately 96% of Lenta employees work on a full-time basis (with part-time staff hired for certain peak periods such as the pre-New Year season) and 73% are female. The average tenure of a Lenta employee is approximately 2.2 years. Lenta's average annual employee turnover rate is in line with the average industry level. Its turnover rates are typically lower in its mature stores than in new stores, as staffing levels and composition stabilises over time and employees in new stores are sometimes unaccustomed to working in a retail store. In 2014, turnover rates were 37% in stores in the like-for-like panel and 46% overall, compared to 45% and 47%, respectively, in 2013.

There are no collective bargaining agreements between Lenta and its employees; there is a trade union with a small number of Lenta employees. Lenta has not experienced any industrial action by its employees. Lenta considers its relationship with its employees to be satisfactory.

Lenta's staff are overseen by human resources management divided into divisional, regional and sectoral sub-departments, with dedicated teams for new store recruitment, staff training and development (which also supervises the maintenance of necessary licences for specialist staff), employee benefits and payment administration (which also deals with labour legislation compliance, work permits and employment contract matters), labour safety monitoring, and appraisal and promotion. Recruitment is managed in-house, with approximately 99.8% of available vacancies filled through Lenta's own efforts.

Employee Compensation

All staff and management positions are divided into pay grades, with each grade assigned a salary scale subject to regional adjustments (in the case of junior staff, with three sub-steps within a grade intended to permit pay rises within a staff role and assist retention). In general, in setting salaries for management positions, Lenta seeks to pay approximately 10% over market (i.e., the median local salary for the relevant position) and for junior staff Lenta seeks to set remuneration at the relevant market median. Salary increases are performance-linked, driven by an annual appraisal cycle focusing on each employee's performance in certain core competencies, and market-linked.

The average monthly base salary of Lenta's employees was RUB35,472 in 2014, RUB33,398 in 2013 and RUB31,731 in 2012, calculated as payroll divided by the average FTE count. Increasing number of stores tends to decrease the average monthly base salary, partially offsetting the effects of inflation, because it lowers the relative

share of higher-paid head-office personnel. The increase of total labour cost per FTE in the first half of 2015 was 1.9%.

Lenta offers its employees performance-linked pay and other incentives. All Lenta employees are eligible for the payment of additional remuneration, determined on the basis of a range of quantitative and qualitative performance measures. For junior staff, possible performance-linked pay ranged in 2014 from 20% to 40% of gross base salary, linked to key indicators for the employee's store, such as sales, inventory turnover, productivity and quality of performance. For head office and management staff, possible performance-linked pay ranged in 2014 from 13% to 100% of gross base salary, and was linked to key indicators, including sales, Adjusted EBITDA, divisional performance, number of stores opened, quality of performance and compliance with regulations, as well as individual or team goals in many cases.

In addition, for its top tier managers Lenta has instituted an equity-based management incentive plan (the MIP) and for other key executives and senior employees an equity-based long-term incentive plan (the LTIP), each as discussed in "*Management and Corporate Governance—Interests of Directors and Senior Management*". See also "*Risk Factors—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's business—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's Business—Lenta's competitive position depends on its management's experience and expertise, including that of its Senior Management, and Lenta's ability to recruit and retain qualified personnel*".

Personnel Training

Lenta believes that the service provided by its staff significantly contributes to customer satisfaction and loyalty. In turn, Lenta is committed to developing its staff and their proper training for their positions. Promoting high-performing employees from within by assigning them new responsibilities and possibly transferring them to new stores or cities both helps retain ambitious employees and ensure Lenta's expansion is carried out by trained employees. Lenta requires all new staff to undergo introductory training (up to a three week course for key store positions), including safety training. Lenta also provides training for particular technical functions, to develop key competencies and to upgrade or maintain professional qualifications. To develop managers, Lenta offers a multilevel 'Lenta-Leader' programme—the first level for new managers to receive instruction in the basics of management, with higher levels targeted for development of advanced managers. This training is provided in classes and by distance learning through Lenta's human resources training system LENTA-Master, and by in-house specialists and third party providers. In 2014, an average of 31 hours of training was provided per employee. Lenta believes that such training and development reduces staff turnover, increases productivity, places focus on low-cost service and provides an internal pipeline of skilled staff for promotion. This internal pipeline is particularly significant given Lenta's rapid expansion, which requires the filling of new managerial roles (both vertically and horizontally), and Lenta's preference for internal promotion.

Lenta is committed to creating a strong, friendly and collegiate corporate culture, with team building functions held within each store. Lenta also provides a confidential hotline to its staff to monitor and support compliance with Lenta's ethics policy, consistent with Lenta's commitment to the fair treatment of staff and customers.

Legal Proceedings

Save as follows, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on Lenta's financial position or profitability: the Company is subject to a claim brought by a former general director of Lenta LLC in the courts of the BVI who alleges he is entitled to share options under which he would receive 0.5% of the Shares in the Company; the Company disputes the claim. On 12 March 2015, the High Court of Justice of the British Virgin Islands dismissed the application by Lenta for the BVI court not to hear the case on grounds of *forum non conveniens*; Lenta is appealing this ruling.

CAPITALISATION

The following table shows Lenta's capitalisation, comprised of total long-term borrowings and total equity as of 30 June 2015. Historical financial information of Lenta as of 30 June 2015 has been extracted from the Financial Information included elsewhere in this Prospectus. For further information regarding Lenta's financial condition, see "Selected Consolidated Financial Information", "Operating and Financial Review" and the Financial Information included elsewhere in the Prospectus.

	At 30 June 2015 <i>(RUB millions)</i> (unaudited)
Short-term borrowings:	
Short-term borrowings and short-term portion of long-term borrowings	16,337
Total short-term borrowings	16,337
Long-term borrowings:	
Long-term borrowings	55,275
Long-term obligations under finance leases	27
Total long-term borrowings	55,302
Total equity:	
Share capital	0
Additional paid-in capital	17,023
Share options	205
Hedging reserve	1,063
Retained earnings	12,528
Total equity	30,820
Total capitalisation⁽¹⁾	86,122

Note:

(1) Total capitalisation is the sum of total long-term borrowings and total equity.

Since 30 June 2015, there have been no material changes in Lenta's capitalisation.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The financial data set forth below as of 30 June 2015 and 2014 and the six-month periods then ended and as of 31 December 2014, 2013 and 2012 and for the years then ended have been extracted without material adjustment from the Financial Information. The Financial Information has been prepared in accordance with IFRS. Lenta's functional and presentation currency is the Rouble.

The financial information set forth below should be read in conjunction with "Operating and Financial Review" and the Financial Information, including the notes thereto, included elsewhere in the Prospectus.

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
Consolidated statement of profit or loss and other comprehensive income data					
Sales	114,897	85,899	193,988	144,266	109,910
Cost of sales.....	(89,921)	(67,515)	(150,131)	(112,805)	(87,233)
Gross profit	24,976	18,384	43,857	31,462	22,677
Selling, general and administrative expenses....	(16,852)	(12,943)	(28,106)	(18,940)	(13,456)
Reversal of impairment of non-financial assets	—	—	—	—	0
Other operating income	1,179	1,235	2,267	1,460	1,118
Other operating expense	(289)	(86)	(359)	(181)	(125)
Operating profit	9,015	6,590	17,659	13,801	10,215
Interest expense	(5,353)	(2,934)	(6,911)	(4,342)	(3,217)
Interest income	255	38	100	82	78
Change in fair value of financial instruments at fair value through profit or loss	6	—	(19)	(234)	102
Other expenses.....	—	(43)	(41)	(91)	(215)
Foreign exchange gains/(losses)	(134)	(8)	140	(23)	70
Profit before income tax	3,789	3,643	10,928	9,192	7,032
Income tax expense	(824)	(964)	(1,853)	(2,045)	(1,856)
Profit for the period	2,966	2,679	9,075	7,147	5,176
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Net movement of cash flow hedges.....	(1,904)	905	3,286	(54)	—
Income tax	381	(181)	(657)	11	—
Other comprehensive income for the period, net of tax	(1,523)	724	2,629	(43)	—
Total comprehensive income for the period, net of tax	1,443	3,403	11,704	7,104	5,176

	As of 30 June 2015	As of 31 December		
	2015	2014	2013	2012
	<i>(RUB millions)</i>			
Consolidated statement of financial position data				
Total non-current assets	97,908	90,906	57,358	34,856
Total current assets, <i>of which</i>	42,761	50,339	30,972	20,339
Cash and cash equivalents	12,143	12,036	6,212	3,536
Total assets	140,669	141,245	88,330	55,195
Total non-current liabilities	59,481	62,334	41,955	25,910
Total current liabilities	50,367	62,181	41,461	30,126
Total liabilities	109,849	124,515	83,415	56,036
Total equity	30,820	16,730	4,915	(841)
Total equity and liabilities	140,669	141,245	88,330	55,195

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
<i>(RUB millions)</i>					
Consolidated statement of cash flows data					
Net cash generated from operating activities	(1,015)	749	15,979	10,936	9,314
Net cash used in investing activities	(11,775)	(11,792)	(35,111)	(23,633)	(15,015)
Net cash generated from financing activities	12,897	7,708	24,955	15,372	4,101
Net (decrease)/increase in cash and cash equivalents	107	(3,335)	5,824	2,676	(1,600)

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
Other financial data					
Gross margin (%) ⁽¹⁾	21.7	21.4	22.6	21.8	20.6
EBITDA (RUB millions) ⁽²⁾	11,704	8,285	21,318	16,118	11,794
Adjusted EBITDA (RUB millions) ⁽²⁾	11,747	8,122	21,377	16,467	12,771
Adjusted EBITDA margin (%) ⁽²⁾⁽³⁾	10.22	9.5	11.0	11.4	11.6
EBITDAR (RUB millions) ⁽²⁾⁽⁴⁾	12,988	8,870	22,728	16,717	12,316
Adjusted EBITDAR (RUB millions) ⁽⁴⁾⁽⁵⁾	13,030	8,707	22,786	17,076	13,293
Adjusted EBITDAR margin (%) ⁽⁵⁾⁽⁶⁾	11.3	10.1	11.7	11.8	12.1
Net debt (RUB millions) ⁽⁷⁾	59,497	51,010	59,215	39,831	25,341
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽⁷⁾	2.4	2.8	2.8	2.4	2.0
Adjusted EBITDA to net interest expense ratio ⁽²⁾⁽⁸⁾	2.8	3.4	3.1	3.9	4.1
Lease-adjusted net debt to Adjusted EBITDAR ratio ⁽⁵⁾⁽⁹⁾	2.8	3.1	3.1	2.6	2.1
Adjusted EBITDAR to net interest expense plus rental expense ratio ⁽⁵⁾⁽⁸⁾	2.4	3.1	2.8	3.5	3.6
Operating cash flow to Adjusted EBITDA ratio ⁽²⁾⁽¹¹⁾	0.93	1.00	1.06	0.90	0.97
Capital expenditure (RUB millions) ⁽¹²⁾	11,775	11,792	35,111	23,633	15,015

	As of or for the six months ended 30 June		As of or for the year ended 31 December		
	2015	2014	2014	2013	2012
Operational data⁽¹³⁾					
Total selling space (thousands of sq. m.) (as of period-end)	751	542	701	507	376
of which:					
Hypermarkets	722	525	675	495	376
Supermarkets	29	17	27	12	—
Number of stores (as of period-end)	143	96	132	87	56
of which:					
Hypermarkets	116	82	108	77	56
Supermarkets	27	14	24	10	—
Average selling space (thousands of sq. m.) ..	727	523	568	416	313
Average hypermarket selling space (thousands of sq. m.)	699	509	551	412	313
Average sales density (RUB thousands/sq. m.) ⁽¹⁴⁾	158	164	342	347	351
Average hypermarket sales density (RUB thousands/sq.m.)	158	165	332	348	351
Number of tickets (millions of units) ⁽¹⁵⁾	105	81	176	132	104
Number of hypermarket tickets (millions of units) ⁽¹⁵⁾	97	77	166	130	104
Average store ticket (RUB) ⁽¹⁶⁾	1,091	1,065	1,099	1,092	1,061

Average hypermarket ticket (RUB).....	1,133	1,092	1,132	1,100	1,061
Average ticket growth (% change, period-on-period) ⁽¹⁶⁾	2.4	1.2	0.7	2.9	9.3
Traffic growth (% change, period-on-period) ⁽¹⁷⁾	30.6	36.6	33.6	27.5	12.0
Like-for-like sales growth (% change, period-on-period) ⁽¹⁸⁾	11.5	13.8	10.6	10.0	13.5
Like-for-like sales (% of sales) ⁽¹⁸⁾	83.2	82.1	81.5	83.2	92.6
Like-for-like average ticket growth (% change, period-on-period) ⁽¹⁹⁾	6.5	7.3	6.0	8.1	10.1
Like-for-like additional articles per ticket (% change, period-on-period) ⁽²⁰⁾	(5.9)	0.9	(1.8)	2.0	3.1
Like-for-like average price growth per article (% change, period-on-period) ⁽²¹⁾ ..	13.2	6.4	8.0	6.0	6.8
Like-for-like traffic growth (% change, period-on-period) ⁽²²⁾	4.7	6.1	4.4	1.8	3.1
Like-for-like average selling space (thousands of sq. m.) ⁽²³⁾	509	383	415	301	270
Like-for-like average sales density (RUB thousands/sq. m.) ⁽²⁴⁾	188	184	381	399	376
Sales from new stores (RUB millions)	19,325	15,344	35,870	24,198	8,186
Sales growth from new stores (% change, period-on-period) ⁽²⁵⁾	22.5	24.7	24.9	21.3	9.0
Share of new store sales growth in total sales growth (% of sales) ⁽²⁵⁾	66.6	64.6	72.1	68.2	39.9

Notes:

- (1) Gross margin is calculated as gross profit as a percentage of sales.
- (2) EBITDA is defined as profit for the period before foreign exchange gains/(losses), reversal of impairment of non-financial assets, revaluation of financial instruments at fair value through profit and loss, other expenses, depreciation and amortisation, interest and tax. Adjusted EBITDA is defined as EBITDA adjusted for non-recurring one-off items such as changes in accounting estimates and one-off non-operating costs.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to profit for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
			<i>(RUB millions)</i>		
Adjusted EBITDA	11,747	8,122	21,377	16,467	12,771
One-off non-operating costs	(43)	163	(58)	(350)	(977)
EBITDA	11,704	8,285	21,318	16,118	11,794
Interest expense	(5,353)	(2,934)	(6,911)	(4,342)	(3,217)
Interest income	255	38	100	82	78
Income tax expense	(824)	(964)	(1,853)	(2,045)	(1,856)
Depreciation/amortisation	(2,690)	(1,695)	(3,659)	(2,317)	(1,579)
Reversal of impairment of non-financial assets	—	—	—	—	0
Other expenses	—	(43)	(41)	(91)	(215)
Revaluation of financial instruments at fair value through profit or loss	6	—	(19)	(234)	102
Foreign exchange gains/(losses)	(134)	(8)	140	(23)	70
Profit for the period	2,966	2,679	9,075	7,147	5,176

- (3) Adjusted EBITDA margin is Adjusted EBITDA as a percentage of sales.
- (4) EBITDAR is EBITDA before rent paid on land, equipment and premises leases.
- (5) Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.
- (6) Adjusted EBITDAR margin is Adjusted EBITDAR as a percentage of sales.
- (7) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents.
- (8) Net interest expense is interest expense less interest income.
- (9) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.
- (10) [Intentionally omitted.]
- (11) For the purposes of this ratio, operating cash flow is defined as net cash generated from operating activities less net cash interest paid. The figures given for 30 June 2015 and 2014 are for the 12 months ended on such dates.
- (12) Capital expenditure represents net cash used in investing activities.
- (13) Note like-for-like data in 2013 and 2012 reflect only hypermarket performance (as no supermarkets were in the like-for-like panel in 2013 or prior years).
- (14) Average sales density is total sales during the relevant period divided by the average selling space for that period.

- (15) Ticket means the receipt issued to a customer for his basket.
- (16) Average ticket is calculated by dividing total sales, net of VAT, at all stores during the relevant period by the number of tickets in that period.
- (17) Traffic is the number of tickets issued for the relevant period.
- (18) Like-for-like sales is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (19) Like-for-like average ticket is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (20) Like-for-like additional articles per ticket is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (21) Like-for-like average price growth per article is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (22) Like-for-like traffic is calculated as described in “Presentation of Financial and Other Information—Presentation of Operating Information”.
- (23) Like-for-like average selling space is the average of selling space on 1 January of the year and quarterly-end selling space for each quarter of the relevant period for the stores comprising Lenta’s like-for-like panel at the end of such period.
- (24) Like-for-like average sales density is the average sales density for the stores comprising Lenta’s like-for-like panel.
- (25) New store sales comprise sales at stores open for less than 12 full calendar months.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of Lenta's financial condition and results of operations as of and for each of the six months ended 30 June 2015 and 2014 and the years ended 31 December 2014, 2013 and 2012 should be read in conjunction with "Selected Consolidated Financial and Other Data" and the Financial Information.

The information contained in the discussion set forth below and elsewhere in this Prospectus includes forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Prospectus.

Overview

Lenta is Russia's second largest hypermarket operator and sixth largest food retailer, as measured by 2014 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, price-led hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2014, Lenta achieved the highest sales growth and selling space growth among Russian publicly traded food retailers (based on publicly available information on peer companies).

Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in seven of Russia's nine federal districts. As of 30 June 2015, Lenta had a total of 751,033 sq. m. of selling space, comprised primarily of 116 hypermarkets with an aggregate selling space of 722,118 sq. m. in 62 cities, including Russia's largest cities of St. Petersburg and Moscow and 60 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the daily/weekly shopping of a diverse range of customers.

Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 23,800 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 95 of its 116 hypermarkets, leasing the remainder. In 2013, Lenta carried out a 'soft launch' of its supermarket format in Moscow, and as of 30 June 2015 operated 27 supermarkets, all but one of which are leased. Lenta utilises six distribution centres (with one more expected to be fully operational in late 2015) to supply its hypermarkets and supermarkets, all as part of its supply chain operations.

Lenta's recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. Lenta enjoyed like-for-like sales growth of 11.5% in the first half of 2015 compared to 10.6% in 2014, 10.0% in 2013, and 13.5% in 2012. Lenta opened 31 new hypermarkets and 14 new supermarkets in 2014, the most stores it has opened in one calendar year in its history. Lenta's supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently Lenta remains on track to achieve its stated goal of doubling its selling space over the three years ending December 2016.

Lenta's distinctive customer proposition is 'Value-for-Money', offering consistently-available products at affordable prices in well-organised stores. Lenta's practice is to seek to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta continues to adhere to this price leadership strategy even in the current difficult macroeconomic environment. Lenta's 7.6 million active cardholders (as of 30 June 2015) make consistent use of the Lenta loyalty card with approximately 90% of all sales in the first half of 2015 and in 2014 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.

Underpinning Lenta's low-price business model are its operational efficiencies, which are driven by a flexible, low-cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its

suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores. Lenta opened two new distribution centres in the first half of 2015 and is currently constructing a new distribution centre in Yekaterinburg that is expected to come into operation in late 2015. Once this distribution centre is completed, Lenta will have seven distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In June 2015, Lenta decided, in light of the planned continued expansion of supermarkets operating in and around Moscow, to acquire a dedicated supermarket distribution centre near Moscow that it intends to make operational in 2016. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 30 June 2015, Lenta had 66 trucks and trailers in its own fleet, 14 of which were leased. Lenta's in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta's advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.

Significant Factors Affecting Results of Operations

The following key factors have affected Lenta's results of operations in the six months ended 30 June 2015 and 2014 and the years ended 31 December 2014, 2013 and 2012 and can be expected to affect its future results of operations:

- Russian macroeconomic conditions and trends, in particular, the evolution of disposable incomes and consumer spending;
- Lenta's ability to sustain and grow like-for-like sales by offering competitive pricing, promotions and product assortment;
- Lenta's ongoing expansion of its chain of hypermarkets in multiple formats both in cities with current operations and in new cities;
- Lenta's ability to maintain and increase gross margins from suppliers;
- the ongoing development of Lenta's supply chain network; and
- Lenta's efficient operational management.

Russian macroeconomic conditions and trends, in particular, the evolution of disposable incomes and consumer spending

Since all of Lenta's stores are located in Russia, and Lenta has no current plans to expand outside Russia, changes in Russian GDP and real disposable income directly affect Lenta's average ticket size and overall sales. GDP growth rates and the increase in real disposable incomes in Russia in 2013 and 2012 had a positive impact on Lenta's traffic, average ticket and overall sales. In 2015, as GDP has contracted and real disposable income decreased, Lenta's average basket size has declined in terms of the number of articles purchased per ticket.

The following table sets out key Russian economic indicators for the six months ended 30 June 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
Real GDP growth/(decline) (period-on-period) (%)	(3.4)	0.6	0.6	1.3	3.4
Inflation (CPI) (%)	8.5	4.8	11.4	6.5	6.6
Inflation (CPI) (period-on-period) (%)	16.0	7.0	7.8	6.8	5.1
Food products price index (%) ⁽¹⁾	10.8	7.6	15.4	7.3	7.5
Food products price index (period-on-period) (%)	21.3	8.4	10.1	7.7	4.4
Unemployment rate (%)	5.4	4.9	5.2	5.5	5.5

Real disposable income growth/(decline) (period-on-period) (%)	(3.1)	(1.0)	(0.7)	4.0	4.6
Real household consumption growth/(decline) (period-on-period) (%)	(8.7) ⁽²⁾	2.1	1.9	4.7	7.9
Nominal appreciation/(depreciation) of the Rouble against the U.S. Dollar (average) (%) ⁽³⁾	(38.9)	(11.3)	(16.2)	(2.4)	(5.5)
Real appreciation/(depreciation) of the Rouble against the U.S. Dollar (average) (%).....	(29)	(6.8)	(11.1)	2.7	(2.7)

Sources: CBR, Rosstat and Fedstat.

Note:

(1) Including alcoholic beverages.

(2) This figure is for second quarter 2015; information for first half 2015 is not currently available.

(3) Real appreciation is distinguished from nominal appreciation because the former also takes into account inflation in Russia and the United States, as well as certain other macroeconomic parameters that are calculated by the CBR.

From 1999 to the second quarter of 2008, the Russian economy enjoyed a sustained period of growth, largely driven by high commodity prices, particularly for hydrocarbons. In the wake of the 2008 financial crisis, the Russian economy (as measured by real GDP) contracted by 7.8% in 2009, particularly due to a sharp drop in oil prices. Notably, food retail sales remained resilient during the crisis relative to other sectors of the economy. In 2009, food retail sales fell by 1.9%, compared to a 9.3% decline in the industrial production index and an 8.2% decline in non-food retail sales. The Russian economy returned to growth in 2010, expanding by 4.3%. In 2011, 2012 and 2013, Russia exhibited a real GDP growth rate of 4.3%, 3.4% and 1.3%, respectively. Over these three years, CPI annual inflation stayed within a range of 6.1% - 6.6%, while the year-on-year change in the food products price index (including alcoholic beverages) ranged from 3.9% (in 2011) to 7.5% (in 2012). During these three years, real disposable income increased 0.5% in 2011, 4.6% in 2012, and 4.0% in 2013 consistently outpaced by the growth in real household consumption, which increased by 6.8%, 7.9% and 4.7%, respectively. In 2014, the condition of the Russian economy deteriorated, in large part driven by a steep decline in the global oil price in the second half of the year and Western sanctions. Real GDP growth was almost flat at 0.6%, as were food retail sales (in real terms), which declined by 0.1%. CPI inflation reached 11.4% while the food products price index (including alcoholic beverages) climbed to 15.4%, in part due to an August 2014 Russian ban on the import of certain food products from the EU, the United States, Norway and Australia. Real disposable income fell in 2014 by 1.0% while real household consumption growth fell to 1.9%. The state of the Russian economy has further deteriorated in the first half of 2015 (year-on-year): real GDP contracted by 3.4%, food retail sales fell 7.7%, and CPI inflation climbed 16.0% with the food products price index (including alcoholic beverages) rising 21.3%. In the first half of 2015 (year-on-year), real disposable income fell by 3.1% (according to Rosstat), while real household consumption in the first quarter of 2015 dropped by 9.0% (according to Fedstat). See *“Risk Factors—The Russian economy has fallen into recession in 2015, is suffering from renewed Rouble depreciation, inflation and capital flight, and depends highly on the global pricing of crude oil, which has fallen significantly”*.

Over the past decade, there has been a shift in consumer preference in Russia from traditional food retail formats, such as covered markets and small grocers (over-the-counter stores), towards the modern food retail formats that Lenta and its competitors operate. Reflecting this trend, the share of modern grocery retail formats in the total value of grocery sales was estimated by Euromonitor at 61% in 2013, compared to 57% in 2012 and 54% in 2011. Following the downturn in the Russian economy in 2009, Russian consumers have become more price-conscious, promotion-sensitive and more inclined to shop around for the best offer, and the current Russian economic difficulties are further inculcating this behavior. Lenta believes its like-for-like traffic (up 4.7% in the first half of 2015) has benefited from this change in consumer habits, given Lenta’s ‘Value-for-Money’ proposition to consumers. In 2015, Lenta has seen an increase in traffic by low-frequency customers, often attracted by specific promotions (whose average basket of goods is less than for its frequent customers).

The state of the Russian economy (whether trending upwards or downwards) will continue to have a significant impact on Lenta’s results of operations, as well as on its ability to implement its expansion strategy.

Lenta’s ability to sustain and grow like-for-like sales by offering competitive pricing, promotions and product assortment

Growth in Lenta's business is driven by a combination of growth arising from like-for-like sales and growth arising from the expansion of its hypermarket network. In 2013, after years in which Lenta's growth had been primarily driven by like-for-like growth, Lenta's growth was instead primarily driven by new stores growth (68.2% of total sales growth in 2013), a trend which continued in 2014 (72.1% of total sales growth) and the first half of 2015 (66.6% of total sales growth).

Lenta was precluded from more significant expansion and opened only three hypermarkets in each of 2010 and 2011 in large part because of a shareholder conflict, which was resolved in September 2011. Accordingly, in 2011 and 2012 Lenta's sales growth was primarily driven by like-for-like sales growth mainly due to improved store operations, including better assortment and in-store availability of products, improved pricing and more relevant promotions. In 2012, like-for-like sales grew by 13.5% (with overall sales expanding by 22.4%), and, in 2011, like-for-like sales grew by 21.2% (with overall sales growing by 27.1%). The two key drivers of Lenta's like-for-like sales growth were: traffic growth, which grew by 3.1% in 2012 and by 10.6% in 2011; and average ticket growth, which grew by 10.1% in 2012 and by 9.6% in 2011. Both Lenta's traffic and ticket growth—and thus its strong like-for-like sales growth—are a direct consequence of Lenta's pricing, promotion and assortment policies.

Low prices targeted at families and women are at the centre of Lenta's core 'Value-for-Money' proposition, by which Lenta aims to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. In addition, Lenta obtains price reports on local competitors (including not only modern retailer competitors but also of local grocers and covered markets) on at least 1,000 articles no less frequently than weekly, with price reports on certain KVIs, particularly fresh articles, reported as often as every other day. Lenta's centralised commercial team can implement price changes at any time at any store, and does so frequently to adjust pricing to the competitive environment. Lenta believes that the positive impact of its 'Value-for-Money' proposition on traffic growth offsets the negative impact that pricing at a discount has on average ticket.

A notable feature of Lenta's offer to consumers is that it employs a variety of special, seasonal and loyalty programme-based discount offers to increase price competitiveness and brand awareness, foster customer loyalty and attract new customers, thereby driving traffic and ticket growth. Lenta tailors its promotions to local conditions, taking into account the variety of local climates and tastes across Russia. Goods sold as part of promotions have accounted for 26.3% of total sales in 2013 and 27.6% in 2014, increasing to 30.4% in the first half of 2015.

Lenta has developed an effective assortment policy that balances the requirement to have a comprehensive product range with a disciplined SKU count so as to provide a comprehensive clear product offering for customers while optimising operational efficiencies and inventories. Lenta's assortment policy is driven by customer preferences and is regularly revised based on Lenta's 'Big Data' consumer insights programme (using information generated by the use of its loyalty card), market developments (as monitored by Lenta and by third-party advisors) and Lenta's understanding of evolving customer needs. Lenta includes in its assortment a significant share of 'destination categories', which are goods that are designed to draw customers to Lenta's hypermarkets. Lenta believes that the constant adjustment of its product range and mix is a particular attraction to Lenta's key target customers—female shoppers who are shopping for their families—and a key driver of traffic growth. Lenta is taking measures in response to the current difficult macroeconomic environment to spur its like-for-like sales growth, including selectively adding to its SKU count in lower-priced goods (food and non-food), enhancing its private label products offering and emphasizing in its non-food offering essential items of frequent, routine use (e.g. household articles, basic clothes, underwear, stockings – which Lenta refers to as 'food-like non-food items') while decreasing the share of discretionary non-food assortment.

As a result of Lenta's opening 14 hypermarkets in 2012 (of which 7 opened before December 2012) and 21 hypermarkets in 2013 (of which 12 opened before December 2013), the proportion of very young stores (i.e., 1-3 years old) in its like-for-like panel grew significantly during the second half of 2013, 2014 and the first half of 2015. This proportion will grow significantly further given that 17 of the 31 hypermarkets opened in 2014 opened in December 2014 and will join the like-for-like panel only in January 2016. Hypermarket sales tend to grow more rapidly in their initial years of operation, particularly in the first three years (of which the 2nd and 3rd years are included as like-for-like stores) as the stores become better known to shoppers in their catchment areas, so the growing proportion of very young stores should provide 'in-built' structural support to like-for-like sales growth.

The following table sets out a breakdown, in terms of percentage of all hypermarkets in the relevant like-for-like panel, of Lenta's like-for-like hypermarket panel by age:

	December 2012	January 2013	December 2013	January 2014	December 2014	January 2015	December 2015	January 2016
	(<i>% of all hypermarkets in the relevant like-for-like panel</i>)							
Hypermarket Age⁽²⁾								
1-2 years	5%	7%	14%	25%	18%	27%	28%	29%
2-3 years	7%	7%	6%	5%	21%	18%	20%	19%
3-4 years	5%	5%	6%	5%	4%	4%	9%	13%
4-5 years	20%	19%	4%	4%	4%	4%	2%	3%
>5 years	63%	62%	69%	61%	53%	47%	41%	36%

Notes:

- (1) Projections for December 2015 and January 2016 are based on hypermarkets in operation as of 30 June 2015.
(2) Years since first full month of operations.

An important feature of Lenta hypermarkets has been the relatively long period over which they have continued to mature and grow like-for-like sales, historically at rates significantly above inflation. Generally, hypermarkets tend to mature over a longer time period in comparison to smaller formats such as supermarkets; Lenta believes that its combination of competitive pricing, attractive promotions and effective assortment has enabled it to stretch out this maturation period of increasing sales.

Lenta believes that its like-for-like sales growth will continue through the end of 2015 and in 2016 largely due to the factors explained above, particularly the greater proportion of new hypermarkets in their initial ramp-up phase entering its like-for-like panel of hypermarkets, supported by Lenta's continuing efforts to improve the attractiveness of its offer to consumers in order to extend the maturation period over which their sales outpace inflation. At some future point, Lenta's like-for-like sales growth would moderate if its rate of new store additions as a percentage of total stores falls, as this would feed into the like-for-like panel over time and result in a smaller proportion of its hypermarkets in their earlier, high-growth, ramp-up stage. The entry of stores opened as of December 2014 into the like-for-like panel after they have been in operation 12 full months gives assurance that the proportion of hypermarkets in the very young, 1-3 year age group will continue to grow through January 2016. Like-for-like sales growth may also decline (or increase) over time due to lower (or higher) inflation or greater (or lower) competition or other factors affecting the attractiveness of Lenta's overall offering to customers.

The following table sets out certain financial and operating data for each quarter of 2014 and the first two quarters of 2015:

	2014				2015	
	1Q	2Q	3Q	4Q	1Q	2Q
Like-for-like sales growth (% , year-on-year)	13.6%	14.1%	8.9%	7.6%	15.0%	8.6%
Like-for-like traffic growth (% , year-on-year)	6.1%	6.1%	4.2%	1.9%	7.8%	2.0%
Like-for-like average ticket growth (% , year-on-year).....	7.0%	7.6%	4.5%	5.6%	6.7%	6.4%
Sales growth (% , year-on-year) ⁽¹⁾	37.3%	39.0%	32.9%	30.6%	37.7%	30.4%
Selling space growth (%) ⁽¹⁾⁽²⁾	2.8%	7.2%	12.7%	38.7%	40.0%	38.6%

Notes:

- (1) Includes both hypermarkets and supermarkets.
(2) Quarterly selling space growth calculated as selling space added during the quarter as a proportion of total selling space as of 31 December of the preceding year.

Lenta's ongoing expansion of its chain of hypermarkets in multiple formats both in cities with current operations and in new cities

The number of hypermarkets operated by Lenta has significantly increased over the past three years – from 56 at year-end 2012 to 77 at year-end 2013, 108 at year-end 2014 – and reached 116 at 30 June 2015. The following table sets out the number of Lenta's hypermarkets in operation, as well as their total selling space as of year-end 31 December 2014, 2013 and 2012 and as of 30 June 2015:

	As of 30 June	As of 31 December		
	2015	2014	2013	2012
Number of hypermarkets.....	116	108	77	56

Total selling space of hypermarkets (thousands of sq. m.).....	722	675	495	376
Average selling space of hypermarkets (thousands of sq. m.).....	699	551	412	313

Lenta expects that the ongoing expansion of its store network will continue to contribute to its growth in the medium term. With 31 new hypermarket openings in 2014 and 21 new hypermarket openings in 2013, most of which began operations in the fourth quarter of the respective year, sales growth from new stores (% change, year-on-year) was 24.9% in 2014 (compared to 21.3% in 2013 and 9.0% in 2012) and the share of new store sales growth in total sales growth (% of sales) was 72.1% in 2014 (compared to 68.2% in 2013 and 39.9% in 2012). Lenta currently plans to open at least 30 hypermarkets in 2015 (for which total capital expenditure in 2015 (taking into account expenditure made to date and projected to year end) is approximately RUB35 billion, primarily sourced from cash generated from operating activities), of which 14 had been opened by 30 September 2015) and 10-15 supermarkets, of which three had been opened by 30 September 2015. Lenta's management plans to continue to assess additional capital expenditure in 2016 in light of sales, cashflow, and EBITDA results and the Rouble interest rate environment, adjusting expenditures appropriately. Currently, Lenta remains on track to achieve its stated goal of doubling its selling space over the three years ending December 2016.

The success of Lenta's expansion programme is largely based on its ability to identify suitable sites for purchase or lease both in cities where it currently has operations and in new cities, including increased use of its compact and supercompact hypermarket formats. In 2014, Lenta acquired three hypermarkets from Bimart, which opened under the Lenta brand in December 2014; in September 2015, Lenta agreed to acquire three hypermarkets and four land plots from O'Key (one of these hypermarkets opened under the Lenta brand in September 2015). Lenta may pursue further acquisitions.

When considering a new location, Lenta applies rigorous and tested investment criteria. This includes a studied approach to choosing new locations with a detailed analysis of new plots along macro-economic, commercial, technical and site-specific criteria that is followed by a careful decision-making process with close collaboration between various departments with the in-depth involvement of Senior Management and the Board of Directors' capital expenditure committee.

Lenta's expansion programme is expected to benefit from increased use of its compact and supercompact hypermarket formats. While Lenta to date has predominantly operated its standard hypermarkets typically with 7,000 sq. m. of total selling space, Lenta plans to further deploy its 5,000 sq. m. compact hypermarket model and 3,000 sq. m. supercompact model especially (i) where Lenta identifies a good location for a store but the size of its land plot cannot accommodate a standard-sized hypermarket, (ii) to fit available premises for lease, often within a shopping mall, or (iii) where the expected customer traffic in the catchment zone of the store indicates a smaller store is suitable. Going forward, Lenta expects a greater proportion of its compacts and especially its supercompacts will be in leased premises (reflecting that many of them are in shopping malls) than is the case for its standard, stand-alone hypermarket model. Given that leased premises may not match Lenta's standard 7,000/5,000/3,000 sq. m. hypermarket formats, Lenta has developed practices to adjust its standard formats to the leased space. For example, Lenta has developed a method of managing the various assortments in non-standard stores by defining for each sub-category of product offering (i.e., fresh food, dry food, non-food and private label) three levels of assortment, which can be combined into an overall assortment appropriate for the size of the rented premises and its catchment area.

In carrying out its expansion programme, Lenta's emphasis will remain on real estate ownership, which shields Lenta from fluctuations in rental prices and the loss of leases. Importantly, ownership affords Lenta greater control over its hypermarket opening plans, both in terms of location and timing. By ownership, Lenta can pursue sites and open stores in cities where developers are not active or where suitable rented property is unavailable. Ownership also enables Lenta to control and oversee the construction of the hypermarket and set its schedule, which results in greater predictability of opening dates than is typically the case when using third-party developers who may have competing projects to complete. Finally, by ownership Lenta can optimise format and layout consistency across its store portfolio. As of 30 June 2015, Lenta owned 83% of its total selling space (and 87% of its total hypermarket selling space), leasing the remainder, and incurred rents for buildings and land (including land underneath owned premises) of 1.1% of sales in the first half of 2015. In the medium-term, Lenta plans to own at least 80-85% of its total selling space across all hypermarket formats, reflecting continued emphasis on Lenta's ownership of its hypermarkets but increased use of compact and supercompact hypermarkets, which are often leased, and supermarkets, which are usually leased.

Lenta's ongoing expansion programme has led to higher capital expenditure and increased financial indebtedness. Lenta's net cash used in investing activities increased to RUB35,111 million in 2014, from RUB23,633 million in 2013 and RUB15,015 million in 2012, primarily reflecting the opening of 31 new hypermarkets in 2014, 21 new hypermarkets in 2013 and 14 new hypermarkets in 2012 (and the associated assembly of the land bank for these and future hypermarkets) as well as capital expenditure to bring five owned distribution centres into operation and expand the owned St. Petersburg distribution centre. In the first half of 2015, Lenta's net cash used in investing activities in the amount of RUB11,775 million was stable in comparison to the first half of 2014 at RUB11,792 million. As of 30 June 2015 Lenta had contractually committed capital expenditure of RUB 15,206 million, most of which will be paid out in the second half of 2015. Lenta expects that its total capital expenditure for all of 2015 (including the RUB11,775 million paid out in the first half of 2015) will be approximately RUB 35 billion. Lenta's management will continue to assess capital expenditure for the remainder of 2015 and in 2016 in light of its sales, cashflow and EBITDA results, the Rouble interest rate environment and expected return on investment.

Lenta's ability to maintain and increase gross margins from suppliers

In keeping with Russian industry practice, Lenta's suppliers pay Lenta bonuses designed to reward mutually beneficial growth. Lenta obtains discounts, rebates and bonuses from its suppliers, typically taking the form of a bonus paid by the supplier to Lenta based on aggregate volumes of goods purchased, as well as service fees arising from services rendered by Lenta to suppliers. The bonus and service fee payments have historically had a significant beneficial impact on Lenta's margins. As Lenta continues to grow and expand, it expects to further leverage the scale of its buying into lower costs.

As Lenta has increased the pace of its expansion, it has seen improvements in the terms it receives from its suppliers. For example, in 2011, when Lenta experienced relatively high like-for-like sales growth of 21.2%, but opened only three new stores, suppliers rewarded Lenta with modestly improved bonus payments. However, in 2012, 2013 and 2014, when Lenta broadened the scale of its promotional activities and increased the pace of expansion, opening 14 new hypermarkets in 2012, 21 new hypermarkets in 2013 and 31 new hypermarkets in 2014, suppliers began to view Lenta as an increasingly important part of their client portfolio. As such, Lenta has been able to negotiate more favourable purchasing terms, including higher bonus payments and promotional fees. In the fourth quarter of 2014, when the macroeconomic situation in Russia deteriorated, the Rouble fell and interest rates increased, many of Lenta's suppliers raised prices and requested an accelerated timeframe for processing future price-changing requests. Such price increases, however, did not significantly affect Lenta's gross margin, as they were largely offset by corresponding increases in Lenta's prices. In the first half of 2015, Lenta held off on finalising new annual supply agreements pending potentially significant changes in the Russian Retail Law that would establish new mandatory provisions of such supply contracts. See *"Risk Factors—Risk Relating to Lenta's Business and Industry—Other risks relating to Lenta's business—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta's relationship with its suppliers"*. As this legislative initiative apparently stalled, Lenta pursued new contracts, and by September 2015 had entered into new contracts with its major suppliers, on terms overall more favorable to Lenta than the prior contracts (the benefit of which is expected to be reflected in Lenta's second half 2015 results). If the Russian Retail Law is amended to impose a lower cap on aggregate bonuses that may be payable by suppliers, Lenta expects that it should be generally able to renegotiate its supplier contracts to achieve price reductions on gross pricing so as to substantially offset the negative effect of the lower bonuses and preserve its gross margins. At the same time, Lenta has invested considerably more in carrying out (lower-margin) promotions in an effort both to attract new customers and to retain existing customers. The portion that promotional sales comprise of total sales grew to 30.4% in the first half of 2015 from 27.6% in 2014. Part of the cost of such promotions is borne by suppliers, especially in the case of dry goods.

Lenta believes that the information and services it offers its suppliers will enable it to obtain further income from suppliers. In 2013, Lenta, in collaboration with the data analytics specialist emnos GmbH, began work on compiling a database that is expected to provide deeper insight on customer behaviour and market trends, including price elasticity of demand for given product categories, customer segmentation patterns and response rates to pricing and promotions (referred to as 'Big Data'). Such information is enhancing the impact of Lenta's direct marketing. In 2014, in response to shifting customer behaviour resulting from the deteriorating economic conditions in Russia, Lenta intensified its direct marketing activities including a November 2014 campaign in which over one million customers received individualised discount leaflets as well as active use of coupons and SMS marketing. Such efforts are also of value to suppliers as they enhance Lenta's ability to sell their products. During 2015, such direct marketing campaigns have continued, reaching more customers. Insight from Big Data

has helped in developing the best mix of promotions and discounts, which Lenta believes is one reason for the increase in its like-for-like traffic in the first half of 2015.

Ongoing development of Lenta's supply chain network

Russia's vast size presents significant logistical challenges to food retailers operating across the country, who need to take into account travel distances, varying climates and time differences when managing their supply chains.

Lenta believes its supply chain system is essential to the successful execution of its low-cost strategy and the improvement of its gross margins. In operating its supply chain system, Lenta manages multiple supply flows, pursuing the optimal mix of supplies delivered via its distribution centres and delivered directly to hypermarkets. Lenta believes three important benefits result. First, by having its supply chain system expand in anticipation of its store expansion, Lenta expects to mitigate one of the highest risks of expansion: having stores in place without the ability to service them. Second, its supply chain system enables Lenta to expand its network of regional/local suppliers and develop closer collaboration with them, thereby lowering sourcing costs and allowing regional sourcing of Lenta's private label brands (potentially increasing the profitability of Lenta's own-branded articles), to deliver its product assortment to more remote areas and to increase its capacity to handle direct imports. Third, Lenta believes that its improved supply chain will allow it to improve in-store availability from its first half of 2015 level of 96.7% of active SKUs to even higher levels.

Efficient operational management

Labour costs account for a significant share of Lenta's costs, with total adjusted labour costs comprising 7.8% of its sales in the first half of 2015 (8.2% in 2014). With Lenta's total labour costs increasing as it adds to its workforce to continue to implement its expansion programme, Lenta seeks to maintain an efficient workforce with high productivity levels and low turnover.

In 2014, monthly average FTE count for the year grew by 34.0% compared to sales growth of 34.5% and in 2013, monthly average FTE count for the year grew by 32.5% compared to sales growth of 31.3%. In the first half of 2015 the monthly average FTE count grew by 9.4%. In 2014, Lenta's sales per FTE of RUB7.1 million were amongst the highest of Russian federal food retailers.

The following table sets out information regarding Lenta's FTE workforce and labour costs as of and for the years ended 31 December 2014, 2013 and 2012 and for the six months ended 30 June 2015 and 2014:

	As of and for the six months ended 30 June		As of and for the year ended 31 December		
	2015	2014	2014	2013	2012
Monthly average FTE count ⁽¹⁾	29,776	25,131	27,219	20,313	15,326
Sales per FTE (RUB millions).....	3.9	3.4	7.1	7.1	7.2
Total adjusted labour costs ⁽²⁾ (RUB millions), <i>of which</i>	8,961	7,425	15,869	11,228	7,898
Wages and bonus	6,549	5,408	11,582	8,140	5,836
Social security levies.....	1,778	1,443	2,928	2,095	1,510
Average adjusted labour costs ⁽²⁾ per FTE (RUB thousands), <i>of which</i>	300.9	295.4	533.2	503.9	479.3
Average wage + bonus per FTE (RUB thousands)	219.9	215.2	425.7	400.8	380.8
Total wages, bonuses and social security levies as a % of total labour costs	92.9	92.3	91.4	91.2	93.0
Total adjusted labour costs ⁽²⁾ as a % of sales (%).....	7.8	8.6	8.2	7.8	7.2
Total SG&A labour costs as per IFRS as a % of sales.....	6.1	6.7	6.2	6.0	6.4
Own-production labour costs as a % of sales.....	1.2	1.4	1.2	1.2	1.1
Supply chain labour costs as a % of sales	0.5	0.5	0.5	0.3	0.2
Pre-opening labour costs as a % of sales.....	0.1	0.2	0.2	0.2	0.2

Notes:

- (1) FTE count is derived from total paid hours divided by the normal working hours for a full time employee for that month. Normal working hours are the number of days excluding weekend days in the relevant month, multiplied by 8.
- (2) Total adjusted labour costs includes own production labour costs, supply chain labour costs and labour costs that are part of preopening costs and excludes certain one-off effects.

Expansion has contributed to an increase in the monthly average FTE count (as discussed above) and, consequently, to an increase in overall labour costs. Lenta fully staffs the new stores from opening based on expected sales volumes and taking in account generally lower productivity levels of new employees. Accordingly, Lenta incurs significant salary costs while the stores are ramping up their operations.

The average salary of a Lenta employee is higher than the average Russian salary, which in part reflects Lenta's presence in urban centres where salaries are higher and Lenta's policy to pay managers on average roughly 10% above market to help attract and retain qualified staffing. Lenta's average monthly base salary per FTE was RUB35,472 in 2014, RUB33,398 in 2013 and RUB31,731 in 2012, compared to the Russian national average wage of RUB32,600 in 2014, RUB29,792 in 2013 and RUB26,629 in 2012, according to Rosstat. The growth in the monthly average FTE count was the main driver of Lenta's total labour cost growth during the periods under review, followed by growth in average FTE wage. Lenta expects that the absolute amount of its labor costs will continue to increase in the near term as it continues to expand and add to its workforce. Lenta's labour contracts do not tie employee compensation to the domestic rate of inflation.

Of key importance to Lenta's future success will be its ability to attract, train and retain talented store, regional and senior management. To this end, in addition to its salary policy, Lenta offers its staff an attractive training and development package, including a three-week training programme for key hires in new stores. There is a relative shortage of managerial talent in Russia, and a competitive market for their services, especially in the retail sector. See "*Risk Factors—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's Business—Lenta's competitive position depends on its management's experience and expertise, including that of its Senior Management, and Lenta's ability to recruit and retain key personnel*". Accordingly, Lenta has developed a pool of talent for promotion internally: in 2014, for example, 2,550 employees were promoted to higher level positions, including 16 out of 31 new store managers. Lenta believes it has benefited significantly from having its core senior management largely in place since 2011 and plans to continue cultivating experienced internal talent in an effort to maintain high workforce productivity.

Recent Developments

The following recent developments should be taken into account when assessing Lenta's results of operations:

The Volatile Rouble Exchange Rate and the Deteriorating Russian Economy

The Rouble has lost considerable value during the last 12 months while at the same time exhibiting significant volatility: the average Rouble/U.S. dollar exchange rate was RUB36.18/\$1 for the third quarter of 2014, RUB46.96/\$1 for the fourth quarter of 2014, RUB62.16/\$1 for the first quarter of 2015, RUB52.63/\$1 for the second quarter of 2015 and RUB62.85/\$1 for the third quarter of 2015, reflecting weaknesses in the Russian economy and elevated levels of CPI inflation (16.0% in the first half of 2015, year-on year) and food inflation (21.3% in the first half of 2015, year-on year). The fall in the Rouble adds to Lenta's costs in that: Lenta imports (directly and indirectly) products (food and non-food) from abroad, and even the pricing for Russian domestic products tends to converge with pricing for foreign ones over time; additionally, equipment used in Lenta's logistics operations (e.g., trucks and forklifts) are mostly imported (or assembled in Russia using foreign components). See "*Risk Factors—Risks Relating to Lenta's Business and Industry--Risks relating to demand and competition—Lenta's results reflect general economic conditions in Russia, including changes in consumer confidence and spending, which are currently deteriorating*". The current downturn in the Russian economy, which is likely to continue at least through 2015, is affecting consumer behaviour. As was the case during the 2008 economic downturn in Russia, consumers are especially price-conscious and promotion-sensitive, which Lenta believes plays to its strengths: its 'Value-for-Money' customer proposition as the low price leader across key product areas, sustained by its loyalty card programme (designed so that Lenta customers gain 5% savings on their typical basket) and confirmed by its ongoing weekly and seasonal promotions. In current circumstances, more Lenta customers are buying lower-priced goods at Lenta, purchasing lower-priced brands and especially Lenta's private label food assortment, which is priced to give the optimal 'Value-for-Money'. Lenta has adjusted its offering in recent months: expanding its SKU-count of lower-priced goods; expanding its range of entry-price private label products; and making some food items available in smaller, less-expensive packs. Lenta's 2015 promotions have emphasized everyday goods rather than non-essential 'impulse' purchases. In keeping with this trend towards economy, the increase in the average price per article in the first half of 2015 (at 13.2%) was lower than inflation (at 16.0%). Average basket size in terms of the number of articles purchased per ticket has decreased (by 5.9% in the first half of 2015) as customers turn more frugal (by trading down in quantity and quality and by purchasing fewer articles per visit while sometimes shopping more frequently). Lenta's Big Data bears out that while immediately after an economic shock (such as 15-18 December 2014 when the Rouble fell

from RUB58.35/\$1 to RUB67.79/\$1 with some traders quoting RUB80/\$1) customers may elect to immediately put off shopping at Lenta (instead making smaller, more frequent purchases at supermarkets and other venues), many of them resume their weekly (or more frequent) shopping at Lenta's hypermarkets, albeit with more selective, lower-priced baskets. Lenta believes that this reflects a realisation by these consumers that Lenta offers a better value proposition. While the abrupt fall of the Rouble against other currencies led to a sharp surge in demand for big-ticket non-food items for several days in December 2014, the longer-term trend is that consumers are tempering their purchases of non-essential, especially high-priced, non-food goods. In response to this trend, Lenta is emphasizing everyday staples (such as household articles, underwear, stockings and other essential items of frequent, routine use – which Lenta refers to as 'food-like non-food items') in its non-food assortment (and conversely placing less emphasis on consumer electronics).

Interest rates increased significantly in Russia in 2014: the CBR's benchmark rate (for its one-week repo auctions) stood at 5.5% in January 2014 and then climbed to 7.0% on 3 March 2014, 7.5% on 28 April 2014, 8.0% on 28 July 2014, 9.5% on 5 November 2014, 10.5% on 12 December 2014, and then crested at 17.0% on 16 December 2014 when the CBR made an emergency announcement in an effort to defend the Rouble that proved unsuccessful. In an effort to prevent a more significant economic downturn, the CBR reduced the benchmark rate twice in early 2015 – to 15.0% on 2 February 2015 and to 14% on 16 March 2015 and has since made stepped reductions in 2015 to 12.5% on 5 May, 11.5% on 16 June and 11% on 3 August. Commercial interest rates, including rates applied for Rouble floating interest rate loans, have tracked the CBR rate, including on Lenta's Rouble floating interest rate borrowings. As of 30 June 2015, RUB26.8 billion, or 37.1% of Lenta's debt, was Rouble floating rate debt (including short-term debt bearing fixed interest at current market rates when drawn but excluding long-term debt (including the short-term portion thereof) bearing fixed interest and excluding debt with floating interest that Lenta has hedged to reduce its exposure). Lenta has actively managed its debt portfolio through swaps and caps. Lenta retired RUB10,825 million of its higher-interest floating-rate Rouble debt with proceeds of the March 2015 equity offering, which were applied towards Lenta's credit facilities as follows: RUB3,075 million to repay the 2011 VTB Facility Agreement and RUB7,750 million to repay revolving credit facilities with JSC Bank Saint-Petersburg, Raiffeisenbank, JSC VTB Bank and JSC Sberbank, representing the entire aggregate principal amounts outstanding on these four revolving facilities as of the closing date of the March 2015 offering (27 March 2015). Lenta has since re-borrowed the principal amount of RUB1,250 million under the revolving credit facility with JSC Bank Saint-Petersburg and the principal amount of RUB1,250 million under the revolving credit facility with Raiffeisenbank, in each case as of 30 June 2015. The weighted average interest rate on Lenta's indebtedness was 15.85% as of 31 December 2014, 17.5% for first quarter of 2015, 13.9% for the second quarter of 2015 and 12.5% for the third quarter of 2015; by Lenta's estimate, each 1% fall in the quoted MosPrime interest rate reduces its weighted average interest rate on its indebtedness by 0.4%. See *"Risk Factors—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's business— Lenta's cost of borrowing has increased as interest rates have risen in Russia, and increases in interest rates above current levels could negatively impact Lenta's pace of expansion"*.

Effect of the Russian Food Import Ban

In August 2014, in a countermeasure to the Western economic sanctions imposed against Russia in response to the Ukraine crisis, the Russian Government imposed a one-year ban on certain food imports from the European Union countries, Norway, the United States, Canada and Australia (countries that had imposed sanctions on Russia). The ban prohibits the import from these countries to Russia of various food stuffs including beef, pork, poultry, fish, milk and dairy products, vegetables, fruits and nuts. In August 2015, the ban was extended for another year and to further include food imports from Albania, Iceland, Liechtenstein, Montenegro and Ukraine.

At the time the ban was imposed, the prohibited imports accounted for approximately 6% of Lenta's total sales (whether imported directly by Lenta or via a distributor), a relatively low percentage compared to the approximately 12% of Lenta's total sales such goods have accounted for in the mid-winter months, as the ban was imposed in the midst of the Russian harvest season. The ban took immediate effect upon its announcement on 7 August 2014. Lenta promptly took action to find substitute lines of supply, taking advantage of its efficient supply chain organisation, including its direct import capability, network of modern multi-temperature distribution centres and broad domestic supplier base. In general, Lenta quickly succeeded in securing replacement supplies, in large part from domestic suppliers (e.g., Russian suppliers of chicken and pork) but also taking supply from diverse international sources such as purchasing fruit from South Africa, beef from Argentina and Brazil, cheese from Switzerland and salmon from the Faroe Islands. Some items, for example goods of specified origin such as French cheeses and Parma ham, could not be replaced; in some cases the quality of substitute goods were not as high as the substituted goods. Between the utilisation of pre-existing stock and sourcing of new supplies, Lenta has been able to maintain its full offering of products.

Securing the new lines of supply has entailed costs to Lenta. In respect of domestic supplies, the sudden increased demand for replacement goods prompted some Russian suppliers to hike their prices; this resulted in Lenta, in cases where it declined to meet the new price, terminating relationships with suppliers. In respect of international supplies, these sometimes entailed higher pricing and transport/logistics costs. Lenta absorbed some of the increased costs through a reduction of its margins on some goods. As the ban continues, the diversification of supply continues and the supply/demand balance is returning, which in turn relieves pressure on prices.

As for the effect on Lenta's sales, increased prices (e.g., in the case of salmon, quadrupling) and the loss of certain supplies (e.g., French cheeses) has changed consumer purchasing behaviour and resulted in some loss of sales. For example, Lenta's Big Data reveals that customers who had bought salmon moved to purchasing chicken. The banned products comprised a higher percentage of sales in Russia's most affluent cities (such as Moscow and St Petersburg), where consumers as a group are less price sensitive (and vice versa). In many cases the increased product pricing was in keeping with overall food inflation in Russia (which was 15.4% during 2014 and 10.8% during the first half of 2015) and with competitors' pricing. Even if the ban (in its current form) is extended past its currently scheduled August 2016 expiration, Lenta believes that it has been able to manage the consequences of the food ban, making the appropriate adjustments to its lines of supply, and its adverse effects are being mitigated over time.

Trading Update

Stores and Space

In the third quarter of 2015, Lenta opened six hypermarkets (three owned standard hypermarkets in Murmansk, Moscow and Novokuznetsk, two owned compact hypermarkets in Kemerovo and Volgograd and one leased compact hypermarket in Moscow), taking the total number of stores to 149 (122 hypermarkets and 27 supermarkets). The Company entered Murmansk in the third quarter of 2015 and is now present in 63 cities. Lenta added more than 36,000 sq.m. of new selling space in the quarter with total selling space increasing to 787,804 sq.m. as of 30 September 2015 (a 38.3% increase as compared to 30 September 2014).

Lenta currently plans to open at least 30 hypermarkets and 10-15 supermarkets during the calendar year 2015, including the 14 hypermarkets and 3 supermarkets opened through 30 September 2015. Total capital expenditure for the store expansion during 2015 (as expended to date and expected to year-end) is estimated to be approximately RUB35 billion. Lenta is currently targeting to open 32 hypermarkets in 2016. Currently, Lenta remains on track to achieve its stated goal of doubling its selling space over the three year period ending in December 2016. As of 30 September 2015, Lenta owns 30 land plots, on which hypermarkets are expected to be eventually developed, and participates in 20 rental and co-investment arrangements, which may lead to new hypermarket openings. Lenta perceives the current Russian macroeconomic environment as an opportunity to continue its store expansion, gain market share and add to its landbank. See "*Business—Business Strategy—Benefits of the Offering*".

Sales

Continuing selling space additions and like-for-like growth supported Lenta's overall year-on-year sales growth of 29.3% in the third quarter of 2015. Total sales in the third quarter of 2015 amounted to RUB62,753 million, compared to RUB48,547 million in the third quarter of 2014.

In the third quarter Lenta continued to implement digital marketing activities to reach customers, with special offers tailored on an individual basis to enhance traffic. The number of active loyalty cardholders increased to 8.0 million as of 30 September 2015 (which represents a 33% year-on-year increase).

The following table sets out Lenta's like-for-like sales growth, average ticket growth and traffic growth for the third quarter of 2015 and for the first nine months of 2015:

	Three months ended 30 September 2015			Nine months ended 30 September 2015		
	Like-for-like sales growth	Like-for-like average ticket growth	Like-for-like traffic growth	Like-for-like sales growth	Like-for-like average ticket growth	Like-for-like traffic growth
Lenta total (%)	8.5%	6.2%	2.1%	10.4%	6.4%	3.7%
hypermarkets	8.3%	6.3%	1.9%	10.2%	6.5%	3.5%
supermarkets	14.7%	9.0%	5.2%	19.1%	9.7%	8.5%

Like-for-like sales growth of 8.5% in the third quarter of 2015 was supported by like-for-like traffic growth of 2.1% and average like-for-like ticket increase of 6.2% due to inflationary effects partly offset by a reduction in the number of items per basket, negative changes in the product mix and price investments. Like-for-like food sales in the third quarter increased by 10.0%, while like-for-like non-food sales decreased by 0.8%. Sales were negatively affected by trading down with customers switching to lower-priced articles within a particular product category as well as a high base for comparison, especially in July and August (as the Rouble started exhibiting significant volatility in September 2014). Sales growth accelerated in September, with strong like-for-like sales growth and like-for-like traffic growth; like-for-like ticket growth was negatively impacted by decelerating inflation. During the quarter, trading down behaviour stabilised – while the number of articles per basket and product mix remained negative year-on-year, the dynamics have improved from July to September 2015.

Lenta's expansion in the first half of 2014 yielded an increase in the number of maturing stores included in the like-for-like panel with 6 hypermarkets entering the panel in the third quarter of 2015.

The following table sets out Lenta's sales, average ticket and customer traffic for the third quarter of 2015 and for the first nine months of 2015:

	Three months ended 30 September 2015	Three months ended 30 September 2014	Net change	Change (%)	Nine months ended 30 September 2015	Nine months ended 30 September 2014	Net change	Change (%)
Sales (RUB, million).....	62,753	48,547	14,205	29.3%	177,650	134,447	43,203	32.1%
hypermarkets	60,346	47,153	13,193	28.0%	170,602	130,945	39,657	30.3%
supermarkets	2,407	1,395	1,012	72.5%	7,048	3,502	3,546	101.3%
Average ticket (RUB)...	1,076	1,054	23	2.1%	1,086	1,061	25	2.3%
hypermarkets	1,122	1,088	34	3.1%	1,129	1,091	38	3.5%
supermarkets	531	507	24	4.7%	563	526	37	7.1%
Customer traffic (million)	58.3	46.1	12.2	26.6%	163.6	126.7	36.9	29.1%
hypermarkets	53.8	43.3	10.5	24.1%	151.1	120.1	31.0	25.8%
supermarkets	4.5	2.7	1.8	64.8%	12.5	6.7	5.9	87.9%

The average hypermarket ticket increased to RUB1,122 in the third quarter of 2015 (an increase of 3.1% as compared to the third quarter of 2014), but grew slower than the like-for-like average hypermarket ticket, which increased 6.3% year-on-year, due to a larger share of younger stores. As of 30 September 2015, the share of selling space younger than three years increased to 60% compared to 52% as of 30 September 2014 and the share of stores operating for less than one year increased to 28% compared to 27% as of 30 September 2014. The supermarket format experienced the same trend in the third quarter of 2015, with the average ticket increasing year-on-year by 4.7% to RUB531 compared to a 9.0% year-on-year increase in the like-for-like average ticket.

Total customer traffic at Lenta's stores increased by 26.6% in the third quarter of 2015 compared with the third quarter of 2014, due to a 24.1% growth in hypermarket traffic and a 64.8% increase in supermarket traffic.

Like-for-like sales in supermarkets increased by 14.7% in the third quarter of 2015. The supermarket format's share of Lenta's total sales increased to 3.8% from 2.9% in the third quarter of 2014. Lenta's supermarkets in combination with seven hypermarkets operating in Moscow and the Moscow region continue to demonstrate very strong sales ramp-up dynamics – the share of this region in the Company's total sales has increased from almost zero to 7.7% since 2013.

Given the volatile consumer and macro environment, the Company expects its sales growth for full-year 2015 to be in the range of 29 to 33%. The increase in planned store openings in 2015 will not significantly contribute to the 2015 sales as most of the hypermarket openings will occur in late 2015, benefitting sales growth primarily in 2016 and subsequent periods.

The projections expressed above and the positive trends described above may not materialise for a variety of reasons, as discussed in more detail in "Risk Factors".

Borrowings

Improved terms of credit facilities entered into during the course of 2015, combined with the continuing declines in the MosPrime rates allowed Lenta to reduce the weighted average interest rate on its indebtedness from 13.9% in the second quarter of 2015 to 12.5% in the third quarter of 2015. Based on the current MosPrime rates, Lenta expects the weighted average interest rate on its indebtedness to fall further to 12.0% for the fourth quarter of 2015. Lenta's entire loan portfolio is denominated in Roubles. Following the issuances of bonds in the third quarter of 2015, approximately 73% of Lenta's debt portfolio is either at fixed rates or hedged using swaps and caps.

Bond Issuances

Lenta issued two series of Rouble-denominated bonds in August and September 2015 in an aggregate amount of RUB10 billion under its programme with the Moscow Exchange for the issuance of up to RUB33 billion of bonds in eight tranches. The bonds have a 10-year maturity. An interest rate of 12.4% per annum applies for the initial 3 years (in the case of RUB5 billion BO-06 series bonds) and the initial 2.5 years (in the case of RUB5 billion BO-03 series bonds), and then is reset, subject to the right of the bondholders to demand early redemption at the time of resetting the interest rate.

Credit Facility with Bank Saint-Petersburg

In September 2015, Lenta LLC entered into a revolving credit facility with JSC Bank Saint-Petersburg, allowing borrowings of up to RUB3.5 billion. The credit facility has a maturity date of 20 September 2018. The facility is subject to a number of covenants, including the requirement to provide certain financial information. As of 30 September 2015, no drawdowns had been made under this facility.

Results of Operations

The following table sets out selected financial information as of and for the six months ended 30 June 2015 and 2014 and the years ended 31 December 2014, 2013 and 2012 derived from the Financial Information (included elsewhere in the Prospectus), and shows Lenta's results of operations as a percentage of sales for the applicable period:

	Six months ended 30 June				Year ended 31 December					
	2015		2014		2014		2013		2012	
		% of sales		% of sales		% of sales		% of sales		% of sales
Sales.....	114,897	100	85,899	100	193,988	100.0	144,266	100.0	109,910	100.0
Cost of sales.....	(89,921)	(78.3)	(67,515)	(78.6)	(150,131)	(77.4)	(112,805)	(78.2)	(87,233)	(79.4)
Gross profit	24,976	21.7	18,384	21.4	43,857	22.6	31,462	21.8	22,677	20.6
SG&A.....	(16,852)	(14.7)	(12,943)	(15.1)	(28,106)	(14.5)	(18,940)	(13.1)	(13,456)	(12.2)
Reversal of impairment of non-financial assets.....	—	—	—	—	—	—	—	—	0	0.0
Other operating income.....	1,179	1	1,235	1.4	2,267	1.2	1,460	1.0	1,118	1.0
Other operating expense.....	(289)	(0.3)	(86)	(0.1)	(359)	(0.2)	(181)	(0.1)	(125)	(0.1)
Operating profit	9,015	7.8	6,590	7.7	17,659	9.1	13,801	9.6	10,215	9.3
Interest expense.....	(5,353)	(4.7)	(2,934)	(3.4)	(6,911)	(3.6)	(4,342)	(3.0)	(3,217)	(2.9)
Interest income.....	255	0.2	38	0	100	0.1	82	0.1	78	0.1
Change in fair value of financial instruments at fair value through profit or loss.....	6	—	—	—	(19)	0.0	(234)	(0.2)	102	0.1
Other expenses.....	—	—	(43)	(0.1)	(41)	0.0	(91)	(0.1)	(215)	(0.2)
Foreign exchange gains/(losses).....	(134)	(0.1)	(8)	0	140	0.1	(23)	0.0	70	0.1
Profit before income tax	3,789	3.3	3,643	4.2	10,928	5.6	9,192	6.4	7,032	6.4
Income tax expense.....	(824)	(0.7)	(964)	(1.1)	(1,853)	(1.1)	(2,045)	(1.4)	(1,856)	(1.7)
Profit for the period	2,966	2.6	2,679	3.1	9,075	4.7	7,147	5.0	5,176	4.7
Other comprehensive income										
Net movement of cash flow hedges.....	(1,904)	(1.7)	905	1.1	3,286	1.7	(54)	0.0	—	—
Income tax.....	381	0.3	(181)	(0.2)	(657)	(0.3)	11	0.0	—	—

Other comprehensive income for the year, net of tax	(1,523)	(1.3)	724	0.8	2,629	1.4	(43)	0.0	—	—
Total comprehensive income for the year, net of tax	1,443	1.3	3,403	4	11,704	6.0	7,104	4.9	5,176	4.7

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to profit for the six months ended 30 June 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
			<i>(RUB millions)</i>		
Adjusted EBITDA	11,747	8,122	21,377	16,467	12,771
One-off non-operating costs	(43)	163	(58)	(350)	(977)
EBITDA	11,704	8,285	21,318	16,118	11,794
Interest expense	(5,353)	(2,934)	(6,911)	(4,342)	(3,217)
Interest income	255	38	100	82	78
Income tax expense	(824)	(964)	(1,853)	(2,045)	(1,856)
Depreciation/amortisation	(2,690)	(1,695)	(3,659)	(2,317)	(1,579)
Reversal of impairment of non-financial assets	—	—	—	—	0
Other expenses	—	(43)	(41)	(91)	(215)
Revaluation of financial instruments at fair value through profit or loss	6	—	(19)	(234)	102
Foreign exchange gains/(losses)	(134)	(8)	140	(23)	70
Profit for the period	2,966	2,679	9,075	7,147	5,176

In the first half of 2015, the adjustment of RUB43 million from Adjusted EBITDA to EBITDA was primarily attributable to costs in connection with the March 2015 offering of GDRs.

In 2014, the adjustment of RUB58 million from Adjusted EBITDA to EBITDA was primarily attributable to professional service fees incurred in connection with the initial public offering carried out in March 2014, offset against IPO-related income.

In 2013, the adjustment of RUB350 million from Adjusted EBITDA to EBITDA was attributable to professional service fees incurred in connection with optimisation of the Lenta corporate legal structure, preparation for the initial public offering and development of employee incentive plans.

In 2012, the adjustment of RUB977 million from Adjusted EBITDA to EBITDA was primarily attributable to one-off employee benefits representing cash bonuses to officers to fund their purchases of Shares. See “*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*”.

Explanation of Key Income Statement Items

Sales

Lenta’s sole source of revenue is the retail sale of food and non-food products at its stores. Sales is net of VAT and customer returns.

Cost of Sales and Gross Profit

Cost of sales includes:

- cost of goods sold, which is the actual cost of products purchased from suppliers, less any volume discounts and other types of rebates, promotional bonuses and fees paid by suppliers for Lenta’s provision of logistical services;

- cost of own production, which includes raw materials, packaging and other materials used in own production, labour, utilities and repairs and maintenance costs in connection with Lenta’s own production;
- supply chain cost, which includes all expenses related to delivering goods to Lenta stores, including distribution centre cost (own and outsourced), transportation cost (own and outsourced) and general management and labour cost for the supply chain; and
- losses due to inventory shrinkage, which are losses resulting from products being lost, stolen, damaged or otherwise defective, as well as provisions for slow-moving and old inventory.

The cost of sales includes those employee benefits expenses directly attributable to cost of sales (e.g., personnel at the distribution centres, employees carrying out transport of goods and employees engaged in the own-production process). In the years ended 31 December 2014, 2013 and 2012, employee benefits expenses included in cost of sales equaled RUB3,345 million, RUB2,280 million and RUB1,492 million, respectively, and in the six months ended 30 June 2015 and 2014 equaled RUB 1,882 million and RUB 1,554 million, respectively. All other employee benefits expenses are accounted for as SG&A. See “—SG&A”.

Gross profit is equal to sales less cost of sales.

SG&A

Lenta’s SG&A in the periods under review consisted of the following:

- employee benefits expenses (including contributions to the Russian state pension fund), including labour costs for in-store personnel and headquarters that are not included in cost of own production, supply chain costs or in pre-opening costs;
- depreciation of property, plant and equipment and amortisation of leasehold rights and other intangible assets;
- advertising;
- professional fees;
- utilities and communal payments;
- repairs and maintenance of stores and offices;
- taxes other than income tax, which include property tax, social tax and other taxes;
- cleaning and security services, which are provided by third-party service providers;
- land and equipment leasing;
- leasing of premises;
- pre-opening costs, which include rent, utilities, certain associated labour costs and other operating expenses incurred in respect of stores prior to their opening; and
- other expenses.

Other Operating Income

Other operating income includes: penalties due from suppliers; rental income; advertising income; gains on disposal of property, plant and equipment; and other income. Under Lenta’s standard contracts with suppliers, penalties (being fines, which are contemplated by Russian law) may be imposed in circumstances where: (i) a supplier changes the goods it delivers without advance notice; (ii) the supplier provides improper documentation for the goods; (iii) the supplier does not deliver the agreed quantities; (iv) the supplier delivers goods below specification; or (v) the supplier fails to provide goods to be used in a promotion. Rental income generally arises

from payments made by the small businesses in side galleries of hypermarkets to which Lenta rents space (e.g., cafes, dry cleaners, pharmacies). Advertising income generally reflects payments from non-suppliers for billboard space on store premises.

Other Operating Expense

Other operating expense includes expenses related to disposal of fixed assets, penalties and fines and other miscellaneous expenses.

Operating Profit

Operating profit during the periods under review was equal to the sum of gross profit and other operating income less SG&A and other operating expense.

Interest Expense

Interest expense comprises interest on borrowings.

Interest Income

Interest income comprises interest income on short-term bank deposits.

Change in Fair Value of Financial Instruments at Fair Value through Profit and Loss

Change in the fair value of financial instruments during the periods under review consisted of gains and losses on the fair value of interest rate swaps and caps provided to Lenta by VTB Capital. See “—*Liquidity and Capital Resources—Indebtedness*”.

Other Expenses

Other expenses during the periods under review consisted of consulting expenses and shareholder monitoring and operational support fees.

Foreign Exchange Gains/(Losses)

Foreign exchange gains or losses result from the impact of movements in the U.S. Dollar/Rouble and Euro/Rouble exchange rates on Lenta’s U.S. Dollar-denominated and Euro-denominated transactions with certain suppliers and on the value of certain other expenses that are denominated in U.S. Dollars. Foreign exchange gains or losses reflect movements in exchange rates that arise between the date when an amount is recorded as payable and the date of the actual purchase in respect of a transaction.

Profit before Income Tax

Profit before income tax during the periods under review was equal to the sum of operating profit, interest income, any gain in fair value of financial instruments at fair value through profit and loss and any foreign exchange gains less interest expense, any loss in fair value of financial instruments at fair value through profit and loss, other expenses and any foreign exchange loss.

Income Tax Expense

Income tax expense comprises current tax expense, deferred tax expense and current income tax related to the prior period. Lenta’s principal tax liability is income tax. Lenta pays income taxes in accordance with the laws of the Russian Federation. During the periods under review, the statutory corporate income tax rate in Russia was 20%.

Deferred tax expense reflects the tax effect of tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their amounts as reported under IFRS in the Financial Information. Deferred tax balances are measured at the tax rates enacted or substantively enacted on the reporting date which

are expected to apply to the period when the tax loss carry-forwards will be utilised or when the temporary differences will reverse.

Deferred tax liabilities are recognised for all taxable temporary differences, except in the following circumstances:

- 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 accounting profit nor taxable profit or loss; and
- 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 and the carry-forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax assets are not recognised in the following circumstances:

- When the deferred tax asset relates to a deductible temporary difference arising 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 accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when it is not probable that the temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilised.

See Notes 2.3 and 21 to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

Profit for the Year

Profit for the year is equal to profit before income tax less income tax expense.

Six Months Ended 30 June 2015 Compared with the Six Months Ended 30 June 2014

Lenta's total sales increased by RUB28,998 million, or 33.8%, to RUB114,897 million in the six months ended 30 June 2015 from RUB85,899 million in six months ended 30 June 2014.

The following table sets out certain key operating performance indicators relevant to sales in the six months ended 30 June 2015 and 2014. See "*Presentation of Financial and Other Information*" for information on the method of calculation of these indicators.

	As of or for the six months ended 30 June	
	2015	2014
Total sales (RUB millions).....	114,897	85,899
Total selling space (thousands of sq. m.) (as of period-end).....	751	542
Average selling space (thousands of sq. m.).....	727	523
Average sales density (RUB thousands/average sq. m.).....	158	164
Sales growth (% change, period-on-period).....	33.8	38.3
Average store ticket (RUB).....	1,091	1,065
Average ticket growth (% change, period-on-period).....	2.4	1.2
Traffic growth (% change, period-on-period).....	30.6	36.6
Like-for-like sales growth (% change, period-on-period).....	11.5	13.8
Like-for-like average ticket growth (% change, period-on-period).....	6.5	7.3
Like-for-like articles per ticket (% change, period-on-period).....	(5.9)	0.9
Like-for-like average price growth per article (% change, period-on-period).....	13.2	6.4

	As of or for the six months ended 30 June	
	2015	2014
Like-for-like traffic growth (% change, period-on-period).....	4.7	6.1
Like-for-like average sales density (RUB thousands/sq. m. for the period)	188	184
Sales growth from new stores (% change, period-on-period).....	22.5	24.7
Share of new store sales growth in total sales growth (%).....	66.6	64.6

The increase in Lenta's total sales in the first half of 2015 compared to the first half of 2014 was due to (i) a 22.5% increase in sales from new stores opened in the first half of 2015 and new stores opened in 2014 not yet part of the like-for-like panel and (ii) an 11.5% increase in like-for-like sales.

The increase in sales from new stores was primarily due to the acceleration in new store openings in 2014, with a 39.0% increase in average selling space in the first half of 2015 compared to the first half of 2014, due to the opening of 31 new hypermarkets (and 14 supermarkets) in 2015 (including 17 hypermarkets in December 2014) together with the opening of eight new hypermarkets (and three supermarkets) in the first half of 2015.

The 11.5% like-for-like sales growth in the first half of 2015 comprised a 6.5% increase in like-for-like average ticket and a 4.7% increase in like-for-like traffic. The increase in like-for-like average ticket reflected a 13.2% increase in the average price per article partly offset by a 5.9% decrease in the number of articles per ticket. The growth in the average price per article was primarily due to inflation (during the first six months of 2015, CPI inflation was 8.5% (and was 16.0% year-on-year) and the food products price index was up 10.8% (and was up 21.3% year-on-year)), partially offset by customers trading down to less expensive articles within a particular product category (attributable to a decrease in customer incomes, as borne out by a 3.1% decrease in real disposable income in Russia in the first half of 2015) and price investments by Lenta. The decrease in the number of articles per ticket reflects more frugal customers as the Russian economy deteriorated and the Rouble fell, especially in respect of non-food items, as consumers focused on purchases of more essential food products. In the first half of 2015, like-for-like sales growth for food items was 13.4% while like-for-like sales for non-food items declined by 2.2%. The increase in like-for-like traffic was mainly attributable to a combination of new stores entering into the like-for-like panel and the ongoing positive effects of Lenta's promotional and marketing initiatives taken to improve Lenta's positioning and brand appeal. See "*Business—Operations—Promotions and Marketing*".

Cost of Sales and Gross Profit

The following table sets out sales, cost of sales, gross profit and gross margin in the six months ended 30 June 2015 and 2014, as well as the percentage change in sales, cost of sales and gross profit:

	Six months ended 30 June		Percentage change
	2015	2014	
	<i>(RUB millions, except where indicated)</i>		<i>(%)</i>
Sales.....	114,897	85,899	33.8
Cost of sales.....	(89,921)	(67,515)	33.2
Gross profit	24,976	18,384	35.9
Gross margin⁽¹⁾(%)	21.7	21.4	—

Note:

(1) Gross margin is calculated as gross profit divided by sales, expressed as a percentage.

Cost of sales increased by RUB22,406 million, or 33.2%, to RUB89,921 million in the first half of 2015 from RUB67,515 million in the first half of 2014. Lenta's sales grew more quickly (at 33.8%) than its cost of sales (at 33.2%) in the first half of 2015, resulting in an increase in gross margin to 21.7% in the first half of 2015 compared to 21.4% in the first half of 2014.

The following table sets out further details of Lenta's cost of sales in the six-month periods ended 30 June 2015 and 2014, the percentage of sales that each of the components of cost of sales represented in these two six-month periods and the percentage change in each component of cost of sales between these two six-month periods:

	Six months ended 30 June 2015	Percentage of total sales	Six months ended 30 June 2014	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Cost of goods sold ⁽¹⁾	76,393	66.5	56,850	66.2	34.4
Cost of own production.....	9,963	8.7	7,657	8.9	30.1
Supply chain cost.....	1,430	1.2	1,395	1.6	2.5
Losses due to inventory shortages.....	2,135	1.9	1,613	1.9	32.4
Total cost of sales	89,921	78.3	67,515	78.6	33.2

Note:

- (1) Less volume discounts and other types of rebates, promotional bonuses from suppliers and fees paid by suppliers for Lenta's provision of logistical services.

The increase in total cost of sales in the first half of 2015 compared to the first half of 2014 was mainly driven by an increase in sales volumes, which in turn increased cost of goods sold and cost of own production.

Cost of goods sold increased by RUB19,543 million to RUB76,393 million in the first half of 2015 from RUB56,850 million in the first half of 2014 primarily due to an increase in sales driven by new store openings and greater like-for-like sales. Measured as a percentage of total sales, cost of goods sold increased to 66.5% of total sales in the first half of 2015 compared to 66.2% in the first half of 2014. Volume discounts, rebates and promotional bonuses from suppliers, which are deducted from Lenta's cost of goods sold, increased in the first half of 2015 in part as a result of Lenta's improved purchasing power that accompanied the increased scale of its operations in the first half of 2015 compared to the first half of 2014. In the first half of 2015, the pricing benefits that Lenta realized from its increased volumes and purchasing power outweighed the effect of its price investments to attract its customers, including the increased use of promotions.

In keeping with the 29.1% increase in sales of own production (compared to the overall sales growth of 33.8%), which comprise fresh food products that Lenta prepares at its stores, the cost of own production increased by RUB2,306 million (or 30.1%) to RUB9,963 million in the first half of 2015 from RUB7,657 million in the first half of 2014. Measured as a percentage of total sales, cost of own production fell to 8.7% of total sales in the first half of 2015 from 8.9% in the first half of 2014. The costs of own production are predominantly raw materials and labour.

Supply chain costs slightly increased by RUB35 million to RUB1,430 million, or 2.5%, in the first half of 2015 from RUB1,395 million in the first half of 2014 primarily due to increased sales volumes offset in part by lower cost due to the reduction in the average distance to transport goods (as measured in terms of the average distance a pallet of goods travelled to reach a Lenta store: to 670 kilometres/pallet in the first half of 2015 from 905 kilometres/pallet in the first half of 2014). The ability of Lenta to leverage off its supply chain was an important component in its improved the first half of 2015 gross margin. The centralisation level, i.e., the percentage of goods destined for hypermarkets (measured by the inbound value of goods received by the store) that are shipped via Lenta's distribution centres, increased to 41.8% in the first half of 2015 from 37.1% in the first half of 2014.

Losses due to inventory shortages, i.e., shrinkage, increased by RUB522 million, or 32.4%, to RUB2,135 in the first half of 2015 from RUB1,613 million in the first half of 2014, while remaining at 1.9% as a percentage of total sales.

For the reasons described above, Lenta's gross profit increased by RUB6,592 million, or 35.9%, to RUB24,976 million in the first half of 2015 from RUB18,384 million in the first half of 2014.

SG&A

Lenta's SG&A increased by RUB3,909 million, or 30.2%, to RUB16,852 million in the six months ended 30 June 2015 from RUB12,943 million in the six months ended 30 June 2014. Growth of Lenta's SG&A (at 30.2%) was less than sales growth (at 33.8%) in the first half of 2015.

The following table sets out further details of Lenta's SG&A in the six months ended 30 June 2015 and 2014, the percentage of total sales that each of the components of Lenta's SG&A represented in these two periods and the percentage change in each of the components of Lenta's SG&A between these two periods:

	Six months ended 30 June 2015	Percentage of total sales	Six months ended 30 June 2014	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Labour costs	6,978	6.1	5,714	6.7	22.1
Depreciation and amortisation	2,682	2.3	1,695	2.0	58.2
Professional fees	850	0.7	1,022	1.2	(16.8)
Advertising.....	946	0.8	835	1.0	13.3
Utilities and communal payments.....	909	0.8	643	0.7	41.4
Repairs and maintenance.....	760	0.7	515	0.6	47.6
Cleaning services	723	0.6	530	0.6	36.4
Taxes other than income tax.....	532	0.5	403	0.5	32
Premises lease	1,103	1.0	433	0.5	154.7
Security services	468	0.4	356	0.4	31.5
Land and equipment lease.....	181	0.2	152	0.2	19.1
Pre-opening costs	216	0.2	258	0.3	(16.3)
Other	504	0.4	387	0.5	30.2
Total SG&A	16,852	14.7	12,943	15.1	30.2

As a percentage of total sales, SG&A decreased to 14.7% in the first half of 2015 from 15.1% in the first half of 2014. This decrease as a percentage of total sales reflected efficiency measures (which increased sales per FTE), more efficient staffing (especially for recently opened stores), and other targeted cost saving measures on operating cost. Adjusted SG&A/Sales ratio was 11.2% in the first half of 2015 compared to 12.1% in the first half of 2014. Total SG&A increased by RUB3,909 million, or 30.2%, to RUB16,852 million in the first half of 2015 from RUB12,943 million in the first half of 2014 with increases in all cost lines other than professional fees. All these increases were primarily the result of the costs associated with Lenta's expansion programme. The increase in rented hypermarkets (to 21 rented hypermarkets as of 30 June 2015 from 10 as of 30 June 2014) and rented supermarkets (to 26 from 13) increased the cost of premises leased from 0.5% of sales in the first half of 2014 to 1.0% of sales in the first half of 2015. Depreciation and amortisation increased from 2.0% of sales in the first half of 2014 to 2.3% of sales in the first half of 2015 reflecting additional depreciation charges taken on Lenta's recently constructed stores and distribution centres.

Labour costs

Labour costs under SG&A reflects Lenta's labour costs that are not included in cost of own production, supply chain costs or in pre-opening costs. See "*—Explanations of Key Income Statement Items*".

The table below sets out a breakdown of Lenta's labour costs that are recorded as SG&A in the six-month periods ended 30 June 2015 and 2014:

	Six months ended 30 June 2015	Percentage of total labour costs	Six months ended 30 June 2014	Percentage of total labour costs
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>
Wages and salaries ⁽¹⁾	5,148	74	4,196	73
Social security levies	1,339	19	1,069	19
Employee benefits	491	7	449	8
Total labour costs	6,978	100	5,714	100

Note:

(1) Includes bonuses.

Labour costs increased by RUB1,264 million, or 22.1%, to RUB6,978 million in the first half of 2015 from RUB5,714 million in the first half of 2014 as a result of the increase in the number of Lenta employees. Labour costs under SG&A accounted for 77.9% and 77.0% of Lenta's overall labour costs in the first half of 2015 and the first half of 2014, respectively. See “—*Significant Factors Affecting Results of Operations—Efficient operational management*” for a discussion of the reasons for the increase in Lenta's total labour costs.

Depreciation and Amortisation

Depreciation and amortisation charges increased by RUB987 million, or 58.2%, to RUB2,682 million in the first half of 2015 from RUB1,695 in the first half of 2014 mainly as a result of the investments in additional supermarkets and distribution centres.

Professional Fees

Professional fees decreased by RUB172 million, or 16.8%, to RUB850 million in the first half of 2015 from RUB1,022 million in the first half of 2014, reflecting in the earlier period consulting fees in respect of the analysis and use of 'Big Data' and professional service fees arising from the initial public offering in March 2014.

Advertising

Advertising costs increased by RUB111 million, or 13.3%, to RUB946 million in the first half of 2015 from RUB835 million in the first half of 2014, reflecting the growth in the total number of stores.

Other Operating Income

Lenta's other operating income decreased by RUB55 million, or 4.5%, to RUB1,179 million in the first half of 2015 from RUB1,234 million in the first half of 2014. The following table sets out Lenta's other operating income in the six-month periods ended 30 June 2015 and 2014:

	Six months ended 30 June	
	2015	2014
	<i>(RUB millions)</i>	
Penalties due by suppliers.....	451	326
Rental income.....	352	214
Income from IPO.....	—	420
Advertising income.....	172	180
Gain on PPE disposal.....	28	0.5
Other.....	176	94
Total other operating income	1,179	1,234

The RUB125 million, or 38.3%, increase in penalties due by suppliers and the RUB138 million, or 64.5%, increase in rental income reflect Lenta's increased intake of supplies and expansion. The 2014 income from IPO reflects Lenta's share of stabilisation profit made by the IPO stabilizing manager and payments from the depositary of the global depositary receipts programme established in connection with the March 2014 initial public offering.

Other Operating Expense

Other operating expense increased by RUB203 million to RUB289 million in the first half of 2015 from RUB86 million in the first half of 2014 due to bad debt expenses related to prepayments to construction companies, largely arising from one prepayment to a contractor who went bankrupt.

Operating Profit

For the reasons set forth above, operating profit increased by RUB2,425 million, or 36.8%, to RUB9,015 million in the first half of 2015 from RUB6,590 million in the first half of 2014.

Interest Expense

Interest expense increased by RUB2,419 million, or 82.4%, to RUB5,353 million in the first half of 2015 from RUB2,934 million in the first half of 2014. The increase in interest expense was primarily due to an increase in long-term debt taken out to fund expansion and higher interest rates under variable-rate facilities. See “—*Liquidity and Capital Resources—Indebtedness*”.

Interest Income

Interest income increased by RUB217 million to RUB255 million in the first half of 2015 from RUB38 million in the first half of 2014.

Change in Fair Value of Financial Instruments at Fair Value through Profit or Loss

Starting July 1, 2013, Lenta applied cash flow hedge accounting of swaps and caps under which the effective portion of the gain or loss on a hedging instrument is recognized as other comprehensive income. In the first half of 2015, there was an increase of RUB 6 million in the fair value of the ineffective portion of the swaps and caps provided by VTB Capital, which were entered into as a hedge against an increase in the MosPrime interest rate. In the first half of 2014, no such gain or loss was recognized. See “—*Liquidity and Capital Resources—Indebtedness*”.

Other Expenses

In the first half of 2014, Lenta engaged the services of various professional consultants and other third parties, including certain shareholders in the Company, to provide support to Lenta and help monitor its operations, incurring fees of RUB 43 million; these services ceased by the time of the March 2014 initial public offering. See “*Transactions with Related Parties—Related Party Transactions—Shareholders’ Fees and Expenses*”.

Foreign Exchange Losses

In the first half of 2015, Lenta recorded a foreign exchange loss of RUB134 million which largely arose from the Russian accounting treatment of the proceeds received in the March 2015 offering of GDRs upon the conversion of such U.S. dollar proceeds into Roubles (which under Russian accounting rules were deemed converted at the applicable rate of the Central Bank of Russia rather than the actual commercial rate used). In the first half of 2014, Lenta incurred a foreign exchange loss of RUB8 million.

Profit before Income Tax

For the reasons set forth above, profit before income tax increased by RUB146 million, or 4.0%, to RUB3,789 million in the first half of 2015 from RUB3,643 million in the first half of 2014.

Income Tax Expense

The following table sets out Lenta’s income tax expense in the six-month periods ended 30 June 2015 and 2014:

	Six months ended 30 June	
	2015	2014
	<i>(RUB millions)</i>	
Current tax expense	32	147
Deferred tax expense	792	817
Income tax expense	824	964

Lenta’s total income tax expense decreased by RUB140 million, or 14.5%, to RUB824 million in the first half of 2015 from RUB964 million in the first half of 2014. Current tax expense decreased by RUB115 million, or 78.2%, from RUB147million in the first half of 2014 to RUB32 million, reflecting higher interest expense and increased amount of accelerated depreciation on Lenta’s land and property investments, including the initial one-off depreciation charge of between 10% and 30% of the total value of the relevant investment allowed under the Russian tax regime on certain assets when they come into operation. The Russian tax regime generally provides for a shorter period of depreciation than IFRS and also allows an initial one-off depreciation charge on certain

assets of between 10% and 30% (intended as an investment incentive). The significant increase in investments in the first half of 2014 had significantly increased these immediate tax depreciation charges.

Lenta's effective tax rate (calculated as income tax expense divided by profit before income tax) was 21.7% in the first half of 2015 (compared to 26.5% in the first half of 2014) primarily due to Lenta's changing its tax practice so that, starting in the second half 2014, it has been able to deduct almost all shrinkage as an expense.

Profit for the Period

For the reasons set forth above, profit for the period increased by RUB287 million, or 10.7%, to RUB2,966 million in the six months ended 30 June 2015 from RUB2,679 million in the six months ended 30 June 2014.

Year Ended 31 December 2014 Compared with the Year Ended 31 December 2013

Lenta's total sales increased by RUB49,722 million, or 34.5%, to RUB193,988 million in the year ended 31 December 2014 from RUB144,266 million in the year ended 31 December 2013.

The following table sets out certain key operating performance indicators relevant to sales in the years ended 31 December 2014 and 2013. See "Presentation of Financial and Other Information" for information on the method of calculation of these indicators.

	As of or for the year ended 31 December	
	2014	2013
Total sales (RUB millions).....	193,988	144,266
Total selling space (thousands of sq. m.) (as of year-end).....	701	507
Average selling space (thousands of sq. m.).....	568	416
Average sales density (RUB thousands/average sq. m.).....	342	347
Sales growth (% change, year-on-year).....	34.5	31.3
Average store ticket (RUB).....	1,099	1,092
Average ticket growth (% change, year-on-year).....	0.7	2.9
Traffic growth (% change, year-on-year).....	33.6	27.5
Like-for-like sales growth (% change, year-on-year).....	10.6	10.0
Like-for-like average ticket growth (% change, year-on-year).....	6.0	8.1
Like-for-like articles per ticket (% change, year-on-year).....	(1.8)	2.0
Like-for-like average price growth per article (% change, year-on-year).....	8.0	6.0
Like-for-like traffic growth (% change, year-on-year).....	4.4	1.8
Like-for-like average sales density (RUB thousands/sq. m. for the year).....	381	399
Sales growth from new stores (% change, year-on-year).....	24.9	21.3
Share of new store sales growth in total sales growth (%).....	72.1	68.2

The increase in Lenta's total sales in 2014 compared to 2013 was due to (i) a 24.9% increase in the sales from new stores opened in 2014 and new stores opened in 2013 not yet part of the like-for-like panel and (ii) a 10.6% increase in like-for-like sales.

The increase in sales from new stores was due to the acceleration in new store openings in 2013 and 2014, with 36.5% increase in average selling space in 2014 compared to 2013, due to the opening of 31 new hypermarkets (and 14 supermarkets) in 2014 and the carry-over effect of 21 new hypermarkets opened in 2013 open for full year 2014.

The 10.6% like-for-like sales growth in 2014 comprised a 6.0% increase in like-for-like average ticket and a 4.4% increase in like-for-like traffic. The increase in like-for-like average ticket comprised an 8.0% increase in the average price per article against a 1.8% decrease in the number of articles per ticket. The growth in the average price per article was primarily due to inflation (in 2014, CPI inflation was 11.4% and the food products price index was up 15.4%), partially offset by customers trading down to less expensive articles within a particular product category (attributable to a decrease in customer incomes, as borne out by a 1.0% decrease in real

disposable income in Russia in 2014) and price investments by Lenta. The decrease in the number of articles per ticket reflects more frugal customers as the Russian economy deteriorated and the Rouble fell, especially in respect of non-food items, as consumers focused on purchases of more essential food products. In 2014, like-for-like sales growth for food items was 12.1% while like-for-like sales growth for non-food items was almost flat. The increase in like-for-like traffic was mainly attributable to a combination of new stores entering into the like-for-like panel and the ongoing positive effects of Lenta's promotional and marketing initiatives taken to improve Lenta's positioning and brand appeal. See "Business—Operations—Promotions and Marketing".

Cost of Sales and Gross Profit

The following table sets out sales, cost of sales, gross profit and gross margin in the years ended 31 December 2014 and 2013, as well as the percentage change in sales, cost of sales and gross profit:

	Year ended		Percentage change
	31 December 2014	31 December 2013	
	<i>(RUB millions, except where indicated)</i>		<i>(%)</i>
Sales.....	193,988	144,266	34.5
Cost of sales.....	(150,131)	(112,805)	33.1
Gross profit.....	43,857	31,462	39.4
Gross margin⁽¹⁾(%).....	22.6	21.8	—

Note:

(1) Gross margin is calculated as gross profit divided by sales, expressed as a percentage.

Cost of sales increased by RUB37,326 million, or 33.1%, to RUB150,131 million in 2014 from RUB112,805 million in 2013. Lenta's sales grew more quickly (at 34.5%) than its cost of sales (at 33.1%) in 2013, resulting in an increase in gross margin to 22.6% in 2014 compared to 21.8% in 2013.

The following table sets out further details of Lenta's cost of sales in the years ended 31 December 2014 and 2013, the percentage of sales that each of the components of cost of sales represented in these two years and the percentage change in each component of cost of sales between these two years:

	Year ended 31 December 2014	Percentage of total sales	Year ended 31 December 2013	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Cost of goods sold ⁽¹⁾	126,742	65.3	95,801	66.4	32.3
Cost of own production.....	16,928	8.7	12,568	8.7	34.7
Supply chain cost.....	3,137	1.6	2,315	1.6	35.5
Losses due to inventory shortages.....	3,324	1.7	2,121	1.5	56.6
Total cost of sales.....	150,131	77.4	112,805	78.2	33.1

Note:

(1) Less volume discounts and other types of rebates, promotional bonuses from suppliers and fees paid by suppliers for Lenta's provision of logistical services.

The increase in cost of sales in 2014 compared to 2013 was mainly driven by an increase in sales volumes, which in turn increased cost of goods sold and cost of own production.

Cost of goods sold increased by RUB30,941 million to RUB126,742 million in 2014 from RUB95,801 million in 2013 primarily due to an increase in sales driven by new store openings and greater like-for-like sales. Measured as a percentage of total sales, cost of goods sold decreased to 65.3% of total sales in 2014 compared to 66.4% in 2013. Lenta sales grew more quickly (at 34.5%) than its cost of goods sold (at 33.1%) in 2014. Volume discounts, rebates and promotional bonuses from suppliers, which are deducted from Lenta's cost of goods sold, increased in 2014 in part as a result of Lenta's improved purchasing power that accompanied the increased scale of its operations in 2014 compared to 2013.

In keeping with the 33.1% increase in sales of own production (compared to the overall sales growth of 34.5%), which comprise fresh food products that Lenta prepares at its stores, the cost of own production increased by RUB4,360 million (or 34.7%) to RUB16,928 million in 2014 from RUB12,568 million in 2013. Measured as a percentage of total sales, cost of own production remained at 8.7% of total sales in 2014 as it was in 2013. The costs of own production are predominantly raw materials and labour, which respectively accounted for 82.0% and 14.3% of total cost of own production in 2014.

Supply chain costs increased by RUB822 million to RUB3,137 million (or 35.5%) in 2014 from RUB2,315 million in 2013 primarily due to increased sales volumes. The centralisation level, i.e., the percentage of goods destined for hypermarkets (measured by the inbound value of goods received by the store) that are shipped via Lenta's distribution centres, increased to 39.7% in 2014 from 36.7% in 2013.

Losses due to inventory shortages, i.e., shrinkage, increased by RUB1,203 million, or 56.5%, to RUB3,324 in 2014 from RUB2,121 million in 2013 mainly due to a greater proportion of new regional stores with higher fresh food shrinkage due to lower sales densities (i.e., lower turnover leading to fresh food going past its sell-by date). Such losses were concentrated in the first quarter of 2014 (with a number of new stores opened in December 2013) and, after measures were taken to reduce them, declined in the following quarters of 2014.

For the reasons described above, Lenta's gross profit increased by RUB12,395 million, or 39.4%, to RUB43,857 million in 2014 from RUB31,462 million in 2013.

SG&A

Lenta's SG&A increased by RUB9,166 million, or 48.4%, to RUB28,106 million in the year ended 31 December 2014 from RUB18,940 million in the year ended 31 December 2013. Growth of Lenta's SG&A (at 48.4%) outpaced sales growth (at 34.5%) in 2014 largely due to the SG&A associated with Lenta's accelerated expansion programme in 2014 and 2013.

The following table sets out further details of Lenta's SG&A in the years ended 31 December 2014 and 2013, the percentage of total sales that each of the components of Lenta's SG&A represented in these two years and the percentage change in each of the components of Lenta's SG&A between these two years:

	Year ended 31 December 2014	Percentage of total sales	Year ended 31 December 2013	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Labour costs	12,109	6.2	8,628	6.0	40.3
Depreciation and amortisation	3,659	1.9	2,263	1.6	61.7
Professional fees	2,002	1.0	1,526	1.1	31.2
Advertising	1,972	1.0	1,356	0.9	45.4
Utilities and communal payments	1,361	0.7	859	0.6	58.4
Repairs and maintenance	1,164	0.6	732	0.5	59.0
Cleaning services	1,136	0.6	653	0.5	74.0
Taxes other than income tax	908	0.5	569	0.4	59.6
Premises lease	1,103	0.6	391	0.3	182.1
Security services	793	0.4	500	0.3	58.6
Land and equipment lease	306	0.2	209	0.1	46.4
Pre-opening costs	663	0.3	637	0.4	4.1
Other	930	0.5	616	0.4	51.0
Total SG&A	28,106	14.5	18,940	13.1	48.4

As a percentage of total sales, SG&A increased to 14.5% in 2014 from 13.1% in 2013. This increase as a percentage of total sales was largely due to a greater number of younger stores in their ramping-up phase (Lenta opened 52 hypermarkets in 2013 and 2014), which tend to have a considerably higher SG&A/total sales ratio than mature stores. Adjusted SG&A/Sales ratio was 11.6% in 2014 compared to 10.9% in 2013. Total SG&A increased by RUB9,166 million, or 48.4%, to RUB28,106 million in 2014 from RUB18,940 million in 2013 with increases in all cost lines. All these increases were primarily the result of the costs associated with Lenta's expansion programme, including the opening of 31 new hypermarkets in 2014. The opening in 2014 of eight

rented hypermarkets and fourteen rented supermarkets increased the cost of premises leased from 0.3% of sales in 2013 to 0.6% of sales in 2014. Depreciation and amortisation increased from 1.6% of sales in 2013 to 1.9% of sales in 2014 reflecting additional depreciation charges taken on Lenta's recently constructed stores and distribution centres.

Labour costs

Labour costs under SG&A reflects Lenta's labour costs that are not included in cost of own production, supply chain costs or in pre-opening costs. See "*—Explanations of Key Income Statement Items*".

The table below sets out a breakdown of Lenta's labour costs that are recorded as SG&A in the years ended 31 December 2014 and 2013:

	Year ended 31 December 2014	Percentage of total labour costs	Year ended 31 December 2013	Percentage of total labour costs
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>
Wages and salaries ⁽¹⁾	8,963	74.0	6,328	73.3
Social security levies	2,219	17.6	1,544	17.9
Employee benefits	1,017	8.4	756	8.8
Total labour costs	12,109	100	8,628	100

Note:

(1) Includes bonuses.

Labour costs increased by RUB3,481 million, or 40.3%, to RUB12,109 million in 2014 from RUB8,628 million in 2013 as a result of the increase in the number of Lenta employees offset by a decrease in average salaries. Labour costs under SG&A accounted for 76.3% and 76.8% of Lenta's overall labour costs in 2014 and 2013, respectively. See "*—Significant Factors Affecting Results of Operations—Efficient operational management*" for a discussion of the reasons for the increase in Lenta's total labour costs.

Depreciation and Amortisation

Depreciation and amortisation charges increased by RUB1,396 million, or 61.7%, to RUB3,659 million in 2014 from RUB2,263 in 2013, which was mainly due to a RUB525 million, or 65.4%, increase in depreciation charges in respect of Lenta's buildings to RUB1,330 million in 2014 from RUB804 million in 2013 and a RUB688 million, or 54.1%, increase in depreciation in respect of Lenta's machinery and equipment to RUB1,958 million in 2014 from RUB1,271 million in 2013, reflecting depreciation taken on Lenta's recently constructed stores.

Professional Fees

Professional fees increased by RUB476 million, or 31.2%, to RUB2,002 million in 2014 from RUB1,526 million in 2013, which was mainly due to costs in connection with consulting fees regarding the analysis and use of 'Big Data' and professional service fees primarily incurred in connection with the initial public offering in March 2014.

Advertising

Advertising costs increased by RUB616 million, or 45.4%, to RUB1,972 million in 2014 from RUB1,356 million in 2013, which was mainly due to the growth in the number of stores and in particular an increase in 'opening campaign' costs in connection with these new stores.

Other Operating Income

Lenta's other operating income increased by RUB807 million, or 55.4%, to RUB2,267 million in 2014 from RUB1,460 million in 2013. The following table sets out Lenta's other operating income in the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	2013
	<i>(RUB millions)</i>	
Penalties due by suppliers.....	790	619
Rental income.....	482	339
Income from IPO.....	420	--
Advertising income.....	387	380
Gain on PPE disposal.....	2	1
Other.....	186	120
Total other operating income	2,267	1,460

The income from IPO reflects Lenta's share of stabilisation profit made by the IPO stabilizing manager and payments from the depository of the global depository receipts programme established in connection with the March 2014 initial public offering. The RUB171 million, or 27.6%, increase in penalties due by suppliers and the RUB143 million, or 42.2%, increase in rental income reflect Lenta's increased intake of supplies and expansion.

Other Operating Expense

Other operating expense increased by RUB178 million, or 98.3%, to RUB359 million in 2014 from RUB181 million in 2013.

Operating Profit

For the reasons set forth above, operating profit increased by RUB3,858 million, or 28.0%, to RUB17,659 million in 2014 from RUB13,801 million in 2013.

Interest Expense

Interest expense increased by RUB2,569 million, or 59.2%, to RUB6,911 million in 2014 from RUB4,342 million in 2013. The increase in interest expense was primarily due to an increase in long-term debt taken out to fund expansion and higher interest rates under variable-rate facilities. See "*Liquidity and Capital Resources—Indebtedness*".

Interest Income

Interest income increased by RUB18 million, or 22.0%, to RUB100 million in 2014 from RUB82 million in 2013.

Change in Fair Value of Financial Instruments at Fair Value through Profit or Loss

In 2014, Lenta recorded a loss of RUB19 million as a result of a negative change in the fair value of the ineffective portion of Lenta's interest rate swaps and caps provided by VTB Capital, which were entered into as a hedge against an increase in the MosPrime interest rate. Starting July 1, 2013, Lenta applied cash flow hedge accounting of swaps and caps under which the effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income. The increase in the fair value of the effective portion of the swaps and caps in 2014 due to rising interest rates recognized in other comprehensive income was RUB3,286 million. In 2013, Lenta recorded a loss of RUB234 million as a result of a negative change in the fair value of the ineffective portion of the interest rate swaps and caps provided by VTB Capital of RUB38 million and a negative change in the fair value of such swaps and caps prior to the designation of hedge accounting on July 1, 2013 of RUB 196 million.

Other Expenses

The following table sets out Lenta's other expenses in the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	2013
	<i>(RUB millions)</i>	
Consulting	41	91
Total other expenses	41	91

Lenta engaged the services of various professional consultants and other third parties, including certain shareholders in the Company, to provide support to Lenta and help monitor its operations (which services ceased by the time of the March 2014 initial public offering). See “*Transactions with Related Parties—Related Party Transactions—Shareholders’ Fees and Expenses*”. In 2014 and 2013, Lenta paid RUB41 million and RUB91 million, respectively, in consulting fees for these services.

Foreign Exchange Gains/(Losses)

In 2014, Lenta recorded a foreign exchange gain of RUB140 million reflecting mutually offsetting gains and losses arising in the ordinary course of trading and a gain on an amount of U.S. dollars held during the rapid devaluation of the Rouble in November and December 2014 to pay (and ultimately paid out in 2014 for) the purchase price for an asset acquisition. In 2013, as the average nominal Rouble/U.S. Dollar exchange rate depreciated by 2.4%, Lenta incurred foreign exchange losses of RUB23 million, reflecting a decrease in the Rouble value of certain U.S. Dollar- and Euro-denominated contracts with suppliers between the date when amounts under such contracts were payable and the date when actual payment was made.

Profit before Income Tax

For the reasons set forth above, profit before income tax increased by RUB1,736 million, or 18.9%, to RUB10,928 million in 2014 from RUB9,192 million in 2013.

Income Tax Expense

The following table sets out Lenta's income tax expense in the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	2013
	<i>(RUB millions)</i>	
Current tax expense	948	1,320
Deferred tax expense	1,409	959
Income tax credit	—	(234)
Adjustments in respect of current income tax of previous year	(504)	—
Income tax expense	1,853	2,045

Lenta's total income tax expense decreased by RUB192 million, or 9.4%, to RUB1,853 million in 2014 from RUB2,045 million in 2013. Current tax expense decreased by RUB372 million, or 28.2%, from RUB1,320 million in 2013 to RUB948 million, reflecting higher interest expense and increased amount of accelerated depreciation on Lenta's land and property investments, including the initial one-off depreciation charge of between 10 and 30% of the total value of the relevant investment allowed under the Russian tax regime on certain assets when they come into operation. Deferred tax increased by RUB450 million, or 46.9%, mainly due to the increased difference in the depreciation of fixed assets under IFRS accounting and Russian tax accounting as a result of the significant property investments in 2014. The Russian tax regime generally provides for a shorter period of depreciation than IFRS and also allows an initial one-off depreciation charge on certain assets of between 10% and 30% (intended as an investment incentive). The significant increase in investments in 2014 has significantly increased these immediate tax depreciation charges.

Lenta's effective tax rate (calculated as income tax expense divided by profit before income tax) was 17.0% in 2014 (compared to 22.2% in 2013) primarily due to adjustments made to taxable income for previous tax years. In 2014, Lenta resubmitted tax returns for the previous three years and deducted expenses on inventory losses in

full, which resulted in recognition of an adjustment in respect of current income tax for previous years. In 2013, Lenta received a tax incentive totaling RUB234 million for investments made in St. Petersburg in 2009-2011, which lowered Lenta's effective tax rate for 2013.

Profit for the Year

For the reasons set forth above, profit for the year increased by RUB1,928 million, or 27.0%, to RUB9,075 million in the year ended 31 December 2014 from RUB7,147 million in the year ended 31 December 2013.

Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012

Lenta's total sales increased by RUB34,356 million, or 31.3%, to RUB144,266 million in the year ended 31 December 2013 from RUB109,910 million in the year ended 31 December 2012.

The following table sets out certain key operating performance indicators relevant to sales in the years ended 31 December 2013 and 2012. See "Presentation of Financial and Other Information" for information on the method of calculation of these indicators.

	As of or for the year ended 31 December	
	2013	2012
Total sales (RUB millions).....	144,266	109,910
Total selling space (thousand of sq. m.) (as of year-end)	507	376
Average selling space (thousands of sq. m.).....	416	313
Average sales density (RUB thousands/average sq. m.).....	347	351
Sales growth (% change, year-on-year).....	31.3	22.4
Average store ticket (RUB)	1,092	1,061
Average ticket growth (% change, year-on-year).....	2.9	9.3
Traffic growth (% change, year-on-year)	27.5	12.0
Like-for-like sales growth (% change, year-on-year)	10.0	13.5
Like-for-like average ticket growth (% change, year-on-year).....	8.1	10.1
Like-for-like articles per ticket (% change, year-on-year)	2.0	3.1
Like-for-like average price growth per article (% change, year-on-year)	6.0	6.8
Like-for-like traffic growth (% change, year-on-year)	1.8	3.1
Like-for-like average sales density (RUB thousands/sq. m. for the year).....	399	376
Sales growth from new stores (% change, year-on-year).....	21.3	9.0
Share of new store sales growth in total sales growth (%).....	68.2	39.9

The increase in Lenta's total sales in 2013 compared to 2012 was due to (i) a 21.3% increase in the sales from new stores opened in 2013 and new stores opened in 2012 not yet part of the like-for-like panel and (ii) a 10.0% increase in like-for-like sales.

The increase in sales from new stores was due to the acceleration in new store openings in 2012 and 2013, with 32.9% increase in average selling space in 2013 compared to 2012, due to the opening of 21 new hypermarkets (and 10 supermarkets) in 2013 and the carry-over effect of 14 new hypermarkets opened in 2012 open for full year 2013.

The 10.0% like-for-like sales growth in 2013 was comprised of an 8.1% increase in like-for-like average ticket and a 1.8% increase in like-for-like traffic. The increase in like-for-like average ticket was comprised of a 6.0% increase in the average price per article and a 2.0% increase in the number of articles per ticket. The growth in the average price per article was due to a combination of inflation (in 2013, CPI inflation was 6.5% and the food products price index was up 7.3%), customers trading-up to more expensive articles within a particular product category (attributable to an increase in customer incomes, as borne out by a 3.3% increase in real disposable income in 2013 (based on preliminary data from Rosstat)) and a greater assortment offered at Lenta stores, partially offset by price investments by Lenta. The increase in like-for-like traffic was mainly attributable to a combination of new stores entering into the like-for-like panel and the positive effects of Lenta's promotional and

marketing initiatives taken to improve Lenta’s positioning and brand appeal. See “*Business—Operations—Promotions and Marketing*”.

Cost of Sales and Gross Profit

The following table sets out sales, cost of sales, gross profit and gross margin in the years ended 31 December 2013 and 2012, as well as the percentage change in sales, cost of sales and gross profit:

	Year ended 31 December		
	2013	2012	Percentage change
	<i>(RUB millions, except where indicated)</i>		<i>(%)</i>
Sales	144,266	109,910	31.3
Cost of sales	(112,805)	(87,233)	29.3
Gross profit	31,462	22,677	38.7
Gross margin ⁽¹⁾ (%)	21.8	20.6	—

Note:

(1) Gross margin is calculated as gross profit divided by sales, expressed as a percentage.

Cost of sales increased by RUB25,572 million, or 29.3%, to RUB112,805 million in 2013 from RUB87,233 million in 2012. Lenta’s sales grew more quickly (at 31.3%) than its cost of sales (at 29.3%) in 2013, resulting in an increase in gross margin to 21.8% in 2013 compared to 20.6% in 2012, which allowed Lenta to further invest in promotions and lower prices for consumers, thereby strengthening its price position.

The following table sets out further details of Lenta’s cost of sales in the years ended 31 December 2013 and 2012, the percentage of sales that each of the components of cost of sales represented in these two years and the percentage change in each component of cost of sales between these two years:

	Year ended 31 December 2013	Percentage of total sales	Year ended 31 December 2012	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Cost of goods sold ⁽¹⁾	95,801	66.4	74,331	67.6	28.9
Cost of own production	12,568	8.7	9,480	8.6	32.6
Supply chain cost	2,315	1.6	2,147	2.0	7.8
Losses due to inventory shortages	2,121	1.5	1,275	1.2	66.4
Total cost of sales	112,805	78.2	87,233	79.4	29.3

Note:

(1) Less volume discounts and other types of rebates, promotional bonuses from suppliers and fees paid by suppliers for Lenta’s provision of logistical services.

The increase in cost of sales in 2013 compared to 2012 was mainly driven by an increase in sales volumes, which in turn increased cost of goods sold and cost of own production.

Cost of goods sold increased by RUB21,470 million to RUB95,801 million in 2013 from RUB74,331 million in 2012 primarily due to an increase in sales driven by new store openings and greater like-for-like sales. Measured as a percentage of total sales, cost of goods sold decreased to 66.4% of total sales in 2013 compared to 67.6% in 2012. Lenta sales grew more quickly (at 31.3%) than its cost of goods sold (at 28.9%) in 2013. Volume discounts, rebates and promotional bonuses from suppliers, which are deducted from Lenta’s cost of goods sold, increased in 2013 in part as a result of Lenta’s improved purchasing power that accompanied the increased scale of its operations in 2013 compared to 2012.

In keeping with the 28.8% increase in sales of own production (compared to the overall sales growth of 31.3%), which comprise fresh food products that Lenta prepares at its stores, the cost of own production increased by RUB3,088 million to RUB12,568 million in 2013 from RUB9,480 million in 2012. Measured as a percentage of

total sales, cost of own production increased to 8.7% of total sales in 2013 compared to 8.6% in 2012, due to an increase in the share of new stores in ramp-up stage, which have relatively higher costs of own production. The costs of own production are predominantly raw materials and labour, which respectively accounted for 82.5% and 14.2% of total cost of own production in 2013.

Supply chain costs increased by RUB168 million to RUB2,315 million in 2013 from RUB2,147 million in 2012 primarily due to increased sales volumes, partially offset by improved efficiencies as the two new distribution centres were integrated into Lenta's operations and improved terms with third-party transport providers. The increase in supply chain costs in 2013 compared to 2012 would have equalled 27.4%, but for the reclassification in 2013 of certain supply chain costs related to own imports as 'cost of goods sold'; total amount of these reclassified costs was RUB415 million. Centralisation levels, i.e., the percentage of goods destined for hypermarkets (measured by the inbound value of goods received by the store) that are shipped via Lenta's distribution centres, remained largely consistent with the previous year at approximately 36.7%.

Losses due to inventory shortages, i.e., shrinkage, increased by RUB846 million, or 66.3%, to RUB2,121 million in 2013 from RUB1,275 million in 2012 mainly due to a greater proportion of new regional stores with higher fresh food shrinkage due to lower sales densities (i.e., lower turnover leading to fresh food going past its sell-by date).

For the reasons described above, Lenta's gross profit increased by RUB8,785 million, or 38.7%, to RUB31,462 million in 2013 from RUB22,677 million in 2012.

SG&A

Lenta's SG&A increased by RUB5,558 million, or 40.8%, to RUB18,940 million in the year ended 31 December 2013 from RUB13,456 million in the year ended 31 December 2012. Lenta's SG&A (at 40.8%) outpaced sales growth (at 31.3%) in 2013 largely due to the SG&A associated with Lenta's accelerated expansion programme in 2013 and 2012.

The following table sets out further details of Lenta's SG&A in the years ended 31 December 2013 and 2012, the percentage of total sales that each of the components of Lenta's SG&A represented in these two years and the percentage change in each of the components of Lenta's SG&A between these two years:

	Year ended 31 December 2013	Percentage of total sales	Year ended 31 December 2012	Percentage of total sales	Percentage change
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>	<i>(%)</i>
Labour costs	8,628	6.0	7,006	6.4	23.2
Depreciation and amortisation	2,263	1.6	1,579	1.4	43.3
Professional fees	1,526	1.1	659	0.6	131.6
Advertising	1,356	0.9	801	0.7	69.3
Utilities and communal payments	859	0.6	598	0.5	43.6
Repairs and maintenance	732	0.5	474	0.4	54.3
Cleaning services	653	0.5	406	0.4	61.0
Premises lease	391	0.3	77	0.1	407.8
Taxes other than income tax	568	0.4	593	0.5	(4.2)
Security services	500	0.3	355	0.3	40.7
Land and equipment lease	209	0.1	167	0.2	25.2
Pre-opening costs	636	0.4	357	0.3	78.4
Other	616	0.4	383	0.3	60.7
Total SG&A	18,940	13.1	13,456	12.2	40.8

As a percentage of total sales, SG&A increased to 13.1% in 2013 from 12.2% in 2012. Adjusted SG&A/Sales ratio was 10.9% in 2013 compared to 11.1% in 2012. Total SG&A increased by RUB5,484 million, or 40.8%, to RUB18,940 million in 2013 from RUB13,456 million in 2012 with increases in all cost lines, except for taxes other than income tax (which include property, land, transport and water taxes). All these increases were primarily the result of the costs associated with Lenta's expansion programme, including the opening of 21 new

hypermarkets in 2013 and the expenditure incurred in anticipation of further significant expansion in the next three years in connection with putting infrastructure in place to support future growth. The opening in 2013 of five rented hypermarkets and nine rented supermarkets increased the cost of premises leased from 0.1% of sales in 2012 to 0.3% of sales in 2013.

Labour costs

Labour costs under SG&A reflects Lenta's labour costs that are not included in cost of own production, supply chain costs or in pre-opening costs. See "*—Explanations of Key Income Statement Items*".

The table below sets out a breakdown of Lenta's labour costs that are recorded as SG&A in the years ended 31 December 2013 and 2012:

	Year ended 31 December 2013	Percentage of total labour costs	Year ended 31 December 2012	Percentage of total labour costs
	<i>(RUB millions)</i>	<i>(%)</i>	<i>(RUB millions)</i>	<i>(%)</i>
Wages and salaries ⁽¹⁾	6,328	73.3	5,370	76.6
Social security levies	1,544	17.9	1,167	16.7
Employee benefits	756	8.8	469	6.7
Total labour costs	8,628	100	7,006	100

Note:

(1) Includes bonuses.

Labour costs increased by RUB1,622 million, or 23.2%, to RUB8,628 million in 2013 from RUB7,006 million in 2012 as a result of the increase in the number of Lenta employees and an increase in average salaries. Labour costs under SG&A accounted for 76.8% and 80.3% of Lenta's overall labour costs in 2013 and 2012, respectively. See "*—Significant Factors Affecting Results of Operations—Efficient operational management*" for a discussion of the reasons for the increase in Lenta's total labour costs.

Depreciation and Amortisation

Depreciation and amortisation charges increased by RUB684 million, or 43.3%, to RUB2,263 million in 2013 from RUB1,579 million in 2012, which was mainly due to a RUB308 million, or 62.6%, increase in depreciation charges in respect of Lenta's buildings to RUB804 million in 2013 from RUB495 million in 2012, reflecting depreciation taken on Lenta's recently constructed stores. The increase was also partially due to RUB54 million of depreciation charges in 2013 arising from capitalised pre-opening expenses.

Advertising

Advertising costs increased by RUB555 million, or 69.3%, to RUB1,356 million in 2013 from RUB801 million in 2012, which was mainly due to the growth in the number of stores and in particular an increase in 'opening campaign' costs in connection with these new stores.

Professional Fees

Professional fees increased by RUB867 million, or 131.6%, to RUB1,526 million in 2013 from RUB659 million in 2012, which was mainly due to costs in connection with retaining an industry expert on the analysis and use of 'Big Data' and professional service fees primarily incurred in connection with optimisation of the Lenta corporate legal structure, preparation for the Offering and development of employee incentive plans.

Other Operating Income

Lenta's other operating income increased by RUB342 million, or 30.6%, to RUB1,460 million in 2013 from RUB1,118 million in 2012.

The following table sets out Lenta's other operating income in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	<i>(RUB millions)</i>	
Penalties due by suppliers.....	619	516
Rental income.....	340	282
Advertising income.....	380	247
Gain on PPE disposal.....	1	1
Other.....	120	72
Total other operating income	1,460	1,118

Reflecting Lenta's increased intake of supplies and expansion, the increase in other operating income in 2013 was mainly due to a RUB103 million, or 19.9%, increase in penalties due by suppliers; a RUB58 million, or 20.6%, increase in rental income; and a RUB133 million, or 53.8%, increase in advertising income.

Other Operating Expense

Other operating expense increased by RUB56 million, or 45.6%, to RUB181 million in 2013 from RUB125 million in 2012.

Operating Profit

For the reasons set forth above, operating profit increased by RUB3,686, or 35.1%, to RUB13,801 million in 2013 from RUB10,215 million in 2012.

Interest Expense

Interest expense increased by RUB1,125 million, or 34.9%, to RUB4,342 million in 2013 from RUB3,217 million in 2012. The increase in interest expense was primarily due to an increase in long-term debt taken out to fund expansion. See "*Liquidity and Capital Resources—Indebtedness*".

Interest Income

Interest income increased by RUB4 million, or 5.1%, to RUB82 million in 2013 from RUB78 million in 2012.

Change in Fair Value of Financial Instruments at Fair Value through Profit or Loss

In 2013, Lenta recorded a loss of RUB234 million as a result of a negative change in the fair value of the ineffective portion of the interest rate swaps and caps provided by VTB Capital, which were entered into as a hedge against an increase in the MosPrime interest rate, of RUB38 million and a negative change in the fair value of such swaps and caps prior to the designation of hedge accounting on July 1, 2013 of RUB 196 million. Starting July 1, 2013, Lenta applied cash flow hedge accounting of swaps and caps under which the effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income. In April 2013, Lenta entered into a set of swaps and caps to cover the extension in the maturity of two tranches of the 2011 VTB Facility Agreement; in November 2013, it entered into a set of swaps and caps to cover the RUB5 billion drawn under the third tranche of the 2011 VTB Facility Agreement. In 2012, Lenta recorded a gain of RUB102 million as a result of a positive change in the fair value of these interest rate swaps and caps provided by VTB Capital.

Other Expenses

The following table sets out Lenta's other expenses in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	<i>(RUB millions)</i>	
Consulting.....	91	215
Total other expenses	91	215

Lenta engaged the services of various professional consultants and other third parties, including certain shareholders in the Company, to provide support to Lenta and help monitor its operations (such paid-for services shall cease by the time of the Offering). See “*Transactions with Related Parties—Related Party Transactions—Shareholders’ Fees and Expenses*”. In 2013 and 2012, Lenta paid RUB91 million and RUB215 million, respectively, in consulting fees for these services.

Foreign Exchange Gains/(Losses)

In 2013, as the average nominal Rouble/U.S. Dollar exchange rate depreciated by 2.4%, Lenta incurred foreign exchange losses of RUB23 million, reflecting a decrease in the Rouble value of certain U.S. Dollar- and Euro-denominated contracts with suppliers between the date when amounts under such contracts were payable and the date when actual payment was made. In 2012, Lenta recorded a foreign exchange gain of RUB70 million.

Profit before Income Tax

For the reasons set forth above, profit increased by RUB2,160 million, or 30.7%, to RUB9,192 million in 2013 from RUB7,032 million in 2012.

Income Tax Expense

The following table sets out Lenta’s income tax expense in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	<i>(RUB millions)</i>	
Current tax expense	1,320	1,252
Deferred tax expense	959	601
Income tax credit	(234)	—
Adjustments in respect of current income tax of previous year	—	3
Income tax expense	2,045	1,856

Lenta’s total income tax expense increased by RUB189 million, or 10.2%, to RUB2,032 million in 2013 from RUB1,856 million in 2012. Current tax increased by RUB68 million, or 5.4%, reflecting Lenta’s increased profits. Deferred tax increased by RUB358 million, or 59.6%, mainly due to the increased difference in the depreciation of fixed assets under IFRS accounting and Russian tax accounting as a result of the significant increase in property investments in 2013. The Russian tax regime generally provides for a shorter period of depreciation than IFRS and also allows an initial one-off depreciation charge on certain assets of between 10% and 30% (intended as an investment incentive). The significant increase in investments in 2013 has significantly increased these immediate tax depreciation charges.

Lenta’s effective tax rate (calculated as income tax expense divided by profit before income tax) was 22.3% in 2013 and 26.4% in 2012. In 2013, Lenta received a tax incentive totaling RUB234 million for investments made in St. Petersburg in 2009-2011, which lowered Lenta’s effective tax rate for 2013. In 2012, the excess of the effective tax rate over the statutory tax rate of 20% was primarily influenced by the writing off of a permanent tax difference on fixed assets due to the depreciation and disposal of underlying fixed asset items.

Profit for the Year

For the reasons set forth above, profit for the year increased by RUB1,971 million, or 38.1%, to RUB7,147 million in the year ended 31 December 2013 from RUB5,176 million in the year ended 31 December 2012.

Liquidity and Capital Resources

In addition to financing existing operations, Lenta requires liquidity to finance the acquisition of land plots for new stores, the construction of new stores, the purchase of machinery and equipment necessary to support Lenta’s expanding operations and the further development of Lenta’s supply chain (including the construction of new distribution centres and assembling Lenta’s fleet of delivery trucks). Since 1 January 2012, Lenta has met a majority of its liquidity needs with net cash generated from operations and the balance through long- and short-term bank borrowings, the issuance of Rouble-denominated bonds in Russia and, to a lesser extent, finance leases.

Lenta expects that, going forward, its principal source of cash will be cash generated from operations together with a mix of bank borrowings, bond issuances and financial leasing, augmented by equity issuances. In July 2013, Lenta LLC established a programme with MoEX under which Lenta LLC may issue bonds in total aggregate principal amount of RUB33 billion (as of the date of this Prospectus, bonds in the aggregate principal amount of RUB10 billion under this programme are outstanding). New borrowings in 2015 have been considered in light of the evolving Rouble interest rate environment and Lenta's sales revenues, cashflows and EBITDA results, as well as the overall state of the Russian economy. Notably, in June 2015, Lenta entered into a RUB37.3 billion unsecured loan agreement with VTB Bank with a seven-year term (with amortisation from the fourth year of the facility onwards), of which RUB30.0 billion was drawn down in June 2015 to prepay the outstanding 2011 VTB Facility Agreement, and upon such repayment the average maturity of Lenta's debt portfolio increased from approximately 30 months to 42 months. In any borrowings, Lenta expects to borrow prudently, only taking on Rouble-denominated indebtedness, and within the limits set by its financial covenants. As of 30 June 2015, Lenta had in aggregate RUB32,800 million available to be drawn under existing credit lines (all of which is at current market/floating rates of interest).

Cash Flows

The following table sets out cash flow information for the six months ended 30 June 2015 and 2014 and for the years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
Cash flows from operating activities					
Profit before income tax	3,789	3,643	10,928	9,192	7,032
Adjustments for:					
Loss from disposal of property, plant and equipment	10	22	94	83	15
Gain on disposal of leasehold rights.....	—	—	—	(1)	—
Loss from disposal of IA.....	—	—	1	—	—
Interest expense.....	5,353	2,934	6,911	4,342	3,217
Interest income.....	(255)	(38)	(100)	(82)	(78)
Inventory write-down to net realisable value	139	159	255	131	42
Change in bad debt allowance.....	192	37	15	35	(4)
Depreciation and amortisation.....	2,690	1,695	3,659	2,317	1,579
Share Options expense	52	43	112	66	—
Reversal of impairment of non-financial assets.....	—	—	—	—	0
Change in fair value of financial instruments at fair value through profit or loss	(6)	—	19	234	(102)
	11,964	8,496	21,894	16,317	11,703
Movements in working capital:					
(Increase) / decrease in trade and other receivables.....	1,984	1,534	(2,897)	(3,024)	(1,572)
(Increase) / decrease in advance paid	665	(411)	(1,347)	(597)	(497)
(Increase) / decrease in prepaid expenses	(43)	45	60	(55)	(12)
(Increase) / decrease in inventories	1,882	116	(6,891)	(3,752)	(1,847)
Increase / (decrease) in trade and other payables.....	(13,828)	(6,791)	13,130	7,470	6,374
Increase / (decrease) in advances received	(69)	(10)	89	(32)	11
(Decrease) / increase in net other taxes payable	2,580	1,516	(519)	(456)	(741)
Cash generated from operating activities	5,135	4,497	23,519	15,872	13,419

Income taxes paid.....	(838)	(919)	(956)	(976)	(1,084)
Interest paid.....	(5,582)	(2,867)	(6,670)	(4,048)	(3,099)
Interest received.....	270	38	87	89	78
Net cash generated from operating activities.....	(1,015)	749	15,979	10,937	9,314
Cash flows from investing activities					
Purchase of property, plant and equipment.....	(11,554)	(11,124)	(33,594)	(22,580)	(14,115)
Purchase of intangible assets other than leasehold rights.....	(234)	(166)	(419)	(274)	(263)
Purchase of leasehold rights.....	—	(502)	(1,102)	(813)	(638)
Proceeds from sale of property, plant and equipment.....	13	—	4	4	1
Proceeds from disposals of leaseholder rights.....	—	—	—	30	—
Net cash used in investing activities.....	(11,775)	(11,792)	(35,111)	(23,633)	(15,015)
Cash flows from financing activities					
Proceeds from borrowings.....	73,435	31,357	80,337	70,921	26,670
Repayment of borrowings.....	(73,065)	(23,570)	(55,330)	(54,045)	(22,837)
Repayment of obligations under finance lease.....	(8)	(8)	(15)	(15)	(11)
Proceeds from issue of new shares and sales of treasury shares.....	12,595	—	—	813	279
Cancellation of share option reserve.....	—	—	—	(2,227)	—
Payment of loan commission.....	(59)	(71)	(37)	(75)	—
Net cash generated from / (used in) financing activities.....	12,897	7,708	24,955	15,372	4,101
Net (decrease) / increase in cash and cash equivalents.....	107	(3,335)	5,824	2,676	(1,600)
Cash and cash equivalents at the beginning of the period.....	12,036	6,212	6,212	3,536	5,136
Cash and cash equivalents at the end of the period.....	12,143	2,877	12,036	6,212	3,536

Net Cash Generated from Operating Activities

Six months ended 30 June 2015 compared to the six months ended 30 June 2014

Net cash generated from operating activities decreased by RUB1,764 million, or 236%, to negative RUB1,015 million in the first half of 2015 from RUB749 million in the first half of 2014. This decrease resulted primarily from: (i) a RUB146 million increase in profit before income tax to RUB3,789 million in the first half of 2015 from RUB3,643 million in the first half of 2014; (ii) as described below, a RUB3,323 million increase in aggregate adjustments to profit before income tax to RUB8,175 million in the first half of 2015 from RUB4,852 million in the first half of 2014; (iii) as described below, a RUB2,828 million change in movements in working capital to negative RUB6,829 million in the first half of 2015 from negative RUB4,001 million in the first half of 2014; and (iv) a RUB2,715 million increase in interest paid to RUB5,582 million in the first half of 2015 from RUB2,867 million in the first half of 2014 due to higher amounts of debt and higher interest rates. Net cash generated from operating activities before net interest paid amounted to RUB4,567 million in the first half of 2015 compared to RUB3,616 million in the first half of 2014.

The increase in aggregate adjustments to profit before income tax principally resulted from an increase of RUB2,419 million in accrued interest expense to RUB5,353 million in the first half of 2015 from RUB2,934 million in the first half of 2014 primarily due to higher amounts of debt and higher interest rates and from an increase of RUB995 million in depreciation and amortisation to RUB2,690 million in the first half of 2015 from RUB1,695 million in the first half of 2014 primarily reflecting Lenta's addition of 23 owned hypermarkets in 2014.

The largest movements in working capital in the first half of 2015 were:

- a RUB13,828 million decrease in accrued trade and other payables in the first half of 2015, compared to a RUB6,791 million decrease in first half of 2014, largely reflecting the payment of a heightened level of trade and other payables at year-end 2014 as a result of Lenta's opening of 20 new hypermarkets and 6 new supermarkets in November and December 2014 (year-end accounts payable are significantly higher than their annual average);
- a RUB1,882 million decrease in inventories in the first half of 2015, compared to a RUB116 million decrease in the first half of 2014, largely reflecting the sell-off of built-up year-end inventory at the end of 2014;
- a RUB1,984 million decrease in accrued trade and other receivables in the first half of 2015, compared to a RUB1,534 million decrease in in the first half of 2014, largely reflecting trade and other receivables built up at year-end 2014, including for store opening fees payable by suppliers in connection with the 20 new hypermarkets and 6 new supermarkets opened in November and December 2014, which were then paid out in the first half of 2015.

Year ended 31 December 2014 compared to the year ended 31 December 2013

Net cash generated from operating activities increased by RUB5,042 million, or 46.1%, to RUB15,979 million in 2014 from RUB10,937 million in 2013. This increase resulted primarily from: (i) a RUB1,736 million increase in profit before income tax to RUB10,928million in 2014 from RUB9,192 million in 2013; (ii) as described below, a RUB3,841 million increase in aggregate adjustments to profit before income tax to RUB10,966 million in 2014 from RUB7,125 million in 2013; (iii) as described below, a RUB2,071 million change in movements in working capital to RUB1,625 million in 2014 from negative RUB446 million in 2013; and (iv) a RUB2,622 million increase in interest paid to RUB6,670 million in 2014 from RUB4,048 million in 2013 due to higher amounts of debt and higher interest rates. Net cash generated from operating activities before net interest paid amounted to RUB22,563 million in 2014 compared to RUB14,896 million in 2013. Lenta maintained its strong cash flow conversion with net cash from operating activities before net interest paid equal to 106% of Adjusted EBITDA in 2014, compared to 90% in 2013.

The increase in aggregate adjustments to profit before income tax principally resulted from an increase of RUB2,569 million in accrued interest expense to RUB6,911 million in 2014 from RUB4,342 million in 2013 primarily due to higher amounts of debt and higher interest rates and from an increase of RUB1,342 million in depreciation and amortisation to RUB3,659 million in 2014 from RUB2,317 million in 2013 primarily reflecting Lenta's addition of 23 owned hypermarkets in 2014.

The largest movements in working capital in 2014 were:

- a RUB13,130 million increase in accrued trade and other payables in 2014, compared to a RUB7,470 million increase in 2013, largely reflecting the opening of 20 new hypermarkets and 6 new supermarkets in November and December 2014 and increased sales levels in December 2014 compared to December 2013 (as year-end accounts payable are significantly higher than their annual average, reflecting the accounts payable in purchasing supplies to meet the annual sales uplift at year-end, to stock higher inventory at year-end to cover early January when most suppliers do not deliver due to public holidays, and to supply new hypermarkets, which are predominantly opened in November/December);
- a RUB6,891 million increase in inventories in 2014, compared to a RUB3,752 million increase in 2013, reflecting more stores in operation and the build-up of inventory for new stores (in 2014, Lenta opened 31 new hypermarkets and 14 new supermarkets);
- a RUB2,897 million increase in accrued trade and other receivables in 2014, compared to a RUB3,024 million increase in 2013. This change was caused mainly by an increase in accounts receivable rental and other services and on advertising of supplier products and on supplier bonuses in 2014, including outstanding receivables for store opening fees payable by suppliers in connection with the 20 new hypermarkets and 6 new supermarkets opened in November and December. A store opening fee is payable upon the opening of the relevant store; and
- a RUB1,347 million increase in advances paid (principally to suppliers of goods and to service providers), compared to a RUB597 million increase in 2013.

Year ended 31 December 2013 compared to the year ended 31 December 2012

Net cash generated from operating activities increased by RUB1,623 million, or 17.4%, to RUB10,937 million in 2013 from RUB9,314 million in 2012. This increase resulted primarily from: (i) a RUB2,160 million increase in profit before income tax to RUB9,192 million in 2013 from RUB7,032 million in 2012; (ii) as described below, a RUB2,455 million increase in aggregate adjustments to profit before income tax to RUB7,125 million in 2013 from RUB4,670 million in 2012; (iii) as described below, a RUB2,162 million change in movements in working capital to negative RUB446 million in 2013 from RUB1,716 million in 2012; (iv) a RUB108 million decrease in income taxes paid to RUB976 million in 2013 from RUB1,084 million in 2012 due to up-front tax deductions on Lenta's investments (such deductions can be taken in the financial quarter after such investments are put to use); and (v) a RUB949 million increase in interest paid to RUB4,048 million in 2013 from RUB3,099 million in 2012 primarily due to higher amounts of debt, partially offset by a RUB11 million increase in interest received. Net cash generated from operating activities before net interest paid amounted to RUB14,896 million in 2013 compared to RUB12,335 million in 2012. Lenta maintained its strong cash flow conversion with net cash from operating activities before net interest paid equal to 90% of Adjusted EBITDA in 2013, compared to 97% in 2012. Cash flow was slightly impacted by the higher working capital requirements associated with the opening of new hypermarkets.

The increase in aggregate adjustments to profit before income tax principally resulted from an increase of RUB1,124 million in accrued interest expense to RUB4,342 million in 2013 from RUB3,218 million in 2012 primarily due to higher amounts of debt and from an increase of RUB738 million in depreciation and amortisation to RUB2,317 million in 2013 from RUB1,579 million in 2012 due to an increase in investments in new stores and distribution centres.

The largest movements in working capital in 2013 were:

- a RUB7,470 million increase in accrued trade and other payables in 2013, compared to a RUB6,374 million increase in 2012, largely reflecting the opening of 13 new hypermarkets and 5 new supermarkets in November and December 2013 and increased sales levels in December 2013 compared to December 2012 (as year-end accounts payable are significantly higher than their annual average, reflecting the accounts payable in purchasing supplies to meet the annual sales uplift at year-end, to stock higher inventory at year-end to cover early January when most suppliers do not deliver due to public holidays, and to supply new hypermarkets, which are predominantly opened in November/December);
- a RUB3,752 million increase in inventories in 2013, compared to a RUB1,847 million increase in 2012, reflecting more stores in operation and the build-up of inventory for new stores (in 2013, Lenta opened 21 new hypermarkets and 10 new supermarkets);
- a RUB3,024 million increase in accrued trade and other receivables in 2013, compared to a RUB1,572 million increase in 2012. This change was caused mainly by an increase in accounts receivable on supplier bonuses and rental and other services and on advertising of supplier products in 2013, including outstanding receivables for store opening fees payable by suppliers in connection with the 13 new hypermarkets and 5 new supermarkets opened in November and December. A store opening fee is payable upon the opening of the relevant store;
- a RUB456 million decrease in accrued net other taxes payable in 2013, compared to a RUB741 million decrease in 2012. This change was caused mainly by an offsetting increase in VAT receivables of RUB593 million as of 31 December 2013, which was due to an increase in construction activity in the fourth quarter of 2013; and
- a RUB597 million increase in advances paid (principally to suppliers of goods and in exchange for services), compared to a RUB497 million increase in 2012.

Net Cash Used in Investing Activities

Six months ended 30 June 2015 compared to the six months ended 30 June 2014

Net cash used in investing activities was stable at RUB11,775 million in the first half of 2015 compared to RUB11,792 million in the first half of 2014. Cash flows from investing activities were mainly used for purchases

of property, plant and equipment. In the first half of 2015, purchases of property, plant and equipment totaled RUB11,554 million, compared to RUB11,124 million in the first half of 2014.

Year ended 31 December 2014 compared to the year ended 31 December 2013

Net cash used in investing activities increased by RUB11,478 million, or 48.6%, to RUB35,111 million in 2014 from RUB23,633 million in 2013. Cash flows from investing activities were mainly used for purchases of property, plant and equipment. In 2014, purchases of property, plant and equipment totaled RUB33,594 million, compared to RUB22,850 million in 2013, which reflected the opening of 31 new hypermarkets and 14 supermarkets in 2014, compared to 21 hypermarkets and ten supermarkets in 2013, as well as adding to Lenta's land bank and the investment in new distribution centres in Rostov-on-Don, Togliatti and Yekaterinburg. As a result of its expansion of hypermarkets, Lenta also increased its purchases of leasehold rights, spending RUB1,102 million in 2014 compared to RUB813 million in 2013, and of intangible assets other than leasehold rights, spending RUB419 million in 2014 compared to RUB274 million in 2013.

Year ended 31 December 2013 compared to the year ended 31 December 2012

Net cash used in investing activities increased by RUB8,618 million, or 57.4%, to RUB23,633 million in 2013 from RUB15,015 million in 2012. Cash flows from investing activities were mainly used for purchases of property, plant and equipment. In 2013, purchases of property, plant and equipment totaled RUB22,580 million, compared to RUB14,115 million in 2012, which reflected the opening of 21 new hypermarkets in 2013, compared to 14 in 2012, as well as the opening of 10 new supermarkets, the Moscow and Novosibirsk distribution centres and expansion of the St. Petersburg-Shushary distribution centre. As a result of its expansion of hypermarkets, Lenta also increased its purchases of leasehold rights, spending RUB813 million in 2013 compared to RUB638 million in 2012, and of intangible assets other than leasehold rights, spending RUB274 million in 2013 compared to RUB263 million in 2012.

Net Cash Generated from Financing Activities

Six months ended 30 June 2015

Net cash generated from financing activities in the first half of 2015 equaled RUB12,897 million. This mainly reflected the net proceeds of the March 2015 offering of GDRs of RUB12,595 million (of which RUB10,825 million were applied towards the repayment of debt). See "*Indebtedness—Description of Material Financings*".

Year ended 31 December 2014

Net cash generated from financing activities in 2014 equaled RUB24,955 million. This mainly reflected a drawdown of RUB4.6 billion under the EBRD Loan Agreement, further drawdown of RUB3 billion under the 2011 VTB Facility Agreement, a drawdown of RUB10 billion under the Long-term Credit Facility with Sberbank, a drawdown of RUB4,750 million under the revolving facility with Sberbank and drawdowns under other revolving credit facilities of the Group as well as repayments of RUB4.7 billion under the revolving facility with VTB and RUB3.75 billion under the revolving facility with Sberbank. See "*Indebtedness—Description of Material Financings*".

Year ended 31 December 2013

Net cash generated from financing activities in 2013 equaled RUB15,372 million. This mainly reflected the placement of RUB10 billion in Rouble bonds in March 2013 and a drawdown of RUB5 billion under the 2011 VTB Facility Agreement. See "*Indebtedness—Description of Material Financings*". Net cash generated from financing activities in 2013 also reflected proceeds of RUB813 million from the sale of 431,765 Shares held by the Company's subsidiary Lakatomo Holdings Limited to certain members of Senior Management and of 80,000 Shares to a Lenta director pursuant to his exercise of share options. See "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*". In 2013, Lenta also made a payment of RUB2,227 million in consideration for the cancellation of a share option agreement.

Year ended 31 December 2012

Net cash generated from financing activities in 2012 equaled RUB4,101 million. This largely reflected net proceeds from new borrowings in the amount of RUB3,833 million. Borrowings in 2012 mainly consisted of proceeds received under the 2011 VTB Facility Agreement. Net cash generated from financing activities in 2012 also reflected the receipt of proceeds in the amount of RUB279 million from the allotment of 360,231 Shares (purchased by Senior Management of Lenta to whom Lenta had given cash bonuses in like amount). See “*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisition*”.

Working Capital

Lenta’s primary sources of liquidity are cash flows from operating activities, debt financings and domestic Rouble bond offerings, augmented by equity offerings. As of 31 December 2014, 2013 and 2012, Lenta’s working capital—defined as current assets (excluding cash and cash equivalents) less current liabilities (excluding short-term borrowings and short-term portion of long-term borrowings)—was negative RUB11,183 million, negative RUB10,558 million and negative RUB9,489 million, respectively. As of 30 June 2015 Lenta’s working capital was negative RUB3,412 million. Lenta believes that working capital levels in the food retail industry are typically negative, largely reflecting accounts payable to suppliers. Furthermore, this tendency is exacerbated at year-end as more stores usually come into operation in November/December than other months, and accounts payable build up in connection with the supply of these new stores and are settled the following year. Lenta typically sells its inventory before it pays its suppliers for that inventory.

Indebtedness

The average maturity of Lenta’s debt was 2.6 years as of 31 December 2014, 3.3 years as of 31 December 2013 and 2.9 years as of 31 December 2012, and the weighted average interest rate on Lenta’s indebtedness was 15.85% as of 31 December 2014, 10.5% as of 31 December 2013 and 11.0% as of 31 December 2012. As of 30 June 2015, the average maturity was 3.3 years and the weighted average interest rate 12.25%. Average maturity of indebtedness is calculated on the basis of the weighted average (weighted by the principal amount of such indebtedness) of days from the date specified to the specified maturity of the indebtedness. Weighted average interest rate on indebtedness is calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the date specified. As of 30 June 2015, Lenta had available-for-draw under its financings in aggregate RUB32,800 million (all of which is at current market/floating rates of interest).

The following table sets out Lenta’s total debt as of the dates indicated. As of 30 June 2015, and as of 31 December 2014, 2013 and 2012, all of Lenta’s debt was denominated in Roubles:

	Six months ended			
	30 June	As of 31 December		
	2015	2014	2013	2012
	<i>(RUB millions)</i>			
Short-term debt, of which	16,337	12,695	6,143	3,833
Short-term portion of long-term borrowings ⁽¹⁾	15,081	6,178	6,142	3,333
Short-term borrowings	1,256	6,517	1	500
Long-term debt, of which	55,302	58,555	39,900	25,044
Long-term bank debt ⁽²⁾	55,275	48,557	29,892	24,979
Bonds ⁽³⁾	—	9,963	9,957	—
Long-term obligations under finance leases	27	35	51	65
Total borrowings	71,639	71,250	46,043	28,877

Notes:

- (1) The short-term portion of long-term revolving credit lines and, as of 30 June 2015, bonds.
- (2) Long-term bank debt includes capitalised fees in connection with the 2011 VTB Facility Agreement and other long-term agreements of RUB571 million, RUB483 million and RUB396 million as of 31 December 2014, 2013 and 2012, respectively, and as of 30 June 2015 of RUB779 million.
- (3) Reflects outstanding amounts under the March 2013 Rouble bond issuance and includes capitalized fees in connection therewith of RUB38 million as of 31 December 2014 and RUB43 million as of 31 December 2013. See “—*Description of Material Financings—Description of Bonds*”.

As of 30 June 2015, 77.8% of Lenta's gross debt consisted of long-term debt, and RUB 45,300 million, or 63%, of outstanding gross debt had fixed rates or hedged rates reducing exposure to floating interest rates (compared to 77%, or RUB45,300 million, as of 31 December 2014). Hedging is achieved under interest rate swap and cap agreements that Lenta has in place with VTB Capital. See Note 20 (Borrowings) to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012. The two outstanding interest rate cap agreements which Lenta has with VTB Capital (in total notional amount of RUB10.9 billion) originally could be applied for up to four quarters during their term; as of the date of this Prospectus, one quarter of interest rate coverage has not been used. As of 30 June 2015, the total amount available under Lenta's credit facilities was RUB32,800 million (all of which is at current market/floating rates of interest).

Lenta considers net debt and certain leverage and coverage ratios as the principal measures for evaluating the impact of the total size of its debt on its operations. The following table sets out net debt and certain ratios as of the dates indicated:

	Six months ended 30	Year ended 31 December		
	June			
	2015	2014	2013	2012
		<i>(RUB millions)</i>		
Other financial data				
Net debt (RUB millions) ⁽¹⁾	59,497	59,215	39,831	25,341
Net debt to Adjusted EBITDA ratio ⁽¹⁾	2.4	2.8	2.4	2.0
Adjusted EBITDA to net interest expense ratio ⁽²⁾	2.8	3.1	3.9	4.1
Lease-adjusted net debt to Adjusted EBITDAR ratio ⁽³⁾	2.8	3.1	2.6	2.1
Adjusted EBITDAR to net interest expense plus rental expense ratio	2.4	2.8	3.5	3.8

Notes:

- (1) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases and including capitalised fees and interest accrued) minus cash and cash equivalents.
- (2) Net interest expense is interest expense less interest income.
- (3) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.

Net debt, net debt to Adjusted EBITDA, Adjusted EBITDA to net interest expense, the lease-adjusted ratio of net debt to Adjusted EBITDAR, Adjusted EBITDAR to net interest expense plus rental expenses are non-IFRS measures and may not be comparable to similarly titled measures disclosed by other companies, and investors should not use these non-IFRS measures as a substitute for figures provided in the Financial Information. See “*Selected Consolidated Financial Information and Operating Data*” for a discussion of the calculation of Adjusted EBITDA and Adjusted EBITDAR.

Currently, the most restrictive of the financial covenants in Lenta's principal borrowings establish ratios of (i) net debt to adjusted EBITDA of no more than 4x and (ii) adjusted EBITDA to net interest expense of not less than 1.5x at any quarter end (not being a year end) and not less than 2.0 at any year-end (such terms for purposes of this sentence as defined in the relevant financing documents).

Short-Term Borrowings

During the periods under review, Lenta entered in a number of short-term, Rouble-denominated credit facilities. As of 31 December 2014, 2013 and 2012 the total amount of Lenta's short-term borrowings (including the short-term portion of Lenta's long-term borrowings) was RUB12,695 million, RUB6,143 million and RUB3,833 million, respectively, and as of 30 June 2015 RUB16,337 (reflecting in part RUB10,000 million of the March 2013 Rouble bond issuance that bondholders may redeem upon re-pricing in March 2016). Short-term loans as of 30 June 2015 bore a weighted average interest rate (as defined above) of 13.35% (as of 31 December 2014: 18.0%). For further information on Lenta's short-term indebtedness, see Note 17 to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2015 and Note 20 to the Historical Financial Information of Lenta as of and for the Years ended 31 December 2014, 2013 and 2012. The most significant of these borrowings with amounts outstanding as of 30 June 2015 are described below in “—*Description of Material Financings*”. As of 31 December 2014, 2013 and 2012, the total amount of interest accrued under Lenta's short-

term borrowings was RUB381 million, RUB325 million and RUB5 million, respectively, and as of 30 June 2015 RUB 348 million.

Long-Term Borrowings

As described below under “—*Description of Material Financings*”, Lenta’s principal long-term financings have been extended by JSC VTB Bank, JSC Sberbank of Russia, UniCredit Bank, EBRD, JSC Bank Saint-Petersburg and Raiffeisen Bank.

Description of Material Financings

Set out below is a description of Lenta’s most significant financings as of 30 June 2015:

June 2015 VTB Facility Agreement

In June 2015, Lenta LLC as borrower entered into an unsecured seven-year, two-tranche facility agreement with VTB Bank (the “**June 2015 VTB Facility Agreement**”) allowing borrowings of up to RUB30.0 billion for the first tranche and RUB7.3 billion for the second tranche. The loan matures in 2022 with amortisation from the fourth year of the facility onwards.

In June 2015, Lenta LLC drew down the RUB30.0 billion first tranche and applied the proceeds to repay in its entirety a facility that Lenta LLC had entered into in September 2011 with VTB Capital (the “**2011 VTB Facility Agreement**”), which, unlike the new facility, was guaranteed by the Company and secured (including by way of mortgages on real property of Lenta LLC).

As of 30 June 2015, Lenta had not drawn down on the second tranche (which remains available for 18 months), which may be used for general corporate purposes, including the financing of Lenta’s expansion programme. Accordingly, as of 30 June 2015, the total amount outstanding under the June 2015 VTB Facility Agreement was RUB30.0 billion. The loans under the June 2015 VTB Facility Agreement carry interest based on the 3-month MosPrime rate plus a margin.

March 2015 Loan Agreement with JSC VTB Bank

In March 2015, Lenta LLC entered into a revolving credit facility with JSC VTB Bank, allowing borrowings of up to RUB15 billion. This facility was obtained to replace two recently expired revolving facilities - the RUB4.95 billion revolving credit facility with JSC Bank of Moscow (an affiliate of JSC VTB Bank) which expired in November 2014, and the RUB4.7 billion revolving credit facility with JSC VTB Bank, which expired in February 2015. The credit facility has a maturity date of 3 March 2018. The facility is subject to a number of covenants, including certain maintenance covenants, restrictions on disposal of assets and financial covenants. As of 30 June 2015, no disbursements have been made under this facility.

Agreement with UniCredit Bank

In December 2014, Lenta LLC entered into a RUB11.5 billion five-year unsecured credit facility with ZAO UniCredit Bank. The credit facility is available for drawdown for one year from the signing date and matures in December 2019. The Company has drawn down the facility to finance Lenta’s on-going investment programme and, as of 30 June 2015, RUB 11.5 billion was outstanding under this agreement.

The interest rate under the UniCredit Bank Loan Agreement is variable, consisting of the one-month MosPrime rate plus a margin. The UniCredit Bank Loan Agreement is subject to a number of covenants, including certain maintenance covenants, restrictions on disposal of assets and other financial covenants.

Agreements with JSC Sberbank of Russia

In December 2014, LLC Lenta entered into a 3-year term credit facility with JSC Sberbank, allowing borrowings of up to RUB10.0 billion, under which Lenta may borrow in tranches for a period of up to one year. The facility is subject to a number of covenants, including financial covenants. All borrowings under the facility have to be repaid by 22 December 2017. As of 30 June 2015, the amount outstanding under this facility was RUB 3.5 billion.

In April 2014, Lenta LLC entered into a non-revolving credit facility with JSC Sberbank. The credit facility has a maturity date of 29 April 2017. The facility is subject to a number of covenants, including certain maintenance covenants, restrictions on disposal of assets and financial covenants. As of 30 June 2015, RUB10 billion was outstanding under this facility.

Loan Agreement with EBRD

In January 2014, Lenta LLC as borrower entered into a secured eight-year loan agreement with EBRD (the “**EBRD Loan Agreement**”) allowing borrowings of up to RUB4.6 billion, which Lenta has drawn in full. Under its terms, Lenta LLC is required to pledge its real property in order to meet a specified ratio of the outstanding principal amount of the financing to the value of the pledged property. The EBRD Loan Agreement is subject to a number of covenants, including certain maintenance covenants.

The proceeds from the EBRD Loan Agreement have been used to finance costs and expenses payable by Lenta LLC related to investments in Lenta’s existing and new regional stores and in the construction of the two new distribution centres in Rostov-on-Don and Togliatti, including investments to support energy efficiency and other sustainable resource investments.

The interest rate under the EBRD Loan Agreement is variable, consisting of the three-month MosPrime rate plus a margin that is determined taking into consideration Lenta’s leverage ratio. Under a June 2015 amendment to the loan agreement, the margin was reduced.

Credit Facility with JSC Bank Saint-Petersburg

In April 2013, Lenta LLC entered into a revolving credit facility with JSC Bank Saint-Petersburg, allowing borrowings of up to RUB2 billion. The credit facility has a maturity date of 15 April 2016. The facility is subject to a number of covenants, including the requirement to provide certain financial information and maintain necessary licences. As of 30 June 2015, RUB 1,250 million was outstanding under this facility.

Agreements with Raiffeisen Bank

In August 2013, Lenta LLC entered into an agreement on the issuance of bank guarantees of up to RUB1 billion with Raiffeisen Bank. The agreement was amended in 2014 to extend the period during which the guarantees are available until December 2016 and increase the total limit of guarantees to RUB4.5 billion. As of June 30, 2015, guarantees in the aggregate amount of RUB3.0 billion were outstanding under this agreement.

In April 2013, Lenta LLC entered into a revolving credit facility with Raiffeisen Bank, allowing borrowings of up to RUB4.5 billion. The credit facility matures in December 2016. The facility is subject to a number of covenants, including the requirement to provide certain financial information. As of 30 June 2015, RUB 1.25 billion was outstanding under this facility.

Finance Leases

Lenta has entered into finance leases (the aggregate value of which represent a small share of Lenta’s overall indebtedness) with JSC VTB Leasing for the leasing of vehicles and printing equipment. Lenta’s obligations under these leases are the Rouble equivalent of a Euro amount (based on the exchange rate at the time of payment). The interest rates under these leases are fixed at the commencement of the lease term, and all leases are on a fixed repayment basis.

Description of Bonds

In March 2013, Lenta LLC issued three tranches of bonds in an aggregate amount of RUB10 billion, which mature in March 2020 and are admitted to trading on MICEX, with three tranches (in the aggregate amount of RUB12 billion) listed on the “primary” list of MICEX. An interest rate of 10% per annum applies for the initial three years of the bonds, and then is reset for such further period and such interest rate as Lenta LLC selects, subject to the put right of the bondholders to have their bonds redeemed in the five day period before the reset of interest (put rights for which may be exercised in March 2016 and accordingly these bonds are now accounted as short-term debt). The bonds contain a right of bondholders to demand early redemption if the bonds are de-listed or Lenta LLC fails to pay due interest for more than seven business days. In addition, the Company provided an

irrevocable offer to bondholders to purchase the bonds in these circumstances or where Lenta LLC has failed to redeem the bonds for more than 30 calendar days after the due date.

In July 2013, Lenta LLC established a programme with the Moscow Exchange for the issuance of up to RUB33 billion of bonds in eight tranches. Under the programme, the bonds are to mature ten years after placement. The amount of an interest rate and how long that interest rate applies is determined upon placement. The bonds contain a put option right for bondholders to demand early redemption at the time of resetting the interest rate. The bonds contain a right of bondholders to demand early redemption if the bonds are de-listed.

Under this programme, in August 2015 Lenta LLC issued RUB5 billion of bonds with an interest rate of 12.4% per annum applicable for the initial 2.5 years of the bonds, and in September 2015 Lenta LLC issued a further RUB5 billion of bonds also with an interest rate of 12.4% per annum applicable for the initial 3 years of the bonds. Consequently, as of the date of this Prospectus Lenta LLC may issue up to RUB23 billion of additional bonds under this programme.

Capital Expenditure

In the years ended 31 December 2014, 2013 and 2012, Lenta made capital expenditure, which consist of net cash used in investing activities, of RUB35,111 million, RUB23,633 million and RUB15,015 million, respectively, and in the six months ending 30 June 2015 made capital expenditure of RUB11,775 million. Lenta funded its capital expenditure during these periods in part from cash from operations and in part from funds raised through the issuance of bank borrowings and bonds.

Lenta's capital expenditure during these periods have mainly resulted from the expansion of its operations and, in particular its acquisition of land for development (which accounted for 23% of total capital expenditure in 2014), the construction of new hypermarkets (which accounted for 64% of capital expenditure in 2014) and its investment in its supply chain including construction of five distribution centres. Investments relating to hypermarkets to be opened in 2015 and beyond amounted to approximately 48% of total capital expenditure spent in 2014. In 2014, the simple average capital expenditure to open an owned hypermarket (blended across all three formats) was RUB775 million and to open a rented hypermarket was RUB260 million. The three owned distribution centres coming into full operation in 2015 have entailed capital expenditure of RUB1.1-1.3 billion each.

The following table summarises Lenta's capital expenditure in the six months ended 30 June 2015 and years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
			<i>(RUB millions)</i>		
Purchase of property, plant and equipment....	11,554	11,124	33,594	22,580	14,115
Purchase of intangible assets other than leasehold rights	234	166	419	274	263
Purchase of leasehold rights	—	502	1,102	813	638
Proceeds from sale of property, plant and equipment.....	(13)	—	(4)	(4)	(1)
Proceeds from disposals of leasehold rights..	—	—	—	(30)	—
Total capital expenditure	11,775	11,792	35,111	23,633	15,015

As has been the case in 2015 year-to-date, in the near to medium term Lenta expects to constantly assess its level of capital expenditure in light of the Rouble interest rate environment and sales revenues, cash flow and EBITDA results. In the six months ending 30 June 2015, Lenta's total capital expenditure was RUB11,775 million and as of 30 June 2015 Lenta had contractually committed capital expenditure of RUB 15,206 million, most of which will be paid out in the second half 2015. Lenta currently plans to open at least 30 hypermarkets and 10-15 supermarkets during all of 2015 (including the 14 hypermarkets and three supermarkets opened in 2015 through 30 September 2015). Lenta's management plans to continue to assess additional capital expenditure in light of sales, cashflow, and EBITDA results and the Rouble interest rate environment, adjusting expenditures appropriately. The considerable land bank Lenta has assembled gives it flexibility to decide when to make capital expenditure and commence construction of new stores. See "Risk Factors—Risks relating to strategy—Lenta may not be able to implement its expansion strategy or execute its capital expenditure plans".

Contractual Obligations and Commercial Commitments

The following table sets forth Lenta's aggregate contractual obligations and commercial commitments as of 30 June 2015 and the payments due by period under such obligations and commitments:

	As of 30 June 2015		
	Total	Less than 1 year	More than 1-5 years
		<i>(RUB millions)</i>	
Long-term and short-term loans ⁽¹⁾	62,054	6,000	38,686
Bonds ⁽²⁾	10,000	10,000	—
Finance leases	27	27	—
Capital expenditure commitments (excluding finance leases) ⁽³⁾	15,206	15,206	—
Operating leases	40,392	2,873	10,828
Total contractual obligations and commercial commitments⁽⁴⁾⁽⁵⁾	127,679	34,106	49,514

Notes:

- (1) This amount includes future interest payments associated with the loans. Furthermore, the loans are subject to specific repayment terms and any default on the repayments could result in the acceleration of these payments.
- (2) This amount represents the bonds issued in March 2013 (including future interest payments). These bonds have a fixed maturity date in March 2020, but have a put option right for the bondholder to take early repayment that initially vests three years after placement.
- (3) Capital expenditure commitments represent payments expected to be made under contracts in existence as of 30 June 2015 for the acquisition of property, plant and equipment and intangible assets.
- (4) This contractual obligations and commercial commitments table does not reflect purchase orders entered into in the normal course of business or long-term commitments for normal purchases and sales.
- (5) This contractual obligations and commercial commitments table does not include amounts relating to deferred tax liabilities. Due to uncertainty regarding the timing of payments associated with these liabilities, Lenta is unable to make a reasonable estimate of the period for which these liabilities might be paid.

Off-Balance Sheet Arrangements

Lenta does not have any material off-balance sheet arrangements with any of its affiliates or with any unconsolidated entities.

Dividend Policy

In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; in 2015, Lenta has not paid and does not expect to declare any dividends. In future years, Lenta will consider the pay out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion, its debt profile and leverage ratios. As such, while Lenta's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out.

Critical Accounting Policies

In the application of Lenta's accounting policies, Lenta 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 Lenta considers to be relevant. Actual results may differ from these estimates.

The most significant areas requiring the use of management estimates and assumptions relate to: operating lease commitments; the treatment of transactions as asset purchases or business combinations; useful life of property, plant and equipment; assumptions on the renewal of leases; inventory valuation; and impairment of non-financial assets.

Operating Lease Commitments

As lessor, Lenta enters into certain leases of land and premises. Based on an evaluation of the terms and conditions of these leases, such as the lease term not constituting a substantial economic portion of the economic life of the commercial property, Lenta has determined that it retains all significant risks and rewards of ownership of these properties and accounts for these contracts as operating leases.

Treatment of Transactions as Asset Purchase or Business Combination

From time to time in the ordinary course of business, Lenta acquires companies that are party to a lease contract or own a land plot or a store in which Lenta is interested. If at the date of acquisition by Lenta, the acquired 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 direct economic benefits to the investor, then Lenta treats such acquisition as a purchase of assets (a leasehold right, a land plot or a store) in the Financial Information. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

Assumption on Renewal of Leases

Lenta makes the assumption that the initial three-year leases on land where stores are being built will be renewed for 49 years upon completion of construction. Therefore, any long-term prepayments at the inception of the leases are presumed to have a 49-year useful life. Should Lenta 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

Lenta reviews 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 Lenta management following the experience of sales of such items.

Reflecting these write-downs as well as regular inventory shrinkage, Lenta recognised inventory losses (as expenses under cost of sales) for the years ended 31 December 2014, 2013 and 2012 of RUB3,321 million, RUB2,121 million and RUB 1,275 million, respectively, and for 30 June 2015 and 2014 of RUB2,135 million and RUB1,613 million, respectively.

Impairment of Non-Financial Assets

At each reporting date, Lenta 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, Lenta estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Changes in accounting policies and estimates

On January 1, 2014, Lenta elected to change its accounting policy for land lease expenses, whereby lease expenses incurred during construction period are to be capitalized as part of the cost of a building under

construction. Previously, such land lease expenses incurred during period of a new store construction had been recognized in profit and loss.

Lenta applied change in accounting policy retrospectively, by adjusting opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The effect of change of accounting policy on Lenta's financial information is as follows:

Impact on consolidated statement of financial position

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
<i>(RUB millions)</i>			
As of 31 December 2013			
Non-current assets			
Property, plant and equipment.....	51,165	221	51,387
Equity			
Retained earnings	307	177	485
Non-current liabilities			
Deferred tax liability.....	1,640	44	1,684
<hr/>			
	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
<i>(RUB millions)</i>			
As of 31 December 2012			
Non-current assets			
Property, plant and equipment.....	30,583	153	30,736
Equity			
Retained earnings	9,810	123	9,932
Non-current liabilities			
Deferred tax liability.....	705	31	736

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

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
<i>(RUB millions)</i>			
Year ended 31 December 2013			
Cost of goods sold	(112,809)	5	(112,805)
Selling general and administrative expenses	(19,014)	74	(18,940)
Other operating expense	(171)	(11)	(181)
Income tax expense	(2,032)	(14)	(2,045)
Profit for the period	7,092	55	7,147
<hr/>			
	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
<i>(RUB millions)</i>			
Year ended 31 December 2012			
Selling general and administrative expenses	(13,506)	50	(13,456)
Income tax expense	(1,846)	(10)	(1,856)
Profit for the period	5,136	40	5,176

Impact on consolidated statement of cash flows

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
<i>(RUB millions)</i>			
Year ended 31 December 2013			
Profit before income tax	9,124	68	9,192
Loss from disposal of property, plant and equipment	73	11	83

Depreciation and amortisation.....	2,312	5	2,317
Net cash used in operating activities.....	10,853	84	10,937
Net cash used in investing activities.....	(23,549)	(84)	(23,633)
Net cash generated from financing activities.....	15,372	—	15,372
Net decrease in cash and cash equivalents.....	2,676		2,676

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
Year ended 31 December 2012		<i>(RUB millions)</i>	
Profit before income tax.....	6,982	50	7,032
Depreciation and amortisation.....	1,576	3	1,579
Net cash used in operating activities.....	9,261	53	9,314
Net cash used in investing activities.....	(14,962)	(53)	(15,015)
Net cash generated from financing activities.....	4,101	—	4,101
Net decrease in cash and cash equivalents.....	(1,600)		(1,600)

Disclosures about Market Risk

Interest Rate Risk

Interest rate risk is the risk that changes in variable interest rates will adversely impact Lenta's financial results. Lenta's interest rate risk arises mainly from long-term, variable-rate borrowings, and, in particular, the June 2015 VTB Facility Agreement, which bears a floating interest rate of three-month MosPrime plus a margin. See "—Liquidity and Capital Resources—Indebtedness—Description of Material Financings—June 2015 VTB Facility Agreement". As of 30 June 2015, approximately RUB26.8 billion, or 37.1% of Lenta's total indebtedness (and as of 31 December 2014, approximately RUB26 billion, or 36%) consisted of variable interest rate debt; this figure excludes debt with floating interest that Lenta has effectively hedged to reduce its exposure as described under "—Liquidity and Capital Resources—Indebtedness". See Note 30 (Financial risk management)—Interest rate Risk, and—Interest rate sensitivity to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

Foreign Currency Risk

In 2014 and in the first half of 2015, Lenta directly imported approximately 4% of its food and non-food products (as measured by the purchase price paid to suppliers) from overseas suppliers, paying in currencies other than the Rouble. Lenta's primary currency risk arises from the depreciation of the Rouble against the U.S. Dollar and Euro between the date when amounts are recorded as payable under Lenta's U.S. Dollar-denominated and Euro-denominated transactions with suppliers and the date of actual purchase.

As of 30 June 2015, Lenta had no foreign currency denominated financial indebtedness. As of 30 June 2015, Lenta had one hypermarket lease agreement denominated in foreign currency without any cap on the exchange rate or a discount. One hypermarket lease agreement was denominated in USD and provided for a discount on rent of 25% until 31 December 2015. Five additional hypermarket lease agreements were denominated in USD but had caps on the exchange rate with an average capped exchange rate of RUB43/USD1. In addition, four supermarket lease agreements were denominated in foreign currency with caps on the exchange rate. For an analysis of Lenta's foreign currency sensitivity, see Note 30 (Financial risk management)—Foreign currency risk, and—Foreign currency sensitivity to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

Credit Risk

Lenta's financial assets that are exposed to credit risk consist mainly of trade receivables and cash and cash equivalents. Lenta has no significant concentrations of credit risk because its customer and supplier base is large and diverse. See Note 30 (Financial risk management)—Credit risk to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

Lenta does not face significant credit risk with respect to trade receivables. Trade receivables mostly arise with suppliers and consist of bonuses and marketing income payable by the supplier, to whom Lenta also owes money

in the ordinary course of business. No credit is extended to Lenta's customers. Lenta mitigates its credit risk by monitoring its balance of receivables on a weekly basis. The maximum exposure to credit risk associated with trade receivables is the carrying value of trade receivables as presented in the Financial Information.

In the normal course of business, most of Lenta's cash is in transit from the stores to the banks where Lenta has accounts. Excess cash and cash equivalents are placed in financial institutions considered at the time of deposit to have a minimal risk of default.

Liquidity Risk

Liquidity risk is the risk that Lenta will not be able to settle all liabilities as they fall due. Because Lenta processes a large volume of transactions in cash, it is also exposed to the risk of cash shortages. Lenta monitors its liquidity risk through the use of a recurring liquidity planning tool, which takes into account the maturity of Lenta's financial assets and liabilities and projected cash flows from operations, as well as Lenta's anticipated funding needs. Lenta manages its liquidity risk through the use of bank overdrafts and bank loans. See Note 30 (Financial risk management)—Liquidity risk to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

Capital Risk Management

Lenta 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. Lenta 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. Lenta 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 and requirements to diversification of funding sources. Lenta's funding decisions are, inter alia, guided by the covenants in the June 2015 VTB Facility Agreement, Lenta's facility with UniCredit Bank and the EBRD Loan Agreement. See “—Liquidity and Capital Resources—Indebtedness”. See Note 30 (Financial risk management)—Financial risk management—Capital management to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012.

CERTAIN REGULATORY MATTERS IN RUSSIA

Set out below is a summary of material information concerning the regulation of Lenta's business. This description does not purport to be a complete description of all laws and regulations applicable to Lenta's business and should not be read as such.

The food retail industry in Russia is subject to Russian laws and regulations of general application as well as to the rules and regulations specific to retail markets, including consumer rights, food quality standards, sanitary rules and health and safety requirements. Key Russian legislation relating to the retail food market includes:

- The Retail Law. See “*–Regulation of Food Retail Matters–Retail Law*” below.
- The Competition Law. See “*–Regulation of Food Retail Matters–Competition Law*” below.
- Federal Law No. 38-FZ “On Advertising”, dated 13 March 2006, as amended (the “**Law on Advertising**”) imposes certain requirements for advertising of goods and services and prohibits unfair, inaccurate or misleading advertising.
- Federal Law No. 171-FZ “On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Ethanol Containing Products”, dated 22 November 1995, as amended (the “**Law on Alcohol**”), and Federal Law No. 15-FZ of “On Health Protection from Exposure to Environmental Tobacco Smoke and the Effects of Tobacco Consumption”, dated 23 February 2013, as amended (the “**Law on Tobacco**”). See “*–Regulation of Food Retail Matters–Sale of Alcohol and Tobacco*” below.
- Federal Law No. 2300-1 “On Protection of Consumers’ Rights”, dated 7 February 1992, as amended (the “**Consumer Protection Law**”), establishes a general framework for regulating the relationships between retailers, manufacturers and service providers, on the one hand, and consumers, on the other hand, in connection with the sale of goods, performance or works and rendering of services. This law sets forth the rights of individuals vis-à-vis producers, sellers and service providers, including the right to purchase goods of good quality and the right to receive information, and specifies the consequences for violation of consumers’ rights.
- Federal Law No. 29-FZ “On Quality and Safety of Food Products”, dated 2 January 2000, as amended (the “**Law on Quality and Safety**”), governs quality and safety requirements for the manufacture, packaging, storage, transportation and sale of food products as well as the disposal or destruction of poor-quality and unsafe food products.
- Federal Law No. 52-FZ “On Sanitary and Epidemiological Welfare of the Population”, dated 30 March 1999, as amended (the “**Law on Sanitary and Epidemiological Welfare**”), establishes the legal framework for sanitary and epidemiology compliance matters in Russia. In particular, this law requires that food products meet certain sanitary standards and food products that represent a danger to customers must be withdrawn immediately from production and sale. In addition, there is a body of sanitary rules implemented pursuant to the Law on Sanitary and Epidemiological Welfare in connection with food production and retail sale, the construction of retail stores and the employment practices of retailers.
- Federal Law No. 69-FZ “On Fire Safety”, dated 21 December 1994, as amended (the “**Law on Fire Safety**”), provides for fire safety measures applicable to construction and maintenance of stores.
- Federal Law No. 89-FZ “On Production and Consumption Waste”, dated 24 June 1998, as amended (the “**Law on Waste**”), sets out general rules for handling waste resulting from food production and retail operations.
- Federal Law No. 184-FZ “On Technical Regulation”, dated 27 December 2002, as amended (the “**Law on Technical Regulation**”), establishes the legal framework for the development and enactment of state standards, as well as voluntary technical requirements, relating to manufacture, use, storage, transportation, sale and utilisation of goods and for compliance with these standards and requirements. In particular, according to this law, food products and non-food products sold by retailers are subject to obtaining either mandatory certification in respect of children’s clothes and domestic radio-electronic equipment or quality declaration in respect of most food products and clothing. There is an on-going process to replace rules adopted pursuant to the earlier laws superseded by the Law on Technical Regulation with new state standards adopted pursuant to the Law on Technical Regulation.
- The Customs Code of the Custom Union, adopted by the decision of the Interstate Council of the Eurasian Economic Community (EurAsEC) on 27 November 2009, as amended, regulates, amongst other

things, customs clearance of goods imported to Russia. The Customs Union is currently comprised of Russia, Belarus, Kazakhstan and Armenia, and operates within the framework of the EurAsEC.

- President Decree No. 560 “On Special Economic Measures to Protect Russia’s Security” dated 6 August 2014, as amended, establishes a one-year ban on import of certain food and food products originating from countries that have imposed economic sanctions on Russian entities and(or) individuals (the United States, all European Union countries, Canada, Australia, Norway, Ukraine, Albania, Montenegro, Iceland and Liechtenstein). The list of banned goods is set out in the Resolution of the Russian Government No. 778 “On Measures Aimed at Implementation of President Decrees No. 560 as of 6 August 2014 and No. 320 as of 24 June 2015”, dated 7 August 2014, as amended (the “**Food Sanctions Regulation**”). The ban took effect on 7 August 2014 and was extended for one more year starting from 6 August 2015.
- President Decree No. 391 “On Certain Special Economic Measures Aimed to Protect Russia’s Security” dated 29 July 2015 establishes that starting from 6 August 2015 any banned goods transported to the territory of Russia shall be destroyed. The exact rules of destruction of banned goods are established by the Resolution of the Russian Government No. 774 “On Approval of the Rules on Destruction of Agricultural Products, Raw Materials and Foodstuffs Included into the List of Agricultural Products, Raw Materials and Foodstuffs Originating from the United States, European Union Countries, Canada, Australia, Norway, Ukraine, Albania, Montenegro, Iceland and Liechtenstein and Which Are Prohibited for Import to Russia for the Period up to 5 August 2016 (Inclusive)” dated 31 July 2015.

Compliance with requirements imposed pursuant to the above laws may be costly and time-consuming, and may, in certain cases, result in delays in the commencement or continuation of Lenta’s operations. Violation of any of the applicable legal requirements could result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers. Regulatory authorities exercise considerable discretion in matters of interpretation, application and enforcement of applicable laws and regulations, as well as in matters of issuance, renewal or withdrawals of consents and permits and are empowered with the right to conduct scheduled or unscheduled inspections. The key state authorities regulating and supervising the food retail industry in Russia are as follows:

- Regional and local municipal authorities, which control compliance by the companies operating in their respective regions and municipalities with various regional and local rules. Regional authorities also issue licences for the retail sale of alcoholic beverages (though such powers may be delegated to municipal authorities).
- The FAS. See “*–Regulation of Food Retail Matters—Competition Law*” below.
- The Ministry of Industry and Trade, which, amongst other things, is the principal federal body authorised to develop the government policy for, and the regulatory regime of, trade.
- The Federal Service on Supervision of Consumer Rights Protection and Human Welfare (“**Rospotrebnadzor**”), which monitors compliance with sanitary and epidemiological laws and regulations and exercises control over consumer protection matters under the Consumer Protection Law.
- The Federal Service for Alcohol Market Regulation (“**Rosalkogol**”), which oversees the production, storage and sale of alcohol.
- The Federal Labour and Employment Service, which supervises labour relations and the social protection of employees under the Labour Code No. 197-FZ, dated 30 December 2001, as amended (the “**Labour Code**”).
- The Federal Migration Service, which develops migration policy and supervises compliance with laws and regulations relating to entry, residence and work by migrants.
- The Ministry of Civil Defence Affairs, Emergencies and Remediation of Consequences of Natural Disasters (the “**Emergency Ministry**”), which, amongst other things, supervises compliance with fire safety regulations.
- The Federal Customs Service, which develops governmental policy and the regulatory regime for custom operations and exercises control over the transfer of goods across the borders of the Russian Federation.
- The Federal Service for Intellectual Property (“**Rospatent**”), which registers intellectual property rights, including rights to trademarks, and certain agreements relating to intellectual property rights, including licence agreements for the use of a trademark, agreements for the transfer of the right to a trademark and franchising agreements.

- The Federal Service for State Registration, Cadastre and Cartography (“**Rosreestr**”), which registers rights to, and transactions with, real estate, and now maintains the Real Estate Register.
- The Public Prosecutor’s Office, the federal body that supervises compliance with laws and regulations and prosecutes violations thereof.

Regulation of Food Retail Matters

Retail Law

The Retail Law was enacted in 2009 and became effective on 1 February 2010 in an effort to police perceived abusive practices by Russian retailers, in particular, practices involving the suppliers to the retailers. The Retail Law also establishes the use of a regional trade register to make publicly available information on suppliers and retailers and requires retailers to disclose their supply/purchase policies on their websites or upon request.

One aspect of the Retail Law is to cap the volume-based bonuses, discounts and rebates from suppliers to retailers at 10% of the original price agreed between the supplier and the retailer for food supplies while also providing that certain staples with a shelf life of less than 10 days – including bread, bakery products, milk and chicken – cannot be subject to such arrangements. The Retail Law also prohibits practices whereby a retailer would demand (i) a fee from a supplier to be an eligible supplier for the retailer, (ii) a fee for the right of a supplier to substitute supply with comparable food products or (iii) a supplier to compensate retailer expenses other than expenses arising from the supply and sale of the food products, as well as practices whereby a supplier would demand a retailer to subscribe to ancillary services such as advertising or marketing services as a precondition to entering into a supply contract. In addition, the Retail Law limits the time for payment by retailers to suppliers for deliveries to 10, 30 or 45 days from the date of delivery (depending on the shelf life of the relevant food products). Amendments to the Retail Law are under active consideration. See *“Risk Factors—Risks Relating to Lenta’s Business and Industry—Risks relating to competition and demand—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta’s relationship with its suppliers”*.

Furthermore, the Retail Law prohibits a food retail company holding a market share exceeding 25% of the aggregate amount measured by cost of food products sold during the preceding financial year within a particular region, municipal area or city district in Russia from acquiring or leasing additional retail space within such territory.

Finally, the Russian Government is empowered under the Retail Law to impose maximum retail prices for “socially important food products”, which comprise meat (beef, pork and lamb), chicken (other than drumsticks), frozen whole fish, butter, sunflower oil, milk, chicken eggs, sand sugar, wheat flour, bread, bakery products, rice, millet, buckwheat, vermicelli, salt, black tea, potatoes, cabbages, carrots, onions and apples, for a period of up to 90 days when retail prices have increased by or over 30% within a 30-day period in a Russian region.

Sale of Alcohol and Tobacco

According to the Law on Alcohol, retail sale of alcoholic products (excluding products containing less than 0.5% of ethanol, as well as beer, cider and mead), is subject to licensing. A licence is issued by regional or local authorities for no more than five years and may be renewed, subject to the licensee being current on its payment of taxes.

The Law on Alcohol regulates the minimum age of customers, the permitted time for sales, and the territory where sales of alcohol products cannot be carried out – for example, sales are prohibited in the neighborhood of educational and health institutions, sport facilities, airports and railway stations, with the borders of such neighborhood set by the local authorities. Furthermore, regional authorities may impose additional restrictions with respect to time, conditions and places for retail of alcohol products, or absolutely prohibit any sales. For instance, retail sales of alcohol products in St. Petersburg are prohibited from 10 pm to 11 am. Moreover, pursuant to the Law on Alcohol, Rosalkogol is authorised to fix minimum prices for alcohol products.

According to the Law on Tobacco, as from January 2014, new rules on sales and advertising of tobacco, including minimum prices and increased tobacco excise duties, became effective in Russia; since June 2014, the display of tobacco products is generally prohibited, so that a retailer may only display a written list of tobacco products offered for sale, and also, as a general rule, tobacco products may not be sold outside of stores. Similarly to the

Law on Alcohol, the Law on Tobacco regulates the age of customers and the territory for sales of tobacco products.

Competition Law

The Competition Law governs matters relating to promotion of competition in commodity markets and prevention and termination of monopolistic practices, unfair competition and other actions restricting competition. The Competition Law's restrictions on concerted actions and discrimination have been especially important for the Russian retail industry.

According to the Competition Law, concerted actions are actions taken in the absence of any agreement between market participants which meet the following criteria: (a) the result of such actions is in the interest of each concerting market participant; (b) such actions were known in advance to each of the market participants due to public announcement made by one of them regarding commitment of such actions; and (c) such actions are caused by market participants acting in concert and not by market circumstances equally affecting all economic entities in the respective market. Concerted actions are prohibited if they result or may result in, *inter alia*, (i) price fixing, discounts, extra charges or margins; (ii) coordination of auction bids; (iii) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (iv) reduction or termination of goods production; or (v) refusal to enter into contracts with certain buyers (customers). In addition, concerted actions are prohibited if they result or may result in restriction of competition by way of, among others, (x) imposing unfavourable contractual terms, (y) fixing disparate prices for the same goods, for reasons other than economic or technological or (z) creating barriers to entering or exiting a market.

The Competition Law, as well as the Retail Law, prohibits retail companies from imposing on counterparties discriminating conditions for the entry into the market or making sales, such as establishing barriers to their entry into the market or disparate pricing.

The Competition Law, as well as the Law on Advertising, also restricts unfair competition in terms of information flow such as: (i) dissemination of false, inaccurate, or distorted information that may inflict losses on an entity or cause damage to its business reputation; (ii) misrepresentation with respect to the nature, method, and place of manufacture, consumer characteristics, quality and quantity of a commodity or with respect to its producers; (iii) incorrect comparison of the products manufactured or sold by it with the products manufactured or sold by other entities; (iv) sale of commodities in violation of intellectual property rights, including trademarks and brands; or (v) illegal receipt, use, and disclosure of information constituting commercial, official or other secret protected by law.

The FAS is the state body principally authorised to deal with and accordingly polices violations of the Competition Law, the Retail Law and the Advertising Law, such as cartels, concerted actions and coordination of business activities, anti-competitive economic concentration (including unlawful expansion of retail space in a market where the retailer has a 25% market share), unfair competition and unfair, inaccurate or misleading advertising.

Russian legislation vests ample powers in the FAS permitting it to take necessary actions, including to (i) initiate proceedings regarding violation of anti-monopoly legislation; (ii) issue orders or impose fines; (iii) bring judicial actions to enforce the antimonopoly laws against companies and their officers, including, *inter alia*, through invalidating in full or in part any agreements that violate anti-monopoly law. Historically, FAS has fined a number of Russian retailers on the grounds of their wrongful discrimination against suppliers by way of (x) imposing unequal or unfair conditions on suppliers, (y) refusing to enter into supply agreements with willing and able suppliers thus creating barriers to the suppliers' access to the market or (z) tying their entry into marketing agreements with suppliers to the turnover of their goods.

Regulation of Real Estate Matters

Since 1998, almost all rights to real estate (including land plots and buildings) and transactions involving real estate must be registered with the Real Estate Register maintained by Rosreestr pursuant to Federal Law No. 122-FZ "On State Registration of Rights to Immovable Property and Transactions Therewith", dated 21 July 1997, as amended (the "**Law on State Registration**").

Currently, under the Law on State Registration, registration with the Real Estate Register is required for, *inter alia*, the following rights: (i) the right of ownership to newly-built buildings and facilities; (ii) the right of ownership to

land plots; and (iii) transfer of title to real property through sale and purchase transactions. Rights to real property that are subject to registration are deemed to legally exist only upon registration. Moreover, lease agreements for land plots or buildings with a lease term of at least one year, as well as mortgage agreements, require state registration. Absent state registration, such lease agreements and mortgage agreements have no legal effect and rights and obligations with respect to real estate are not deemed to be created (changed or terminated).

From October 2013, a new concept of a “single immovable complex” has been introduced to simplify registration procedures with respect to buildings, infrastructure assets (such as railroads and pipelines) and the underlying land.

There are occasional inconsistencies in records contained in the Real Estate Register and the description of real estate contained in the technical cadastre maintained by local technical organisations pursuant to Federal Law No. 221-FZ “On State Cadastre of Real Estate”, dated 24 July 2007, as amended, which may lead to significant delays in registrations until the inconsistency is cured. Such local technical organisations were recently integrated into Rosreestr, and it is expected that the Real Estate Register and the technical cadastre will become unified into a single register by 2017.

Information from the Real Estate Register is publicly available and contains material information about the registered property, including, *inter alia*, any registered encumbrances (limitations) on the property. Since 1 March 2013, a previous owner of property is entitled to register an objection to the registration of ownership rights with the Real Estate Register. If the person who registered the objection has not pursued his challenge in court within three months, the objection is annulled (and further objection by the same person is not permitted).

With respect to buildings, state registration is usually only carried out for a completed building. Although it is possible to register a building under construction as an ‘unfinished construction’, in practice this is cumbersome and very rarely happens, not least because subsequent state registration of the completed building is still required.

Ownership of Real Estate

Under the Land Code, legal entities generally hold land plots in ownership or leasehold. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities.

Under Russian law, land and building ownership are distinct, so that a building and the land on which it stands may be owned by different persons. However, the acquisition of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the prior owner of a building. In addition, the owner of a building located on another party’s private land has a pre-emptive right to buy or lease such underlying land. On the other hand, if a building and underlying land plot are owned by the same person, they may be disposed only together (save for certain limited cases). Owners of land plots are subject to regulation and also bear certain liabilities with respect to such property and are required to use the land plot in accordance with its designated purpose and not to cause harm to the environment.

All land in Russia is principally categorised as: land for settlement (which is the category of land on which Lenta operates its stores); land for use by industrial enterprises, power companies and communication companies; as well as for military and other special purposes; agricultural land; forestry land; land for waters; land for territories and objects of special protection; and reserved land (i.e., land which is owned by the state or municipalities and may be used only upon being transferred to other categories). Land must be used in accordance with its categorised purpose. The procedure for transfer of lands from one category to another is set out by the Federal Law No. 172-FZ “On Transfer of Land or Land Plots from One Category to Another”, dated 21 December 2004, as amended, and is implemented by decisions of relevant state (municipal) authorities (depending on the owner of such land) and in practice can be a time-consuming and complicated process.

The existing rules on the use of land sometimes lead to significant delays in construction and development. In March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing rules on the use of land was submitted to the Russian Duma. In December 2014 it was adopted in the first reading and in June 2015 submitted for the second reading in the Russian Duma. If the draft law is adopted, as from 1 January 2021, the land categories will be abolished, and all land plots (except for the most valuable agricultural land) will be divided into certain functional zones. There will be a broader general list of activities permitted in each zone. Municipalities will be authorised to establish and change borders of zones and approve definite activities regarding an individual land plot on the basis of the

general list of activities permitted in the respective zone.

Russian law provides that real estate may be expropriated for “state or municipal needs”. From 1 April 2015 a new law providing for the amendments to the Russian Land Code which simplify the procedure of expropriation came into force. The law sets forth a detailed outline of the expropriation procedure and provides, in particular, that the real estate rights holders (which includes land owners, users and tenants) are entitled to receive a copy of a decision on expropriation within 10 days after its adoption by the respective authority and full compensation upon execution of the agreement on expropriation of real estate. Such compensation for the expropriated real estate shall comprise the market value of the real estate or rights in relation to real estate, and any damages caused by expropriation, including the loss of profit. Registration of transfer of the ownership title to real estate is permitted only after full payment of the said compensation.

Obtaining Land Plots for Construction Purposes

Russian law generally allows individuals and legal entities to acquire land owned by state or local authorities for the development and construction of buildings. Russian law provides that state or local authorities upon application may grant permission for land plots to be used for construction purposes unless a land plot (i) has been withdrawn from commerce, (ii) is not permitted to be privatised under Russian law or (iii) has been reserved for state or local needs. Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant state or local authorities.

From 1 March 2015, under the Land Code, land plots owned by the state or local authorities are granted for the purpose of construction only through a public tender process for the right to lease the respective land plot (unless a developer enters into an agreement on development of infrastructure for an entire housing district). If there was only one bidder participating in the public tender, the state or local authorities may enter into a direct agreement with such bidder for the term from three to ten years. Often, the state or local authorities grant an initial three-year term land lease agreement (to cover the expected time of construction) on the plot, and when construction is completed grant the owner of the building a 49-year term lease or sell the land underlying the building. If a winning bidder does not develop the property, the state and local authorities may terminate the lease pre-maturely or allow it to expire in which case uncompleted building may be subject to a public sale upon the court decision.

Construction and Operation Permits

The main stages of the building construction process typically comprise the following:

- obtaining land rights;
- obtaining a town planning ‘solution plan’ for the land plot;
- preparing design documentation and obtaining infrastructure/utilities documentation;
- carrying out expert examination of the design documentation (which may be carried out by a state official or a third party accredited with the Federal Accreditation Service);
- obtaining a construction permit;
- performing construction works;
- obtaining an operational permit; and
- registration of title to the new building.

Under Russian law, construction is primarily regulated by the Town Planning Code (No. 190-FZ, dated 29 December 2004, as amended) and the town planning acts of regional authorities. Construction of a building on a land plot may only be carried out after obtaining a construction permit from the relevant regulatory authorities, which is issued on the basis of the design documentation meeting various state standards, environmental and sanitary rules, as well as fire safety and other safety requirements. Upon completion of construction, the relevant authority issues a permit for putting the building into operation, which confirms the compliance of the new building with its design documentation. Upon obtaining an operational permit, title to the building may be registered in the name of the owner in the Real Estate Register.

Regulation of Labour and Employment Matters

Employment Contracts

As a general practice, employment contracts in Russia are for indefinite terms. Russian labour legislation restricts entrance into term employment contracts with limited exceptions, such as senior management positions (and in practice, only general directors are usually subject to the possibility of immediate dismissal).

Generally an employer may terminate an employment contract only on the basis of specific grounds listed in the Labour Code, including:

- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- failure of the employee to comply with the position's requirements due to lack of professional qualification as evidenced by the results of an evaluation;
- liquidation of an enterprise or downsizing of staff;
- provision by the employee of false documents prior to entry into the employment contract; and
- other grounds as stated in the Labour Code or other federal laws.

An employee dismissed due to downsizing or liquidation is entitled to receive compensation (including a severance payment) and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for certain categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss pregnant women. Termination of employment contracts with mothers having a child under the age of three, single mothers having a child under the age of 14 or a disabled child under the age of 18 or other persons taking care of a child under the age of 14 or caring for a disabled child under the age of 18 without a mother is also not permitted except in certain cases provided for in the Labour Code, including liquidation of an enterprise, systematic failure of the employee to fulfil his or her duties or any single gross violation by the employee of his or her duties.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts often vindicate employees' rights. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the illegal termination and reinstatement.

Work Time

The Labour Code sets the regular working week at 40 hours for most occupations. Any time worked beyond 40 hours per week as well as work on public holidays and weekends must be paid for at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for men and 55 years for women.

Salaries

The minimum monthly wage in Russia, as established by the applicable federal law, is RUB5,965 from 1 January 2015.

Strikes

The Labour Code contemplates that workers may go on strike with the intention to settle a collective labour dispute. Russian legislation contains several requirements relating to legal strikes. Participation in a legal strike may not constitute a ground for terminating an employment contract, although employers are generally not required to pay salaries to striking employees.

Regulation of Intellectual Property

The Civil Code generally provides for the legal protection of trademarks registered with Rospatent. In addition, in accordance with the Agreement Concerning the International Registration of Marks (Madrid, 1891) and protocols thereto, Russia protects trademarks registered with the Worldwide Intellectual Property Organisation if international registration of such trademarks extends to Russia. Upon the registration of a trademark, Rospatent issues a certificate of registration of the trademark, which is valid for 10 years from the date on which the application for registration was filed. This term may be extended for another 10 years an unlimited number of times. In the absence of registration (i) the entity using the designation may be not able to protect its trademark against unauthorised use by a third party; (ii) if a third party has previously registered a trademark similar to the designation in question, then the entity may be held liable for unauthorised use of such trademark. Agreements for assignment of rights to a trademark, franchising agreements, licence agreements and pledge agreements are subject to registration with Rospatent. An unregistered licence agreement is invalid and unenforceable under Russian law and may trigger civil, administrative and criminal liability.

Russian Food Sanctions on Certain Food Imports

The Food Sanctions Regulation designates the following categories of foodstuffs prohibited for import to the Russian Federation (by reference to the names and numbers of broad categories used in the Customs Classifications of the Eurasian Economic Community between Russia, Belarus, Kazakhstan, Armenia and Kyrgystan):

- cattle meat (fresh, refrigerated or frozen), including raw beef, veal and buffalo meat (while mutton, lamb and goat meats are not considered “cattle meat”), but excluding organ meats and other “by-products”;
- pork meat (fresh, refrigerated or frozen), including raw pork and boar meat, but excluding organ meats and other "by-products";
- poultry meat and "by-products" (fresh, refrigerated or frozen), including raw organ meats;
- any meat that is salt-cured, dried, smoked or pickled in brine, including mutton, lamb and goat meats;
- live fish except for juvenile Atlantic salmon (*salmo salar*), brown trout (*salmo trutta*) and rainbow trout (*oncorhynchus mykiss*);
- fish and fish “by-products”, shellfish, mollusks and other water invertebrates (live, fresh, refrigerated, frozen, salt-cured, dried, smoked or pickled in brine, fish meal), including boiled or steamed shellfish in shells, as well as heat treated fish, shellfish, molluscs and other water invertebrates which were subsequently smoked but excluding sprats and mussels;
- milk and dairy products (except for specialised lactose-free milk and dairy products for dietetic nutrition), including milk, cream, yogurt, kefir, milk whey, butter, dairy paste, cheese and cottage cheese, but excluding ice cream;
- vegetables, edible roots and tubers (fresh, refrigerated, frozen, dried), except for seeds of potato, onion, sweet corn and pea;
- fruits and nuts (fresh, refrigerated, frozen, dried);
- uncooked and ready-to-eat sausage and like products made of meat, meat “by-products” or blood (including those made from mutton, lamb or goat meats); certain ready-to-eat products in which the concentration of the foodstuffs named in this item exceeds 20 percent;
- ready-to-eat products and supplements containing certain amounts of malt extract, milk or vegetable fat as specified in the Customs Classifications, including certain dietary supplements and cooking ingredients, except for nutritional supplements, vitamin and mineral complexes, flavour additives, concentrates of animal and vegetable proteins and their blend, food fibres and food additives;

- ready-to-eat products made under the cheese-production technologies with 1.5% or more by weight of milk fat.

The Food Sanctions Regulation expressly excludes baby food from its scope.

The Food Sanctions Regulation looks to the "country of origin" of foodstuffs, and not to the ultimate beneficial owner of such foodstuffs. Accordingly, to give a hypothetical example, a Turkish subsidiary of a EU company should still be able to deliver foodstuffs that are grown and harvested in Turkey and not processed elsewhere to Russia; conversely, a Turkish company should not be able to import into Russia unprocessed foodstuffs that are grown and harvested in the EU but transhipped to Russia via Turkey.

Starting from 6 August 2015 any banned goods transported to the territory of Russia shall be confiscated and destroyed (except for the goods transported by individuals for personal consumption and goods subject to customs transit procedure). The competent authorities entitled to confiscate and destroy banned goods are the Federal Customs Service, Rospotrebnadzor and the Federal Service for Veterinary and Phytosanitary Supervision (Rosselkhoz nadzor).

In furtherance of the Food Sanctions Regulation in August 2015 a draft federal law prepared by a group of deputies and aimed at prohibiting sales of banned goods was submitted to the Russian Duma. The draft is expected to cover situations when an entity did not participate in import of banned goods but conduct their sales in Russia. It is not clear from the draft when such a prohibition is expected to become effective and what liability can be imposed for the non-compliance with it.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Board of Directors is responsible for managing the Company and may exercise all powers of the Company in doing so except to the extent that any such power (either generally or in relation to a particular matter) is required or reserved by the BCA or the M&A to be exercised by the shareholders in the Company. The Board of Directors also, by virtue of the Company's direct or indirect shareholdings in the other companies comprising the Group, provides strategic management of the affairs of the wider Group (the day to day operations of Lenta LLC, the Group's operating company, being managed by Senior Management as described below).

The Board of Directors currently consists of nine directors. Three directors are independent directors in the judgment of the Board of Directors, having regard to the provisions of the U.K. Corporate Governance Code relating to the independence of directors (on a voluntary basis, since the same does not apply to the Company). The CEO and CFO of the Company, who are also the general director and chief financial officer of Lenta LLC, are directors (who are ineligible to serve on committees of the Board of Directors). The remaining four directors were elected by the Company's shareholders pursuant to the nomination rights of the Major Shareholders.

As provided under the M&A:

- the CEO and CFO hold office by virtue of their position as such, and are appointed (and removed) by the Board of Directors.
- the Major Shareholders may nominate Major Shareholder Nominated Directors to be directors (and remove such directors), and the shareholders are obliged to vote to approve the appointment or removal of such candidates, as follows:
 - **TPG**: three (including the Chairman) whilst it holds directly or indirectly an interest in 22.5% or more of the Shares; two (including the Chairman) whilst it holds directly or indirectly an interest in 15% or more of the Shares; one whilst it holds directly or indirectly an interest in 5% or more of the Shares – accordingly, in light of its current 35.5% shareholding in the company, TPG has three nominees on the Board of Directors;
 - **EBRD**: two whilst it holds an interest in 15% or more of the Shares; one whilst it holds an interest in 5% or more of the Shares – accordingly in light of its current 11.5% shareholding in the Company, EBRD has one nominee on the Board of Directors.

On each occasion when a Major Shareholder's holding of Shares falls below a threshold listed above, a director nominated by that Major Shareholder must resign no later than the next general meeting (but may be re-nominated and re-elected by simple majority resolution of the shareholders). These directors may otherwise be only removed by their nominating Major Shareholder. The Major Shareholders may not assign or transfer these nomination rights.

- there should at all times be at least three independent directors. Independent directors are elected by a majority resolution of the Board of Directors from a list of candidates proposed by the Board of Directors and considered by the Board of Directors to be independent, taking into account the criteria for independence set forth in the U.K. Corporate Governance Code, provided that each independent director shall be deemed to resign at the first general meeting following his election by resolution of directors, at which general meeting the independent directors shall be put forth for re-election. These directors may be removed by a majority resolution of the Board of Directors or by simple majority resolution of the shareholders upon a proposal made by shareholder(s) holding more than 15% of the Shares.
- each of the other directors (if any) shall be elected by simple majority resolution of the shareholders from a list of candidates which will include those candidates proposed by the Board of Directors, retiring directors consenting to being put forward for re-election, and/or put forward for election by shareholder(s) holding at least 15% of the Shares within the timeframe stipulated in the M&A. These directors may be removed in the same way as the independent directors.

The Board of Directors may appoint a director to fill a vacancy (subject to the rights of the Major Shareholders), in which case the director so appointed shall resign at the next general meeting and be put forth for re-election.

As of the date of this Prospectus and immediately following the Offering, there are and will be four Major Shareholder Nominated Directors on the Board of Directors. The Major Shareholders have each transacted material related party transactions with Lenta. See “*Transactions with Related Parties*”. The Major Shareholder Nominated Directors have a fiduciary duty under the laws of the BVI to act in the best interests of the Company. Under the M&A, a director who has an interest in a transaction likely to give rise to a conflict of interest may not vote on any resolution relating to the transaction (unless fewer than three directors are entitled to vote on such resolution, in which case each interested director may vote provided his interest is duly disclosed or certain other exceptions apply). See “*Description of Shares and Applicable BVI Legislation—M&A—Interests of Directors*”. Under the M&A, the Major Shareholder Nominated Directors are expressly allowed to share confidential information regarding Lenta to their respective nominating Major Shareholder on a confidential basis. A Major Shareholder may elect to retain the director’s fee otherwise payable to a Major Shareholder Nominated Director.

The following table sets out the name, year of birth, position (in the case of directors nominated by the Major Shareholders, also indicating the relevant nominating Major Shareholder) and committee membership of each member of the Board of Directors. The term of each current director (other than Messrs Dunning and Lemmens, whose terms last so long as they respectively continue as CEO and CFO) expires at the 2016 annual general shareholders’ meeting.

<u>Name</u>	<u>Year of birth</u>	<u>Year of appointment</u>	<u>Position</u>	<u>Committee Memberships</u>
Stephen Johnson	1963	2010	Senior Independent Director	Audit; Nomination; Remuneration; Capex
Anton Artemyev	1960	2013	Independent Director	Audit; Nomination; Remuneration
Michael Lynch-Bell	1953	2013	Independent Director	Audit; Nomination; Remuneration
John Oliver	1959	2009	Chairman and Director; Major Shareholder Nominated Director (TPG)	Audit; Nomination; Remuneration
Dmitry Shvets	1972	2009	Director; Major Shareholder Nominated Director (TPG)	Nomination; Remuneration; Capex
Stephen Peel	1965	2011	Director; Major Shareholder Nominated Director (TPG)	—
Martin Elling	1954	2011	Director; Major Shareholder Nominated Director (EBRD)	Capex
Jan Dunning	1959	2013	Director	—
Jago Lemmens	1968	2013	Director	—

The business address for each member of the Board of Directors in his capacity as a director of the Company is the Offices of Tricor Services (BVI) Limited, PO Box 3340, Road Town, Tortola, BVI.

A short summary of the qualifications and certain other information in relation to each member of the Board of Directors is set out below:

Stephen Johnson

Steve Johnson has over 20 years of experience in the retail industry, having been part of the team that turned around and successfully sold Asda to Walmart. Whilst at Asda, Steve held several senior positions including Trading Director, Commercial Finance Director and Marketing Director. Following his time at Asda, he was CEO of Focus DIY Ltd. and of Woolworths Plc, as well as Sales & Marketing Director at GUS Plc. Mr. Johnson also served as a non-executive director of Unipart Group Ltd. He started his career in management consultancy with Bain & Co.

Steve has been an independent non-executive director of Lenta Ltd since 2010. He was appointed as Lenta’s Senior Independent Director in 2013. Steve is a Chairman of Lenta’s Nomination and Remuneration committees and also serves on the Audit and Capex committees. He is currently a non-executive director of Big Yellow Group Plc and the executive chairman of Poundworld Retail Limited. Steve also works with a number of private equity firms primarily focused in Southern and Eastern Europe.

He graduated from Cambridge University, Downing College, with a degree in engineering.

Anton Artemyev

Anton Artemyev has extensive FMCG (fast-moving consumer goods) experience in Russia and Eastern Europe including twelve years in the brewing industry, where his roles included Executive Vice-President of Baltic Beverages Holding, the largest Eastern European brewing group at the time; President of Baltika Breweries; and Senior Vice-President responsible for Eastern Europe and a Member of Executive Committee of Carlsberg Group. Prior to this Anton worked in a variety of consulting roles including Partner in Bossard Consultants and Principal in Gemini Consulting/CAP Gemini, where as head of Russian operations he focused on strategy work in various sectors, primarily consumer goods.

Anton became an independent non-executive director of the Company in 2013 and also serves on Lenta's Audit, Remuneration and Nomination committees. He is currently Chairman of Fortrent OY, which provides construction equipment rental services in Russia and Ukraine. Fortrent is a 50/50 joint venture between Cramo and Ramirent, who are among the European leaders in this field.

He holds a Diploma with honors and a Doctorate in Geography from Leningrad State University. He also studied Management and Economics at Bocconi University and at Henley Management College.

Michael Lynch-Bell

Michael Lynch-Bell retired from Ernst&Young as a Senior Partner in 2012 after a 38 year career with the firm. He was a member of Ernst&Young's audit practice from 1974 to 1997, becoming an Ernst&Young partner in 1985. During this period, as well as supervising and being involved in the audit of a number of multinational groups, he advised a wide range of companies on systems and controls, corporate governance, risk management and accounting issues. In 1997 Michael moved to Ernst&Young's Transaction Advisory practice where he founded and led its U.K. IPO and Global Natural Resources transaction teams. He has been involved with the CIS since 1991 and has advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.

Michael was appointed as an independent non-executive director of the Company in 2013. He is a Chairman of Lenta's Audit committee and also serves on the Nomination and Remuneration committees. In addition to his role at Lenta, he is also Senior Independent Director and audit committee chair of KazMinerals Plc, an independent non-executive director and compensation and audit committees chair at Transocean Partners LLC and an independent non-executive director and audit committee chair at Seven Energy Ltd. Michael is also active with the charities Action Aid International and 21st Century Legacy.

Michael graduated from Sheffield University with a BA in Economics and Accounting in 1974, qualified as an English Chartered Accountant in 1977 and was awarded an Honorary Doctorate of Humane Letters by Schiller International University in 2006.

John Oliver

John Oliver is a former TPG partner and led TPG's European Operating Group until December 2013. Prior to joining TPG in 2006, John spent 15 years with General Electric. His roles at GE included CEO of GE Equipment Services Europe, a diverse portfolio of businesses operating in 20 countries, and CEO of GE IT Solutions Europe, an IT infrastructure and services provider, which was turned around and sold under his leadership. Prior to this he held various roles at GE Medical Systems including GM EMEA Services, VP Global Radiation Therapy and VP Global Vascular Systems. He started his career in 1981 with Schlumberger oilfield services, holding various technical and country general management roles in Africa and Asia-Pacific, then worked for the Boston Consulting Group before joining GE.

John was appointed a non-executive director of the Company in October 2009, has been Chairman of the Board of Directors since 2011 and also serves on the Audit, Nomination and Remuneration committees. He is also a Senior Advisor to TPG.

He graduated with a BSc in Chemical Engineering from Imperial College in 1981, and received an MBA from INSEAD in 1987.

Dmitry Shvets

Dmitry Shvets is the Head of TPG Capital Russia covering Russia and the CIS. Prior to joining TPG Capital in 2008, Dmitry was Operating Director in the mining and metallurgical company Norilsk Nickel, where he was in charge of optimisation of the company's key assets and also responsible for integration of newly acquired assets. From 1998 to 2004 Dmitry worked for McKinsey & Company where he led projects in such industries as consumer goods, retail, transportation, metals and mining, and oil extraction. Dmitry also worked for the Coca-Cola Company in various marketing roles.

Dmitry was appointed a non-executive director of the Company in 2009. He is the Chairman of Lenta's Capex committee and also serves on the Nomination and Remuneration committees. Dmitry also serves on the board of Fesco Transportation Group.

Dmitry holds an MBA degree from Emory University and graduated with honors from the Moscow State Institute of International Relations (MGIMO).

Stephen Peel

Stephen Peel has over 25 years of experience in finance and private equity. Mr. Peel was a founder of TPG's European office in 1997. He also set up the firm's activities in Eastern Europe and Russia before assuming responsibility for the businesses in Asia in late 2008. From 2008 to 2014 Mr. Peel was Managing Partner at TPG Capital based in Hong Kong. Before joining TPG, Stephen worked in the Principal Investment Area of Goldman Sachs International in Europe from 1989 to 1997.

Stephen has been a non-executive director of the Company since 2011 and serves or has served on the boards of, inter alia, Newbridge Capital Limited, HCP Packaging Hong Kong Limited, China Grand Automotive Services Co. Ltd, Grohe AG, Mey Icki Sanayi ve Ticaret As, and Far-Eastern Shipping Company Plc.

He graduated from the University of Cambridge, Downing College, with a BA degree in 1987 and received a master's degree in global affairs from Yale University in 2015.

Martin Elling

Martin Elling started his career with the UN Food and Agriculture Organization where he worked for 11 years as a financial analyst and economist mostly on World Bank agribusiness and infrastructure. He then joined the EBRD, where he was responsible for agribusiness, financial services and energy projects in Ukraine, Romania and Russia. In 1997, Martin left the EBRD to concentrate on investment opportunities in agribusiness, leasing and B2B services in Ukraine and Russia, achieving two successful investment exits in Ukraine and one in Russia.

Martin joined the Company as a non-executive director in 2011 and also serves on Lenta's Capex committee. He is a non-executive director of Agri Europe Ltd. He advises a number of companies on restructuring and corporate governance.

He holds an economic degree from the University of Amsterdam and a post-graduate degree from the University of Wageningen.

Jan Dunning

In 2009, Jan Dunning joined as CEO of the Company and as general director of Lenta LLC. In 2013, Jan was appointed as a director of the Company. Prior to Lenta, Jan was General Manager of Metro Cash & Carry Ukraine and before this he was Operations Director of Metro Cash & Carry Russia. During his six years with Metro in Russia, the business expanded from four stores to 48. Jan's previous experience also includes three years as General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands and over ten years with Aldi North. Over the last 25 years he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

Jan has a degree in history from the University of Groningen and a degree in economics from the University of Amsterdam and also attended management development programs at INSEAD and London Business School.

Jago Lemmens

Jago Lemmens joined Lenta LLC in 2010 as Accounting and Reporting Director, becoming CFO of both the Company and Lenta LLC in 2011. He was appointed a director of the Company in 2013. Prior to Lenta, Jago served as Finance Director of OBI Ukraine and before this as Finance Director of Metro Cash & Carry Ukraine. During his 24 years of experience in the retail industry he has held senior positions in finance, accounting and controlling with several major retailers in the Netherlands including Makro and Lukas Klamer (both part of Metro Cash & Carry) and Vomar.

Jago holds a degree in finance and auditing from the Vrije University Amsterdam and completed postgraduate courses in auditing and financial management at the University of Amsterdam. He is a member of the Association of Chartered Auditors and also the Association of Registered Controllers, both in the Netherlands.

Senior Management

The general director of Lenta's operating company Lenta LLC (currently Jan Dunning) has broad powers as a matter of Russian law, able to contract and enter into transactions on Lenta LLC's behalf and exercise executive authority over all day to day activities, subject to certain restrictions imposed by Russian law and by the charter of Lenta LLC. These require that the general director act in good faith, with due care and in the best interests of Lenta LLC, and that shareholder consent is required to: (i) enter into major transactions and/or interested party transactions (as such terms are defined under Russian law), (ii) declare dividends, (iii) issue securities, (iv) transfer any participation interest in Lenta LLC held in treasury or (v) dispose of real property.

As at the date of this Prospectus, Lenta's senior management (the "**Senior Management**") consists of the following members:

Name	Year of birth	Year of appointment	Position	Expiry of term
Jan Dunning	1959	2009	Chief executive officer (CEO) of Company; general director of Lenta LLC	February 2019 ⁽¹⁾
Jago Lemmens.....	1968	2010	Chief financial officer (CFO) of Company and Lenta LLC	Indefinite
Herman Tinga	1957	2013	Commercial director (CCO) of Lenta LLC	Indefinite
Edward Doeffinger.....	1957	2011	Operations director (COO) of Lenta LLC	Indefinite
Joern Arnhold.....	1970	2011	Supply chain director of Lenta LLC	Indefinite
Tatiana Yurkevich.....	1972	2012	Human resources director of Lenta LLC	Indefinite
Sergey Prokofiev.....	1969	2012	Legal and government relations director of Lenta LLC	Indefinite
Maxim Shchegolev.....	1966	2012	Format integration and development director of Lenta LLC	Indefinite

Note:

- (1) Jan Dunning's appointment as CEO of the Company is indefinite. In February 2014, the Board of Directors approved a five-year term for the general director of Lenta LLC (and for Mr. Dunning to serve such term) together with a corresponding amendment to the charter of Lenta LLC and Mr. Dunning was duly appointed to serve such term.

The business address for each member of Senior Management of Lenta LLC in such capacity is 112 Savushkina Street, St. Petersburg 197374, Russia.

A short summary of the qualifications and certain other information in relation to each member of Senior Management is set out below:

Jan Dunning

See "*—Board of Directors*" for a brief biography of Jan Dunning.

Jago Lemmens

See "*—Board of Directors*" for a brief biography of Jago Lemmens.

Herman Tinga

Herman joined Lenta in 2013 as Commercial Director. Prior to Lenta, Herman served as Non-Food Global Category Management & Sourcing Director at Metro AG. With a background in marketing, category management, buying and merchandising, Herman has extensive experience as a senior manager and board member in retail and Cash & Carry spanning 32 years. For four years Herman was a board member of Metro Cash & Carry in Russia.

Herman has a bachelor degree from Netherlands Institute of Marketing.

Edward Doeffinger

Edward Doeffinger joined Lenta in 2011 as Chief Operational Officer. Prior to Lenta Edward served as Deputy General Director of Metro Cash & Carry Kazakhstan.

Before starting his career in 1991 in Metro Cash & Carry (Germany) Edward held several positions in wholesale companies and worked as Head of the dry food department at the Trade Ministry of the German Democratic Republic. During his 30 years of experience in the retail industry he has held senior positions in various countries. In 1994 he got his first assignment outside Germany as a board adviser to Metro Cash & Carry in Hungary. After a year in Hungary, Edward became a member of Metro Jinjiang team (China) and worked as a Store General Director and later as Head of store development for several years in China before he moved to Russia in 2001. In Russia Edward was responsible for the business operations of Metro Cash & Carry in the Privolzhsky, Ural and Siberian regions. He was also responsible for the Metro Cash & Carry Kazakhstan business operations as a Deputy CEO.

Edward has a degree in economics from the Hochschule fuer Oekonomie Berlin.

Joern Arnhold

Joern joined Lenta in 2011 as Supply Chain Director. Prior to Lenta, Joern had 13 years' experience with Metro Group Logistics (MGL) where he held various key positions in Germany, Turkey and Russia. As managing director of MGL in Russia, Joern was responsible for developing and running the logistics operation for the Metro Group sales divisions in Russia.

Joern holds a degree in business administration from the Georg August University Goettingen.

Tatiana Yurkevich

Tatiana joined Lenta in 2012 as Human Resource Director. Prior to Lenta, Tatiana served as Human Resources Director at Fazer Bakeries & Confectionery, Russia. During her 15 years in HR management Tatiana has held senior positions in HR including Head of HR at United Heavy Machinery Group and Izhorsky factory, HR Director of Caterpillar European Fabrications and Caterpillar Tosno. Tatiana has experience in leading 6 Sigma Program implementation as a Deployment Championship in Caterpillar.

Tatiana has a master's degree in international economics from St. Petersburg State University, an MBA degree from the Open University as well as English and German language degree from Novosibirsk State Pedagogical University.

Sergey Prokofiev

Sergey joined Lenta as Legal and Government Relations Director in 2012. Prior to Lenta, Sergey worked in Metro Cash&Carry for 11 years in different positions including Legal and Compliance Director. Sergey started his career as expert-interpreter. Later he worked as lawyer in a major Russian Law Firm and as defending attorney at the Moscow City Bar. At Lenta Sergey leads several divisions: Law department, GR and Corporate Compliance, as well as interaction with shareholders.

Sergey graduated from the Military Institute of Foreign Languages (VKIMO) and the Institute of Law. Sergey holds a PhD in law from the Institute of Legislation and Comparative Law under the Government of the Russian Federation and an MBA from the California State University (Strategic Management).

Maxim Shchegolev

Maxim Shchegolev joined Lenta in 2012 as Integration and Format Development Director. Prior to Lenta, Maxim held executive positions of Administrative Director, Director of Trade Development and Director of the North-West group of companies O'Key. During his 15 years of experience in retail industry Maxim has held senior positions business development. In 2008 he was appointed Director of development of O'Key and was responsible for various aspects of business development, including expert assessment of the competitive environment, the purchase and lease of real estate for the construction of stores. In 2012, he took a similar position in Start (UK).

Maxim graduated from St. Petersburg University of Economics and Finance, the Russian-Dutch school of marketing and the Higher School of the Ministry of Economic Development and Trade of the Russian Federation.

Corporate Governance

U.K. Corporate Governance Code

As a BVI company with GDRs admitted to the Official List, the Company will not be required to comply with the provisions of the U.K. Corporate Governance Code. As of the date of this Prospectus, the Company does not fully comply with the U.K. Corporate Governance Code, as (i) the chairman of the Board of Directors is not an independent director, and (ii) the Company's audit committee is not solely composed of independent directors, though independent directors represent a majority, including the chairman of the audit committee. Save as noted above, the Company intends to comply with the U.K. Corporate Governance Code to the extent appropriate and practicable.

MICEX Requirements

Currently, under Russian law and MICEX regulations, so long as the GDRs are listed on the London Stock Exchange, no additional corporate governance requirements shall result from the admission to trading of the GDRs on MICEX.

BVI requirements

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

Committees

The Board of Directors has established an audit committee, a nomination committee, a remuneration committee and a capital expenditure committee, with the responsibilities stated below. From time to time, further committees may be established by the Board of Directors.

Audit Committee

The audit committee assists the Board of Directors with the review of Lenta's internal and external audit activities, including the review of internal control systems, compliance with financial reporting requirements, and the scope, results and cost effectiveness of external audit. This committee currently consists of four directors, each with financial experience: Michael Lynch-Bell (independent, chairman), Anton Artemyev (independent), Stephen Johnson (independent) and John Oliver (Major Shareholder nominee).

Nomination Committee

The nomination committee makes recommendations to the Board of Directors as regards the appointment of new directors (aside from Major Shareholder nominees, the CEO and the CFO), working to identify, interview and select candidates with suitable industry or key competency experience, and assessing the independence of such candidates. The committee also reviews senior management appointments and company-wide succession planning and other human resources related matters. This committee currently consists of five directors: Stephen Johnson (independent, chairman), Michael Lynch-Bell (independent), Anton Artemyev (independent), John Oliver (Major Shareholder nominee) and Dmitry Shvets (Major Shareholder nominee).

Remuneration Committee

The remuneration committee assists the Board of Directors in discharging its responsibilities in relation to remuneration, including reviewing Lenta's overall compensation policy, making proposals to the Board of Directors as to the remuneration of the directors of the Company and of Lenta's Senior Management, and advising on (and administering) Lenta management incentive plans. This committee currently consists of four directors: Stephen Johnson (independent, chairman), Michael Lynch-Bell (independent), John Oliver (Major Shareholder nominee) and Dmitry Shvets (Major Shareholder nominee).

Capital Expenditure Committee

The capital expenditure committee has the power, delegated from the Board of Directors, to review, modify and approve proposals relating to significant capital expenditure, which should be referred to this committee where the amount to be expended exceeds U.S.\$2 million. This committee works within the framework of guidance provided by the Board of Directors as regards strategic, budgetary and return requirements. The capital expenditure committee also advises the Board of Directors as regards proposed projects which do not comply with this framework and are accordingly referred to the full Board of Directors. This committee currently consists of four directors: Dmitry Shvets (Major Shareholder nominee, chairman), Anton Artemyev (independent), Stephen Johnson (independent) and Martin Elling (Major Shareholder nominee).

Arbitration under the M&A

See "*Description of Shares and Applicable BVI Legislation—M&A—Arbitration*" for a discussion of the M&A's arbitration provisions.

Interests of Directors and Senior Management

Remuneration

The aggregate amount of remuneration (including contingent or deferred compensation) the Group paid, and benefits in kind the Group granted, to the members of the Board of Directors and Senior Management for services in all capacities provided to Lenta in 2014 was RUB 481 million, and in 2013 was RUB511 million including amounts paid as a cash bonus to Steve Johnson and then applied to the purchase of an option on Shares and its exercise. See "*—Historical Share Acquisitions*".

MIP

The Company has instituted a management incentive plan (the "**MIP**") whereby (under its amended terms established in September 2015) participating managers are allocated a specified number of phantom shares. Upon the Company's 2014 initial public offering 20% of the phantom shares of each manager participating in the MIP were settled with the manager receiving Shares equal to 20% of the number of that manager's phantom shares multiplied by the per-Share price in the IPO minus that manager's base price, divided by the per-Share price in the IPO. Going forward, 30% of the phantom shares are to likewise settle on April 1, 2017 (with reference to then market pricing of Shares) and 50% on April 1, 2018 (with reference to then prevailing market pricing of Shares) (each, a "**Settlement Event**") so long as such manager remains employed by Lenta and in good standing provided that then prevailing market pricing is greater than that manager's hurdle reference price plus 8% per annum from that manager's hurdle reference date (and the amount of such settlement is halved if then prevailing market pricing is not greater than that manager's hurdle reference price plus 16% per annum from that manager's hurdle reference date) provided further that the manager will not directly receive the resulting allocation of Shares but such Shares conditionally vest and are issued and placed into the employee benefit trust (the "**Employee Benefit Trust**") established for the benefit of all managers participating in the MIP and LTIP. Upon the request of such manager (in allowed periods) or upon the voluntary departure of such manager from Lenta (so long as at the time of such request or departure such manager remains in good standing) it is expected that the trustee of the Employee Benefit Trust would sell a corresponding number of Shares held in the trust and transfer the net proceeds to such manager. A manager's eligibility to receive these benefits under the MIP is also conditional on his compliance with certain covenants (including as to confidentiality, non-compete and non-solicitation). Where a Settlement Event occurs in relation to which the 8% per annum hurdle is not cleared, participating managers lose their rights in relation to phantom shares that would otherwise have conditionally settled as described above (but annual vesting may be suspended upon the decision of the Remuneration Committee (e.g., in cases where the hurdle would not be cleared due to macro-economic circumstances), as was the case in 2015). When a participating manager voluntarily terminates his employment with Lenta or has his employment terminated for

cause or otherwise breaches the terms of the MIP, he loses his rights in respect of his then allocated phantom shares and his rights to receive the proceeds upon the sale of Shares held in the Employee Benefit Trust.

The key terms of each member of Senior Management’s participation in the MIP are set forth in the table below:

Manager	Number of phantom shares	Base price (RUB)	Hurdle reference price (RUB)	Hurdle reference date
Jan Dunning.....	205,646	1,516	764	23 Sept 2011
Jago Lemmens.....	102,823	1,516	764	23 Sept 2011
Herman Tinga.....	137,823	1,516	1,375	1 April 2013
Edward Doeffinger.....	102,823	1,516	764	23 Sept 2011
Joern Arnhold.....	85,686	1,516	764	23 Sept 2011
Sergey Prokofiev.....	35,988	1,516	1,375	1 April 2013
Maxim Shchegolev.....	35,988	1,516	1,375	1 April 2013
Tatiana Yurkevich.....	35,988	1,516	1,375	1 April 2013

The table below sets forth the number of Shares issued to the members of the Senior Management under the terms of the MIP upon completion of the 2014 initial public offering:

Manager	Number of Shares issued
Jan Dunning.....	132
Jago Lemmens.....	66
Herman Tinga.....	44
Edward Doeffinger.....	66
Joern Arnhold.....	55
Sergey Prokofiev.....	12
Maxim Shchegolev.....	12
Tatiana Yurkevich.....	12
TOTAL.....	399

Historical Share Acquisitions

Several members of Senior Management (of whom two are directors of the Company) and the senior independent director of the Company hold Shares as a result of purchases from the Group made prior to 31 December 2013, which purchases were funded by cash bonuses paid by the Group to such individuals, as follows.

Mr. Dunning subscribed for 360,231 Shares in September 2012. Mr. Dunning holds such Shares subject to arrangements with TPG, EBRD and VTB (secured by a pledge of such Shares) under which he is restricted from freely dealing with such Shares unless and until the occurrence of certain settlement events (being sales of Shares by TPG, EBRD and VTB), upon which a corresponding portion of such Shares ceases to be subject to such restrictions, provided that in any case 50% of such Shares cease to be subject to such restrictions in September 2017 and the remainder of such Shares cease to be subject to such restrictions in September 2019. As of the date of this Prospectus, 118,549 of the 360,231 Shares had been released from the security arrangements, which Shares Mr. Dunning continues to hold (in the form of GDRs). If Mr. Dunning voluntarily terminates his employment with Lenta LLC, he must transfer to the shareholders of record in the Company as of the time of his acquisition of these Shares (the “**Historical Shareholders**” (which term, as used in relation to other managers below, means the shareholders of record in the Company as of the time of the relevant manager’s acquisition of the relevant Shares)), pro rata to their shareholdings at that time, all of his Shares which are then subject to such restrictions. In December 2013, Mr. Dunning received 314 Shares as a result of the transfer to the Historical Shareholders by a departing manager.

Mr. Dunning holds 178,661 further Shares, Messrs Lemmens and Doeffinger each holds 89,331 Shares and Mr. Arnhold holds 74,442 Shares (in each case purchased in June 2013 from Lakatomo Holdings Limited, a subsidiary of the Company), subject to like arrangements with TPG, EBRD and VTB, including the use of Share pledges; 20% of these Shares were released from such pledges following the March 2014 IPO (which Shares the

respective managers continue to hold in the form of GDRs). The Company is pursuing with TPG, EBRD and VTB a revision to these arrangements with these four managers so as to conform these arrangements to the terms of the MIP (so that the release from pledge of such Shares would be time-based, rather than based on sell-downs by shareholders, with the consequence being that such Shares would be released from such pledges in 2017 and 2018).

Mr. Johnson holds 80,000 Shares (issued to him in December 2013 pursuant to his exercise of share options he had acquired) subject to arrangements with TPG, EBRD and VTB (secured by such Shares) such that Mr. Johnson may not freely deal with such Shares until their vesting, provided that upon his voluntary departure from the Board of Directors or upon his breach of certain covenants, Mr. Johnson must transfer to the Historical Shareholders all of his Shares save those which have vested. 20% of his Shares vest per annum, starting 31 March 2014, provided that his vesting, on a percentage basis, shall not exceed the percentage of the Company's shares then in free float, but 100% of his Shares in any case vest on 31 March 2018.

In connection with the 2014 initial public offering of the Company, the following officers and directors purchased Shares (in the form of GDRs): John Oliver – 100,000; Jago Lemmens – 15,200; Joen Arnhold – 12,000; Herman Tinga – 7,000; Edward Doeffinger – 4,000; and Michael Lynch-Bell – 3,200. Subsequently, John Oliver has purchased 25,000 Shares (in the form of GDRs) and Jago Lemmens 100 Shares (in the form of GDRs) in reported, open-market transactions.

Total Interests of directors and Senior Management

The table below sets out the interests in the Shares that the directors and Senior Management hold as of the date of this Prospectus:

Names of directors and Senior Management	Number of Shares beneficially held	Number of MIP phantom shares outstanding
John Oliver	125,000	n/a
Stephen Johnson	80,000	n/a
Martin Elling	10,000	n/a
Michael Lynch-Bell	3,200	n/a
Jan Dunning	549,538	164,516.8
Jago Lemmens	104,697	82,258.4
Edward Doeffinger	93,397	82,258.4
Joern Arnhold	86,497	68,548.8
Herman Tinga	7,044	110,258.4
Maxim Shchegolev	910.2	28,790.4
Sergey Prokofiev	12	28,790.4
Tatiana Yurkevich	12	28,790.4

LTIP

In January 2014, the Board of Directors approved the long-term incentive plan (the “**LTIP**”) (an equity-based, long-term motivation and retention programme for issuing bonus shares to certain key executive and senior level employees). As of 30 September 2015, 64 employees were participating in the LTIP and were thus eligible to receive award shares; participants in the MIP are not eligible to receive awards under the LTIP.

Awards under the LTIP are granted annually and conditionally vest on the third anniversary of the date of grant, except in respect of the first set of grants made in April 2014, which conditionally vest in phases over a three-year period, with 25% of the award scheduled to vest in April 2015, 25% in April 2016 and 50% in April 2017. Such conditional vesting is contingent upon the recipient's continuing employment with Lenta. Upon conditionally vesting, Shares are issued and placed into the Employee Benefit Trust and upon the request of such employee (in allowed periods) or upon the voluntary departure of such employee from Lenta (so long as at the time of such request or departure such employee remains in good standing) it is expected that the trustee of the Employee Benefit Trust would sell a corresponding number of Shares held in the trust and transfer the net proceeds to such employee.

The base award for each LTIP recipient is to be based on Lenta-wide sales and EBITDA targets. Base awards are subject to adjustment by the Remuneration Committee of the Board of Directors to reflect personal performance, with top performers potentially receiving an uplift of 15% to their base LTIP award and the weakest performers receiving no LTIP award. The size of LTIP awards is determined on the basis of the trading price of GDRs at the time of grant.

In 2014, LTIP awards were made to 53 employees in the aggregate amount of RUB84 million (corresponding to a grant of 46,889 Shares) and in 2015 to 62 employees in the aggregate amount of RUB51 million (corresponding to a grant of 24,771 Shares).

Service and Employment Contracts

Lenta enters into service contracts (or letters of undertaking) governed by BVI law with the members of the Board of Directors, which set forth their compensation and a summary of their duties and responsibilities. The members of the Senior Management have entered into employment contracts with Lenta LLC, which set forth their compensation and contain standard terms and conditions (including as to severance and other benefits typically granted) in compliance with Russian law.

No benefits are payable upon termination to the members of the Board of Directors or, other than payments required by their employment contracts or (in certain circumstances) issuances representing rights accrued under the MIP, the Senior Management.

Conflict of Interest

Other than the relationships between the Major Shareholders and their respective Major Shareholder Nominated Directors (as described above under “—*Board of Directors*”), there are no actual or potential conflicts of interest between the duties that any member of the Board of Directors or the Senior Management owes to the Company and such member’s private interests or other duties.

Directors and Officers Insurance Liability; Indemnification

The Company maintains directors and officers insurance in favour of its directors and anyone acting in a managerial capacity, including Senior Management, pursuant to which such individuals are insured against certain costs and liabilities arising from their services as directors or management. The total insurance cover for directors and officers is determined and approved from time to time by the Board of Directors.

The Company further indemnifies its directors (pursuant to the M&A) against certain costs and liabilities arising from their services as directors, subject to certain conditions (including that the relevant director acted honestly and in good faith).

Litigation Statement about Directors and Senior Management

None of the directors or Senior Management:

1. have any convictions in relation to fraudulent offences;
2. have been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
3. have received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company, in each case within the five years preceding the date of this Prospectus.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this Prospectus, the number of Shares was 93,093,394, all of which have been issued on a fully paid-up basis.

Principal Shareholders

The table below sets out certain information based on the TR-1 notifications received by the Company regarding the Company's shareholders having beneficial ownership of 3% or more in all Shares (which may be held in the form of GDRs) as of the date of this Prospectus and their percentage holdings immediately after the Offering (these shareholdings are held in the form of GDRs):

Name of Shareholder	Immediately before the Offering		% of Shares immediately after the Offering
	Number of Shares	% of Shares	
Luna Inc.	33,091,583	35.5%	34.0%
EBRD	10,699,875	11.5%	7.4%
New World Fund, Inc. ⁽¹⁾	4,307,137.8	4.6%	4.4%
Loren Bough	3,558,242	3.8%	3.7%
Luna Holdings Inc. ⁽²⁾	3,359,540.8	3.6%	3.5%
Bestinver Gestion S.A., SGIIC.....	2,805,405	3.0%	2.9%

Notes:

(1) An affiliate of The Capital Group Companies, Inc., a global investment group.

(2) Luna Holdings Inc. is an investment vehicle beneficially owned by the VTB Capital group and incorporated in the Cayman Islands.

With respect to the Major Shareholders: Luna Inc. is an investment vehicle beneficially owned by the TPG group and incorporated in the Cayman Islands; and EBRD is an international organisation formed by treaty.

None of the Company's shareholders has voting rights different from those of any other shareholder in the Company, except in relation to the Major Shareholders' director nomination rights. See "*Management and Corporate Governance—Board of Directors*".

The Company is not aware of any shareholder, which, immediately after the Offering, directly or indirectly, will own a majority of the Shares or could exercise control over the Company, or of any existing arrangements the operation of which may at a subsequent date result in a change in control of the Company.

Selling Shareholder

The following table sets out the name and business address of the shareholder who will be selling GDRs in the Offering:

Name of Selling Shareholder	Business Address	Total GDRs Offered
EBRD	One Exchange Square, London EC2A 2JN, United Kingdom	17,623,240

TRANSACTIONS WITH RELATED PARTIES

The following is a description of significant transactions with related parties undertaken by Lenta from 1 January 2012 to the date of this Prospectus. For further details of these transactions, see Note 5 to the Interim Condensed Consolidated Financial Statements as of and for the Six Months Ended 30 June 2015 and Note 7 to the Historical Consolidated Financial Information of Lenta as of and for the Years Ended 31 December 2014, 2013 and 2012 included in this Prospectus.

General

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined in IAS 24 “*Related Party Disclosures*”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Members of the Group are, and have been, party to various agreements and other arrangements with certain related parties.

The nature of Lenta’s transactions with related parties for the six months ended 30 June 2015 and 2014 and for the years ended 31 December 2014, 2013 and 2012 and outstanding balances with related parties as of 30 June 2015 and 31 December 2014, 2013 and 2012 are set forth below.

Related Party Transactions

Related party transactions for the six months ended 30 June 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012, consisted of the following:

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
VTB Capital⁽¹⁾					
Proceeds from borrowings.....	—	5,000	5,000	32,894	2,950
Repayment of borrowings	—	3,150	3,150	29,427	2,935
Interest expense and commission on loans	—	619	619	3,265	2,957
Finance leasing charge.....	—	1	1	9	11
Financial charges on swaps and caps.....	—	—	—	154	155
Loss/(income) on financial instruments at fair value through profit or loss (swaps and caps)	—	—	—	234	(102)
Loss/(income) on financial instruments at fair value through other comprehensive income (swaps and caps).....	—	—	—	54	—
Interest income on deposits	—	(4)	(4)	(64)	—
EBRD⁽²⁾					
Proceeds from borrowings.....	4,554	—	4,554	—	—
Interest Expense.....	506	8	28	—	—
Directors fee	15	6	10	—	—
Business trip expenses	—	—	6	0	—
Monitoring fee.....	—	—	—	4	—
Consulting services.....	—	—	—	2	—
TPG Capital					
Monitoring fee.....	—	43	43	83	—
Consulting services.....	3	12	19	21	72
Directors fee	12	7	15	—	—
Business trip expenses	—	2	9	18	—
Luna Holdings Inc.					
Consulting services.....	—	—	—	5	—
Monitoring fee.....	—	—	—	4	—

Notes:

(1) Management of the Group concluded that starting from March 2014 VTB Capital is not a related party due to lack of influence on operational activity of the Group following the reduction of VTB Capital's shareholdings in Lenta as a result of the sale of shares in the initial public offering of GDRs in March 2014.

(2) It is expected that EBRD will continue to be viewed as a related party in connection with the reporting of related party transactions following the Offering.

As of 30 June 2015, and as of 31 December 2014, 2013 and 2012, related party balances were as follows:

	As of 30 June	As of 31 December		
	2015	2014	2013	2012
VTB Capital⁽¹⁾				
Cash and cash equivalents	—	—	1,122	2,565
Long-term loans payable	—	—	29,892	24,979
Short-term loans payable	—	—	1,300	2,833
Interest accrued	—	—	11	8
Finance lease liability	—	—	50	64
Liability on swaps and caps	—	—	560	272
Loan commission prepayments	—			—
			75	
EBRD⁽²⁾				
Long-term loans payable	4,518	4,520	—	—
Accrued liabilities	5	5	—	—
Interest accrued	2	3	—	—
TPG Capital				
Accrued liabilities	2	5	—	—
Prepayments	—	—	1	40
Luna Holdings Inc.				
Accrued liabilities	—	—	—	5

Notes:

(1) Management of the Group concluded that starting from March 2014 VTB Capital is not a related party due to lack of influence on operational activity of the Group following the reduction of VTB Capital's shareholdings in Lenta as a result of the sale of shares in the initial public offering of GDRs in March 2014.

(2) It is expected that EBRD will continue to be viewed as a related party in connection with the reporting of related party transactions following the Offering.

2011 VTB Facility Agreement

During the period under review, the 2011 VTB Facility Agreement represented the largest component of Lenta's transactions with related parties. Interest expenses and commissions in connection with the 2011 VTB Facility Agreement amounted to RUB619 million in 2014, RUB3,265 million in 2013 and RUB2,958 million in 2012. Following the sale by VTB Capital of a portion of its shares in Lenta in March 2014 in the initial offering of GDRs, VTB Capital is no longer viewed as a related party. In June 2015, this facility was fully repaid.

EBRD Facility

In January 2014, Lenta LLC entered into a RUB4.6 billion credit facility with EBRD. Long-term loans payable in connection with the EBRD credit facility equaled RUB4,520 million as of 31 December 2014 and RUB4,518 as of 30 June 2015.

Other Financings

Short-term loans payable, which reflect current liabilities in connection with revolving credit facilities with VTB Bank, the Bank of Moscow (an affiliate of VTB Bank) and, in 2012, TransCredit Bank (an affiliate of VTB Bank), equaled RUB1,300 million as of 31 December 2013 and RUB2,833 million as of 31 December 2012.

See “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*” for a description of the 2011 VTB Facility Agreement and the other financings referenced above.

Shareholders’ Fees and Expenses

The Company paid fees in the amount of €2 million per annum to TPG in consideration for monitoring and operational support provided by TPG to the Company; such support ceased upon completion of the initial public offering in March 2014. Lenta’s payments to TPG of such monitoring and consulting fees amounted to RUB3 million in the first half of 2015 (for services provided in 2014), RUB62 million in 2014, RUB104 million in 2013 and RUB72 million in 2012.

Organisational Structure

See “*Business—Organisational Structure*” for a discussion of the reorganisation of Lenta’s corporate structure.

Transactions with Directors and Management

See “*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*” for a discussion of related party transactions with directors and Senior Management.

Management Remuneration

The table below sets forth remuneration for members of the Board of Directors, Senior Management and managers participating in the LTIP for the periods indicated. The 2012 amounts reflect in part funding provided by Lenta to Senior Management to fund their purchases of Shares.

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(RUB millions)</i>				
Short-term benefits	245	164	397	437	1,052
Share-based payments	41	43	83	66	—
Termination benefits	—	—	—	9	1
Total remuneration	286	207	480	512	1,053

See “*Management and Corporate Governance—Interests of Directors and Senior Management—Remuneration*” and “*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*” for further discussion of compensation of the members of the Board of Directors and Senior Management.

DESCRIPTION OF SHARES AND APPLICABLE BVI LEGISLATION

Incorporation and Registered Office

The Company was incorporated under the laws of the BVI on 16 July 2003 with the name Istochnik Ltd., which name was subsequently changed to Lenta Ltd. on 24 October 2006. The Company is registered under number 1058643.

The principal legislation under which the Company was originally formed was the BVI International Business Company Act (Cap 291) (the “**IBC Act**”). However, following legislative change in the BVI, on 24 October 2006 the Company elected to re-register under the BCA and, at the same time, disapplied Part IV of Schedule 2 of the BCA (which contained certain transition provisions carried over from the IBC Act). Following such re-registration, the Company is now registered under, and therefore subject to, the BCA and is considered to be duly incorporated with limited liability under the BCA and the laws of BVI. The liability of the members of the Company is limited.

The registered office of the Company is at the offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI, and its telephone number is 1-284-494-6004.

Description of Shares (Authorised and Issued)

The Company is authorised to issue an unlimited number of Shares of no par value. The Company currently has 93,093,394 issued and fully paid-up Shares (as of 1 January 2012, the first day covered by the Financial Information, the number of issued Shares was 106,325,000). There are no partly-paid Shares in issue.

The following table sets out the changes in the Company’s share capital that have occurred from the date of the Company’s incorporation up to the date of this Prospectus:

Month/Year of change	Type of shares	Type of change	Number of shares	Total number of shares after change
July 2003	Ordinary	Issuance	100	100
January 2004	Ordinary	Issuance	8,865	8,965
August 2006	Ordinary	Issuance ⁽¹⁾	118	9,083
September 2006	Ordinary	Issuance ⁽²⁾	538	9,621
December 2006	Ordinary	Redemption ⁽³⁾	377	9,244
March 2007	Ordinary	Redemption ⁽³⁾	8	9,236
May 2007	Ordinary	Division ⁽⁴⁾	—	92,360,000
May 2007	Ordinary	Issuance ⁽⁵⁾	3,850,000	96,210,000
May 2007	Ordinary	Issuance ⁽⁶⁾	7,695,000	103,905,000
May 2007	Preference	Issuance ⁽⁷⁾	2	103,905,002
June 2011	Preference	Cancellation	2	103,905,000
August 2011	Ordinary	Issuance	2,420,000	106,325,000
September 2012	Ordinary	Issuance ⁽⁸⁾	360,231	106,685,231
December 2013	Ordinary	Repurchase and cancellation ⁽⁹⁾	20,712,236	85,972,995
December 2013	Ordinary	Issuance ⁽⁸⁾	80,000	86,052,995
April 2014	Ordinary	Issuance ⁽¹⁰⁾	399	86,053,394
March 2015	Ordinary	Issuance ⁽¹¹⁾	7,040,000	93,093,394

Notes:

- (1) Share option granted to Sergei Yuschenko for 59 Shares and to Fortune Alliance Ltd for 59 Shares.
- (2) Share option granted to Robelco Limited for 538 Shares.
- (3) Shares redeemed and held as treasury shares.
- (4) Division of each Share into 10,000 Shares on 17 May 2007.
- (5) Re-issuance to EBRD of treasury shares held by the Company.

- (6) Issuance of Shares to EBRD.
- (7) Issuance of preference shares to EBRD pursuant to the terms of a subscription agreement dated 27 April 2007 entered into between, *inter alia*, the Company and EBRD. These were subsequently both cancelled.
- (8) Shares issued to Jan Dunning and Stephen Johnson. See “*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*”.
- (9) Shares repurchased from Lakatomo Holdings Limited by the Company on 20 December 2013 and cancelled upon repurchase.
- (10) Shares issued to Senior Management under the terms of the MIP upon the March 2014 initial public offering of the Company. See “*Management and Corporate Governance—Interests of Directors and Senior Management—MIP*”.
- (11) Shares issued, in the form of GDRs, in the March 2015 offering.

Save as disclosed in the table above, since the Company’s incorporation, there has been no issue of Shares, fully or partly paid, either in cash or for other consideration, and no such issues are proposed (other than this Offering). Save as disclosed in “*Management and Corporate Governance—Interests of Directors and Senior Management—MIP*” and “*—LTIP*”, no Shares (issued or authorised but unissued) or shares of any of the Company’s subsidiaries are under option or agreed conditionally or unconditionally to be put under option. As of the date of this Prospectus, the Company holds no Shares in treasury.

BVI Law

The Company is registered in the BVI as a business company limited by shares (a “**BVICO**”) and is subject to BVI law. Certain key aspects of BVI law as it relates to companies incorporated in the BVI are summarised below, although this is not intended to provide a comprehensive review of the applicable law.

Shares

Subject to the BCA and to the memorandum and articles of association of a company, the directors of a BVICO have the power to offer, allot, issue, grant options over or otherwise dispose of shares in a BVICO. A BVICO may amend its memorandum of association to increase, divide, combine or decrease its authorised or issued shares.

Financial Assistance

Financial assistance to purchase shares of a BVICO or its holding company is not prohibited or controlled under BVI law. However, such assistance may constitute a distribution under the BCA and therefore require that the directors determine that, immediately following the grant of the assistance, the BVICO will be able to pay its debts as they fall due and that the value of the company’s assets will exceed its liabilities (the “**Solvency Test**”).

Purchase of Own Shares

Subject to satisfaction of the Solvency Test, the BCA and the provisions of its memorandum and articles of association, a BVICO may purchase, redeem or otherwise acquire its own shares.

Dividends and Distribution

Subject to the provisions of its memorandum and articles of association, the directors of a BVICO may declare dividends in money, shares or other property provided they determine that, immediately after the dividend, the company will satisfy the Solvency Test.

Protection of Minorities

BVI law permits derivative and class actions by shareholders. In addition, shareholders may bring actions for breach of a duty owed by a BVICO to him as shareholder or bring an action requiring the company and/or the director to comply with the BCA or the memorandum or articles of association.

However, BVI law does not treat holders of GDRs as shareholders and, as such, these rights will not be exercisable by the holders of the GDRs. There can be no assurance that the Depositary shall exercise such rights on behalf of the holders of GDRs, and it may be necessary to withdraw Shares from the GDR programme in order to exercise such rights.

Management

Subject to the provisions of its memorandum and articles of association, a BVICO is managed by its board of directors, each of whom has authority to bind the company. A director is required under BVI law to act honestly

and in good faith and in what the director believes to be in the best interests of the BVICo, and to exercise the care, diligence and skill that a reasonable director would exercise, taking into account but without limitation, (i) the nature of the company, (ii) the nature of the decision and (iii) the position of the director and the nature of the responsibilities undertaken by him.

Accounting and Audit

A BVICo is obliged to keep financial records that (i) are sufficient to show and explain the company's transactions and (ii) will, at any time, enable the financial position of the company to be determined with reasonable accuracy. There is no statutory requirement to audit or file annual accounts unless the BVICo is engaged in certain business requiring a licence under BVI law. The Company does not have or require any such licence, and it is not anticipated that the Company's activities would require such a licence in the future.

Exchange Control

BVICos are not subject to any exchange control regulations in the BVI.

Stamp Duty

No stamp duty is payable in the BVI in respect of instruments relating to transactions involving shares or other securities in BVICos that do not hold an interest in land situated in the BVI. As of the date of the Prospectus, the Company does not hold any interest in land situated in the BVI, and it is not currently anticipated that any such interest will be acquired in the future. See "*Taxation—BVI Tax Considerations*".

Loans to and Transactions with Directors

Under BVI law, a transaction entered into by a BVICo in which a director is interested is voidable unless (i) such interest is disclosed to the board of directors prior to the company entering into the transaction or (ii) it is not required to be disclosed as it is a transaction between the company and the director entered into in the ordinary course of the company's business and on usual terms and conditions. Furthermore, a transaction entered into by a company in respect of which a director is interested is not voidable by the company if (i) the material facts of the interest of the director in the transaction are known by the shareholders entitled to vote at a meeting of shareholders and the transaction is approved or ratified by a resolution of shareholders or (ii) the company received fair value for the transaction, which is determined on the basis of the information known to the company and the interested director at the time that the transaction was entered into.

Redemption of Minority Shares

The BCA provides that, subject to its memorandum and articles of association, shareholders holding 90% or more of all the voting shares in a BVICo may instruct the BVICo to redeem the shares of the remaining shareholders. The BVICo is then required to redeem the shares of the minority shareholders, whether or not the shares are by their terms redeemable. The BVICo must notify the minority shareholders in writing of the redemption price to be paid for the shares and the manner in which the redemption is to be effected. In the event that a minority shareholder objects to the redemption price to be paid and the parties are unable to agree the redemption amount payable, the BCA sets out a mechanism whereby the shareholder and the BVICo may each appoint an appraiser, who will together appoint a third appraiser, and all three appraisers will have the power to determine the fair value of the shares to be compulsorily redeemed. Pursuant to the BCA, the determination of the three appraisers shall be binding on the BVICo and the minority shareholder for all purposes.

Inspection of Corporate Records

Shareholders of a BVICo are entitled to inspect a BVICo's memorandum and articles of association, its register of members (shareholders), its register of directors and the shareholder resolutions of the company on giving written notice to the company. However, the directors may refuse inspection or limit inspection rights (except a request to inspect the BVICo's memorandum and articles of association) on the grounds that inspection would be contrary to the interests of the BVICo.

The only corporate records generally available for inspection by members of the public are those required to be maintained with the BVI Registrar of Corporate Affairs (the "**BVI Registry**"), namely the certificate of incorporation and memorandum and articles of association together with any amendments thereto. A BVICo may

elect to file with the BVI Registry a copy of its register of members and register of directors and may also file particulars of charges and other security interests created over the BVICo's assets, but this is not required under BVI law. The original or a copy of a BVICo's register of members, register of directors and register of charges must be kept at the office of the BVICo's registered agent. These may be inspected with the BVICo's consent or in limited circumstances pursuant to a court order.

Winding-up and Insolvency

BVI law makes provision for both voluntary and compulsory winding-up of a BVICo, and for appointment of a liquidator.

The shareholders or, if permitted by the BVICo's memorandum and articles of association, the directors may resolve to wind up a solvent BVICo voluntarily. In either case, the directors must prepare a plan of dissolution which (except in limited circumstances) must be approved by the shareholders.

A BVICo and any creditor may petition the court pursuant to the BVI Insolvency Act, 2003, for the winding-up of a BVICo upon various grounds, including, *inter alia*, that the BVICo is unable to pay its debts or that it is just and equitable that it be wound up.

Takeovers

BVI law does not include provisions governing takeover offers analogous to those set out in the U.K. City Code on Takeovers and Mergers (the "**City Code**").

Mergers

The BVI has a statutory merger and consolidation regime as set out in the BCA. Generally, the merger or consolidation of a BVICo requires approval by both its shareholders and its board of directors. However, a BVICo parent company may merge with one or more BVI subsidiaries without shareholder approval. Shareholders dissenting from a merger are entitled to payment of the fair value of their shares unless the BVICo is the surviving company and the shareholders continue to hold the same or similar shares in the surviving company. BVI law permits BVICos to merge with companies incorporated outside the BVI, provided the merger is lawful under the laws of the jurisdiction in which the non-BVI company is incorporated.

Under BVI law, a domestic statutory merger or consolidation may take the form of one or more existing companies merging into, and being subsumed by, another existing company (being the surviving company) or the consolidation of two or more existing companies into, and being subsumed by, a new company. In either case, with effect from the effective date of the merger, the surviving company or the new consolidated company assumes all of the assets and liabilities of the other entity(ies) by operation of law and the other constituent entities cease to exist.

Under BVI law, a merger can result in the compulsory cancellation of a shareholder's shares, although in such circumstances a shareholder will have the right to demand fair value for its shares. In the event that a minority shareholder objects to the merger consideration and the parties are unable to agree a price, the BCA sets out a mechanism whereby the shareholder and the BVICo may each appoint an appraiser, who will together appoint a third appraiser and all three appraisers will have the power to determine the fair value of the shares to be cancelled. Pursuant to the BCA, the determination of the three appraisers shall be binding on the BVICo and the minority shareholder for all purposes.

M&A

Subject to the BCA and any other BVI law, the Company has, irrespective of corporate benefit, full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and full rights, powers and privileges for those purposes.

The M&A were adopted by a resolution of the shareholders of the Company passed on 19 February 2014 and filed at the BVI Registry on the same date. The M&A contain the following provisions:

Share Rights

Save as described below under “—*Variation of Rights*”, the Company is presently authorised to issue an unlimited number of Shares. Each such Share confers upon the holder:

- the right to one vote (unless expressly provided to the contrary in the M&A) at a meeting of shareholders or on any written resolution of the shareholders;
- the right to an equal share in any dividend paid by the Company; and
- the right to an equal share in the distribution of the surplus assets of the Company on its liquidation.

Variation of Rights

The rights attaching to any Shares may not be varied without the consent of the holders of more than 75% of the issued Shares. However, the rights attaching to any Shares shall not be deemed varied by the creation or issue of further Shares with rights ranking *pari passu* with such Shares.

Furthermore, should the Company wish to vary the rights of any existing class of shares or issue a new class of shares with different rights or of a different class, then the Company would be required, amongst other things, to amend the M&A to reflect those new rights. See “—*Amendment of M&A*”.

Amendment of M&A

The M&A can generally only be amended by a resolution of the shareholders, including any amendment to the regulation in the M&A dealing with the appointment of directors (which in certain circumstances relating to their rights to representation on the Board of Directors must also be consented to by the Major Shareholders). Any amendment in relation to a matter requiring the approval of the shareholders by Special Resolution and any amendment in relation to the rights attaching to the Shares must be approved by a Special Resolution. Certain limited amendments may be made to the M&A by a resolution of the Board of Directors, in particular (i) any amendments to pre-emption rights to comply with any statutory, regulatory or applicable stock exchange requirements relating to rights issues and (ii) amendments necessary to implement the shareholder-approved continuation out of the Company from the BVI to another jurisdiction of the Company.

Authority to Issue Shares and Pre-emption

Save as described in the two paragraphs below, Shares may be offered, allotted and issued, and options to acquire the same may be granted, at such times, to such persons, for such consideration and on such terms as the Board of Directors may determine.

While the Board of Directors has the general authority to allot and issue Shares, the M&A require that, unless otherwise approved by the shareholders by Special Resolution or where one of the sets of circumstances described below applies, no such allotment and issuance of Shares for cash may be made unless the Shares have been offered by the Company to all current shareholders (or has made such issuance or allotment conditional on an offer to current Members), equally and in proportion to the number of Shares held by them (as nearly as possible without involving fractions), subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to legal or practical issues under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

Pre-emptive rights do not apply in respect of:

- issuances or allotments in connection with any placement of Shares or other securities up to an aggregate amount not exceeding in the relevant calendar year 10% of the number of Shares as of the end of the immediately prior calendar year provided that such Shares are issued or allotted for cash only at a per-Share price not less than 90% of a per-Share reference price calculated by reference to such stock exchange on which the Shares or GDRs in respect of them trade, all as determined by the Board or its delegate in its sole and absolute discretion (and as more fully described in the memorandum and articles of association of the Company);

- issuances or allotments in connection with a placement of Shares or other securities where the issuance or allotment is to effect or fund the acquisition of asset(s) up to an aggregate amount in the relevant calendar year not exceeding 10% of the Shares as of the end of the immediately prior calendar year;
- issuances or allotments of Shares pursuant to any employee, officer and/or director share option scheme adopted by the Company up to an aggregate amount in any 120 full-month period equal to 5% of the Shares as of the start of that period; or
- issuances or allotments of bonus Shares (provided these are on a pro-rata basis) to shareholders to whom such offer can reasonably be made in light of legal or practical issues or issues for the purposes of scrip dividends.

When determining the application of the above exceptions, the issuance and allotment of a Share shall not be double counted.

Since the Company had 86,053,394 outstanding Shares as of the end of 2014 and 7,040,000 Shares were issued in the March 2015 offering, not more than 1,565,339 Shares (corresponding to 7,826,695 GDRs) may be issued in the Offering without application of the existing shareholders' pre-emptive rights under the general 10% exception described above. See "*Use of Proceeds*".

The operation of pre-emptive rights as regards holders of GDRs is subject to arrangements being made with the Depository so that holders of GDRs receive equivalent and corresponding pre-emptive rights to those accruing to holders of Shares under the terms of the M&A.

Purchase of Own Shares

The Company may by resolution of the Board of Directors purchase, redeem or otherwise acquire and hold any of its own Shares save that the Company may not purchase, redeem or otherwise acquire its own Shares without the consent of the shareholder whose Shares are to be purchased, redeemed or otherwise acquired unless the Company is permitted by the BCA or any other provision in the M&A to purchase, redeem or otherwise acquire the Shares without such consent. Generally, purchase or redemption of shares by a company without consent of the relevant shareholder is permitted only where the terms of the shares afford the company such a right or the shares are subject to a right of forfeiture or may be compulsorily redeemed pursuant to section 176 of the BCA. See "*—BVI Law—Redemption of Minority Shares*" and "*—M&A—Forfeiture*".

Share Certificates, Depository Interests

Except if requested to issue a share certificate to a depository (or its nominee), the Company will not otherwise issue certificates in respect of any of its Shares. However, a shareholder may request the Company to provide the shareholder with an extract from the Company's share register showing the shareholder's shareholding.

The directors shall, subject always to any applicable laws and regulations and the facilities and requirements of any relevant system concerned, have power to implement and/or approve any arrangements they may think fit in relation to the evidencing of title to and transfer of interests in Shares in the form of depository interests or similar interests, instruments or securities.

Forfeiture

If a shareholder fails to make payment in respect of any amount due to the Company in respect of Shares issued to him following a call notice from the Company requiring him to do so, then those Shares may be subject to forfeiture by the Company. Any such call notice shall name a further date (not being earlier than 14 calendar days from the date of service of the notice) on or before which the payment is to be made and shall include a statement that in the event of non-payment at or before the time named in the call notice, the Shares, or any of them, in respect of which payment has not been made, will be liable to be forfeited.

Transfer of Shares

Shares may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee, which instrument shall be sent to the Company for registration.

The Board of Directors may, in its absolute discretion, refuse to register the transfer of a Share that is not fully paid, provided that where any such Shares are admitted to trading or listing, this discretion may not be exercised so as to prevent dealings in partly paid or nil paid Shares generally or disturb the market in Shares.

The Board of Directors may also, subject to the rules of any relevant system (such as CREST), refuse to register a transfer of Shares (whether fully paid or not) in favour of more than four persons jointly or made to or by an infant or person who has been declared legally incompetent.

Mandatory Offer Requirements

The City Code will not apply to the Company, nor will the Company be subject to the jurisdiction of the Panel on Takeovers and Mergers in the United Kingdom (the “**Takeover Panel**”). However, the M&A provide that persons acquiring Shares (including GDRs) in circumstances where such would take their total holding of or interest in voting rights in the Company (taken together with persons acting in concert with them) to 30% or more of the total of such rights, or over an existing holding or interest of 30% or more but less than 50%, such persons must make a cash offer on the same terms to all holders of Shares to purchase all of their Shares at a price per Share equal to the higher of (i) the highest price paid by the proposed purchaser (or any person acting in concert with them) in the 12 months preceding the date of the offer or during the offer period and (ii) the volume weighted average market price of the Shares and/or GDRs in the six months immediately preceding the date of the offer, subject to such adjustment and/or determination by the Board of Directors as the Board of Directors may determine is fair and reasonable in the circumstances. Unless otherwise approved by resolution of directors, the offer to purchase the Shares of the other shareholders may be conditional only on the purchaser (together with persons acting in concert with it) receiving such number of acceptances as would result in the purchaser (together with persons acting in concert with it) having more than 50% of the voting rights in the Company.

A mandatory offer is not required solely as a result of a person’s interest in Shares bearing an increased percentage of the voting rights in the Company due to a Share acquisition by the Company, nor where (unless the Board of Directors determines otherwise) (a) an acquisition or transfer of Shares is in connection with the exercise of security rights or the performance of obligations in relation to arrangements in place as of 31 January 2014 regarding the holding of Shares by managers or directors or (b) the exercise of pre-emptive rights.

The mandatory offer requirement (discussed above) is broadly based on the offer provisions of the City Code, albeit that the Board of Directors (rather than the Takeover Panel) would monitor and administer compliance with these requirements. The Board of Directors also has the power to require the provision of information from anyone holding an interest in Shares (including GDRs). Where a mandatory offer is not made or information is not provided, in breach of these requirements, the Board of Directors may impose sanctions regarding the voting and distribution rights of the defaulter’s interest in Shares, and the ability of the defaulter to transfer his interests in Shares unless in a bona fide sale to an unconnected third party.

The M&A also provide that where any person (taken together with any person acting in concert with it) acquires or contracts to acquire pursuant to a general offer such number of (or interest(s) in) Shares that would together with any other Shares or interests in Shares held by that person (and persons acting in concert with him) carry 90% or more of the voting rights in the Company, that person may require any remaining shareholders who have not already accepted the offer, to do so.

The right to compulsorily acquire the Shares of persons who have not accepted an offer as described above is in addition to the statutory right of any person holding 90% or more of the Shares, whether acquired pursuant to such an offer or otherwise, to require the redemption of the Shares of the remaining minority. See “—*BVI Law—Redemption of Minority Shares*”.

Chapters 3 and 5 of the U.K. Disclosure and Transparency Rules are applicable, by incorporation into the M&A, to the Company and holders of Shares and GDRs as if the Company were a U.K. issuer. Therefore, (i) a person discharging managerial responsibilities on behalf of the Company, and their connected persons, must notify the Company of all transactions conducted on their account in Shares or GDRs, or derivatives or any other financial instruments relating to the same; and (ii) any person must notify the Company of the percentage of voting rights in the Company he holds if such percentage reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100%. Where notice is not made or information is not provided in breach of these requirements, the Board of Directors may impose sanctions regarding the voting and distribution rights of the defaulter’s interest in Shares, and the ability of the defaulter to transfer his interests in Shares unless in a bona fide sale to an unconnected third party.

Shareholder Meetings

An annual general meeting of the Company shall be held in each year (in addition to any other meetings of shareholders which may be held in that year). Not more than 15 months shall elapse between the date of one annual general meeting and the next.

At least 14 calendar days' notice of any meeting of the shareholders, or 21 calendar days' notice in respect of the annual general meeting or any meeting at which it is proposed to adopt a Special Resolution, shall be given to shareholders (although a meeting of the shareholders convened without such notice shall be valid if shareholders holding at least 90% of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting).

The Board of Directors, when convening a meeting of shareholders, may fix as the record date for determining those shareholders that are entitled to vote at the meeting the date notice is given of the meeting, or such other date as may be specified in the notice, being a date not earlier than the date of the notice.

Upon the written request of a shareholder or shareholders entitled to exercise 15% or more of the voting rights in respect of the matter for which the meeting is requested, the Board of Directors shall convene a meeting of shareholders. Items shall be added to the agenda for a meeting of shareholders upon the request of a shareholder or shareholders entitled to exercise 15% or more of the voting rights in respect of the matter it is requested be added to the agenda, provided such request is made no later than 10 calendar days prior to the relevant meeting (with notice of such additional matters being given to the shareholders as soon as practicable thereafter), or such request is approved during the relevant meeting by holders of more than 50% of the issued Shares.

For a meeting of shareholders to be quorate, there must, at the commencement of the meeting, be present in person or by proxy not less than two shareholders entitled to vote on the matters to be considered at the meeting. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall stand adjourned to the next calendar day at the same time and place, and if at the adjourned meeting a quorum is not present within thirty minutes from the time appointed for the meeting the meeting shall be dissolved.

To be passed or adopted, a resolution of shareholders must be: (a) in the case of any resolution which is not a Special Resolution, either (i) approved at a duly convened and constituted meeting of the shareholders by the affirmative vote of a majority of the votes of the Shares entitled to vote thereon which were present at the meeting and were voted or (ii) consented to in writing by shareholders holding a majority of the votes of Shares entitled to vote thereon; or (b) in the case of a Special Resolution, either (i) approved at a duly convened and constituted meeting of the shareholders by the affirmative vote of at least 75% of the votes of the Shares entitled to vote thereon which were present at the meeting and were voted or (ii) consented to in writing by shareholders holding at least 75% of the votes of Shares entitled to vote thereon, in all cases subject to other specific or special majority and procedural requirements as laid down by the BCA or the M&A.

Company Sale of Assets

Section 175 of the BCA, which would otherwise require shareholder approval for disposals by the Company of more than 50% of its assets outside the ordinary course, has been disapplied under the M&A (as permitted by BVI law) so that no such approval is required.

Directors

The business and affairs of the Company shall be managed by, or under the direction or supervision of, the Board of Directors, which has all the powers necessary for managing, and for directing and supervising, the business and affairs of the Company. The directors may exercise all such powers of the Company not required by the BCA or the M&A to be exercised by the shareholders. See "*Management and Corporate Governance*".

Interests of Directors

A director of the Company who is interested in any contract, arrangement or transaction entered into or to be entered into by the Company must, forthwith after becoming aware that he is so interested, disclose the interest (and nature of such interest) to all other directors of the Company. An interest of which a director has no knowledge and of which it is unreasonable to expect him to have knowledge is not treated as his interest.

A director of the Company, notwithstanding his office:

(a) may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and on such terms as to remuneration and otherwise as the Board of Directors may arrange;

(b) may enter into or otherwise be interested in a contract, arrangement or transaction with the Company or in which the Company is otherwise interested which cannot reasonably be regarded as likely to give rise to a conflict of interest;

(c) may be a shareholder or director or other officer of or employed by or a party to a contract, transaction, arrangement or proposal with or be otherwise interested in a company: (i) promoted by the Company or in which the Company is otherwise interested; or (ii) in relation to which it cannot reasonably be regarded as likely that a conflict of interest will arise;

(d) may enter into or otherwise be interested in a contract, arrangement, transaction the entry into which by that director was authorised by the shareholders; and

(e) unless otherwise agreed, and subject to compliance with the BCA, is not liable to account to the Company for any remuneration, profit or other benefit received by him by virtue of such office, employment, contract, arrangement or transaction and no such contract, arrangement or transaction shall be liable to be avoided on the grounds of any such interest or benefit.

A director of the Company who is interested in a contract, arrangement or transaction entered into or to be entered into by the Company may not vote on, or be counted towards the quorum relating to, any resolution relating to the transaction (and any such vote shall be disregarded) unless fewer than three directors are entitled to vote on such resolution, in which case each interested director may vote provided his interest is duly disclosed, or the resolution relates to any of the following matters:

(a) a matter in relation to which the director holds: (i) an interest of which he is not aware and of which it was not reasonable for him to be aware, (ii) an interest which cannot reasonably be regarded as likely to give rise to a conflict of interest or (iii) an interest in relation to which the authorisation of a majority of the directors not interested in the relevant matter, or the approval of the shareholders, has been obtained;

(b) a matter in which the director has an interest only by virtue of interests in Shares, debentures or other securities of the Company;

(c) the giving to the director of a guarantee, security or indemnity in respect of money lent or obligations incurred by the director or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;

(d) the giving to a third party of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the director himself has assumed responsibility, in whole or in part, under a guarantee or indemnity or by the giving of security;

(e) a contract, arrangement or transaction concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;

(f) a contract, arrangement or transaction to which the Company is or is to be a party concerning any other company in which the director is interested as a shareholder only (a “**relevant company**”), if the director is not, directly or indirectly, the holder of or beneficially interested in 1% or more of a class of equity share capital of the relevant company (calculated exclusive of any shares of that class in that relevant company held as treasury shares) or of the voting rights available to shareholders of the relevant company or able to cause 1% or more of those voting rights to be cast at his direction;

(g) a contract, arrangement or transaction for the benefit of employees of the Company or any of its subsidiaries under which the director benefits in a similar manner to the employees and which does not accord to any director as such any privilege or benefit not accorded to the employees to whom it relates; and/or

(h) a contract, arrangement or transaction concerning the maintenance or purchase of any insurance policy which the Company is permitted by law to purchase and/or maintain for the benefit of directors or for the benefit of persons including directors.

Dividends and Other Distributions

The Board of Directors may authorise a distribution (including by way of dividend) at a time and of an amount it thinks fit if it is satisfied, on reasonable grounds, that, immediately after the distribution, the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due (such test being a repeat of the statutory Solvency Test).

Dividends may be paid in money, debentures, shares or other property. The Company may pay any dividend, interest or other amount payable in cash by cheque, dividend warrant or money order or by direct debit or a bank or other funds transfer system or by such other method as the relevant shareholder may by notice direct. In respect of Shares (or interests in Shares) traded on relevant system(s), the Company may also pay any such dividend, interest or other amount and send electronic tax vouchers in respect of any such dividend interest or other amount by means of the relevant system concerned.

Notice in writing of any dividend that may have been declared shall be given to each shareholder, and all dividends unclaimed for three years after notice has been given to the shareholder may be forfeited for the benefit of the Company. No dividend shall bear interest against the Company.

See "*Operating and Financial Review—Dividend Policy*" for discussion of the Company's dividend policy.

Accounts

The Company is obliged to keep accounting records which are sufficient to give a true and fair view of the state of the Company's affairs and to show and explain its transactions in accordance with the BCA.

The Company is also obliged under the M&A to, prior to each annual general meeting, circulate to all members (in printed and/or electronic form) copies of (i) the balance sheet and profit and loss accounts for the relevant year, (ii) an annual report prepared by the Company, and (iii) the corresponding auditors' report (or a summary financial statement derived from the Company's annual accounts and annual report), and copies shall also be sent to each relevant stock exchange in accordance with its regulations.

Liquidation

For so long as the Company is solvent, it may (subject to the BCA) appoint a voluntary liquidator by a resolution of the shareholders and by a resolution of the Board of Directors.

Indemnity

The Company shall indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any person who:

- is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director of the Company; or
- is or was, at the request of the Company, serving as a director of, or in any other capacity is or was acting for, another company or a partnership, joint venture, trust or other enterprise,

provided that the person in question acted honestly and in good faith with a view to the best interests of the Company and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

Arbitration

The M&A requires that any dispute or claim, controversy or matter arising under or in connection with the M&A (regardless of its nature and including disputes between shareholders or between shareholders and the Company)

is to be exclusively settled by arbitration before the LCIA (in accordance with the LCIA Arbitration Rules and subject to the terms and qualifications as set out in regulation 24 of the M&A), rather than the courts of the BVI. Notwithstanding the terms of the M&A, the courts of the BVI could in some circumstances assume jurisdiction in respect of certain disputes, including those related to allegations of unfairly prejudicial conduct or applications to wind-up the Company. See “*Service of Process and Enforcement of Civil Liabilities—BVI—Enforcement of Arbitration Awards*”.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are issued in respect of ordinary shares (the “**Shares**”) in LENTA LTD, a company incorporated under the laws of BVI (the “**Company**”), with five GDRs issued in respect of one Share, pursuant to and subject to an agreement dated 28 February 2014, and made between the Company and DEUTSCHE BANK LUXEMBOURG S.A., a société anonyme registered with the Luxembourg Register of Commerce and Companies under number B-9164, and its registered address is 2, boulevard Konrad Adenauer, L-1115, Luxembourg, as depositary (the “**Depositary**”) for the “Regulation S Facility” and the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Deutsche Custody NV as Custodian (as defined below) to receive and hold on its behalf, as nominee, the Shares and any certificates issued in respect of such Shares (the “**Deposited Shares**”) and all and any rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to DEUTSCHE BANK LUXEMBOURG S.A., and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to Deutsche Custody NV, or any other Custodian from time to time appointed under the Deposit Agreement and references to the “**Main Office**” mean, in relation to the Custodian, its office at DE Entree 99-197, 1101 HE Amsterdam, The Netherlands, (or such other office as from time to time may be designated by the Custodian or Custodians with the approval of the Depositary).

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as holder on the books of the Depositary maintained for such purpose (the “**Register**”). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 (except as set out in Clause 9.1 of the Deposit Agreement) and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and were the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;
 - (ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;
 - (iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
 - (iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

For so long as the Shares are held in dematerialised form, “Shares” to be delivered or deposited with the Custodian shall mean the delivery or deposit of a certified extract of the Share Register, and for so long as the Shares are held in certificated form, “Shares” to be delivered or deposited with the Custodian shall mean the delivery or deposit of the share certificate(s) in respect of such Shares and a certified extract of the Share Register.

- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable BVI law or that such deposit would result in any violation of any applicable BVI laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.
- (D) Notwithstanding anything else contained in the Deposit Agreement to the contrary, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of Regulation S GDRs to Regulation S Deposited Property, would give rise to fractional Regulation S GDRs or, upon application of the ratio of Rule 144A GDRs to Rule 144A Deposited Property, would give rise to fractional Rule 144A GDRs.
- (E) No Share shall be accepted for deposit unless accompanied by certifications and agreements and other evidence, if and to the extent required by the Depositary, that is satisfactory to the Depositary and the Custodian in their discretion that all conditions to the making and acceptance (as the case may be) of such deposit and the issuance of GDRs against such deposit have been satisfied under the laws and regulations of BVI and any necessary registration, filing, notification, permit, license and approval has been made with or granted by any state authority in BVI (which may include an opinion of counsel reasonably satisfactory to the Depositary provided at the cost of the person seeking to deposit Shares).
- (F) Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement (a) any Shares or other Deposited Property required to be registered pursuant to the provisions of the Securities Act, unless a registration statement under the Securities Act is in effect as to such Shares or other Deposited Property, (b) any Shares or Deposited Property the deposit of which would violate any provisions of the Charter, or (c) any Shares or Deposited Property which, if accepted for deposit under the Deposit Agreement exceed such number as may be communicated to the Depositary by the Company from time to time in writing; provided that neither the Company nor the Depositary nor any of their affiliates shall have any liability to any Holder or Beneficial Owner in the event that the Depositary shall fail to comply with the requirements of these sub-clauses (a), (b) and (c). For purposes of the foregoing sentence, the Depositary shall be entitled to rely upon representations and warranties made or deemed made pursuant to the Deposit Agreement and shall not be required to make any further investigation. The Depositary will comply with written instructions of the Company (received by the Depositary reasonably in advance) not to accept for deposit hereunder any Shares identified in such instructions at such times and under such circumstances as may reasonably be specified in such instructions in order to facilitate the Company’s compliance with the securities laws of any jurisdiction and/or any other applicable law or regulation (including but not limited to any anti-money laundering and “know your customer” requirements). The Depositary shall have no liability for any actions taken in accordance with such instructions.
- (G) ***Intentionally Omitted.***
- (H) ***Intentionally Omitted.***
- (I) ***Intentionally Omitted.***
- (J) Holders and Beneficial Owners shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in BVI, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of BVI.

- (K) Notwithstanding anything herein to the contrary, if at any time the Depositary in good faith believes that the Shares deposited with it against issuance of GDRs, together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional Shares for deposit, would represent) such percentage as exceeds any threshold or limit (whether in aggregate or in respect of an individual Holder or Beneficial Owner) established by the Charter, any applicable law, directive, regulation or permit, or satisfies any condition for making any offer, filing, application, notification or registration or obtaining any approval, license or permit or taking any other action required by the Charter or any applicable law, directive or regulation, including without limitation any of the Conditions (as the same may be amended from time to time), the Depositary shall promptly consult with the Company in relation to its belief and may (i) close its books to deposits of additional Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied, or (ii) take such steps as are, in its opinion in good faith, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of Shares or other Deposited Property to the extent necessary or desirable to so comply.
- (L) In considering whether any Condition or any other threshold has been reached or exceeded, the Depositary may, in addition to Shares deposited with it against the issuance of GDRs and other securities deposited with it against issuance of depositary receipts, take into consideration Shares or other securities of the Company (if any) held by itself and its affiliates for its or their proprietary account(s) or as to which it or they exercise voting or investment power.
- (M) In its capacity as Depositary, the Depositary shall not (and shall not instruct the Custodian to) sell, convey, assign, lend or create any security interest over Shares or other Deposited Property held hereunder or GDRs, *provided that*, unless requested in writing by the Company to cease doing so, the Depositary may subject to applicable law and without prejudice to its obligations under the Deposit Agreement, execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be (a “**Pre-Release**”). The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those Shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary (or Custodian upon the Depositary’s request) as soon as practicable and promptly but in no event more than five business days after the Depositary’s request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such in satisfaction of such Pre-Release, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The aggregate number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30 per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary may with the prior written consent of the Company change such limit from time to time if it is deemed appropriate to do so. The Depositary may also set limits with respect to the number of Shares and GDRs involved in Pre-Releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in sub-Clause (b) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees in connection herewith, including the obligation to deliver the relevant Shares or GDRs, as the case may be, set forth in sub-Clause (a) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

Nothing in this Condition 1(M) shall obligate the Company to issue any new Shares in respect of any Pre-Release by the Depositary. The person to whom any Pre-Release of Rule 144A GDRs or Rule

144A Shares is to be made pursuant to this Condition 1(M) shall be required to deliver to the Depository a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A, or in the case of affiliates of the Company, Schedule 4 Part C (or an electronic certification through the applicable clearing system in lieu of such executed certification). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1(M) shall be required to deliver to the Depository a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A or, in the case of affiliates of the Company, Schedule 3 Part B (or an electronic certification through the applicable clearing system in lieu of such executed certification).

- (N) The Depository may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depository will be entitled to make a Pre-Release pursuant to Condition 1(M), the Company will have no liability whatsoever to the Depository or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depository or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depository or any Holder pursuant to Condition 1(M).
- (O) Each person depositing Shares pursuant to the Deposit Agreement shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorized, validly issued, fully paid, non-assessable, and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorized so to do and has fulfilled all requirements of applicable law or regulation with respect to the Shares or the deposit thereof against the issuance of GDRs, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, (vi) with respect to Shares deposited into the Regulation S Facility, the Shares presented for deposit are not “restricted securities” (within the meaning of Rule 144) except, in the case of a deposit of Shares by affiliates of the Company contemplated by the terms of Clause 3.2(b)(ii)(b) of the Deposit Agreement, and the GDRs delivered upon issuance will not be “restricted securities” (within the meaning of Rule 144), (vii) such Shares are not subject to any unfulfilled requirements of applicable law or regulation, and (viii) except with respect to any deposit by an affiliate permitted in the Deposit Agreement, such person is not and shall not become at any time while such person holds GDRs or any beneficial interest therein, an affiliate of the Company. Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depository shall be authorized, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof. Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreement shall be deemed thereby to acknowledge that the GDR Certificates, the GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, transfer or surrender and withdrawal of the Shares or the GDR Certificates or any beneficial interest therein.

2. Withdrawal of Deposited Property

- (A) Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depository shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depository may reasonably require at the specified office of the Depository or any Agent accompanied by:
 - (i) a duly executed order (in a form approved by the Depository) requesting the Depository to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depository or any Agent to, or to the order in writing of, the person or persons designated in such order and

a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement (or an electronic certification through the applicable clearing system in lieu of such executed certification), by or on behalf of each person who will be the Beneficial Owner of the Deposited Property (Part B of Schedule 4 may be modified in a manner not inconsistent with the provisions of the Deposit Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
 - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.
- (B) Certificates for withdrawn Deposited Shares will contain such legends, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its specified office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (i) a certificate for the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (iii) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
 - (iv) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),
in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.
- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) Subject as set out above, upon request by any Holder in accordance with this Condition 2 for withdrawal of Deposited Property and upon compliance therewith, the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery at any time the Register is closed. For the avoidance of doubt, the Depositary is not under any obligation to refuse delivery for any other reason and the

Depository shall not be liable for any loss, damage or other consequences arising from any such delivery. The Depository shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depository or by their respective agents pursuant to the provisions of these Conditions.

Neither the Depository nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(M). Notwithstanding the foregoing, each Holder and Beneficial Owner of Rule 144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depository receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, each of the Depository and the Custodian agrees that, neither the Custodian nor the Depository will make any actual delivery of Rule 144A Shares to any Holder or Beneficial Owner at an address within the United States. In addition, as necessary to reflect the special limitations or restrictions as to which any Regulation S GDR may be subject, similar restrictions on the delivery of Regulation S Shares to any Holder or Beneficial Owner at an address, within the United States may be imposed by the Depository for specific issuances of Regulation S GDRs for specific periods.

- (F) The Depository may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depository, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of these Conditions or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.
- (G) The Depository shall refuse to deliver Deposited Property to any Holder or Beneficial Owner located in the Russian Federation that is unable to certify that it is a qualified investor within the meaning of Article 51.2 of the Federal Law No. 39-FZ “On Securities Market” dated 22 April 1996, as amended.
- (H) No surrender of GDR Certificates for the purpose of withdrawal of Deposited Property shall be accepted unless accompanied by evidence satisfactory to the Depository that all necessary filings applicable to the Holder(s) or Beneficial Owner(s) of the GDRs surrendered (if any) have been made and approvals have been obtained (or in each case, have been properly waived) under the laws of BVI.

3. Transfer and Ownership

The GDRs are in registered form, with five GDRs issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in either (i) a violation of applicable laws, or (ii) a person being required by the Charter or applicable law to make an offer to acquire all of the outstanding Shares or GDRs of the Company, in which case the Depository shall notify the Company and the Company reserves the right to instruct the relevant Holder(s) and Beneficial Owner(s) to deliver their GDRs for cancellation and withdrawal of the Deposited Property, so as to permit the Company to deal directly with them as holders of Shares, and the Holders and Beneficial Owners agree to comply with such instructions. The Holder of any GDR will (except as otherwise required by law) be treated by the Depository and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to or for the account of a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of these Conditions and the Deposit Agreement, including delivery of the duly executed and completed written

certificate and agreement required under the Deposit Agreement (or an electronic certification through the applicable clearing system in lieu of such executed certification) by or on behalf of each person who will be the Beneficial Owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 24, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, provided that:

- (i) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (ii) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 24 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- (iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale prior to such sale) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, gross negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or beneficial owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither

the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

- (A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 24, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), Euroclear Bank S.A./N.V. (“**Euroclear**”) or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.
- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. Capital Reorganisation

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 24 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate

the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

- (A) Payments to Holders of dividends or other distributions or payments made to Holders on or in respect of the Deposited Shares will be subject to deduction of BVI and other withholding taxes, if any, at the applicable rates. In making such deductions, the Company shall have no obligation to any Holder to apply a rate under any treaty or other arrangement in effect between BVI and the country within which the Beneficial Owner of GDRs is resident.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in BVI in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary, at the expense of the Company, without, in the opinion of the Depositary, unreasonable burden.

12. Voting Rights

The Depositary will exercise the voting rights attached to Deposited Shares only in accordance with this Condition 12 and the Deposit Agreement.

- (A) The Company will use reasonable efforts to notify the Depositary of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, and the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. As soon as practicable after receipt from the Company of such notice, the Depositary shall, if requested by the Company in writing and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the Financial Conduct Authority and the admission and disclosure standards of the London Stock Exchange), Russian legal prohibitions (including, without limitation, the listing, admission and trading rules and regulations of MoEX and the CBR) or BVI legal prohibitions against such action exist, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between the Company and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in Luxembourg on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. The Company may, in accordance with Condition 28(B), instruct the Depositary by notice in writing as to the suspension of voting rights, if any, pertaining to the Shares or other Deposited Property relating to a Holder's GDRs, and the Depositary shall not vote or cause the Custodian to vote (and the Holder shall be deemed to have instructed the

Depository not to vote) any Shares or Deposited Property in relation to which such an instruction is received. Subject to the foregoing, upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depository, the Depository shall use its reasonable endeavours, insofar as practicable and permitted under applicable law, the provisions of these Conditions, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

- (B) Neither the Depository nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depository nor the Custodian shall vote or attempt to exercise the right to vote or in any way make use of for purposes of establishing a quorum or otherwise the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Moreover, neither the Depository nor the Custodian shall, on behalf of, or at the initiative of, a Holder of a GDR, introduce proposals for the agenda of the Company's shareholders meeting or nominate candidates for the Company's board of directors without first receiving written consent from the Company to do so. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depository is to vote the Deposited Property represented by such Holder's GDRs, the Depository will deem such Holder to have instructed the Depository not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depository is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depository from the Holder shall not be voted.

The Company agrees to provide timely notice to the Depository which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depository to vote a particular GDR according to the voting instructions received in regard to such GDR.

- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depository shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the Financial Conduct Authority and the admission and disclosure standards of the London Stock Exchange) Russian legal prohibitions or BVI legal prohibitions. The Company agrees that it shall not, except to the extent necessary (upon the advice of BVI legal counsel of reputable standing) to comply with applicable law in BVI, establish internal procedures that would prevent the Depository from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.
- (D) By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of Clause 7 of the Deposit Agreement as it may be amended from time to time in order to comply with applicable law.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depository shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depository at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depository may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to BVI law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 24.

14. Liability

- (A) In acting hereunder the Depository shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the

Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs.

- (B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of BVI or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of its own wilful default, gross negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance, caused as aforesaid, of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except for its own wilful default, gross negligence or bad faith or that of its agents (including any agents appointed pursuant to Clause 12.16 of the Deposit Agreement), officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or Beneficial Owners of GDRs, or any other person for any profit arising therefrom.
- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 22 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable. In the absence of its own wilful default, gross negligence or bad faith (or that of its agents, officers, directors or employees) the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- (G) Neither the Company nor the Depositary shall, subject to all applicable laws, have any responsibility whatsoever to the other, nor to any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 23, be obliged to have regard to the consequence thereof for the Holders or Beneficial Owners of GDRs or any other person.

- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the board of directors of the Company or by a person reasonably believed to have been duly authorised by the board of directors of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees.
- (M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (N) Subject to applicable law, the Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Subject to applicable law, the Depositary shall not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent, provided that it has exercised reasonable care in the selection of any such agent.
- (O) The Depositary may, subject to applicable law, delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of these Conditions or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by these Conditions and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Clause, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-

delegated in substantially the same manner as such services are required to be provided under the Deposit Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.

- (P) The Depositary shall be at liberty to hold or to deposit these Conditions and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of gross negligence, bad faith or wilful default) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.
- (Q) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register. For the avoidance of doubt, the Depositary has no obligation to inspect the Register.
- (R) Subject to applicable law, the Depositary shall under no circumstances have any liability arising from the Deposit Agreement or the Conditions or from any obligations which relate to the Deposit Agreement or the Conditions, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.
- (S) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.
- (T) Each Holder, where relevant, acting also on behalf of a Beneficial Owner or owner of GDRs, by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder, Beneficial Owner or owner of GDRs, mandates, authorises and empowers the Depositary to disclose, or make available for further processing, any information entrusted to it and concerning the relevant Holder, Beneficial Owner or owner of GDRs in the context of these Conditions or the Deposit Agreement which comes within the scope of the statutory confidentiality duty of the Depositary pursuant to Article 41 of the Luxembourg law dated 5 April 1993 on the financial sector, as amended, or the disclosure or making available of which is restricted under applicable data protection legislation (“**Confidential Holder Information**”), including, without limitation, information on (i) the relevant Holder, Beneficial Owner or owner of GDRs (including, without limitation, registered office or residence, business sector, financial data, representatives, beneficial ownership and ownership structure as well as other information obtained for customer identification and on-boarding purposes) and (ii) the transactions with the Holder, Beneficial Owner or owner of GDRs (including, without limitation, Deposited Property, GDRs and these Conditions, transaction positions, fees, taxes, corporate actions, events of default or similar data or information) to the Company, Deutsche Bank AG, London Branch, Deutsche Bank Trust Company Americas, any other person whose financial statements are consolidated with those of the Depositary’s ultimate holding company, the Custodian, any securities clearing and settlement system, in particular DTC, Clearstream, Luxembourg and Euroclear or SWIFT (Society for Worldwide Interbank Financial Telecommunication), a bank or other payment services provider or other agent used by any of the foregoing for the receipt or payment of money, Agents used for making distributions to the Holders or proxy distribution agents (“**Disclosure Addressees**” and each a “**Disclosure Addressee**”), be such Disclosure Addressees incorporated or established inside or outside the European Union, for the purpose of and to the extent this is necessary for assisting or enabling the Depositary to perform its obligations under the Deposit Agreement and the Conditions (“**Disclosure Purposes**”).
- (U) In case a new delegation, sub-delegation or granting of a power to sub-delegate or a new employment of an agent or an amendment or extension of an existing delegation, sub-delegation, power to sub-delegate or agent employment relationship (including the appointment of a successor Custodian in accordance with Clause 3.1 of the Deposit Agreement and Condition 19) or the appointment of a successor depositary in accordance with Clause 14 of the Deposit Agreement and Condition 21 is envisaged which involves, or introduces or widens the possibility of, disclosure or making available of Confidential Holder Information to the relevant delegate, sub-delegate, potential sub-delegate, agent or successor depositary that is not a Disclosure Addressee, the Depositary shall give at least 15 business days prior notice thereof in accordance with Condition 24 to the Holders. Upon the lapsing of such notice period, the relevant delegate, sub-delegate, potential sub-delegate, agent or successor

depository shall be deemed to be a Disclosure Addressee and the Depository shall be deemed to be mandated, authorised and empowered by the Holders, Beneficial Owners and owners of GDRs to disclose Confidential Holder Information to such new Disclosure Addressee for the Disclosure Purposes. Holders, Beneficial Owners and owners of GDRs disagreeing with the disclosure or making available of Confidential Holder Information to a new Disclosure Addressee shall be given the possibility at any time before lapsing of such notice period to dispose of their holding, ownership or interest in a GDR and thereby to cease being a Holder, Beneficial Owner or owner of GDRs preventing disclosure and making available of Confidential Holder Information to a new Disclosure Addressee. A disagreeing Holder or a Holder acting on behalf of a disagreeing Beneficial Owner or owners of GDRs shall in particular be entitled at any time before the lapsing of such notice period to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 2 and upon compliance with Condition 2, payment by the Holder of the charge specified in Condition 16 (A)(i) for such delivery and surrender, and payment by the Holder of any sums payable by the Depository and/or any other expenses incurred by the Depository (together with all amounts which the Depository is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement. For the avoidance of doubt, each Holder, where relevant, acting also on behalf of a Beneficial Owner or owner of GDRs, by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder, Beneficial Owner or owner of GDRs, as appropriate, hereby waives to the extent necessary any confidentiality obligations that the Depository may have vis-a-vis the relevant Holder, Beneficial Owner or owner of GDRs for the purpose of allowing the above-mentioned disclosures of Confidential Holder Information by the Depository and authorises the Depository to transmit any Confidential Holder Information as may be necessary to the Disclosure Addressees for the Disclosure Purposes.

- (V) Each Holder by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder represents and warrants that it is and will be duly authorised and has obtained and, where relevant, will obtain respective prior consent and waiver declarations from any Beneficial Owner or owner of GDRs and will for such purpose promptly as of receipt of notices given by the Depository to the Holders inform these Beneficial Owners and owners of GDRs of the content of any such notices as foreseen in this Condition 14(W) so as to permit the disclosure of Confidential Holder Information by the Depository and its employees, agents, delegates, sub-delegates or other representatives to the Disclosure Addressees for the Disclosure Purposes or to permit such Beneficial Owners and owners of GDRs to dispose of such GDRs before the lapsing of the relevant notice period if they disagree with a disclosure of Confidential Holder Information relating to them to a new Disclosure Addressee.
- (W) The transmission of Confidential Holder Information via or transmission or making available of Confidential Holder Information to a communication medium belonging to any of the Disclosure Addressees (as and to the extent permitted hereunder) may entail all Confidential Holder Information being processed by, including stored in the central data banks of a Disclosure Addressee for the Disclosure Purposes. Such data banks may be located in Europe, in the United States of America (in particular, without limitation, in New York) or anywhere in the world. The Holder, where relevant, acting also on behalf of the Beneficial Owner or owner of GDRs, by subscribing or acquiring one or more GDRs and any time thereafter so long as it is a Holder, is informed and acknowledges of being aware that due to the fact that the Confidential Holder Information is transferred electronically or otherwise and made available outside of Luxembourg the same level of confidentiality and the same level of protection in relation to data protection and confidentiality laws and regulations as currently in force in Luxembourg may not be guaranteed while the Confidential Holder Information is transferred and stored abroad. Consequently, Confidential Holder Information thus stored may be disclosed or made available to authorities of the country of storage pursuant to that country's legislation. To the extent Confidential Holder Information consists of personal data of a Holder, Beneficial Owner or owner of GDRs who is an individual and such data are processed under the responsibility of the Depository, such individual is hereby being informed that its data will only be processed by the Depository for the purpose of performing its obligations under the Deposit Agreement and the Conditions and that such individual has a right of access to and rectification of its personal data in the premises of the Depository upon its reasonable request.
- (X) For the purposes of Condition 14(S):
 - (i) "consequential loss or damage" means loss or damage of a kind or extent which was not reasonably foreseeable at the time these Conditions were entered into as a serious possibility in the event of the breach of obligation in question; and

- (ii) “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time these Conditions were entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary’s Fees, Costs and Expenses

- (A) The Depositary shall be entitled to charge the following fees to the Holders, the Beneficial Owners and the persons depositing Shares or surrendering GDRs for cancellation:
 - (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering or any subsequent offering of Shares, offered in the form of GDRs by the Company) or the cancellation of GDRs upon the withdrawal of Deposited Property: up to USD 0.05 per GDR issued or cancelled (except for issuances and cancellations covered by paragraph (A)(vii) below);
 - (ii) for the issue of GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR Certificates in definitive registered form (other than pursuant to paragraph (A)(ii) above): a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
 - (iv) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): up to USD 0.05 per GDR for each such issue of rights, dividend or distribution;
 - (v) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Property, and for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of USD 0.03 per GDR;
 - (vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of up to USD 0.05 per GDR (or portion thereof); and
 - (vii) for transferring interests from and between the Rule 144A GDRs and the Regulation S GDRs: a fee of up to USD 0.05 per GDR.
- (B) In addition, Holders, Beneficial Owners, persons depositing Shares for deposit and persons surrendering GDRs for cancellation and for the purpose of withdrawing Deposited Property shall be responsible for the following charges:
 - (i) taxes (including applicable interest and penalties thereon) and other governmental charges;
 - (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property in the Share Register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

- (iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing Shares or Holders and Beneficial Owners of GDRs;
 - (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency; and
 - (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to Shares, Deposited Property, GDRs and GDR Certificates.
- (C) Any other charges and expenses of the Depositary under the Deposit Agreement will be paid by the Company upon agreement between the Depositary and the Company. All fees and charges so payable may, at any time and from time to time, be changed by agreement between the Depositary and Company but, in the case of fees and charges payable by Holders or Beneficial Owners, only in the manner contemplated by Condition 23. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request. The charges and expenses of the Custodian are for the sole account of the Depositary.

17. Agents

The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, inter alia, of making distributions to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List and admission to trading on the regulated market of listed securities of the London Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection therewith. In the event that a GDR listing on the Official List and admission to trading on the regulated market for listed securities of the London Stock Exchange are not obtained and maintained or it becomes unreasonably burdensome or impracticable for it to do so, and such listing is suspended, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 calendar days’ notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (with notice of such appointment to the Company as soon as reasonably practicable), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (with notice of such appointment to the Company as soon as reasonably practicable), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as reasonably practicable following such change taking effect in accordance with Condition 24. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been

delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depository shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depository, of a reasonable amount.

The Custodian appointed by the Depository shall satisfy any and all requirements for such Custodian under applicable law.

20. Share Register

- (A) The Company agrees that it shall: (i) take any and all action reasonably necessary to ensure the accuracy and completeness of all information set forth in the Share Register in respect of the Shares; (ii) provide to the Depository, the Custodian or their respective agents access to the Share Register on reasonable notice and during ordinary business hours in BVI, in such manner and upon such terms and conditions as the Depository, acting reasonably may deem appropriate, to permit the Depository, the Custodian or their respective agents to regularly (and in any event not less than monthly) reconcile the number of Deposited Shares registered in the name of the Depository, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement and, in connection therewith, to provide the Depository, the Custodian or their respective agents, upon request, with a duplicate extract from the Share Register duly certified by the Company (or some other evidence of verification which the Depository, in its reasonable discretion, deems sufficient); (iii) promptly (and, in any event, within three (3) business days in BVI of the Company's receipt of such documentation as may be required by applicable law and regulation, or as soon as practicable thereafter) effect the re-registration of ownership of Deposited Shares in the Share Register in connection with any deposit or withdrawal of Shares under the Deposit Agreement; (iv) permit the Depository or the Custodian to register any Shares held hereunder in the name of the Depository, the Custodian or their respective nominees (which may, but need not be, a non-resident of BVI).
- (B) In connection with the Deposit Agreement, the Company agrees that it shall be solely liable for the unavailability of Deposited Shares or for the failure of the Depository to make any distribution of cash or other distributions with respect thereto as a result of any one or more of the following: (i) any act or failure to act of the Company or its agents, (other than such act or failure to act on the part of the Company arising in connection with any act or failure to act of the Depository or the Custodian, or their respective directors, employees, agents or affiliates), or their respective directors, employees, agents or affiliates, (ii) any provision of any present or future Charter or any other instrument of the Company governing the Deposited Shares, or (iii) any provision of any securities issued or distributed by the Company or any offering or distribution thereof.
- (C) The Depository agrees for the benefit of Holders and Beneficial Owners that the Depository or the Custodian shall reconcile regularly (and in any event not less than monthly) the number of Deposited Shares registered in the name of the Depository, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement. The Company and the Depository agree that, for the purposes of the rights and obligations under the Deposit Agreement of the parties hereto, the records of the Depository and the Custodian shall be controlling for all purposes with respect to the number of Shares which should be registered in the name of the Depository, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement; provided, however, that the Depository agrees that it shall, and shall cause the Custodian to, at any time and from time to time take any and all action necessary to ensure the accuracy and completeness of all information set forth in the records of the Depository, the Custodian or their respective nominees, as applicable, pursuant to the Deposit Agreement with respect to Shares registered in the name of any of them. The Depository agrees that it will instruct the Custodian to maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depository, the Custodian or their respective agents. In the event of any material discrepancy between the records of the Depository or the Custodian and the Share Register, then, if the Depository has knowledge of such discrepancy, the Depository shall notify the Company promptly. In event of discrepancy between the records of the Depository or the Custodian and the Share Register, the Company agrees that (whether or not it has received any notification from the Depository) it will (i) reconcile its records to the records of the Depository or the Custodian and make such corrections or revisions in the Share Register as may be necessary in connection therewith, and (ii) to the extent the Company is unable to so reconcile such records, and the number of Shares reflected in the Share Register differs by more than one-half of one percent from the number of Shares reflected in the records of the Depository or the Custodian, promptly instruct the Depository to notify the Holders of the existence of such discrepancy. Upon

receipt of the Company's instruction to notify the Holders of such discrepancy, the Depositary shall give such notification promptly to the Holders (it being understood that the Depositary at any time may give such notification to the Holders, whether or not it has received instructions from the Company) and shall promptly cease issuing GDRs until such time as, in the opinion of the Depositary, such records have been appropriately reconciled.

21. Resignation and Termination of Appointment of the Depositary

- (A) The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and the Custodian. Notwithstanding the above, and without prejudice to Clauses 15 and 20.2 of the Deposit Agreement, the Depositary and the Company have agreed to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority, the London Stock Exchange and, if applicable, the MoEX. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 24.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary, until the appointment by the Company of a successor depositary, (b) until the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, and (c) until the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 24 and to the UK Listing Authority, the London Stock Exchange and, if applicable, the MoEX.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

22. Termination of Deposit Agreement

- (A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 21 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 calendar days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 24.

If the Company terminates the Deposit Agreement, it will be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company relating to the GDRs, Deposited Property or the provision of services by the Depositary to the Company in relation thereto.

- (B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender in accordance with Condition 16(A)(i) and otherwise in accordance with the Deposit Agreement.
- (C) If any GDRs remain outstanding after the date of termination, the Depositary (i) shall, if possible, as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement by public or private sale, and on such terms as the Depositary considers appropriate, and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale, prior to such sale; and (ii) shall not register transfers, pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale and delivering the net proceeds of such sale proceeds, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for other cash comprising the Deposited Property without interest.
- (D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as Deutsche Bank Luxembourg S.A. is acting as Depositary under the Deposit Agreement.

23. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 23 and Clause 16 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable but subject to and in accordance with this Condition 23. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 23, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or Beneficial Owners if (i) its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated or (ii) it is a change to the governing law of, or jurisdiction for settlement of disputes under, the Deposit Agreement and these Conditions.

Notwithstanding the foregoing, if any governmental or regulatory body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the GDRs at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the GDRs in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

For the avoidance of doubt, if at all relevant to the issuance of the GDRs, it is expressly agreed that articles 86 to 94-8 of the Luxembourg law of dated 10 August 1915 on commercial companies, as amended, shall not apply to the GDRs or to the representation of the Holders thereof.

24. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List and admitted to trading on the regulated market for listed securities of the London Stock Exchange and if to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders in accordance with these Conditions. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

25. Reports and Information on the Company

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to send the Depositary a copy in the English language by electronic transmission of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List and admission to trading on the regulated market for listed securities of the London Stock Exchange, or any other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any Rule 144A GDRs or shares represented thereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDR or the Beneficial Owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, Beneficial Owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is subject to but not in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, Beneficial Owner of an interest in Rule 144A GDRs or holder of shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, Beneficial Owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.
- (D) The Company has undertaken in the Deposit Agreement to provide the Depositary with sufficient information, as may be reasonably requested by the Depositary, so as to enable the Depositary to determine whether or not the Depositary is obliged, in respect of any payments to be made by it pursuant to the Deposit Agreement, to make any withholding or deduction pursuant to Sections 1471

through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations or agreements thereunder or official interpretations thereof (“FATCA”, and such withholding or deduction, “**FATCA Withholding Tax**”). If applicable, the Depositary shall be entitled to deduct FATCA Withholding Tax to the extent required under FATCA and shall have no obligation to gross-up any payment hereunder or to pay any additional amount as a result of such applicable FATCA Withholding Tax.

- (E) The Company has undertaken in the Deposit Agreement use its commercially reasonable efforts to provide a written notice described in Condition 12(A) of the Deposit Agreement to the Depositary in a timely manner in advance of the relevant meeting or solicitation of consent or proxy

26. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders or Beneficial Owners of GDRs) furnished to such holders or Beneficial Owners of the Shares or other Deposited Property by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

27. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker for its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

28. Obligations of Holders

- (A) Notwithstanding any other provision contained in the Deposit Agreement, the Charter, these Conditions or applicable law, each Holder and Beneficial Owner agrees to comply with requests made in accordance with Condition 24 from the Company or the Depositary pursuant to applicable law, the rules and requirements of the London Stock Exchange, MoEX or any other stock exchange on which the Shares or GDRs are, or may be, registered, traded or listed, or the Charter, to provide information, inter alia, regarding (i) name, state registration details (including, with respect to legal entities only, country of registration, registration number, date of registration or formation and registered and (or) principal business address) and (with respect to individuals only) citizenship; (ii) the capacity in which such Holder or Beneficial Owner holds or owns GDRs (and Shares, as the case may be) and (iii) the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request. The Depositary agrees to use its reasonable efforts to forward upon the request of the Company, at the Company’s expense, any such request from the Company to the Holders and to forward to the Company any such responses to such requests received by the Depositary, provided that the Depositary shall not be responsible or liable for any information contained in or omitted from such responses.
- (B) Failure by a Holder or Beneficial Owner to provide in a timely fashion the information requested by the Company or required in each case pursuant to Condition 28(A), the Charter or any applicable law may, in the Company’s sole and absolute discretion, result in the withholding of certain rights in respect of such Holder or Beneficial Owner’s GDRs (including voting rights and certain rights as to dividends in respect of the Shares represented by such GDRs). The Depositary agrees to use its commercially reasonable efforts to comply with any reasonable instructions received from the Company requesting that the Depositary take the actions specified therein to obtain such information.

- (C) In the event that the Company determines that there has been a failure by a Holder or Beneficial Owner to comply with the applicable reporting requirements under Condition 28(A), the Charter or any applicable law, with respect to any Deposited Property and that sanctions are to be imposed against such Deposited Property pursuant to applicable law by a court of competent jurisdiction or the Charter, the Company shall notify the Depositary, giving details thereof, and shall instruct the Depositary in writing as to the application of such sanctions to the Deposited Property. The Depositary shall have no liability for any actions taken in accordance with such instructions.
- (D) Notwithstanding any other provision in the Deposit Agreement or these Conditions, the Company may restrict transfers of the Shares and Deposited Property where such transfer might result in (i) ownership of Shares exceeding the limits applicable to the Shares under applicable law, regulations and stock exchange rules or the Charter, or (ii) a person being required by the Charter or applicable law to make an offer to acquire all of the outstanding Shares or GDRs of the Company. The Company may also restrict, subject to the Charter, applicable law, regulations and stock exchange rules, in such manner as it deems appropriate, and in such manner as the Depositary deems practicable, transfers of the GDRs where such transfer may result in the total number of Shares represented by the GDRs owned by a single Holder or Beneficial Owner to exceed any such limits referred to in Condition 28(D)(i) or (ii). The Company may, subject to applicable law, regulations and stock exchange rules and further subject to what the Depositary may deem to be practicable, instruct the Depositary to take action with respect to the ownership interest of any Holder or Beneficial Owner in excess of the limits referenced in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a Holder or Beneficial Owner of the Shares represented by the GDRs held by such Holder or Beneficial Owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the Charter. The Depositary, acting in good faith, shall have no liability for any actions taken in accordance with such instructions. Alternatively, the Company reserves the right to instruct a Holder or Beneficial Owner with an ownership interest in excess of the limits referenced in this Condition, to deliver their GDRs for cancellation and withdrawal of the Deposited Shares so as to permit the Company to deal directly with them as holders of Shares and Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.lentainvestor.com) information on the number of outstanding voting Shares so as to enable Holders and Beneficial Owners to determine if they have met or exceeded any applicable thresholds.
- (E) Applicable laws, regulations and stock exchange rules, including those of the BVI Financial Services Commission, the London Stock Exchange, the UK Listing Authority, the Financial Conduct Authority, MoEX, the CBR or other state authorities in the United Kingdom, the Russian Federation or BVI, may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. Each Holder and each Beneficial Owner hereby agrees to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. Neither the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.
- (F) By holding GDRs or interests therein, Holders and Beneficial Owners agree to immediately notify the Company in writing at such time as they own or otherwise control such number of Regulation S GDRs, Rule 144A GDRs and Shares that, taken together, equal or exceed three percent (3%) (or subsequently increase or decrease their holding by one percent (1%) increments) of the voting shares of the Company provided that the Company has complied with its obligation in the final sentence of this Condition 28(F). The Company reserves the right to instruct Holders and Beneficial Owners who do not provide such notices or who provide notice that the total number of Shares represented by the GDRs exceeds the limits set out in Condition 28 (D) (i) or (ii) to deliver their GDRs for cancellation and withdrawal of the Deposited Property so as to permit the Company to deal directly with them as holders of Shares and the Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.lentainvestor.com) information on the number of outstanding voting shares of the Company so as to enable Holders and Beneficial Owners to determine if they have met or exceeded the thresholds set forth above.

- (G) The Depositary shall have no obligations with respect to any such obligations of Holders and Beneficial Owners, except to the extent set forth in this Condition 28.

29. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

- (A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.
- (B) To the extent that provisions of or governing any Deposited Property, the Charter, or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and Beneficial Owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and Beneficial Owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or Beneficial Owners.

31. Governing Law

- (A) The Deposit Agreement, including these Conditions, and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by BVI law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction described in (B) below.
- (B) Any dispute, controversy or cause of action arising out of or in connection with these Conditions and the GDRs, including any question regarding its scope, existence, validity or termination, shall be referred to and finally resolved by arbitration in accordance with the Rules of the London Court of International Arbitration (the "LCIA") (the "Rules"), which are deemed incorporated by reference into this Condition.* The arbitration shall be conducted by three arbitrators: one nominated by the Claimant, one nominated by the Respondent, and one nominated by the two party-appointed arbitrators within thirty (30) calendar days of the confirmation of the nomination of the second arbitrator. If any arbitrator has not been appointed within the time limits specified herein and in the Rules, then such arbitrator shall be appointed by the LCIA in accordance with the Rules. The seat of the arbitration shall be London, England, and the language of the arbitration shall be English. The parties hereby waive any rights under the Arbitration Act 1996 or otherwise to appeal any arbitration award to, or seek determination of a preliminary point of law by, the courts of England.
- (C) The Depositary irrevocably appoints the Managing Director for the time being of Deutsche Trustee Company Limited, currently situated at Winchester House, 1 Great Winchester Street, London EC2N 2DB, UK, as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

32. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

* While the LCIA Rules are incorporated by reference into the Conditions of the GDRs, they are not incorporated by reference into the Prospectus for the purpose of the Prospectus Rules.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR is registered in the name of Cede & Co as nominee for DTC. The Regulation S Master GDR is registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depository for Euroclear and Clearstream, Luxembourg.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs whilst they are in master form. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in paragraphs (i), (ii), (iii) or (iv) below in whole but not in part. The Depository will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (i) DTC, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, notifies the Company that it is unwilling or unable to continue as common depository and a successor common depository system is not appointed within 90 calendar days; or
- (ii) Either DTC, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depository is available within 45 calendar days; or
- (iii) in respect of the Rule 144A Master GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iv) the Depository has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depository shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg, NSD or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 5 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 4, 5, 6, 7 or 9 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 2, the relevant details shall be entered by the Depository on the register maintained by the Depository whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depository pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR, be made by the Depository through Euroclear, Clearstream, Luxembourg (and NSD as participant thereof) and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depository through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. Any free distribution or rights issue of Shares to the Depository on behalf of the Holders will result in the records maintained by the Depository being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, in the case of GDRs represented by the Regulation S Master GDR, or by DTC, in the case of GDRs represented by the Rule 144A Master GDR, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs and to issue voting instructions.

Notices

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear and Clearstream, Luxembourg, and the Rule 144A Master GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 24.

The Master GDRs shall be governed by and construed in accordance with English law.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GDRS

The Depositary

The Depositary is a wholly-owned subsidiary of Deutsche Bank AG, a German global banking and financial services company. The Depositary is a credit institution and is licensed as such by the Commission de Surveillance du Secteur Financier.

Rights of Holders of GDRs

Relationship of Holders of GDRs with the Depositary: The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which are governed by English law. The Depositary and the Company are parties to the Deposit Agreement. Holders of GDRs have contractual rights in relation to cash or other Deposited Property (including Deposited Shares, which are Shares of the Company represented by GDRs) deposited with the Depositary under Clause 9.1 of the Deposit Agreement, and otherwise under the Deposit Agreement by virtue of the Deed Poll.

Voting: With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that, upon receipt of notice from the Company of any meeting at which the holders of Shares or other Deposited Property are entitled to vote, or of a solicitation of consent or proxy from holders of Shares or Deposited Property, the Depositary shall, providing that no relevant legal prohibitions exist, send to any person who is a Holder on the record date established by the Depositary for that purpose such notice of meeting or solicitation of consent or proxy, along with a brief statement on the manner in which such Holders may provide the Depositary with voting instructions for matters to be considered. The Deposit Agreement provides that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from Holders. As of the date of this Prospectus, the Company confirms that there are no restrictions under applicable law, the M&A or the provisions of the Deposited Shares that would prohibit or restrict the Depositary from voting any of the Deposited Shares in accordance with instructions from Holders.

Delivery of GDRs: The Deposit Agreement provides that the Deposited Shares can only be delivered out of the Regulation S and Rule 144A GDR facilities to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs, or in connection with a pre-release.

Rights of the Company

The Company has broad rights to remove the Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

Insolvency of the Depositary

Applicable insolvency law: If the Depositary becomes insolvent, the insolvency proceedings will be governed by Luxembourg law.

Effect of applicable insolvency law in relation to cash: The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current Luxembourg law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash that would be also be available to general creditors of the Depositary.

Effect of applicable insolvency law in relation to non-cash assets: The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current Luxembourg law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's receiver or conservator to deliver such Depositary Shares and other non-cash assets that would be unavailable to general creditors of the Depositary.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Deposit Agreement or otherwise engages in a default for which it would be liable under the terms of the Deposit Agreement, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary for the Depositary's breach of its contractual obligations under the Deposit Agreement.

The Custodian

The Custodian is Deutsche Custody NV, a company organised under Dutch law.

Relationship of Holders of GDRs with the Custodian: The Custodian and the Depositary are parties to a custody agreement, which is governed by Dutch law. The Holders do not have any contractual relationship with, or rights enforceable against, the Custodian. The Custodian will hold one or more certificates representing Deposited Shares, each of which will be registered in the Company's share register in the name of the Depositary or its nominee, as the case may be, and deposited in the Regulation S and Rule 144A GDR facilities.

Default of the Custodian

Failure to deliver cash: Notwithstanding the fact that the Company expects to pay dividends, if at all, in U.S. Dollars, payments denominated in any currency which are made in accordance with Depositary's current procedures and pursuant to the terms of the Deposit Agreement and Conditions will not be made through the Custodian. Rather, payments in U.S. Dollars will be made directly from the Company to an account in New York and then credited to the U.S. Dollar denominated accounts of the Holders. To the extent that payments are in a currency other than U.S. Dollars, such payments may be made to an account outside the United States, converted into U.S. Dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders.

Failure to deliver non-cash assets: If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. In such case, the Depositary will have a claim under Dutch law against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Depositary's obligations: The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that such default arises as a result of the wilful default, gross negligence or bad faith of the Custodian.

Applicable law: The custody agreement is governed by Dutch law.

Insolvency of the Custodian

Applicable law: If the Custodian becomes insolvent, the insolvency proceedings will be governed by applicable Dutch law.

Effect of applicable insolvency law in relation to cash: For the reasons outlined above, it is not expected that any claim for cash will subsist against the Custodian as the Company will make payments directly to the Depositary or its nominee, as the case may be, and no cash will be paid to the Custodian.

Effect of applicable insolvency law in relation to non-cash assets: Under the Deposit Agreement, all Deposited Shares are registered in the name of the Custodian, in its capacity as nominee of the Depositary, and are held by the Custodian, for the account and to the order of the Depositary (on behalf of Holders) and must be identified as being held to the account of the Depositary and segregated from all other property held by the Custodian. The Custodian must maintain records of all Deposited Shares held by it for the account and to the order of the Depositary and make such records available to the Depositary. The Custodian's sole corporate activity consists of holding deposited securities as nominee for the Depositary and it will incur no liabilities in connection with such activity. However, under Dutch law, as the Custodian holds legal title to the Deposited Shares, which are

registered in its name, in the event the Custodian becomes insolvent, the Deposited Shares would be deemed to form part of the assets of the Custodian and the Depositary (on behalf of the Holders) would only have a claim in respect of the Deposited Shares together with any other general creditors of the Custodian.

The Depositary's obligations: The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the Holders have no direct recourse to the Custodian under the Deposit Agreement, though the Depositary can remove the Custodian and appoint a substitute or additional custodian(s) and may exercise such rights if it deems necessary.

PERSONS HOLDING BENEFICIAL TITLE TO GDRS OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.

PLAN OF DISTRIBUTION

Structure of the Offering

The Offering is being made by way of an offer of GDRs (1) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S.

Underwriting Arrangements

The Company, the Selling Shareholder and the Managers have entered into an underwriting agreement dated 21 October 2015 (the “**Underwriting Agreement**”) with respect to the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Manager has agreed, severally but not jointly, to purchase such number of GDRs as are set forth opposite its name in the following table.

Managers	Number of GDRs
Credit Suisse Securities (Europe) Limited	13,895,736
J.P. Morgan Securities plc.....	13,895,735
VTB Capital	10,958,529
Total	38,750,000

The GDRs will be represented by a Rule 144A Master GDR and a Regulation S Master GDR and will be subject to certain restrictions as further discussed in “*Terms and Conditions of the Global Depositary Receipts*”.

The Offer Price is U.S.\$7.10 per GDR. The Managers will receive total commissions of approximately U.S.\$4.1 million (assuming full payment of the discretionary fee to the Managers). Other than such commissions, the total expenses in connection with the Offering payable by the Company will be approximately U.S.\$1 million.

Six investors agreed to purchase GDRs representing more than 5% of the Offering (but none of these investors purchased GDRs representing more than 3% of total Shares outstanding immediately after the Offering).

In the Underwriting Agreement, each of the Company and the Selling Shareholder has made certain representations and warranties, and each of the Company and the Selling Shareholder has agreed to severally indemnify in respect of itself the several Managers against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, each of the Company and the Selling Shareholder has agreed to severally contribute in respect of itself to any payments that the Managers are required to make in respect of the liabilities against which the Company or the Selling Shareholder, as applicable, has agreed to indemnify them.

The Managers are offering the GDRs, subject to prior sale, when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Managers of officers’ certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or MICEX or a material adverse change in the Group’s financial condition or business, and on certain other conditions, the Managers have the right, collectively but not individually, to withdraw from the Offering before delivery of GDRs.

Lock-up Arrangements

Each of the Company, Luna Inc. and EBRD has undertaken to each of the Managers that for a period of 90 days from the date of the Underwriting Agreement, it will not, without the prior written consent of the Managers, directly or indirectly, offer, issue, lend, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable

for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company, Luna Inc. or EBRD, as applicable, or any person acting on its behalf of any Shares or GDRs) or publicly announce an intention to effect any such transaction, save, in the case of the Company, in respect of:

- (i) Shares or GDRs issued or sold pursuant to the Offering; and
- (ii) options to subscribe for Shares or GDRs granted under employee share option schemes in existence on the date of London Admission or Shares or GDRs issued pursuant to such employee option schemes.

Pursuant to the terms of the lock-up arrangements, Luna Inc. and EBRD are not prohibited from:

- (i) accepting a takeover offer made to holders of issued Shares or GDRs on terms which treat all such holders alike;
- (ii) executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in (i) immediately above;
- (iii) selling or otherwise disposing of Shares pursuant to any offer by the Company to purchase its own Shares or GDRs which is made on identical terms to all holders of Shares or GDRs in the Company; and
- (iv) transferring or disposing of Shares in accordance with any order made by a court with competent jurisdiction.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company, the Selling Shareholder and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company, the Selling Shareholder and their respective affiliates in the future. As a result, the Managers and their respective affiliates may have a commercial interest in continuing to provide services to the Company and the Selling Shareholder that may be material to the Offering.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account, may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Managers and any affiliate acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so.

The VTB Capital group, acting through its vehicle Luna Holdings Inc., owns 4,307,137.8 Shares in the form of GDRs. See “*Principal Shareholders*”. In addition, each of VTB Capital PLC and JSC VTB Bank has provided debt financing to Lenta. See “*Related Party Transactions*,” and “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*”.

MATERIAL CONTRACTS

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this Prospectus and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to Lenta as of the date hereof:

Material Financings

For details of Lenta's material financings that are outstanding as of the date of this Prospectus, see "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*".

Agreements Relating to the Offering

Underwriting Agreement

On 21 October 2015, the Company, the Selling Shareholder and the Managers have entered into an underwriting agreement, providing for, *inter alia*, the underwriting of the Offering. See "*Plan of Distribution—Underwriting Arrangements*".

Deposit Agreement

On 28 February 2014, the Company and the Depositary entered into the Deposit Agreement for the establishment and maintenance of (i) the Regulation S Facility and the Regulation S GDRs issued pursuant thereto and (ii) the Rule 144A Facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which the Company also executed a Deed Poll in favour of the holders of the GDRs in the form attached to the Deposit Agreement. See "*Terms and Conditions of the Global Depositary Receipts*".

TAXATION

The following summary of material U.S. federal income, U.K. and BVI tax consequences of ownership of the GDRs, as well as the summary of the proposed European financial transactions tax (the “FTT”), is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as of the date of the Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date hereof and of any actual changes in applicable tax laws after such date.

U.S. Federal Income Tax Considerations

The following discussion describes certain U.S. federal income tax consequences to U.S. Holders (as defined below) of an investment in the GDRs. This discussion applies only to U.S. Holders that hold GDRs as capital assets for U.S. federal income tax purposes. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase GDRs by any particular investor, and you should consult your own tax advisor concerning personal tax consequences, including the consequences under other federal, state, local or foreign tax laws, of an investment in the GDRs. In addition, this summary assumes that the Russian Federation does not assess the potential withholding tax on dividends or capital gains described below under “—Russian Tax Considerations.” If such taxes are assessed, U.S. Holders are urged to consult their own tax advisers regarding the availability of foreign tax credits in their particular situation.

In particular, this discussion does not address tax considerations applicable to a U.S. Holder that may be subject to special tax rules, including, without limitation, a dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, banks, thrifts, or other financial institutions, an insurance company, a tax-exempt organisation, a person that holds GDRs as part of a hedge, straddle or conversion transaction for tax purposes, a person whose functional currency for tax purposes is not the U.S. Dollar, a person subject to the U.S. alternative minimum tax or a person that owns or is deemed to own 10% or more of the Company’s voting stock or equity capital. In addition, the discussion does not address tax consequences to an entity treated as a partnership for U.S. federal income tax purposes that holds GDRs, or a partner in such partnership. The U.S. federal income tax treatment of each partner of such partnership generally will depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are partners in a partnership holding GDRs should consult their own tax advisors.

This summary is based upon the Internal Revenue Code, proposed, temporary and final Treasury Regulations promulgated under the Internal Revenue Code and judicial and administrative interpretations of the Internal Revenue Code and Treasury Regulations, all of which are subject to change, possibly with retroactive effect.

For the purposes of this summary, you are a “**U.S. Holder**” if you are a beneficial owner of the GDRs and a citizen or resident of the United States or a domestic corporation or otherwise subject to U.S. federal income tax on a net income basis in respect of the GDRs.

In general, if you hold GDRs, you will be treated as the holder of the underlying Shares represented by those GDRs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognised if you exchange GDRs for the Shares represented by those GDRs.

Taxation of Distributions

The gross amount of distributions paid by Lenta out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the Shares generally will be taxed as dividends (at ordinary income rates) at the time of receipt by the Depository. The dividends generally will be treated as foreign-source income and will not be eligible for the dividends-received deduction available to domestic corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your basis in the Shares and thereafter as capital gain. Lenta does not expect to maintain earnings and profits computation in accordance with U.S. federal income tax principles. Therefore, you should

expect that a distribution will generally be treated as a dividend. . The amount of any dividend income paid in a foreign currency will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. You should consult your own tax advisor with respect to the appropriate U.S. federal income tax treatment of any distribution received from Lenta.

Taxation of Sales or Other Dispositions of GDRs

You generally will recognise gain or loss on the sale or other taxable disposition of the GDRs in an amount equal to the difference between (i) the amount realised on such disposition and (ii) your tax basis in the GDRs. Your basis in a GDR generally will equal its purchase price. Gain or loss recognised by you on a sale or other taxable disposition of the GDRs will be capital gain or loss, and will be long-term capital gain or loss if you have held the GDRs for more than one year at the time of disposition. Any gain or loss recognised by you generally will be U.S.-source gain or loss. Long-term capital gains recognised by a non-corporate U.S. Holder generally are subject to tax at a lower rate than short-term capital gain or ordinary income. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of the GDRs and the proceeds from the sale, exchange or redemption of the GDRs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient, such as a corporation. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend income. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

U.K. Tax Considerations

The following is a general summary of certain U.K. tax considerations relating to the ownership and disposal of the GDRs. It is based on current U.K. tax law as applied in England and published HM Revenue & Customs (“**HMRC**”) practice as of the date of the Prospectus, both of which are subject to change, possibly with retrospective effect.

The summary applies only to persons who are resident (and, in the case of individuals only, domiciled) in the U.K. for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected (“**U.K. Holders**”). Persons (a) who are not resident (or, if resident, are not domiciled) in the U.K. for tax purposes, including those individuals and companies who trade in the U.K. through a branch, agency or permanent establishment in the U.K. to which the GDRs are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the U.K., are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.K. tax law. In particular:

- this summary only applies to the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Shares where the dividends are regarded for U.K. tax purposes as that person’s own income (and not the income of some other person);
- this summary: (a) only addresses the principal U.K. tax consequences for investors who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold GDRs otherwise than as an investment, (c) does not address the tax consequences for holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities and tax-exempt organisations, (d) assumes that the holder is not an officer or employee of Lenta (or of any related company) and has not (and is not deemed to have) acquired the GDRs by

virtue of an office or employment, (e) assumes that the holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in the Shares, voting power, and/or rights to profits or capital of the Company, and is not otherwise connected with Lenta and (f) assumes that the holder is not a “small company” for the purposes of Part 9A of the Corporation Tax Act 2009.

This summary further assumes that:

- a holder of GDRs is, for U.K. tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the Shares are not registered in a register kept in the U.K., by or on behalf of Lenta, and they will not become so registered; and
- any instrument effecting a transfer of Shares to the Depositary is executed and retained outside the U.K. and does not relate to any property situated in the U.K. or to any matter or thing done, or to be done, in the U.K.

Potential investors in the GDRs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under U.K. tax law and HMRC practice of the acquisition, ownership and disposal of the GDRs, in their own particular circumstances by consulting their own tax advisors.

Taxation of Dividends

Withholding Tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of U.K. tax.

Income Tax

Dividends received by individual U.K. Holders will be subject to U.K. income tax on the full amount of the dividend paid, grossed up for the amount of the non-refundable U.K. dividend tax credit referred to below.

The rate of U.K. income tax which is chargeable on the gross amount of dividends received in the tax year 2015/2016 by (i) additional rate taxpayers is 37.5%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 10%. Individual U.K. Holders will be entitled to a non-refundable tax credit equal to one-ninth of the amount of the dividend received from the Company, which will be taken into account in computing the gross amount of the dividend which is chargeable to U.K. income tax. The tax credit will be credited against the U.K. Holder’s liability (if any) to U.K. income tax on the gross amount of the dividend. After taking into account the tax credit, the effective rate of tax (i) for additional rate taxpayers will be approximately 30.6% of the dividend paid, (ii) for higher rate taxpayers will be 25% of the dividend paid, and (iii) for basic rate taxpayers will be nil. An individual shareholder who is not subject to U.K. income tax on dividends received from the Company will not be entitled to claim payment of the tax credit in respect of such dividends. An individual’s dividend income is treated as the top slice of their total income which is chargeable to U.K. income tax.

The U.K. government has announced that, from April 2016, the non-refundable dividend tax credit available to individual U.K. Holders will be abolished and replaced with a £5,000 tax-free dividend allowance. Following the introduction of the dividend allowance, the rate of U.K. income tax which is chargeable on dividend income received in excess of £5,000 by (i) additional rate taxpayers will be 38.1%, (ii) higher rate taxpayers will be 32.5%, and (iii) basic rate taxpayers will be 7.5%. The U.K. government intends to introduce the legislation for the replacement of the dividend tax credit with the dividend allowance in a 2016 Finance Bill.

Corporation Tax

A U.K. Holder within the charge to U.K. corporation tax should generally be entitled to exemption from U.K. corporation tax in respect of dividend payments. However, if the conditions for the exemption are not or cease to be satisfied, or a U.K. Holder elects for an otherwise exempt dividend to be taxable, U.K. corporation tax will be

chargeable on the amount of any dividends. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of Information

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of GDRs (or the persons for whom GDRs are held), details of the persons to whom payments derived from GDRs are or may be paid and information and documents in connection with transactions relating to GDRs. Information may be required to be provided by, amongst others, the holders of GDRs, persons by or through whom payments derived from GDRs are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to GDRs on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

Taxation of Disposals

A disposal or deemed disposal of GDRs by an individual U.K. Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of U.K. capital gains tax. The principal factors that will determine the capital gains tax position on a disposal or deemed disposal of GDRs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “**Annual Exemption**”). The Annual Exemption for the 2015/2016 tax year is £11,100. If, after all allowable deductions, an individual U.K. Holder’s taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal or deemed disposal of GDRs may be taxed at 18% or 28% or at a combination of both rates.

An individual U.K. Holder who ceases to be resident in the U.K. for a period of less than five years and who disposes or is deemed to dispose of his or her GDRs during that period of temporary non-residence may be liable to U.K. capital gains tax on a chargeable gain accruing on such disposal or deemed disposal on his or her return to the U.K. (subject to available exemptions or reliefs).

A disposal or deemed disposal of GDRs by a corporate U.K. Holder may give rise to a chargeable gain or an allowable loss for the purpose of U.K. corporation tax. Such a holder should be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations by reference to sterling relating to the GDRs would be brought into account on the disposal.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty or stamp duty reserve tax will be payable on (i) the issue of Shares to the Depository, or (ii) the issue of the GDRs or their delivery into Euroclear, DTC or Clearstream, Luxembourg (as applicable).

No U.K. stamp duty or stamp duty reserve tax will be payable on any transfer of the GDRs once they are issued into Euroclear, DTC and Clearstream, Luxembourg, where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, DTC or Clearstream, Luxembourg (as applicable) and there is no instrument of transfer or written agreement for the sale of the GDRs. U.K. stamp duty may be payable in respect of any written agreement to transfer any of the GDRs by the Selling Shareholder in the event that the relevant documents are required to be either admitted to evidence in a U.K. court or available for any other purpose in the U.K.

Inheritance Tax

U.K. inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs where the owner is an individual who is domiciled or deemed to be domiciled in the U.K. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

Individual U.K. Holders should consult an appropriate professional advisor if they make a gift or transfer of value of any kind in relation to GDRs, or intend to hold GDRs through trust arrangements.

The Proposed European FTT

The European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “**FTT Participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in GDRs (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the FTT Participating Member States. Generally, it would apply to certain dealings in GDRs where at least one party is a financial institution, and at least one party is established in an FTT Participating Member State. A financial institution may be, or be deemed to be, “established” in an FTT Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in an FTT Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in an FTT Participating Member State.

The FTT remains subject to negotiation between the FTT Participating Member States. Additional EU Member States may decide to participate and/or certain of the FTT participating Member States may decide to withdraw.

Joint statements issued by several participating Member States indicate an intention to implement the FTT by 1 January 2016. Prospective holders of GDRs are advised to seek their own professional advice in relation to the FTT.

BVI Tax Considerations

The following summary of BVI tax considerations assumes that neither the Company nor any of its subsidiaries (a) holds or is otherwise interested in any land situated in the BVI; or (b) has any employees located in the BVI. As of the date of this Prospectus, the Company and its subsidiaries do not have any interest in land or any employees in the BVI, and it is not anticipated that this will change in the immediate future.

The Company is not subject to any tax under BVI law, including income tax, capital gains tax, inheritance tax or gift tax.

No stamp duty, notarial fees, registration, transfer taxes and duties or equivalent is payable in the BVI on (i) the sale, purchase, acquisition, ownership, redemption or other disposal of Shares or GDRs representing such Shares; or (ii) the issue of any new Shares or GDRs representing such Shares. Transfers and other disposals of Shares and GDRs are also exempt from capital gains tax in the BVI.

No estate, inheritance, succession or gift tax is payable by persons who are not resident in the BVI with respect to the Shares or GDRs.

Under BVI law, the Company is not required to withhold tax at the source when paying a dividend.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDRs and to the purchase, ownership and disposition of the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on Lenta’s understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations. See “*Risk Factors—Risks Relating to Russia—Risks relating to the Russian legal system and Russian legislation—Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and Lenta therefore may be subject to a greater than expected tax burden that could materially adversely affect Lenta’s business and results of operations*”.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regional, local or other non-federal authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisors regarding the tax consequences of investing in the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties; special provisions with respect to transactions with GDRs have been introduced recently, but they are not exhaustive. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “**Russian Non-Resident Holder**” means (i) an individual holder of a GDR who is actually present in the Russian Federation for an aggregate period of less than 183 days (including days of arrival in Russia and days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or (ii) a holder that is a legal entity or organisation, in each case not organised under Russian law and not having its place of effective management in Russia that purchases, holds and/or disposes of the GDR otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “**Russian Resident Holder**” means a GDR holder not qualifying as a Russian Non-Resident Holder. In particular, a foreign legal entity may be recognized as a Russian Resident Holder if its place of effective management is located in Russia (unless provided otherwise by double tax treaties).

The place of effective management of a foreign company is deemed to be in Russia if, in respect of the foreign company and its activities, at least one of the following conditions is met:

1. The executive management of a company regularly carries out its activity in relation to this company from Russia;
2. Top management functions are exercised by key officials of the company from Russia.

If any of these conditions is simultaneously met in the Russian Federation and in another country, then the Russian Federation may be considered the place of effective management of a foreign company if one of the following criteria is met: bookkeeping or managerial accounting of the company is carried out in Russia; records/workflow management is carried out in Russia; operational personnel management is conducted from Russia.

The residency rules may be affected by the applicable double tax treaty.

The Company intends to take the position that it is solely a tax resident of the British Virgin Islands for Russian tax purposes, and this summary assumes such treatment except as discussed below under “—Taxation of Dividends If the Company Is Treated as a Russian Tax Resident.”

Taxation of Acquisition of the GDRs

Russian Resident Holders

No Russian tax implications should arise for holders of the GDRs upon purchase of the GDRs.

However, under certain conditions, material gain may arise for Russian Resident Holders which are individuals if the GDRs are purchased at a price below the market value. Such material gain is generally subject to personal income tax at 13%.

Moreover, if GDRs are purchased by Russian Resident Holders which are legal entities, Russian withholding tax risk should be taken into account (see “*Risk Factors—Risks Relating to Russia—Risks relating to the Russian*

legal system and Russian legislation—Transactions with the GDRs may be subject to Russian withholding tax”), since these entities can be viewed as tax agents with respect to withholding tax imposed on foreign corporate sellers of GDRs. Based on the Russian tax rules, tax agents should withhold tax from income paid to a foreign entity and remit it to the tax authorities. Should a tax agent fail to fulfill these obligations, it may be subject to a fine in the amount of 20% of underpaid tax. Moreover, Russian tax authorities may also charge a tax agent with late payment interest and even the amount of underpaid tax.

Russian Non-Resident Holders

No Russian tax implications should arise for holders of the GDRs upon purchase of the GDRs.

Taxation of Dividends

Russian tax legislation concerning the taxation of GDRs is not very well developed; however, recently certain improvements were made in this area. In particular, Federal Law № 420-FZ of 28 December 2013 introduced amendments to the Russian Tax Code, according to which (i) the redemption of depositary receipts and receipt of underlying securities is a non-taxable operation for both legal entities and individuals; and (ii) income on GDRs received by legal entities should be treated as dividends.

According to the Russian Tax Code, should income from a source outside of Russia be recognised as dividends in accordance with the law of the foreign country where it arises, it should also be recognised as dividends for Russian taxation purposes.

The tax treatment of dividends on GDRs will primarily depend on the status of the dividend’s recipient.

Russian Resident Holders

Corporate Holders

Dividends on GDRs paid by a foreign company to a Russian legal entity will be taxable at 13%, unless the 0% rate below applies.

Dividends paid to a Russian Resident Holder which is a legal entity are taxed at 0% rate provided that the following conditions are met: (i) the Russian Resident Holder holds at least 50% of the equity of the distributing entity or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed; (ii) the Russian Resident Holder has held such participation for at least 365 days at the time the decision to distribute dividends is made.

The above participation exemption is not applicable if the foreign entity distributing the dividends is included in the list (prepared by the Russian Ministry of Finance) of countries and territories with beneficial tax treatment and/or which do not require the disclosure and provision of information with respect to financial operations (the “black list”). Currently, BVI is included in this list. Therefore, the 0% rate could not be applied with respect to dividends received by a Russian Resident Holder.

Individuals

Starting from 1 January 2015, the special reduced tax rate for dividends (9%) was cancelled. Dividends on GDRs received by a Russian Resident Holder which is an individual are subject to personal income tax at the regular 13% rate.

Foreign tax credit

Currently, the Russian Federation has no double tax treaty with the BVI; therefore, a foreign tax credit is not available.

Taking into account the absence of dividend taxation in the BVI, Russian Resident Holders are only liable to dividend taxation in Russia at tax rates stipulated under Russian tax legislation.

Russian Non-Resident Holders

No Russian tax consequences shall arise for Russian Non-Resident Holders with respect to dividends on GDRs

Taxation of Dividends If the Company Is Treated as a Russian Tax Resident

Under certain conditions, a foreign legal entity may be treated as a Russian tax resident. See “*Risk Factors—Risks Relating to Russia—Risks relating to the Russian legal system and Russian legislation—The Company and its foreign subsidiaries may be exposed to taxation in Russia if they are treated as having a Russian permanent establishment or as Russian tax residents*”.

If the Company were treated as a Russian tax resident, the following Russian tax consequences would arise with respect to dividends on GDRs.

Russian Resident Holders

Dividends received by a Russian Resident Holder which is an individual are subject to personal income tax at a 13% rate.

Net dividends received by a Russian Resident Holder which is a legal entity will be taxable at 13%, unless the 0% rate applies.

As discussed above, dividends can be taxed at 0% rate, if (i) the Russian Resident Holder holds at least 50% of the equity of the distributing entity or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed; (ii) the Russian Resident Holder has held such participation for at least 365 days at the time the decision to distribute dividends is made. Condition about countries included in the black list would not apply in this case, since for the purpose of profits taxation foreign companies that are Russian tax residents are treated in the same way as Russian companies.

Russian Non-Resident Holders

Dividends paid by Russian tax residents to Russian Non-Resident Holders (either corporate or individual) are generally subject to withholding income tax at a rate of 15%, although this tax rate may be reduced under applicable double tax treaties. If double tax treaty is applied, beneficial ownership of income requirements should be taken into account.

Withholding tax should be withheld by the Company from the dividends paid and remitted to the Russian tax authorities.

Taxation of Capital Gains

Russian Resident Holders

The following sections summarise the taxation of capital gains in respect of the disposal of the GDRs. Russian legislation related to the taxation of capital gains earned by Russian Resident Holders (both corporate holders and individuals) on GDRs is unclear. Therefore, Russian residents should consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of GDRs in their particular situation.

Corporate Holders

Capital gains arising from the sale of GDRs by a Russian Resident Holder which is a legal entity shall be generally taxable at the regular Russian corporate income tax rate of 20%.

The Russian Tax Code also establishes special rules for the calculation of the tax basis for transactions with securities.

Individuals

Capital gains arising from the sale, exchange or other disposition of the GDRs by individuals who are Russian Resident Holders shall be declared on the holder's tax return and are generally subject to personal income tax at a rate of 13%. Income from the sale of GDRs by an individual is calculated as sale proceeds less documented confirmed expenses related to the purchase of such GDRs (including the cost of the GDRs and expenses associated with the purchase, keeping and sale of the GDRs).

The tax basis for income taxed at 13% may be reduced by the amount of loss generated under operations with securities generated in previous periods starting from the 2010 tax year.

Russian Non-Resident Holders

Corporate Holders

Except under the rules described below, no Russian income tax consequences should arise for foreign legal entities without permanent establishment in Russia who are Russian Non-Resident Holders with respect to capital gains derived from sale of GDRs.

According to the Russian tax rules, certain types of income received by a Russian Non-Resident Holder may be subject to Russian withholding tax even if the Company is not treated as a Russian tax resident. In particular, profit derived from the sale of shares of companies the assets of which are more than 50% comprised (directly or indirectly) of real estate located in Russia, as well as "derivative financial instruments" based on such shares (other than shares that are regarded as "marketable" – i.e., listed on a stock exchange) should be subject to Russian withholding tax at the rate of 20%. Profit derived from the sale of GDRs in such case is calculated as sale proceeds less documented confirmed expenses related to the purchase of such GDRs. However, in order to apply the deduction, the seller has to provide the purchaser, acting as a tax agent, with the respective documents prior to the payment.

Taking into account the current real estate portfolio of Lenta LLC and plans for its further expansion, the share of its real estate assets may exceed 50% of its total assets. Furthermore, the indirect share of Russian real estate in the total assets of Lenta Ltd may also exceed 50%. Accordingly, there is the risk that transactions with GDRs may be subject to 20% Russian WHT. See "*Risk Factors—Risks Relating to Russia—Risks relating to the Russian legal system and Russian legislation—Transactions with the GDRs may be subject to Russian withholding tax*".

Individuals

No Russian tax consequences shall arise for individuals who are Russian Non-Resident Holders with respect to capital gains derived from GDRs.

Stamp Duties and Other Taxes

No Russian stamp duty will be payable by the holders of the GDRs upon the purchase or sale of the GDRs.

No value added tax will be payable in Russia in respect of the purchase, ownership and disposition of the GDRs by Russian Resident Holders or Russian Non-Resident Holders.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

Each of the Managers severally, and not jointly or jointly and severally, represents and agrees that the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act; and represents and agrees that (i) neither it nor any of its affiliates, nor any person acting on its or their behalf has solicited and/or will solicit offers for, or has offered, sold or procured subscribers for or will offer, sell or procure subscribers for, GDRs by means of any general solicitation or general advertising or otherwise in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) neither it nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the GDRs, and (iii) neither it nor any person acting on its behalf has offered or sold or solicited offers for or procured subscribers for and will offer or sell or solicit offers for or procure subscribers for, the GDRs, as part of their initial distribution, only (A) to or from persons whom it reasonably believes are QIBs, or if any such person is buying for one or more institutional accounts of which such person is acting as fiduciary or agent, only when such Manager reasonably believes that each such account is a QIB, in reliance on Rule 144A under the Securities Act or pursuant to another exemption from or in a transaction not subject to the registration requirements of the Securities Act; or (B) in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act. In addition, until 40 days after the commencement of the offering of the GDRs, an offer or sale of the GDRs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each of the Managers severally, and not jointly or jointly and severally, represents and agrees that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the Offering in circumstances in which Section 21(1) of the FSMA does not apply.

EEA

In relation to each EEA Relevant Member State, each Manager represents and warrants that it has not made and will not make an offer to the public of any GDRs which are the subject of the Offering contemplated herein in that EEA Relevant Member State once the Prospectus has been approved by the competent authority in the U.K. and published in accordance with the Prospectus Directive as implemented in the U.K., except that it may make an offer to the public in that EEA Relevant Member State of any GDRs at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that EEA Relevant Member State:

- (a) to legal entities which are qualified investors as defined under the Prospectus Directive;

- (b) to fewer than 100, or, if the EEA Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer to the public**” in relation to any GDRs in any EEA Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that EEA Relevant Member State by any measure implementing the Prospectus Directive in that EEA Relevant Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the EEA Relevant Member State), and includes any relevant implementing measure in each EEA Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

Russian Federation

Each of the Managers severally, and not jointly or jointly and severally, acknowledges that neither it nor any of its affiliates, nor any person acting on its or their behalf has advertised, offered or sold or otherwise transferred, nor will advertise, offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any GDRs to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, except that it may offer, sell or otherwise transfer GDRs to qualified investors within the meaning of Article 51.2 of the Russian Securities Law before the MICEX Admission, and to the extent otherwise permitted under Russian law.

BVI

Each of the Managers severally, and not jointly or jointly and severally, acknowledges that it has not made and will not make an offer to the public or any other person of any GDRs which are the subject of the Offering contemplated herein in the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI.

United Arab Emirates

Each of the Banks severally, and not jointly or jointly and severally, represents and agrees that it has not made and will not make a public offer of Securities in the United Arab Emirates, the Dubai International Financial Centre and/or any other free zone in accordance with the Commercial Companies Law, Federal Law No 2 of 2015, DFSA Markets Law DIFC Law No. 1 of 2012, Markets Rules and NASDAQ Dubai Rules, accordingly, or otherwise.

Qatar

Each of the Banks severally, and not jointly or jointly and severally, represents and agrees that it has not and will not market the Securities from within the State of Qatar or offer, sell or deliver the Securities at any time directly or indirectly in the State of Qatar.

Transfer Restrictions

Rule 144A GDRs

Each purchaser of GDRs located in the United States pursuant to Rule 144A, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser: (1) is a QIB as that term is defined in Rule 144A under the Securities Act; (2) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in

reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act; (3) is acquiring such GDRs for its own account or for the account of one or more QIBs; and (4) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer and are being offered in the United States only in transactions not involving any public offering in the United States and are Restricted Securities.
3. The purchaser understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.
4. The purchaser agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, except in accordance with the following legend, which the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF LENTA LTD REPRESENTED HEREBY (THE “**SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**US SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs ACKNOWLEDGES AND AGREES FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) (WITHIN THE MEANING OF RULE 144A UNDER THE US SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

4. For so long as Shares or GDRs are Restricted Securities, it will not deposit such Shares or GDRs into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
5. The Company, the Managers, the Depositary and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S GDRs

Each purchaser of the Regulation S GDRs outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. The purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are being offered outside the United States in reliance on Regulation S;
3. Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs;
4. The purchaser understands that the Regulation S GDRs and the Regulation S Master GDR will bear a legend substantially to the following effect:

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF LENTA LTD REPRESENTED HEREBY (THE “**SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**US SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE US SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

5. It understands that the Master Regulation S GDR and the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications; and
6. The Company, the Managers, the Depositary and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

If a purchaser of GDRs is acquiring such GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Other Provisions regarding Transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Regulation S GDR only upon receipt by the Depositary of written certification (in the form provided in the Deposit Agreement) from the transferor to the effect that, amongst other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person

whose interest in such GDRs is subsequently represented by a Rule 144A GDR only upon receipt by the Depository of written certifications from the transferor (in the forms provided in the Deposit Agreement) to the effect that, amongst other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg, NSD and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

MICEX Trading

See “*Risk Factors—Risks Relating to the GDRs and the Trading Market—The GDRs may be de-listed from MICEX.*”

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

DTC

DTC has advised Lenta as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a “banking organisation” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants’ accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See “*Taxation—U.S. Federal Income Tax Considerations*”.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

NSD

NSD is the central securities depository of the Russian Federation and is a part of the Moscow Exchange Group. NSD is Russia's national numbering agency and the substitute numbering agency for the CIS and is authorised to assign the international ISIN and CFI codes. NSD is a central system for handling securities by law. The status of central securities depository was assigned to the NSD by an order of the Federal Service for Financial Markets ("FSFM") on 6 November 2012. NSD holds a professional securities market participant licence for depository activity, a clearing activities licence and a licence to perform banking operations. NSD holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of such participants. NSD participants are financial institutions, including underwriters, securities brokers and dealers, banks, clearing corporations and certain other organisations and entities. Access to NSD is also available to other organisations and entities which clear through or maintain a custodial relationship with an NSD participant, either directly or indirectly.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Regulation S Master GDR registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Rule 144A Master GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depository as custodian for DTC. As necessary, the Depository will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions, including NSD, as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg, DTC and NSD will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg, DTC and NSD, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Depository will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC. The address for DTC is 55 Water Street, New York, New York 10041, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg. The address for NSD is 1/13, building 8, Sredniy Kislovskiy Lane, Moscow 125009, Russia.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg, DTC or NSD and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement.

Global Clearing and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see "*Terms and Conditions of the Global Depository Receipts—Transfer and Ownership*" and "*Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between NSD Participants

Secondary market sales of book-entry interests in the GDRs held through NSD to purchasers of book-entry interests in the GDRs through NSD will be conducted in accordance with the normal rules and operating procedures of NSD and will be settled using the usual procedures applicable to depositary receipts.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment or a delivery versus payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, DTC will on the settlement date instruct the Depository to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

Trading between Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment or a delivery versus payment instruction at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment, as applicable, to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depository to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

Trading between NSD Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a Euroclear or Clearstream, Luxembourg participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the

settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will credit the account of its participant, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the Euroclear or Clearstream, Luxembourg participant.

Trading between Euroclear/Clearstream, Luxembourg Seller and NSD Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of an NSD participant, the Euroclear or Clearstream, Luxembourg participant must submit a delivery free of payment or a delivery versus payment instruction to Euroclear or Clearstream, Luxembourg, as the case may be, at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further transfer to the relevant NSD participant.

Trading between NSD Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a DTC participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

Trading between DTC Seller and NSD Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of an NSD participant, the DTC participant must send a delivery free of payment or a delivery versus payment instruction to DTC at least one business day prior to the settlement date. DTC will, in turn, transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, and Euroclear or Clearstream, Luxembourg, as the case may be, will transmit it to NSD on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the NSD participant. On the settlement date, DTC will debit the account of its participant and will instruct the Depository to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further credit to the relevant NSD participant. In addition, DTC will on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the nominee for DTC and represented by the Rule 144A Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg, DTC and NSD in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg, DTC and NSD, none of Euroclear, Clearstream, Luxembourg, DTC or NSD is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Lenta, the Managers, the Depositary, the Custodian or its or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg, DTC or NSD or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Luxembourg S.A. Deutsche Bank Luxembourg S.A. was established on 12 August 1970 as a public limited liability company (*société anonyme*) under the name “Compagnie Financière de la Deutsche Bank”, in the Grand Duchy of Luxembourg in accordance with the Luxembourg Act dated 10 August 1915 on commercial companies, as amended. The notarial act of incorporation was published on 27 August 1970 in the Mémorial C-142, Recueil des Sociétés et Associations (the “**Mémorial C**”). The original name of Deutsche Bank Luxembourg S.A. was changed to Deutsche Bank Compagnie Financière Luxembourg S.A. on 11 October 1978 and to its present name on 16 March 1987. The articles of incorporation of Deutsche Bank Luxembourg S.A. have been most recently amended by a notarial deed of 15 April 2013, published in the Mémorial C under number C-1429 of 17 June 2013 on page 68582. Deutsche Bank Luxembourg S.A. was incorporated for an unlimited duration. The registered office of Deutsche Bank Luxembourg S.A. is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg (telephone no. (+352) 421.22-1). Deutsche Bank Luxembourg S.A. is registered with the Luxembourg trade and companies register under number B. 9164.

A copy of the Depositary’s by-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary is available for inspection at the principal administrative establishment of the Depositary located at 2, boulevard Konrad Adenauer, L-1115, Luxembourg and at the office of Deutsche Bank AG, London Branch located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDRs are admitted to listing on the Official List and admitted to trading on the London Stock Exchange’s regulated market for listed securities and Deutsche Bank Luxembourg S.A. is the Depositary.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for Lenta in respect of the laws of England and the United States by Cleary Gottlieb Steen & Hamilton LLP, in respect of the laws of the Russian Federation by Cleary Gottlieb Steen & Hamilton LLC and in respect of the laws of BVI by Ogier. Certain legal matters with respect to the Offering will be passed upon for the Managers in respect of the laws of England and the United States by Skadden, Arps, Slate, Meagher & Flom (U.K.) LLP.

INDEPENDENT AUDITORS

The auditor of the Company is Ernst & Young LLC, whose registered address is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow, 115035, Russian Federation. Ernst & Young LLC was the auditor of Lenta Ltd. and Lenta LLC for the whole period covered by the Interim Condensed Consolidated Financial Statements as of and for the Six Months Ended 30 June 2015 and the Historical Consolidated Financial Information as of and for the Years Ended 31 December 2014, 2013 and 2012. Ernst & Young LLC is a member of the Audit Chamber of Russia. Ernst & Young LLC does not have a material interest in Lenta.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted to the Official List on or about 26 October 2015. Application has been made for the GDRs to be traded on the London Stock Exchange's regulated market for listed securities. Prior to the London Admission, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when issued basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
2. The Company's existing GDRs have been admitted to trading on MICEX since 6 March 2014. Lenta is relying on an understanding with MICEX that the Company's GDRs have been admitted to trading on MICEX as a class and any new securities of the class are also admitted. Therefore, upon the London Admission, the newly-issued GDRs offered by the Company will become securities of the same class as the existing GDRs and will become eligible for trading on MICEX. No action by the Company is required for the newly-issued GDRs to be tradable on MICEX upon the London Admission. Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted.
3. The Company has obtained all consents, approvals and authorisations required under BVI law in connection with the issue of the GDRs. The Company's entry into the Underwriting Agreement was duly authorised by the Board of Directors on 15 October 2015 and into the Deposit Agreement was duly authorised by the Board of Directors on 29 January 2014 and the shareholders of the Company on 19 February 2014, each in accordance with the M&A.
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company from the date of publication of this Prospectus:
 - the Prospectus;
 - the M&A;
 - the Deposit Agreement;
 - the Deed Poll; and
 - the Financial Information.

The registered office of the Company is at the Offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI, and its telephone number is 1-284-494-6004.

5. If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom.
6. There has been no significant change in the financial or trading position of Lenta since 30 June 2015, the end of the last financial period for which financial information has been published.
7. The GDRs are not denominated in any currency and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offering will be made public by Lenta through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
8. Holders of GDRs may contact Deutsche Bank Luxembourg S.A. as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's principal administrative establishment located at 2, Boulevard Konrad Adenaur, L-1115, Luxembourg.
9. The ISIN for the Rule 144A GDRs is US52634T1016, the Common Code for the Rule 144A GDRs is 103087635, the CUSIP number for the Rule 144A GDRs is 52634T 101 and the SEDOL for the Rule 144A GDRs is BJS93Z7. The CFI Code is ESVTFA.
10. The ISIN for the Regulation S GDRs is US52634T2006, the Common Code for the Regulation S GDRs is 103087686, the CUSIP number for the Regulation S GDRs is 52634T 200 and the SEDOL for the Regulation S GDRs is BJ621Y3. The CFI Code is ESVTFA.
11. The London Stock Exchange trading symbol for Regulation S GDRs is LNTA and for Rule 144A GDRs is LNTR. The MICEX Regulation S GDR trading symbol is LNTA.
12. No expenses or taxes are to be charged to the subscriber or purchaser of GDRs.

13. As of the date hereof, the Company has a corporate credit rating of BB- (outlook stable) from Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), a corporate family rating of Ba3 (outlook stable) from Moody's Investors Service, Ltd. ("**Moody's**") and a long-term foreign and local currency issuer default rating of BB- (outlook positive) from Fitch Ratings ("**Fitch**"). Standard & Poor's, Moody's and Fitch are established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"). As such, Standard & Poor's, Moody's and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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Lenta Limited and subsidiaries

Unaudited interim condensed
consolidated financial statements

For the six months ended 30 June 2015

Lenta Limited and subsidiaries

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Lenta Limited and subsidiaries

Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2015

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

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries (the "Group") as of 30 June 2015, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* ("IAS 34").

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

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

Management is also responsible for:

- ▶ Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group
- ▶ Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34
- ▶ Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates
- ▶ Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- ▶ Preventing and detecting fraud and other irregularities

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 were approved by management on 25 August 2015:

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



Jan Dunning
(CEO of Lenta Ltd)



Jago Lemmens
(CFO of Lenta Ltd)

Report on review of interim condensed consolidated financial statements

To the Shareholders of Lenta Ltd

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Lenta Ltd and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2015 and the related interim consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



25 August 2015

Saint-Petersburg, Russia

Lenta Limited and subsidiaries

Interim consolidated statement of financial position as at 30 June 2015

(in thousands of Russian Roubles)

	Note	30 June 2015, unaudited	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	6	85,759,779	81,218,207
Prepayments for construction	7	7,490,194	4,780,350
Leasehold rights	8	2,954,702	3,271,544
Intangible assets other than leasehold rights	9	985,678	870,531
Long-term portion of cash flow hedging instruments	27	717,386	765,257
Total non-current assets		97,907,739	90,905,889
Current assets			
Inventories	10	17,608,584	19,629,381
Trade and other receivable	11	9,326,298	11,371,248
Advances paid	12	2,085,441	2,750,726
Taxes recoverable		–	2,416,605
Advance payments for income tax		837,065	30,858
Prepaid expenses		210,722	134,863
Short-term portion of cash flow hedging instruments	27	550,284	1,969,920
Cash and cash equivalents	13	12,142,518	12,035,785
Total current assets		42,760,912	50,339,386
Total assets		140,668,651	141,245,275
Equity and liabilities			
Equity			
Share capital	14, 16	284	284
Additional paid-in capital	14	17,022,916	4,427,554
Share Options	14, 24	205,411	153,892
Hedging reserve	14	1,062,961	2,585,857
Retained earnings		12,528,343	9,562,789
Total equity		30,819,915	16,730,376
Liabilities			
Non-current liabilities			
Long-term borrowings	17	55,275,053	58,519,948
Deferred tax liabilities	18	4,161,537	3,750,189
Long-term portion of cash flow hedging instruments	27	17,487	28,357
Long-term obligations under finance leases		27,301	35,465
Total non-current liabilities		59,481,378	62,333,959
Current liabilities			
Trade and other payables	19	32,666,958	48,373,389
Advances received		145,025	213,951
Other taxes payable	20	1,061,318	898,178
Short-term portion of cash flow hedging instruments	27	156,947	–
Short-term borrowings and short-term portion of long-term borrowings	17	16,337,110	12,695,422
Total current liabilities		50,367,358	62,180,940
Total liabilities		109,848,736	124,514,899
Total equity and liabilities		140,668,651	141,245,275

The accompanying notes on pages 7-28 are an integral part of these unaudited interim condensed consolidated financial statements.

Lenta Limited and subsidiaries

Interim consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015

(in thousands of Russian Roubles)

	Note	Six months ended 30 June 2015, unaudited	Six months ended 30 June 2014, unaudited
Sales		114,897,154	85,899,056
Cost of sales	21	(89,920,735)	(67,514,816)
Gross profit		24,976,419	18,384,240
Selling, general and administrative expenses	22	(16,852,102)	(12,942,931)
Other operating income	23	1,179,341	1,234,487
Other operating expense		(288,833)	(85,882)
Operating profit		9,014,825	6,589,914
Interest expense		(5,352,540)	(2,934,157)
Interest income		254,672	38,075
Other expenses		–	(42,882)
Ineffective portion of change in fair value of cash flow hedging instruments		6,308	–
Foreign exchange losses		(134,042)	(8,156)
Profit before income tax		3,789,223	3,642,794
Income tax expense	18	(823,669)	(964,117)
Profit for the period		2,965,554	2,678,677
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	15	(1,903,620)	905,158
Income tax relating to the components of OCI	18	380,724	(181,031)
Other comprehensive (loss)/gain for the period, net of tax		(1,522,896)	724,127
Total comprehensive income for the period, net of tax		1,442,658	3,402,804
Earnings per share (in thousands of Russian Roubles per share)			
- basic and diluted, for profit for the period attributable to equity holders of the parent		0.033	0.031

The accompanying notes on pages 7-28 are an integral part of these unaudited interim condensed consolidated financial statements.

Lenta Limited and subsidiaries

Interim consolidated statement of cash flows for the six months ended 30 June 2015

(in thousands of Russian Roubles)

	Note	Six months ended 30 June 2015, unaudited	Six months ended 30 June 2014, unaudited
Cash flows from operating activities			
Profit before income tax		3,789,223	3,642,794
<i>Adjustments for:</i>			
Loss from disposal of property, plant and equipment		10,584	22,244
Interest expense		5,352,540	2,934,157
Interest income		(254,672)	(38,075)
Inventory write-down to NRV		139,103	159,306
Change in bad debt allowance		192,204	37,350
Depreciation and amortization	6, 22	2,689,606	1,695,354
Share options expense	24	51,519	43,224
Ineffective portion of change in fair value of cash flow hedging instruments	27	(6,308)	—
		11,963,799	8,496,354
<i>Movements in working capital:</i>			
Decrease in trade and other receivables		1,984,009	1,534,360
Decrease/(Increase) in advances paid	12	665,381	(410,453)
(Increase)/Decrease in prepaid expenses		(43,350)	45,249
Decrease in inventories	10	1,881,694	116,452
Decrease in trade and other payables	19	(13,827,787)	(6,790,866)
Decrease in advances received		(68,926)	(9,585)
Increase in net other taxes payable	20	2,579,745	1,515,509
Cash from operating activities		5,134,565	4,497,020
Income taxes paid		(837,804)	(918,775)
Interest paid		(5,582,257)	(2,866,748)
Interest received		270,090	37,751
Net cash (used in)/generated from operating activities		(1,015,406)	749,248
Cash flows from investing activities			
Purchases of property, plant and equipment		(11,554,043)	(11,124,426)
Purchases of intangible assets other than leasehold rights	9	(234,054)	(165,778)
Purchases of leasehold rights		—	(501,831)
Proceeds from sale of property, plant and equipment		12,765	—
Net cash used in investing activities		(11,775,332)	(11,792,035)
Cash flows from financing activities			
Proceeds from borrowings		73,434,523	31,356,500
Repayments of borrowings		(73,065,000)	(23,570,000)
Repayments of obligations under financial lease		(8,164)	(7,656)
Proceeds from issue of new shares	14	12,595,362	—
Payment of loan commission		(59,250)	(70,868)
Net cash generated from financing activities		12,897,471	7,707,976
Net increase/(decrease) in cash and cash equivalents		106,733	(3,334,811)
Cash and cash equivalents at the beginning of the period	13	12,035,785	6,211,965
Cash and cash equivalents at the end of the period	13	12,142,518	2,877,154

The accompanying notes on pages 7-28 are an integral part of these unaudited interim condensed consolidated financial statements.

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(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 Road Town, Tortola, BVI. The registered office of the Group’s main operating entity, LLC Lenta, is located at 112, Savushkina Street, 197374, Saint Petersburg, Russia.

Starting from March 2015 the Company’s shares are listed on the London Stock Exchange and Moscow Stock Exchange in the form of Global Depository Receipts (GDR).

At 30 June 2015 and 31 December 2014 the Group had one main operational fully owned subsidiary, LLC Lenta, a legal entity registered under the laws of the Russian Federation. The principal activity of LLC Lenta is retail trade.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s financial statements for the year ended 31 December 2014, which includes a full description of the Group’s accounting policies, and critical accounting estimates and judgments in applying accounting policies.

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

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

Changes in accounting policies and estimates

Adoption of new or revised standards and interpretations

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

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

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

Changes in accounting policies and estimates (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual Improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- ▶ A performance condition must contain a service condition
- ▶ A performance target must be met while the counterparty is rendering service
- ▶ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- ▶ A performance condition may be a market or non-market condition
- ▶ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

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

Changes in accounting policies and estimates (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

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

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

This amendment to IAS 16 has no impact on the Group, as the revaluation model is not implemented.

IAS 24 Related Party Disclosures

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

Annual Improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

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

Changes in accounting policies and estimates (continued)

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

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

3. Operating segments

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

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

- ▶ The products
- ▶ The customers
- ▶ Centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized)

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

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

3. Operating segments (continued)

The segment information for the six months ended 30 June 2015 and 2014, respectively, is as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Sales	114,897,154	85,899,056
EBITDA	11,704,431	8,285,268

Reconciliation of EBITDA to IFRS profit for the six months ended 30 June 2015 and 2014 is as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
EBITDA	11,704,431	8,285,268
Interest expense	(5,352,540)	(2,934,157)
Interest income	254,672	38,075
Income tax expense (see Note 18)	(823,669)	(964,117)
Depreciation/amortization (see Note 6, 22)	(2,689,606)	(1,695,354)
Other expenses	–	(42,882)
Foreign exchange losses	(134,042)	(8,156)
Ineffective portion of the change in fair value of cash flow hedging instruments	6,308	–
Profit for the year	2,965,554	2,678,677

4. Seasonality of operations

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

5. Balances and transactions with related parties

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

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

Entities with significant influence over the Group:

	30 June 2015	31 December 2014
TPG Capital		
Accrued liabilities	2,244	4,644
EBRD		
Long-term loans payable	4,517,872	4,519,663
Accrued liabilities	4,997	5,063
Interest accrued	1,808	3,325

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

5. Balances and transactions with related parties (continued)

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Six months ended 30 June 2015	Six months ended 30 June 2014
EBRD		
Proceeds from borrowings	4,554,240	–
Interest expense	506,450	8,110
Directors fee	15,019	6,054
Business trip expenses	–	443
Monitoring fee	–	108
TPG Capital		
Monitoring fee	–	42,723
Consulting services	2,807	11,652
Directors fee	12,038	7,498
Business trip expenses	–	1,645
Luna Holdings Inc.		
Monitoring fee	–	51
VTB Capital*		
Proceeds from borrowings	–	5,000,000
Repayment of borrowings	–	3,150,000
Interest expense and commission on loans	–	618,719
Finance leasing charge	–	1,225
Interest income on deposits	–	(3,511)

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

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

	Six months ended 30 June 2015	Six months ended 30 June 2014
Short-term benefits	245,224	163,891
Long-term benefits (share-based payments, Note 24)	40,510	43,224
Total remuneration	285,734	207,115

6. Property, plant and equipment

During the six months ended 30 June 2015, the Group acquired assets with a cost of RUB 6,858,787 thousand (six month ended 30 June 2014: RUB 8,403,560 thousand). These assets exclude prepayments for construction.

Land and buildings with a carrying amount of RUB 25,344,207 thousand (31 December 2014: RUB 26,015,987 thousand) are pledged under secured loan agreements (see Note 17).

During the six months ended 30 June 2015 and six months ended 30 June 2014 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

6. Property, plant and equipment (continued)

The carrying amount of property, plant and equipment held under finance leases at 30 June 2015 was RUB 43,811 thousand (31 December 2014: RUB 50,091 thousand). Additions during the six months ended 30 June 2015 include no property, plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

The amount of depreciation charged during the six months ended 30 June 2015 and six months ended 30 June 2014 is presented within Depreciation and amortization in the Group's interim consolidated statement of profit or loss and other comprehensive income and interim consolidated statement of cash flows as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Depreciation of property, plant and equipment	2,535,247	1,588,323
Amortization of intangible assets	118,907	74,510
Leasehold rights amortization (Note 8)	35,452	32,521
Total depreciation and amortization	2,689,606	1,695,354

See note 25 for capital commitments.

7. Prepayments for construction

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

8. Leasehold rights

Leasehold rights as at 30 June 2015 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2015	3,486,162
Transfer to PPE	(307,184)
At 30 June 2015	3,178,978
Accumulated amortization	
At 1 January 2015	214,618
Charge for the period	35,452
Transfer to PPE	(25,794)
At 30 June 2015	224,276
Net book value	
At 1 January 2015	3,271,544
At 30 June 2015	2,954,702

During the six months ended 30 June 2014 the Group acquired leasehold rights with a cost of RUB 501,831 thousand.

Amortization expense for six months ended 30 June 2014 comprised RUB 32,521 thousand.

Amortization expense is included in selling, general and administrative expenses (Note 22).

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

9. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights consisted of the following:

	<u>30 June 2015</u>	<u>31 December 2014</u>
Cost		
Software	1,837,439	1,603,385
Trade marks	549	549
Total cost	<u>1,837,988</u>	<u>1,603,934</u>
Accumulated amortization		
Software	851,768	732,870
Trade marks	542	533
Total accumulated amortization	<u>852,310</u>	<u>733,403</u>
Net book value		
Software	985,671	870,515
Trade marks	7	16
Total net book value	<u>985,678</u>	<u>870,531</u>

During the six months ended 30 June 2015 the Group acquired intangible assets with a cost of RUB 234,054 thousand (six months ended 30 June 2014: RUB 165,778 thousand).

Amortization expense for six month ended 30 June 2015 comprised RUB 118,907 thousand (six months ended 30 June 2014: RUB 74,510 thousand).

Amortization expense is included in selling, general and administrative expenses (Note 22).

10. Inventories

	<u>30 June 2015</u>	<u>31 December 2014</u>
Goods for resale	16,834,463	18,729,075
Raw materials	774,121	900,306
Total inventories	<u>17,608,584</u>	<u>19,629,381</u>

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

During the reporting period the Group wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the interim consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 in the amount of RUB 139,103 thousand (six months ended 30 June 2014: RUB 159,306 thousand).

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

11. Trade and other receivables

	30 June 2015	31 December 2014
Accounts receivable on rental and other services and on suppliers' advertising	6,548,199	7,857,515
Suppliers' rebates receivable	2,619,417	3,333,612
Other receivables	214,958	190,874
Bad debt allowance	(56,276)	(10,753)
Total trade and other receivables	9,326,298	11,371,248

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

12. Advances paid

	30 June 2015	31 December 2014
Advances to suppliers of goods	526,413	821,958
Advances for services	1,294,185	1,607,285
Guarantee payments under lease contracts	264,843	321,483
Total advances paid	2,085,441	2,750,726

13. Cash and cash equivalents

	30 June 2015	31 December 2014
Rouble short-term deposits	10,815,000	8,954,088
Rouble denominated cash in transit	597,981	1,802,739
Rouble denominated cash on hand and balances with banks	652,528	1,258,676
Foreign currency denominated cash on hand and balances with banks	77,009	20,282
Total cash and cash equivalents	12,142,518	12,035,785

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

13. Cash and cash equivalents (continued)

Significant Rouble denominated cash in transit results from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year 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.

14. Issued capital and reserves

As at 30 June 2015 the Company's share capital was comprised of 93,093,394 authorized and issued ordinary shares (as at 31 December 2014, 86,053,394) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends in the amount limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the six months ended 30 June 2015 and for the year ended 31 December 2014.

In year 2015 7,040,000 ordinary shares were issued by the Group for a cash consideration of RUB 12,595,362 thousand net of directly attributable issuance costs. The whole amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

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 24 for further details of these plans.

Hedging reserve

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

15. Components of other comprehensive income (OCI)

	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash flow hedges		
Reclassification during the year to profit or loss	(1,518,462)	(6,538)
Related tax effect	303,692	1,308
(Gain)/loss arising during the year	(385,158)	911,696
Related tax effect	77,032	(182,339)
Net (loss)/gain during the six months	(1,522,896)	724,127

16. Earnings per share

	Six months ended 30 June 2015	Six months ended 30 June 2014
Earnings per share (in thousands of Russian Roubles per share) - basic and diluted, for profit for the period attributable to equity holders of the parent	0.033	0.031

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the six months ended 30 June 2015: RUB 2,965,554 thousand, for the six months ended 30 June 2014: RUB 2,678,677 thousand) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Six months ended 30 June 2015	Six months ended 30 June 2014
Number of issued shares at the beginning of period	86,053,394	86,052,995
Number of shares issued in March 2015	7,040,000	-
Number of shares issued in April 2014	-	399
Number of shares at the end of reporting period	93,093,394	86,053,394
Weighted average number of shares	89,787,317	86,053,095

The Group has issued share-based payments (Note 24) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material dilutive effect on earnings per share for the periods presented.

17. Borrowings

Short-term borrowings:

	Currency	30 June 2015	31 December 2014
Fixed rate bonds (liability for interests)	RUB	314,641	317,351
Fixed rate long-term bank loans (liability for interests)	RUB	27,397	30,069
Floating rate long-term bank loans (liability for interests)	RUB	6,339	33,128
Short-term portion of fixed rate long-term bank loans	RUB	4,767,453	5,798,205
Fixed rate short-term bank loans	RUB	1,255,792	6,516,669
Fixed rate bonds	RUB	9,965,488	-
Total short-term borrowings and short-term portion of long-term borrowings		16,337,110	12,695,422

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

17. Borrowings (continued)

Long-term borrowings:

	<u>Currency</u>	<u>30 June 2015</u>	<u>31 December 2014</u>
Fixed rate long-term bank loans	RUB	9,933,880	9,915,884
Floating rate long-term bank loans	RUB	45,341,173	38,641,409
Fixed rate bonds	RUB	–	9,962,655
Total long-term borrowings		<u>55,275,053</u>	<u>58,519,948</u>

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

On 25 June 2015 the Group entered into 7 year loan agreement of RUB 37,300,000 thousand with VTB Bank OJSC. At the reporting date the Group draw downed RUB 30,000,000 thousand. Borrowed funds were utilized on early repayment of loan from VTB Capital Plc. The loan has covenants with respect to the Debt/EBITDA and EBITDA/interest coverage ratios.

During six month ended 30 June 2015 the Group received RUB 37,700,000 thousand under credit agreements concluded before 1 January 2015 and repaid RUB 67,015,000 thousand.

As at 30 June 2015 the Group had RUB 32,800,000 thousand of unused credit facilities (as at 31 December 2014: RUB 36,260,000 thousand).

As at 30 June 2015 the Group was in compliance with all financial covenants of loan agreements.

18. Income taxes

The Group's income tax expense for the six months ended 30 June 2015 and 30 June 2014 is as follows:

	<u>Six months ended 30 June 2015</u>	<u>Six months ended 30 June 2014</u>
Current tax expense	31,597	147,144
Deferred tax expense	792,072	816,973
Income tax expense recognized in profit or loss	<u>823,669</u>	<u>964,117</u>
Effective portion of change in the fair value of cash flow hedging instruments	(380,724)	181,031
Income tax expense recognized in OCI	<u>(380,724)</u>	<u>181,031</u>

19. Trade and other payables

	<u>30 June 2015</u>	<u>31 December 2014</u>
Trade payables	27,727,901	41,081,087
Accrued liabilities and other creditors	3,001,603	3,138,048
Payables for purchases of property, plant and equipment	1,937,454	4,154,254
Total trade and other payables	<u>32,666,958</u>	<u>48,373,389</u>

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

20. Other taxes payable

	30 June 2015	31 December 2014
Social taxes	332,324	332,956
Property tax	213,760	241,299
Personal income tax	101,015	120,691
VAT payable	183,066	–
Other taxes	231,153	203,232
Total other taxes payable	1,061,318	898,178

21. Cost of sales

Cost of sales for the six months ended 30 June 2015 and 30 June 2014 consisted of the following:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Cost of goods sold	76,392,671	56,849,795
Cost of own production	9,962,833	7,656,965
Supply chain cost	1,430,019	1,394,981
Losses due to inventory shortages and write down to net realizable value	2,135,212	1,613,075
Total cost of sales	89,920,735	67,514,816

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

Cost of sales for the six months ended 30 June 2015 included employee benefits expense of RUB 1,882,413 thousand (six months ended 30 June 2014: RUB 1,554,229 thousand) of which contributions to state pension fund comprised RUB 306,665 thousand (six months ended 30 June 2014: RUB 250,990 thousand).

22. Selling, general and administrative expenses

	Six months ended 30 June 2015	Six months ended 30 June 2014
Employee benefits	6,978,213	5,713,586
Depreciation and amortization (Note 6)	2,681,967	1,695,352
Premises lease	1,103,052	432,724
Advertising	945,798	834,977
Utilities and communal payments	909,011	643,214
Professional fees	849,505	1,021,652
Repairs and maintenance	760,421	515,448
Cleaning	723,173	530,023
Taxes other than income tax	532,073	403,090
Security services	467,699	356,014
Pre-opening costs	216,270	257,562
Land and equipment lease	180,852	151,918
Other	504,068	387,371
Total selling, general and administrative expenses	16,852,102	12,942,931

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

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22. Selling, general and administrative expenses (continued)

Employee benefits for the six months ended 30 June 2015 included contributions to state pension fund of RUB 966,242 thousand (the six months ended 30 June 2014: RUB 795,160 thousand).

Pre-opening costs for the six months ended 30 June 2015 included employee benefits of RUB 100,299 (the six months ended 30 June 2014: RUB 156,972) of which contributions to state pension fund comprised RUB 12,183 thousand (the six months ended 30 June 2014: RUB 20,624 thousand).

Pre-opening costs for the six months ended 30 June 2015 included depreciation expense of RUB 7,639 thousand (the six months ended 30 June 2014: RUB 2 thousand)

23. Other operating income

	Six months ended 30 June 2015	Six months ended 30 June 2014
Penalties due by suppliers	451,379	325,866
Rental income	351,886	213,800
Advertising income	172,415	180,027
Gain on PPE disposal	27,546	509
Income from IPO	–	420,111
Other	176,115	94,174
Total other operating income	1,179,341	1,234,487

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

24. Share-based payments

Share value appreciation rights

During the 2014 year the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan.

Movements during the year

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

	Number	WAEP, USD
Outstanding at 1 January 2015	594,211	49.84
Granted during the six month	–	–
Forfeited during the six months	–	–
Exercised during the six months	–	–
Expired during the six months	–	–
Outstanding at 30 June 2015	594,211	49.84
Exercisable at 30 June 2015	–	–

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

24. Share-based payments (continued)

Movements during the year (continued)

During six month ended 30 June 2014 the Group issued 399 shares with respect to SVARs that were exercised during the period and credited additional paid-in capital with the amount of RUB 20,400 thousand.

With respect to vested 24,579 SVARs that expired during six month ended 30 June 2014 the Group credited retained earnings in the amount of RUB 3,013 thousand.

In March 2015 modifications to the SVARs were agreed including deferral of exercise date of SVARs that are to be vested in April 2015 by one year. In consequence of modification weighted average fair value of options granted increased up to RUB 0.40 thousand (31 December 2014: RUB 0.36 thousand).

The weighted average remaining contractual life for the SVARs outstanding as at 30 June 2015 was 2.8 years (31 December 2014: 3.3 years).

The exercise prices for options outstanding as at 30 June 2015 and 31 December 2014 were USD 49.84 (30 June 2015: RUB 2.8 thousand; 31 December 2014: RUB 2.8 thousand).

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

Long-term incentive plan

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

The monetary amount of the award to be granted to the participants of the plan was calculated based on the annual base salary on the grant date (1 April 2014), target award interest, business results co-efficient and individual performance rating co-efficient.

The business results co-efficient was based on 2013 year business performance. The key metrics were EBITDA and company sales, and the outcomes against these measures were determined in the same way as for the annual bonus. Based on business performance during 2013 a co-efficient of 1.0 was approved for the award of 2014 year.

Individual performance rating co-efficient varied from 0 to 1.15 depending on the way the participants met their performance targets.

To determine the number of ordinary shares subject to award the monetary amount of the award was divided by the Company's share price calculated based on the price of GDR at IPO on LSE (10\$) translated to RUB using ex-change rate as at the date for offering, i.e. 27 February 2014.

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Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

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24. Share-based payments (continued)

Long-term incentive plan (continued)

The shares are to be released in phases:

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

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

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

Total expense recognized for the services received from the employees from share based payment transaction for the six months ended 30 June 2015 and 30 June 2014 is shown in the following table:

	<u>Six months ended 30 June 2015</u>	<u>Six months ended 30 June 2014</u>
Expense arising from the equity-settled share based payment transaction	51,519	43,224

25. Commitments

Capital expenditure commitments

At 30 June 2015 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 15,206,352 thousand (31 December 2014: RUB 12,709,553 thousand).

Operating lease commitments

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

	<u>30 June 2015</u>	<u>31 December 2014</u>
Not later than 1 year	2,872,991	2,800,096
Later than 1 year and not later than 5 years	10,827,806	10,356,566
Later than 5 years	26,691,389	27,394,299
Total operating lease commitments	<u>40,392,186</u>	<u>40,550,961</u>

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

26. Financial instruments

Categories of financial instruments

	30 June 2015	31 December 2014
Financial assets		
Cash	12,142,518	12,035,785
Trade and other receivables	9,326,298	11,371,248
At fair value through OCI	1,267,670	2,735,177
Financial liabilities		
At fair value through OCI	174,434	28,357
<i>At amortised cost:</i>		
Floating rate long-term borrowings	45,341,173	38,641,409
Fixed rate long-term borrowings	9,933,880	19,878,539
Fixed rate short-term borrowings and short-term portion of long-term borrowings	15,988,733	12,314,874
Short term liability for interests	348,377	380,548
Trade and other payables	31,333,947	46,979,088
Long-term obligations under finance leases	27,301	35,465
<i>Total financial liabilities at amortised cost</i>	<i>102,973,411</i>	<i>118,229,923</i>

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures fair value measurement hierarchy for financial assets and financial liabilities as at 30 June 2015:

	30 June 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cashflow hedging instruments	1,267,670	–	1,267,670	–
Financial liabilities measured at fair value				
Cashflow hedging instruments	174,434	–	174,434	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	10,114,641	10,114,641	–	–
Floating rate borrowings	45,581,017	–	45,581,017	–
Fixed rate borrowings	15,171,940	–	15,171,940	–
Obligations under finance leases	27,301	–	27,301	–

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

26. Financial instruments (continued)

Fair values (continued)

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

During the reporting periods ending 30 June 2015, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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

	30 June 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cashflow hedging instruments	1,267,670	1,267,670	2,735,177	2,735,177
Financial liabilities				
Interest-bearing loans and borrowings				
Obligations under finance leases	27,301	27,301	35,465	35,465
Floating rate borrowings	45,347,512	45,581,017	38,674,537	54,122,762
Fixed rate borrowings	26,264,651	25,286,581	32,540,833	31,633,221
Derivatives in effective hedges				
Cashflow hedging instruments	174,434	174,434	28,357	28,357
Total financial liabilities	71,813,898	71,069,333	71,279,192	85,819,805

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

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

26. Financial instruments (continued)

Fair values (continued)

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

- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 30 June 2015 and 31 December 2014 was assessed to be insignificant.
- ▶ The fair value of bonds is based on the price quotations at the reporting date at Moscow exchange where transactions with bonds take place with sufficient frequency and volume.
- ▶ The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 30 June 2015 and 31 December 2014, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

27. Hedge and hedging instruments

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

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

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

27. Hedge and hedging instruments (continued)

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

	30 June 2015	31 December 2014
Non-current asset	717,386	765,257
Current assets	550,284	1,969,920
Non-current liability	(17,487)	(28,357)
Current liability	(156,947)	–
Net derivative asset	1,093,236	2,706,820

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

	30 June 2015	31 December 2014
Swaps	1,141,020	2,154,537
Caps	(47,784)	552,283
Net derivative asset	1,093,236	2,706,820

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

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

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

	Six months ended 30 June 2015	Six months ended 30 June 2014
Profit or loss		
Ineffective portion of change in fair value of cash flow hedging instruments	6,308	–
Reclassification from hedge reserve into interest expense	1,518,462	6,538
	1,524,770	6,538
Other comprehensive income		
Effective portion of change in fair value of cash flow hedging instruments	(385,158)	911,696
Reclassification from hedge reserve into interest expense	(1,518,462)	(6,538)
	(1,903,620)	905,158

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

28. Contingencies

Operating environment of the Group

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

By the Executive Order of the President of Russia "On Special Economic Measures to Protect the Russian Federation's Security" signed on 6 August 2014 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. The following countries are under embargo: EU countries, USA, Australia, Canada, Norway. A specific list of goods in respect of which the restrictions are imposed, was determined by the Russian Government. The list includes meat and dairy products, fish, vegetables, fruits and nuts.

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

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 11,249 thousand as at 30 June 2015 (31 December 2014: RUB 1,841 thousand). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

Lenta Limited and subsidiaries

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2015

(in thousands of Russian Roubles)

28. Contingencies (continued)

Legal contingencies (continued)

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 1,018,090 thousand (31 December 2014: RUB 1,030,479 thousand). No tax provisions were recorded as at 30 June 2015 and 31 December 2014. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 30 June 2015 and 31 December 2014.

Environmental matters

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

29. Events occurring after the reporting period

On 6 August 2015 the public floatation of certified non-convertible bearer bonds was placed in the amount of RUB 5,000,000 thousand with a nominal value of RUB 1 thousand each, a 12,4% coupon rate, 3,640 days to maturity and put option right on early redemption after 2,5 years. Raised funds are expected to be utilized on business expansion.

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

The Directors
Lenta Ltd
c/o Tricor Services (BVI) Limited
PO Box 3340 Road Town
Tortola
British Virgin Islands

24 March 2015

Dear Sirs

We report on the financial information of Lenta Ltd and its subsidiaries ("The Group") set out on F-pages for the years ended 31 December 2012, 2013 and 2014 (the "Historical Consolidated Financial Information"). The Historical Consolidated Financial Information has been prepared for inclusion in the prospectus dated 23 March 2015 of Lenta Ltd. on the basis of the accounting policies set out in Note 2 to the Historical Consolidated Financial Information. This report is required by item 20.1 of Annex X of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex X to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of Lenta Ltd. are responsible for preparing the Historical Consolidated Financial Information in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion on the Historical Consolidated Financial Information, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Consolidated Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Historical Consolidated Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Consolidated Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.



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Opinion

In our opinion, the Historical Consolidated Financial Information gives, for the purposes of the prospectus dated 23 March 2015, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex X of Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLC

Lenta Limited and subsidiaries

Consolidated statement of financial position as at 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

	Note	31 December 2014	31 December 2013	31 December 2012
Assets				
Non-current assets:				
Property, plant and equipment	8	81,218,207	51,386,776	30,736,065
Prepayments for construction	9	4,780,350	2,576,068	1,459,501
Leasehold rights	10	3,271,544	2,771,664	2,214,195
Intangible assets other than leasehold rights	11	870,531	623,158	446,200
Long-term portion of cash flow hedging instruments	20	765,257	–	–
Total non-current assets		90,905,889	57,357,666	34,855,961
Current assets:				
Inventories	12	19,629,381	12,994,188	9,373,700
Trade and other receivable	13	11,371,248	8,466,099	5,448,429
Advances paid	14	2,750,726	1,404,388	808,090
Taxes recoverable	15	2,416,605	1,714,755	1,121,760
Advance payments for income tax		30,858	–	–
Prepaid expenses		134,863	180,860	50,904
Short-term portion of cash flow hedging instruments	20	1,969,920	–	–
Cash and cash equivalents	16	12,035,785	6,211,965	3,536,464
Total current assets		50,339,386	30,972,255	20,339,347
Total assets		141,245,275	88,329,921	55,195,308
Equity and liabilities				
Equity				
Share capital	17,19	284	284	284
Additional paid-in capital	17	4,427,554	4,407,154	3,972,544
Share Options	27	153,892	65,510	978,698
Hedging reserve	17	2,585,857	(42,959)	–
Treasury shares	17	–	–	(15,724,392)
Retained earnings		9,562,789	484,669	9,932,079
Total equity		16,730,376	4,914,658	(840,787)
Liabilities				
Non-current liabilities:				
Long-term borrowings	20	58,519,948	39,849,089	24,978,988
Deferred tax liabilities	21	3,750,189	1,684,295	735,961
Long-term portion of cash flow hedging instruments	20	28,357	370,939	130,089
Long-term obligations under finance leases		35,465	50,429	65,420
Total non-current liabilities		62,333,959	41,954,752	25,910,458
Current liabilities:				
Trade and other payables	22	48,373,389	33,806,922	25,044,300
Advances received		213,951	124,802	156,671
Other taxes payable	23	898,178	715,445	547,509
Current income tax payable		–	481,482	402,595
Short-term portion of cash flow hedging instruments	20	–	188,773	141,558
Short-term borrowings and short-term portion of long-term borrowings	20	12,695,422	6,143,087	3,833,004
Total current liabilities		62,180,940	41,460,511	30,125,637
Total liabilities		124,514,899	83,415,263	56,036,095
Total equity and liabilities		141,245,275	88,329,921	55,195,308

The accompanying notes on pages 7-64 are an integral part of this historical consolidated financial information.

Lenta Limited and subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Sales		193,988,240	144,266,474	109,909,902
Cost of sales	24	(150,131,083)	(112,804,507)	(87,233,080)
Gross profit		43,857,157	31,461,967	22,676,822
Selling, general and administrative expenses	25	(28,106,490)	(18,939,614)	(13,456,081)
Reversal of impairment of non-financial assets		-	-	401
Other operating income	26	2,267,130	1,459,666	1,118,420
Other operating expense	26	(358,593)	(181,392)	(124,618)
Operating profit		17,659,204	13,800,627	10,214,944
Interest expense		(6,910,890)	(4,341,902)	(3,217,459)
Interest income		99,821	82,153	77,779
Change in fair value of financial instruments at fair value through profit or loss	20	(19,488)	(234,367)	102,330
Other expenses		(41,165)	(91,220)	(215,122)
Foreign exchange gains/(losses)		140,166	(23,171)	69,967
Profit before income tax		10,927,648	9,192,120	7,032,439
Income tax expense	21	(1,852,541)	(2,045,304)	(1,856,430)
Profit for the year		9,075,107	7,146,816	5,176,009
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Net movement of cash flow hedges	18	3,286,020	(53,699)	-
Income tax	21	(657,204)	10,740	-
Other comprehensive income for the year, net of tax		2,628,816	(42,959)	-
Total comprehensive income for the year, net of tax		11,703,923	7,103,857	-
Earnings per share (in thousands of Russian Roubles per share) (Note 19)				
- basic and diluted, for profit for the year attributable to equity holders of the parent		0.105	0.083	0.061

The accompanying notes on pages 7-64 are an integral part of this historical consolidated financial information.

Lenta Limited and subsidiaries

Consolidated statement of cash flows for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities				
Profit before income tax		10,927,648	9,192,120	7,032,439
Adjustments for:				
Loss from disposal of property, plant and equipment		93,704	83,437	15,000
Gain on disposal of leasehold rights		–	(633)	–
Loss from disposal of IA		840	–	–
Interest expense		6,910,890	4,341,902	3,217,459
Interest income		(99,821)	(82,153)	(77,779)
Inventory write-down to net realizable value		255,357	131,382	42,400
Change in bad debt allowance		15,073	34,606	(3,639)
Depreciation and amortization	8, 25	3,658,953	2,316,874	1,579,396
Share options expense	27	111,795	65,510	–
Reversal of impairment of non-financial assets		–	–	(401)
Change in fair value of financial instruments at fair value through profit and loss	20	19,488	234,367	(102,330)
		21,893,927	16,317,412	11,702,545
Movements in working capital:				
Increase in trade and other receivables		(2,896,891)	(3,023,813)	(1,571,933)
Increase in advances paid	14	(1,347,140)	(596,557)	(496,797)
Decrease/(Increase) in prepaid expenses		60,067	(54,956)	(12,052)
Increase in inventories	12	(6,890,550)	(3,751,870)	(1,846,838)
Increase in trade and other payables	22	13,129,614	7,469,635	6,373,866
Increase/(Decrease) in advances received		89,149	(31,869)	10,748
Decrease in net other taxes payable	15, 23	(519,117)	(456,150)	(740,885)
		23,519,059	15,871,832	13,418,654
Cash from operating activities				
Income taxes paid		(956,191)	(976,252)	(1,083,862)
Interest received		86,566	89,411	78,202
Interest paid		(6,670,052)	(4,048,443)	(3,099,041)
Net cash generated from operating activities		15,979,382	10,936,548	9,313,953
Cash flows from investing activities				
Purchases of property, plant and equipment		(33,594,055)	(22,580,088)	(14,114,922)
Purchases of intangible assets other than leasehold rights		(419,367)	(274,387)	(262,709)
Purchases of leasehold rights		(1,101,724)	(813,439)	(638,074)
Proceeds from sale of property, plant and equipment		4,412	4,361	680
Proceeds from disposals of leasehold rights		–	30,443	–
Net cash used in investing activities		(35,110,734)	(23,633,110)	(15,015,025)
Cash flows from financing activities				
Proceeds from borrowings		80,336,800	70,921,176	26,670,004
Repayments of borrowings		(55,330,000)	(54,045,200)	(22,837,000)
Repayments of obligations under financial lease		(14,964)	(14,990)	(10,836)
Proceeds from issue of new shares and sales of treasury shares	17	–	813,251	278,949
Amount paid on cancelation of share option	27	–	(2,227,174)	–
Payment of loan commission		(36,664)	(75,000)	–
Net cash generated from financing activities		24,955,172	15,372,063	4,101,117
Net increase/(decrease) in cash and cash equivalents		5,823,820	2,675,501	(1,599,955)
Cash and cash equivalents at the beginning of the period	16	6,211,965	3,536,464	5,136,419
Cash and cash equivalents at the end of the period	16	12,035,785	6,211,965	3,536,464

The accompanying notes on pages 7-64 are an integral part of this historical consolidated financial information.

Lenta Limited and subsidiaries

Consolidated statement of changes in equity for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 (in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings/ (accumulated deficit)	Total equity
Balance at 1 January 2014	284	4,407,154	(42,959)	-	65,510	484,669	4,914,658
Profit for the period	-	-	-	-	-	9,075,107	9,075,107
Other comprehensive income	-	-	2,628,816	-	-	-	2,628,816
Total comprehensive income	-	-	2,628,816	-	-	9,075,107	11,703,923
Share option expired worthless (Note 27)	-	-	-	-	(3,013)	3,013	-
Share-based payments (Note 27)	-	-	-	-	111,795	-	111,795
Issue of shares (Note 17, 27)	-	20,400	-	-	(20,400)	-	-
Balance at 31 December 2014	284	4,427,554	2,585,857	-	153,892	9,562,789	16,730,376
Balance at 1 January 2013	284	3,972,544	-	(15,724,392)	978,698	9,932,079	(840,787)
Profit for the period	-	-	-	-	-	7,146,816	7,146,816
Other comprehensive income	-	-	(42,959)	-	-	-	(42,959)
Total comprehensive income	-	-	(42,959)	-	-	7,146,816	7,103,857
Share-based payment cancellation (Note 27)	-	-	-	-	(978,698)	(1,248,475)	(2,227,173)
Share-based payments (Note 27)	-	-	-	-	65,510	-	65,510
Issue of shares (Note 17)	-	118,500	-	-	-	-	118,500
Sale of treasury shares (Note 17)	-	316,110	-	378,641	-	-	694,751
Cancellation of treasury shares	-	-	-	15,345,751	-	(15,345,751)	-
Balance at 31 December 2013	284	4,407,154	(42,959)	-	65,510	484,669	4,914,658
Balance at 1 January 2012	284	3,693,595	-	(15,724,392)	978,698	4,673,729	(6,378,086)
Change in accounting policy (Note 2)	-	-	-	-	-	82,341	82,341
Balance at 1 January 2012	284	3,693,595	-	(15,724,392)	978,698	4,756,070	(6,295,745)
Profit for the period	-	-	-	-	-	5,176,009	5,176,009
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	5,176,009	5,176,009
Issue of shares (Note 17, 27)	-	278,949	-	-	-	-	278,949
Balance at 31 December 2012	284	3,972,544	-	(15,724,392)	978,698	9,932,079	(840,787)

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 that are reacquired by the Group.

The accompanying notes on pages 7-64 are an integral part of this historical consolidated financial information.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(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 Road Town, Tortola, BVI. The registered office of the Group’s main operating entity, Lenta LLC, is located at 112, Savushkina Street, 197374, Saint Petersburg, Russia.

Starting from March 2014 the Company’s shares are listed on the London Stock Exchange and Moscow Stock Exchange in the form of Global Depositary Receipts (GDR). GDRs were issued for existing shares, not the new ones.

At 31 December 2012, 31 December 2013 and 31 December 2014 the Group had one main operational fully owned subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The principal activity of Lenta LLC is retail trade.

2. Basis of preparation and significant accounting policies

Statement of compliance

This historical consolidated financial information has 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 historical consolidated financial information has been prepared on a historical cost basis, except for as described in accounting policies below. The historical consolidated financial information is 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 this historical consolidated financial information are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

The historical consolidated financial information provides comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The Russian Group companies maintain their accounting records in Russian Roubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

This historical consolidated financial information has been prepared on a going concern basis.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.1. Basis of preparation (continued)

At 31 December 2014, the Group had net current liabilities of approximately RUB 11,841,554 thousand (31 December 2013: RUB 10,488,256 thousand, 31 December 2012: RUB 9,786,290 thousand).

Unused credit facilities available as of 31 December 2014 were RUB 36,260,000 thousand. Management believes that operating cash flows and available borrowing capacity will provide it adequate resources to fund its liabilities for the next year.

2.2 Basis of consolidation

The historical consolidated financial information incorporates the financial information of the Company and other entities controlled by the Company (its subsidiaries) as at 31 December 2014. 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

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(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.

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. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: recognition and measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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

Current versus non-current classification

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

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

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

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

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

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

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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 information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian 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 on change in fair value of the item.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Historical consolidated financial information

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.

Property, plant and equipment

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

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

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

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

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

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Leasehold rights

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

Finance leases

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

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

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

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

Intangible assets

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

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method 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 units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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

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

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

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

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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

Borrowing costs

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

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

Revenue recognition

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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. Volume-related rebates and other payments 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 27). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 27).

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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

Pre-opening costs

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

Segment reporting

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

Seasonality

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

Financial assets

General description

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

A financial asset is derecognised when:

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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. Treasury shares were sold to management in the reporting period as reported in Note 17.

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 any nominal value of the shares at issuance.

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 by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that may be issued under potentially dilutive equity instruments such as share options.

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.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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.

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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.

Changes in accounting policies and estimates

IAS 16 Property, Plant and Equipment

The Group reassessed its accounting of property, plant and equipment with respect to capitalization of land lease expenses. Land lease expenses incurred during period of a new store construction had previously been recognized in profit and loss.

On 1 January 2014 the Group elected to change the accounting policy for land lease expenses, whereby lease expenses incurred during construction period are to be capitalized as part of the cost of a building under construction.

Management believes that the change would result in the financial information providing more relevant and reliable information about the effects of Group's operations on the entity's financial position and financial performance. The change will also contribute to competitive benchmarking, by enhancing comparability of the Group's performance indicators to those of competitors, which used to capitalize land lease expenses during construction period.

The Group applied change in accounting policy retrospectively, by adjusting opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. The amounts reported in the consolidated financial statements for the years ended 31 December 2013 and 31 December 2012 authorized for issue on 29 January 2014 and 24 September 2013, respectively, do not correspond to the amounts of 2013 and 2012 financial years reported in this financial information due to the retrospective application of the change in the accounting policy.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

The effect of change of accounting policy on the Group's financial information is as follows:

Impact on consolidated statement of financial position

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
As of 31 December 2013			
Non-current assets			
Property, plant and equipment	51,165,287	221,489	51,386,776
Equity			
Retained earnings	307,478	177,191	484,669
Non-current liabilities			
Deferred tax liability	1,639,997	44,298	1,684,295
	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
As of 31 December 2012			
Non-current assets			
Property, plant and equipment	30,582,875	153,190	30,736,065
Equity			
Retained earnings	9,809,527	122,552	9,932,079
Non-current liabilities			
Deferred tax liability	705,323	30,638	735,961

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

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
Year ended 31 December 2013			
Cost of goods sold	(112,809,423)	4,916	(112,804,507)
Selling general and administrative expenses	(19,013,847)	74,233	(18,939,614)
Other operating expense	(170,542)	(10,850)	(181,392)
Income tax expense	(2,031,644)	(13,660)	(2,045,304)
Profit for the period	7,092,177	54,639	7,146,816
	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
Year ended 31 December 2012			
Selling general and administrative expenses	(13,506,345)	50,264	(13,456,081)
Income tax expense	(1,846,377)	(10,053)	(1,856,430)
Profit for the period	5,135,798	40,211	5,176,009

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Impact on consolidated statement of cash flows

	Amount previously reported	Adjustments	Amount after change in policy
Year ended 31 December 2013			
Profit before income tax	9,123,821	68,299	9,192,120
Loss from disposal of property, plant and equipment	72,586	10,851	83,437
Depreciation and amortization	2,312,255	4,619	2,316,874
Net cash used in operating activities	10,852,779	83,769	10,936,548
Net cash used in investing activities	(23,549,341)	(83,769)	(23,633,110)
Net cash generated from financing activities	15,372,063	–	15,372,063
Net increase in cash and cash equivalents	2,675,501	–	2,675,501
Year ended 31 December 2012			
Profit before income tax	6,982,175	50,264	7,032,439
Depreciation and amortization	1,576,364	3,032	1,579,396
Net cash used in operating activities	9,260,657	53,296	9,313,953
Net cash used in investing activities	(14,961,729)	(53,296)	(15,015,025)
Net cash generated from financing activities	4,101,117	–	4,101,117
Net decrease in cash and cash equivalents	(1,599,955)	–	(1,599,955)

3. Significant accounting judgments, estimates and assumptions

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

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

Judgments that have the most significant effect on the amounts recognized in this historical consolidated financial information 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 land and 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.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

Judgments (continued)

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 historical consolidated financial information. 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 historical consolidated financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Leases renewal assumption

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

Inventory valuation

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

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.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

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

Estimates and assumptions (continued)

Fair value measurement of financial instruments

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

Impairment of non-financial assets

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

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

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

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

Share-based payments

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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4. Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the historical consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new or revised standards and interpretations effective as of 1 January 2014.

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments have no impact on the Group's financial position or performance.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 had no impact on the Group's financial information.

Annual improvements to IFRS 2010-2012 cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

IAS 39 Financial Instruments: Recognition and Measurement - Amendments to IAS 39

The amendment eliminates the requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable amount disclosures for non-financial assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets for which impairment loss has been recognised or reversed during the period. The amendment has no impact on the Group's financial position and performance.

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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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 information are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition And Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Annual improvements 2010-2012 cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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5. Standards issued but not yet effective (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

IAS 16 Property, Plant And Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

Annual improvements 2011-2013 cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

Joint arrangements, not just joint ventures, are outside the scope of IFRS 3

This scope exception applies only to the accounting in the financial information of the joint arrangement itself

IFRS 13 Fair Value Measurement

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

IFRS 15 Revenue from Contracts with Customers

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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5. Standards issued but not yet effective (continued)

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

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

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

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

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

6. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry. The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned subsidiaries Lakatomo Holdings Ltd and Lenta Luxemburg, which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segment represented by stores into one reportable segment. Within the segment all business components are similar in respect of:

- The products
- The customers
- Centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized)

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

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6. Operating segments (continued)

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

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

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
Sales	193,988,240	144,266,474	109,909,902
EBITDA	21,318,157	16,117,501	11,793,939

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

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
EBITDA	21,318,157	16,117,501	11,793,939
Interest expense	(6,910,890)	(4,341,902)	(3,217,459)
Interest income	99,821	82,153	77,779
Income tax expense (see Note 21)	(1,852,541)	(2,045,304)	(1,856,430)
Depreciation/amortization (see Note 8,10,11,25)	(3,658,953)	(2,316,874)	(1,579,396)
Reversal of impairment of non-financial assets	–	–	401
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	(19,488)	(234,367)	102,330
Other expenses	(41,165)	(91,220)	(215,122)
Foreign exchange gain/(loss)	140,166	(23,171)	69,967
Profit for the year	9,075,107	7,146,816	5,176,009

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

7. Balances and transactions with related parties

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

The historical consolidated financial information includes the following balances with related parties:

Entities with significant influence over the Group:

	31 December 2014	31 December 2013	31 December 2012
EBRD			
Long-term loans payable	4,519,663	-	-
Accrued liabilities	5,063	-	-
Interest accrued	3,325	-	-
TPG Capital			
Accrued liabilities	4,644	-	-
Prepayments	-	1,020	39,451
VTB Capital*			
Cash and cash equivalents	-	1,121,546	2,564,946
Long-term loans payable	-	29,891,695	24,978,988
Short-term loans payable	-	1,300,000	2,833,000
Interest accrued	-	11,480	7,975
Finance lease liability	-	49,612	63,511
Liability on swaps and caps	-	559,712	271,647
Loan commission prepayments	-	75,000	-
Luna Holdings Inc.			
Accrued liabilities	-	-	4,591

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7. Balances and transactions with related parties (continued)

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
EBRD			
Proceeds from borrowings	4,554,240	-	-
Interest expense	28,467	-	-
Directors fee	10,301	-	-
Business trip expenses	5,643	127	-
Monitoring fee	-	3,928	-
Consulting services	-	2,134	-
TPG Capital			
Monitoring fee	42,723	83,365	72,426
Consulting services	19,430	21,264	-
Directors fee	14,772	-	-
Business trip expenses	8,867	18,312	-
Luna Holdings Inc.			
Consulting services	-	5,316	-
Monitoring fee	-	3,928	-
VTB Capital*			
Proceeds from borrowings	5,000,000	32,894,400	2,949,614
Repayment of borrowings	3,150,000	29,427,400	2,935,466
Interest expense and commission on loans	618,719	3,264,516	2,957,497
Finance leasing charge	1,225	8,597	10,538
Financial charges on swaps and caps	-	153,955	155,156
Loss/(income) on financial instruments at fair value through profit or loss (swaps and caps)	-	234,367	(102,330)
Loss/(income) on financial instruments at fair value through OCI (swaps and caps)	-	53,698	-
Interest income on deposits	(3,511)	(63,545)	-

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

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Short-term benefits	397,442	436,774	1,051,783
Share-based payment	83,411	65,510	-
Termination benefits	-	8,555	1,124
Total remuneration	480,853	510,839	1,052,907

Lenta Limited and subsidiaries

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8. Property, plant and equipment

Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2014	4,959,072	3,802,799	36,612,066	13,836,780	3,747,966	62,958,683
Additions	674,215	148,758	2,299,843	38,668	29,662,056	32,823,540
Transfers from construction in progress	3,804,904	1,537,257	15,718,418	7,758,373	(28,818,952)	-
Transfers from leasehold rights	534,590	-	-	-	-	534,590
Disposals	(1,443)	-	(20,052)	(302,091)	(48,322)	(371,908)
Balance at 31 December 2014	9,971,338	5,488,814	54,610,275	21,331,730	4,542,748	95,944,905
Accumulated depreciation and impairment						
Balance at 1 January 2014	-	715,616	5,300,628	5,555,663	-	11,571,907
Charge for the year	-	132,658	1,329,571	1,958,317	-	3,420,546
Disposals	-	-	(8,782)	(256,973)	-	(265,755)
Balance at 31 December 2014	-	848,274	6,621,417	7,257,007	-	14,726,698
Net book value						
Balance at 1 January 2014	4,959,072	3,087,183	31,311,438	8,281,117	3,747,966	51,386,776
Balance at 31 December 2014	9,971,338	4,640,540	47,988,858	14,074,723	4,542,748	81,218,207
Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2013	3,541,686	2,858,739	22,876,264	9,328,833	1,636,054	40,241,576
Additions	-	-	-	3,873	22,727,920	22,731,793
Transfers from construction in progress	1,245,871	944,060	13,736,594	4,656,266	(20,582,791)	-
Transfers from leasehold rights	173,810	-	-	-	-	173,810
Disposals	(2,295)	-	(792)	(152,192)	(33,217)	(188,496)
Balance at 31 December 2013	4,959,072	3,802,799	36,612,066	13,836,780	3,747,966	62,958,683
Accumulated depreciation and impairment						
Balance at 1 January 2013	-	623,388	4,497,135	4,384,988	-	9,505,511
Charge for the year	-	92,228	804,159	1,270,707	-	2,167,094
Disposals	-	-	(666)	(100,032)	-	(100,698)
Balance at 31 December 2013	-	715,616	5,300,628	5,555,663	-	11,571,907
Net book value						
Balance at 1 January 2013	3,541,686	2,235,351	18,379,129	4,943,845	1,636,054	30,736,065
Balance at 31 December 2013	4,959,072	3,087,183	31,311,438	8,281,117	3,747,966	51,386,776
Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2012	1,846,517	2,213,528	14,731,621	6,908,351	803,346	26,503,363
Additions	219,688	-	-	129	13,636,360	13,856,177
Transfers from construction in progress	1,475,481	645,211	8,148,759	2,502,336	(12,771,787)	-
Disposals	-	-	(4,116)	(81,983)	(31,865)	(117,964)
Balance at 31 December 2012	3,541,686	2,858,739	22,876,264	9,328,833	1,636,054	40,241,576
Accumulated depreciation and impairment						
Balance at 1 January 2012	-	549,393	4,005,675	3,539,904	-	8,094,972
Charge for the year	-	73,995	494,704	909,996	-	1,478,695
Disposals	-	-	(3,244)	(64,912)	-	(68,156)
Balance at 31 December 2012	-	623,388	4,497,135	4,384,988	-	9,505,511
Net book value						
Balance at 1 January 2012	1,846,517	1,664,135	10,725,946	3,368,447	803,346	18,408,391
Balance at 31 December 2012	3,541,686	2,235,351	18,379,129	4,943,845	1,636,054	30,736,065

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8. Property, plant and equipment (continued)

Land and buildings with a carrying amount of RUB 26,015,987 thousand (31 December 2013: RUB 15,966,475 thousand, 31 December 2012: RUB 10,927,425 thousand) are pledged under loan agreement with VTB Capital Plc and EBRD (see Note 20).

During the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2014 was RUB 50,091 thousand (31 December 2013: RUB 62,847 thousand, 31 December 2012: RUB 79,251 thousand). Leased assets are pledged as security for the related finance lease. There were no additions during the year ended 31 December 2014 under finance leases.

Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012 is presented within depreciation and amortization in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Depreciation of property, plant and equipment (Note 8)	3,420,546	2,167,094	1,478,695
Amortization of intangible assets (Note 11)	171,154	97,430	57,278
Leasehold rights amortization (Note 10)	67,253	52,350	43,423
Total depreciation and amortization	3,658,953	2,316,874	1,579,396

9. Prepayments for construction

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

10. Leasehold rights

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

	<u>Leasehold rights</u>
Cost	
At 1 January 2014	2,956,519
Additions	1,101,724
Transfer to PPE	(572,081)
At 31 December 2014	3,486,162

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10. Leasehold rights (continued)

	<u>Leasehold rights</u>
Accumulated amortization and impairment	
At 1 January 2014	184,855
Charge for the year	67,253
Transfer to PPE	(37,490)
At 31 December 2014	214,618
Net book value	
At 1 January 2014	<u>2,771,664</u>
At 31 December 2014	<u>3,271,544</u>

Leasehold rights as at 31 December 2013 consisted of the following:

	<u>Leasehold rights</u>
Cost	
At 1 January 2013	2,443,067
Additions	813,439
Transfer to PPE	(180,000)
Disposals	(119,987)
At 31 December 2013	<u>2,956,519</u>

	<u>Leasehold rights</u>
Accumulated amortization and impairment	
At 1 January 2013	228,872
Additions	52,350
Transfer to PPE	(6,190)
Disposals	(90,177)
At 31 December 2013	<u>184,855</u>
Net book value	
At 1 January 2013	<u>2,214,195</u>
At 31 December 2013	<u>2,771,664</u>

Leasehold rights as at 31 December 2012 consisted of the following:

	<u>Leasehold rights</u>
Cost	
At 1 January 2012	1,829,754
Additions	840,453
Transfer to PPE	(227,140)
At 31 December 2012	<u>2,443,067</u>

	<u>Leasehold rights</u>
Accumulated amortization and impairment	
At 1 January 2012	210,612
Charge for the year	43,423
Reversal of impairment	(401)
Transfer to PPE	(24,762)
At 31 December 2012	<u>228,872</u>
Net book value	
At 1 January 2012	<u>1,619,142</u>
At 31 December 2012	<u>2,214,195</u>

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11. Intangible assets other than leasehold rights

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

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

Intangible assets other than leasehold rights as at 31 December 2013 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2013	910,470	549	911,019
Additions	274,388	–	274,388
At 31 December 2013	1,184,858	549	1,185,407
Accumulated amortization			
At 1 January 2013	464,385	434	464,819
Amortization for the period	97,353	77	97,430
At 31 December 2013	561,738	511	562,249
Net book value			
At 1 January 2013	446,085	115	446,200
At 31 December 2013	623,120	38	623,158

Intangible assets other than leasehold rights as at 31 December 2012 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2012	647,762	549	648,311
Additions	262,708	–	262,708
At 31 December 2012	910,470	549	911,019
Accumulated amortization			
At 1 January 2012	407,197	344	407,541
Amortization for the period	57,188	90	57,278
At 31 December 2012	464,385	434	464,819
Net book value			
At 1 January 2012	240,565	205	240,770
At 31 December 2012	446,085	115	446,200

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

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12. Inventories

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Goods for resale	18,729,075	12,478,316	8,985,132
Raw materials	900,306	515,872	388,568
Total inventories	<u>19,629,381</u>	<u>12,994,188</u>	<u>9,373,700</u>

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

13. Trade and other receivables

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Accounts receivable on rental and other services and on suppliers' advertising	7,857,515	5,719,509	3,538,067
Suppliers' rebates receivable	3,333,612	2,585,789	1,733,039
Receivables for construction of stores on behalf of third parties	–	14,911	129,886
Other receivables	190,874	151,646	54,307
Bad debt allowance	(10,753)	(5,756)	(6,870)
Total trade and other receivables	<u>11,371,248</u>	<u>8,466,099</u>	<u>5,448,429</u>

Receivables for construction represent expenditure on construction of stores on behalf of third parties, advance payments from which have been included in advances received (31 December 2014: nil, 31 December 2013: nil, 31 December 2012: RUB 106,131 thousand).

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

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

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13. Trade and other receivables (continued)

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

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

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2013:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	38,151	4,017	5,815	2,535,980	2,583,963
Accounts receivable on rental and other services	558,644	22,951	5,828	5,129,564	5,716,987
Receivables for construction for stores on behalf of third parties	-	-	7,063	7,848	14,911
Other receivables	27,419	330	228	122,261	150,238
Total	624,214	27,298	18,934	7,795,653	8,466,099

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2012:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	44,258	8,621	7,964	1,672,161	1,733,004
Accounts receivable on rental and other services	217,902	11,970	12,686	3,295,107	3,537,665
Receivables for construction for stores on behalf of third parties	-	-	345	123,108	123,453
Other receivables	-	-	-	54,307	54,307
Total	262,160	20,591	20,995	5,144,683	5,448,429

14. Advances paid

	31 December 2014	31 December 2013	31 December 2012
Advances to suppliers of goods	821,958	674,363	406,532
Advances for services	1,607,285	579,375	289,529
Guarantee payments under lease contracts	321,483	150,650	112,029
Total advances paid	2,750,726	1,404,388	808,090

15. Taxes recoverable

Taxes recoverable as at 31 December 2014 are represented by a VAT receivable of RUB 1,847,669 thousand (31 December 2013: RUB 1,163,700 thousand, 31 December 2012: RUB 918,963 thousand) and input VAT that has not yet been claimed for reimbursement from tax authorities of RUB 568,936 thousand (31 December 2013: RUB 551,055 thousand, 31 December 2012: RUB 202,797 thousand).

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16. Cash and cash equivalents

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Rouble short-term deposits	8,954,088	4,545,856	35,057
Rouble denominated cash in transit	1,802,739	1,245,195	3,303,108
Rouble denominated cash on hand and balances with banks	1,258,676	419,370	196,265
Foreign currency denominated cash on hand and balances with banks	<u>20,282</u>	<u>1,544</u>	<u>2,034</u>
Total cash and cash equivalents	<u>12,035,785</u>	<u>6,211,965</u>	<u>3,536,464</u>

Cash in transit represents cash receipts made during the last days of the reporting period (29-31 of 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 eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on non-banking days, the amount of cash in transit increases.

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

17. Issued capital and reserves

As at 31 December 2014 the Company's share capital was comprised of 86,053,394 authorized and issued ordinary shares (as at 31 December 2013: 86,052,995, 31 December 2012: 106,685,231) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the year ended 31 December 2014, for the year ended 31 December 2013 and for the year ended 31 December 2012.

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17. Issued capital and reserves (continued)

The movements in the number of shares for the year ended 31 December 2014, for the year ended 31 December 2013 and for the year ended 31 December 2012 were as follows.

	31 December 2014 No.	31 December 2013 No.	31 December 2012 No.
	unlimited	unlimited	unlimited
Authorized share capital (ordinary shares with no par value)			
Issued and fully paid (no par value)	86,053,394	86,052,995	106,685,231
Treasury shares	-	-	(21,218,443)
	31 December 2014 No.	31 December 2013 No.	31 December 2012 No.
Balance of shares outstanding at beginning of financial year	86,052,995	85,466,788	85,106,557
Sale of treasury shares	-	506,207	-
Additional issue of shares	399	80,000	360,231
Balance of shares outstanding at the end of financial year	86,053,394	86,052,995	85,466,788

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

In 2013 year 80,000 ordinary shares were issued by the Group for a total cash consideration of RUB 118,500 thousand (USD 3,615,200 at the exchange rate at the date of the transaction). In 2012 year 360,231 ordinary shares were issued by the Group for a total cash consideration of RUB 278,949 thousand (USD 9,038,196 at the exchange rate at the date of the transaction). The whole amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

During 2013 year 506,207 treasury shares held by Lakatomo Holdings Ltd were sold to the top management of the Group for a total cash consideration of RUB 694,751 thousand. The excess of selling price over the carrying value of shares was recorded as increase of additional paid-in capital.

Share options reserve

	Share options reserve
As at 1 January 2012	978,698
Changes during the period	-
At 31 December 2012	978,698
Changes during the period	(913,188)
At 31 December 2013	65,510
Changes during the period	88,382
At 31 December 2014	153,892

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

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17. Issued capital and reserves (continued)

OCI, net of tax

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

	<u>Hedging reserve</u>
As at 31 December 2014	
Interest rate swaps and caps	2,628,816
Total	<u><u>2,628,816</u></u>
As at 31 December 2013	
Interest rate swaps and caps	(42,959)
Total	<u><u>(42,959)</u></u>
As at 31 December 2012	
Interest rate swaps and caps	-
Total	<u><u>-</u></u>

18. Components of other comprehensive income (OCI)

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
Cash flow hedges:			
Reclassification during the year to profit or loss	(108,492)	89,090	-
Gains/(losses) arising during the year	3,394,512	(142,789)	-
Net income/(loss) during the year	<u><u>3,286,020</u></u>	<u><u>(53,699)</u></u>	<u><u>-</u></u>

19. Earnings per share

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
Earnings per share (in thousands of Russian Roubles per share)			
- basic and diluted, for profit for the period attributable to equity holders of the parent	0.105	0.083	0.061

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2014: RUB 9,075,107 thousand, for the year ended 31 December 2013: RUB 7,146,816 thousand, for the year ended 31 December 2012: RUB 5,176,009 thousand) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

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19. Earnings per share (continued)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Number of issued shares at the beginning of period	86,052,995	85,466,788	85,106,557
Number of shares issued in April 2014	399	–	–
Number of shares issued in December 2013	–	80,000	–
Number of treasury shares sold in June 2013	–	506,207	–
Number of shares issued in September 2012	–	–	360,231
Number of shares at the end of reporting period	86,053,394	86,052,995	85,466,788
Weighted average number of shares	86,053,244	85,721,825	85,211,624

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

20. Borrowings

Short-term borrowings:

	Currency	31 December 2014	31 December 2013	31 December 2012
Fixed rate bonds (liability for interests)	RUB	317,351	314,551	–
Fixed rate long-term bank loans (liability for interests)	RUB	30,069	–	–
Floating rate long-term bank loans (liability for interests)	RUB	33,128	9,569	–
Short-term portion of fixed rate long-term bank loans	RUB	5,798,205	5,818,967	3,333,004
Fixed rate short-term bank loans	RUB	6,516,669	–	500,000
Total short-term borrowings and short-term portion of long-term borrowings		12,695,422	6,143,087	3,833,004

Long-term borrowings:

	Currency	31 December 2014	31 December 2013	31 December 2012
Fixed rate bonds	RUB	9,962,655	9,957,394	–
Fixed rate long-term bank loans	RUB	9,915,884	–	–
Floating rate long-term bank loans	RUB	38,641,409	29,891,695	24,978,988
Total long-term borrowings		58,519,948	39,849,089	24,978,988

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

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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20. Borrowings (continued)

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

Type of instrument	Notional amount 2014	Notional amount 2013	Notional amount 2012	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	6,250,000	6,250,000	6,250,000	7.33%	n/a	30 September 2011	31 March 2015
Interest rate swap	3,000,000	3,000,000	3,000,000	8.00%	n/a	30 September 2011	31 March 2015
Interest rate swap	3,250,000	3,250,000	3,250,000	8.15%	n/a	30 September 2011	31 March 2015
Interest rate swap	12,500,000	12,500,000	–	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	900,000	–	7.54%	n/a	31 December 2013	12 November 2018
Interest rate swap	1,000,000	–	–	15.35%	n/a	31 December 2014	31 December 2016
Interest rate cap	10,000,000	10,000,000	–	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	900,000	–	12.00%	0.45%	31 December 2013	12 November 2018
Interest rate cap	–	5,000,000	5,000,000	12.00%	0.79%	31 December 2011	31 December 2014
Interest rate cap	–	5,000,000	5,000,000	12.00%	0.78%	31 December 2011	31 December 2014

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

	31 December 2014	31 December 2013	31 December 2012
Non-current asset	765,257	–	–
Current assets	1,969,920	–	–
Non-current liability	(28,357)	(370,939)	(130,089)
Current liability	–	(188,773)	(141,558)
Total	2,706,820	(559,712)	(271,647)

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

	31 December 2014	31 December 2013	31 December 2012
Swaps	2,154,537	(329,111)	(134,645)
Caps	552,283	(230,601)	(137,002)
Total fair value	2,706,820	(559,712)	(271,647)

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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20. Borrowings (continued)

Retrospective and prospective effectiveness of cash flow hedges (swaps and caps) was measured by the Group using the “dollar offset” method. The effective portion of the gain or loss on the hedging instrument was recognized in other comprehensive income in hedging reserve. The effect from changes in fair value of financial instruments is recognized as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Profit or loss			
Change in fair value of financial instruments at fair value through profit or loss (before designation of hedge accounting (1 July 2013))	–	(196,049)	102,330
Ineffective portion of the change in the fair value of cash flow hedging instruments	(19,488)	(38,318)	–
	<u>(19,488)</u>	<u>(234,367)</u>	<u>102,330</u>
Other comprehensive income			
Effective portion of the change in the fair value of cash flow hedging instruments	3,286,020	(53,698)	–
Total change in fair value of financial instruments	<u>3,266,532</u>	<u>(288,065)</u>	<u>102,330</u>

Finance charges on swaps and caps recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Finance charges on swaps and caps	(108,492)	153,955	155,156
Total finance charges on financial instruments	<u>(108,492)</u>	<u>153,955</u>	<u>155,156</u>

The Groups' borrowings as at 31 December 2014, 31 December 2013 and 31 December 2012 were denominated in Russian Roubles.

In October 2012 the Group signed a Sole Shareholder Decision on the Issuance of Lenta LLC bonds. On 7 February 2013 Federal Financial Markets Service registered the bond issue. In March 2013 the public floatation of certified non-convertible bearer bonds was placed in three tranches of RUB 3,000,000, 3,000,000 and 4,000,000 thousand, with a nominal value of RUB 1 thousand each, a 10% coupon rate, 2,548 days to maturity and put option right on early redemption after 1,092 days.

On 21 January 2014 the Group signed a secured loan agreement of RUB 4,554,240 thousand with EBRD with maturity date falling 8 years after the end of commitment period, which has duration of 2 years. The loan has covenants with respect to the net debt/EBITDA ratio and interest coverage. At the reporting period the Group fully utilized credit facilities under the agreement.

On 30 April 2014 the Group signed non-revolving credit line of RUB 10,000,000 thousand with JSC Sberbank with a bullet repayment after 3 years. At the reporting date the Group drawdown RUB 10,000,000 thousand. The loan bears covenants with respect to net debt/EBITDA.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

20. Borrowings (continued)

In December 2014 the Group entered into 5 year loan agreement of RUB 11,500,000 thousand with UniCredit Bank. The loan has covenants with respect to the net debt/EBITDA ratio and interest coverage. At the reporting period the Group utilized credit facilities in amount of of RUB 1,500,000 thousand under the agreement.

During twelve months ended 31 December 2014 the Group received RUB 55,030,000 thousand under credit line agreements concluded before 1 January 2014 and repaid RUB 55,720,000 thousand.

As at 31 December 2014, the Group had RUB 36,260,000 thousand of unused credit facilities (as at 31 December 2013: RUB 24,850,000 thousand, as at 31 December 2012: RUB 11,817,000 thousand).

As at 31 December 2014, 31 December 2013 and 31 December 2012 the Group was complied with loans financial covenants.

21. Income taxes

Income tax expense is comprised of:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expense	948,213	1,320,392	1,252,573
Deferred tax expense	1,408,690	959,074	600,735
Income tax credit	–	(234,162)	–
Adjustments in respect of current income tax of previous year	(504,362)		3,122
Income tax expense recognized in profit for the year	1,852,541	2,045,304	1,856,430
	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Effective portion of change in the fair value of cash flow hedging instruments	657,204	(10,740)	–
Income tax expense/(benefit) recognized in OCI	657,204	(10,740)	–

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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21. Income taxes (continued)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	10,927,648	9,192,120	7,032,439
Theoretical tax charge at 20%	(2,185,530)	(1,838,424)	(1,406,488)
Difference in tax rates for foreign companies	(49,202)	(76,781)	–
Add tax effect of non-deductible expenses	(122,171)	(364,261)	(480,130)
- effect of partially-deductible fixed assets			(268,570)
- expenses on inventory shrinkage and surpluses	–	(256,417)	(142,670)
- share option expenses	(22,359)	(13,102)	–
- others	(99,812)	(94,742)	(68,890)
Add tax effect of non-taxable gains	–	–	33,310
- others	–	–	33,310
Adjustments in respect of current income tax of previous years	504,362	–	(3,122)
Current income tax credit	–	234,162	–
Income tax expense	1,852,541	2,045,304	1,856,430

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.

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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21. Income taxes (continued)

	1 January 2013	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2013
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(1,037,042)	(784,361)	–	(1,821,403)
Leasehold rights	(198,772)	(125,704)	–	(324,476)
Unused vacation and employee bonuses accrual	212,005	(98,035)	–	113,970
Suppliers' bonuses	(182,088)	(67,009)	–	(249,097)
Borrowings	(79,202)	(5,459)	–	(84,661)
Intangible assets other than leasehold rights	3,888	(10,038)	–	(6,150)
Inventory	408,284	108,469	–	516,753
Bad debt provision	15,411	(4,876)	–	10,535
Finance leasing	14,897	(4,270)	–	10,627
Consulting and other accruals	19,774	79,180	–	98,954
Customs duty payable	30,677	–	–	30,677
Cashflow hedging instruments	–	7,664	10,740	18,404
Other	56,207	(54,635)	–	1,572
Total deferred tax (liabilities)/assets	(735,961)	(959,074)	10,740	(1,684,295)
	1 January 2012	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2012
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(328,242)	(708,800)	–	(1,037,042)
Leasehold rights	(125,414)	(73,358)	–	(198,772)
Unused vacation and employee bonuses accrual	86,894	125,111	–	212,005
Suppliers' bonuses	(92,514)	(89,574)	–	(182,088)
Interest on borrowings	(98,020)	18,818	–	(79,202)
Intangible assets other than leasehold rights	7,339	(3,451)	–	3,888
Inventory	307,923	100,361	–	408,284
Bad debt provision	3,881	11,530	–	15,411
Finance leasing	18,925	(4,028)	–	14,897
Consulting and other accruals	4,662	15,112	–	19,774
Customs duty payable	–	30,677	–	30,677
Other	79,340	(23,133)	–	56,207
Total deferred tax (liabilities)/assets	(135,226)	(600,735)	–	(735,961)

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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21. Income taxes (continued)

The temporary taxable differences associated with undistributed earnings of subsidiaries amount to RUB 27,207,916 thousand, RUB 20,262,780 thousand and RUB 13,585,093 thousand as of 31 December 2014, as of 31 December 2013 and as of 31 December 2012, respectively. A deferred tax liability on these temporary differences was not recognized, because management believed that it was in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

22. Trade and other payables

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Trade payables	41,081,087	28,927,222	21,639,226
Accrued liabilities and other creditors	3,138,048	2,418,750	2,482,531
Payables for purchases of property, plant and equipment	4,154,254	2,460,950	922,543
Total trade and other payables	<u>48,373,389</u>	<u>33,806,922</u>	<u>25,044,300</u>

The trade and other payables were denominated in:

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Russian Roubles	48,171,738	33,748,859	24,148,893
USD	137,556	5,453	870,916
EUR	60,848	52,610	21,672
GBP	3,247	-	2,819
Total trade and other payables	<u>48,373,389</u>	<u>33,806,922</u>	<u>25,044,300</u>

23. Other taxes payable

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Social taxes	332,956	269,087	179,885
Property tax	241,299	167,948	122,285
Personal income tax	120,691	95,088	68,409
Other taxes	203,232	183,322	176,930
Total other taxes payable	<u>898,178</u>	<u>715,445</u>	<u>547,509</u>

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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24. Cost of sales

Cost of sales for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 consisted of the following:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Cost of goods sold	126,742,396	95,801,289	74,331,374
Cost of own production	16,927,783	12,567,611	9,479,812
Supply chain cost	3,136,580	2,314,823	2,147,003
Losses due to inventory shortages	3,324,324	2,120,784	1,274,891
Total cost of sales	150,131,083	112,804,507	87,233,080

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

The cost of own production consisted of the following:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Raw materials	13,880,282	10,362,035	7,953,812
Labour costs	2,412,538	1,780,493	1,226,000
Utilities	576,911	381,181	272,277
Repairs and maintenance	58,052	43,902	27,723
Total cost of own production	16,927,783	12,567,611	9,479,812

Cost of sales for the year ended 31 December 2014 included employee benefits expense of RUB 3,344,620 thousand (year ended 31 December 2013: RUB 2,280,344 thousand, year ended 31 December 2012: RUB 1,491,766 thousand) of which contributions to state pension fund comprised RUB 530,316 thousand (year ended 31 December 2013: RUB 362,652 thousand, year ended 31 December 2012: RUB 238,900 thousand).

25. Selling, general and administrative expenses

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Labour costs	12,108,928	8,628,126	7,005,688
Depreciation and amortization (Note 8,10,11)	3,658,951	2,263,330	1,579,396
Professional fees	2,001,603	1,526,150	658,837
Advertising	1,971,926	1,356,459	801,078
Utilities and communal payments	1,360,833	858,999	598,159
Repairs and maintenance	1,164,235	732,091	474,363
Cleaning	1,136,447	653,108	405,682
Premises lease	1,103,157	390,977	77,265
Taxes other than income tax	907,981	568,471	593,097
Security services	793,401	500,104	355,367
Land and equipment lease	306,302	208,653	166,649
Pre-opening costs	663,062	636,810	357,016
Other	929,664	616,336	383,484
Total selling, general and administrative expenses	28,106,490	18,939,614	13,456,081

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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25. Selling, general and administrative expenses (continued)

Labour costs for the year ended 31 December 2014 included contributions to state pension fund of RUB 1,572,217 thousand (year ended 31 December 2013: RUB 1,155,985 thousand, year ended 31 December 2012: RUB 841,011 thousand).

Pre-opening costs for the year ended 31 December 2014 included labour costs of RUB 415,108 thousand (year ended 31 December 2013: RUB 319,170 thousand, year ended 31 December 2012: RUB 224,247thousand) of which contributions to state pension fund comprised RUB 49,391 thousand (year ended 31 December 2013: RUB 35,177 thousand, year ended 31 December 2012: RUB 25,880 thousand).

Pre-opening costs for the year ended 31 December 2014 included depreciation expense of RUB 2 thousand (for the year ended 31 December 2013: RUB 53,544 thousand, for the year ended 31 December 2012: nil)

26. Other operating income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Penalties due by suppliers	789,557	618,824	516,293
Rental income	482,455	339,385	281,992
Income from IPO	420,111	—	—
Advertising income	387,297	380,131	247,071
Gain on property, plant and equipment disposal	1,801	1,429	731
Other	185,909	119,897	72,333
Total other operating income	2,267,130	1,459,666	1,118,420

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

Other operating expenses comprised of the following:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Penalties for breach of a contracts with suppliers	185,437	14,915	17,877
Loss from disposal and write-off of tangible assets	96,345	79,796	15,731
Other	76,811	86,681	91,010
Total other operating expenses	358,593	181,392	124,618

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27. Share-based payments

Share option

In September 2011, an option to buy 3,375,000 ordinary shares at USD 25.086 per share was granted to a private individual for services provided in relation to coordination of Svoboda Corporation shares purchase.

The Group's management engaged the services of an independent appraiser, and used the results of such appraisal in considering management's assessment of the fair value of option. The value of the option is estimated at RUB 978,698 thousands as of the grant date using a Black Scholes option pricing model.

On 14 November 2013 the deed of termination was signed under which option to buy 3,375,000 ordinary shares was cancelled with a consideration being paid to the option holder in the amount of RUB 2,227,173 thousand.

On 10 December, 2013 deed of novation and amendment was agreed whereby 80,000 option shares were novated and transferred to the member of the Board of Directors. This amendment deed was accompanied by share option deed between the member of the Board of Directors and the Company whereby 80,000 ordinary shares were issued for a consideration of USD 45.19 per share upon option exercising.

The following tables list the inputs to the models used for the option plan as of the termination date:

Dividend yield (%)	0%
Expected volatility (%)	30%
Risk-free interest rate (%)	2.46%
Expected life of share options (years)	0,5
Model used	Black-Scholes

The fair market value of the option per share at a termination date was defined as a range between maximum and minimum amounts. The management of the Group made an estimation of fair market value of share option within the specified range.

The amount of consideration paid to the option holder does not exceed estimated fair value of the terminated share option, thus no additional expense was recognized in the statement of comprehensive income.

The excess of consideration paid by the Group to the option holder over the balance value of terminated share option was recorded to the retained earnings (effect on the retained earnings comprised RUB 1,248,475 thousand).

Share value appreciation rights

During the 2013 year the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan.

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27. Share-based payments (continued)

Movements during the year

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

	2014 Number	2014 WAEP, USD	2013 Number	2013 WAEP, USD	2012 Number	2012 WAEP, USD
Outstanding at 1 January	742,765	49.84	-	-	-	-
Granted during the year	-	-	828,451	49.84	-	-
Forfeited during the year	-	-	(85,686)	49.84	-	-
Exercised during the year	(123,975)	49.84	-	-	-	-
Expired during the year	(24,579)	49.84	-	-	-	-
Outstanding at 31 December	594,211	49.84	742,765	49.84	-	-
Exercisable at 31 December	-	-	-	-	-	-

During twelve month ended 31 December 2014 the Group issued 399 shares with respect to SVARs that were exercised during the period and credited additional paid-in capital with the amount of RUB 20,400 thousand.

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

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2014 was 3.3 years (31 December 2013: 6.8 years; 31 December 2012: nil).

The weighted average fair value of options granted during the year was RUB 0.36 thousand (year ended 31 December 2013: RUB 0.36 thousand; 31 December 2012: nil).

The exercise prices for options outstanding at 31 December 2014 and 31 December 2013 were USD 49.84.

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Expense arising from the equity-settled share based payment transaction	78,966	65,510	-

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.

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27. Share-based payments (continued)

Long-term incentive plan

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

The monetary amount of the award to be granted to the participants of the plan was calculated based on the annual base salary on the grant date (1 April 2014), target award interest, business results co-efficient and individual performance rating co-efficient.

The business results co-efficient was based on 2013 year business performance. The key metrics were EBITDA and company sales, and the outcomes against these measures were determined in the same way as for the annual bonus. Based on business performance during 2013 a co-efficient of 1.0 was approved for the award of 2014 year.

Individual performance rating co-efficient varied from 0 to 1.15 depending on the way the participants met their performance targets.

To determine the number of ordinary shares subject to award the monetary amount of the award was divided by the Company's share price calculated based on the price of GDR at IPO on LSE (10\$) translated to RUB using ex-change rate as at the date for offering, i.e. 27 February 2014.

The shares are to be released in phases:

- 1st 25% on the first anniversary of the award (1 April 2015)
- 2^d 25% on the second anniversary of the award (1 April 2016)
- 50 % on the third anniversary of the award (1 April 2017), provided that employment conditions are met

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

	<u>Year ended</u> <u>31 December 2014</u>	<u>Year ended</u> <u>31 December 2013</u>	<u>Year ended</u> <u>31 December 2012</u>
Expense arising from the equity-settled share based payment transaction	32,829	-	-

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

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28. Commitments

Capital expenditure commitments

At 31 December 2014 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 12,709,553 thousand (31 December 2013: RUB 7,808,933 thousand, 31 December 2012: RUB 6,373,203 thousand).

Operating lease commitments

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

	31 December 2014	31 December 2013	31 December 2012
Not later than 1 year	2,800,096	1,077,130	456,134
Later than 1 year and not later than 5 years	10,356,566	3,714,116	1,411,931
Later than 5 years	27,394,299	12,445,337	6,455,736
Total operating lease commitments	40,550,961	17,236,583	8,323,801

29. Financial instruments

Categories of financial instruments

	31 December 2014	31 December 2013	31 December 2012
Financial assets			
Cash	12,035,785	6,211,965	3,536,464
Trade and other receivables	11,371,248	8,466,099	5,448,429
At fair value through OCI	2,735,175	-	-
Financial liabilities			
At fair value through profit or loss	-	-	271,647
At fair value through OCI	28,357	559,712	-
At amortised cost:			
Floating rate long-term borrowings	38,641,409	29,891,695	24,978,988
Fixed rate long-term borrowings	19,878,539	9,957,394	-
Fixed rate short-term borrowings and short-term portion of long-term borrowings	12,314,874	5,818,967	3,833,004
Short term liability for interests	380,548	324,120	-
Trade and other payables	46,979,088	32,673,601	23,403,407
Long-term obligations under finance leases	35,465	50,429	65,420
Total financial liabilities at amortised cost	118,229,923	78,716,206	52,280,819

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29. Financial instruments (continued)

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures fair value measurement hierarchy for financial assets and financial liabilities as at 31 December 2014, 31 December 2013 and 31 December 2012 were as follows:

	31 December 2014	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Cashflow hedging instruments	-	-	2,735,175	-
Financial liabilities measured at fair value:				
Cashflow hedging instruments	-	-	28,357	-
Financial liabilities for which fair values are disclosed:				
Fixed rate bonds	-	10,322,951	-	-
Interest-bearing borrowings	-	-	75,433,033	-
Obligations under finance leases	-	-	35,465	-
	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities measured at fair value:				
Cashflow hedging instruments	-	-	559,712	-
Financial liabilities for which fair values are disclosed:				
Fixed rate bonds	-	-	9,957,394	-
Interest-bearing borrowings	-	-	36,426,401	-
Obligations under finance leases	-	-	50,429	-
	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed:				
Interest-bearing borrowings	-	-	28,811,992	-
Obligations under finance leases	-	-	65,420	-
Financial liabilities measured at fair value:				
Financial instruments at fair value through profit and loss	-	-	271,647	-

During the reporting period ending 31 December 2014, there was one transfer in fair value measurement of bonds from Level 2 to Level 1 due to increase in volume and frequency of transactions.

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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29. Financial instruments (continued)

Fair values (continued)

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

	31 December 2014		31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cashflow hedging instruments	2,735,175	2,735,175	–	–	–	–
Financial liabilities						
Interest-bearing loans and borrowings						
Obligations under finance leases	35,465	35,465	50,429	50,429	65,420	65,420
Floating rate borrowings	38,641,409	54,089,634	29,891,695	30,283,314	24,978,988	25,839,065
Fixed rate borrowings	32,193,413	31,285,801	16,100,481	16,100,481	3,833,004	3,833,004
Derivatives not designated as hedges						
Interest rate swaps and caps	–	–	–	–	271,647	271,647
Derivatives in effective hedges						
Cashflow hedging instruments	28,357	28,357	559,712	559,712	–	–
Total financial liabilities	70,898,644	85,439,257	46,602,317	46,993,936	29,149,059	30,009,136

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

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

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

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 December 2014 was 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 2014, 31 December 2013 and 31 December 2012, 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.

Lenta Limited and subsidiaries

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30. Financial risk management

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

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

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

Market risk

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

Foreign currency risk

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

During the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012 the Group did not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

At 31 December 2014, year ended 31 December 2013 and at 31 December 2012 there were no significant amounts in foreign currencies.

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

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.

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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30. Financial risk management (continued)

	Change in USD rate	Effect on profit before tax
Year ended 2014	25.54%	(39,259)
	-28.54%	39,259
Year ended 2013	10.21%	(557)
	-10.21%	557
Year ended 2012	10.72%	(4,985)
	-10.72%	4,985

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

	Change in EUR rate	Effect on profit before tax
Year ended 2014	29.58%	(17,999)
	-29.58%	17,999
Year ended 2013	8.63%	(4,541)
	-8.63%	4,541

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 2014 these obligations are represented with long-term borrowing (Note 20), which bears interest of MosPrime 1-3m plus margin. In order to hedge the risk of rising MosPrime interest rate, the Group entered into interest rate swaps and caps (Note 20).

Interest rate sensitivity

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

	Profit or loss		OCI	
	932 bp increase	932 bp decrease	932 bp increase	932 bp decrease
2014				
Variable rate instruments	(3,122,160)	3,122,160	-	-
Interest rate swaps and caps	1,948,129	(629,572)	3,801,430	(4,020,129)
Cash flow sensitivity (net)	(1,174,031)	2,492,588	3,801,430	(4,020,129)
	Profit or loss		OCI	
	72 bp increase	72 bp decrease	72 bp increase	72 bp decrease
2013				
Variable rate instruments	(187,600)	187,600	-	-
Interest rate swaps and caps	90,000	(90,000)	331,523	(340,014)
Cash flow sensitivity (net)	(97,600)	97,600	331,523	(340,014)

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Interest rate sensitivity (continued)

	Profit or loss		OCI	
	109 bp increase	109 bp decrease	109 bp increase	109 bp decrease
2012				
Variable rate instruments	(276,347)	276,347	-	-
Interest rate swaps and caps	251,932	(259,079)	-	-
Cash flow sensitivity (net)	(24,415)	17,268	-	-

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2014 all of the Group's borrowings were 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.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 20 of this financial information. The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 2014 was as follows:

	<u>31 December 2014</u>
Total floating rate borrowings (gross of direct issue costs)	39,129,240
Less notional amount of interest rate financial instruments (Note 20)	<u>(25,300,000)</u>
Net exposure to interest rate fluctuations	<u>13,829,240</u>
% of floating rate borrowings exposed to interest rate fluctuations	<u>35%</u>

Credit risk

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

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

Lenta Limited and subsidiaries

Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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30. Financial risk management (continued)

Trade receivables

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

Cash and cash equivalents

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

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 11,927,252 thousand (31 December 2013: RUB 6,149,636 thousand, 31 December 2012: RUB 3,488,247 thousand).

Liquidity risk

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014, 31 December 2013, 31 December 2012 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MOSPRIME, EURIBOR, LIBOR index) existing at the reporting date:

31 December 2014

	Less than 12 months	1-5 Years	Total
Borrowings	26,241,580	89,463,161	115,704,741
Trade and other payables	46,979,088	-	46,979,088
Amounts payable under swaps and caps	-	30,753	30,753
Finance leasing	21,136	19,850	40,986
Total	73,241,804	89,513,764	162,755,568

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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30. Financial risk management (continued)

Liquidity risk (continued)

31 December 2013

	<u>Less than 12 months</u>	<u>1-5 Years</u>	<u>Total</u>
Borrowings	10,236,178	53,333,044	63,569,222
Trade and other payables	32,673,601	–	32,673,601
Amounts payable under swaps and caps	198,031	448,296	646,327
Finance leasing	21,136	40,987	62,123
Total	43,128,946	53,822,327	96,951,273

31 December 2012

	<u>Less than 12 months</u>	<u>1-5 Years</u>	<u>Total</u>
Borrowings	6,785,656	31,740,309	38,525,965
Trade and other payables	23,403,407	–	23,403,407
Amounts payable under swaps and caps	161,155	153,229	314,384
Finance leasing	25,778	75,747	101,525
Total	30,375,996	31,969,285	62,345,281

Capital management

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

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

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

Net debt of the Group is comprised of the following:

	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Borrowings	71,215,370	45,992,176	28,811,992
Obligations under finance leases	35,465	50,429	65,419
Cash and cash equivalents (Note 16)	(12,035,785)	(6,211,965)	(3,536,464)
Net debt	59,215,050	39,830,640	25,340,947

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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30. Financial risk management (continued)

Capital management (continued)

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 information in order to evaluate financial condition of the Group.

31. Contingencies

Operating environment of the Group

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

By the Executive Order of the President of Russia "On Special Economic Measures to Protect the Russian Federation's Security" signed on 6 August 2014 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. The following countries are under embargo: EU countries, USA, Australia, Canada, Norway. A specific list of goods in respect of which the restrictions are imposed, was determined by the Russian Government. The list includes meat and dairy products, fish, vegetables, fruits and nuts.

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

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 1,841 thousand as at 31 December 2014 (31 December 2013: RUB 3,989 thousand, 31 December 2012: RUB 76,963 thousand). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in this historical consolidated financial information.

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Notes to historical consolidated financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012

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31. Contingencies (continued)

Legal contingencies (continued)

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 1,030,479 thousand (31 December 2013: RUB 903,120 thousand, 31 December 2012: RUB 639,839 thousand). No tax provisions were recorded as at 31 December 2014, 31 December 2013 and 31 December 2012. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of this financial information. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2014, 31 December 2013 and 31 December 2012.

Environmental matters

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

32. Events occurring after the reporting period

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

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