

Lenta Limited and subsidiaries
Consolidated financial statements
For the year ended 31 December 2014

Lenta Limited and subsidiaries

Contents	Page
Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2014	2
Independent auditors' report.....	3
Consolidated statement of financial position.....	5
Consolidated statement of profit or loss and other comprehensive income.....	6
Consolidated statement of cash flows	7
Consolidated statement of changes in equity	8
Notes to the consolidated financial statements	9
1. The Lenta Group and its operations	9
2. Basis of preparation and significant accounting policies	9
2.1. Basis of preparation	9
2.2. Basis of consolidation.....	10
2.3. Summary of significant accounting policies	11
3. Significant accounting judgments, estimates and assumptions.....	26
4. Adoption of new or revised standards and interpretations	28
5. Standards issued but not yet effective	29
6. Operating segments.....	32
7. Balances and transactions with related parties.....	33
8. Property, plant and equipment.....	35
9. Prepayments for construction	36
10. Leasehold rights.....	36
11. Intangible assets other than leasehold rights.....	37
12. Inventories.....	38
13. Trade and other receivables.....	38
14. Advances paid.....	39
15. Taxes recoverable.....	40
16. Cash and cash equivalents	40
17. Issued capital and reserves.....	40
18. Components of other comprehensive income (OCI)	42
19. Earnings per share	42
20. Borrowings	43
21. Income taxes.....	45
22. Trade and other payables.....	47
23. Other taxes payable	48
24. Cost of sales	48
25. Selling, general and administrative expenses.....	49
26. Other operating income and expenses	49
27. Share-based payments	50
28. Commitments	52
29. Financial instruments	52
30. Financial risk management.....	55
31. Contingencies	59
32. Events occurring after the reporting period.....	60

Lenta Limited and subsidiaries

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2014

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries ("the Group") as at 31 December 2014 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management on 27 February 2015.

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



Jan Dunning
(CEO of Lenta Ltd)



Jago Lemmens
(Chief Financial Officer of Lenta Ltd)



Ernst & Young LLC
St. Petersburg Branch
White Nights House Business Center
Malaya Morskaya Street, 23
St. Petersburg, 190000, Russia
Tel: +7 (812) 703 7800
Fax: +7 (812) 703 7810
www.ey.com/ru

ООО «Эрнст энд Янг»
Филиал в Санкт-Петербурге
Россия, 190000, Санкт-Петербург
ул. Малая Морская, 23
Бизнес Центр «Белые Ночи»
Тел.: +7 (812) 703 7800
Факс: +7 (812) 703 7810
ОКПО: 71457074

Independent auditors' report

To the Shareholders of Lenta Ltd

We have audited the accompanying consolidated financial statements of Lenta Ltd and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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



Ernst & Young LLC
St. Petersburg Branch
White Nights House Business Center
Malaya Morskaya Street, 23
St. Petersburg, 190000, Russia
Tel: +7 (812) 703 7800
Fax: +7 (812) 703 7810
www.ey.com/ru

ООО «Эрнст энд Янг»
Филиал в Санкт-Петербурге
Россия, 190000, Санкт-Петербург
ул. Малая Морская, 23
Бизнес Центр «Белые Ночи»
Тел.: +7 (812) 703 7800
Факс: +7 (812) 703 7810
ОКПО: 71457074

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

27 February 2015

Lenta Limited and subsidiaries

Consolidated statement of financial position as at 31 December 2014

(in thousands of Russian Roubles)

	Note	31 December 2014	31 December 2013 restated*	1 January 2013 restated*
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

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2013 and for the year ended 31 December 2012 and reflect adjustments made as detailed in Note 2.

Lenta Limited and subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013 restated*
Sales		193,988,240	144,266,474
Cost of goods sold	24	<u>(150,131,083)</u>	<u>(112,804,507)</u>
Gross profit		43,857,157	31,461,967
Selling, general and administrative expenses	25	(28,106,490)	(18,939,614)
Other operating income	26	2,267,130	1,459,666
Other operating expense	26	<u>(358,593)</u>	<u>(181,392)</u>
Operating profit		17,659,204	13,800,627
Interest expense		(6,910,890)	(4,341,902)
Interest income		99,821	82,153
Change in fair value of financial instruments at fair value through profit or loss	20	(19,488)	(234,367)
Other expenses		(41,165)	(91,220)
Foreign exchange gains/(losses)		<u>140,166</u>	<u>(23,171)</u>
Profit before income tax		10,927,648	9,192,120
Income tax expense	21	<u>(1,852,541)</u>	<u>(2,045,304)</u>
Profit for the year		9,075,107	7,146,816
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	18	<u>3,286,020</u>	<u>(53,699)</u>
Income tax	21	<u>(657,204)</u>	<u>10,740</u>
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		<u>0.105</u>	<u>0.083</u>

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2013 and reflect adjustments made as detailed in Note 2.

Lenta Limited and subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2014

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013 restated*
Cash flows from operating activities			
Profit before income tax		10,927,648	9,192,120
Adjustments for:			
Loss from disposal of property, plant and equipment		93,704	83,437
Gain on disposal of leasehold rights		–	(633)
Loss from disposal of IA		840	
Interest expense		6,910,890	4,341,902
Interest income		(99,821)	(82,153)
Inventory write-down to net realizable value		255,357	131,382
Change in bad debt allowance		15,073	34,606
Depreciation and amortization	8, 25	3,658,953	2,316,874
Share options expense	27	111,795	65,510
Change in fair value of financial instruments at fair value through profit and loss	20	19,488	234,367
		21,893,927	16,317,412
Movements in working capital:			
Increase in trade and other receivables		(2,896,891)	(3,023,813)
Increase in advances paid	14	(1,347,140)	(596,557)
Decrease/(Increase) in prepaid expenses		60,067	(54,956)
Increase in inventories	12	(6,890,550)	(3,751,870)
Increase in trade and other payables	22	13,129,614	7,469,635
increase/(Decrease) in advances received		89,149	(31,869)
Decrease in net other taxes payable	15, 23	(519,117)	(456,150)
		23,519,059	15,871,832
Cash from operating activities			
Income taxes paid		(956,191)	(976,252)
Interest received		86,566	89,411
Interest paid		(6,670,052)	(4,048,443)
Net cash generated from operating activities		15,979,382	10,936,548
Cash flows from investing activities			
Purchases of property, plant and equipment		(33,594,055)	(22,580,088)
Purchases of intangible assets other than leasehold rights		(419,367)	(274,387)
Purchases of leasehold rights		(1,101,724)	(813,439)
Proceeds from sale of property, plant and equipment		4,412	4,361
Proceeds from disposals of leasehold rights		–	30,443
Net cash used in investing activities		(35,110,734)	(23,633,110)
Cash flows from financing activities			
Proceeds from borrowings		80,336,800	70,921,176
Repayments of borrowings		(55,330,000)	(54,045,200)
Repayments of obligations under financial lease		(14,964)	(14,990)
Proceeds from issue of new shares and sales of treasury shares	17	–	813,251
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
Net increase/(decrease) in cash and cash equivalents		5,823,820	2,675,501
Cash and cash equivalents at the beginning of the period	16	6,211,965	3,536,464
Cash and cash equivalents at the end of the period	16	12,035,785	6,211,965

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2013 and reflect adjustments made as detailed in Note 2.

The accompanying notes on pages 9-60 are an integral part of these financial statements.

Lenta Limited and subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2014

(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 (restated*)	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	9,809,527	(963,339)
Change in accounting policy (Note 2)	–	–	–	–	–	122,552	122,552
Balance at 1 January 2013 (restated*)	284	3,972,544	–	(15,724,392)	978,698	9,932,079	(840,787)
Profit for the period (restated*)	–	–	–	–	–	7,146,816	7,146,816
Other comprehensive income	–	–	(42,959)	–	–	–	(42,959)
Total comprehensive income (restated*)	–	–	(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
Cancelation of treasury shares	–	–	–	15,345,751	–	(15,345,751)	–
Balance at 31 December 2013 (restated*)	284	4,407,154	(42,959)	–	65,510	484,669	4,914,658

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.

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2013 and reflect adjustments made as detailed in Note 2.

The accompanying notes on pages 9-60 are an integral part of these financial statements.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(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 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

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

2.1. Basis of preparation

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

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

The consolidated financial statements provide 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. An additional statement of financial position as at 1 January 2013 is presented in these consolidated financial statements due to the change in accounting policy retrospectively. See Note 2.3.

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.

These consolidated financial statements have been prepared on a going concern basis.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(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).

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 consolidated financial statements incorporate the financial statements 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.

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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

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.

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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Current versus non-current classification

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

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

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

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

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

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

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

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

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

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

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

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

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

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

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

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian 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 consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Consolidated financial statements

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 consolidated financial statements for the year ended 31 December 2014

(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.

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 consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

2.3 Summary of significant accounting policies (continued)

Income taxes

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be 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 consolidated financial statements for the year ended 31 December 2014

(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 consolidated financial statements for the year ended 31 December 2014

(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 consolidated financial statements for the year ended 31 December 2014

(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 consolidated financial statements.

Seasonality

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

Financial assets

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 consolidated financial statements for the year ended 31 December 2014

(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 consolidated financial statements for the year ended 31 December 2014

(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. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

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

Additional paid-in capital

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

Earnings per share

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

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

Classification as debt or equity

Debt and equity instruments are classified as 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 consolidated financial statements for the year ended 31 December 2014

(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 consolidated financial statements for the year ended 31 December 2014

(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 statements 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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(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 statements 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
<hr/>			
	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
As of 1 January 2013			
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

Impact on consolidated statement of cash flows

	<u>Amount previously reported</u>	<u>Adjustments</u>	<u>Amount after change in policy</u>
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 decrease in cash and cash equivalents	2,675,501	-	2,675,501

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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 these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Judgments

Operating lease commitments – Group as lessor

The Group has entered into 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.

Assets versus business acquisition

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

Estimates and assumptions

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

Leases renewal assumption

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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

Estimates and assumptions (continued)

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.

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.

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

Estimates and assumptions (continued)

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.

4. Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 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 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 statements.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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

Annual improvements to ifrss 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 to 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.

5. Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition And Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. 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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

5. Standards issued but not yet effective (continued)

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).

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:

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

5. Standards issued but not yet effective (continued)

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

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.

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

5. Standards issued but not yet effective (continued)

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

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

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).

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

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

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Sales	193,988,240	144,266,474
EBITDA	21,318,157	16,117,501

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

6. Operating segments (continued)

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

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
EBITDA	21,318,157	16,117,501
Interest expense	(6,910,890)	(4,341,902)
Interest income	99,821	82,153
Income tax expense (see Note 21)	(1,852,541)	(2,045,304)
Depreciation/amortization (see Note 8,10,11,25)	(3,658,953)	(2,316,874)
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	(19,488)	(234,367)
Other expenses	(41,165)	(91,220)
Foreign exchange gain/(loss)	140,166	(23,171)
Profit for the year	9,075,107	7,146,816

7. Balances and transactions with related parties

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

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

Entities with significant influence over the Group:

	31 December 2014	31 December 2013
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
VTB Capital*		
Cash and cash equivalents	-	1,121,546
Long-term loans payable	-	29,891,695
Short-term loans payable	-	1,300,000
Interest accrued	-	11,480
Finance lease liability	-	49,612
Liability on swaps and caps	-	559,712
Loan commission prepayments	-	75,000

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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
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
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
Repayment of borrowings	3,150,000	29,427,400
Interest expense and commission on loans	618,719	3,264,516
Finance leasing charge	1,225	8,597
Financial charges on swaps and caps	-	153,955
Loss/(income) on financial instruments at fair value through profit or loss (swaps and caps)	-	234,367
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
Short-term benefits	397,442	436,774
Share-based payment	83,411	65,510
Termination benefits	-	8,555
Total remuneration	480,853	510,839

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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 (restated)	Machinery and equipment	Assets under construction (restated)	Total (restated)
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

Land and buildings with a carrying amount of RUB 26,015,987 thousand (31 December 2013: RUB 15,966,475 thousand) are pledged under loan agreement with VTB Capital Plc and EBRD (see Note 20).

During the year ended 31 December 2014 and year ended 31 December 2013 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). 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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

8. Property, plant and equipment (continued)

Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2014 and year ended 31 December 2013 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 (restated)
Depreciation of property, plant and equipment (Note 8)	3,420,546	2,167,094
Amortization of intangible assets (Note 11)	171,154	97,430
Leasehold rights amortization (Note 10)	67,253	52,350
Total depreciation and amortization	3,658,953	2,316,874

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:

	Leasehold rights
Cost	
At 1 January 2014	2,956,519
Additions	1,101,724
Transfer to PPE	(572,081)
At 31 December 2014	3,486,162
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	2,771,664
At 31 December 2014	3,271,544

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

10. Leasehold rights (continued)

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>
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>

11. Intangible assets other than leasehold rights

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

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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2013 consisted of the following:

	<u>Software</u>	<u>Trade marks</u>	<u>Total</u>
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

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

12. Inventories

	<u>31 December 2014</u>	<u>31 December 2013</u>
Goods for resale	18,729,075	12,478,316
Raw materials	900,306	515,872
Total inventories	19,629,381	12,994,188

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>
Accounts receivable on rental and other services and on suppliers' advertising	7,857,515	5,719,509
Suppliers' rebates receivable	3,333,612	2,585,789
Receivables for construction of stores on behalf of third parties	-	14,911
Other receivables	190,874	151,646
Bad debt allowance	(10,753)	(5,756)
Total trade and other receivables	11,371,248	8,466,099

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

13. Trade and other receivables (continued)

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.

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

	<u>0-60 days overdue</u>	<u>60-120 days overdue</u>	<u>120-365 days overdue</u>	<u>Neither past due nor impaired</u>	<u>Total</u>
Suppliers' volume rebates receivable	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	<u>1,280,400</u>	<u>108,940</u>	<u>46,330</u>	<u>9,935,578</u>	<u>11,371,248</u>

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2013:

	<u>0-60 days overdue</u>	<u>60-120 days overdue</u>	<u>120-365 days overdue</u>	<u>Neither past due nor impaired</u>	<u>Total</u>
Suppliers' volume rebates receivable	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	<u>624,214</u>	<u>27,298</u>	<u>18,934</u>	<u>7,795,653</u>	<u>8,466,099</u>

14. Advances paid

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances to suppliers of goods	821,958	674,363
Advances for services	1,607,285	579,375
Guarantee payments under lease contracts	321,483	150,650
Total advances paid	<u>2,750,726</u>	<u>1,404,388</u>

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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) 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).

16. Cash and cash equivalents

	<u>31 December 2014</u>	<u>31 December 2013</u>
Rouble short-term deposits	8,954,088	4,545,856
Rouble denominated cash in transit	1,802,739	1,245,195
Rouble denominated cash on hand and balances with banks	1,258,676	419,370
Foreign currency denominated cash on hand and balances with banks	<u>20,282</u>	<u>1,544</u>
Total cash and cash equivalents	<u>12,035,785</u>	<u>6,211,965</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) 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 and for the year ended 31 December 2013.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

17. Issued capital and reserves (continued)

The movements in the number of shares the year ended 31 December 2014 and for the year ended 31 December 2013 were as follows.

	31 December 2014 No.	31 December 2013 No.
Authorized share capital (ordinary shares with no par value)	unlimited	unlimited
Issued and fully paid (no par value)	86,053,394	86,052,995
	31 December 2014 No.	Year ended 31 December 2013 No.
Balance of shares outstanding at beginning of financial year	86,052,995	85,466,788
Sale of treasury shares	-	506,207
Additional issue of shares	399	80,000
Balance of shares outstanding at the end of financial year	86,053,394	86,052,995

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). 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 2013	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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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>
	<u>Hedging reserve</u>
As at 31 December 2013	
Interest rate swaps and caps	(42,959)
Total	<u><u>(42,959)</u></u>

18. Components of other comprehensive income (OCI)

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</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>

19. Earnings per share

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</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

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) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>
Number of issued shares at the beginning of period	86,052,995	85,466,788
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 at the end of reporting period	86,053,394	86,052,995
Weighted average number of shares	<u>86,053,244</u>	<u>85,721,825</u>

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

20. Borrowings

Short-term borrowings:

	Currency	31 December 2014	31 December 2013
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
Fixed rate short-term bank loans	RUB	6,516,669	–
Total short-term borrowings and short-term portion of long-term borrowings		12,695,422	6,143,087

Long-term borrowings:

	Currency	31 December 2014	31 December 2013
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
Total long-term borrowings		58,519,948	39,849,089

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

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

Type of instrument	Notional amount 2014	Notional amount 2013	Fixed interest rate	Fixed com- mission	Effective date	Expiry date
Interest rate swap	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	8.00%	n/a	30 September 2011	31 March 2015
Interest rate swap	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	12.00%	0.79%	31 December 2011	31 December 2014
Interest rate cap	–	5,000,000	12.00%	0.78%	31 December 2011	31 December 2014

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

20. Borrowings (continued)

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

	31 December 2014	31 December 2013
Non-current asset	765,257	–
Current assets	1,969,920	–
Non-current liability	(28,357)	(370,939)
Current liability	–	(188,773)
Total	2,706,820	(559,712)

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

	31 December 2014	31 December 2013
Swaps	2,154,537	(329,111)
Caps	552,283	(230,601)
Total fair value	2,706,820	(559,712)

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.

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
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)
Ineffective portion of the change in the fair value of cash flow hedging instruments	(19,488)	(38,318)
	(19,488)	(234,367)
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	3,266,532	(288,065)

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
Finance charges on swaps and caps	(108,492)	153,955
Total finance charges on financial instruments	(108,492)	153,955

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

20. Borrowings (continued)

The Groups' borrowings as at 31 December 2014 and 31 December 2013 are denominated in Russian Roubles.

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.

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 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 2014 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 (restated)
Current tax expense	948,213	1,320,392
Deferred tax expense	1,408,690	959,074
Income tax credit	–	(234,162)
Adjustments in respect of current income tax of previous year	(504,362)	
Income tax expense recognized in profit for the year	1,852,541	2,045,304
	Year ended 31 December 2014	Year ended 31 December 2013
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 consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

21. Income taxes (continued)

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Profit before tax	10,927,648	9,192,120
Theoretical tax charge at 20%	(2,185,530)	(1,838,424)
Difference in tax rates for foreign companies	(49,202)	(76,781)
Add tax effect of non-deductible expenses	(122,171)	(364,261)
- expenses on inventory shrinkage and surpluses	-	(256,417)
- share option expenses	(22,359)	(13,102)
- others	(99,812)	(94,742)
Adjustments in respect of current income tax of previous years	504,362	-
Current income tax credit	-	234,162
Income tax expense	1,852,541	2,045,304

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 consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

21. Income taxes (continued)

	1 January 2013 (restated)	Differences in recognition and reversals recognised in profit or loss (restated)	Differences in recognition and reversals recognised in other comprehensive income	31 December 2013 (restated)
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)

The temporary taxable differences associated with undistributed earnings of subsidiaries amount to RUB 27,207,916 thousand and RUB 20,262,780 thousand as of 31 December 2014 and 2013, respectively. A deferred tax liability on these temporary differences was not recognized, because management believed that it was in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

22. Trade and other payables

	31 December 2014	31 December 2013
Trade payables	41,081,087	28,927,222
Accrued liabilities and other creditors	3,138,048	2,418,750
Payables for purchases of property, plant and equipment	4,154,254	2,460,950
Total trade and other payables	48,373,389	33,806,922

The trade and other payables were denominated in:

	31 December 2014	31 December 2013
Russian Roubles	48,171,738	33,748,859
USD	137,556	5,453
EUR	60,848	52,610
GBP	3,247	–
Total trade and other payables	48,373,389	33,806,922

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

23. Other taxes payable

	31 December 2014	31 December 2013
Social taxes	332,956	269,087
Property tax	241,299	167,948
Personal income tax	120,691	95,088
Other taxes	203,232	183,322
Total other taxes payable	898,178	715,445

24. Cost of sales

Cost of sales for the years ended 31 December 2014 and 31 December 2013 consisted of the following:

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Cost of goods sold	126,742,396	95,801,289
Cost of own production	16,927,783	12,567,611
Supply chain cost	3,136,580	2,314,823
Losses due to inventory shortages	3,324,324	2,120,784
Total cost of sales	150,131,083	112,804,507

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
Raw materials	13,880,282	10,362,035
Labour costs	2,412,538	1,780,493
Utilities	576,911	381,181
Repairs and maintenance	58,052	43,902
Total cost of own production	16,927,783	12,567,611

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) of which contributions to state pension fund comprised RUB 530,316 thousand (year ended 31 December 2013: RUB 362,652 thousand).

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

25. Selling, general and administrative expenses

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Labour costs	12,108,928	8,628,126
Depreciation and amortization (Note 8,10,11)	3,658,951	2,263,330
Professional fees	2,001,603	1,526,150
Advertising	1,971,926	1,356,459
Utilities and communal payments	1,360,833	858,999
Repairs and maintenance	1,164,235	732,091
Cleaning	1,136,447	653,108
Premises lease	1,103,157	390,977
Taxes other than income tax	907,981	568,471
Security services	793,401	500,104
Land and equipment lease	306,302	208,653
Pre-opening costs	663,062	636,810
Other	929,664	616,336
Total selling, general and administrative expenses	28,106,490	18,939,614

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).

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) of which contributions to state pension fund comprised RUB 49,391 thousand (year ended 31 December 2013: RUB 35,177 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)

26. Other operating income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Penalties due by suppliers	789,557	618,824
Rental income	482,455	339,385
Income from IPO	420,111	–
Advertising income	387,297	380,131
Gain on property, plant and equipment disposal	1,801	1,429
Other	185,909	119,897
Total other operating income	2,267,130	1,459,666

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

Other operating expenses comprised of the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Penalties for breach of a contracts with suppliers	185,437	14,915
Loss from disposal and write-off of tangible assets	96,345	79,796
Other	76,811	86,681
Total other operating expenses	358,593	181,392

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

27. Share-based payments

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.

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
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).

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).

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
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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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:

	Year ended 31 December 2014	Year ended 31 December 2013
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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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).

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
Not later than 1 year	2,800,096	1,077,130
Later than 1 year and not later than 5 years	10,356,566	3,714,116
Later than 5 years	27,394,299	12,445,337
Total operating lease commitments	40,550,961	17,236,583

29. Financial instruments

Categories of financial instruments

	31 December 2014	31 December 2013
Financial assets		
Cash	12,035,785	6,211,965
Trade and other receivables	11,371,248	8,466,099
At fair value through OCI	2,735,175	-
Financial liabilities		
At fair value through profit or loss		-
At fair value through OCI	28,357	559,712
At amortised cost:		
Floating rate long-term borrowings	38,641,409	29,891,695
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
Short term liability for interests	380,548	324,120
Trade and other payables	46,979,088	32,673,601
Long-term obligations under finance leases	35,465	50,429
Total financial liabilities at amortised cost	118,229,923	78,716,206

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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:

	<u>31 December 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	-
	<u>31 December 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	-

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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	
	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
Floating rate borrowings	38,641,409	54,089,634	29,891,695	30,283,314
Fixed rate borrowings	32,193,413	31,285,801	16,100,481	16,100,481
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

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, 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

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

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 and year ended 31 December 2013, 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 and at 31 December 2013 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.

	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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Foreign currency sensitivity (continued)

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

	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)

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Interest rate sensitivity (continued)

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 these financial statements. The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 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.

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).

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Liquidity risk

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

	<u>Less than 12 months</u>	<u>1-5 Years</u>	<u>Total</u>
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

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

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.

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Capital management (continued)

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>
Borrowings	71,215,370	45,992,176
Obligations under finance leases	35,465	50,429
Cash and cash equivalents (Note 16)	<u>(12,035,785)</u>	<u>(6,211,965)</u>
Net debt	<u>59,215,050</u>	<u>39,830,640</u>

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

Lenta Limited and subsidiaries

Notes to consolidated financial statements for the year ended 31 December 2014

(in thousands of Russian Roubles)

31. Contingencies (continued)

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 1,841 thousand as at 31 December 2014 (31 December 2013: RUB 3,989 thousand). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 1,030,479 thousand (31 December 2013: RUB 903,120 thousand). No tax provisions were recorded as at 31 December 2014 and 31 December 2013. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2014 and 31 December 2013.

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 consolidated financial statements.