Lenta Limited and subsidiaries

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2016

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Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2016

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

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries (the "Group") as of 30 June 2016, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* ("IAS 34").

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

- Applying consistently the accounting principles prescribed by IAS 34;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- Preparing the interim condensed consolidated financial information on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 were approved by management on 23 August 2016:

On behalf of management as authorized by the Board of Directors:

Jan Dunning (CEO of Lenta Ltd)	Jago Lemmens (CFO of Lenta Ltd)

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Report on review of interim condensed consolidated financial statements

To the Shareholders of Lenta Ltd

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Lenta Ltd and its subsidiaries (the "Group"), comprising the interim condensed consolidated statement of financial position as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

23 August 2016

Saint-Petersburg, Russia

Interim condensed consolidated statement of financial position as at 30 June 2016

(in thousands of Russian roubles)

	Note	30 June 2016, unaudited	31 December 2015, audited
Assets			
Non-current assets			
Property, plant and equipment	6	112,099,261	104,016,458
Prepayments for construction	7	9,018,787	6,528,355
Leasehold rights	8	2,867,979	3,047,168
Intangible assets other than leasehold rights	9	1,177,833	1,092,329
Long-term portion of cash flow hedging instruments	28	129,632	355,414
Other non-current assets		151,833	–
Total non-current assets		**125,445,325**	**115,039,724**
Current assets			
Inventories	10	21,802,758	22,781,732
Trade and other receivable	11	12,202,135	13,646,894
Advances paid	12	2,909,418	2,264,911
Taxes recoverable		1,419,528	1,257,764
Advance payments for income tax		484,754	288,119
Prepaid expenses		205,651	217,711
Short-term portion of cash flow hedging instruments	28	324,292	439,050
Cash and cash equivalents	14	8,125,222	22,455,945
Total current assets		**47,473,758**	**63,352,126**
Total assets		**172,919,083**	**178,391,850**
Equity and liabilities			
Equity			
Share capital	15, 17	284	284
Additional paid-in capital	15	26,216,147	26,216,147
Share options	15, 25	457,432	338,016
Hedging reserve	15	480,132	724,642
Retained earnings		24,176,882	19,850,882
Total equity		**51,330,877**	**47,129,971**
Liabilities			
Non-current liabilities			
Long-term borrowings	18	61,021,718	65,149,097
Deferred tax liabilities	19	6,425,455	5,229,804
Long-term portion of cash flow hedging instruments	28	9,470	24,564
Total non-current liabilities		**67,456,643**	**70,403,465**
Current liabilities			
Trade and other payables	20	38,772,119	48,820,207
Advances received		249,014	219,705
Other taxes payable	21	813,851	927,084
Short-term portion of cash flow hedging instruments	28	79,756	99,564
Short-term borrowings and short-term portion of long-term borrowings	18	14,216,823	10,773,277
Short-term obligations under finance leases		–	18,577
Total current liabilities		**54,131,563**	**60,858,414**
Total liabilities		**121,588,206**	**131,261,879**
Total equity and liabilities		**172,919,083**	**178,391,850**

The accompanying notes on pages 7-34 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2016

(in thousands of Russian roubles)

	Note	Six months ended 30 June 2016, unaudited	Six months ended 30 June 2015, unaudited reclassified*
Sales		140,086,587	114,897,154
Cost of sales	22	(109,430,167)	(90,020,374)
Gross profit		**30,656,420**	**24,876,780**
Selling, general and administrative expenses	23	(21,691,789)	(16,752,463)
Other operating income	24	1,496,668	1,179,341
Other operating expense	24	(385,641)	(288,833)
Operating profit		**10,075,658**	**9,014,825**
Interest expense		(5,085,556)	(5,352,540)
Interest income		633,265	254,672
Ineffective portion of change in fair value of cash flow hedging instruments		–	6,308
Foreign exchange gains/(losses)		26,469	(134,042)
Profit before income tax		**5,649,836**	**3,789,223**
Income tax expense	19	(1,323,836)	(823,669)
Profit for the period		**4,326,000**	**2,965,554**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss on cash flow hedges	16	(305,638)	(1,903,620)
Income tax relating to the components of OCI	19	61,128	380,724
Other comprehensive loss for the period, net of tax		**(244,510)**	**(1,522,896)**
Total comprehensive income for the period, net of tax		**4,081,490**	**1,442,658**
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		0.044	0.033

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2015 and reflect adjustments made as detailed in Note 2.

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2016

(in thousands of Russian roubles)

	Note	Six months ended 30 June 2016, unaudited	Six months ended 30 June 2015, unaudited
Cash flows from operating activities			
Profit before income tax		**5,649,836**	**3,789,223**
Adjustments for:			
Loss on disposal of property, plant and equipment		156,673	10,584
Loss on disposal of leasehold rights		1,279	–
Interest expense		5,085,556	5,352,540
Interest income		(633,265)	(254,672)
Inventory write-down to net realisable value		384,475	139,103
Change in bad debt allowance and impairment of prepayments for construction		175,427	192,204
Depreciation and amortisation	6, 23	3,600,088	2,689,606
Share options expense	25	119,416	51,519
Ineffective portion of change in fair value of cash flow hedging instruments	28	–	(6,308)
		14,539,485	**11,963,799**
Movements in working capital			
Decrease in trade and other receivables		1,223,071	1,984,009
(Increase)/decrease in advances paid	12	(693,436)	665,381
Decrease/(increase) in prepaid expenses		10,299	(43,350)
Decrease in inventories	10	594,499	1,881,694
Decrease in trade and other payables	20	(9,162,512)	(13,827,787)
Increase/(decrease) in advances received		29,309	(68,926)
Increase in net other taxes payable	21	609,982	2,579,745
Cash from operating activities		**7,150,697**	**5,134,565**
Income taxes paid		(263,692)	(837,804)
Interest received		686,043	270,090
Interest paid		(4,907,243)	(5,582,257)
Net cash generated from / (used in) operating activities		**2,665,805**	**(1,015,406)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(16,099,564)	(11,554,043)
Purchases of intangible assets other than leasehold rights	9	(226,434)	(234,054)
Purchases of leasehold rights		(42,373)	–
Proceeds from sale of property, plant and equipment		240,143	12,765
Net cash used in investing activities		**(16,128,228)**	**(11,775,332)**
Cash flows from financing activities			
Proceeds from borrowings		13,741,083	73,434,523
Repayments of borrowings		(14,590,806)	(73,065,000)
Repayments of obligations under financial lease		(18,577)	(8,164)
Proceeds from issue of new shares	15	–	12,595,362
Payment of loan commission		–	(59,250)
Net cash (used in) / generated from financing activities		**(868,300)**	**12,897,471**
Net (decrease)/increase in cash and cash equivalents		**(14,330,723)**	**106,733**
Cash and cash equivalents at the beginning of the period	14	22,455,945	12,035,785
Cash and cash equivalents at the end of the period	14	**8,125,222**	**12,142,518**

The accompanying notes on pages 7-34 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2016

(in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2016	**284**	**26,216,147**	**724,642**	**338,016**	**19,850,882**	**47,129,971**
Profit for the period	–	–	–	–	4,326,000	**4,326,000**
Other comprehensive (loss)/income	–	–	(244,510)	–	–	**(244,510)**
Total comprehensive (loss)/income	**–**	**–**	**(244,510)**	**–**	**4,326,000**	**4,081,490**
Share-based payments (Note 25)	–	–	–	119,416	–	**119,416**
Balance at 30 June 2016 (unaudited)	**284**	**26,216,147**	**480,132**	**457,432**	**24,176,882**	**51,330,877**

	Share capital	Additional paid-in capital	Hedging reserve	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2015	**284**	**4,427,554**	**2,585,857**	**153,892**	**9,562,789**	**16,730,376**
Profit for the period	–	–	–	–	2,965,554	**2,965,554**
Other comprehensive (loss)/income	–	–	(1,522,896)	–	–	**(1,522,896)**
Total comprehensive (loss)/income	**–**	**–**	**(1,522,896)**	**–**	**2,965,554**	**1,442,658**
Share-based payments (Note 25)	–	–	–	51,519	–	**51,519**
Issue of shares (Note 15, 25)	–	12,595,362	–	–	–	**12,595,362**
Balance at 30 June 2015 (unaudited)	**284**	**17,022,916**	**1,062,961**	**205,411**	**12,528,343**	**30,819,915**

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.

The accompanying notes on pages 7-34 are an integral part of these unaudited interim condensed consolidated financial statements.

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 Exchange in the form of Global Depositary Receipts (GDR).

At 30 June 2016 and 31 December 2015 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

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2015, which include a full description of the Group's accounting policies, and critical accounting estimates and judgments in applying accounting policies.

Management has considered the Group's cash flow forecasts for the period ending 31 December 2017, which takes into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

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

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

Changes in accounting policies and estimates

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new or revised standards and interpretations effective as of 1 January 2016, noted below:

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 do not have any impact on the Group's consolidated financial statements.

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 do not have any impact on the Group's consolidated financial statements given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

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

Changes in accounting policies and estimates (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016.
They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

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

Changes in accounting policies and estimates (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

(in thousands of Russian rubles)

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

Changes in accounting policies and estimates (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

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

Reclassifications in the consolidated statement of profit or loss and other comprehensive income

The Group reassessed the presentation of labour cost of temporary employees engaged in own production process in butchery, bakery and culinary. These expenses had previously been recognised within selling general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The Group elected to present labour cost of temporary employees engaged in own production within cost of goods sold in the consolidated statement of profit or loss and other comprehensive income.

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 performance.

The Group applied change in presentation retrospectively, by adjusting comparative amounts disclosed for the prior period presented.

Impact on interim condensed consolidated statement of profit or loss and other comprehensive income

	Amount previously reported	Adjustments	Amount after reclassification
Six month ended 30 June 2015			
Cost of goods sold	(89,920,735)	(99,639)	(90,020,374)
Selling general and administrative expenses	(16,852,102)	99,639	(16,752,463)
Gross profit	24,976,419	(99,639)	24,876,780

(in thousands of Russian rubles)

3. Operating segments

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

The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned intermediate holding subsidiary Zoronvo Holdings Limited, which is eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating 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 analyse performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA).

The accounting policies used for the management purposes are the same as accounting policies applied for the consolidated financial statements.

The segment information for the six months ended 30 June 2016 and 2015, respectively, is as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Sales	140,086,587	114,897,154
EBITDA	13,675,746	11,704,431

Reconciliation of EBITDA to IFRS profit for the six months ended 30 June 2016 and 2015 is as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
EBITDA	**13,675,746**	**11,704,431**
Interest expense	(5,085,556)	(5,352,540)
Interest income	633,265	254,672
Income tax expense (see Note 19)	(1,323,836)	(823,669)
Depreciation/amortisation (see Note 6, 23)	(3,600,088)	(2,689,606)
Foreign exchange gains/(losses)	26,469	(134,042)
Ineffective portion of the change in fair value of cash flow hedging instruments	–	6,308
Profit for the year	**4,326,000**	**2,965,554**

(in thousands of Russian rubles)

4. Seasonality of operations

The retail sales are subject to seasonal fluctuations with the higher demand on the eve of holidays. Particularly, relatively higher revenues are usually expected on New Year's Eve in relation to the whole assortment of goods. This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by IAS 34 *Interim Financial Reporting*.

5. Balances and transactions with related parties

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

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

Entities with significant influence over the Group:

	30 June 2016	31 December 2015
TPG Capital		
Accrued liabilities	6,718	13,848
EBRD		
Long-term loans payable	–	4,520,527
Accrued liabilities	–	6,559
Interest accrued	–	1,691

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Six months ended 30 June 2016	Six months ended 30 June 2015
EBRD		
Repayments of borrowings	(4,554,240)	–
Interest expense	340,077	506,450
Directors fee	–	15,019
TPG Capital		
Consulting services	–	2,807
Business trip expenses	304	–
Directors fee	7,866	12,038

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Short-term benefits	365,053	245,224
Long-term benefits (share-based payments, Note 25)	101,918	40,510
Total remuneration	**466,971**	**285,734**

(in thousands of Russian rubles)

6. Property, plant and equipment

	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construc-tion	Total
Cost						
Balance at 1 January 2016	**12,582,774**	**7,116,578**	**71,205,405**	**29,434,011**	**3,564,759**	**123,903,527**
Additions	–	–	–	–	11,718,494	**11,718,494**
Transfers from construction in progress	995,132	734,003	5,372,550	3,218,146	(10,319,831)	**–**
Transfers from leasehold rights	187,407	–	–	–	–	**187,407**
Internal transfers	–	–	(8,525)	8,525	–	**–**
Disposals	–	–	(131,745)	(330,389)	(106,310)	**(568,444)**
Balance at 30 June 2016	**13,765,313**	**7,850,581**	**76,437,685**	**32,330,293**	**4,857,112**	**135,240,984**
Accumulated depreciation and impairment						
Balance at 1 January 2016	**–**	**1,041,933**	**8,647,931**	**10,197,205**	**–**	**19,887,069**
Charge for the year	–	121,780	1,268,237	2,036,265	–	**3,426,282**
Disposals	–	–	(13,457)	(158,171)	–	**(171,628)**
Balance at 30 June 2016	**–**	**1,163,713**	**9,902,711**	**12,075,299**	**–**	**23,141,723**
Net book value						
Balance at 1 January 2016	**12,582,774**	**6,074,645**	**62,557,474**	**19,236,806**	**3,564,759**	**104,016,458**
Balance at 30 June 2016	**13,765,313**	**6,686,868**	**66,534,974**	**20,254,994**	**4,857,112**	**112,099,261**

	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construc-tion	Total
Cost						
Balance at 1 January 2015	**9,971,338**	**5,488,814**	**54,610,275**	**21,331,730**	**4,542,748**	**95,944,905**
Additions	–	–	87,269	–	6,771,518	**6,858,787**
Transfers from construction in progress	328,042	484,336	2,369,688	2,495,323	(5,677,389)	**–**
Transfers from leasehold rights	281,390	–	–	–	–	**281,390**
Disposals	(23,436)	–	(1,929)	(103,549)	(17,136)	**(146,050)**
Balance at 30 June 2015	**10,557,334**	**5,973,150**	**57,065,303**	**23,723,504**	**5,619,741**	**102,939,032**
Accumulated depreciation and impairment						
Balance at 1 January 2015	**–**	**848,274**	**6,621,417**	**7,257,007**	**–**	**14,726,698**
Charge for the year	–	92,105	966,001	1,477,141	–	**2,535,247**
Disposals	–	–	(1,641)	(81,051)	–	**(82,692)**
Balance at 30 June 2015	**–**	**940,379**	**7,585,777**	**8,653,097**	**–**	**17,179,253**
Net book value						
Balance at 1 January 2015	**9,971,338**	**4,640,540**	**47,988,858**	**14,074,723**	**4,542,748**	**81,218,207**
Balance at 30 June 2015	**10,557,334**	**5,032,771**	**49,479,526**	**15,070,407**	**5,619,741**	**85,759,779**

During the six months ended 30 June 2016 and the six months ended 30 June 2015 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.

Land and buildings with a carrying amount of RUB 3,956,848 thousand were pledged under secured loan agreement with EBRD as at 31 December 2015. All pledged assets are to be released upon termination of the loan agreement with EBRD on 30 June 2016 (see Note 18).

(in thousands of Russian rubles)

6. Property, plant and equipment (continued)

No property, plant and equipment is held by the Group under finance leases at 30 June 2016. At 31 December 2015 the carrying amount of property, plant and equipment held under finance leases was RUB 37,532 thousand.

The amount of depreciation charged during the six months ended 30 June 2016 and the six months ended 30 June 2015 is presented within depreciation and amortisation in the Group's interim condensed consolidated statement of profit or loss and other comprehensive income and interim condensed consolidated statement of cash flows as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Depreciation of property, plant and equipment (Note 6)	3,426,282	2,535,247
Amortisation of intangible assets (Note 9)	140,930	118,907
Leasehold rights amortisation (Note 8)	32,876	35,452
Total depreciation and amortisation	**3,600,088**	**2,689,606**

See Note 26 for capital commitments.

7. Prepayments for construction

Prepayments for construction are represented by advances given to the constructors for the building of the stores and to suppliers.

8. Leasehold rights

Leasehold rights as at 30 June 2016 consist of the following:

	Leasehold rights
Cost	
At 1 January 2016	**3,255,655**
Additions	42,373
Disposals	(1,279)
Transfer to PPE	(194,916)
At 30 June 2016	**3,101,833**
Accumulated amortisation	
At 1 January 2016	**208,487**
Charge for the period	32,876
Transfer to PPE	(7,509)
At 30 June 2016	**233,854**
Net book value	
At 1 January 2016	**3,047,168**
At 30 June 2016	**2,867,979**

(in thousands of Russian rubles)

8. Leasehold rights (continued)

Leasehold rights as at 30 June 2015 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2015	**3,486,162**
Transfer to PPE	(307,184)
At 30 June 2015	**3,178,978**
Accumulated amortisation and impairment	
At 1 January 2015	**214,618**
Charge for the year	35,452
Transfer to PPE	(25,794)
At 30 June 2015	**224,276**
Net book value	
At 1 January 2015	**3,271,544**
At 30 June 2015	**2,954,702**

Amortisation expense is included in selling, general and administrative expenses (Note 23).

9. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 30 June 2016 consist of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2016	**2,078,687**	**549**	**2,079,236**
Additions	226,434	–	**226,434**
At 30 June 2016	**2,305,121**	**549**	**2,305,670**
Accumulated amortisation			
At 1 January 2016	**986,358**	**549**	**986,907**
Amortisation for the period	140,930	–	**140,930**
At 30 June 2016	**1,127,288**	**549**	**1,127,837**
Net book value			
At 1 January 2016	**1,092,329**	**–**	**1,092,329**
At 30 June 2016	**1,177,833**	**–**	**1,177,833**

(in thousands of Russian rubles)

9. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 30 June 2015 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2015	**1,603,385**	**549**	**1,603,934**
Additions	234,054	–	**234,054**
At 30 June 2015	**1,837,439**	**549**	**1,837,988**
Accumulated amortisation			
At 1 January 2015	**732,870**	**533**	**733,403**
Amortisation for the period	118,897	10	**118,907**
At 30 June 2015	**851,767**	**543**	**852,310**
Net book value			
At 1 January 2015	**870,515**	**16**	**870,531**
At 30 June 2015	**985,672**	**6**	**985,678**

Amortisation expense is included in selling, general and administrative expenses (Note 23).

10. Inventories

	30 June 2016	31 December 2015
Goods for resale (at lower of cost and net realisable value)	20,929,473	21,809,738
Raw materials	873,285	971,994
Total inventories	**21,802,758**	**22,781,732**

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

	30 June 2016	31 December 2015
Goods for resale (at cost)	22,233,629	22,729,419
Write down to net realizable value	(1,304,156)	(919,681)
Goods for resale (at lower of cost and net realisable value)	**20,929,473**	**21,809,738**

During the reporting period the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2016 in the amount of RUB 384,475 thousand (for the six months ended 30 June 2015: RUB 139,103 thousand).

(in thousands of Russian rubles)

11. Trade and other receivables

	30 June 2016	31 December 2015
Accounts receivable on rental and other services and on suppliers' advertising	9,736,101	9,727,574
Suppliers' rebates receivable	2,374,309	3,643,232
Other receivables	177,813	307,105
Provision for impairment of receivables	(86,088)	(31,017)
Total trade and other receivables	**12,202,135**	**13,646,894**

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 recognised 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 30 June 2016:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	125,664	15,757	32,740	2,176,181	**2,350,342**
Accounts receivable on rental and other services	1,183,369	126,342	100,067	8,264,735	**9,674,513**
Other receivables	28,349	13,465	10,899	124,567	**177,280**
Total	**1,337,382**	**155,564**	**143,706**	**10,565,483**	**12,202,135**

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2015:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	87,469	8,326	30,827	3,513,960	**3,640,582**
Accounts receivable on rental and other services	1,206,134	45,621	43,801	8,406,211	**9,701,767**
Other receivables	80,450	4,157	1,376	218,562	**304,545**
Total	**1,374,053**	**58,104**	**76,004**	**12,138,733**	**13,646,894**

(in thousands of Russian rubles)

12. Advances paid

	30 June 2016	31 December 2015
Advances to suppliers of goods	1,020,097	788,124
Advances for services	1,478,328	1,066,570
Guarantee payments under lease contracts	410,993	410,217
Total advances paid	**2,909,418**	**2,264,911**

13. Taxes recoverable

Taxes recoverable as at 30 June 2016 are represented by a VAT recoverable of RUB 1,419,528 thousand (31 December 2015: RUB 1,257,764 thousand).

14. Cash and cash equivalents

	30 June 2016	31 December 2015
Rouble short-term deposits	6,444,978	16,612,228
Rouble denominated cash in transit	841,370	2,258,241
Rouble denominated cash on hand and balances with banks	653,987	3,556,009
Foreign currency denominated cash on hand and balances with banks	184,887	29,467
Total cash and cash equivalents	**8,125,222**	**22,455,945**

Cash in transit represents cash receipts made during the last days of the reporting period (30 June or 29-31 December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period.

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

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

15. Issued capital and reserves

As at 30 June 2016 the Company's share capital is comprised of 97,318,746 authorized and issued ordinary shares (as at 31 December 2015: 97,318,746) with equal voting rights. The shares have no par value.

(in thousands of Russian rubles)

15. Issued capital and reserves (continued)

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realisable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends in the amount limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the six months ended 30 June 2016 and for the year ended 31 December 2015.

The movements in the number of shares for the six months ended 30 June 2016 and for the six months ended 30 June 2015 are as follows:

	30 June 2016 No.	30 June 2015 No.
Authorized share capital (ordinary shares with no par value)	unlimited	unlimited
Issued and fully paid (no par value)	97,318,746	93,093,394

	Six months ended 30 June 2016 No.	Six months ended 30 June 2015 No.
Balance of shares outstanding at the beginning of reporting period	**97,318,746**	**86,053,394**
Additional issue of shares	–	7,040,000
Balance of shares outstanding at the end of reporting period	**97,318,746**	**93,093,394**

For the six months ended 30 June 2015 7,040,000 ordinary shares were issued by the Group for a cash consideration of RUB 12,595,362 thousand net of directly attributable issuance costs. The whole amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 25 for further details of these plans.

Hedging reserve

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

16. Components of other comprehensive income (OCI)

	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flow hedges		
Reclassification during the year to profit or loss	(230,696)	(1,518,462)
Related tax effect	46,140	303,692
Loss arising during the year	(74,942)	(385,158)
Related tax effect	14,988	77,032
Net loss during the six months	**(244,510)**	**(1,522,896)**

17. Earnings per share

	Six months ended 30 June 2016	Six months ended 30 June 2015
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	0.044	0.033

The calculation of basic earnings per share for reporting periods is based on the profit attributable to shareholders (for the six months ended 30 June 2016: RUB 4,326,000 thousand, for the six months ended 30 June 2015: RUB 2,965,554 thousand) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Six months ended 30 June 2016	Six months ended 30 June 2015
Number of issued shares at the beginning of reporting period	**97,318,746**	**86,053,394**
Number of shares issued in March 2015	–	7,040,000
Number of shares at the end of reporting period	97,318,746	93,093,394
Weighted average number of shares	**97,318,746**	**89,787,317**

The Group has issued share-based payments (Note 25) instruments that could potentially dilute basic earnings per share in the future. These instruments have no material dilutive effect on earnings per share for the periods presented.

18. Borrowings

Short-term borrowings:

	Currency	30 June 2016	31 December 2015
Fixed rate bonds (liability for interests)	RUB	705,349	760,097
Fixed rate long-term bank loans (liability for interests)	RUB	2,858	30,138
Floating rate long-term bank loans (liability for interests)	RUB	7,861	14,575
Fixed rate short-term bank loans (liability for interests)	RUB	30,798	–
Short-term portion of fixed rate long-term bank loans	RUB	2,000,000	–
Fixed rate short-term bank loans	RUB	11,469,957	–
Fixed rate bonds	RUB	–	9,968,467
Total short-term borrowings and short-term portion of long-term borrowings		**14,216,823**	**10,773,277**

(in thousands of Russian rubles)

18. Borrowings (continued)

Long-term borrowings:

	Currency	30 June 2016	31 December 2015
Fixed rate bonds	RUB	16,955,718	9,973,156
Fixed rate long-term bank loans	RUB	6,961,128	9,951,940
Floating rate long-term bank loans	RUB	37,104,872	45,224,001
Total long-term borrowings		**61,021,718**	**65,149,097**

The Groups' borrowings as at 30 June 2016 and 31 December 2015 are denominated in Russian roubles.

On 27 January 2016 the Group received RUB 7,000,000 thousand under non-revolving credit line agreement with PJSC Rosbank with maturity period of 3 years. The loan bears covenants with respect to Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 18 February 2016 coupons 7-11 on 03 series bonds issued in March 2013 were reset at 11.75% per annum, put option right on early redemption after 2.5 years (August 2018).
On 3 March 2016 the Group executed an offer of 03 series bonds with total nominal value of RUB 586,583 thousand, and completed book building for the offering on the same day at price amounting to 100.75% of nominal value.

On 24 February 2016 coupons 7-11 on 01 series bonds issued in March 2013 were reset at 11.75% per annum, put option right on early redemption after 2.5 years (September 2018).
On 10 March 2016 right on early redemption of 01 series bonds was not exercised by the holders.

On 24 February 2016 coupons 7-12 on 02 series bonds issued in March 2013 were reset at 11% per annum, put option right on early redemption after 3 years (March 2019). On 10 March 2016 the Group executed an offer of 02 series bonds with total nominal value of RUB 2,999,979 thousand.

On 9 June 2016 the Group signed revolving credit line of RUB 5,000,000 thousand with PJSC Bank Saint-Petersburg.

On 21 June 2016 revolving credit line of RUB 5,000,000 thousand was agreed with JSC Rosselkhozbank. The credit line has covenants with respect to the Net debt / EBITDA and EBITDA / Net interest expense ratios.

On 30 June 2016 termination of loan agreement with EBRD was signed upon the prepayment of the entire outstanding principal amount of RUB 4,554,240 thousand.

During six month ended 30 June 2016 the Group received RUB 4,700,000 thousand under credit agreements concluded before 1 January 2016 and repaid RUB 11,004,240 thousand.

As at 30 June 2016 the Group had RUB 48,300,000 thousand of unused credit facilities (as at 31 December 2015: RUB 45,300,000 thousand).

As at 30 June 2016 the Group is in compliance with all financial covenants of loan agreements.

(in thousands of Russian rubles)

19. Income taxes

The Group's income tax expense for the six months ended 30 June 2016 and 30 June 2015 is as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Current tax expense	67,057	31,597
Deferred tax expense	1,256,779	792,072
Income tax expense recognised in profit or loss	**1,323,836**	**823,669**
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	(61,128)	(380,724)
Income tax benefit recognised in OCI	**(61,128)**	**(380,724)**

	Six months ended 30 June 2016	Six months ended 30 June 2015
Profit before tax	**5,649,836**	**3,789,223**
Theoretical tax charge at 20%	**(1,129,967)**	**(757,844)**
Difference in tax rates for foreign companies	(72,223)	(21,994)
Add tax effect of non-deductible expenses	(121,646)	(43,831)
- share option expenses	(23,883)	(13,820)
- others	(97,763)	(30,011)
Income tax expense	**1,323,836**	**823,669**

20. Trade and other payables

	30 June 2016	31 December 2015
Trade payables	32,680,693	42,002,004
Accrued liabilities and other creditors	3,904,872	3,586,669
Payables for purchases of property, plant and equipment	2,186,554	3,231,534
Total trade and other payables	**38,772,119**	**48,820,207**

The trade and other payables are denominated in:

	30 June 2016	31 December 2015
Russian roubles	38,568,496	48,601,870
USD	55,009	122,582
EUR	148,614	94,991
GBP	–	764
Total trade and other payables	**38,772,119**	**48,820,207**

(in thousands of Russian rubles)

21. Other taxes payable

	30 June 2016	31 December 2015
Social taxes	388,267	490,231
Property tax	257,145	270,774
Personal income tax	118,815	134,089
Other taxes	49,624	31,990
Total other taxes payable	**813,851**	**927,084**

22. Cost of sales

Cost of sales for the six months ended 30 June 2016 and 30 June 2015 consists of the following:

	Six months ended 30 June 2016	Six months ended 30 June 2015 (reclassified)
Cost of goods sold	93,422,008	76,392,671
Cost of own production	11,529,746	10,062,472
Supply chain cost	1,700,298	1,430,019
Losses due to inventory shortages and write down to net realisable value	2,778,115	2,135,212
Total cost of sales	**109,430,167**	**90,020,374**

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

The cost of own production consists of the following:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Raw materials	9,458,053	8,216,404
Labour costs	1,702,644	1,433,853
Utilities	326,285	374,845
Repairs and maintenance	42,764	37,370
Total cost of own production	**11,529,746**	**10,062,472**

Cost of sales for the six months ended 30 June 2016 includes employee benefits expense of RUB 2,362,074 thousand (for the six months ended 30 June 2015: RUB 1,982,052 thousand) of which contributions to state pension fund comprised RUB 350,640 thousand (for the six months ended 30 June 2015: RUB 306,665 thousand).

(in thousands of Russian rubles)

23. Selling, general and administrative expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015 (reclassified)
Employee benefits	8,433,420	6,878,574
Depreciation and amortisation (Note 6)	3,600,088	2,681,967
Advertising	1,547,190	945,798
Premises lease	1,527,134	1,103,052
Utilities and communal payments	1,433,105	909,011
Professional fees	1,114,359	849,505
Cleaning	860,885	723,173
Repairs and maintenance	682,451	533,967
Security services	607,332	467,699
Taxes other than income tax	593,710	532,073
Land and equipment lease	169,576	180,852
Pre-opening costs	166,874	216,270
Other	955,665	730,522
Total selling, general and administrative expenses	**21,691,789**	**16,752,463**

The Group presents expenses on IT consumables and operational cost under premises lease agreements as other expenses within selling, general and administrative expenses. Comparative amounts disclosed for the six months ended 30 June 2015 as repairs and maintenance expenses were respectively adjusted in the amount of RUB 226,454 thousand.

Employee benefits for the six months ended 30 June 2016 include contributions to state pension fund of RUB 1,171,368 thousand (for the six months ended 30 June 2015: RUB 966,242 thousand).

Pre-opening costs for the six months ended 30 June 2016 include employee benefits of RUB 79,785 (for the six months ended 30 June 2015: RUB 100,299) of which contributions to state pension fund comprised RUB 9,867 thousand (for the six months ended 30 June 2015: RUB 12,183 thousand).

24. Other operating income and expenses

Other operating income is comprised of the following:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Rental income	466,959	351,886
Penalties due by suppliers	335,936	451,379
Sale of secondary materials	228,923	113,881
Advertising income	209,337	172,415
Amounts received from lawsuit settlement	188,089	–
Gain on property, plant and equipment disposal	3,976	27,546
Other	63,448	62,234
Total other operating income	**1,496,668**	**1,179,341**

(in thousands of Russian rubles)

24. Other operating income and expenses (continued)

Other operating expenses are comprised of the following:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Change in bad debt allowance and impairment of prepayments for construction	175,427	192,205
Loss on fixed assets and leasehold rights disposal	161,928	38,130
Penalties from government authorities	8,522	29,605
Penalties for breach of a contracts with suppliers	186	1,086
Other	39,578	27,807
Total other operating expenses	**385,641**	**288,833**

25. Share-based payments

Long-term incentive plan

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

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

Under terms of Tranche 2014 the shares are to be released in phases:

- 1st 25% on the first anniversary of the award (1 April 2015);
- 2nd 25% on the second anniversary of the award (1 April 2016);
- 50% on the third anniversary of the award (1 April 2017), provided that employment conditions are met.

With respect to the first phase no shares were issued in April 2015 and April 2016, the Group plans to release shares till the end of 2016.

The vesting date of Tranche 2015 is 1 April 2018. The vesting dates of awards granted during the six months ended 30 June 2016 are 31 December 2018 and 1 April 2019.

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

(in thousands of Russian rubles)

25. Share-based payments (continued)

Long-term incentive plan (continued)

Total expense recognised for the services received from the employees covered by long-term incentive plan for the six months ended 30 June 2016 and 30 June 2015 is shown in the following table:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Expense arising from the equity-settled long-term incentive plan payments	25,933	12,743

Share value appreciation rights

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

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, SVARs:

	2016 Number	2016 WAEP, RUB	2015 Number	2015 WAEP, USD
Outstanding at 1 January	**594,211**	**1,516**	**594,211**	**49.84**
Granted during the six months	42,000	2,214	–	–
Forfeited during the six months	–	–	–	–
Exercised during the six months	–	–	–	–
Expired during the six months	–	–	–	–
Outstanding at 30 June	**636,211**	**1,562**	**594,211**	**49.84**
Exercisable at 30 June	–	–	–	–

In March 2015 modifications to the SVARs were agreed including deferral of exercise date of SVARs that are to be vested in April 2015 by one year.

On 17 July 2015 the Remuneration Committee of Lenta Ltd agreed on certain changes in the management long-term incentive plan, which is based on share value appreciation rights. Whereas the plan has been set up using financial parameters denominated in USD, all financial parameters are now changed into Russian roubles using the exchange rate on the date of the grant (1 April 2013). As a result, the exercise price for the remaining outstanding options will be changed from USD 49.84 to RUB 1,516 per share. The vesting schedule has been revised and fixed, as a result of which the remaining 80% of the initial grant will now vest in 2 stages: 30% on 1 April 2017 and the remaining 50% on 1 April 2018.

During the six month ended 30 June 2016 additional tranche of share value appreciation rights (SVARs) was granted to certain members of top management as part of management long-term incentive plan.

(in thousands of Russian rubles)

25. Share-based payments (continued)

Movements during the year (continued)

The weighted average remaining contractual life for the SVARs outstanding as at 30 June 2016 was 2.3 years (31 December 2015: 2.3 years).

The weighted average exercise price for options outstanding as at 30 June 2016 is RUB 1,562 thousand (31 December 2015: RUB 1,516 thousand).

The weighted average fair value of options outstanding as at 30 June 2016 is RUB 0.89 thousand (year ended 31 December 2015: RUB 0.86 thousand).

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Expense arising from the equity-settled SVARs transaction	93,483	38,776

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.

26. Commitments

Capital expenditure commitments

At 30 June 2016 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 28,853,539 thousand net of VAT (31 December 2015: RUB 19,370,442 thousand net of VAT).

Operating lease commitments

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

	30 June 2016	31 December 2015
Not later than 1 year	3,703,722	3,786,074
Later than 1 year and not later than 5 years	14,601,148	14,664,366
Later than 5 years	34,131,243	33,247,702
Total operating lease commitments	**52,436,113**	**51,698,142**

(in thousands of Russian rubles)

27. Financial instruments

Categories of financial instruments

	30 June 2016	31 December 2015
Financial assets		
Cash	8,125,222	22,455,945
Trade and other receivables	12,202,135	13,646,894
Cash flow hedging instruments	453,924	794,464
Financial liabilities		
Cash flow hedging instruments	89,226	124,128
At amortised cost:		
Floating rate long-term borrowings	37,112,733	45,238,576
Fixed rate long-term borrowings and bonds	24,625,053	20,395,179
Fixed rate short-term borrowings	13,500,755	10,288,619
Trade and other payables	37,268,768	47,058,158
Obligations under finance leases	–	18,577
Total financial liabilities at amortised cost	**112,507,309**	**122,999,109**

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures of fair value measurement hierarchy for financial assets and financial liabilities as at 30 June 2016 are:

	30 June 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	453,924	–	453,924	–
Financial liabilities measured at fair value				
Cash flow hedging instruments	89,226	–	89,226	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	18,231,370	18,231,370	–	–
Floating rate borrowings	37,112,733	–	37,112,733	–
Fixed rate borrowings	20,121,626	–	20,121,626	–

	31 December 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	794,464	–	794,464	–
Financial liabilities measured at fair value				
Cash flow hedging instruments	124,128	–	124,128	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	20,632,997	20,632,997	–	–
Floating rate borrowings	45,238,576	–	45,238,576	–
Fixed rate borrowings	9,479,907	–	9,479,907	–
Obligations under finance leases	18,577	–	18,577	–

(in thousands of Russian rubles)

27. Financial instruments (continued)

Fair values (continued)

During the reporting periods ending 30 June 2016 and 31 December 2015, there were no transfers between Level 1, Level 2 and Level 3 of fair value measurements.

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

	30 June 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash flow hedging instruments	453,924	453,924	794,464	794,464
Financial liabilities				
Interest-bearing loans and borrowings				
Obligations under finance leases	–	–	18,577	18,577
Floating rate borrowings	37,112,733	37,112,733	45,238,576	45,238,576
Fixed rate borrowings and bonds	38,125,808	38,352,996	30,683,798	30,112,904
Derivatives in effective hedges				
Cash flow hedging instruments	89,226	89,226	124,128	124,128
Total financial liabilities	**75,327,767**	**75,554,955**	**76,065,079**	**75,494,185**

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

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

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 non-performance risk as at 30 June 2016 and 31 December 2015 was assessed to be insignificant.
- The fair value of bonds is based on the price quotations at the reporting date at Moscow Exchange where transactions with bonds take place with sufficient frequency and volume.
- The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 30 June 2016 and 31 December 2015, 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.

(in thousands of Russian rubles)

28. Hedge and hedging instruments

The Group entered into interest rate swaps and caps provided by VTB Bank PJSC 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 the earlier of the expiry date and the fourth settlement date for the floating amounts paid by VTB to the Group.

Type of instrument	Notional amount 2016	Notional amount 2015	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	12,500,000	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate swap	1,000,000	1,000,000	15.35%	n/a	31 December 2014	31 December 2016
Interest rate cap	10,000,000	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	900,000	12.00%	0.45%	31 December 2013	12 November 2018

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

	30 June 2016	31 December 2015
Non-current asset	129,632	355,414
Current assets	324,292	439,050
Non-current liability	(9,470)	(24,564)
Current liability	(79,756)	(99,564)
Net derivative asset	**364,698**	**670,336**

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

	30 June 2016	31 December 2015
Swaps	432,672	755,481
Caps	(67,974)	(85,145)
Net derivative asset	**364,698**	**670,336**

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

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

(in thousands of Russian rubles)

28. Hedge and hedging instruments (continued)

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Profit or loss		
Ineffective portion of change in fair value of cash flow hedging instruments	–	6,308
Reclassification from hedge reserve into interest expense	230,696	1,518,462
	230,696	**1,524,770**
Other comprehensive income		
Effective portion of change in fair value of cash flow hedging instruments	(74,942)	(385,158)
Reclassification from hedge reserve into interest expense	(230,696)	(1,518,462)
	(305,638)	**(1,903,620)**

29. 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 2016, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries in 2014. The rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015 and 2016. 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.

29. 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 73,352 thousand as at 30 June 2016 (31 December 2015: RUB 6,449 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 interim condensed 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 146,215 thousand (31 December 2015: RUB 126,793 thousand). No tax provisions are recorded as at 30 June 2016 and 31 December 2015. 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 interim condensed consolidated 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 are accrued as at 30 June 2016 and 31 December 2015.

Environmental matters

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

30. Events occurring after the reporting period

On 3 July 2016, the President of the Russian Federation signed the law amending Federal Law dated 28 December 2009 *On the Fundamentals of State Regulation of Trade Activity in the Russian Federation* (the “Trade Activity Law”). The law introduces aggregate cap of 5% of the purchase price for volume bonus payments, fees for marketing, logistic and other service fees payable by food product suppliers and reduces the maximum period for deferred payments for goods in accordance with the goods’ shelf life. The Law entered into force on 15 July 2016. Agreements concluded before the amendments’ effective date will have to be brought into compliance with the amended provisions by 1 January 2017.

Management is currently examining contracts with food product suppliers for compliance with the new legal requirements and, if necessary, the respective contracts will be amended accordingly by 31 December 2016.