IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "**Document**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Document. In accessing the Document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access. The Document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED TO PERSONS LOCATED OUTSIDE THE UNITED STATES OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this Document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this Document, you shall be deemed to have represented to Lenta Ltd. (the "**Company**"), Luna Inc., the European Bank for Reconstruction and Development, Luna Holdings Inc. and the other selling shareholders referred to herein under "*Principal and Selling Shareholders—Selling Shareholders"* (the "**Selling Shareholders**") and Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc., VTB Capital plc, Deutsche Bank AG, London Branch, UBS Limited (the "**Joint Bookrunners**") and TPG Capital BD, LLC (the "**Co-Manager**", and together with the **Joint Bookrunners**", the "**Managers**") that you are outside the United States or that you are a QIB and that you consent to delivery of such Document by electronic transmission. You are reminded that this Document has been delivered to you on the basis that you are a person into whose possession this Document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers or any affiliate of any Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of Lenta Ltd. and the Selling Shareholders in such jurisdiction. Under no circumstances shall this Document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus. The information contained in the Document is directed solely at persons (1) outside the United Kingdom, (2) within the United Kingdom (i) having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Market Act (Financial Promotion) Order 2005 (the "**Order**") or (ii) to persons of a kind described in Article 49(2) (a) to (d) of the Order or (3) in member states of the European Economic Area ("**EEA Member States**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (all such persons together being referred to as "**Relevant Persons**"). Any investment activity to which this Document relates is only available to, and will only be engaged in with, Relevant Persons. This Document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Persons who are not Relevant Persons must not rely on or act upon the information contained in the Document.

This Document is not a public offer or advertisement of securities in the Russian Federation, and is not an offer to sell, or an invitation to make offers to purchase, any securities in the Russian Federation. Neither the securities mentioned in the Document nor any prospectus or other document relating to them have been, or are intended to be, registered with the Service for the Financial Markets of the Bank of Russia. Therefore, "public placement" of the securities mentioned in the Document in Russia is prohibited. In addition, before the MICEX Admission (as defined herein), in respect of the timing of which no assurance can be given by the Company. or any of the Selling Shareholders or the Managers, the securities mentioned in the Document may not be offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

This Document is not and is not intended as a public offer or advertisement of, or solicitation in respect of, securities, investments or other investment business in the British Virgin Islands, and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments or services constituting investment business in the British Virgin Islands. Neither the securities mentioned in the Document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of the British Virgin Islands or any department thereof.

This Document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, the Selling Shareholders, the Managers or Rothschild, as named in this Document, nor any person who controls any of them nor any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Managers.

Actions That You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the reply function on your e-mail software, will be ignored and rejected.

Offering of 95,238,095 Global Depositary Receipts
Offer Price: U.S.$10 per GDR

This is an offering (the "**Offering**") by the Selling Shareholders (as defined in "*Principal and Selling Shareholders*") of Lenta Ltd. (the "**Company**"), a company organised and existing under the laws of the British Virgin Islands (the "**BVI**"), of 95,238,095 global depositary receipts (the "**GDRs**"), representing 19,047,619 ordinary shares of the Company (the "**Shares**"). Five GDRs represent an interest in one Share. The Selling Shareholders will grant to Credit Suisse Securities (Europe) Limited ("**Credit Suisse**"), J.P. Morgan Securities plc., VTB Capital plc ("**VTB Capital**") (collectively, the "**Joint Global Coordinators**"), Deutsche Bank AG, London Branch and UBS Limited (collectively and together with the Joint Global Coordinators, the "**Joint Bookrunners**") and TPG Capital BD, LLC (the "**Co-Manager**" and together with the Joint Bookrunners, the "**Managers**") an option (the "**Over-allotment Option**") to acquire up to 14,285,715 additional GDRs representing Shares at the offer price (the "**Offer Price**") for the purposes of meeting over-allotments in connection with the Offering.

This document (the "**Prospectus**") has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**") in accordance with the prospectus rules (the "**Prospectus Rules**") of the FCA made under section 73A of the Financial Services and Markets Act 2000 ("**FSMA**") in relation to the admission to listing and to trading of the GDRs. This document is a prospectus relating to the Company prepared in accordance with the Prospectus Rules. Applications have been made (1) to the FCA, in its capacity as competent authority under the FSMA for a listing of up to 430,264,975 GDRs, consisting of (i) 95,238,095 GDRs to be issued on or about 5 March 2014 (the "**Closing Date**"), (ii) up to 14,285,715 additional GDRs to be issued in connection with the Over-allotment Option and (iii) up to an additional 320,741,165 GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with Deutsche Custody NV, as custodian (the "**Custodian**") acting on behalf of Deutsche Bank Luxembourg S.A., as depositary (the "**Depositary**"), to be admitted to the official list of the FCA (the "**Official List**"), and (2) to the London Stock Exchange plc (the "**London Stock Exchange**" or "**LSE**") for such GDRs to be admitted to trading under the symbol LNTA (in the case of Regulation S GDRs (as defined below)) and LNTR (in the case of Rule 144A GDRs (as defined below)) on the London Stock Exchange's regulated market for listed securities, which is regulated under the Markets in Financial Instruments Directive 2004/39/EC, through its international order book (the "**IOB**"). Conditional trading in the GDRs on the London Stock Exchange through its IOB is expected to commence on an if-and-when issued basis on or about 28 February 2014. Admission to the Official List and to trading on the regulated market ("**London Admission**") is expected to take place on or about 5 March 2014. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the expected London Admission does not take place and will be at the sole risk of the parties concerned.

The Company is seeking the approval of Closed Joint-Stock Company "MICEX Stock Exchange" ("**MICEX**"), a part of the Moscow Exchange Group, in accordance with Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian Securities Law**"); Order of the Federal Service for Financial Markets ("**FSFM**") No. 10-78/pz-n dated 28 December 2010 "On Approval of Regulations on Organised Trading Activity on the Securities Market", as amended; Order of the FSFM No. 11-46/pz-n dated 4 October 2011 "On Approval of Regulations on Disclosure of Information by Issuers of Issue Securities", as amended; Order of the FSFM No. 13-62/pz-n dated 30 July 2013 "On the Procedure for Admission of Securities to Organised Trading"; and the listing rules of MICEX registered on 1 November 2013 with the Central Bank of Russia (the "**CBR**"), in relation to (1) the public circulation in the Russian Federation of the Regulation S GDRs to be issued from time to time and (2) the admission of the Regulation S GDRs to be issued from time to time to trading on MICEX under the symbol LNTA (together, the "**MICEX Admission**"). Rule 144A GDRs will not be admitted to trading on MICEX. The MICEX Admission may not take place earlier than the London Admission. Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted. Although the Company expects that the MICEX Admission may take place on or about 6 March 2014, no assurance can be given that MICEX will approve the MICEX Admission and, if such approval takes place, that thereafter the GDRs will continue to be admitted to trading on MICEX. See "*Risk Factors—Risks Relating to the GDRs and the Trading Market—The GDRs may not be admitted to trading on MICEX or may be de-listed from MICEX*".

The Offering comprises an offering of GDRs (a) within the United States to qualified institutional buyers ("**QIBs**"), as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or another exemption from, the registration requirements of the Securities Act, and (b) outside the United States to institutional investors in "offshore transactions" as defined in, and in reliance on, Regulation S under the Securities Act ("**Regulation S**"). Prior to the Offering, there has been no public market for the Shares or the GDRs. The Shares will not be and are not expected to be listed on any exchange.

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

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

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

Joint Global Coordinators

Credit Suisse **J.P. Morgan** **VTB Capital**

Joint Bookrunners

Credit Suisse **Deutsche Bank** **J.P. Morgan** **UBS Investment Bank** **VTB Capital**

Co-Manager

TPG Capital BD, LLC

Financial Advisor

Rothschild

The date of this Prospectus is 28 February 2014

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

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

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

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

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

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

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

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

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

The Company and the Selling Shareholders may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor. The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about and observe any such restrictions. See "*Selling and Transfer Restrictions*" and "*Plan of Distribution*". You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholders or the Managers is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The contents of the websites of the Company, any of the Selling Shareholders and their respective subsidiaries do not form part of this Prospectus.

NOTICE TO CERTAIN INVESTORS

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

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

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

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

To ensure compliance with United States Treasury Department Circular 230 ("**Circular 230**"), prospective investors are hereby notified that: (a) any discussion of United States federal tax issues in this Prospectus is not intended to be relied upon, and cannot be relied upon, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code (the "**Internal Revenue Code**"); (b) such discussion is included herein by the Company in connection with the promotion or marketing (within the meaning of Circular 230) by the Company and the Managers of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR

EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EEA INVESTORS

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

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

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

NOTICE TO UNITED KINGDOM INVESTORS

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

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

For the purposes of the MICEX Admission, this Prospectus will be translated into Russian. Therefore, this Prospectus prepared in the English language does not constitute an offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any GDRs in the Russian Federation, except to the extent permitted under Russian law. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Service for the Financial Markets of the CBR. Therefore, "public placement" of the GDRs in Russia is prohibited. In addition, before the MICEX Admission, in respect of the timing of which no assurance can be given by the Company or any of the Selling Shareholders or the Managers, the GDRs may not be offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to qualified investors within the meaning of Article 51.2 of the Russian Securities Law or as otherwise may be permitted by Russian law.

NOTICE TO BVI INVESTORS

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

NOTICE TO INVESTORS IN AUSTRALIA

This Prospectus has not been lodged with the Australian Securities and Investments Commission as a disclosure document under Chapter 6D of the Corporations Act 2001 (Cwth) of Australia (the **"Corporations Act"**) and is only directed to certain categories of exempt persons. Accordingly, if you receive this Prospectus in Australia:

a) you confirm and warrant that you are either:

   (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;

   (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate pursuant to the section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

   (iii) a person associated with the Company under section 708(12) of the Corporations Act; or

   (iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act, and, to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance; and

b) you warrant and agree that you will not offer any of the GDRs sold to you pursuant to this Prospectus for resale in Australia within 12 months of those GDRs being sold unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

STABILISATION

In connection with the Offering, Credit Suisse (the "**Stabilising Manager**"), or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the GDRs or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the Closing Date. However, the Stabilising Manager is not required to enter into such transactions. Such stabilising, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during a period of 30 days after the announcement of the Offer Price (the "**Stabilisation Period**").

In connection with the Offering, the Stabilising Manager or any persons acting for the Stabilising Manager, may, for stabilisation purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs being sold in

the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilising Manager during the Stabilisation Period, the Selling Shareholders have granted the Managers the Over-Allotment Option pursuant to which the Managers may require the Selling Shareholders to sell additional GDRs, up to a maximum of 15% of the total number of GDRs being sold in the Offering at the Offer Price.

The Over-allotment Option is exercisable in whole or in part on one occasion only during the Stabilisation Period for the purposes of meeting over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions upon written notice from the Managers to the Selling Shareholders and to the extent not previously exercised by the Managers may be terminated by the Managers at any time. See "*Plan and Distribution*". Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company and Bowdon Holdings Limited are incorporated under the laws of the BVI, Luna Inc., Luna Holdings Inc., Steep Rock Russia Fund, Ltd. and Steep Rock Russia Fund II are incorporated under the laws of the Cayman Islands and MEM (PE) LTD is incorporated under the laws of the Bahamas.

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

Most of the Company's directors and Senior Management (as defined herein) named in this Prospectus reside outside the United States and the United Kingdom. All of the Company's assets and a substantial portion of the assets of its directors and Senior Management are located outside the United States and the United Kingdom.

As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company, the Company's directors or Senior Management or the Selling Shareholders that are located in jurisdictions outside the United States and the United Kingdom or enforce U.S. or U.K. court judgments obtained against the Company, its directors or Senior Management or the Selling Shareholder in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

BVI

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

Enforcement of Judgments of High Court of England

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

Enforcement of Judgments of Other Foreign Courts

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

Enforcement of Arbitration Awards

Foreign arbitration awards may be enforced in the BVI under the Arbitration Act (Cap 6) (the "**BVI Arbitration Act**"). Under the BVI Arbitration Act, a foreign arbitration award may, by leave of the BVI court, be enforced in the same manner as a judgment or order of the High Court of the Eastern Caribbean Supreme Court, British Virgin Islands Division to the same effect. Where leave is so given, judgment may be entered in terms of the award. Both monetary and non-monetary awards may be enforced.

The BVI Arbitration Act draws a distinction between 'Convention Awards' and 'Non-Convention Awards'.

Convention Awards

Although the BVI is not a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted by the United Nations Conference on International Commercial Arbitration on 10 June 1958 (the "**New York Convention**"), Part IX of the BVI Arbitration Act allows the courts of the BVI to enforce foreign arbitration awards from states party to the New York Convention. Where the foreign arbitration award in question is a "Convention Award", which is defined in the BVI Arbitration Act as an award made in pursuance of an arbitration agreement in the territory of a state other than the BVI or the United Kingdom which is a party to the New York Convention ("**Convention Award**"), then enforcement of the award will not be refused save where: (i) the person against whom it is invoked proves: (a) a party to the arbitration agreement was, under the law applicable to him, under some incapacity; (b) the arbitration agreement was not valid under the law to which the parties subjected it or, failing any indication thereon, under the law of the country where the award was made; (c) the person was not given proper notice of the appointment of the arbitrator or the arbitration proceedings or

was otherwise unable to present his case; (d) the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration or contains decisions on matters beyond the submission to arbitration; (e) the composition of the arbitral authority or arbitral procedure was not in accordance with the agreement of the parties or, failing such agreement, with the law of the country where the arbitration took place; or (f) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, it was made; or (ii) the award is in respect of a matter which is not capable of settlement by arbitration or it would be contrary to public policy.

Non-Convention Awards

Where the foreign arbitration award is not a Convention Award, it may still be recognised and enforced in the BVI with leave of the court under section 28 of the BVI Arbitration Act.

United Kingdom awards

Enforcement under the BVI Arbitration Act of arbitration awards made in the United Kingdom remains unclear. The United Kingdom is a party to the New York Convention, but United Kingdom arbitration awards are excluded from the definition of Convention Awards in the BVI Arbitration Act. A party though may still seek to enforce a United Kingdom arbitration award under Section 28 of the BVI Arbitration Act.

However, the Reciprocal Enforcement Act also currently applies to arbitration awards made in the United Kingdom and those other countries to which the Reciprocal Enforcement Act applies. Arbitration awards under which a sum of money is payable (not being in respect of multiple damages, or a fine, penalty, tax or other charge of similar nature) would be enforceable in the BVI on the basis, and subject to the same conditions, as set out above in respect of court judgments obtained in the High Court of England, where the award "has in pursuance of the law in force in the place where it was made, become enforceable in the same manner as a judgment given by a court of that place". However, this may then first require a court in the United Kingdom to have given leave to enforce the arbitration award as if it were a judgment of that court.

Arbitration Act 2013

In 2013, the BVI adopted a new BVI Arbitration Act ("**BVI Arbitration Act 2013**"); however this has yet to come into force in the BVI and the current legal position remains as set out above. When the BVI Arbitration Act 2013 does come into force it will simplify matters by making provision for a single test for enforcement, predicated on the New York Convention requirements.

Russia

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- significant competition in Lenta's current areas of operation and in connection with its expansion strategy;
- a deterioration of economic conditions in Russia, in particular, a decline in consumer discretionary income or consumer spending;
- adverse changes in consumer preferences;
- poor trading performance as a result of seasonal trends;

- risks related to Lenta's growth strategy, including the inability to generate or raise sufficient capital or secure or maintain necessary resources;
- inability to lease or acquire land and premises or build new hypermarkets on commercially acceptable terms;
- delays or cancellation of Lenta's planned construction of hypermarkets;
- a decline in the value of real estate property owned by Lenta;
- the inability to renew leases on reasonable terms;
- challenges to Lenta's ownership interests or lease rights in land;
- an interruption in the operations of a distribution centre;
- Lenta's inability to attract or service indebtedness;
- failure to comply with existing governmental regulations, or increased governmental regulation of Lenta's operations;
- reduction in supplier discounts, rebates and bonuses;
- increases in prices charged by food producers;
- product liability claims and adverse publicity, deterioration of the value of the "Lenta" brand name and/or general loss of reputation;
- antimonopoly laws and regulations;
- introduction of price caps;
- inability to enforce intellectual property rights;
- failure to fulfil the terms of or renew licences, permits and other authorisations;
- Lenta's reliance on third party service providers;
- an increase in labour costs or loss of the benefit of migrant labour;
- systems failures and delays;
- insufficient insurance policies;
- certain risks in connection with the substantial use of cash and the increasing use of non-cash payments in Lenta's operations;
- the ability of Lenta to recruit and retain qualified personnel;
- political, social and governmental instability in Russia;
- incomplete, unreliable or inaccurate official data and statistics in Russia, in particular with respect to the real estate market;
- changes in, or enforcement of, laws, regulations, taxation or accounting standards or practices; and
- other factors set out under "*Risk Factors*".

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

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

AVAILABLE INFORMATION

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

Currencies

In this Prospectus, all references to:

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

Certain Jurisdictions

In this Prospectus, all references to:

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

Certain Other Terms

In this Prospectus, all references to:

- "**active cardholder**" means, in respect of Lenta's loyalty programme, a Lenta customer who has purchased goods at a Lenta store at least twice in the past 12 months using the Lenta loyalty card;
- "**CAGR**" means compound annual growth rate;
- "**cross-docking**" is a delivery practice whereby full pallets to be delivered to one store are unloaded from an incoming truck and directly loaded into an outbound truck;
- "**cross-docking facility**" means a building with receiving docks and shipping (dispatching) docks;
- "**DIY**" means do-it-yourself;
- "**grocery retail**", when used in the context of information sourced from Euromonitor (as defined herein), includes food and non-food products sold through grocery retailing outlets but does not include specialised non-food stores, such as clothing or electronics stores;
- "**in-store availability**" is the number of SKUs (as defined below) in-store with a positive stock value as a proportion of the total number of active SKUs for sale, calculated based on the average daily in-store availability of all open stores;
- "**payback period**" means the time required for the cumulative cash flow on an investment to repay the sum of the original investment;

- "**pick-by-line**" is a delivery practice whereby incoming pallets containing goods destined for several stores are immediately opened upon receipt in the distribution centre and reassembled into store-specific outgoing pallets;
- "**regional/local supplier**" means (i) a regional supplier, i.e., a supplier that supplies Lenta stores located in more than one city, but not across all of Lenta's regions of operations, and (ii) a local supplier, i.e., a supplier that only supplies Lenta store(s) located in one city;
- "**SKU**" means a stock keeping unit, or a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise; and
- "**sq. m.**" are to square metre(s).

Presentation of Certain Financial Information

Lenta's audited consolidated financial statements as of and for the year ended 31 December 2013 (the "**2013 Financial Statements**") and as of and for the years ended 31 December 2012, 2011 and 2010 (the "**2012 Financial Statements**" and together with the 2013 Financial Statements, the "**Financial Statements**") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). IFRS differ in certain significant respects from generally accepted accounting principles in the United States ("**U.S. GAAP**"). Prospective investors should consult their own advisors for an understanding of the differences between IFRS and other accounting principles, including U.S. GAAP, and how these differences might affect the financial information herein. Lenta's functional and presentation currency is the Rouble.

Presentation of Non-IFRS Information

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

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

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

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

Presentation of Operating Information

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

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

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

"**Average selling space**" is calculated as the average of the total selling space as of 1 January, 31 March, 30 June, 30 September and 31 December of the year.

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

"**Like-for-like sales**": Lenta distinguishes between sales attributable to new stores and sales attributable to existing stores. Lenta considers the sales generated by stores until the end of the 12th full calendar month of their operation to be sales attributable to new stores. Accordingly, like-for-like sales begin with the comparison of the 13th full calendar month of operations of a store to its first full calendar month of operations, assuming the store has not subsequently closed, expanded or downsized. The number of stores in Lenta's like-for-like panel as of 31 December 2013, 2012 and 2011 was 49, 41 and 38, respectively. "**Like-for-like average ticket growth**", "**like-for-like additional articles per ticket**", "**like-for-like average price growth per article**", "**like-for-like traffic growth**", "**like-for-like average selling space**", and "**like-for-like average sales density**" are calculated using the same methodology as like-for-like sales.

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

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

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

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

Market and Industry Data

Lenta has derived certain information and statistics in this Prospectus, including certain information and statistics concerning the Russian retail food sector, from private and publicly available information, including principally annual reports, industry publications, market research, press releases, filings under various securities laws, official data published by the CBR and the Federal Service for State Statistics of the Russian Federation ("**Rosstat**") and data published by the International Monetary Fund (the "**IMF**"), the International Bank for Reconstruction and Development (the "**World Bank**"), Infoline, O+K and Euromonitor International ("**Euromonitor**"). Such information is contained in this Prospectus under the headings "*Presentation of Financial and Other Information*", "*Prospectus Summary*", "*Risk Factors*", "*Russian Food Retail Industry*", "*Business*" and "*Operating and Financial Review*". Where third-party information, data or statistics are set out, they have been accurately reproduced, and, as far as Lenta is aware and is able to ascertain from relevant available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. None of Lenta, the Selling Shareholders, the Managers or Rothschild accepts liability for the accuracy of any such information, and prospective investors are advised to use such information with caution.

All statistical and market information provided by LLC AC Nielsen ("**Nielsen**") presented in this Prospectus under the headings "*Prospectus Summary*", "*Russian Food Retail Industry*", "*Business*" and "*Operating and Financial Review*" has been reproduced from the Nielsen Industry Report (the "**Nielsen Industry Report**") and the Nielsen Brand Study (the "**Nielsen Brand Study**", and together with the Nielsen Industry Report, the "**Nielsen Reports**") prepared by Nielsen at the request of Lenta.

Nielsen has given and not withdrawn its consent to the inclusion of information from the Nielsen Reports in this Prospectus, in the form and context in which it is included, and has authorised the contents of those parts of this Prospectus for the purposes of Rule 5.5.4R(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. Nielsen accepts responsibility for the information included in this Prospectus from the Nielsen Reports and confirms that, having taken all reasonable care to ensure that such is the case, the information included in this Prospectus from the Nielsen Reports is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect its import. Copies of the Nielsen Reports are available for inspection. See "*General Information*". Nielsen is a consulting company specialising in consumer and retail markets research. Nielsen has no material interest in the Company. The business address of Nielsen is 17 Tushinskaya Street, Moscow, Russia 125362.

Rounding

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

Currencies and Exchange Rates

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

	RUB per U.S.$1.00			
	High	**Low**	**Period average**	**Period end**
Year ended 31 December				
2013	33.47	29.93	31.82	32.73
2012	34.04	28.95	31.07	30.37
2011	32.68	27.26	29.35	32.20
2010	31.78	28.93	30.36	30.48
2009	36.43	28.67	31.68	30.24
2014				
January	35.24	32.66	33.46	35.24
February	36.05	34.60	35.22[(1)]	36.05

Source: CBR.

Note:

(1) The average of the exchange rates on each calendar day between 1 February and 28 February, inclusive.

No representation is made that the Rouble or U.S. Dollar amounts referred to herein could have been or could be converted into Roubles or U.S. Dollars, as the case may be, at these rates, at any particular rate or at all. The exchange rate between the Rouble and the U.S. Dollar quoted by the CBR for 28 February 2014 was RUB36.05 per U.S.$1.00.

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PROSPECTUS SUMMARY

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

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

Section B—Company		
B.31	***Information about the issuer of the underlying Shares.***	
B.1	***The legal and commercial name of the company.***	Lenta Ltd.
B.2	***The domicile and legal form of the company, the legislation under which the company operates and its country of incorporation.***	The Company is a company limited by shares incorporated under the laws of the BVI under registration number 1058643 with its registered office at the Offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI.
B.3	***A description of, and key factors relating to, the nature of the company's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the company competes.***	Lenta is Russia's second largest hypermarket operator and sixth largest food retailer, as measured by 2013 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, price-led hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2013, Lenta achieved the highest sales per sq. m. of selling space among Russian publicly traded food retailers (based on publicly available information on peer companies).

		Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in six of Russia's eight federal districts. As of 31 December 2013, Lenta had a total of 507,811 sq. m. of selling space, comprised primarily of 77 hypermarkets with an aggregate selling space of 495,368 sq. m. in 45 cities, including Russia's largest cities of St. Petersburg and Moscow and 43 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the daily/weekly shopping of a diverse range of customers. Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 24,000 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 68 of its 77 hypermarkets, leasing the remainder. In 2013, Lenta carried out a 'soft launch' of its supermarket format in Moscow, and as of 31 December 2013 operated 10 supermarkets, all but one of which are leased. Lenta utilises four distribution centres (three owned, one leased) to supply its hypermarkets and one leased distribution centre to supply its supermarkets, all as part of its supply chain operations. Lenta's recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. In 2013, Lenta enjoyed like-for-like sales growth of 10.0%, compared to 13.5% in 2012. Lenta opened 35 new hypermarkets and 10 new supermarkets as well as two new distribution centres in 2012-13. Lenta's supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently, Lenta plans to double its selling space over the three years ending December 2016, having increased its selling space by 77% over the past two calendar years. Lenta's distinctive customer proposition is 'Value-for-Money', offering consistently-available products at affordable prices in well-organised stores. Lenta's practice is to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta's 4.8 million active cardholders make consistent use of the Lenta loyalty card with approximately 90% of all sales in 2013 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.

		Underpinning Lenta's low-price business model are its operational efficiencies, which are driven by a flexible, low cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores; currently Lenta is constructing two new distribution centres to come into operation in 2014 while planning a third to come into operation in 2015. Once these distribution centres are completed, Lenta will have eight distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 31 December 2013, Lenta had 35 trucks and trailers in its own fleet, 14 of which were leased. Lenta's in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta's advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.
B.4a	***A description of the most significant recent trends affecting the company and the industries in which it operates.***	The most significant trends affecting Lenta and the Russian food retail industry include: • continued growth in domestic consumption, supported by wage growth, high employment, low taxation and expanding consumer credit, with food retail sales accounting for a higher share of Russia's aggregate consumer spending compared with other European countries and the United States; and • growing penetration of modern retail formats in Russia, but with the top five modern retailers having a relatively small market share compared to other modern developed markets.
B.4b	***A description of any known trends affecting the company and the industries in which it operates.***	The recent trends affecting Lenta and the Russian food retail industry include: • increasing competition as retailers in various formats compete to satisfy growing consumer demand and augment market share in a Russian food retail sector that is characterised by low levels of consolidation compared to other countries; • an increasing focus on generating customer loyalty, supported by greater use of direct marketing and so-called "Big Data" (i.e., using the data generated by the recorded purchases of Lenta's cardholders), enabling a better understanding of what customers buy and targeted marketing efforts; and • greater price consciousness among Russian consumers following the economic crisis of 2008-09.

B.5	***If the company is part of a group, a description of the group and the company's position within the group.***	The Group consists of Lenta Ltd. and its subsidiaries. Lenta Ltd. is the parent company of the Group. Lenta operates through Lenta LLC, a limited liability company organised and existing under the laws of the Russian Federation (with registration number 1037832048605). Lenta LLC holds substantially all of Lenta's operational assets and conducts substantially all of Lenta's business. All of Lenta's stores are owned or leased by Lenta LLC.
B.6	***In so far as is known to the company, the name of any person who, directly or indirectly, has an interest in the company's capital or voting rights which is notifiable under the company's national law, together with the amount of each such person's interest. Whether the company's major shareholders have different voting rights if any. To the extent known to the company, state whether the company is directly or indirectly owned or controlled and by whom and describe the nature of such control.***	In general, BVI law does not impose any notification obligations on shareholders, or the BVI company itself, in respect of shareholdings in a BVI company, and the concept of a "notifiable interest" is therefore not a feature of BVI law. However, insofar as is known to the Company, details of the shareholdings in the Company are set out below as of the dates indicated. None of the Company's shareholders has any voting rights that are different from any other holders of the Shares, except in relation to the director nomination rights of the three principal shareholders of the Company: the TPG group (acting through its vehicle Luna Inc.), EBRD and the VTB Capital group (acting through its vehicle Luna Holdings Inc.) (the "**Major Shareholders**"). **Pre-Offering Shareholder Structure** According to extracts from the Company's register, the shareholders of the Company as of the date of this Prospectus are:

Shareholder	Number of Shares	Shareholding
Luna Inc.	42,890,721	49.8%
Luna Holdings Inc.	10,089,780	11.7%
EBRD	18,497,955	21.5%
Loren Bough	4,437,797	5.2%
Edward Nicholson(1)	1,701,407	2.0%
Alexander Easton(1)	1,693,567	2.0%
Cebalrai Holdings Sàrl	707,714	0.8%
Periwinkle Limited	435,851	0.5%
Bowdon Holdings Limited	1,000,871	1.2%
MEM (PE) LTD	1,559,933	1.8%
Steep Rock Russia Fund, Ltd.	1,112,802	1.3%
Steep Rock Russia Fund II	1,052,287	1.2%
Other shareholders	872,310	1.0%

Note:

(1) Prior to Closing, Nicholson and Easton transferred the Shares they are selling in the Offering (assuming the Over-allotment Option is exercised in full) to their corporate vehicle Cebalrai Holdings Sàrl, a Luxembourg company.

With respect to the Major Shareholders: Luna Inc. is an investment vehicle beneficially owned by the TPG group and incorporated in the Cayman Islands; Luna Holdings Inc. is an investment vehicle beneficially owned by the VTB Capital group and incorporated in the Cayman Islands; and EBRD is an international organisation formed by treaty.

Post-Offering Shareholder Structure

After the completion of the Offering, and assuming the exercise of the Over-allotment Option in full, the shareholders of the Company will be:

Shareholder	Number of Shares	Shareholding
Luna Inc.	31,874,907	37.0%
Luna Holdings Inc.	7,495,128	8.7%
EBRD	13,741,087	16.0%
Loren Bough	3,394,919	3.9%
Edward Nicholson	1,701,407	2.0%
Alexander Easton	1,693,567	2.0%
Bowdon Holdings Limited	862,871	1.0%
MEM (PE) LTD	779,966	0.9%
Steep Rock Russia Fund, Ltd.	890,241	1.0%
Steep Rock Russia Fund II	841,830	1.0%
Other shareholders	22,777,072	26.5%

The Major Shareholders will continue to be in a position to significantly influence the outcome of most matters submitted to shareholders' meetings for a vote, including, but not limited to, the election or removal of directors (a number of whom will be nominated by the Major Shareholders pursuant to rights embedded in the Company's memorandum and articles of association (the "**M&A**")) and other policy decisions. Additionally, the Major Shareholders will continue to be able to significantly influence the outcome of any vote on any proposed amendment to the M&A, merger proposals, the appointment of directors or any other matter submitted to shareholder vote. In addition, the Major Shareholders will continue to be able to exercise significant influence over any decision regarding a change of control of Lenta. Immediately following the Offering, six of the 11 members of the Company's board of directors (the "**Board of Directors**") will be nominees of the Major Shareholders (the "**Major Shareholder Nominated Directors**").

B.7	***Selected historical key financial information regarding the company, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of significant change to the company's financial condition and operating results during or subsequent to the period covered by the historical key financial information.***	The financial data set forth below as of 31 December 2013, 2012 and 2011 and for the years then ended have been extracted without material adjustment from the Financial Statements. The Financial Statements have been prepared in accordance with IFRS. Lenta's functional and presentation currency is the Rouble.

	Year ended 31 December		
	2013	**2012**	**2011**
	(RUB millions)		
Consolidated statement of profit or loss and other comprehensive income data			
Sales	144,266	109,910	89,766
Total cost of sales	(112,809)	(87,233)	(73,055)
Gross profit	**31,457**	**22,677**	**16,711**
Selling, general and administrative expenses ("**SG&A**")	(19,014)	(13,506)	(11,225)
Reversal of impairment of non-financial assets	—	—	44
Other operating income	1,460	1,119	1,011
Other operating expense	(171)	(125)	(122)
Operating profit	**13,732**	**10,165**	**6,419**
Interest expense	(4,342)	(3,218)	(1,311)
Interest income	82	78	24
Change in fair value of financial instruments at fair value through profit or loss	(234)	102	(374)
Put option revaluation	—	—	683
Other expenses	(91)	(215)	(2,573)
Foreign exchange gains/(losses)	(23)	70	(4)
Profit before income tax	**9,124**	**6,982**	**2,864**
Income tax expense	(2,032)	(1,846)	(1,167)
Profit for the year	**7,092**	**5,136**	**1,697**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	(54)	—	—
Income tax related to the components of other comprehensive income	11	—	—
Other comprehensive income for the year, net of tax	(43)	—	—
Total comprehensive income for the year, net of tax	**7,049**	**5,136**	**1,697**

	As of 31 December		
	2013	2012	2011
	(RUB millions)		
Consolidated statement of financial position data			
Total non-current assets	57,136	34,703	20,812
Total current assets, *of which*	30,972	20,339	17,041
Cash and cash equivalents	6,212	3,536	5,136
Total assets	**88,108**	**55,042**	**37,853**
Total non-current liabilities	41,910	25,880	25,277
Total current liabilities	41,461	30,125	18,954
Total liabilities	**83,371**	**56,005**	**44,231**
Total equity	4,737	**(963)**	**(6,378)**
Total equity and liabilities	**88,108**	**55,042**	**37,853**

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Consolidated statement of cash flows data			
Net cash generated from operating activities	10,853	9,261	6,768
Net cash used in investing activities	(23,549)	(14,962)	(3,837)
Net cash generated from financing activities	15,372	4,101	1,435
Net (decrease)/increase in cash and cash equivalents	2,676	(1,600)	4,366

	Year ended 31 December		
	2013	2012	2011
Other financial data			
Gross margin (%)[1]	21.8	20.6	18.6
EBITDA (RUB millions)[2]	16,045	11,741	8,338
Adjusted EBITDA (RUB millions)[2]	16,395	12,718	9,079
Adjusted EBITDA margin (%)[2][3]	11.4	11.6	10.1
EBITDAR (RUB millions)[2][4]	16,639	11,996	8,536
Adjusted EBITDAR (RUB millions)[4][5]	16,989	12,974	9,276
Adjusted EBITDAR margin (%)[5][6]	11.8	11.8	10.3
Net debt (RUB millions)[7]	39,831	25,341	19,825
Net debt to Adjusted EBITDA ratio[2][7]	2.4	2.0	2.2
Adjusted EBITDA to net interest expense ratio[2][8]	3.8	4.1	7.1
Lease-adjusted net debt to Adjusted EBITDAR ratio[5][9]	2.6	2.1	2.3
Adjusted EBITDAR to net interest expense plus rental expense ratio[5][8]	3.5	3.8	6.2
CROCI (%)[10]	34.8	44.0	41.3
Operating cash flow to Adjusted EBITDA ratio[2][11]	0.90	0.97	0.94
Capital expenditures (RUB millions)[12]	23,549	14,962	3,837

	As of or for the year ended 31 December		
	2013	2012	2011
Operational data[13]			
Total selling space (thousand of sq. m.) (as of year-end)	508	376	287
of which:			
Hypermarkets	495	376	287
Supermarkets	13	—	—
Number of stores (as of year-end)	87	56	42
of which:			
Hypermarkets	77	56	42
Supermarkets	10	—	—
Average selling space (thousands of sq. m.)	416	313	272
Average hypermarket selling space (thousands of sq. m.)	412	313	272
Average sales density (RUB thousands/sq. m.)[14]	347	351	330
Average hypermarket sales density (RUB thousands/sq.m.)	348	351	330
Number of tickets (millions of units)[15]	132	104	92
Number of hypermarket tickets (millions of units)[15]	130	104	92
Average store ticket (RUB)[15]	1,092	1,061	971
Average hypermarket ticket (RUB)	1,100	1,061	971
Average ticket growth (% change, year-on-year)[16]	2.9	9.3	9.1
Traffic growth (% change, year-on-year)[17]	27.5	12.0	16.5
Like-for-like sales growth (% change, year-on-year)[18]	10.0	13.5	21.2
Like-for-like sales (% of sales)[18]	83.2	92.6	95.1
Like-for-like average ticket growth (% change, year-on-year)[19]	8.1	10.1	9.6
Like-for-like additional articles per ticket (% change, year-on-year)[20]	2.0	3.1	6.0
Like-for-like average price growth per article (% change, year-on-year)[21]	6.0	6.8	3.4
Like-for-like traffic growth (% change, year-on-year)[22]	1.8	3.1	10.6
Like-for-like average selling space (thousands of sq. m.)[23]	301	270	251
Like-for-like average sales density (RUB thousands/sq. m.)[24]	399	376	340
Sales from new stores (RUB millions)	24,198	8,186	4,422
Sales growth from new stores (% change, year-on-year)[25]	21.3	9.0	6.0
Share of new store sales growth in total sales growth (% of sales)[25]	68.2	39.9	22.0

Notes:

(1) Gross margin is calculated as gross profit as a percentage of sales.

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

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

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Adjusted EBITDA	**16,395**	**12,718**	**9,079**
Changes in accounting estimates	—	—	(214)
One-off non-operating costs	(350)	(977)	(527)
EBITDA	**16,045**	**11,741**	**8,338**
Interest expense	(4,342)	(3,218)	(1,311)
Interest income	82	78	24
Income tax expense	(2,032)	(1,846)	(1,167)
Depreciation/amortisation	(2,313)	(1,576)	(1,963)
Other expenses	(91)	(215)	(2,573)
Reversal of impairment of non-financial assets	—	0	44
Revaluation of financial instruments at fair value through profit or loss	(234)	102	(374)
Put option revaluation	—	—	683
Foreign exchange gains/(losses)	(23)	70	(4)
Profit for the year	**7,092**	**5,136**	**1,697**

(3) Adjusted EBITDA margin is Adjusted EBITDA as a percentage of sales.
(4) EBITDAR is EBITDA before rent paid on land, equipment and premises leases.
(5) Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.
(6) Adjusted EBITDAR margin is Adjusted EBITDAR as a percentage of sales.
(7) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents.
(8) Net interest expense is interest expense less interest income.
(9) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.
(10) CROCI (cash return on capital invested) is defined as Adjusted EBITDA over average capital invested. Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year.
(11) For the purposes of this ratio, operating cash flow is defined as net cash generated from operating activities less net cash interest paid.
(12) Capital expenditures represent net cash used in investing activities.
(13) Note like-for-like data reflect only hypermarket performance (as no supermarkets were in the like-for-like panel in 2013 or prior years).
(14) Average sales density is total sales during the relevant year divided by the average selling space for that year.
(15) Ticket means the receipt issued to a customer for his basket.
(16) Average ticket is calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year.
(17) Traffic is the number of tickets issued for the relevant year.
(18) Like-for-like sales begin with the comparison of the 13th full month of operations of a store to its first full month of operations, assuming the store has not subsequently closed, expanded or downsized. Like-for-like sales growth (% change, year-on-year) measures the annual sales of the hypermarkets in the like-for-like panel of hypermarkets as of 31 December of the prior year against the same panel of hypermarkets as of 31 December of the current year.
(19) Like-for-like average ticket is calculated on the same basis as like-for-like sales.
(20) Like-for-like additional articles per ticket is calculated on the same basis as like-for-like sales.
(21) Like-for-like average price growth is calculated on the same basis as like-for-like sales.
(22) Like-for-like traffic is calculated on the same basis as like-for-like sales.
(23) Like-for-like average selling space is the average of selling space on 1 January of the year and quarterly-end selling space for each quarter of the year for the stores comprising Lenta's like-for-like panel.
(24) Like-for-like average sales density is the average sales density for the stores comprising Lenta's like-for-like panel at the end of each year.
(25) New store sales comprise sales at stores open for 12 months or less.

		In 2013, profit for the year increased by RUB1,956 million, or 38.1%, to RUB7,092 million from RUB5,136 million in 2012 mainly due to a 31.3% overall increase in sales, which, in turn, was primarily due to a 21.3% increase in the sales from new stores opened in 2013 and new stores opened in 2012 not yet part of the like-for-like panel, as well as a 10.0% increase in like-for-like sales. Partially offsetting this increase in sales was a 29.3% increase in total cost of sales and a 40.8% increase in SG&A. The increase in total cost of sales was mainly driven by a 28.9% increase in cost of goods sold, in turn the result of new store openings and greater like-for-like sales, and a 32.6% increase in the cost of own production, which was mainly due to an increase in the share of new stores in ramp-up stage, which have relatively higher costs of own production. The increase in SG&A was mainly caused by a 23.2% increase in labour costs, due to an increase in Lenta employee headcount and an increase in average salaries, a 43.3% increase in depreciation and amortisation, due to depreciation taken on Lenta's newly built stores and to charges recognised in 2013 arising from capitalised pre-opening expenses, a 131.6% increase in professional fees and a 69.4% increase in advertising. In 2012, profit for the year increased by RUB3,439 million, or 202.7%, to RUB5,136 million from RUB1,697 million in 2011 mainly due to a 22.4% overall increase in sales, which, in turn, was primarily due to a 13.5% increase in like-for-like sales, a 9.0% increase in sales from new stores opened in 2012 and new stores opened in 2011 not yet part of the like-for-like panel and also due to certain one-off non-operating costs in 2011. Partially offsetting this increase in sales was a 19.4% increase in total cost of sales and a 20.3% increase in SG&A. The increase in total cost of sales was mainly driven by a 18.6% increase in cost of goods sold, in turn, the result of new store openings and greater like-for-like sales, and a 29.9% increase in the cost of own production, which was mainly driven by an increase in the share of new stores in ramp-up stage. The increase in SG&A was mainly caused by a 28.0% increase in labour costs, due to an increase in Lenta employee headcount and an increase in average salaries. Total assets as of 31 December 2013 equaled RUB88,108 million, compared to RUB55,042 million as of 31 December 2012. This increase was mainly driven by a 64.6% increase in non-current assets (to RUB57,136 million as of 31 December 2013 from RUB34,703 million as of 31 December 2012) and a 52.3% increase in current assets (to RUB30,972 million as of 31 December 2013 from RUB20,339 million as of 31 December 2012). The increase in non-current assets was mainly due to an increase in property, plant and equipment, which, in turn, was due to Lenta's expansion, and the increase in current assets was mainly caused by an increase in inventories (in particular, goods for resale), trade and other receivables (in particular, accounts receivable on rental and other services and on supplier advertising) and cash and cash equivalents. Total assets as of 31 December 2012 equaled RUB55,042 million, compared to RUB37,853 million as of

		31 December 2011. This increase was mainly driven by a 66.7% increase in non-current assets (to RUB34,703 million as of 31 December 2012 from RUB20,812 million as of 31 December 2011) and a 19.4% increase in current assets (to RUB20,339 million as of 31 December 2012 from RUB17,041 million as of 31 December 2011). The increase in non-current assets was mainly due to an increase in property, plant and equipment, which, in turn, was due to Lenta's expansion, and the increase in current assets was mainly caused by an increase in inventories (in particular, goods for resale), trade and other receivables (in particular, accounts receivable on rental and other services and on supplier advertising) and taxes recoverable (in particular, VAT receivables). Total liabilities as of 31 December 2013 equaled RUB83,371 million, compared to RUB56,005 million as of 31 December 2012. This increase was mainly driven by a 61.9% increase in non-current liabilities (to RUB41,910 million as of 31 December 2013 from RUB25,880 million as of 31 December 2012) and a 37.6% increase in current liabilities (to RUB41,461 million as of 31 December 2013 from RUB30,125 million as of 31 December 2012). The increase in non-current liabilities was mainly the result of a 59.5% increase in long-term borrowings (to RUB39,849 million as of 31 December 2013 from RUB24,979 million as of 31 December 2012). The increase in current liabilities was mainly due to a 35.0% increase in trade and other payables (to RUB33,807 million as of 31 December 2013 from RUB25,044 million as of 31 December 2012). Total liabilities as of 31 December 2012 equaled RUB56,005 million, compared to RUB44,231 million as of 31 December 2011. This increase was mainly driven by a 58.9% increase in current liabilities (to RUB30,125 million as of 31 December 2012 from RUB18,954 million as of 31 December 2011). The increase in current liabilities was mainly due to a 38.2% increase in trade and other payables (to RUB25,044 million as of 31 December 2012 from RUB18,126 million as of 31 December 2011) and to an increase in outstanding short-term borrowings and short-term portions of long-term borrowings of RUB3,833 million as of 31 December 2012. Total equity equaled RUB4,737 million as of 31 December 2013, compared to negative total equity of RUB963 million as of 31 December 2012 and negative total equity of RUB6,378 million as of 31 December 2011. The negative total equity as of 31 December 2012 and 2011 was mainly due to Lenta's purchase of Shares from a former shareholder, Svoboda Corporation, for a total cash consideration of RUB15,725 million, which was deducted from equity as treasury shares. These treasury shares were cancelled in 2013. Since 31 December 2013, the end of the last financial period for which financial information has been published, there has been no significant change in Lenta's financial condition or operating results.
B.8	***Selected key pro-forma financial information.***	Not applicable; the Prospectus does not include pro-forma financial information.

B.9	***Where a profit forecast or estimate is made, state the figure.***	Not applicable; the Prospectus does not include a profit forecast or estimate.
B.10	***A description of the nature of any qualifications in the audit report on the historical financial information.***	Not applicable; there are no qualifications in the audit report on the historical financial information.
B.32	***Information about the issuer of the depositary receipts, including the name and registered office of the issuer of the depository receipts and the legislation under which the issuer of the depository receipts operates and legal form which it has adopted under the legislation.***	The Depositary is Deutsche Bank Luxembourg S.A., a *société anonyme* registered with the Luxembourg trade and companies register under number B. 9164. The registered office of the Depositary is located at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg.

Section C—Securities		
C.13	***Information about the underlying Shares.***	
C.1	***A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.***	Not applicable. The Shares are not being offered or admitted to trading. The Shares are not listed, and are not expected to be listed, on any regulated market and do not have an identification number.
C.2	***Currency of the securities issued.***	The Shares are not issued in any currency because the Shares do not have par value. Please see C.3.
C.3	***The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have not par value.***	The Company has 86,052,995 issued, fully paid and outstanding Shares. The Company is authorised to issue an unlimited number of additional Shares. The Shares do not have par value.
C.4	***A description of the rights attached to the securities.***	All Shares are of no par value and carry identical rights, except that in certain circumstances the Major Shareholders have special voting rights to appoint Major Shareholder Nominated Directors. Each fully paid Share, except for treasury shares, gives its holder the right to: • freely transfer such Share, if fully paid, without the consent of other shareholders (save in circumstances explicitly set forth in the M&A); • exercise pre-emptive rights when the Company issues additional Shares for cash but such rights do not apply in respect of: (i) Shares issued up to an aggregate amount of 10% of all Shares each calendar year; (ii) Shares issued to effect or fund acquisition(s) of assets up to an aggregate amount of 10% of all Shares each calendar year; or (iii) Shares issued pursuant to employee share option schemes up to an aggregate amount of 5% of all Shares over any 10-year period; nor do such rights apply where the Board of Directors considers such necessary or expedient in light of legal or practical issues or where holders of Shares holding, alone or with other holders, more than 75% of the Shares, disapply such pre-emptive rights;

		• vote at a meeting of shareholders or on any written resolution of the shareholders (including in respect of the appointment and removal of directors, subject to the provisions of the M&A); • receive dividends and distribution of the surplus assets of the Company on its liquidation; • if holding, alone or with other holders, 15% or more of Shares, to propose candidates for appointment as directors; • if holding, alone or with other holders, 15% or more of Shares, to propose the removal of an independent director or an elected director (other than the CEO and CFO and a director nominated by any of the Major Shareholders; • if holding, alone or with other holders, 15% or more of the Shares, demand that the Board of Directors call an extraordinary meeting of shareholders and propose items for inclusion on the agenda of any meeting of shareholders; • if holding, alone or with other holders, 90% or more of all the Shares, instruct the directors to redeem the Shares of the other shareholders; • receive a printed or electronic copy of every balance sheet and profit and loss account, together with the report of the Board of Directors thereon, and a copy of the auditors' report (or a summary financial statement derived from the Company's annual accounts and directors' report); • upon request, receive an extract from the share register showing that shareholder's shareholding; • bring personal, derivative and class actions as permitted by BVI law; and • exercise other shareholder rights provided by the M&A and/or BVI law, in each case subject to applicable law, and the detailed terms set out in the M&A. Five GDRs carry the right to vote one Share, subject to the provisions of the Terms and Conditions of the GDRs and applicable law. The Depositary has agreed to pay holders of the GDRs on the relevant record date the cash dividends or other cash distributions it or the Custodian receives on the underlying Shares, subject to restrictions imposed by applicable law. Subject to applicable law, investors will receive these distributions in proportion to the number of Shares their GDRs represent. Five GDRs represents an interest in one Share on deposit with the Custodian. A holder of GDRs will have the rights set out in the Terms and Conditions of the GDRs and the Master GDRs, which may be summarised as: • the right to withdraw the underlying Shares; • the right to receive payment in U.S. Dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the underlying Shares;

		• the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of assets other than Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such assets); • the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Shares, including pre-emptive rights where such are made available (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. Dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); • the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary; • the right to receive from the Depositary copies received by the Depositary of notices provided by the Company to holders of Shares or other material information, in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs and the Master GDRs.
C.5	***A description of any restrictions on the free transferability of the securities.***	There are no restrictions on the free transferability of Shares, with the exception of certain restrictions relating to (i) the transfer of a Share to multiple holders, infants or those declared legally incompetent; (ii) Shares recorded in the register of members of the Company as being subject to a security interest; and (iii) the transfer of Shares or interests therein (including GDRs) in circumstances that would trigger a requirement to make a mandatory offer under the terms of the M&A or where certain provisions of the M&A have been breached by the transferor.
C.6	***An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.***	Not applicable. The Shares are not being offered or admitted to trading.
C.7	***A description of dividend policy.***	In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; Lenta does not expect to declare any dividends in 2014. In future years, Lenta will consider the pay out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and

		further expansion, its debt profile and leverage ratios. As such, while Lenta's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out.
C.14	***Information about the depositary receipts.***	
C.1	***A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.***	This Prospectus relates to an admission to listing and to trading of GDRs. Five GDRs represent an interest in one Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The GDRs will be evidenced initially by Master GDRs, each to be issued by the Depositary pursuant to the Deposit Agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. The security identification numbers of the GDRs offered hereby are as follows: Regulation S GDRs: ISIN: US52634T2006 Common Code: 103087686 CUSIP Number: 52634T 200 Rule 144A GDRs: ISIN: US52634T1016 Common Code: 103087635 CUSIP Number: 52634T 101 London Stock Exchange Regulation S GDR trading symbol: LNTA London Stock Exchange Rule 144A GDR trading symbol: LNTR MICEX Regulation S GDR trading symbol: LNTA
C.2	***Currency of the securities issue.***	The GDRs are not denominated in any currency.
C.4	***A description of the rights attached to the securities.***	Five GDRs represent an interest in one Share on deposit with the Custodian on behalf of the Depositary. A holder of GDRs will have the rights set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs, which may be summarised as: • the right to withdraw the Deposited Shares (as defined therein) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares; • the right to receive payment in U.S. Dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the Deposited Shares; • the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the

		Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of property other than Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary not to be reasonably practicable, the net proceeds in U.S. Dollars of the sale of such property); • the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Shares (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. Dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); • the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary subject to conditions; and • the right to receive from the Depositary copies received by the Depositary of notices provided by the Company to holders of shares or other material information, in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.
C.5	***A description of any restrictions on the free transferability of the securities.***	The GDRs are freely transferable, subject to certain transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the EEA and other jurisdictions, contractual lock-ups for certain shareholders and the Company and the Terms and Conditions of the GDRs. The Depositary shall refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The GDRs are also subject to transfer restrictions in circumstances that would trigger a requirement to make a mandatory offer under the terms of the M&A or where certain provisions of the M&A have been breached in respect of the Shares represented by GDRs. Each purchaser of GDRs within the United States in reliance on Rule 144A of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States. Each purchaser of GDRs offered in reliance on Regulation S of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States.
C.14	***Information about the depositary receipts.***	The Terms and Conditions of the GDRs (as endorsed on each GDR certificate) set out the provisions relating to the exercise of and benefit from the rights attaching to the Shares. The following summarises relevant provisions of the Terms and Conditions of the GDRs relating to the exercise of and benefit from rights attaching to the underlying shares.

	Describe the exercise of and benefit from the rights attaching to the underlying shares, in particular voting rights, the conditions on which the issuer of the depository receipts may exercise such rights, and measures envisaged to obtain the instructions of the depository receipt holders—and the right to share in profits and any liquidations surplus which are not passed on to the holder of the depository receipt.	**Distributions** ***Cash Distributions*** Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property (as defined in the Terms and Conditions of the GDRs) in a currency other than U.S. Dollars, the Depositary, its Agent (as defined in the Terms and Conditions of the GDRs) or Custodian shall as soon as practicable convert the same into United States Dollars in accordance with the Deposit Agreement. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders (as defined in the Terms and Conditions of the GDRs) of its receipt of such payment in accordance with the Deposit Agreement, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of the Deposit Agreement. ***Distributions of Shares*** Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and insofar as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto. ***Distribution other than Cash or Shares*** Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited

		Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and insofar as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto. **Rights Issues** If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with the Deposit Agreement of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below: • if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in U.S. Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or • if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

		• if and insofar as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale prior to such sale) and distribute the net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto except to the extent prohibited by applicable law. **Voting Rights** The Company will use reasonable efforts to notify the Depositary of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, and the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. As soon as practicable after receipt from the Company of such notice, the Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the FCA and the admission and disclosure standards of the London Stock Exchange), Russian legal prohibitions (including, without limitation, the listing, admission and trading rules and regulations of MICEX and the CBR) or BVI legal prohibitions against such action exist, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between the Company and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the M&A and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depositary, the

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

Section D—Risks		
D.2	***Key information on the key risks that are specific to the issuer of the underlying shares.***	• Lenta faces significant competition in its current areas of operation, which could lead to a reduction in Lenta's market share and a decline in profitability. • Deterioration in the economic conditions, disposable income and consumer spending in Russia could adversely affect Lenta's business, financial condition, results of operations and prospects. • Failure to identify and satisfy consumer preferences could adversely affect Lenta's business, financial condition, results of operations and prospects. • Lenta's operations are subject to seasonal trends, and a failure to adjust to a poor trading performance in any single month or season could leave Lenta with excess inventory that is difficult to liquidate, which could adversely affect its business, financial condition, results of operations and prospects. • Lenta's inability to implement its expansion strategy or execute its capital expenditure plans could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta may pursue expansion through acquisitions, and a failure to successfully carry out such acquisitions could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Failure to acquire or lease land and premises or build new hypermarkets on commercially acceptable terms or failure to renew leases on stores and distribution centres could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta's planned construction of hypermarkets is subject to delays and cancellations for a variety of reasons, which may impede its expansion plans and in turn have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta's real estate ownership interests or lease rights and intellectual property rights may be challenged and a decline in the value of Lenta's real estate may impact its

		ability to comply with its loan agreements or to raise additional financing, any of which may materially adversely affect Lenta's business, financial condition, results of operations and prospects. • An interruption in the operations of a distribution centre could disrupt Lenta's supply chain operations and/or result in substantial property loss. • Lenta has pledged significant assets, including all the equity in its operating subsidiary Lenta LLC and most of its stores, to secure financings. Any default under such financings may result in Lenta losing all or a substantial portion of its assets. • Lenta's operations may be constrained if it cannot attract or service future debt financing. Lenta's capacity to take on debt is dependent upon its ability to maintain operating performance at a certain level and to service such debt on a timely basis. Any failure to service existing debt may compel Lenta to take certain actions, including delaying capital expenditures and selling real estate, and could put Lenta in default of its obligations, any of which may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta operates in a highly regulated environment and is subject to numerous governmental regulations and licensing requirements, including anti-monopoly laws, the Federal Law No. 381-FZ "On Basic Principles of State Regulation of Trading Activities in the Russian Federation" dated 28 December 2009 (as amended, the "**Retail Law**") and potentially price controls, which may result in lower margins, and, if breached, may result in additional costs and penalties, any of which may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Increases in prices charged by food producers may have a material adverse effect on Lenta's business. • Decline in the value of the "Lenta" brand name for any reason, including customer complaints, product liability claims or health issues, may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta relies on third-party service providers, and any failure on their part to fulfill their responsibilities to Lenta may materially adversely affect Lenta's results of operations. • An increase in labour costs, including as a result of lower quotas on migrant labour, may materially adversely affect Lenta's business, financial condition, results of operations and prospects. • Significant systems failures or delays could disrupt Lenta's operations and may harm Lenta's reputation, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

		• Lenta's insurance policies may be insufficient to cover certain losses or liabilities, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. • Lenta is exposed to loss, theft and robbery due to the substantial use of cash in its operations and to an increase in costs due to the increasing use of non-cash payments in its operations.
D.5/D.3	***Key information on the key risks that are specific to the securities.***	The key risks relating to the GDRs are as follows: • The Offering may not result in a liquid market for the GDRs and their market price may be volatile. • The GDRs may not be admitted to trading on MICEX or may be de-listed from MICEX. • The GDRs will trade on more than one market and this may result in increased volatility and price variations between such markets. • GDR holders may have limited recourse against Lenta, its directors and Senior Management. • Corporate governance standards in the BVI, including takeover protections and other general protections given to shareholders, are not of the same standard as those in Western Europe and the United States. • Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Shares. • The voting rights with respect to the Shares represented by the GDRs are limited by the Terms and Conditions of the GDRs and relevant requirements of BVI law. Due to the additional procedural steps involved in communicating with GDR holders, who receive notice indirectly from the Depositary (unlike holders of Shares who receive notice directly from the Company), there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. • The Shares underlying the GDRs are not listed and are illiquid and will remain illiquid. • Future sales of additional GDRs or Shares may have an adverse effect on the trading prices of the GDRs as well as Lenta's ability to obtain further capital through an offering of equity securities. • Future sales of additional GDRs or Shares, including as part of Lenta's acquisition strategy, may result in further dilution to holders of its Shares or GDRs. • Lenta has not paid dividends in the past three calendar years and may choose not to pay dividends in the future.

Section E—Offer		
E.1	***The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the company or the offeror.***	Lenta will not receive any of the proceeds from the sale of GDRs offered by the Selling Shareholders. The Selling Shareholders will receive all of the net proceeds from the Offering, which will be approximately U.S.$925,238,093, assuming no exercise of the Over-allotment Option, or approximately U.S.$1,064,023,814, assuming that the Over-allotment Option is exercised in full (in each case assuming full payment of the discretionary fee to the Managers). The total commissions payable by the Selling Shareholders in connection with the Offering will be approximately U.S.$27.1 million, assuming no exercise of the Over-allotment Option, or approximately U.S.$31.2 million, assuming that the Over-allotment Option is exercised in full (in each case assuming full payment of the discretionary fee to the Managers). The total fees and expenses payable by the Company in connection with the Offering will be approximately U.S.$9 million.
E.2a	***Reasons for the offer, use of proceeds, estimated net amount of the proceeds.***	The Offering is being conducted in order to allow the Selling Shareholders to dispose of a portion of their shareholdings, while raising Lenta's profile with the international investment community and establishing a market for GDRs which may benefit Lenta if it desires to access the equity markets in the future. Please see E.1.
E.3	***A description of the terms and conditions of the offer.***	The Offering comprises 109,523,810 GDRs to be sold by the Selling Shareholders, assuming full exercise of the Over-allotment Option, with five GDRs representing an interest in one Share. The Offering is being made by way of an offer of GDRs (1) within the United States to QIBs in reliance on Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in "offshore transactions" in reliance on Regulation S under the Securities Act. The Offer Price is U.S.$10 per GDR. The GDRs are being offered by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The Managers have applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg, as well as the NSD, and the Rule 144A GDRs accepted for clearance through the DTC. In order to take delivery of the GDRs, investors must pay for them in same-day funds on or about the Closing Date and must have an appropriate securities account.
E.4	***A description of any interest that is material to the issue/offer including conflicting interests.***	Not applicable

E.5	***Name of the person or entity offering to sell the security.***	The Selling Shareholders are: 1. Luna Inc. 2. Luna Holdings Inc. 3. EBRD 4. Loren Bough 5. Cebalrai Holdings Sàrl 6. Periwinkle Limited 7. Bowdon Holdings Limited 8. MEM (PE) LTD 9. Steep Rock Russia Fund, Ltd. 10. Steep Rock Russia Fund II
	Lock-up agreements: the parties involved; and indication of the period of the lock up.	Each of the Company and the Selling Shareholders has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 180 days from the date of the London Admission, it will not, subject to certain exceptions, without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing. Each of Mr. Stephen Johnson, Mr. Michael Lynch-Bell, Mr. John Oliver, Mr. Martin Elling (all of whom are members of the Board of Directors) and Senior Management has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 365 days from the date of the London Admission, he or she will not, subject to certain exceptions, without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), offer, lend, sell, contract to sell, grant or sell options over, purchase any option or contract to sell, transfer, charge, pledge, grant any right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing or announce or publish the intention to do any of the foregoing.

E.6	***The amount and percentage of immediate dilution resulting from the offer.***	Not applicable; there will be no immediate dilution resulting from the offer, since the GDRs offered in the Offering represent Shares that are already outstanding.
E.7	***Estimated expenses charged to the investor by the company or the offeror.***	Not applicable; the investor will not be charged any expenses by the Company, the Selling Shareholders or the Managers in connection with the Offering.

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

Risks Relating to Lenta's Business and Industry

Risks relating to competition and demand

Lenta faces significant competition in its current areas of operation.

The level of competition in the Russian food retail sector is increasing as retailers in various formats (both modern format stores such as hypermarkets, discounters, supermarkets, convenience stores and cash & carry stores and traditional format independent grocery stores and covered markets) vie to satisfy growing consumer demand and sophistication. Lenta faces competition particularly from other modern format retailers, including both domestic retailers such as Magnit and foreign retailers such as Auchan. Operators of modern format stores have been carrying out substantial expansion programmes in recent years. Competition is especially intense in St. Petersburg, which accounts for a greater share of Lenta's revenues than any other single city.

As of 31 December 2013, Lenta was present in 45 cities with 77 hypermarkets across Russia. Many cities across Russia remain underpenetrated by modern food retailers and afford significant white space opportunities. See "—*Russian Food Retail Industry—Traditional versus modern retail formats in Russia*". As these markets develop and retail chains expand, rival food retailers will compete on the basis of price, product mix, product quality, location, service and store condition. Lenta's competitiveness depends, *inter alia*, on its ability to offer products in its stores at competitive prices. Lenta's margins may be significantly reduced as a result of price competition with its principal competitors. Current competitors or potential new entrants, including large international retailers, may have greater financial, distribution, purchasing and marketing resources, giving them a competitive advantage. As the Russian market is becoming increasingly saturated with modern retail formats, competition may be expected to intensify. Rapid expansion of e-commerce and internet penetration across Russia may present a challenge for Lenta's non-food sales due to increased competition from online retailers.

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

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

Lenta's results reflect general economic conditions and changes in disposable income and consumer spending in Russia.

Lenta's results of operations are sensitive to changes in overall economic conditions that affect consumer spending, including discretionary spending. Economic factors such as employment levels, business conditions, energy and fuel costs, interest rates, inflation rate and the strength of the Rouble against foreign currencies (in particular the U.S. Dollar) could reduce consumer spending or change consumer purchasing habits. In this regard, from 1 January 2014 to 12 February 2014 the Rouble fell from RUB32.73/$1 to RUB34.80/U.S.$1, a significant

fall, which if sustained or continued could undermine consumer confidence and materially adversely affect Lenta's sales and results of operations. Lenta's results of operations benefit from the growth of Russia's gross domestic product ("**GDP**"), which typically correlates with increased disposable incomes and consumer spending. Conversely, while historically food retail spending has been relatively more resilient than other sectors of the economy during an economic downturn, in a less buoyant economy customers tend to reduce spending both by reducing the volume of their purchases and by shifting their purchasing pattern towards cheaper products. While Lenta emphasises its 'Value-for-Money' proposition to its customers, reduced consumer spending could reduce Lenta's revenues and profitability, which in turn could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

Consumer demand for Lenta store formats and product assortment is directly affected by consumer trends, needs and preferences. Consumer preferences in the markets in which Lenta operates or intends to operate may cease to favour Lenta store formats or the products offered by Lenta, for example, as a result of changes in lifestyle and dietary preferences or as a result of national or regional economic conditions. Similarly, local conditions may cause customer preferences to vary from region to region as Lenta continues to expand into new cities. As a result of changes in customer preferences, traffic in Lenta's stores may decrease (or increase more slowly than in the past), the average ticket at Lenta's stores may decrease and inventory may build up. If Lenta's management is unable to identify and adapt to changes in consumer preferences swiftly, Lenta's revenue and profitability may decline, which in turn would have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's operations are subject to seasonal trends.

Lenta experiences seasonal fluctuations in its operations, such as a significant increase in operations in December, prior to the New Year holiday season, when there is on average an approximate 50% increase in sales (mostly generated during the final two weeks of the year). There is usually a drop in sales in January and February following the New Year holidays, followed by a rise in sales in March due to International Women's Day on March 8th. In the spring, purchases of meat products tend to fall as some customers observe fasting during Lent. From May through August, considered to be the 'dacha' season when many of Lenta's customers spend weekends at their summer homes, sales patterns change from store to store, depending on location. Sales patterns change again in September, as the 'dacha' season draws to a close. The sale of seasonal products, such as school-related non-food products in August and New Year's decorations and gifts in December, affects interim results. In 2013, approximately 43% of sales were attributed to the first half of the year and 57% to the second half of the year. Poor trading performance in any single month or season, due to failure to adjust the product mix for the relevant period or otherwise, can adversely affect full-year results and leave Lenta with excess inventory that is then difficult to liquidate, which in turn could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Risks relating to strategy

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

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

Lenta's general approach of owning (rather than renting) its hypermarkets (and in most cases constructing them) entails significant capital expenditures as Lenta carries out its expansion programme. In 2013 and 2012, capital expenditures were RUB23,549 million and RUB14,962 million, respectively, and in 2014 capital expenditures are expected to surpass these levels. To date, Lenta has been able to fund its capital expenditures primarily with its operating cash flows, supplemented by debt financings. Given expected operating cash flows and Lenta's current level of debt, Lenta expects it will be able to continue this practice. As of 31 December 2013, Lenta had RUB24,850 million of unutilised funding available under its debt financing facilities and RUB6,212 million in cash; in 2013, Lenta's net cash generated from operating activities (after income taxes paid and net interest paid)

was RUB10,853 million. In January 2014, Lenta LLC as borrower entered into a secured eight-year loan agreement with EBRD allowing borrowings of up to RUB4.6 billion. If operating cash flows fall short of projections or if new financing is not available to Lenta (whether due to reasons specific to Lenta or to the debt market generally), Lenta may curtail its expansion plans, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects. A slowdown in Lenta's expansion may also prejudice its ability to negotiate better terms with suppliers going forward.

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

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

As part of its expansion strategy, Lenta may pursue growth through mergers or acquisitions of businesses in the Russian retail sector. Future acquisitions could expose Lenta to potential risks, including risks associated with the integration of new operations, assets and personnel, unforeseen or hidden liabilities, the disruption of relationships with suppliers and customers, the diversion of resources from Lenta's existing businesses and technologies, a deterioration in the perception of the Lenta brand, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions and potential loss of, or harm to, relationships with employees and external parties as a result of the integration of new businesses. Future acquisitions could also require Lenta to incur debt or issue equity securities, which may dilute the interest of existing shareholders. In addition, there is no assurance that Lenta would have sufficient resources to complete acquisitions that Lenta considers necessary to ensure that Lenta is able to maintain its market share in significant markets, or that Lenta would not fail to complete such acquisitions for other reasons. Failure to successfully implement acquisitions could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Risks relating to real estate and construction

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

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

Two draft laws may, if enacted, make future purchases and leases of Russian real estate by Lenta more difficult. Under a working proposal by the Ministry of Economic Development of Russia (which has not yet been submitted to the Russian Duma for consideration), any company with over 50% foreign ownership would be required to obtain prior state permission to purchase or use real estate property in Russia, such permission to be issued by a state authority (not yet identified), which would be expected to rule on applications within one month of their submission and to reject applications only on grounds of national security; a transaction made without requisite approval would be null and void. The government of the Russian Federation (the "**Russian Governmen**t") would be able to exempt certain Russian regions and persons from specified foreign countries from this requirement. Under another draft bill tabled by Duma deputies in October 2013 but then remanded by the relevant Russian Duma committee for further drafting work, a domestic company comprising a "national business" (defined so as to exclude companies with more than 10% foreign ownership) would have a preferential right to acquire or lease state-owned real estate. While there is some uncertainty under the current drafting of these laws whether (if enacted) they would apply to Lenta's main operating subsidiary Lenta LLC (as its direct parent is a Russian limited liability company), if either draft law is passed, Lenta's ability to purchase or lease Russian real estate, and thus acquire sites for new stores, could be negatively affected.

Lenta relies on dedicated in-house, real estate development teams. The composition of these teams will change over time, and there can be no assurance that they will be able to successfully identify and secure suitable real

estate opportunities on commercially acceptable terms or at all and match the development of Lenta's store base to the development of its logistical support system, including distribution centres. Any failure to do so could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta's planned construction of hypermarkets is subject to delays and cancellation.

Lenta is required to obtain approvals from various regional or municipal authorities in order to secure rights to undertake construction of new hypermarkets. Russian construction regulations at the federal and regional levels can be complicated, ambiguous and contradictory, and construction approval procedures are susceptible to challenge or reversal. Obtaining approvals entails extensive documentation and Lenta may not be able to accurately predict how long it will take to obtain such approvals or whether it will be able to obtain them at all. In practice, third-party contractors obtain such approvals on behalf of Lenta, and there have been occasions in the past (and there may be such occasions in the future) when Lenta received certain construction permits with construction in progress. As a result, Lenta's planned construction of hypermarkets may be delayed or cancelled. Lenta's construction projects and hypermarket openings may also be delayed or be more costly if utilities services, such as electricity, water and gas supply, are difficult to obtain.

There may be a shortage of skilled contractors able to build new hypermarkets on time and in compliance with Lenta's requirements. Contractors may fail to meet the quality standards required by Lenta or applicable health and safety requirements. Such failure may result in the imposition of sanctions, which could give rise to negative publicity and have a material adverse effect on Lenta's reputation and disrupt the ability to effectively conduct business. In particular, as Lenta continues to expand into new cities, it may encounter challenges in finding experienced, reliable and loyal contractors in these regions. In the past, Lenta has experienced defects in construction, which in certain instances led to Lenta making claims against contractors. Delays and defects in construction could result in increased costs and postponed hypermarket openings. Furthermore, as it continues its roll-out of new hypermarkets, Lenta will need to simultaneously monitor a larger number of construction sites, which may have an impact on its control over the quality of construction. As a result of any of these factors, Lenta may not be able to meet its expansion targets as planned, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

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

In particular, under the terms of the VTB Facility Agreement (as defined herein)—Lenta's principal outstanding debt facility of RUB40.4 billion (of which Lenta has drawn down RUB30.375 billion as of 31 December 2013)—Lenta is obliged to provide both at the time of disbursement of the loan and annually a valuation report on the mortgaged property securing such financing prepared by an independent appraiser and stating the market value of the mortgaged property. If the valuation report indicates a decrease in value of the pledged property, then, to the extent needed to restore a specified ratio of the principal amount of the financing to the value of pledged property, Lenta is required to pledge newly constructed or acquired property and underlying land or land lease rights within 90 days following registration of Lenta's title to such property (depriving Lenta of the ability to pledge such assets in connection with possible new financings). In addition, pursuant to the EBRD Loan Agreement (as defined herein), Lenta LLC is obliged to pledge its property as a condition precedent to each disbursement (as of the date of this Prospectus, no amounts have yet been drawn). Lenta LLC is also obliged to provide an annual valuation report on the pledged property. If the valuation report indicates a decrease in value of the pledged property, EBRD may request Lenta LLC to pledge additional property in order to restore a specified ratio of the outstanding principal amount of the financing to the value of pledged property. Failure by Lenta to meet such requirements, or similar requirements in other financings, may result in Lenta being obliged to repay loans prior to their maturity or incur additional costs, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects and also affect Lenta's ability to attract other debt financings.

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

As of 31 December 2013, Lenta leased nine out of its 77 hypermarkets, nine of its 10 supermarkets and two of its five distribution centres. There can be no assurance that Lenta will be able to renew its leases as they expire. For example, leases of premises in shopping malls may not be available for extension because landlords may decide to change tenants for better commercial arrangements. Lenta's use of leased selling space for its hypermarkets is likely to increase in coming years (from 8% as of 31 December 2013 to a targeted maximum of leased selling space of approximately 15-20% over the medium term). If rent prices increase significantly, throughout Russia or in a particular region or city, it may cease to be economically justifiable to lease stores and Lenta may have to discontinue operations at some or all of its leased stores. Any inability to renew leases as they expire or acquire new leases in other favourable locations and sites on acceptable terms, termination of the existing leases or revision of the terms of leases to Lenta's detriment could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

Lenta acquires or leases land plots, buildings and premises with a view to operating stores in these locations. Russian real estate legislation at the federal and regional levels is often complicated, ambiguous and contradictory given that following the dissolution of the Soviet Union almost all Russian regions passed their own real estate legislation and over 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Although in 2001 a new Russian land code (the Land Code of the Russian Federation No. 136-FZ, dated 25 October 2011, as amended (the "**Land Code**")) as well as other federal laws regulating land use and ownership were enacted, it is not always clear which state bodies are authorised to enter into land leases with respect to particular land plots, and the process of surveying and title registration sometimes takes years to complete. As a result, Lenta's ownership of or lease rights to land and buildings may be challenged by government authorities, counterparties or third parties, and establishing Lenta's ownership of or lease rights to this property may take several years. For example, Lenta faced difficulties in obtaining the long-term lease rights to land underlying one of its stores in Siberia. Lenta enters into three-year term land lease contracts with local authorities for construction of its new stores, and then usually replaces these leases with 49-year term leases after construction is completed. If Lenta does not commence construction within the period of the short-term lease, it may be unable to extend the lease and will lose the land and hence the opportunity to build a new store in the selected location.

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

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

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

Other risks relating to Lenta's business

Lenta has pledged significant assets, including all the equity in its operating subsidiary Lenta LLC and most of its stores, to secure its financings.

Lenta has a number of outstanding financings in place, some of which benefit from security. In particular, under the VTB Facility Agreement, Lenta has pledged, amongst other things, all the equity of its operating subsidiary Lenta LLC (and of the other intermediate subsidiaries in Lenta's corporate structure), and has given mortgages over most of its stores as well as withdrawal rights over its bank accounts. Under the VTB Facility Agreement, if any pledge over pledged property becomes invalid or certain pledged property is lost or substantially impaired, this may trigger an event of default, unless within 180 days of the event Lenta prepays the loan in an amount equal to the value of the affected pledged property or pledges additional property of such value. If these circumstances occur and Lenta is unable to prepay the loan or pledge such property, this may result in the VTB Facility Agreement (or other financings with similar terms) being accelerated. If any event of default occurs and is continuing under the VTB Facility Agreement, then this security could be enforced, potentially depriving Lenta of all or a substantial portion of its assets. Lenta LLC would have a claim against VTB Capital to the extent the bank realised proceeds in excess of the amounts owed to it. Should the security over Lenta's operating subsidiary Lenta LLC (or of the other intermediate subsidiaries in Lenta's corporate structure) be enforced and result in a change of ownership of such equity, such event would represent the loss by the shareholders of the Company (including holders of the GDRs) immediately prior to such change of ownership of the Lenta business.

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

Lenta seeks to maintain a strong capital position and prudent approach to leverage. As of 31 December 2013, Lenta's net debt equaled RUB39,831 million and total borrowings equaled RUB46,043 million; as of the same date, short-term debt (i.e., coming due in the following 12 months) comprised 13.3% of Lenta's overall indebtedness. In 2013, Lenta's leverage ratio (net debt to Adjusted EBITDA) was 2.4x. Lenta believes that its current level of indebtedness does not have a negative impact on its operations. As of 31 December 2013, Lenta had RUB10 billion of long-term financing available under its VTB Facility Agreement, which it expects to drawdown in support of its expansion programme. In January 2014, Lenta LLC entered into the EBRD Loan Agreement, which allows borrowings of up to approximately RUB4.6 billion. See "*Operating and Financial Review—Recent Developments*". As a result of its drawdown on the VTB Facility Agreement and the entry into other borrowings, Lenta expects its debt level to increase over the next three years in support of its continued roll-out of hypermarkets. Lenta's debt capacity depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which are outside of Lenta's control. If Lenta's cash flow from operating activities is insufficient to service its debt, Lenta could be forced to take certain actions, including delaying or reducing capital or other expenditures or other actions, to restructure or refinance its debt; selling or mortgaging its assets (including real estate properties) or operations; or raising additional equity capital. Lenta might be unable to take any of these actions on favourable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow Lenta to service its debt obligations in full and, in any event, could have a material adverse effect on its business, financial condition, results of operations and prospects. With RUB40.4 billion of Lenta's long-term indebtedness (as of 31 December 2013) due to be repaid in 2017 (RUB10 billion) and 2018 (RUB30.375 billion), respectively, Lenta's inability in those years to service its debt through internally generated cash flow or other sources of liquidity could put it in default of its obligations to its creditors, which, in turn, could trigger cross-default provisions under its financings. Although Lenta does not currently anticipate defaulting under its current obligations, any such default could result in a material adverse effect on Lenta's business, financial condition, results of operations and prospects. See "*—Lenta has pledged significant assets, including all the equity in its operating subsidiary Lenta LLC and most of its stores, to secure its financings*" for a discussion of the impact any default may have on Lenta's operations.

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

Lenta's operations and properties are subject to regulation by various government entities and agencies, and Lenta is obliged to comply with laws, regulations and rules with respect to, amongst other things, quality standards, health and safety, sanitary rules and consumer protection. This includes obtaining and renewing various permits concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, the issuance and renewal of permits and in monitoring

compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of the operations of Lenta's stores, the imposition of penalties or the suspension of activity or even closure of Lenta's stores.

Any failure to comply with existing or new laws, regulations and rules may result in the imposition of sanctions, including civil and administrative penalties on Lenta, and imposition of criminal and administrative penalties on its managers. Any decisions, requirements or sanctions taken and imposed by relevant authorities may restrict Lenta's ability to conduct its operations or to do so profitably and, as a result, could have a material adverse effect on Lenta's business, financial condition and results of operations. For example, Lenta operates and contemplates opening hypermarkets located within 50 metres of residential housing. Such practice, while common in the industry, may contradict sanitary rules. While to date the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (the "**Rospotrebnadzor**") has not taken enforcement action against these stores, there is no assurance that it will not bring such actions against Lenta in the future, possibly resulting in Lenta being forced to close stores. Moreover, in February 2014, Rospotrebnadzor made public a set of draft amendments to the relevant regulations, which contemplate an increase of the 50 metre protected zone to 300 metres if a hypermarket or supermarket has a parking area with more than 500 parking spaces. The requirement to have the increased protected zone is not expected to apply to existing structures nor have any practical impact on the opening of future Lenta stand-alone hypermarkets (which would be designed to comply with the regulation), but could affect the development of shopping malls where Lenta is expecting to rent space for hypermarkets including three projects scheduled for 2014 (none of which, however, are in Lenta's confirmed 2014 pipeline of 23 new hypermarket openings).

In addition, Lenta's retail business is subject to mandatory rules for trade in alcohol and tobacco products, which represent a significant portion of its sales. In particular, Lenta's ability to sell alcohol depends on the availability of a licence for the relevant Lenta store. Applicable Russian legislation regulates the age of customers, the permitted time and territory for sales of alcohol and tobacco products. For example, sales are prohibited in the neighbourhood of educational and health institutions, sport facilities, airports, and railway stations with the borders of such neighbourhood set by the local authorities. Furthermore, the regional authorities may impose additional restrictions with respect to time, conditions and places for retail of alcohol products, or prohibit all such sales. In respect of tobacco products, from 1 January 2014, new rules on sales on tobacco, including minimum prices and increased tobacco excise duties, become effective in Russia and, from June 2014, the display of tobacco products will be generally prohibited, so that a retailer may only display a written list of tobacco products offered for sale. Further restrictions on sales of alcohol and tobacco may be imposed. If restrictions on the sale of alcohol and tobacco result in lower sales of these products, this may have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

Such bonus payments are limited by law. The Retail Law was enacted in response to perceived abusive practices by Russian retailers in demanding volume-based bonuses from suppliers. The Retail Law caps the extent to which retailers can receive volume-based bonuses from suppliers on the original price agreed between the supplier and the retailer for most categories of food supplies at 10% of the original price. Certain staples—such as bread, milk and chicken—cannot be subject to bonus arrangements. In January 2014, it was reported that suppliers are lobbying to expand the list of such staples to include pork, beef and eggs. The Retail Law also limits the time for payment by retailers to suppliers for deliveries to 10, 30 or 45 days from the date of delivery (depending on the shelf life of the relevant food products).

In recent months, there has been significant public discussion regarding the practice of certain retailers to have suppliers enter into marketing and similar service agreements with them in connection with their entry into supply agreements, as well as allegations that some retailers demand excessive bonuses from suppliers. The Russian Federal Antimonopoly Service (the "***FAS***"), the state agency tasked with policing compliance with the Retail Law, has stated in its reports that the retailers often use such measures to circumvent the intent of the Retail Law. In this regard, a draft law proposing to amend the Retail Law was submitted to the State Duma by one of the regional parliaments on 17 October 2013. Under the amendments: (i) a standard form supply agreement to be used by retailers with suppliers would be mandated; (ii) the maximum volume-based bonus from suppliers to retailers would be reduced from 10% to 1% of the original price; (iii) the time limits for payments to suppliers for deliveries would

be shortened to 10, 15 and 25 days from the date of delivery (depending on the shelf life of the relevant food products) and a retailer would have to pay interest on late payments at the rate of 1/300 of the CBR refinancing rate; (iv) fees charged by a retailer (including its affiliates) for the services they provide to suppliers under marketing and similar arrangements, which are currently not capped, would be capped at 1% of the price for goods supplied by a supplier to such retailer; and (v) contractual penalties, which are currently not capped, would be capped at 5% of the price for such delivery, and a supplier would not have to pay any penalty arising from a force majeure event or a third party's fault. If these amendments are enacted, there can be no assurance that Lenta will be able to offset their negative impact by negotiating price reductions with its suppliers.

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

Whether due to overall market conditions, a downturn in Lenta's competitive position, suppliers being able to negotiate better terms or to other circumstances, Lenta may not be able to maintain its current level of supplier bonuses and fees, which could have a material adverse effect on Lenta's business, financial condition and results of operations, in particular, its margins and profitability, and prospects.

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

The prices for agricultural commodities are volatile. As such, the cost of agricultural commodities (and processed foods) may significantly increase as a result of global or regional adverse natural conditions (including poor harvests and animal diseases), supply/demand dynamics, trade disruptions or otherwise. Although Lenta has a diverse supplier base, it may be a pricetaker for certain suppliers who may pass on higher commodity costs to Lenta. Lenta, in turn, may seek to pass all or a portion of these additional costs on to its customers to maintain its gross profit margins. However, it may not be possible for Lenta to increase its retail prices to offset cost increases, particularly if economic conditions render Lenta's customers unable or unwilling to bear such increase or if Lenta's main competitors choose not to implement such price increases. As competition in the Russian food retail market intensifies, unilateral price increases may lead to declines in sales, loss of customer traffic, loss of market share and other adverse consequences. Accordingly, Lenta may be significantly constrained in its pricing policy by the actions of competitors and therefore price increases by suppliers could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

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

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"), generally prohibits any concerted action, agreement or coordination of business activity that results or may result in (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) reduction or termination of goods production; (e) refusal to enter into contracts with certain buyers (customers), as well as (f) other concerted actions and/or agreements that result or may result in restriction of competition, including (i) imposing unfavourable contractual terms; (ii) fixing disparate prices for the same goods for other than economic or technological reasons; (iii) creating barriers to others entering or exiting a market; and (iv) restricting competition in any other way.

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

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

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

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

The Retail Law obliges a trade chain to provide its terms and conditions for selecting suppliers to any supplier within 14 days of request (or publish the same on its website). Some regional departments of the FAS have

construed this provision to require trade chains to conduct an open tender for suppliers of relevant goods each time a potential new supplier submits a request, but this interpretation has not been supported by court practice, and Lenta does not consider it to be correct.

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

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

In addition to imposing a cap on volume discounts available to Russian retailers, the Retail Law limits the ability of a food retail company holding a share of more than 25% of total sales of food products during the preceding financial year within a particular region, municipal area or city district in Russia to acquire or lease additional retail space within such territory. The FAS has the discretionary power to invalidate any transaction made in breach of the Retail Law. Lenta believes that it currently does not hold a 25% or greater share of total sales of food products in any of the regions where it operates. However, this limitation may restrain the ability of Lenta to open new stores in territories where it already enjoys a significant market share. In addition, a draft law proposing to amend the Retail Law that was submitted to the State Duma by one of the regional parliaments in December 2013 proposes to further decrease this threshold to 10%. If adopted, this law could have a material adverse effect on Lenta's business and its ability to expand its operations.

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

Federal or regional authorities may impose price controls on certain goods sold by Lenta. For example, the Russian Government in its Resolution No. 769, dated 10 November 2007, (which is no longer in effect) permitted the regional authorities to enter into agreements with food producers and retailers to decrease or maintain prices with respect to certain products for the period from November 2007 until April 2008, and subsequently the authorities in Novgorod and in Altai entered into such agreements with retail companies regarding the pricing of milk products, bread and sunflower oil. Under the Retail Law, the Russian Government is empowered to impose maximum retail prices for "socially important food products", which comprise meat (beef, pork and lamb), chicken (other than drumsticks), frozen whole fish, butter, sunflower oil, milk, chicken eggs, sand sugar, wheat flower, bread, rice, millet, buckwheat, vermicelli, salt, black tea, potatoes, cabbages, carrots, onions and apples (which accounted for 15% of sales in 2013), for a period of up to 90 days when retail prices have increased over 30% within a 30-day period in a Russian region. Russian legislation that imposes price controls on food products or otherwise regulates the activities of food retailers could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

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

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

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

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

Lenta relies on third-party service providers.

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

Lenta may incur higher labour costs and lose the benefit of migrant labour.

Labour costs in Russia have historically been significantly lower than salaries in more economically-developed countries. In line with its expansion, Lenta's total personnel costs have grown as the workforce has increased. Lenta expects these trends to continue, in part due to expansion in Moscow, where wages are higher than in most other cities in Russia. Separately, if a substantial part of Lenta's workforce were to become members of a trade union demanding wage increases, this could lead to a substantial increase in payroll costs. If salaries continue to increase, especially if they increase more rapidly than Lenta's sales growth, Lenta's margins could be reduced, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

Lenta currently benefits from the use of migrant workers in Russia (including citizens of several Central Asian countries), in particular as migrant workers are often hired by Lenta's service providers for store cleaning and security. Migrant workers are generally willing to work at relatively lower wages. The Russian Government has approved a quota for 2014 for the direct hire of foreign workers by retail companies selling alcohol, such as Lenta, expressed as a cap of 15% of the retailer's workforce. Prior to 2013, such retail companies were not permitted to hire such migrant workers. However, since the overall national quota was not increased in 2013 (and has been decreased in 2014), this has led to little direct hiring of migrant workers by Lenta. Migrant workers hired indirectly through service companies (which are not subject to a quota) provide services to Lenta. If the quotas for migrant workers are reduced or cancelled, or if quotas were imposed on labour service companies, the lack of low-wage labour may materially adversely affect Lenta's business, financial condition, results of operations and prospects.

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

Lenta manages its store operations, inventory, logistical operations and finance and accounting through a variety of information technology solutions. These operations are dependent on the integrity of their supporting systems. Lenta's systems and operations may be vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, denial of service, security breaches, internet slowdowns or unavailability and similar events. In addition, third parties or disgruntled employees may attempt to gain access to Lenta's systems to the detriment of Lenta, and Lenta may not be able to protect its systems from all attacks. If such attacks occur, some of the problems Lenta may encounter include theft or destruction of data, including commercial, financial and product information, to its commercial detriment or to its reputational loss.

Lenta has contingency plans to deal with such events, but its systems could suffer failures or delays that might cause significant disruption to its operations. Equipment breakdowns may result in productivity losses and potential inoperability of store trading software. Significant systems failures and delays could also cause unanticipated disruptions in service, loss of inventory, decreased customer service and customer satisfaction and harm to Lenta's reputation, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

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

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

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

Customers at Lenta stores typically pay for their purchases in cash, but the use of credit and debit cards in Russia is increasing. Card providers such as Visa and Mastercard dominate the local market and thus, together with the administering local banks, are able to charge relatively high fees for the processing of credit card payments. Fees currently payable by Lenta are over 1% of the transaction value (while the cost of collecting hard cash is 0.01% of the transaction value). Therefore, Lenta is exposed to the risk of a substantial increase in cost with the growing share of card payments, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

The Company is a holding company that only performs limited administrative functions for the Group. The Company's principal assets are the equity interests that it indirectly holds in Lenta LLC. As a result, the Company is dependent upon dividends and other payments from Lenta LLC (which holds substantially all of the assets of the Group and conducts substantially all the business of the Group) to generate the funds necessary to meet the Group's financial obligations and fund any payment of dividends by the Company, including to holders of GDRs. The revenues of Lenta LLC are predominantly denominated in Roubles. Lenta LLC may be subject to currency control restrictions imposed by the Russian authorities, which could limit its ability to make foreign-currency payments.

Lenta has engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained otherwise.

Conflicts of interest may arise between related parties and Lenta, potentially resulting in the conclusion of transactions on terms not determined by market forces. Conflicts of interest that may materially and adversely affect Lenta's business, financial condition, results of operations and prospects could deter prospective investors from investing in Lenta which could adversely impact the Group or the market price of the GDRs.

While Lenta believes that to date all related party transactions have been carried out on an arm's length basis and it expects that to be the case going forward, any related party transactions which are carried out on a non-arm's

length basis may expose Lenta to business, financial and accounting risks such as higher financing costs, transfer pricing adjustments of VAT and profit tax liabilities, which could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

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

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

Following the Offering, the Major Shareholders will beneficially own 61.7% of the Shares assuming the exercise of the Over-allotment Option in full. Accordingly, these shareholders will continue to be in a position to significantly influence the outcome of most matters submitted to shareholders' meetings for a vote, including, but not limited to, the election or removal of directors (a number of whom will be nominated by the Major Shareholders pursuant to rights embedded in the M&A) and other policy decisions. Additionally, the Major Shareholders will continue to be able to significantly influence the outcome of any vote on any proposed amendment to the M&A, merger proposals or any other matter submitted to shareholder vote. In addition, the Major Shareholders will continue to be able to exercise significant influence over any decision regarding a change of control of Lenta. The interests of the Major Shareholders could conflict with each other or with those of the holders of the GDRs or Shares.

Risks Relating to Russia

Political, economic and social risks

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

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

Vladimir Putin was elected President of Russia in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. In March 2008, Dmitry Medvedev was elected President of Russia, and Mr. Putin served as Prime Minister for his entire administration. In March 2012, Mr. Putin was elected as President and took office on 7 May 2012, for a term of six years; Mr. Medvedev now serves as prime minister. Whilst this has provided governmental stability, opposition organisations have been active since mid-2012. This may in the future lead to increased, or more disruptive, protest activity, popular dissatisfaction and political instability, and possibly a cycle of civil protest followed by increased authoritarianism.

Future political instability could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation in Russia also could lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia and the GDRs in particular, as well as on Lenta's business, its ability to obtain financing in the international markets and its financial condition or prospects.

Emerging markets such as Russia are also subject to heightened volatility resulting from political and economic conflicts. Any disruption or reversal of the reform policies or any recurrence of political or governmental instability or significant terrorist attacks (to which Russia is potentially particularly exposed given ongoing ethnic and religious tensions, notably with peoples and regions from and in the Caucasus and Central Asia) may lead to a deterioration in Russia's investment climate and trading volatility, which could materially adversely affect Lenta's ability to raise equity or debt capital in the international markets, as well as its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

As Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices as well as other commodities prices, which have experienced significant volatility during the global financial crisis beginning in the second half of 2008. Russian banks, and the Russian economy generally, were adversely affected by the global financial crisis, and the Russian economy has not fully recovered from the economic crisis. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy. Current macroeconomic challenges, low or negative economic growth in the United States, China, Japan and/or Europe and market volatility may provoke or prolong any economic crisis.

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

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

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

The deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. The credit crisis that began in the United States in the autumn of 2008 resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Lack of liquidity and economic slowdown may raise the possibility of Russian corporate defaults and could lead to bank failures and downgrades of Russian banks by credit rating agencies. More bank failures and credit downgrades may result in a crisis throughout the Russian banking sector. Beginning in the fourth quarter of 2008, most Russian banks experienced difficulties with funding on domestic and international markets, and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. Credit ratings of several banks were lowered. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect Lenta's business and its ability to complete banking transactions in Russia.

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

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

In an effort to improve national infrastructure, the Russian Government is reorganising the nation's electricity and telephone systems. These reorganisations may result in increased charges and tariffs but not produce the desired improvements in infrastructure. In addition, these reorganisations may be halted or delayed in the event of a prolonged economic downturn, which would likely lead to a further deterioration in Russia's infrastructure network. The occurrence of any of these factors could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects.

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

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

Risks relating to the Russian legal system and Russian legislation

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

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

Russia is a civil law jurisdiction, and, as such, judicial precedents have no formal binding effect on subsequent decisions. Among the risks of the current Russian legal system are: the limited availability of judicial and administrative guidance on interpreting Russian legislation; substantial gaps in the regulatory structure due to delay or absence of implementing legislation; the relative inexperience of judges and courts, especially in lower courts, in interpreting Russian legislation and in business and corporate law generally; the relative lack of independence of the judiciary; the difficulty in enforcing court judgments in practice; and corruption and bankruptcy procedures that are insufficiently developed and subject to abuse. Any of these weaknesses, as well as others, could hinder, delay or prevent the ability of investors to have their rights upheld in a Russian court.

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

Governmental authorities in Russia have a high degree of discretion and may at times exercise their discretion arbitrarily, without hearing or prior notice, or in a manner that is unduly influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators,

suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often to further interests different from the formal substance of the claims. The occurrence of such selective or arbitrary action against Lenta could have a material adverse effect on Lenta's business, financial condition, results of operations and prospects, as well as on the value of the GDRs.

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

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

Russian legislation may not adequately protect against expropriation and nationalisation.

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

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

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

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

Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. There are no clear rules or implementation practice for distinguishing between lawful tax optimisation and tax evasion. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. Under current practice, private clarifications issued by the Russian Ministry of Finance in respect of a specific taxpayer's tax position are not binding on Russian tax authorities, and there can be no assurance that the

Russian tax authorities will not take positions contrary to those set out in such clarifications. During the past several years, the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments as a result of tax audits of companies operating in various industries, including the retail sector. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings against the Russian tax authorities to defend their position. Furthermore, in the absence of a binding upper court instruction, court rulings on tax or related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

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

The Russian Government has taken steps aimed at preventing tax evasion, imposing additional liabilities on taxpayers. On 3 December 2012, the Russian Government issued Resolution No. 2250-r ("**Resolution No. 2250-r**"), which contains a series of amendments expected to be introduced into Russian legislation in the near future in order to prevent tax evasion. Resolution No. 2250-r proposes to introduce, amongst other things, additional grounds for the reassessment of tax liabilities, additional rights of governmental authorities and stricter criminal responsibility for money laundering and the violation of foreign currency legislation. In terms of tax measures, Resolution No. 2250-r introduces rules governing the taxation of "controlled foreign corporations", the concept of tax residency for legal entities and the concept of beneficiary recipients of income. While draft laws covering these amendments were expected to have been prepared and submitted to the Russian Government in 2013, this did not occur. Nevertheless, the President, in his address to the Russian Federal Assembly in December 2013, asked that such drafts be prepared by 1 July 2014, in particular with respect to "controlled foreign corporation" rules.

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

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

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

Russian subsidiaries of the Company, including its main operating subsidiary Lenta LLC, are subject to periodic tax inspections that may result in tax assessments, penalties and interest being claimed from such subsidiaries for prior tax periods. Generally, tax declarations of Russian subsidiaries remain open and subject to audit by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority. Moreover, the Russian tax authorities are allowed to carry out repeat field tax audits in connection with the restructuring or liquidation of a taxpayer or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced. The limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

The Russian Tax Code provides for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and may ultimately seek to review and possibly to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review compliance with applicable tax law beyond the three-year limitation period.

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

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

Lenta may be deemed to receive unjustified tax benefit.

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

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

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

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

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

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

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

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

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

Lenta LLC, a Russian company, is the principal operating subsidiary of the Group, and it would generate the source of any future dividends paid out by Lenta. Lenta LLC's immediate corporate parent is Lenta-2 LLC, and Lenta-2 LLC's immediate corporate parent is currently Zoronvo Holdings Limited, a Cyprus company. See "*Business—Organisational Structure*". Zoronvo Holdings Limited is in the process of being re-domiciled to Luxembourg under the name Lenta Holdings Luxembourg Sarl, a process expected to be completed in the first half of 2014. Accordingly, at such time (if any) that Lenta LLC upstreams dividends to Lenta-2 LLC, and Lenta-2 LLC in turn upstreams the dividends to Lenta Holdings Luxembourg Sarl, Lenta intends to rely on the Russia-Luxembourg Double Tax Treaty (the "**Russia-Luxembourg Tax Treaty**") for the purposes of the latter dividend distribution.

Under the Russia-Luxembourg Tax Treaty, withholding tax on dividends paid by a Russian company to a Luxembourg company is set at 5%, provided that the following conditions are met: the beneficial owner of the dividends is a company which directly holds at least 10% of the capital of the company paying the dividends and has invested at least €80,000 or its equivalent in Roubles. Otherwise, a 15% tax rate should be applied.

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

Specifically, Lenta may incur a 15% withholding income tax on dividend payments from the Company's Russian subsidiaries if the treaty clearance procedures are not duly performed at the date when the dividend payment is made. In this case, Lenta may seek to claim as a refund the difference between the 15% tax withheld and the reduced rate of 5%. However, there can be no assurance that such taxes would be refunded in practice.

In May 2009, the Russian President included in his Budget Message regarding the Budget Policy for 2010-2012 a proposal for legislative changes to introduce an anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdiction. The Russian Government has also proposed in its "Major Trends in Russian Tax Policy for 2014-2016" legislative changes concerning an anti-avoidance mechanism with respect to double tax treaty benefits, together with a proposal for the introduction of the concept of "controlled foreign corporations". See "*Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and Lenta therefore may be subject to a greater than expected tax burden that could materially adversely affect Lenta's business and results of operations*".

Furthermore, the Russian Ministry of Finance has issued a number of clarifications with respect to the tax treaty concept of "beneficial ownership". Although the clarifications up to the date of this Prospectus have been of limited use, they demonstrate an attempt by the Russian tax authorities to address the question of beneficial ownership of income in international financial transactions and holding structures. Based on the President's December 2013 address to the Federal Assembly (referred to above), such rules may be developed by 1 July 2014. It is not clear whether and when these amendments may be introduced or how they may be applied. If and when enacted, such amendments may result in the inability of the Company's foreign subsidiaries to claim benefits under a double taxation treaty through structures which historically have benefited from double taxation treaty protection in Russia.

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

Under the Russian Tax Code, foreign legal entities that maintain a permanent establishment in Russia, i.e., that carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities, are subject to Russian tax. Russia's double tax treaties with other countries, including Cyprus and Luxembourg, also contain a similar concept. However, the practical application of taxing foreign legal entities with permanent establishments in Russia is not well developed. As a result, foreign companies with limited operations in Russia that would not rise to the level of creating a permanent establishment under international norms may be at risk of being treated as having a permanent establishment in Russia and hence may be subject to Russian taxation.

Although the Company and its foreign subsidiaries intend to conduct their affairs so that they are not treated as having a permanent establishment in Russia, no assurance can be given that they will not be treated as having such a permanent establishment. If the Company and its foreign subsidiaries are treated as having a permanent establishment in Russia, they would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

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

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

It should also be noted that under current Russian tax legislation there is no concept of tax residency for legal entities. Russian legal entities are taxed on their worldwide income whilst foreign legal entities are taxed in Russia on income attributable to their permanent establishment and on Russian source income received by these foreign legal entities. However, the Russian Government in its "Major Trends in Russian Tax Policy for 2014-2016" has indicated that it intends to introduce the concept of tax residency for legal entities on the basis of several criteria similar to those used in double tax treaties concluded by Russia. In this context it should be noted that in international practice the tax residence of legal entities is determined on the basis of the place of their effective management and control. It is unclear when and how (if at all) such changes are to be made, their exact nature, their interpretation by the tax authorities and how they might affect Lenta. Based on the President's December 2013 address to the Federal Assembly, such rules may be developed by 1 July 2014. In the event such concept is introduced into Russian law, there is a risk that the Company and its non-Russian subsidiaries may be treated as Russian tax residents and thus may be subject to taxation in Russia.

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

Starting from 1 January 2014, amendments to the provisions of the Russian Tax Code regulating property tax will come into force. Nevertheless, application of the new property tax regime as proposed by these amendments should start only after the regional legislatures have approved final cadastral values of real estate objects for their region and have passed corresponding regional tax laws.

Under the new property tax regime, certain real estate, including business centres, offices, shopping centres and retail outlets, should be subject to property tax at their cadastral value, rather than net book value. Cadastral values are expected to be set at a level that approximates fair market value. Property tax rates applicable to real estate taxable at cadastral value should amount to 1-1.5% per annum depending on the region, with a gradual increase to 2% per annum.

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

Risks Relating to the GDRs and the Trading Market

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or Shares. Although the GDRs will be admitted to trading on the London Stock Exchange and are expected to be admitted to trading on MICEX, an active, liquid trading market may not develop or be sustained after this Offering on any or both of these markets. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an active liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

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

- variations in Lenta's operating results and those of other retail companies;
- market conditions in the broader stock market;
- variations in national and industry growth rates;
- issuance of new or amended analyst reports and research;
- Lenta's performance vis-à-vis its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within Lenta's business sector or in Russia; and
- price and volume fluctuations on the London Stock Exchange and MICEX and other stock exchanges.

In addition, the market price of the GDRs may decline below the Offer Price.

The GDRs may not be admitted to trading on MICEX or be de-listed from MICEX.

Prior to the Closing Date, Lenta intends to file an application for the admission of the GDRs to trading on MICEX so that such trading may commence on the business day following the Closing Date. To date, there have been very few precedents of admission of foreign securities to public trading in Russia. Russia has only recently codified the rules relating to admission of foreign securities to public offering and trading in Russia. Russian securities law rules applicable to foreign issuers are still being developed and in many cases do not clearly distinguish between the issuer of the foreign depositary receipts and the issuer of the foreign underlying securities. In particular, the relevant Russian regulations governing the admission eligibility criteria and the listing criteria for foreign securities are not well developed and remain largely untested and open to conflicting interpretations. There has been little official guidance from the CBR as to interpretation and implementation of the rules applicable to non-Russian issuers. Consequently, it may not always be clear how to apply such rules with respect to Lenta. Therefore, the interpretation of the admission eligibility criteria by MICEX or the CBR may be different from the meaning which Lenta expects to be applicable or may be challenged, which may result in the refusal or subsequent cancellation of the MICEX Admission and de-listing of the GDRs from MICEX.

Upon the application for admission of the GDRs to trading on MICEX, Lenta becomes subject to regulation under certain Russian securities laws, including the rules relating to insider trading and market manipulation, which have not been yet tailored for non-Russian issuers. In addition, if the GDRs are admitted to trading or included into a quotation list, in order to maintain such admission or listing on MICEX, Lenta will be required to comply with Russian securities law rules, including certain listing, reporting and disclosure requirements. A material failure to comply with these rules may constitute grounds for de-listing of the GDRs from MICEX. Such compliance may be particularly problematic due to the new, untested nature of the relevant Russian regulations and the lack of official guidance from the CBR on their interpretation and implementation.

Lenta can provide no assurance that its MICEX Admission or the inclusion of the GDRs into a quotation list will be approved, that trading of the GDRs will commence or that Lenta will be able to maintain its MICEX Admission or inclusion in the quotation list.

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

Following the completion of the Offering, it is expected that the GDRs will be able to be traded on both the London Stock Exchange and MICEX. Trading in the GDRs on these markets could be made in different currencies (British pounds, U.S. Dollars and Euros on the London Stock Exchange and Roubles on MICEX) and at different times (due to different time zones, trading days and public holidays in the United Kingdom and Russia). The trading prices of the GDRs on these two markets may differ due to these and other factors. In the event that the MICEX Admission occurs, the liquidity of trading in the GDRs on MICEX will likely initially be limited. Trading of a small number of GDRs on that market could adversely impact the price of the GDRs on that market significantly and could, in turn, impact the price on the London Stock Exchange. The GDRs will be fully fungible between both markets. Any decrease in the trading price of the GDRs on one of these markets could cause a decrease in the trading price of the GDRs on the other market. Additionally, as there is no direct trading or settlement between the two stock markets, the time required to move the GDRs from one market to another may vary, and there is no certainty of when GDRs that are moved will be available for trading or settlement.

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

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

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

There is no corporate governance code or corporate governance regime in the BVI, and Lenta is not required to comply with the U.K. Corporate Governance Code. Accordingly, there are fewer protections for investors than would otherwise be the case were Lenta to comply with the U.K. Corporate Governance Code principles on corporate governance or similar standards of other EEA Member States or the United States.

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

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

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

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

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

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

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

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

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

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

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

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

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

In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; Lenta does not expect to declare any dividends in 2014. In future years, Lenta will consider the pay-out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion, its debt profile and leverage ratios. As such, while Lenta's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out. The trading price of the GDRs may be adversely affected if Lenta continues not to declare and pay dividends.

THE OFFERING

The Company . . . . . Lenta Ltd., a company limited by shares incorporated under the laws of the BVI.

The Selling Shareholders . . . . . The Selling Shareholders listed under "*Principal and Selling Shareholders*".

The Offering . . . . . The Offering comprises 109,523,810 GDRs to be sold by the Selling Shareholders, assuming full exercise of the Over-allotment Option, with five GDRs representing an interest in one Share.

The Offering is being made by way of an offer of GDRs (1) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in "offshore transactions" as defined in, and in reliance on, Regulation S.

Offer Price . . . . . U.S.$10 per GDR.

Shares . . . . . Prior to the Offering, the Company had 86,052,995 issued Shares, which are fully paid or credited as fully paid. In addition, the Company is authorised to issue an unlimited number of additional Shares. As the Offering comprises an offering of existing Shares by the shareholders of the Company and does not include an issuance of new Shares, upon the close of the Offering, the Company will continue to have 86,052,995 issued and outstanding Shares. Immediately after the Offering, an offering of Shares is expected to be made (at the Offer price) to certain managers of Lenta; the aggregate value of any resulting purchases is to be less than U.S.$3 million. The Shares are subject to applicable provisions of BVI law and regulations and the M&A, and have the rights described under "*Description of Shares and Certain Requirements of BVI Law*". Additionally, as a result of the occurrence of the Offering, 399 new Shares will be issued under the MIP. See "*Management and Corporate Governance—Interests of Directors and Senior Management—Total Interests following Offering*".

The GDRs . . . . . Each GDR represents one-fifth a Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The GDRs will be evidenced initially by Master GDRs, each to be issued by the Depositary pursuant to the Deposit Agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See "*Terms and Conditions of the Global Depositary Receipts*".

Over-allotment Option . . . . . In connection with the Offering, the Stabilising Manager or any persons acting for the Stabilising Manager, may, for stabilisation purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs being sold in the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilising Manager during the Stabilisation Period, the Selling Shareholders have granted the Managers the Over-Allotment Option pursuant to which the Managers may require the Selling Shareholders to sell additional GDRs, up to a maximum of 15% of the total number of GDRs being sold in the Offering at the Offer Price.

The Over-allotment Option is exercisable in whole or in part on one occasion only during the Stabilisation Period for the purposes of meeting over-allotments that may be made, if any, in connection with

the Offering and short positions resulting from stabilisation transactions upon written notice from the Managers to the Selling Shareholders and to the extent not previously exercised by the Managers may be terminated by the Managers at any time. See "*Plan of Distribution*". Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

Closing Date . . . . . Expected to be on or about 5 March 2014.

Depositary . . . . . Deutsche Bank Luxembourg S.A.

Lock-up . . . . . Each of the Company and the Selling Shareholders has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 180 days from the date of the London Admission, it will not, subject to certain exceptions, without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing.

Each of Mr. Stephen Johnson, Mr. Michael Lynch-Bell, Mr. John Oliver, Mr. Martin Elling (all of whom are members of the Board of Directors) and Senior Management has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 365 days from the date of the London Admission, he or she will not, subject to certain exceptions, without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), offer, lend, sell, contract to sell, grant or sell options over, purchase any option or contract to sell, transfer, charge, pledge, grant any right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing or announce or publish the intention to do any of the foregoing. See "*Plan of Distribution—Lock-up Arrangements*".

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

Conditions described under "*Terms and Conditions of the Global Depositary Receipts*" and applicable BVI law and regulations.

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

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

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

Listing and Trading . . . . . The Company has applied to the FCA, in its capacity as competent authority under the FSMA, for the GDRs to be admitted to the Official List of the FCA and to the LSE to admit the GDRs for trading under the symbol LNTA on its market for listed securities through its IOB.

The Company expects that conditional trading in the GDRs through the IOB will commence on an if-and-when issued basis on or about 28 February 2014 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. All dealings in the GDRs before commencement of unconditional dealings will be of no effect if the expected London Admission does not take place and will be at the sole risk of the parties concerned.

The Company is seeking the approval of MICEX in relation to the admission of the GDRs to be issued from time to time to trading on MICEX under the symbol LNTA. The MICEX Admission may not take place earlier than the London Admission. Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted. The Company expects that the MICEX Admission of the GDRs may take place on or about 6 March 2014, although no assurance can be given that MICEX will approve the MICEX Admission or that the Company will be able to maintain it.

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

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

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

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

Regulation S GDRs:

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

Rule 144A GDRs:

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

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

USE OF PROCEEDS

Lenta will not receive any of the proceeds from the sale of GDRs offered by the Selling Shareholders. The Selling Shareholders will receive all of the net proceeds from the Offering, which will be approximately U.S.$925,238,093, assuming no exercise of the Over-allotment Option, or approximately U.S.$1,064,023,814, assuming that the Over-allotment Option is exercised in full (in each case assuming full payment of the discretionary fee to the Managers).

The total commissions payable by the Selling Shareholders in connection with the Offering will be approximately U.S.$27.1 million, assuming no exercise of the Over-allotment Option, or approximately U.S.$31.2 million, assuming that the Over-allotment Option is exercised in full (in each case assuming full payment of the discretionary fee to the Managers). The total fees and expenses payable by the Company in connection with the Offering will be approximately U.S.$9 million.

The Offering is being conducted in order to allow the Selling Shareholders to dispose of a portion of their shareholdings, while raising Lenta's profile with the international investment community and establishing a market for GDRs which may benefit Lenta if it desires to access the equity markets in the future.

Russia—Economy and Demographics

Economy

Russia was the eighth largest economy globally in 2012, with a nominal GDP of U.S.$2,030 billion, and, according to data available as of the date of this Prospectus, has retained this ranking in 2013, with a nominal GDR of U.S.$2,118 billion. In 2012, Russia was the sixth largest economy globally by GDP adjusted for purchasing power parity, according to the IMF.

Following the profound socio-economic transformation after the break-up of the Soviet Union, which, *inter alia*, led to a reduction in the country's industrial production of approximately 50% between 1991 and 1996, the Russian economy has experienced significant economic growth, buoyed by a strong pricing environment for its export commodities, especially hydrocarbons. Following the financial crisis in 1998, which included a government default and sharp depreciation of the Rouble, Russia experienced 10 years of uninterrupted economic growth with a CAGR of real GDP of nearly 7%. During this period, the country's real GDP almost doubled. This growth was spurred by growing commodity prices and a strong recovery in domestic industrial production and consumer spending. In 2009, the Russian economy contracted by 7.8% (in real terms), particularly due to a sharp drop in commodity prices.

During the three years ended 31 December 2012, the Russian economy demonstrated a robust recovery, with growth rates between 3.4% and 4.5% per annum. These rates were at levels lower than pre-2008 levels, but were still higher than most Western economies or, for example, Brazil. In 2013, Russia's real GDP increased by 1.3%, according to Rosstat.

While net exports have been a key driver of Russia's economic growth, with the current account balance increasing from U.S.$29.1 billion in 2002 to U.S.$72 billion in 2012 (before decreasing to U.S.$33 billion in 2013), domestic household consumption has also been a significant contributor, more than doubling in real terms over the same period to reach over U.S.$1 trillion in 2013 (according to Rosstat), transforming Russia into one of the largest consumer markets in Europe. In 2013, household consumption in Russia increased by 4.7% in real terms, according to Rosstat.

The strength and nature of Russia's economic growth has supported healthy public finances, which in turn have also helped to create the conditions for sustained, broad-based economic growth, including through the expansion of consumer spending. Russian Government debt amounted to approximately 10.8% of the country's GDP (based on Russian Government debt as of 1 December 2013 and 2013 GDP) (according to Ministry of Finance), lower than the majority of developed and developing economies globally. Russia also retains significant international (foreign currency and gold) reserves. Spurred by the growth in commodity prices, total official reserves increased from less than U.S.$50 billion in 2002 to U.S.$509.6 billion as of 1 January 2014, according to the CBR.

Economic growth has been accompanied by significant growth in average wages and disposable household income, which contributed to a rise in household consumption. In 2013, the unemployment rate in Russia was 5.6% (according to Rosstat), which was lower than the unemployment rates in the U.S. and the majority of countries in Western Europe.

Notwithstanding the significant growth over the past decade, Russia's GDP per capita (U.S.$14,973 in 2013, according to preliminary IMF estimates) still lags significantly behind developed markets, such as the United States, Germany and the United Kingdom, which, in 2013, recorded GDP per capita of U.S.$52,839, U.S.$43,952 and U.S.$39,049 respectively, according to preliminary estimates of the IMF. Russia's GDP per capita was estimated to be higher than countries such as Brazil (U.S.$10,958), Poland (U.S.$13,334) and Turkey (U.S.$10,745) in 2013, according to preliminary estimates of the IMF.

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

	2009	2010	2011	2012	2013
GDP in current prices (RUB bn)	38,807	46,309	55,800	62,599	66,689
GDP in current prices (U.S.$ bn)	1,223	1,525	1,899	2,030	2,118[1]
Real GDP growth (%)	(7.8)	4.5	4.3	3.4	1.3
GDP per capita (U.S.$ thousand)	8,568	10,671	13,335	14,302	14,973[1]
Household consumption, current prices (RUB bn)	20,986	23,618	27,165	30,543	34,452
% of GDP	54	51	49	49	52
Household consumption (real growth, %)	(5.1)	5.5	6.8	7.9	4.7
Consumer Price Index ("**CPI**") (average for the year, %)	8.8	8.8	6.1	6.6	6.5
Urals oil price (average U.S.$/bbl for the year)	60.9	78.2	109.3	110.4	107.9
International reserves (U.S.$bn at year-end)	439	479	499	538	510
Government debt (% of GDP)	11.0	11.0	11.7	10.9	10.8[2]
Average monthly cash income (RUB)	16,895	18,958	20,780	22,880	25,522
Share of cash income spent on consumption (%)	70	70	74	74	n/a
Real disposable income (year-on-year % growth)	3.0	5.9	0.5	4.4	3.3
Average monthly accrued wages (RUB)	18,638	20,952	23,369	26,629	29,940
Real wages (year-on-year % growth)	(3.5)	5.2	2.8	8.4	5.2
Unemployment rate (%)	8.3	7.3	6.5	5.5	5.6[3]
Industrial production index (%)	(9.3)	8.2	4.7	2.6	0.3
Retail sales (real growth, %)	(5.1)	6.5	7.1	6.3	n/a
Food retail (%)	(1.9)	5.1	3.4	3.6	n/a
Non-food retail (%)	(8.2)	8.0	10.8	8.6	n/a

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

Notes:

(1) IMF estimates from World Economic Outlook Database (October 2013).
(2) Government debt as of 1 December 2013 as a percentage of 2013 GDP.
(3) Rosstat data as of December 2013.

As highlighted above, the economic crisis of 2008-2009, accompanied by a major decline in oil prices, served as an effective "stress test" for the Russian economy and is frequently used by market participants as a proxy for downside scenarios. Notably, however, during the crisis period, overall household consumption and food retail sales, in particular, showed greater resilience relative to other sectors of the economy. Food retail sales decreased by less than 1.9% in real terms, whereas industrial production decreased by 9.3% and non-food retail sales decreased by over 8%.

Population

Russia had a population of 143.3 million, as of 1 January 2013, representing approximately 2% of the world's population and making it the ninth largest country globally and the most populated country in Europe, considerably ahead of other European countries, including Germany (81 million), Turkey (75 million) and the United Kingdom and France (both 64 million), according to the Economist Intelligence Unit.

Following the sharp economic downturn in the 1990s, Russia's population fell from 148.3 million in 1991 to 142.8 million in 2007, according to Rosstat. Since 2008, the population trend has reversed on the back of improving birth rates and immigration flows, with the total population reaching 143.3 million as of 1 January 2013, which is, however, still below the 2005 level of 143.8 million.

Russia is characterised by a relatively high level of urban population of approximately 74%, compared to 53% for China and 71% for Turkey. The table below presents Russian population trends, including the share of urban population, over the past five years:

	2009	2010	2011	2012	2013
			(million people)		
Total population[1]	**142.7**	**142.9**	**142.9**	**143.0**	**143.3**
Of which urban population	104.9	105.3	105.4	105.7	106.1
As % of total	73.5%	73.7%	73.8%	73.9%	74.0%

Source: Rosstat.

Note:

(1) Data as of 1 January of each year, except for 2010, which, per the national census, is as of 14 October 2010.

Approximately 12% of the Russian population, or 17 million people, live in Russia's two largest cities—Moscow and St. Petersburg. A further 10% live in the other 13 cities that have a population of over one million. Approximately 50% of the total population lives in cities with a population of at least 100,000 inhabitants, according to Rosstat. The table below illustrates the distribution of Russia's population between different categories of cities:

	Number of cities	Population	% of total Russia's population
City of Moscow	—	11,979,529	8.4%
City of St. Petersburg	—	5,028,000	3.5%
Other cities with 1 mln population	13	15,078,604	10.5%
Cities with population between 500,000 and 1 million	21	12,627,203	8.8%
Cities with population between 250,000 and 500,000	39	13,347,065	9.3%
Cities with population between 100,000 and 250,000	91	13,937,429	9.7%
Total		**71,998,830**	**50.2%**

Source: Rosstat 2013.

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

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

Federal district	Population, million	% of total Russia's population	Population density (inhabitants per square kilometre)
Central (incl. Moscow)	38.7	27.0	59.3
Volga	29.8	20.8	28.7
Siberia	19.3	13.4	3.7
South	13.9	9.7	33.0
North-West (incl. St Petersburg)	13.7	9.6	8.1
Urals	12.2	8.5	6.0
North-Caucasus	9.5	6.7	55.7
Far East	6.3	4.4	1.0
Total	**143.3**	**100.0**	**8.7**

Source: Rosstat (as of 1 January 2013).

Economic growth has resulted in a gradual increase in average income levels and in a more even distribution of income. The table below illustrates distribution of the country's population by average monthly per capita cash income between 2008 and 2012:

	2008	2009	2010	2011	2012
Below RUB10,000	45.4	39.1	33.4	28.8	25.0
RUB10,000-15,000	20.2	20.4	20.2	19.8	18.8
RUB15,000-25,000	19.8	21.9	23.5	24.8	25.3
RUB25,000-35,000	7.7	9.3	10.8	12.1	13.3
Over RUB35,000	6.9	9.3	12.1	14.5	17.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Rosstat.

Consumer Spending and the Retail Industry

As highlighted above, growth in domestic consumption has been one of the key drivers of the Russian economy in recent years. According to Euromonitor, the Russian economy has become more consumption-driven in recent years, reflecting a substantial rise in pensions, strong growth in real wages and double-digit gains in consumer credit. By 2013, with total consumer spending in excess of U.S.$1 trillion, Russia had become the fifth largest market in Europe by aggregate consumer spending, behind only Germany, the United Kingdom, France and Italy, according to Euromonitor. Russia was the third largest market in terms of total retail sales ahead of Italy and the second largest market in terms of grocery retail sales after France, according to Euromonitor.

The table below presents total estimated consumer spending, total retail sales, grocery retail sales and grocery retail sales per capita in 2013 for Russia and certain other emerging markets which are generally viewed as comparable to Russia, as well as the four largest European economies:

Country	Total estimated consumer spending (U.S.$ bn)	Total retail sales (U.S.$ bn)	Grocery retail sales (U.S.$ bn)	Grocery retail sales per capita (U.S.$)
Russia	**1,058**	**532**	**267**	**1,865**
China	3,411	1,759	663	490
Brazil	1,370	351	101	517
Turkey	610	210	114	1,504
Poland	314	97	55	1,447
South Africa	219	80	42	801
Germany	1,980	587	256	3,127
United Kingdom	1,605	510	243	3,828
France	1,533	547	284	4,450
Italy	1,260	375	159	2,603
United States	11,218	2,826	986	3,118

Source: Euromonitor.

Food still accounts for a very significant portion of Russia's aggregate consumer spending compared with developed economies. Although Russia's economy has grown faster than many developed economies over the past 10 years, the share of food retail sales in aggregate consumer spending has remained largely stable, varying between 30% and 34%, according to Rosstat.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
					(%)					
Share of food retail sales in total household spending	32.0	30.6	30.2	30.4	30.5	32.5	33.8	33.9	33.5	32.6

Source: Rosstat.

During the period of strong economic growth in the mid-2000s, retail sales in Russia were growing at an accelerated rate, frequently in excess of 10% per year in real terms. The growth rates after the financial crisis of 2008-2009 were significantly lower, but still relatively high in comparison with other markets.

Notably, food retail sales displayed lower volatility in terms of growth rates through the cycle and specifically demonstrated strong counter-cyclical attributes during the 2008-2009 economic crisis. While the country's GDP in 2009 contracted by 7.8%, and the industrial production index by 9.3%, food retail sales decreased by 1.9% in real terms.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retail sales, real growth (%)	8.8	13.3	12.8	14.1	16.1	13.7	(5.1)	6.5	7.1	6.3
Food retail, real growth (%)	7.7	11.4	10.5	11.0	12.6	11.7	(1.9)	5.1	3.4	3.6
Non-food retail, real growth (%)	9.7	15.1	15.1	16.8	19.1	15.3	(8.2)	8.0	10.8	8.6
Industrial production index (%)	8.9	8.0	5.1	6.3	6.8	0.6	(9.3)	8.2	4.7	2.6

Source: Rosstat.

An important feature of the food retail market is the ability of retailers to pass on inflationary pressures to the end-customer, supporting nominal growth in customer basket, as well as retailers' margins. As illustrated by the

table below, while there are significant variations from year to year, over the past 10 years growth in food retail prices in Russia has frequently exceeded the CPI as consumer demand for food is characterised by relatively lower elasticity compared with other items of consumer spending of a discretionary nature and as such prices for food products have demonstrated higher cumulative growth over this period.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(Nominal price growth, % to the previous year)										
Food products	10.2	12.3	9.6	8.7	15.6	16.5	6.1	12.9	3.9	7.5	7.3
Non-food products	9.2	7.4	6.4	6.0	6.5	8.0	9.7	5.0	6.7	5.2	4.5
CPI	12.0	11.7	10.9	9.0	11.9	13.3	8.8	8.8	6.1	6.6	6.5

Source: Rosstat.

The table below shows a comparison of growth rates for Russia and Europe of fast-moving consumer goods ("**FMCG**") (for both food and non-food products) between 2010 and 2012, according to Nielsen.

FMCG market dynamics (as defined by Nielsen)	2010	2011	2012
Russia(1), total value growth	7.7%	11.3%	12.3%
including weighted volume growth	*1.5%*	*3.5%*	*3.2%*
including inflationary component	*6.2%*	*7.8%*	*9.1%*
Europe(2), total value growth	2.0%	4.3%	3.6%
including weighted volume growth	*1.0%*	*0.9%*	*0.0%*
including inflationary component	*1.0%*	*3.4%*	*3.6%*

Source: Nielsen Retail Audit Data.

Notes:

(1) Urban communities of over 10,000.

(2) Includes Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

Traditional Versus Modern Retail Formats in Russia

One of the distinguishing features of the Russian retail market is its high share of 'traditional' retail formats as compared with modern (sometimes also referred to as "organised") retail formats widely adopted in developed economies as the dominant channel for retail trade. A significant part of the retail selling space in Russia is still represented by older Soviet-era shop formats, where sales are carried out through over-the-counter service, kiosks and traditional covered markets. While the share of modern formats in Russia has grown in recent years, it is still significantly below the levels achieved in the developed markets, as well as in certain emerging markets, such as China.

Industry estimates and the precise definitions of modern and traditional retail formats vary across different industry experts, research and marketing institutions, but the under-penetration of modern retail formats in Russia is highlighted in the majority of available industry sources.

The table below compares the share of modern retail across all FMCG (including food and non-food) products in 2012, according to Nielsen:

Country	Share of modern retail in the total FMCG market
United States	99%
Germany	80%
China	62%
Poland	53%
Brazil	44%
Russia	**40%**

Source: Nielsen Global Survey of Inflation Impact Q1 2013.

The table below illustrates Euromonitor's estimates of the sales growth achieved by modern and traditional grocery retailers in Russia between 2008 and 2012, further illustrating the trends described above:

	2009	2010	2011	2012	2013
Modern grocery retailers sales	15.1%	18.3%	17.5%	17.5%	16.2%
Traditional grocery retailers sales	11.6%	8.3%	9.7%	3.2%	(3.9)%
Total grocery retailers	13.3%	13.3%	13.8%	10.8%	7.5%
Share of modern grocery retailers sales in total	50%	52%	54%	57%	61%

Source: Euromonitor.

The trend exhibited above can be further demonstrated by the evolution in the number of retail outlets of various formats. There has been a continuous trend towards consolidation of retail space in recent years, driven by a significant reduction in the number of traditional and various specialised outlets (as well as covered markets), while the number of modern retail outlets (hypermarkets, supermarkets and superettes) increased at a 10.1% CAGR between 2010 and 2012.

	2010	2011	2012	CAGR (%)
Total number of stores	**407,071**	**402,377**	**389,561**	**(2.2)**
Modern formats (hypermarkets, supermarkets and superettes)	24,273	26,584	29,419	10.1
Traditional formats				
Traditional stores	119,231	120,386	114,816	(1.9)
Bakeries	16,364	17,876	18,946	7.6%
Perfumeries and household stores	59,251	59,942	58,956	(0.2%)
Wine stores	16,861	14,739	10,594	(20.7%)
Covered market (*rynoks*)	61,177	55,600	49,522	(10.0%)
Impulse kiosks	42,757	40,967	40,361	(2.8%)
Other formats (including covered markets, pharmacies, baby stores, pet stores)	67,157	66,283	66,947	(0.2%)

Source: Nielsen Census Data 2012.

According to a number of industry sources, growth in the modern retail format is expected to continue to outpace overall market growth (at the expense of traditional retail formats). This trend is expected to be driven by the substantial economies of scale of large retail chains, including the ability to procure goods at lower prices, the higher customer appeal of modern formats, the higher level of technological sophistication, as well as selected government initiatives aimed at ensuring sufficient quality control and the population's well-being. In particular, as a general rule, since 1 January 2013, sales of beer in 'impulse kiosks'—i.e., non-fixed structure retail outlets with selling space of less than 50 sq. m.—have been prohibited. As of 1 June 2014, similar statutory restrictions will come into force with respect to the sale of cigarettes. As beer and cigarettes are estimated to account for the majority (80% according to Infoline) of revenues of kiosks, it is expected that the new legislation will lead to a significant number of kiosk closures.

According to Euromonitor, traditional grocery retail sales in Russia are predicted to continue declining in value terms with a real CAGR of approximately negative 3.7% in 2013-2018, while the share of modern grocery retail sales is predicted to increase to approximately 74% by 2018 from 61% in 2013.

According to Euromonitor, the selling space of modern grocery retail formats from 2003 to 2013 grew at a CAGR of 28.1% (including 46.5% for the hypermarket format), reaching 50% of total grocery retail selling space in Russia in 2013 and expected to reach 53% by 2015. The selling space of traditional grocery retail formats has increased by a CAGR of 0.3% during the same time period.

The table below consolidates information with regards to the current level of modern grocery retail penetration in Russia compared to certain emerging markets and developed economies, according to Euromonitor. Notably, over the period 2008-2013 Russia demonstrated superior growth rates in real terms compared to developed market economies, China, Brazil, South Africa and Turkey and certain other emerging markets considered peer countries of Russia in terms of level of overall economic development and geographic proximity. In 2013, Russia was the second largest grocery retail market in Europe in terms of sales, and, by 2018, Russia is predicted to surpass France to become Europe's largest grocery retail market, according to Euromonitor. The following table further illustrates that modern retail formats display superior growth rates compared to the total grocery retail market in the countries listed below:

Country	Modern grocery retail selling space (2013) (sq.m. per 1,000 population)	Share of modern retail in total grocery retail sales (2013)	2008-2013 CAGR, local currency, real terms (constant 2013 prices)		2013-2018E CAGR, local currency, real terms (constant 2013 prices)	
			Modern grocery retail	Total grocery retail	modern grocery retail	total grocery retail
Selected emerging markets						
China	135	64%	8.2%	5.5%	7.8%	5.6%
Russia	**130**	**61%**	**8.4%**	**3.6%**	**8.5%**	**4.4%**
Brazil	34	51%	3.9%	3.6%	3.5%	3.5%
South Africa	92	55%	2.8%	3.7%	4.4%	4.5%
Turkey	191	32%	3.2%	(5.5%)	5.3%	(0.8%)
Selected Eastern European economies						
Hungary	394	82%	(2.3%)	(3.7%)	1.9%	1.5%
Czech Republic	275	80%	(0.2%)	(1.3%)	1.5%	1.0%
Poland	269	72%	6.7%	0.5%	3.1%	0.7%
Selected developed market economies						
United Kingdom	282	88%	1.1%	0.4%	0.8%	0.5%
United States	574	85%	0.6%	0.2%	0.7%	0.7%
Netherlands	323	84%	0.9%	(0.4)%	1.7%	1.0%
Germany	443	83%	(0.3%)	(0.5%)	0.7%	0.5%
France	395	81%	0.4%	0.4%	0.5%	0.5%
Italy	292	72%	(1.5%)	(2.0%)	0.3%	0.0%

Source: Euromonitor.

Retail formats in Russia

There are several sets of classifications and adopted definitions used by market participants for specific retail formats in Russia, particularly with regards to the traditional food retail channels. Nielsen distinguishes the following food retail channels in Russia based on the size of the store, assortment and type of service.

Traditional Food Retail Channels

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

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

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

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

Covered market (rynok): A covered market is a traditional marketplace with multiple selling points typically under common administration and under a single roof. The selling points are typically a mix of products,

including fruit and vegetable stands, butchers, fishmongers, poulterers, dairy goods, confectionary, baked goods and mixed food outlets (handling packed and loose foodstuffs, such as pasta and grain).

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

Modern Food Retail Formats

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

The distinction between hypermarkets and supermarkets is made primarily on the basis of store selling space and the number of cash registers. Hypermarkets typically have a trading area of over 2,500 sq. m. and over ten check-out counters. The typical selling area for supermarkets is between 300 (or 400, according to certain industry sources such as Euromonitor) and 2,500 sq. m. Further, hypermarkets are typically located on main intersections, and have significant own-production facilities (in-store bakeries, deli counters and other added services) and warehousing and storage functionality.

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

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

According to Nielsen Audit Retail Data, in 2012, hypermarkets and supermarkets accounted for 34% of the total urban food retail sales in Russia and 58% of the total urban modern food retail sales, and 37% of total non-food sales and 78% of the total modern non-food retail sales.

A number of industry sources also distinguish between convenience stores and discounters, which offer a narrower range of products than found in a standard supermarket, and compete and market themselves predominantly on price.

According to Euromonitor, in 2013, supermarkets, hypermarkets, convenience stores and other formats accounted for 64.1%, 21.4%, 14.3% and 0.3%, respectively, of the total modern format grocery sales in Russia.

Regional Breakdown of the Russian Retail Market

Historically, the retail markets in Moscow and St. Petersburg were often viewed as distinct from the rest of Russia as a result of their size, as well as the consumer sophistication and relatively high levels of disposable income of their populations. However, while Moscow and St. Petersburg continue to account for a significant share of the country's overall retail sales volumes and are centres of operations of the majority of federal retail chains, their share has been steadily declining over the past decade, particularly for Moscow, as other regions have demonstrated accelerated growth rates. In the early 2000s, Moscow accounted for almost 30% of the country's aggregate retail sales, while its current share has fallen to approximately 17%. Notably, the largest Russian retail company in terms of market capitalisation as of February 2014—Magnit—is predominantly a regional player, with its headquarters in the city of Krasnodar and a relatively limited presence in Moscow and St. Petersburg.

Region	Share in total country's retail sales											2002-2012 retail sales CAGR (%)
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Moscow	27.5	26.0	24.3	22.5	20.9	18.8	17.0	17.3	17.5	17.4	17.1	13%
St. Petersburg	3.7	3.6	3.8	4.0	4.1	4.1	4.2	4.2	4.2	3.9	4.0	20%
Other regions	68.8	70.4	71.9	73.5	75.0	77.1	78.8	78.5	78.4	78.7	79.0	21%

Source: Infoline.

Infoline further identifies the 11 regions which have historically made up the greatest portion of total retail sales in Russia; these regions collectively accounted for approximately 51% of the country's total retail sales in 2012. According to Infoline, the share of other regions has been steadily growing in recent years, increasing from 44.7% in 2003 to 48.8% in 2012, which further illustrates the trend towards the spread of retail industry presence across the country, and the decreasing importance of any specific region or city.

Region (Federal district)	Share of total sales (2012) (%)
Moscow (Central)	17.1
Moscow Region (Central)	5.9
St. Petersburg (North-West)	4.0
Sverdlovsk region (Urals)	4.0
Krasnodar region (South)	3.8
Tatarstan (Volga)	3.1
Bashkortostan (Volga)	3.0
Rostov region (South)	2.9
Tyumen region (Urals)	2.9
Samara region (Volga)	2.4
Chelyabinsk region (Urals)	2.2
Other regions	48.8

Source: Infoline.

Notably, according to certain metrics, many regional cities have already outpaced Moscow and St. Petersburg in terms of the penetration of modern food retail formats on a per capita basis. For example, according to Nielsen Census Data, while in Moscow and St. Petersburg the number of modern food retail outlets per one million inhabitants amounted to 226 and 277, respectively, the numbers for Ekaterinburg, Nizhny Novgorod and Krasnodar were 376, 336 and 315, respectively, for 2012.

Market Structure and Competitive Landscape

The Russian grocery retail market is still relatively fragmented compared to other countries, particularly developed markets, but also compared with some Eastern European and certain developing economies. The relatively low level of market concentration in Russia is reflected in the market share of the top-five grocery retailers in terms of total grocery retail sales in 2013:

Country	Share in total grocery retail sales (%)
Germany	69
United Kingdom	63
France	60
USA	43
Poland	42
Italy	35
Brazil	31
Russia	**21**
Turkey	13
China	9

Source: Euromonitor.

Key domestic retailers in the modern food retail sector in Russia include the Federal Retail Chains X5 Retail Group, Magnit, Dixy, O'Key and Lenta, which have a significant nationwide presence. Auchan and METRO are

the two international retailers that have established a significant presence in the Russian food retail market; however, METRO operates predominantly in the cash & carry format which is not viewed as a direct competitor to regular food retail outlets.

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

While the overall market remains fragmented, large retail chains are the primary drivers of industry growth, actively tapping into the significant white space in the market and aiming to increase market share at the expense of the traditional retail outlets and local players. For example, the two largest Russian retail companies—Magnit and X5 Retail Group—together accounted for 48% and 47% of the aggregate selling space growth of the 130 largest retail chains in Russia in 2011 and 2012, respectively, according to Infoline.

Entry by International Retailers

In the early 2000s, Germany's METRO and France's Auchan entered Russia. While METRO has established itself mainly as a key player in the business-to-business (cash & carry format), rather than retail, segment, Auchan has established itself as one of the leading players in the retail market and in 2012, was the largest hypermarket operator in Russia in terms of revenues (according to Infoline).

None of the other international retail chains has managed to establish a major nationwide market position in the Russian food retail market. Spar International is present in Russia via a franchise scheme, focusing on the supermarket segment and operating under three formats: Eurospar, Spar and Spar Express. Rewe Group entered in September 2004, having launched its Billa supermarket network in a joint venture deal with Marta. In late 2006, Germany's Globus opened its first store. In 2007, the South Korean company Lotte opened a store in Moscow, the Finnish retailer Rautakirja launched its network of kiosks and DIY retailer Kesko opened its first K-Rauta store in St. Petersburg. In late 2012, Kesko also opened its first hypermarket in St. Petersburg (branded Kesko Food). In late 2008, the Finnish association SOK opened its Prisma hypermarkets in St. Petersburg, and Rewe Group launched its Selgros Cash & Carry stores in Moscow. In 2013, the first discounter appeared in the Russian market when the German retailer Tengelmann launched its discounter brand Plus (the company is also present in Russia with its DIY format OBI). Initially, this new discounter chain is expected to be developed in Moscow.

In the meantime, some international retailers have sold out their Russian assets. The German chain Edeka (Marktkauf) sold its outlet to METRO in 2006; Migro Tu¨rk sold the Ramstore hypermarkets to its joint venture partner Enka, which then leased 13 hypermarkets and sold one hypermarket to Auchan in 2007. In 2009, Carrefour opened its first outlet in Russia in Krasnodar, but sold its network in the same year. The table below presents the 10 largest Russian food retailers in terms of total sales (with the top seven often classified as "**Federal Retail Chains**", and the remaining three being essentially regional) in 2012 and 2013:

Company	Total retail sales[1] (RUB billions)	
	2012	2013
Magnit	448	580
X5 Retail Group	490	533
Auchan[(2)(3)(4)]	263	n/a
Metro[(2)(3)(5)]	165	n/a
Dixy[(3)]	147	180
Lenta	**110**	**144**
O'Key	116	138
Seventh Continent[(2)(3)]	62	n/a
Monetka[(2)(3)]	41	n/a
Mariya Ra	41	n/a

Sources: publicly available company disclosure; Infoline.

Notes:

(1) Sales figures, where sourced from public disclosure, reflect core revenue (i.e., excluding rental, advertising and other income).

(2) Based on Infoline estimates.
(3) Not adjusted for non-core revenue due to lack of publicly available disclosure.
(4) Includes Auchan, Auchan City, Nasha Raduga and Atak. Does not include Real, acquired by Auchan in 2013.
(5) Does not include Real.

The table below presents the five largest hypermarket chains in Russia in 2012 and 2013:

Company	Total hypermarket sales (RUB billions)	
	2012	2013
Auchan[1]	233	n/a
Lenta	**110**	**143**
O'Key[2]	104	125
Magnit	75	106
X5 Retail Group	61	64

Sources: publicly available company disclosure; Infoline.

Notes:

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

Hypermarket format in Russia

The hypermarket format has rapidly established itself as the most dynamically evolving format in the Russian grocery retail market over the past decade. According to Euromonitor, aggregate hypermarket sales grew from less than RUB18 billion in 2003 to over RUB1 trillion in 2013, implying a CAGR of approximately 51% in nominal terms. According to Euromonitor, at the beginning of 2003, there were only 26 hypermarkets in Russia; by 2013 this number grew to 705.

According to Infoline (which typically classifies stores with selling space of 2,000-8,000 sq. m. as hypermarkets, compared with other industry sources, such as Euromonitor and Nielsen, which define as hypermarkets those stores with at least 2,500 sq. m. of selling space), the number of SKUs in Russian hypermarkets varies from approximately 7,000 (hypermarket-discounter) to 35,000-60,000 (large-size hypermarket); the average ticket size typically varies between RUB600 and RUB4,200; and the share of non-food products in the total number of SKUs ranges from 16% to 40%.

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

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

While the last decade saw a very extensive roll-out of hypermarkets in Russia, the overall penetration of this format in the country remains at a fairly low level compared to other countries. The table below compares the number of hypermarkets, as well as the hypermarket selling space per capita, in Russia to other emerging markets, Eastern European economies and certain Western markets as of 31 December 2012:

	Number of hypermarkets per 1,000,000 of population	Hypermarkets total selling space, sq. m. per 1,000 of population
Russia	**5**	**28**
China	4	33
Brazil	2	15
Turkey	2	10
Czech Republic	28	133
Hungary	17	115
Poland	12	69
France	26	148
United Kingdom	23	101
Germany	21	98
United States	13	213

Source: Euromonitor.

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

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

The table below represents the availability of hypermarkets in cities with at least 50,000 inhabitants which are not regional capitals in 2012.

Federal district	Number of cities without hypermarkets (2012)	% of total number of cities (2012)
Central	30	48%
North-West	12	66%
Volga	30	54%
South and North Caucasus	19	44%
Urals	15	56%
Siberia	19	63%

Source: Infoline. Based on a survey covering 240 cities in total and may not be comprehensive.

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

- Country size, fragmented sources of supply and logistics infrastructure—given large distances and challenges in securing uninterrupted in-store availability and inventory replenishment, stores with a significant warehousing/storage capacity such as hypermarkets are well positioned in Russia compared to smaller-scale formats;

- Low market penetration—in many smaller cities hypermarkets are sometimes the only modern food retail channel and have significant first-mover and economies of scale advantages over new entrants using other formats;
- More compact store size and assortment—stores that are classified as hypermarkets in Russia typically have selling space of at least 2,500 sq. m., according to industry sources, such as Euromonitor and Nielsen, (or 2,000-8,000 sq. m., according to Infoline) and have a share of non-food SKUs of not more than 40% (according to Infoline), which is lower than in typical Western hypermarkets, for which the share of non-food SKUs ranges from approximately 40-60%. A high share of food retail in the total customer basket normally reduces volatility in sales performance because food purchases are generally less sensitive to changes in market conditions than non-food purchases;
- Opening hours—the majority of the Russian hypermarkets operate seven days a week and over 100 hours per week, very frequently operating on an around-the-clock basis, while European stores of similar profile normally operate 70-80 hours per week.

BUSINESS

Overview

Lenta is Russia's second largest hypermarket operator and sixth largest food retailer, as measured by 2013 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, price-led hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2013, Lenta achieved the highest sales per sq. m. of selling space among Russian publicly traded food retailers (based on publicly available information on peer companies).

Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in six of Russia's eight federal districts. As of 31 December 2013, Lenta had a total of 507,811 sq. m. of selling space, comprised primarily of 77 hypermarkets with an aggregate selling space of 495,368 sq. m. in 45 cities, including Russia's largest cities of St. Petersburg and Moscow and 43 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the daily/weekly shopping of a diverse range of customers.

Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 24,000 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 68 of its 77 hypermarkets, leasing the remainder. In 2013, Lenta carried out a 'soft launch' of its supermarket format in Moscow, and as of 31 December 2013 operated 10 supermarkets, all but one of which are leased. Lenta utilises four distribution centres (three owned, one leased) to supply its hypermarkets and one leased distribution centre to supply its supermarkets, all as part of its supply chain operations.

Lenta's recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. In 2013, Lenta enjoyed like-for-like sales growth of 10.0%, compared to 13.5% in 2012. Lenta opened 35 new hypermarkets and 10 new supermarkets as well as two new distribution centres in 2012-13. Lenta's supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently, Lenta plans to double its selling space over the three years ending December 2016, having increased its selling space by 77% over the past two calendar years.

Lenta's distinctive customer proposition is 'Value-for-Money', offering consistently-available products at affordable prices in well-organised stores. Lenta's practice is to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta's 4.8 million active cardholders make consistent use of the Lenta loyalty card with approximately 90% of all sales in 2013 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.

Underpinning Lenta's low-price business model are its operational efficiencies, which are driven by a flexible, low cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores; currently Lenta is constructing two new distribution centres to come into operation in 2014 while planning a third to come into operation in 2015. Once these distribution centres are completed, Lenta will have eight distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 31 December 2013, Lenta had 35 trucks and trailers in its own fleet, 14 of which were leased. Lenta's in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta's advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.

Competitive Strengths

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

Distinctive price-led, hypermarket model with broad customer appeal

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

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

Lenta's practice is to seek to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta's loyalty programme has strong appeal to its customer base, with 4.8 million active cardholders as of 31 December 2013 (an increase of 32% compared to year-end 2012) accounting for approximately 90% of sales at Lenta stores in 2013. The loyalty programme also provides Lenta with valuable customer data that can be utilised to assess spending patterns and inform decisions on product range and prices as well as future promotions. In addition to every-day low pricing, frequent and deep promotions are a cornerstone of Lenta's customer proposition, with seasonal, event-driven promotions serving as a key driver of traffic and reinforcing Lenta's 'Value-for-Money' proposition. Goods sold on promotion constituted roughly a quarter of Lenta's total sales in 2013. Lenta's store layout, including its functional fit-out and high-rack storage, reinforces Lenta's price image to its customers.

Broad product range with disciplined SKU count

Lenta offers a broad product assortment, designed to address the regular shopping needs of all customer segments. At the same time, Lenta is careful to maintain a disciplined SKU count to optimise its in-store stock handling, inventory and supply chain operations, thus achieving operational efficiencies and lower costs. Lenta takes particular care to offer product lines that appeal to its key target customer group of families and women. Lenta establishes certain product categories as 'destination categories' with especially attractive assortments and pricing designed to draw customers to its hypermarkets in areas such as fresh and ultra-fresh food products, drinks, dry groceries, baby care and toys. A prominent example of a 'destination category' which Lenta positions to attract customers to its stores has been its assortment of baby goods (e.g., baby food, clothes and diapers), which also ties to Lenta's key target customer group of families and women. Lenta's private label offerings (10.5% of sales in 2013) and the part of its own in-store production that is packaged as private label under the Lenta brand (an additional 3.0% of sales in 2013) reinforce Lenta's "Value-for-Money' proposition.

Focus on Russian products and regional/local sourcing

In contrast to many of its modern retail competitors, Lenta's business model emphasises regional/local sourcing and a strong focus on Russian products as a key attraction of the Lenta shopping experience, taking into account the strong trust and association with quality that Russian customers place in traditional products. With this emphasis on Russian national and regional/local products, Lenta sourced 17.3% of products (and 36.5% of fresh food products), as measured by the purchase price paid to suppliers, from regional/local suppliers indigenous to a store's region in 2013.

Convenient shopping experience

Lenta's stores offer its customers a convenient and efficient one-stop shopping experience, providing them the opportunity to purchase a broad range of products in a single visit. Lenta hypermarkets are typically located in easily accessible (including on foot and by public transport), high-traffic, urban locations in residential areas, open 24 hours a day, seven days a week. Ample parking, standardised, easy-to-navigate store layouts and a range of third-party services (e.g., pharmacies, cafés, drycleaners and travel agents) add to the convenience of the shopping experience. Staff recruitment and training focuses on customer service and interaction, as evidenced by various awards recognising the quality of Lenta's in-store staff including a 2012 award for "Customer rights and quality of service" given by the Chamber of Commerce and Industry of the Russian Federation.

Leading market position in the attractive Russian food retail market

Lenta's differentiated hypermarket format allows it to capitalise on opportunities created in the underpenetrated and rapidly growing food retail sector in Russia. Russia is currently the second largest food retail market in Europe, according to Euromonitor, and the market is expected to grow rapidly in the next several years compared to the majority of the developed and emerging market economies. Increasing consumption and income levels in Russia are expected to support the Russian grocery retail market, which is expected to grow by a CAGR of 4.4% (in real terms) between 2013 and 2018, according to Euromonitor.

Within an expanding sector, the hypermarket segment in Russia is still significantly underdeveloped compared to Western European markets with five hypermarkets per one million inhabitants in Russia, compared to 26 in France, 23 in the United Kingdom and 21 in Germany, according to Euromonitor data for 2013. The Russian hypermarket segment is projected to demonstrate 10.6% real growth per annum from 2013 through 2018 according to Euronomitor. In addition, the Russian grocery retail market is characterised by a relatively low level of market concentration: the five largest retailers account for approximately 21% of total grocery retail sales (compared to 60-70% level found in some Western and Central and Eastern European markets), suggesting significant growth opportunities through market consolidation according to Euronomitor.

As of 31 December 2013, Lenta's 77 hypermarkets in 45 cities operated in six of Russia's eight federal districts from St. Petersburg to Siberia. According to the O+K Retail Market Study conducted in 31 of the cities where Lenta had a hypermarket open for more than 12 months as of 30 June 2013, Lenta held the first or second position in terms of food retail market share in 61% and a top five position in over 80% of such cities; at the same time, Lenta has room to grow its market share in those cities where it already has a presence. For example, as of July 2013, Lenta's market share in: St. Petersburg was 11.7%, Novosibirsk 14.3%, Omsk 12.5%, Krasnodar 11.4%, Nizhny Novgorod 7.2%, Volgograd 4.7% and Rostov-on-Don 3.3%, according to Nielsen (Russia Retail Market, 2013). Lenta believes that these local competitive positions reflect the strength of its customer proposition relative to competitors. In many cities, Lenta was the first retailer to introduce a modern format hypermarket, which has facilitated its access to desirable locations for stores and enabled the business to develop a stable and loyal customer base.

Lenta's leading market position, multi-regional presence, proven customer proposition and ability to penetrate a broad range of locations with its different hypermarket formats, for example, by applying a compact or supercompact format where site size is restricted, provide a strong platform to pursue its future expansion. In particular, it enables Lenta to play a key role in capitalising on the anticipated rapid growth of the modern Russian food retail market and increases in consumer spending, with the potential to leverage economies of scale from its existing operational infrastructure.

Strong relationships with key suppliers

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

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

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

Supply chain operations

Russia's vast size presents significant logistical challenges to federal food retailers, who need to take into account travel distances, varying climates and time differences when managing their supply chains. Lenta believes the quality of its supply chain management is critical to its continued success and a prerequisite for further successful roll-out of its stores.

In its supply chain operations, Lenta seeks to achieve an optimal mix of deliveries shipped via its distribution centres and direct deliveries by suppliers to its hypermarkets. Lenta currently utilises five distribution centres with a capacity to serve over 120 stores—two in St. Petersburg (in the North-West federal district), two in Moscow (in the Central federal district, one of which is dedicated to the supply of supermarkets) and one in Novosibirsk (in the Siberia federal district)—and plans in 2014 to open new distribution centres in Togliatti (in the Volga federal district) and Rostov-on-Don (in the South federal district) (expected to increase the capacity of Lenta's distribution centres to over 170 stores) and in 2015 one distribution centre in the Urals federal district (at which point, Lenta's distribution centres are expected to have the capacity to serve over 200 hypermarkets). Lenta's distribution centres feature efficient cross-dock, pick-by-line and storage processes, enabling the company to achieve low operating costs while driving high levels of in-store availability, which reached 97.0% of Lenta's active SKUs in 2013. Lenta is also building up its truck fleet to carry out most deliveries from its distribution centres to its hypermarkets, as is already the case for its St. Petersburg distribution centres and hypermarkets in the North-West federal district, as well as Moscow and Novosibirsk. Fleet ownership provides Lenta with additional control over its supply chain. Lenta's capacity for central distribution lowers its overall cost base as it enables Lenta to select the most efficient flow-type to its stores and generates service fees from suppliers.

Modern, efficient, reliable and scalable IT architecture

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

HR strategy to support roll-out

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

Low operational costs

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

In terms of in-store management, Lenta's use of high-rack storage both minimises double-handling of inventory and helps ensure a high in-store availability of goods. The efficiency of Lenta's in-store management is borne out by it having the highest average sales density among Russian publicly traded food retailers in 2013 (based on publicly available information on peer companies) and by its Adjusted SG&A/Sales ratio of 10.9% in 2013, and 9.7% in 2012 which was the lowest among Russian publicly traded food retailers (based on public filings of peer companies). Lenta's careful monitoring of labour costs also supports Lenta's low cost initiatives. In an effort to gain further operational efficiencies, Lenta is considering centralising in-store production in cities where it has multiple stores. To this end, it has undertaken a pilot programme in St. Petersburg and similar centralisation is planned for certain other cities where Lenta has multiple hypermarkets.

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

Lenta's business strategy is to own most of its stores, thereby shielding it from fluctuations in rental prices and the loss of leases, while giving it the flexibility to modify, adapt and re-fit stores without requiring landlord permission. As of 31 December 2013, Lenta owned 90% of its total selling space, compared to 95% as of 31 December 2012. In the medium-term, Lenta plans to own at least 80-85% of its total selling space across all hypermarket formats, reflecting continued emphasis on Lenta's ownership of its hypermarkets but increased use of compact/supercompact hypermarkets, which are often leased. These leased stores are usually within shopping malls rather than stand-alone structures.

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

Experienced management team with international and local retailing expertise

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

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

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

Strong financial performance

Reflecting the competitive strengths outlined above, Lenta has achieved strong financial results over the last few years, increasing revenues by a CAGR of 26.9% for the three-year period ending 31 December 2013 (2013 sales/2010 sales)$^{1/3}$—1). This performance is driven both by strong like-for-like sales growth (10.0% in 2013, 13.5% in 2012 and 21.2% in 2011) and growth from sales by new stores of (21.3% in 2013, 9.0% in 2012 and 6.0% in 2011). Lenta maintains a high level of sales productivity, with average sales density per sq. m. of RUB346,724 for 2013.

For the three-year period ending 31 December 2013, Lenta increased its Adjusted EBITDA by a CAGR of 31.9% (2013 Adjusted EBITDA/2010 Adjusted EBITDA)$^{1/3}$—1) and in 2013 achieved an Adjusted EBITDA margin of 11.4%. Lenta's low price, high-volume, low-cost operating model, with its consistent emphasis on cost-control at its head office, in-store operations and supply chain operations, is reflected in its competitive gross margin of 21.8% and a low Adjusted SG&A/Sales ratio of 10.9% in 2013.

Notwithstanding Lenta's strategic focus on capital-intensive real estate ownership, Lenta's sales densities and low costs generate strong returns as demonstrated by a CROCI of 34.8% and ROIC of 39.2% in 2013. Lenta's strong financial performance has been supported by its prudent capital position, with a net debt to Adjusted EBITDA ratio of 2.4x as of 31 December 2013 leaving substantial covenant headroom (although net debt is expected to increase to support expansion), and an operating cash flow to Adjusted EBITDA ratio of 90% in 2013.

Business Strategy

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

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

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

Lenta's loyalty card programme — with 4.8 million active customers who in 2013 purchased 111 million baskets (with an average of 1.9 transactions per cardholder per month) accounting for approximately 90% of sales and generating 1.5 billion rows of purchasing history (with each row representing a product purchased in a Lenta store) — provides management with significant insights into customer spending habits and trends, allowing for detailed customer segmentation across 'Shopping Missions' (i.e., specific needs, top-up trips, main trips and bulk trips), 'RFV Segments' (e.g., "VIP", "frequent shoppers", "occasional big spenders" segments, as tested by 'recency, frequency and value') and nine distinct customer 'Needs Segments' (e.g., "premium", "families with babies", and "traditional home cooking"). In 2013, Lenta built a comprehensive customer database with analytics specialist emnos GmbH and developed management plans to significantly increase the use of customer insights derived from these data to drive its commercial and marketing strategies, optimising its customer proposition across a range of levers:

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

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

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

As one of the leading Russian hypermarket operators, Lenta is well-positioned to take advantage of the opportunities offered by the Russian market both in the cities and regions in which it currently has a presence and in new cities. Lenta's hypermarkets operate in cities ranging in population from roughly 80,000 to over 1,000,000, including Russia's largest cities, Moscow and St. Petersburg. Lenta has identified 134 cities with populations in excess of 100,000 as possible locations for new stores; as of 31 December 2013, Lenta already had a presence in 44 of these cities (plus one smaller city), generally cities with a population over 200,000. Lenta also considers establishing stores in smaller cities with a population below 100,000, as it did recently in Yurga, a city in the Siberia federal district with a population of approximately 80,000 people.

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

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

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

Lenta applies rigorous and proven investment criteria when evaluating new store openings. This includes a disciplined approach to choosing new locations with a detailed analysis of new plots along macro-economic, commercial, technical and site-specific criteria and a careful decision-making process with close collaboration between various departments as well as in-depth involvement of Senior Management and the Board of Directors' capital expenditure committee. On average, newly-opened (owned and leased combined) stores are generally expected to achieve a cash payback period of less than five years. As part of its focus on maintaining returns, Lenta prioritises efforts to reduce costs and enhance efficiencies, one example of which is the use of lower energy-cost equipment, such as freezer lids, in new stores, having introduced an energy management system in approximately a third of its hypermarkets. Lenta plans to fully rollout its energy management system in 2014 and 2015.

Lenta opened 14 new hypermarkets in 2012 and 21 new hypermarkets in 2013. Taking advantage of its expansion experience, standardised hypermarket formats and operational scalability, Lenta currently plans to double its hypermarket selling space over the next three years (having increased its hypermarket selling space by 31.8% and its total selling space by 35.1% in 2013).

Ongoing evolution of Lenta's store formats

Over time, Lenta has developed a standard model 7,000 sq. m. hypermarket format, a compact 5,000 sq. m. format and a supercompact 3,000 sq. m. format (although selling space for individual stores may differ from these standard sizes). The compact and supercompact hypermarkets can be used (i) where Lenta identifies an advantageous location for a store but the size of its land plot cannot accommodate a standard-sized hypermarket, (ii) to fit available premises for lease, often within a shopping mall or (iii) where the expected customer traffic in the catchment area of the store indicates a smaller store is appropriate. Lenta expects a greater proportion of its compacts and especially its supercompacts may be in leased premises (reflecting that many of them are in shopping malls) than is the case for its standard hypermarket format, but also expects some of its compact and supercompact stores to be owned, stand-alone structures, consistent with its predominant practice for its standard-sized hypermarkets. Compact and supercompact hypermarkets contain substantially the same food assortment and a smaller offering of non-food products than a standard hypermarket. Given that leased premises may not match Lenta's standard hypermarket formats, Lenta has developed practices to adjust its standard formats to the leased space. For example, Lenta has developed a method of managing the various assortments in non-standard stores by defining for each sub-category of product offering (i.e., fresh food, dry food, non-food and private label) three levels of assortment, which can be combined into an overall assortment appropriate for the catchment area and the size of the rented premises. Lenta's hypermarkets range in size from 2,600 sq. m. to 10,400 sq. m., with 6,400 sq. m. being the average size as of 31 December 2013.

In April 2013, Lenta executed a 'soft launch' of its supermarket format in Moscow, marking a further evolution in its store formats. Lenta believes that its supermarket format, with typical selling space of around 1,200 sq. m., is a natural extension of its hypermarket model and will bring the Lenta brand and value proposition to customers in inner-city locations who might otherwise have limited access to a Lenta hypermarket. In particular, the large Moscow market is considered to be underserved despite representing 24% of total modern format food retail sales in Russia, according to Rosstat. Lenta's decision to operate full-service supermarkets in inner-city sites in Moscow has been driven by the attractive market opportunity combined with limitations on the availability of suitable locations for standalone hypermarkets, congested road networks and prevalence of mall developments.

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

Lenta operates infrastructure to support up to 50 supermarkets, including a dedicated distribution centre set up to serve supermarket requirements which involve significantly smaller and more frequent deliveries than those required by hypermarkets. As of 31 December 2013, Lenta operated 10 supermarkets in Moscow, and management is actively considering the roll out of the supermarket format in other cities based on the encouraging results of the 'soft launch' in Moscow. See "*—Supermarket Roll-out"* for further discussion.

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

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

In its supply chain operations, Lenta strives to have the optimal mix of centralised distribution via its distribution centres and direct distribution by suppliers to its hypermarkets. Lenta currently operates five distribution centres (three of which it owns) with a capacity to serve over 120 hypermarkets and plans to open owned distribution centres in Rostov-on-Don (in the South federal district) and Togliatti (in the Volga federal district) in 2014, at which point Lenta expects its distribution centres to have an aggregate capacity to supply over 170 stores. Lenta also plans to open a distribution centre in the Urals federal district in 2015, resulting in Lenta having distribution centres in each of the six federal districts in which it operates and the aggregate capacity to supply over 200 hypermarkets. In parallel, Lenta plans to further build up its fleet of trucks that carry out deliveries from the distribution centres to hypermarkets within a 400 km radius. At the same time, in certain cases, it is more economic for Lenta to have suppliers continue to supply Lenta stores directly (e.g., for some supplies of dry goods and canned or bottled goods). Lenta's current targets are for 60% of its goods (measured by the inbound value of goods received by the store) destined for hypermarkets to be shipped via its distribution centres (compared to its 2013 rate of 36.7%) and for 60% of its deliveries (measured by pallets) within 400 km of its distribution centres to be carried out by its truck fleet. These targets would be adjusted if better economies in supply chain operations were achieved at different centralisation levels. A corollary to Lenta's growing network of distribution centres is a greater ability to take more imported goods directly instead of through intermediaries (decreasing lead times, increasing freshness of perishable goods and improving margins) and to access regional/local suppliers (tying to Lenta's image for selling regional/local goods and also improving margins).

Lenta's advanced IT systems have been designed for scalability so that at modest cost it would be able to serve a network of significantly more than 500 hypermarkets and supermarkets with multiple distribution centres. Likewise, as deployed over the past two calendar years when Lenta increased its hypermarket count by 83% and its full-time equivalent ("**FTE**") count by 75%, Lenta has HR managers and systems in place so that managers and store personnel are timely identified, hired and trained in advance for new stores.

History and Development

Established in 1993, Lenta initially focused, under the direction of Mr. Oleg Zherebtsov, on carrying out a wholesale business in St. Petersburg. Subsequently, Lenta moved into retail, opening its first hypermarket in 1999, keeping an emphasis on its low-cost offering while expanding its product range and transitioning to a retail hypermarket format. In 2002, Mr. August Meyer, via his corporate vehicle Svoboda Corporation, invested in Lenta. In the early 2000s the hypermarket format was rolled out, and between 2005 and 2009, Lenta opened 30 new hypermarkets across 17 cities. Although Lenta is headquartered in St. Petersburg and maintains its largest presence there (in terms of total selling space and number of stores as of 31 December 2013), the share of Lenta sales generated by St. Petersburg-based stores has been declining and is expected to continue to decline. Sales of St. Petersburg-based stores comprised 33.7% of total Lenta sales for 2013, compared to 39.1% of sales in 2012.

New institutional shareholders invested into Lenta as it expanded. In May 2007, the EBRD became an investor; in October 2009, TPG and the VTB Capital group became investors, acquiring the stake beneficially owned by Mr. Zherebtsov. In 2010, a dispute arose between Svoboda Corporation and certain other shareholders, on the one hand, and TPG, EBRD and the VTB Capital group and certain other shareholders, on the other (the

"**Shareholder Dispute**"). The Shareholder Dispute was primarily over conflicting priorities in relation to Lenta's strategy and governance, including who should serve as the General Director of Lenta LLC. The Shareholder Dispute led to litigation in the BVI, England and Russia, some of which involved Lenta and some of which was between various shareholders. The Shareholder Dispute hampered Lenta's ability to open new hypermarkets and to carry out preparatory work for its roll-out of hypermarkets. The Shareholder Dispute was fully resolved in September 2011, when Svoboda Corporation and shareholders aligned with it fully sold out their shareholdings to TPG, EBRD, the VTB Capital group and Lenta itself; in connection with the sale, all litigation was settled by means of several settlement deeds, and Mr. Dunning was confirmed as the General Director of Lenta LLC.

Under the settlement agreements entered into at the time of the buy-out, Svoboda Corporation and the other selling shareholders fully and finally waived, released and discharged any and all actual or contingent claims, rights or remedies of any nature whatsoever they may have had relating to Lenta. Likewise, certain former managers of Lenta LLC fully and finally waived, released and discharged any and all actual or contingent claims, rights or remedies of any nature whatsoever they may have had against Lenta LLC. For the Company's current shareholders of record, see "*Principal and Selling Shareholders*".

Following the resolution of the Shareholder Dispute, Lenta has been able to significantly increase its rate of expansion, opening 14 hypermarkets in 2012 and 21 hypermarkets in 2013. As of 31 December 2013, Lenta operated 77 hypermarkets, the average age of which was 3.8 years.

The following table sets out the number of hypermarkets in each of the federal districts in which Lenta currently operates and the total number of Lenta's hypermarkets as of 31 December of each year, beginning in 2006:

Federal district	2006	2007	2008	2009	2010	2011	2012	2013
St. Petersburg	10	13	14	14	14	14	16	16
North-West (excluding St. Petersburg)	—	2	2	2	4	4	6	7
Moscow	—	—	—	—	—	—	—	1
Central (excluding Moscow)	—	—	1	1	1	2	5	9
Volga	—	3	6	6	6	6	8	15
South	1	2	4	5	6	7	7	10
Urals	1	1	1	1	1	1	2	3
Siberia	2	5	6	7	7	8	12	16
Total	**14**	**26**	**34**	**36**	**39**	**42**	**56**	**77**

The following table sets out the breakdown by age of Lenta's hypermarkets as of 31 December 2013, 2012 and 2011:

	As of 31 December		
	2013	2012	2011
		(%)	
Stores less than one year old	27.3	25.0	7.1
Stores 1-3 years old	22.1	10.7	11.9
Stores 3-6 years old	16.9	39.3	59.5
Stores older than six years	33.8	25.0	21.4
	100.0	**100.0**	**100.0**

As of 31 December 2013, Lenta operated five modern central distribution centres with a total space of 125,237 sq. m.

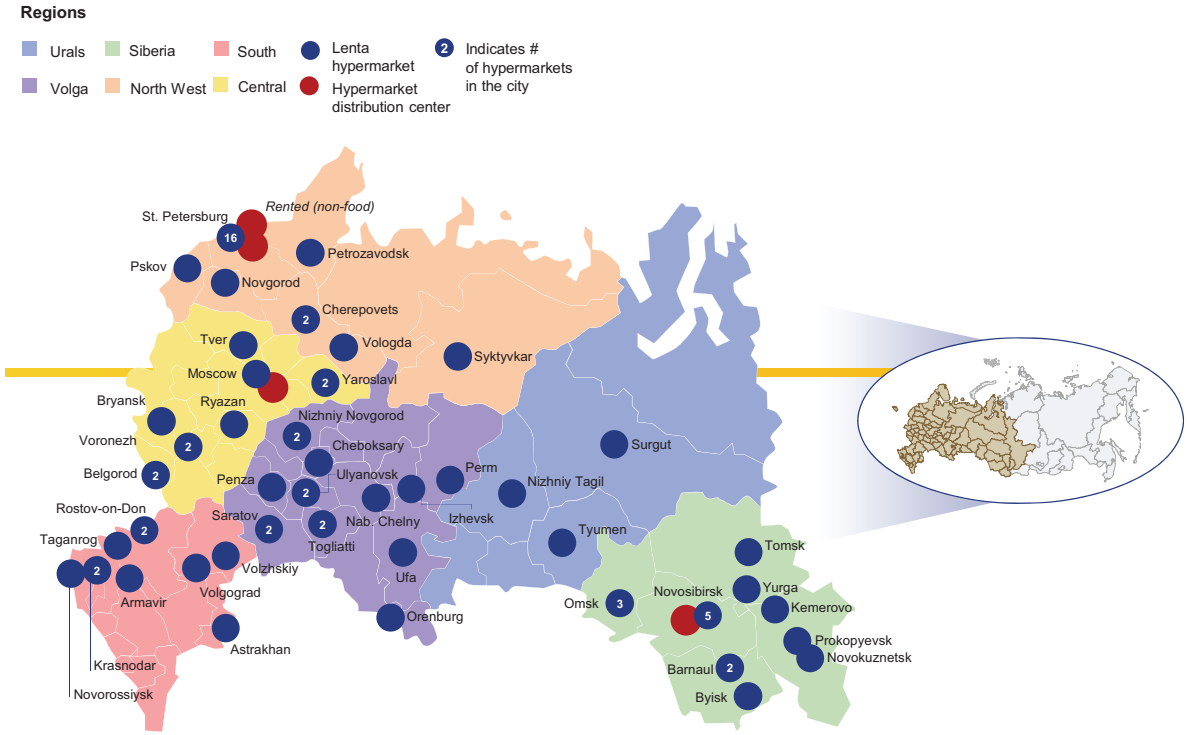
Operations

Overview

Lenta engages in the retail sale of food, beverages and non-food products in Russia through its chain of hypermarkets. As of 31 December 2013, Lenta operated 77 hypermarkets (of which 68 were owned and nine leased) with a total selling space of 495,368 sq. m. in 45 Russian cities located in six of the eight federal districts of the Russian Federation (Lenta does not operate in the North Caucasus or the Far East federal districts and has no current plans to do so).

Store Locations and Demographics

The following map of the Russian Federation indicates Lenta's hypermarkets and distribution centres for hypermarkets in each federal district as of 31 December 2013:



The table below sets forth the total number of Lenta hypermarkets in each federal district and the percentage they comprise of all Lenta hypermarkets and total hypermarket selling space as of 31 December 2013:

Federal district	Number of hypermarkets	Percentage of total number of hypermarkets	Percentage of total hypermarket selling space
St. Petersburg	16	20.8%	22.2%
North-West (excluding St. Petersburg)	7	9.1%	8.3%
Moscow	1	1.3%	0.6%
Central (excluding Moscow)	9	11.7%	9.4%
Volga	15	19.5%	21.2%
South	10	13.0%	13.3%
Urals	3	3.9%	4.3%
Siberia	16	20.8%	20.8%
Total	**77**	**100%**	**100%**

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

	Population[1]	Average salary (RUB per month)[2]	Number of stores	Total selling space (sq. m.)	Percentage of total selling space (%)
Population of more than 1,000,000 people (federal district)					
City of Moscow (Central)	11,979,529	50,628	1	3,007	0.6
City of St. Petersburg (North-West)	5,028,000	32,930	16	109,897	22.2
Novosibirsk (Siberia)	1,523,801	23,246	5	31,756	6.4
Nizhny Novgorod (Volga)	1,259,921	21,297	2	14,739	3.0
Omsk (Siberia)	1,160,670	21,931	3	21,667	4.4
Rostov-on-Don (South)	1,103,733	19,189	2	14,675	3.0
Ufa (Volga)	1,077,719	20,265	1	7,000	1.4
Volgograd (South)	1,018,790	18,584	1	7,316	1.5
Perm (Urals)	1,013,887	21,821	1	7,000	1.4
Voronezh (Central)	1,003,638	19,538	2	8,354	1.7
Population of between 500,000 and 1,000,000 people (federal district)					
Saratov (Volga)	839,755	18,803	2	14,551	2.9
Krasnodar (South)	784,048	21,409	2	14,686	3.0
Togliatti (Volga)	719,149	20,800	2	11,245	2.3
Tyumen (Urals)	634,171	47,177	1	7,354	1.5
Izhevsk (Volga)	632,913	18,241	1	7,000	1.4
Barnaul (Siberia)	629,681	16,010	2	12,064	2.4
Ulyanovsk (Volga)	615,306	17,107	2	14,000	2.8
Yaroslavl (Central)	599,169	20,397	2	10,997	2.2
Orenburg (Volga)	556,127	19,271	1	7,636	1.5
Novokuznetsk (Siberia)	549,182	23,403	1	4,680	0.9
Tomsk (Siberia)	547,989	26,725	1	7,000	1.4
Kemerevo (Siberia)	540,095	23,403	1	7,000	1.4
Ryazan (Central)	527,905	19,098	1	6,489	1.3
Astrakhan (South)	527,345	19,522	1	7,354	1.5
Penza (Volga)	519,900	19,126	1	7,342	1.5
Nab. Chelny (Volga)	519,025	23,234	1	7,402	1.5
Population of less than 500,000 people (federal district)					
Cheboksary (Volga)	464,940	17,187	1	7,000	1.4
Bryansk (Central)	410,837	16,530	1	6,595	1.3
Tver (Central)	408,877	20,246	1	7,000	1.4
Belgorod (Central)	373,528	20,002	2	6,966	1.4
Nizhny Tagil (Urals)	358,378	25,139	1	7,000	1.4
Volzhskiy (South)	327,356	18,584	1	7,000	1.4
Surgut (Urals)	325,511	50,841	1	7,000	1.4
Cherepovets (North-West)	315,738	22,649	2	10,527	2.1
Vologda (North-West)	306,487	22,649	1	7,000	1.4
Petrozavodsk (North-West)	268,946	24,796	1	5,177	1.0
Taganrog (South)	254,783	19,189	1	2,579	0.5
Novorossiysk (South)	251,013	21,409	1	7,386	1.5
Syktyvkar (North-West)	240,111	33,971	1	6,172	1.2
Velikiy Novgorod (North-West)	219,925	21,297	1	4,920	1.0
Pskov (North-West)	206,154	18,203	1	7,133	1.4
Biysk (Siberia)	205,250	16,010	1	7,000	1.4
Prokopyevsk (Siberia)	204,932	23,403	1	7,000	1.4
Armavir (South)	191,389	21,409	1	5,020	1.0
Yurga (Siberia)	81,385	23,403	1	4,680	0.9
Total			**77**	**495,368**	**100%**

Source: Rosstat.

Notes:

(1) As of 31 December 2012.
(2) Average salary for the region (oblast) or administrative unit in which the city is located, with the exception of Moscow and St. Petersburg, for which average salary is calculated on a city-wide basis. Figures current as of 1 January 2013.

Retail Format

Lenta traditionally has operated in the hypermarket format.

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

Lenta has three standardised sizes for its hypermarkets, deployed in light of the expected customer traffic in the catchment area and the size of the available site: standard—56 stores accounting for 82.1% of total hypermarket selling space; compact—12 stores accounting for 11.8% of total hypermarket selling space; and super-compact—nine stores accounting for 6.2% of total hypermarket selling space (in each case as of 31 December 2013). Lenta's hypermarkets range in size from 2,600 sq. m. to 10,400 sq. m. with an average size of 6,400 sq. m. (as of 31 December 2013). The typical features of these formats (in each case as of and for the year ended 31 December 2013) are summarised in the table below:

	Standard	Compact	Supercompact
Total sq. m of selling space	406,554	58,326	30,488
Number of hypermarkets	56	12	9
Selling space/store (sq. m.)	7,000	5,000	3,000
Total space/store (sq. m.)	13,200	8,900	5,600
Number of parking spaces	500	400	150-200
Plot size (ha)	4.0	2.5-3.0	1.2
SKUs	24,000	20,300	15,000
Non-food space (sq. m.)	2,000	1,300	700
Non-food space share (%)	26	21	22
Non-food sales share (%)	15	14	11
Like-for-like average sales density for 2013 (RUB thousand/sq. m.)(1)	381	517	471
Capex spend/owned store (RUB millions)(2)	800-1,000	700-900	500-700
Capex spend/rented store (RUB millions)(2)	320	265	195

Notes:

(1) In respect of stores opened at least 12 full months by December 2013.
(2) Excludes cost of land (estimated at RUB20-60 million/ha).

As of 31 December 2013, the average size of Lenta's 56 standard hypermarkets was 7,260 sq. m. (reflecting that older vintage standard hypermarkets, developed before the design of the standardised 7,000 sq. m. model, are on average larger stores); of its 12 compact hypermarkets 4,860 sq. m.; and of its 9 supercompact hypermarkets 3,388 sq. m.

The majority of Lenta's hypermarkets are standalone stores, although 15 are located within shopping malls (as of 31 December 2013). The number of stores located within shopping malls is likely to grow in the future given the growth of mall development in Russia, Lenta's growing experience of operating successfully in malls and Lenta's increased use of compact and supercompact hypermarket formats which are more likely to fit available premises within malls. Each of Lenta's hypermarkets has adjacent parking spaces. The availability of parking, ease of access to transportation and urban location allow Lenta to target not only those customers who live within walking distance to the hypermarket (who might typically make frequent, small purchases), but also those who live a short distance from the hypermarket (who might visit less frequently but make more purchases per trip), or those who live some distance away (who might use the store for their weekly shopping, purchasing large volumes). Lenta's standalone hypermarkets operate 24 hours a day, seven days a week (with re-stocking usually carried out overnight).

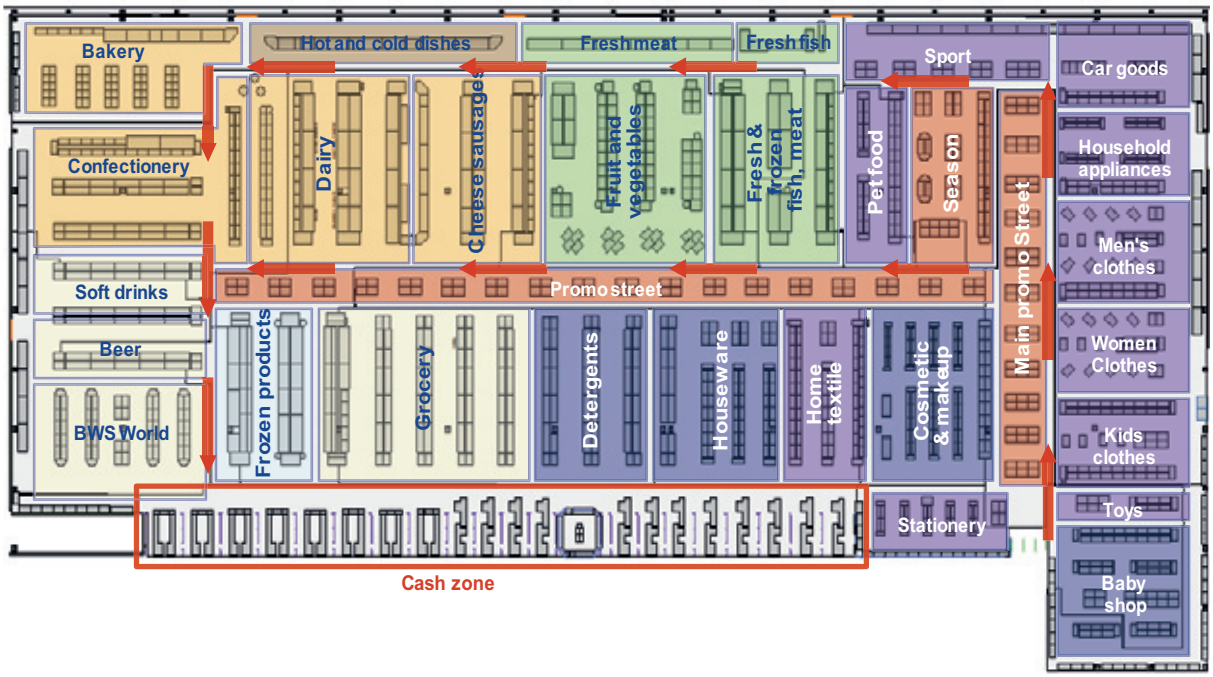
Consistent with Lenta's aim to provide one-stop shopping and increase traffic, Lenta usually includes a side gallery in its hypermarkets in which Lenta rents out space for small stores that provide complementary services or goods, typically dry-cleaners, mobile phone stores, photo services, cafes, pharmacies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

Premises

Store Layouts

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

Customers have access to large, free-of-charge and well-lit parking areas adjacent to Lenta's hypermarket stores. Lenta's standard layout is intended to provide Lenta's target customers with a convenient shopping experience (including baby rooms) and a logical store layout (starting with its "children's world" area and an alley of special promotions then progressing to the non-food assortment and dry foods and ending with fresh and frozen foods). It features clean, well-lit sales areas, and a broad range of well-presented and easily accessible products laid out in consistent locations across the network. The layout is designed to put particular focus on fresh food products with visually attractive fruit and vegetable displays being centrally located, amidst other fresh items, and includes a prominently placed promotions aisle for weekly offers and specials. Lenta seeks to minimise customer queuing times by calibrating staff and checkout operation numbers and hiring workers from outside service providers to ensure availability at peak periods without excess capacity and cost. Lenta's use of high racks in the dry food/non-food areas of the stores to store inventory both maximises the sales area of its premises by reducing the space used for storage and reduces in-store handling of inventory (so that goods do not have to be delivered from a separate storage location to re-stock shelves but instead from within the store). This also assists in creating a more efficient replenishment system and makes visibly evident Lenta's focus on efficiency and its 'Value-for-Money' proposition. Re-stocking is typically carried out overnight to minimise the disruption to customers' shopping experience.



New Store Selection

Lenta has substantial experience with the store roll-out process, particularly in light of its recent rapid expansion in 2012-2013, when it opened a total of 35 hypermarkets. In total, Lenta has an FTE count of approximately 111 in real estate development and construction, including three development directors, each currently focusing on different regions. The staff is organised into three development teams (with an additional team planned to be added in 2014). Lenta has significantly increased the FTE count directly involved in development and construction in recent years: from 30 as of year-end 2011, to 60 as of year-end 2012 and 111 as of year-end 2013. Lenta currently intends to continue adding to this group in order to support its expansion programme.

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

Economic, demographic and strategic factors

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

- mixing its store locations between large cities with numerous potential customers but greater competition, and smaller cities with fewer potential customers but typically lower competition (sometimes with no competing federal retailer) and construction costs;
- proximity to distribution centres and integrating new stores into its supply chain network;
- opening stores in areas where Lenta can benefit from existing brand awareness and marketing efforts.

Commercial factors

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

Technical and physical factors

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

Environmental and legal factors

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

Decision process

All proposals regarding new store openings are first assessed by specialists in Lenta's construction and development department, with input regarding estimates of sales potential from the marketing department. A

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

This proposal is then put forward for management review. Proposals with the support of management are then submitted for final approval by the capital expenditure committee of the Board of Directors. Only upon this final approval are new store projects carried out.

Ownership/Leasing Strategy

As of 31 December 2013, Lenta owned 68 of its 77 hypermarkets in operation comprising 456,722 sq. m. (92.2%) of its aggregate hypermarket selling space, reflecting that 62 of its hypermarkets were stand-alone premises (all of which were owned) and 15 were part of shopping malls (of which nine were leased). In the medium term, Lenta plans to own a minimum of 80-85% of its hypermarket selling space. Lenta believes that ownership provides the business a number of benefits, including: the ability to control development of its own stores so that they can be located on sites and in cities that best meet Lenta's requirements rather than being limited to sites chosen by developers; the timing of store openings is more predictable and assured; protection against rental inflation and against disruption due to the termination of leases; enhanced standardisation across stores; and potential increase in the value of the real estate portfolio. While the ownership strategy requires a higher level of capital expenditure, Lenta believes this strategy is supported by the manifold benefits and disciplined payback targets outlined above. Lenta also owns three of its five distribution centres (and expects to construct a further three owned distribution centres in 2014-2015), which, in addition to the benefits discussed above, enhances the security of its supply chain.

Where Lenta leases hypermarkets, it aims to conclude contracts of at least 15 years and to secure rent rates in line with market rates. Lenta leases (or, for leased stores, subleases) space at its hypermarkets to third party service providers, such as pharmacies and drycleaners. These subleases normally have a term of less than one year.

As of 31 December 2013, Lenta owned 40 out of 68 land plots on which its hypermarkets are located, with the remaining 28 land plots leased from municipal authorities on the basis of long-term contracts.

In 2013, Lenta opened 21 hypermarkets. As of 31 December 2013, 12 hypermarkets were under construction in Almetievsk, Krasnoyarsk, Moscow, Nizhnekamsk, Novorossiysk, Novosibirsk, St. Petersburg, Surgut, Tyumen, Yelino (Moscow region), Yoshkar-Ola and Zheleznovodsk (all of which are expected to be completed in 2014), and in addition Lenta owned four land plots, leased four land plots and had an investment contract for one land plot, on all of which it currently intends to build hypermarkets. See "*—Store Roll-Out*", below, and "*Operating and Financial Review—Recent Developments—Trading Update—Stores and Space*" for a discussion of Lenta's new store openings.

Store Roll-Out

Lenta's current strategy is to continue to expand rapidly through new store openings with the intention to double its selling space over the next three years.

Lenta has overseen the construction of all of its 62 stand-alone hypermarkets, carefully planning the costs, layout, fit-out of the stores and timing of construction. Even though using third-party contractors, Lenta maintains tight control over the construction process, which helps keep the timing of new store openings more predictable. Lenta employs standardised project design and construction processes (subject to regular review and refinement), for greater efficiency and consistency. Projects are overseen by dedicated construction managers, cost managers and quality managers from Lenta and monitored daily on site by experienced third-party advisors. As noted above under "*—Site Selection*" as of 31 December 2013, Lenta had 111 staff dedicated to site selection and store construction and re-fitting, who have substantial experience in managing each part of the construction cycle. Lenta currently intends to add to its capabilities in this regard.

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

Lenta also purchases existing stores for re-fitting and re-branding, and re-fits leased stores upon acquisition of the lease. The average time for re-fitting (from taking possession to the store opening date) for a hypermarket store is usually four months. Lenta estimates that the average cost of re-fitting (based on the costs for the hypermarkets acquired in 2013, and including total construction and materials costs and equipment) for a standard–format hypermarket is approximately RUB320 million.

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

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

In 2013, Lenta opened 21 new hypermarkets in 14 new cities (exceeding Lenta's target of 18), including nine openings in December. Lenta's confirmed pipeline for 2014 includes the opening of 23 new hypermarkets. See "*Operating and Financial Review—Recent Developments—Trading Update—Stores and Space*" for a discussion of Lenta's store pipeline.

To support its pipeline of new store openings, Lenta has made significant investment into its supply chain network, with construction having started on two new owned distribution centres to be opened in 2014 (see *"—Supply Chain Management—Distribution*"), and has expanded the headcount of its store development team, having added two new development directors in 2013 (see "*—New Store Selection*"). The opening of new stores entails significant capital expenditures. The opening of a standard-sized hypermarket generally requires capital expenditures of between RUB800-1,000 million (for owned stores) and RUB320 million (for rented stores), excluding the cost of land. Capital expenditures (excluding the cost of land) for the opening of a compact hypermarket are approximately RUB700-900 million (for owned stores) and RUB265 million (for rented stores) and for the opening of a supercompact hypermarket are approximately RUB500-700 million (for owned stores) and RUB195 million (for rented stores). These numbers also include the capital expenditures on equipment, which are typically approximately RUB200 million for a standard hypermarket, approximately RUB170 million for a compact hypermarket and approximately RUB120 million for a supercompact hypermarket. The cost of purchasing or leasing land is excluded from these figures, and is subject to substantial regional variation as well as variation due to technical factors, including road access and connectivity to utilities.

Store maintenance

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

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

Customers

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

Categories and shopping patterns

Lenta has a broad customer base, across age, gender, income, marital status and profession, with a particular focus on attracting families and women, as it believes this customer base has decisive input into the choices made as regards food shopping. According to the Nielsen Brand Study, based on a survey carried out by telephone among 3,430 respondents in eight cities where Lenta has an established presence of whom 1,536 identified themselves as regular Lenta customers (being customers who made purchases in Lenta stores during the four weeks prior to survey) in November 2013, the demographics of Lenta's regular customer base were as follows:

Age[1]		Gender[1]		Household size		Marital status		Car ownership		Household income level[2]	
20-24	9%	Male	37%	1 member	7%	Married	72%	Yes	76%	< 10,000	2%
25-34	26%	Female	63%	2 members	25%	Single	16%	No	23%	10-20,000	9%
35-44	21%			3 members	31%	Divorced/ separated	6%	No response	1%	20-30,000	15%
45-54	24%			4 members	25%	Widowed/ widower	5%			30-40,000	17%
55-64	13%			5 members	7%	No response	2%			40-50,000	15%
65-74	7%			6 and more	3%					50-70,000	13%
										> 70,000	11%
										Do not know	18%

Source: Nielsen Brand Study telephone interviews (St. Petersburg: 502 interviews; Nizhny Novgorod: 503 interviews; Novosibirsk: 500 interviews; Omsk: 506 interviews; Astrakhan: 500 interviews; Tyumen: 300 interviews; Velikiy Novgorod: 318 interviews; and Petrozavodsk: 301 interviews). The target participants in the survey were people between 20 and 74 years old who had purchased goods at self-service stores (supermarkets, hypermarkets, discounters, cash-and-carry) in the prior four weeks.

Notes:

(1) Breakdown of Lenta's customer base by age and gender as quoted above corresponds to the unequal representation of ages and genders in the survey sample.

(2) RUB/month.

Regular monitoring of customer purchases allows Lenta to assess the development of its customer base, and, together with the information gathered through Lenta's loyalty programme and customer surveys, adjust product assortment and tailor Lenta's offering for its:

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

Loyalty programme

Lenta has a frequently used and effective loyalty programme. As of 31 December 2013, Lenta had 4.8 million active cardholders. In 2013, approximately 90% of sales were made to active cardholders. In applying for a loyalty card, for which Lenta charges a one-time fee of RUB200, the applicant self-reports his/her age, sex, marital status, postal address, email address, home and mobile phone numbers and type of car owned, if any, affording Lenta a wealth of data to inform its customer strategy in the future.

Customers participating in the loyalty programme benefit from:

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

These benefits are intended to sustain customer loyalty, bolster Lenta's low-cost reputation, and maintain sales volumes throughout the year. According to the Nielsen Brand Study, in the opinion of a majority of shoppers, Lenta's loyalty card programme rated number one in terms of benefits provided when compared to the loyalty card programmes offered by peer companies (based on the results of a Nielsen survey carried out in eight cities where Lenta has a presence). The table below presents the percentage of respondents who indicated Lenta in response to the question: "Loyalty cards of which stores provide the best benefits?"

City (federal district)	Lenta (%)	2nd ranked competitor (%)	
St. Petersburg	52	24	O'Key
Nizhny Novgorod (Volga)	46	19	Spar
Novosibirsk (Siberia)	58	14	Bystronom
Omsk (Siberia)	51	12	Sybiriada
Astrakhan (South)	57	22	O'Key
Tyumen (Urals)	50	10	Mosmart
Velikiy Novgorod (North-West)	62	16	Volny Kupec
Petrozavodsk (North-West)	49	34	Sigma

Source: Nielsen Brand Study.

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

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

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

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

Shopping conveniences

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

Pricing

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

Product Range

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

Product Assortment

Lenta's assortment is driven by customer preferences with a broad, but disciplined, SKU count intended to satisfy customer demand while at the same time optimising turnover and minimising the inventory of slow-moving SKUs, with an emphasis on popular Russian and regional/local products. In 2013, the average standard Lenta hypermarket had 24,000 SKUs, and the average standard-format Lenta hypermarket had 11,330 SKUs of dry food (representing approximately 46.2% of total sales), 4,350 SKUs of fresh food (approximately 39.4% of total sales), and 8,320 SKUs of non-food (approximately 14.4% of sales).

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

Management believes that, given the strong trust and association with quality that Russian customers place with traditional products, regional/local sourcing and a strong focus on Russian assortments, in particular for fresh food products, are a key attraction of the Lenta shopping experience, especially in comparison to many of its modern food retail competitors. Lenta therefore puts a differentiated emphasis on Russian national and specific regional/local products and, in 2013, sourced 17.3% of products (and 36.5% of fresh food products) (as measured by the purchase price paid to suppliers) from regional/local suppliers. Lenta aims to further increase sourcing from regional/local suppliers as it proceeds with its expansion plans, both in order to meet customer expectations for regional/local assortment and to leverage supply chain benefits associated with shorter delivery distances and times.

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

Product Categories

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

Dry Food Products

Approximately 11,330 SKUs in the average standard-format hypermarket fall within the dry food product range. In 2013, the dry food range represented approximately 47.2% of total SKUs and 46.2% of total sales across all Lenta stores. In 2013, 89.2% of dry food sales were from branded products and 10.8% were private label, and (measured by the purchase price paid to suppliers) 83.6% of all dry food products were supplied by federal Russian suppliers of branded products, 10.8% sourced from private label suppliers and 5.6% supplied by regional/local suppliers of branded products.

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

Fresh Food Products

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

Approximately 4,350 articles in the average standard-format hypermarket fall within the fresh food product range. In 2013, the total fresh foods assortment represented 18.1% of total SKUs and 39.4% of total sales across all Lenta stores. In 2013, 92.3% of fresh food sales were from branded or generic products and 7.7% were private label, and (measured by the purchase price paid to suppliers) approximately 1.7% of all fresh food products were imported directly by Lenta, 54.1% were supplied by federal Russian suppliers, 7.7% sourced from private label suppliers and 36.5% supplied by regional/local suppliers.

Lenta continues to review ways to optimise the cost of its own production activities. For example, in St. Petersburg Lenta is in the process of centralising dough production and concentrating production of salads and prepared meals to several locations (as opposed to producing separately in each store) and in-store butcheries are using de-boned meat for carving rather than carcasses. This project was launched in 2013 and its rollout is to continue through 2015. Similar centralisation initiatives are planned for other cities where Lenta has multiple hypermarkets such as Novosibirsk and Rostov-on-Don. Own-produced articles represented 8.8% of total 2013 sales across all Lenta stores.

Non-Food Products

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

Approximately 8,320 articles in the average standard-format hypermarket fall within the non-food product range. In 2013, the total non-food assortment represented 34.7% of total SKUs and 14.4% of total sales across all Lenta stores. In 2013, 82.9% of non-food sales were from branded products and 17.1% were private label and (measured by the purchase price paid to suppliers) 19.0% of all non-food products were imported directly by Lenta (which includes the majority of non-food products Lenta sourced from private label suppliers), 77.0% were supplied by federal Russian suppliers and 4.0% supplied by regional/local suppliers.

Private Label Products

Lenta's private label products are essentials, and of similar or equal quality to, similar brand-name products sold by Lenta. As a result of high capacity utilisation in the Russian food processing industry, margins on own brand articles tend to be lower than on branded articles, contrary to the situation in more developed markets in Western Europe and the United States. However, because Lenta's private label products are sold at lower prices than branded products of like quality, their offering is intended to re-enforce Lenta's 'Value-for-Money' proposition to its customers. Sale of private label products also further develops and diversifies Lenta's supplier base, while allowing Lenta to tailor its assortment to satisfy specific customer needs independent of wider industry trends. In addition, Lenta's own-production comprised 8.8% of sales in 2013 (of which 3.0% represented own in-store production that are packaged under the private label Lenta brand).

The following table shows the share of turnover of Lenta's private label products (excluding non-branded direct imports and own-production) sold in Lenta stores in the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
Share of food total sales (%)	9.4	9.9	10.1
Share of non-food total sales (%)	17.1	13.3	8.9
Share of total sales (%)	10.5	10.4	9.9

As this table demonstrates, Lenta has been successful in expanding the share of turnover of its private label goods in recent years. Lenta intends to continue this expansion going forward.

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

Food

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

Non-Food

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

Quality Control and Customer Satisfaction

Lenta has established strict quality control procedures at all of its distribution centres and stores and regularly monitors the quality of merchandise. Quality control is centrally implemented as goods flow through Lenta's centralised supply chain system and locally monitored as goods are laid out in Lenta's stores. Lenta audits all its suppliers and their goods, with particular attention paid to suppliers of its private label products and raw materials. A key criterion in the selection of Lenta's suppliers is their ability to supply quality goods.

Lenta's quality assurance department, a team of around 40 specialists, is responsible for safeguarding the quality standard of the goods Lenta sells. This applies not only to own-produced and private label goods but also to the goods of branded suppliers. Both private label and branded suppliers are audited before their selection and are subject to repeat audits. Audits are focused on the production process in the supplier's premises, with an emphasis on helping to improve the quality of the production processes of smaller local and regional suppliers (whom Lenta assists in their development needs in order to reduce reliance on federal suppliers). All products and raw materials for suppliers' products and Lenta's own-production facilities are regularly tested with the

frequency of testing reflecting the product risk so that, for example, fresh articles and raw materials for own production are tested more frequently than dry goods of reputable suppliers. Lenta carries out regular but unannounced bacteriological testing in its own-production facilities and of its own-production materials, including of local drinking water.

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

Promotions and Marketing

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

Lenta maintains a long-term promotional calendar that is updated in light of sales feedback and market opportunities. Lenta's promotional strategy is not supplier-driven. Goods sold in promotions constituted roughly a quarter of Lenta's total sales in 2013. Promotions are tailored to local conditions, taking into account the disparity in local climates and tastes across Russia. Lenta conducts three main types of regular sales promotions to cardholders:

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

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

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

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

In 2013, Lenta spent approximately 0.94% of total sales on marketing (compared to approximately 0.7% in 2012), split into the following categories: (i) outdoor advertising, such as store façade signage, public transport advertisements, billboards and road signs; (ii) printed advertising, principally, catalogues and leaflets; (iii) marketing, customer and pricing research; (iv) radio and television advertising; (v) in-store decorations and displays; (vi) customer relations activities; and (vii) internet/website marketing (including website offers, e-mail offers to customers and a Lenta mobile telephone app).

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

Lenta's loyalty card programme is also a key part of its marketing strategy. See "*—Customers—Loyalty programme*".

Lenta's Brand

Lenta believes that its retail concept and customer proposition focused on broad customer appeal combined with its loyalty card and significant investments in marketing and promotion serve as the main drivers continuously

enhancing its brand strength in the market. Lenta further believes that the strength of its brand is reflected in its strong like-for-like sales growth rates and proven ability to successfully ramp-up sales of stores in new locations across Russia.

Lenta's promotions and marketing strategy have resulted in strong Lenta brand awareness and brand loyalty. According to Nielsen's Brand Equity Index (which is a composite index that reflects customer loyalty, taking into consideration such factors as customer preferences and a customer's willingness to pay a premium price for products in a store, recommend a store and travel to such store), Lenta scored the highest of all major food retailers in six of the eight cities where the Nielsen survey was carried out: St. Petersburg, Nizhny Novgorod, Novosibirsk, Omsk, Astrakhan and Tyumen; in the other two cities (Velikiy Novgorod and Petrozavodsk), Lenta placed second.

Lenta places great emphasis on establishing long-term relationships with its customers and on making its stores the shopping destination of choice. Based on a telephone survey carried out by Nielsen of 3,430 people in eight cities where Lenta has an established presence, 25% of all respondents regarded Lenta as their "main" store (i.e., the store for main purchases during the preceding month) and 43% as their "preferred" store (i.e., the preferred store if all stores were equally conveniently located), as per the following table setting out the results of this survey:

City	Awareness(1)	Purchased ever(2)	Last month purchase(3)	Main store(4)	Preferred store(5)
St. Petersburg	97	86	50	32	42
Nizhny Novgorod	93	73	35	19	39
Novosibirsk	97	86	61	40	54
Omsk	97	82	39	21	45
Astrakhan	98	86	43	21	43
Tyumen	97	84	34	18	38
Velikiy Novgorod	98	89	50	23	43
Petrozavodsk	97	75	42	19	38
Total	**97**	**83**	**45**	**25**	**43**

Source: Nielsen Brand Study.

Notes:

(1) Percentage of respondents mentioning Lenta in response to any of the three questions: "Thinking about supermarkets, discounters or hypermarkets, which store/retailer first comes to mind?", "Please list the names of any other supermarkets or hypermarkets that you can think of?", "Which of these stores are ones you have heard of before?"

(2) Percentage of respondents mentioning Lenta in response to the question "From the list below, which of these stores are ones that you have ever shopped?"

(3) Percentage of respondents mentioning Lenta in response to the question "In which stores have you shopped last month?"

(4) Percentage of respondents mentioning Lenta in response to the question "In which store did you do the main purchases during last month? I mean the store where you spent the most money."

(5) Percentage of respondents mentioning Lenta in response to the question "Which store would you prefer to do the main purchases of food products if all of them were convenient to get to?"

The main store figure reflects where customers actually do their main purchases, whereas the preferred store figure reflects where customers would prefer to do their main purchases if the retailer in question had a store that was conveniently located. Lenta believes that if the figure for preferred store is significantly higher than the main store figure, this may be considered an indicator of latent demand for the retailer in question. In Lenta's case, the preferred store figure is significantly higher in all eight cities surveyed and at least double the main store figure in five of the eight cities surveyed. Lenta believes this data provides a significant indication both of Lenta's attractiveness to consumers and of unmet demand (and hence potential) for more Lenta stores in each of the cities surveyed.

Lenta believes that its strong results in customer loyalty metrics such as the Brand Equity Index serve as an indicator of the success of its marketing strategy and the customer proposition on which it is based, with its core features, such as low pricing and disciplined SKU count.

Suppliers

Supplier Base

Lenta's supplier base is diversified, with, in 2013, no single supplier accounting for more than 3.4% of Lenta's spending on product supply and the top three suppliers accounting for 8.3% of Lenta's spending on product supply, the top five 11.3%, the top 10 17.3% and the top 25 28.1%. As of 31 December 2013, Lenta had 2,406 suppliers, manufacturers and distributors, including 1,092 fresh food suppliers, 832 dry food suppliers and 482 non-food suppliers. Lenta benefits by building strong relationships with key suppliers and leveraging the scale of its buying into lower costs. Lenta expects that its continued expansion will further increase its overall purchasing power. Lenta often nurtures and cultivates relationships with small suppliers, especially suppliers providing local/regional content, ideally resulting in higher volumes over the course of the relationship (and thus better pricing). In the case of local suppliers, often in the early stages of cooperation Lenta focuses on helping the local supplier to improve the quality of its product assortment. After the supplier grows into a regional or even federal supplier, its future profitability becomes increasingly dependent on growing its market share. Due to its scale and pace of expansion, its knowledge of customer behaviour and its well-developed supply chain, Lenta is in a position to offer its suppliers the potential for greater market share, which, in turn, enables Lenta to negotiate improved purchasing conditions, thereby increasing its margins and competitiveness.

Lenta's supplier base is diversified between federal suppliers, regional/local suppliers (who are particularly important for the supply of fresh food) and overseas suppliers (providing direct imports, generally non-food products, to Lenta). The table below sets forth the breakdown amongst these groups for 2013 by category of goods (measured by the purchase price paid to suppliers) and in aggregate:

Product Category / Type of Supplier	Share of goods[1]
Dry food	
Federal (including private label)	94.4%
Regional/local	5.6%
Fresh food	
Federal (including private label)	61.8%
Regional/local	36.5%
Direct import	1.7%
Non-food	
Federal	77.0%
Direct import (including private label)	19.0%
Regional/local	4.0%
All product categories	
Federal	79.5%
Regional/local	17.3%
Direct import	3.2%

Note:

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

In keeping with its strategy to cater to local taste, Lenta aims to increase sourcing from qualified regional/local suppliers, which also reduces supply chain costs. Regional/local suppliers deliver their supplies both to distribution centres and directly to Lenta stores, but as Lenta opens more distribution centres it expects more regional/local supplies to be delivered via distribution centres. Taking supplies from regional/local suppliers also demonstrates to regional/local governments the benefits to the regional/local economy of supporting the opening of Lenta stores. Lenta has dedicated local buying teams to tailor offerings to the local customer base, establishing strong relationships with regional/local suppliers, which often provide better pricing than federal suppliers.

Furthermore, given the increasing scale of its purchasing, Lenta intends to increase the percentage of fresh goods, particularly fruits and vegetables, that are imported directly to Lenta without the use and cost of intermediary importers, which should shorten lead times, improve margins and enhance quality.

Terms and Conditions of Contracts with Key Suppliers

Lenta's relations with its suppliers are regulated by a standard supply contract and a standard marketing contract. These contracts are renegotiated every year in the first half of the year. The contracts remain valid until a new

contract is signed. Lenta endeavours to minimise deviations from the terms of the standard agreements and therefore the differences between the terms offered to each supplier, and accordingly any deviations are by way of separate schedule to the standard form contracts for ease of monitoring.

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

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

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

Supermarket Roll-out

In April 2013, Lenta executed a 'soft launch' of its supermarket format in Moscow, marking a further evolution in the store formats used by Lenta. Lenta's model supermarket format is designed for 1,200 sq. m. of selling space, and its supermarkets will generally be rented premises within shopping malls. Lenta has initially rolled-out its supermarket format in Moscow, where prime commercial real estate locations are scarce and expensive but which still remains relatively underpenetrated by modern food retailers. Lenta believes its "Value-for-Money' proposition will be as attractive to consumers in Moscow as it has proved across the nation, and that the supermarket format enables Lenta to capture clientele and extend its reach to parts of the market that would otherwise not be served. As of 31 December 2013, Lenta had brought 10 supermarkets into operation with a total of 12,443 sq. m. of selling space; supermarket sales accounted for 0.65% of Lenta's overall 2013 sales. Lenta management is actively considering the roll out of the supermarket format in other cities based on the encouraging results of the 'soft launch' in Moscow. Lenta is currently planning to open a further 15 supermarkets in Moscow in 2014.

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

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

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

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

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

As of 31 December 2013, Lenta leased all but one of its supermarkets, which in part reflects that its supermarkets are predominantly in high-density urban areas where there is an adequate supply of suitable rented space for supermarket sized stores (and where property values are high). Lenta's practice of leasing its supermarkets allows for quicker expansion and limits its capital expenditure. Supermarket leases typically have a term of at least seven years with rent rates in line with market rates. Going forward, Lenta intends to lease its supermarkets, although it may purchase a supermarket should an attractive opportunity present itself. Lenta estimates that the average cost of fit-out of a leased supermarket was approximately RUB45-60 million in 2013, depending on the size and technical features of the building. The average time for fit-out for a supermarket (from taking possession to opening) is two to three months. Supermarkets generally reach traffic maturity more quickly than hypermarkets. Initial results from Lenta supermarkets have been encouraging: in January 2014, the first month in which all 10 supermarkets opened in 2013 traded for the full month, average sales densities for supermarkets were broadly in line with Lenta's hypermarket average.

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

In conjunction with opening its Moscow supermarkets, Lenta opened a distribution centre in Moscow dedicated to supplying them. This distribution centre is managed by Lenta's central supply chain management team, thereby leveraging their experience. Lenta currently leases its Moscow supermarket distribution centre, but may decide to construct a new, owned distribution centre as its supermarket business expands.

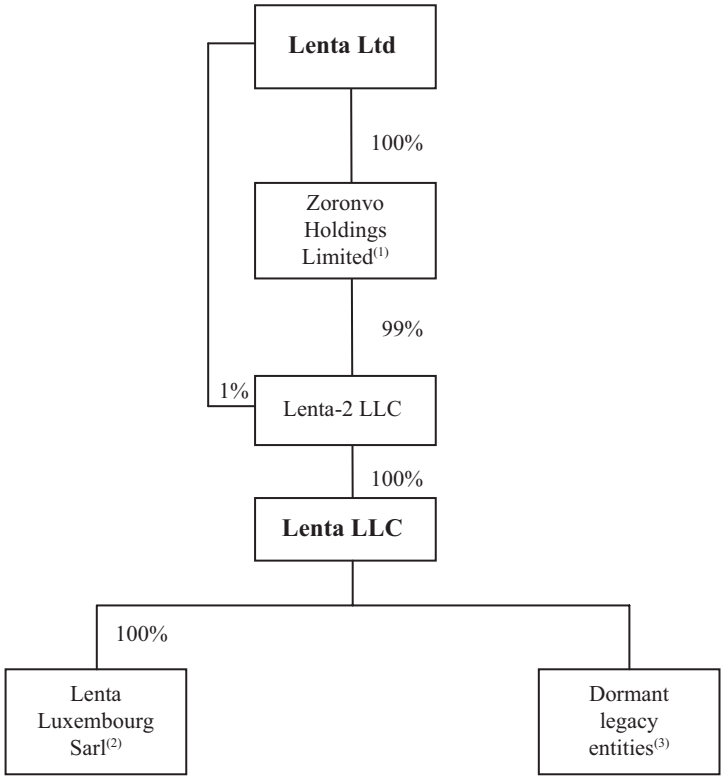
While Lenta's supermarket business benefits from centralised strategic management and synergies in areas such as commercial and finance, senior management focus remains on the core hypermarket business, and the management of day-to-day operations of the supermarkets is executed by a dedicated team, which Lenta is considering to bolster based on the results of the soft launch in Moscow.

Lenta believes that its principal competitors for its supermarkets business currently are Atak, Dixy, Magnit and Perekrestok/Pyaterochka (part of the X5 Retail Group), as well as local chains. The largest chains in the supermarket segment currently have much larger networks of supermarkets than Lenta's initial roll-out of stores, and at least one of them is likely present in many if not most cities where Lenta may open supermarkets.

Organisational Structure

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

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



Notes:

(1) In the process of being redomiciled to Luxembourg.
(2) Lenta Luxembourg Sarl owns 100% of Lakatomo Holdings Limited, a dormant Cypriot company.
(3) Includes Tekhno-Invest LLC and Service centre on Energetikov LLC, wholly-owned by the Company directly; Korado CJSC, 10% owned by the Company and 90% owned by Lenta LLC; Panteon LLC, 99.9% owned by Lenta LLC and 0.1% owned by KamTorg LLC; Babyshkina-2 LLC, 99% owned by Lenta LLC and 1% owned by TRK-Volzhskiy LLC; Region-N LLC, wholly-owned by Lenta LLC; and 6 other entities (including KamTorg LLC and TRK-Volzhskiy LLC), 99.9% owned by Lenta LLC and 0.1% owned by the Company directly.

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

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

Lenta's supply, commercial, financial and sales strategies are managed centrally from the head office in St. Petersburg, with implementation in the regions overseen both by the head office and by Lenta's divisional offices in Novosibirsk, Rostov-on-Don and Moscow. Retail operations and store management are overseen by Lenta's operations director with the support of the four divisional directors.

Supply Chain Management

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

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

Distribution

As of 31 December 2013, Lenta employed five modern distribution centres located in St. Petersburg, Moscow and Novosibirsk with a total space of 125,237 sq. m. In its supply chain operations, Lenta uses multiple product flows, pursuing the optimal mix of supplies delivered via its distribution centres and supplies delivered directly by suppliers to hypermarkets. For example, sometimes the optimal flow is for federal suppliers of dry goods or of canned/bottled goods to deliver directly to hypermarkets and sometimes the optimal flow is for Lenta to take pallets of different products delivered by nearby suppliers at one of its distribution centres and then assemble and ship them directly to hypermarkets or via another distribution centre. The increased number of owned distribution centres, especially in the regions, enables higher centralisation, leading to economies of scale and lower net distribution costs. Furthermore it enables a greater proportion of sourcing directly from federal suppliers instead of their local distributors, an increased proportion of direct imports and a higher degree of local sourcing, all of which is expected to lead to a more relevant and higher quality assortment as well as better margins. Use of the distribution centres can result in swifter supply of goods to Lenta's stores (as opposed to delivery of those particular goods directly to stores) as goods from multiple suppliers can be shipped in a single truck to the stores, increasing delivery frequency while minimising costs by ensuring full truck-loads. Furthermore, when suppliers deliver supplies to distribution centres, they generally pay Lenta a service fee for Lenta's handling the onward transport of such products from the distribution centre to stores; and thus increased centralisation should increase this supplier fee income, wholly or partly offsetting the increased costs incurred.

Based on current supplier capabilities and supplier, store and regional structures, Lenta estimates that a maximum centralisation rate of 60% of its goods destined for hypermarkets (measured by the inbound value of goods received by the store) would be appropriate for shipments via its distribution centres (compared to its current rate of approximately 36.7%). It is also Lenta's intention to increase to 60% the share of its deliveries (measured by pallets) within 400 km of its distribution centres that are carried out by its truck fleet (a level which has been achieved for its St. Petersburg distribution centres). These targets would be adjusted if better economies in supply chain operations are otherwise achieved.

Lenta owns and operates three of its five distribution centres with a total space of approximately 106,000 sq. m. These owned distribution centres were designed to Lenta's own specifications; they are able to accommodate large deliveries and execute different goods flows on a multi-temperature basis. These owned distribution centres comprise the hypermarket distribution centre in St. Petersburg and the hypermarket distribution centres Lenta brought into operation in 2013 in Moscow and Novosibirsk. As a result, Lenta is able to process different product types in one location simultaneously and hold slow moving seasonal or own-brand items as well as high turnover items. Ownership also provides security of tenure and avoids rental cost inflation. Direct hiring and control of staff at distribution and use of Lenta IT helps ensure cost control and effective integration with Lenta's business operation. By comparison, in 2012, four out of the five distribution centres used by Lenta were leased.

Lenta leases, with third-parties operating, two of its five distribution centres with a total space of approximately 19,000 sq. m. Lenta's leased distribution centre in St. Petersburg is used for the direct import of non-food products, in particular to handle seasonal increases in imported goods which Lenta cannot, given space restrictions, accommodate in its owned St. Petersburg distribution centre. Lenta has a long-term lease agreement with the third party owner-operator of this warehouse. Lenta's current intention is to transition this import function to its owned distribution centres in St. Petersburg (which is being expanded in 2014) and Novosibirsk. Lenta's leased distribution centre in Moscow, which Lenta re-modelled to be a multi-temperature facility, is dedicated to the supply of its supermarkets (which have a different supply pattern then hypermarkets—see *"Supermarket Roll-out"*)

Lenta's hypermarket distribution centres are designed to cater flexibly to three main types of goods flow: storage, cross-docking and pick-by-line. Storage is typically the flow-type employed by supermarkets and small format stores which require more frequent small-volume deliveries. Cross-docking and pick-by-line product flows require less use of space and less labour time than storage flows, but are only practical when high volumes are involved, as is the case when delivering to large-volume hypermarkets. In 2013, in aggregate (as measured by the inbound value of goods received by the store), at Lenta's distribution centres 43% of goods were cross-docked, 22% picked-by-line and 35% stored. Lenta believes that its policy of having dedicated distribution centres for hypermarkets enables it to optimise the various types of goods flow, resulting in lower costs while ensuring high product availability in its stores.

Lenta adheres to strict quality control procedures at all of its distribution centres and regularly monitors the quality of merchandise and inspects packaging. Distribution centres operate 24 hours a day, every day. As of 31 December 2013, the distribution centres owned by Lenta had a total FTE count of 1,044.

The following table sets out certain information concerning Lenta's distribution centres as of 31 December 2013:

Location	Total Space (sq. m.)	Ownership	Function
St. Petersburg (Shushary township)	27,216	Owned	Full service multi-temperature for hypermarkets
St. Petersburg[(1)]	11,000	Leased	Non-food imports for hypermarkets
Moscow (Chekhov township)[(2)]	41,965	Owned	Full service multi-temperature for hypermarkets
Novosibirsk (Tolmachersky township in the Novosibirsk region)	37,456	Owned	Full service multi-temperature for hypermarkets
Moscow (Bykovo township)[(1)]	7,600	Leased	Supermarket supplies

Notes:

(1) In respect of Lenta's two 'leased' distribution centres, Lenta has entered into services agreements with third-party logistics companies under which Lenta is granted the right to use such distribution centres, and is afforded certain logistics services in connection with such use.

(2) The distribution centre in Chekhov was built under Lenta LLC supervision pursuant to the terms of an investment contract under which Lenta LLC assumed direct ownership over the distribution centre upon completion of construction. Final procedures with respect to the registration of title in the name of Lenta LLC are underway and are expected to be completed in April 2014.

To further its goal to optimise its supply chain operations and to match its growing hypermarket network, Lenta is planning three more distribution centres: construction has started on owned distribution centres in Rostov-on-Don (in the South federal district) with a total space of approximately 20,000 sq. m. and a distribution centre in Togliatti (in the Volga federal district), also with a total space of 20,000 sq. m., both to be put in operation by the end of 2014, and a third new distribution centre in the Urals federal district to be put in operation in 2015. In 2014, Lenta also plans to expand its owned St. Petersburg distribution centre by approximately 10,000 sq. m. Upon the three new distribution centres coming into operation, Lenta's distribution centres in aggregate will have the capacity to service over 200 stores, with Lenta owning a distribution centre in each of the six federal districts in which it operates stores. Most of Lenta's stores will be within 400 km of one of its distribution centres, the working radius of Lenta's fleet of trucks, as discussed below.

To ensure that the investment made in its supply chain system is managed efficiently, Lenta has also prioritised the development of its supply chain IT systems. In 2011, Lenta introduced SAP enterprise warehouse management in order to more effectively manage goods flow at its distribution centres. In 2013, it implemented Oracle transport management software, which allows Lenta to optimise incoming and outgoing goods flow and increase truck utilisation, thereby driving down the transport cost per pallet. Lenta is also in the process of introducing JDA Forecast and Replenishment Software, an automated replenishment system that centralises orders and is expected to enhance Lenta's ability to forecast future sales and considerably streamline store operations. Implementation has begun with Lenta's dry-foods assortment and will be expanded to other product categories in 2014.

Transportation

Own fleet

As of 31 December 2013, Lenta owned (or leased) a fleet of 35 delivery trucks, each with a euro-4 emissions rating, multi-chamber temperature-controlled trailers and a GPS location tracking system. Lenta's truck fleet is based in St. Petersburg, Moscow and Novosibirsk and carries out short-haul deliveries of up to 400 kilometres, within which third party capacity is limited, particularly at the end-of-year peak season. The use of its truck fleet gives Lenta better reliability and quality of delivery services. Reflecting the high product volumes of its hypermarkets, Lenta's truck deliveries usually comprise a large tractor-trailer (32-pallet capacity) delivering its entire load to a single store. Lenta considers the benefit of operating its own fleet outweighs the cost of acquiring and maintaining the fleet, and Lenta currently intends to increase the size of its fleet to support its increased utilisation of existing distribution centres and its expected new distribution centres. In 2013, approximately 32% of deliveries (by volume as measured by pallets) were delivered to Lenta stores using Lenta's truck fleet.

Third-party transport service providers

In addition to its truck fleet, Lenta engages a number of third-party transport companies to provide delivery services. Lenta enters into long-term contracts with these delivery companies that contain performance incentives relating to quality and reliability. The performance, pricing and selection of these service providers are periodically reviewed to ensure a high level of delivery service at minimum cost. Service quality is encouraged by a bonus/fine mechanism incorporated in the contracts.

Where Lenta imports products, it engages a variety of land and sea transportation operators for transportation from overseas to Russian ports and to Lenta's distribution centres. The customs clearances process is overseen by customs brokers acting on behalf of Lenta. In 2013, approximately 68% of deliveries (measured by pallets) were delivered to Lenta stores using the fleet of third-party transport service providers.

Competition

The Russian food retail market currently prominently features the domestic retailers Magnit, X5 Retail Group, Dixy, Lenta and O'Key, and the international chains Auchan and METRO. Lenta was ranked as the sixth largest food retailer in Russia (as measured by 2013 sales), based on publicly available information on peer companies and Infoline estimates. Most of the food retailers operate multiple formats. See "*Business—Market structure and competitive landscape*".

Lenta believes that with respect to its hypermarket operations Auchan, O'Key, Magnit hypermarkets and Karusel (part of the X5 Retail Group) are its current principal competitors. Each of these chains has hypermarkets across Russia and may have plans to open, or has already opened, stores in the same cities where Lenta has opened or intends to open hypermarkets, in direct competition with Lenta. See "*Risk Factors—Risks Relating to Lenta's Business and Industry—Risks relating to competition and demand—Lenta faces significant competition in its current areas of operation and in connection with its expansion strategy*".

In certain cities, Lenta also competes with smaller, regional players, such as, for example, Holiday Classic and Sibirsky Gigant in Novosibirsk, Prisma in St. Petersburg, Semya in Perm and Liniya in Voronezh.

See "*—Supermarket Roll-out*" for a discussion of Lenta's competition in the supermarket sector.

Information Technology

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

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

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

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

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

Lenta's IT platform is scalable to support over 500 stores in all formats in the mid-term. Lenta has a dedicated IT team of approximately 110 staff in the head office and the regions, and has a training programme in place to educate the staff on operating the systems.

Intellectual Property

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

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

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

Insurance

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

Environmental Protection

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

Employees

Reflecting its recent expansion, Lenta's average FTE count was 20,313 in 2013, 15,326 in 2012 and 13,804 in 2011. The following table sets out the average FTE count by function for the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	**2012**	**2011**
In-store personnel	18,642	14,163	12,831
Distribution	753	478	403
Management and other (regional branch offices)	142	99	82
Management and other (head office)	776	586	488
Total	20,313	15,326	13,804

The following table sets out the FTE count by function at year-end 2013, 2012 and 2011:

	Month ended 31 December		
	2013	2012	2011
In-store personnel	25,663	18,359	14,820
Distribution	1,138	506	511
Management and other (regional branch offices)	201	111	91
Management and other (head office)	857	680	505
Total	27,829	19,656	15,927

Lenta also outsources some responsibilities, in particular cleaning and security functions, the costs of which are accounted for in SG&A (under the line items "Cleaning services" and "Security services"), and these workers are not included in Lenta's FTE count. Approximately 98% of Lenta employees work on a full-time basis (with part-time staff hired for certain peak periods such as the pre-New Year season) and 73% are female. The average tenure of a Lenta employee is approximately 2.4 years. Lenta's average annual employee turnover rate is in line with the average industry level. Its turnover rates are typically lower in its mature stores than in new stores, as staffing levels and composition stabilises over time and employees in new stores are sometimes unaccustomed to working in a retail store. In 2013, turnover rates were 46% in stores in the like-for-like panel and 53% overall, compared to 49% and 50%, respectively, in 2012.

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

Lenta's staff are overseen by human resources management divided into divisional, regional and sectoral sub-departments, with dedicated teams for new store recruitment, staff training and development (which also supervises the maintenance of necessary licences for specialist staff), employee benefits and payment administration (which also deals with labour legislation compliance, work permits and employment contract matters), labour safety monitoring, and appraisal and promotion. Recruitment is managed in-house, with approximately 98% of available vacancies filled through Lenta's own efforts.

Employee Compensation

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

The average monthly base salary of Lenta's employees was RUB33,699 in 2013, RUB31,840 in 2012 and RUB28,970 in 2011, calculated as payroll divided by the average FTE count, with the lower increase between 2012 and 2013 attributable to the expansion of the number of stores operated in the regions where salaries are usually lower than those in St. Petersburg and Moscow.

Lenta offers its employees performance-linked pay and other incentives. All Lenta employees are eligible for the payment of additional remuneration, determined on the basis of a range of quantitative and qualitative performance measures. For junior staff, possible performance-linked pay ranged in 2013 from 20% to 40% of gross base salary, linked to key indicators for the employee's store, such as sales, inventory turnover, productivity and quality of performance. For head office and management staff, possible performance-linked pay ranged in 2013 from 13% to 100% of gross base salary, and was linked to key indicators, including sales, Adjusted EBITDA, divisional performance, number of stores opened, quality of performance and compliance with regulations, as well as individual or team goals in many cases.

In addition, for its top tier managers, Lenta has instituted a share-settled MIP pursuant to which Senior Management have been allocated a specified number of phantom shares to be converted into Shares upon the occurrence of a Settlement Event (as defined and further discussed in "*Management and Corporate Governance—Interests of Directors and Senior Management*"). See also "*Risk Factors—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's business—Risks Relating to Lenta's Business and*

Industry—Other risks relating to Lenta's Business—Lenta's competitive position depends on its management's experience and expertise, including that of its Senior Management, and Lenta's ability to recruit and retain qualified personnel". In addition, in January 2014, the Board of Directors approved an equity-based, long-term motivation and retention programme for certain key executive and senior employees (the "**LTIP**") who are not participants under the MIP. See "*Management and Corporate Governance—Interests of Directors and Senior Management*" for a discussion of the LTIP.

Personnel Training

Lenta believes that the service provided by its staff significantly contributes to customer satisfaction and loyalty. In turn, Lenta is committed to developing its staff and their proper training for their positions. Promoting high-performing employees from within by assigning them new responsibilities and possibly transferring them to new stores or cities both helps retain ambitious employees and ensure Lenta's expansion is carried out by trained employees. Lenta requires all new staff to undergo introductory training (up to a three week course for key store positions), including safety training. Lenta also provides training for particular technical functions, to develop key competencies and to upgrade or maintain professional qualifications. To develop managers, Lenta offers a multilevel 'Lenta-Leader' programme—the first level for new managers to receive instruction in the basics of management, with higher levels targeted for development of advanced managers. This training is provided in classes and by distance learning through Lenta's human resources training system LENTA-Master, and by in-house specialists (Lenta had 77 dedicated trainers on its staff as of 31 December 2013) and third party providers. In 2013, an average of 24 hours of training was provided per employee. Lenta believes that such training and development reduces staff turnover, increases productivity, places focus on low-cost service and provides an internal pipeline of skilled staff for promotion. This internal pipeline is particularly significant given Lenta's rapid expansion, which requires the filling of new managerial roles (both vertically and horizontally), and Lenta's preference for internal promotion. As of 31 December 2013, the pipeline included 432 employees.

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

Legal Proceedings

Save as follows, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on Lenta's financial position or profitability: the Company is subject to a claim brought by a former general director of Lenta LLC in the courts of the BVI who alleges he is entitled to share options under which he would receive 0.5% of the Shares in the Company; the Company disputes the claim.

CAPITALISATION

The following table shows Lenta's consolidated cash and cash equivalents and capitalisation, comprised of total long-term borrowings and total equity as of 31 December 2013. For further information regarding Lenta's financial condition, see "Selected Consolidated Financial Information", "Operating and Financial Review" and the Financial Statements included elsewhere in the Prospectus.

	As of 31 December 2013
	(RUB millions)
Cash and cash equivalents	6,212
Short-term borrowings:	
Short-term borrowings and short-term portion of long-term borrowings	6,143
Total short-term borrowings	6,143
Long-term borrowings:	
Long-term borrowings	39,849
Long-term obligations under finance leases	51
Total long-term borrowings	39,900
Total equity:	
Share capital	0
Additional paid-in capital	4,407
Share options	66
Hedging reserve	(43)
Retained earnings	307
Total equity	4,737
Total capitalisation(1)	44,637

Note:

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

Since 31 December 2013, there have been no material changes in Lenta's capitalisation. See "*Operating and Financial Review—Recent Developments*" for a description of the EBRD Loan Agreement (entered into in January 2014) under which no amounts have been drawn down as of the date of this Prospectus. Lenta's cash and cash equivalents position was significantly higher than usual as of 31 December 2013 in part because Lenta did not repay certain short-term borrowings at month-end (instead making repayment in early January) and built up its Rouble short-term bank deposits and in part due to seasonally-higher, year-end cash in transit. As of 25 February 2014, Lenta's cash and cash equivalent position was approximately RUB1.3 billion, which is in keeping with its usual cash level. See Note 16 to the 2013 Financial Statements—Cash and cash equivalents.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The financial data set forth below as of 31 December 2013, 2012 and 2011 and for the years then ended have been extracted without material adjustment from the Financial Statements. The Financial Statements have been prepared in accordance with IFRS. Lenta's functional and presentation currency is the Rouble.

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

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Consolidated statement of profit or loss and other comprehensive income data			
Sales	144,266	109,910	89,766
Total cost of sales	(112,809)	(87,233)	(73,055)
Gross profit	**31,457**	**22,677**	**16,711**
Selling, general and administrative expenses	(19,014)	(13,506)	(11,225)
Reversal of impairment of non-financial assets	—	0	44
Other operating income	1,460	1,119	1,011
Other operating expense	(171)	(125)	(122)
Operating profit	**13,732**	**10,165**	**6,419**
Interest expense	(4,342)	(3,218)	(1,311)
Interest income	82	78	24
Change in fair value of financial instruments at fair value through profit or loss	(234)	102	(374)
Put option revaluation	—	—	683
Other expenses	(91)	(215)	(2,573)
Foreign exchange gains/(losses)	(23)	70	(4)
Profit before income tax	**9,124**	**6,982**	**2,864**
Income tax expense	(2,032)	(1,846)	(1,167)
Profit for the year	**7,092**	**5,136**	**1,697**
Other comprehensive income Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	(54)	—	—
Income tax related to the components of other comprehensive income	11	—	—
Other comprehensive income for the year, net of tax	(43)	—	—
Total comprehensive income for the year, net of tax	**7,049**	**5,136**	**1,697**

	As of 31 December		
	2013	2012	2011
	(RUB millions)		
Consolidated statement of financial position data			
Total non-current assets	57,136	34,703	20,812
Total current assets, *of which*	30,972	20,339	17,041
Cash and cash equivalents	6,212	3,536	5,136
Total assets	**88,108**	**55,042**	**37,853**
Total non-current liabilities	41,910	25,880	25,277
Total current liabilities	41,461	30,125	18,954
Total liabilities	**83,371**	**56,005**	**44,231**
Total equity	**4,737**	**(963)**	**(6,378)**
Total equity and liabilities	**88,108**	**55,042**	**37,853**

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Consolidated statement of cash flows data			
Net cash generated from operating activities	10,853	9,261	6,768
Net cash used in investing activities	(23,549)	(14,962)	(3,837)
Net cash generated from financing activities	15,372	4,101	1,435
Net (decrease)/increase in cash and cash equivalents	2,676	(1,600)	4,366

	Year ended 31 December		
	2013	2012	2011
Other financial data			
Gross margin (%)[1]	21.8	20.6	18.6
EBITDA (RUB millions)[2]	16,045	11,741	8,338
Adjusted EBITDA (RUB millions)[2]	16,395	12,718	9,079
Adjusted EBITDA margin (%)[2][3]	11.4	11.6	10.1
EBITDAR (RUB millions)[2][4]	16,639	11,996	8,536
Adjusted EBITDAR (RUB millions)[4][5]	16,989	12,974	9,276
Adjusted EBITDAR margin (%)[5][6]	11.8	11.8	10.3
Net debt (RUB millions)[7]	39,831	25,341	19,825
Net debt to Adjusted EBITDA ratio[2][7]	2.4	2.0	2.2
Adjusted EBITDA to net interest expense ratio[2][8]	3.8	4.1	7.1
Lease-adjusted net debt to Adjusted EBITDAR ratio[5][9]	2.6	2.1	2.3
Adjusted EBITDAR to net interest expense plus rental expense ratio[5][8]	3.5	3.8	6.2
CROCI (%)[10]	34.8	44.0	41.3
Operating cash flow to Adjusted EBITDA ratio[2][11]	0.90	0.97	0.94
Capital expenditures (RUB millions)[12]	23,549	14,962	3,837

	As of or for the year ended 31 December		
	2013	2012	2011
Operational data[13]			
Total selling space (thousand of sq. m.) (as of year-end)	508	376	287
of which:			
Hypermarkets	495	376	287
Supermarkets	13	—	—
Number of stores (as of year-end)	87	56	42
of which:			
Hypermarkets	77	56	42
Supermarkets	10	—	—
Average selling space (thousands of sq. m.)	416	313	272
Average hypermarket selling space (thousands of sq. m.)	412	313	272
Average sales density (RUB thousands/sq. m.)[14]	347	351	330
Average hypermarket sales density (RUB thousands/sq.m.)	348	351	330
Number of tickets (millions of units)[15]	132	104	92
Number of hypermarket tickets (millions of units)[15]	130	104	92
Average store ticket (RUB)[16]	1,092	1,061	971
Average hypermarket ticket (RUB)	1,100	1,061	971
Average ticket growth (% change, year-on-year)[16]	2.9	9.3	9.1
Traffic growth (% change, year-on-year)[17]	27.5	12.0	16.5
Like-for-like sales growth (% change, year-on-year)[18]	10.0	13.5	21.2
Like-for-like sales (% of sales)[18]	83.2	92.6	95.1
Like-for-like average ticket growth (% change, year-on-year)[19]	8.1	10.1	9.6
Like-for-like additional articles per ticket (% change, year-on-year)[20]	2.0	3.1	6.0
Like-for-like average price growth per article (% change, year-on-year)[21]	6.0	6.8	3.4
Like-for-like traffic growth (% change, year-on-year)[22]	1.8	3.1	10.6
Like-for-like average selling space (thousands of sq. m.)[23]	301	270	251
Like-for-like average sales density (RUB thousands/sq. m.)[24]	399	376	340
Sales from new stores (RUB millions)	24,198	8,186	4,422
Sales growth from new stores (% change, year-on-year)[25]	21.3	9.0	6.0
Share of new store sales growth in total sales growth (% of sales)[25]	68.2	39.9	22.0

Notes:

(1) Gross margin is calculated as gross profit as a percentage of sales.

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

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

	Year ended 31 December		
	2013	**2012**	**2011**
	(RUB millions)		
Adjusted EBITDA	**16,395**	**12,718**	**9,079**
Changes in accounting estimates	—	—	(214)
One-off non-operating costs	(350)	(977)	(527)
EBITDA	**16,045**	**11,741**	**8,338**
Interest expense	(4,342)	(3,218)	(1,311)
Interest income	82	78	24
Income tax expense	(2,032)	(1,846)	(1,167)
Depreciation/amortisation	(2,313)	(1,576)	(1,963)
Other expenses	(91)	(215)	(2,573)
Reversal of impairment of non-financial assets	—	0	44
Revaluation of financial instruments at fair value through profit or loss	(234)	102	(374)
Put option revaluation	—	—	683
Foreign exchange gains/(losses)	(23)	70	(4)
Profit for the year	**7,092**	**5,136**	**1,697**

(3) Adjusted EBITDA margin is Adjusted EBITDA as a percentage of sales.

(4) EBITDAR is EBITDA before rent paid on land, equipment and premises leases.

(5) Adjusted EBITDAR is Adjusted EBITDA before rent paid on land, equipment and premises leases.

(6) Adjusted EBITDAR margin is Adjusted EBITDAR as a percentage of sales.

(7) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases, capitalised fees and accrued interest) minus cash and cash equivalents.

(8) Net interest expense is interest expense less interest income.

(9) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.

(10) CROCI (cash return on capital invested) is defined as Adjusted EBITDA over average capital invested. Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year.

(11) For the purposes of this ratio, operating cash flow is defined as net cash generated from operating activities less net cash interest paid.

(12) Capital expenditures represent net cash used in investing activities.

(13) Note like-for-like data reflect only hypermarket performance (as no supermarkets were in the like-for-like panel in 2013 or prior years).

(14) Average sales density is total sales during the relevant year divided by the average selling space for that year.

(15) Ticket means the receipt issued to a customer for his basket.

(16) Average ticket is calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year.

(17) Traffic is the number of tickets issued for the relevant year.

(18) Like-for-like sales is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

(19) Like-for-like average ticket is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

(20) Like-for-like additional articles per ticket is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

(21) Like-for-like average price growth per article is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

(22) Like-for-like traffic is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

(23) Like-for-like average selling space is the average of selling space on 1 January of the year and quarterly-end selling space for each quarter of the year for the stores comprising Lenta's like-for-like panel at the end of each year.

(24) Like-for-like average sales density is the average sales density for the stores comprising Lenta's like-for-like panel.

(25) New store sales comprise sales at stores open for 12 months or less.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of Lenta's financial condition and results of operations as of and for each of the years ended 31 December 2013, 2012 and 2011 should be read in conjunction with "Selected Consolidated Financial and Other Data" and the Financial Statements.

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

Overview

Lenta is Russia's second largest hypermarket operator and sixth largest food retailer, as measured by 2013 sales (based on publicly available information and Infoline estimates). Lenta pursues a distinctive, price-led hypermarket model with broad customer appeal, and conducts its business so as to drive sales volumes and minimise operating costs. In 2013, Lenta achieved the highest sales per sq. m. of selling space among Russian publicly traded food retailers (based on publicly available information on peer companies).

Headquartered in St. Petersburg where its business was founded in 1993, Lenta has evolved into a federal retail chain with operations in six of Russia's eight federal districts. As of 31 December 2013, Lenta had a total of 507,811 sq. m. of selling space, comprised primarily of 77 hypermarkets with an aggregate selling space of 495,368 sq. m. in 45 cities, including Russia's largest cities of St. Petersburg and Moscow and 43 other cities with populations ranging from approximately 80,000 people to over 1,000,000. Its hypermarkets are located mainly in high-density residential areas on major highways, targeting the daily/weekly shopping of a diverse range of customers.

Lenta operates three hypermarket formats: (i) standard, typically with approximately 7,000 sq. m. of selling space (smaller than many Western European hypermarkets) and 24,000 SKUs; (ii) compact, typically with approximately 5,000 sq. m. of selling space and 20,300 SKUs; and (iii) supercompact, typically with approximately 3,000 sq. m. of selling space and 15,000 SKUs. Lenta owns 68 of its 77 hypermarkets, leasing the remainder. In 2013, Lenta carried out a 'soft launch' of its supermarket format in Moscow, and as of 31 December 2013 operated 10 supermarkets, all but one of which are leased. Lenta utilises four distribution centres (three owned, one leased) to supply its hypermarkets and one leased distribution centre to supply its supermarkets, all as part of its supply chain operations.

Lenta's recent growth reflects both a strong like-for-like sales performance and vigorous selling space expansion. In 2013, Lenta enjoyed like-for-like sales growth of 10.0%, compared to 13.5% in 2012. Lenta opened 35 new hypermarkets and 10 new supermarkets as well as two new distribution centres in 2012-13. Lenta's supply chain operations, IT capacity and HR management have each been designed to be highly scalable so as to support further store growth. Currently, Lenta plans to double its selling space over the three years ending December 2016, having increased its selling space by 77% over the past two calendar years.

Lenta's distinctive customer proposition is 'Value-for-Money', offering consistently-available products at affordable prices in well-organised stores. Lenta's practice is to be the low price leader across key product categories, with prices at least 5% cheaper on the typical product basket for customers using its loyalty card than the price at its principal local competitor in the relevant city. Lenta's 4.8 million active cardholders make consistent use of the Lenta loyalty card with approximately 90% of all sales in 2013 made using the card. Lenta sells high quality products and offers a broad assortment (while also limiting total SKUs for efficient inventory management). Lenta puts particular emphasis on product lines attractive to families and women and a strong focus on Russian specialties, own-brand and fresh articles as well as regional/local produce alongside a standardised federal assortment.

Underpinning Lenta's low-price business model are its operational efficiencies, which are driven by a flexible, low cost supply chain, a high level of owned selling space and highly efficient store operations, supported by standardised formats and disciplined product ranges. In addition, Lenta cultivates good relationships with its many suppliers while at the same time its margins benefit from volume-based bonuses and service fees paid by its suppliers. In its supply chain operations, Lenta is pursuing an optimal mix of centralised deliveries, shipped via its distribution centres, and direct deliveries, shipped by suppliers to stores; currently Lenta is constructing two

new distribution centres to come into operation in 2014 while planning a third to come into operation in 2015. Once these distribution centres are completed, Lenta will have eight distribution centres to match its nationwide footprint, providing significant capacity for future expansion of the business. In addition, Lenta is assembling a truck fleet to carry out most of the deliveries from its distribution centres to stores within a 400 km radius. As of 31 December 2013, Lenta had 35 trucks and trailers in its own fleet, 14 of which were leased. Lenta's in-store operations are designed to be low cost, including such features as its high-rack storage system, which functionally operates as in-store warehousing minimising time for replenishment of goods on the shelf, and its labour costs are carefully monitored. Lenta's advanced IT systems are vital in these efforts, enabling the monitoring of supplier contracts and payments, the coordination and movement of deliveries, inventory, in-store availability of goods and pricing strategies as well as accounting/finance and HR functions.

Significant Factors Affecting Results of Operations

The following key factors have affected Lenta's results of operations in the years ended 31 December 2013, 2012 and 2011 and can be expected to affect its future results of operations:

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

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

Since all of Lenta's stores are located in Russia, and Lenta has no current plans to expand outside Russia, Lenta's operations are substantially affected by Russian macroeconomic conditions. GDP growth rates and the increase in real disposable incomes in Russia in 2013, 2012 and 2011 had a positive impact on Lenta's average ticket and overall sales.

The following table sets out key Russian economic indicators for the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
Nominal GDP growth (%)	7.9[1]	11.1	20.2
Real GDP growth (%)	1.3[1]	3.4	4.3
Inflation (CPI) (%)	6.5	6.6	6.1
Food products price index (%)	7.3	7.5	3.9
Unemployment rate (%)	5.6	5.5	6.5
Real disposable income growth (period-on-period) (%)	3.3[1]	4.4	0.5
Real household consumption growth (period-on-period) (%)	4.7	7.9	6.8
Nominal appreciation/(depreciation) of the Rouble against the U.S. Dollar (average) (%)	(2.4)	(5.5)	3.4
Real appreciation/(depreciation) of the Rouble against the U.S. Dollar (average) (%)[2]	2.7[1]	(2.7)	8.8

Sources: CBR and Rosstat.

Notes:

(1) Preliminary figure.

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

From 1999 to the second quarter of 2008, the Russian economy enjoyed a sustained period of growth, largely driven by high commodity prices, particularly for oil and gas. The Russian economy (as measured by real GDP) contracted by 7.8% in 2009 as a result of the global financial crisis. Notably, food retail sales remained resilient during the crisis relative to other sectors of the economy. In 2009, food retail sales fell by 1.9%, compared to a 9.3% decline in the industrial production index and an 8.2% decline in non-food retail sales. The Russian economy returned to growth in 2010, expanding by 4.3%. In 2013, 2012 and 2011, Russia exhibited a real GDP growth rate of 1.3% (preliminary), 3.4% and 4.3%, respectively. During these three years, inflation remained stable at approximately 6-7% per annum. The year-on-year change in the food products price index has in some years outpaced inflation (in 2013, 7.3% versus 6.5% and, in 2012, 7.5% versus 6.6%) and some years has not (in 2011, 3.9% vs. 6.1%). As the Russian economy improved, unemployment fell to 5.5% in 2012 from 6.5% in 2011 and stood at 5.6% in 2013. In 2013, 2012 and 2011, real disposable income grew by 3.3% (based on preliminary data), 4.4% and 0.5%, respectively, and real household consumption increased by 4.7%, 7.9%, and 6.8%, respectively.

The spending habits of Russian consumers are sensitive to significant volatility in exchange rates of the Rouble against the U.S. Dollar and Euro. During periods of instability in the value of the Rouble, consumers generally curtail spending. For example, in September and October 2011, when the Rouble was losing value against the U.S. Dollar and Euro, Russian consumers reduced their spending levels. As the Rouble stabilised against the U.S. Dollar and Euro in November 2011, consumers responded by increasing purchases.

In recent years, there has been a shift in consumer preference in Russia from traditional food retail formats, such as open stall markets and small grocers (over-the-counter stores), towards the modern food retail formats that Lenta and its competitors operate. For example, according to Euromonitor, the share of modern grocery retail formats in the total value of grocery sales was estimated at 61% in 2013, compared to 57% in 2012 and 54% in 2011. Following the downturn in the Russian economy in 2009, Russian consumers have become more price-conscious, promotion-sensitive and more inclined to shop around for the best offer. Lenta believes that the increase in its like-for-like traffic was in part caused by this change in consumer habits, given Lenta's 'Value-for-Money' proposition to consumers.

The state of the Russian economy will continue to have a significant impact on Lenta's results of operations, as well as on its ability to implement its expansion strategy.

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

The year 2013 marked a transition in Lenta's business from growth being driven primarily by like-for-like sales growth as had been the case in 2011-2012 to being driven primarily by the expansion of the hypermarket network. In the immediate future, Lenta plans further significant expansion as discussed below. Nonetheless, like-for-like sales growth remains crucial to Lenta's financial performance and sales growth in the medium- to long-term.

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

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

A notable feature of Lenta's offer to consumers is that it employs a variety of special, seasonal and loyalty programme-based discount offers to increase price competitiveness and brand awareness, foster customer loyalty and attract new customers, thereby driving traffic and ticket growth. Lenta tailors its promotions to local conditions, taking into account the variety of local climates and tastes across Russia. Goods sold as part of promotions have accounted for an increasing share of Lenta's total sales during the periods under review, comprising approximately a quarter of total sales in 2013.

Lenta has developed an effective assortment policy that balances the requirement to have a comprehensive product range with a disciplined SKU count so as to provide a comprehensive clear product offering for customers while optimising operational efficiencies and inventories. Lenta's assortment policy is driven by customer preferences and is regularly revised based on Lenta's 'Big Data' consumer insights programme (using information generated by the use of its loyalty card), market developments (as monitored by Lenta and by third-party advisors) and Lenta's understanding of evolving customer needs. Lenta includes in its assortment a significant share of 'destination categories', which are goods that are designed to draw customers to Lenta's hypermarkets. Lenta believes that the constant adjustment of its product range and mix is a particular attraction to Lenta's key target customers—female shoppers who are shopping for their families—and a key driver of traffic growth.

As a result of Lenta's opening 14 hypermarkets in 2012 (of which 7 opened before December 2012), the proportion of very young stores (i.e., 1-3 years old) in its like-for-like panel grew significantly during the second half of 2013. This proportion will grow significantly further during 2014 and further still in January 2015 as a result of the 21 hypermarkets opened in 2013 (12 of which opened before December 2013, and so will pass their first anniversary during 2014, and 9 of which opened in December 2013 and will join the like-for-like panel in January 2015). Hypermarket sales tend to grow more rapidly in their initial years of operation, particularly in the first three years (of which the 2nd and 3rd years are included as like-for-like stores) as the stores become better known to shoppers in their catchment areas, so the growing proportion of very young stores should provide 'in-built' structural support to like-for-like sales growth.

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

	Like-for-like hypermarket panel[1]							
	December 2011	January 2012	December 2012	January 2013	December 2013	January 2014	December 2014	January 2015
	(% of all hypermarkets in the relevant like-for-like panel)							
Hypermarket Age[2]								
1-2 years	5%	8%	5%	7%	14%	25%	18%	27%
2-3 years	5%	5%	7%	7%	6%	5%	21%	18%
3-4 years	21%	21%	5%	5%	6%	5%	4%	4%
4-5 years	32%	31%	20%	19%	4%	4%	4%	4%
>5 years	37%	36%	63%	62%	69%	61%	53%	47%

Notes:

(1) Projections for December 2014 and January 2015 are based on hypermarkets in operation as of 31 December 2013.

(2) Years since first full month of operations.

An important feature of Lenta hypermarkets has been the relatively long period over which they have continued to mature and grow like-for-like sales at rates significantly above inflation. Generally, hypermarkets tend to mature over a longer period of time relative to smaller formats such as supermarkets; Lenta believes that its combination of competitive pricing, attractive promotions and effective assortment has enabled it to stretch out this maturation period of increasing sales. During 2013, all annual vintages among hypermarkets that opened in 2008 and each subsequent year through 2012 grew like-for-like sales in excess of 10%; hypermarkets that opened before 2008 grew their like-for-like sales, as a group, at a rate significantly in excess of inflation. As a result, Lenta has been able to maintain and grow sales densities as its hypermarkets mature: in 2013, for example, stores in operation for over six years had an average sales density of RUB438 thousand/sq. m., compared to RUB347 thousand/sq. m. for stores that are 3-6 years old and RUB282 thousand/sq. m. for stores less than three years old. Like-for-like sales growth by year of hypermarket opening are shown in the table below:

	Age as of 31 December 2013	Number of hypermarkets in like-for-like panel as of 31 December 2013	2013 sales growth		
			1H	2H	FY 2013
			(%, year-on-year)		
Hypermarket opening year					
Before 2007	>7	14	3.6	8.6	6.2
2007	6-7	12	4.2	8.0	6.2
2008	5-6	8	11.5	13.2	12.4
2009	4-5	2	14.6	11.9	13.1
2010	3-4	3	12.4	10.8	11.5
Total until 2010		**39**	**6.0**	**9.5**	**7.9**
2011	2-3	**3**	42.2	26.6	33.0
Total until 2011		**42**	**7.5**	**10.4**	**9.1**
Impact of 2012 new store openings[1]	1-2	7[2]	—	1.6	0.9
Like-for-like sales growth		**49**	**7.5**	**12.0**	**10.0**
Total sales growth		**77**[3]	**26.7**	**35.0**	**31.3**

Notes:

(1) Figures represent impact of 2012 new store openings on total like-for-like sales for 2013.
(2) Seven of the new hypermarket openings in 2012 (those opened in December 2012) have become part of the like-for-like store panel in January 2014.
(3) Total hypermarkets in operation as of 31 December 2013.

Lenta believes that its like-for-like sales growth will continue, and likely increase, in the near term largely due to the factors explained above, particularly the greater proportion of new hypermarkets in their initial ramp-up phase entering its like-for-like panel of hypermarkets, supported by Lenta's continuing efforts to improve the attractiveness of its offer to consumers in order to extend the maturation period over which their sales outpace inflation. At some future point, Lenta's like-for-like sales growth would moderate if its rate of new store additions as a percentage of total stores falls, as this would feed into the like-for-like panel over time and result in a smaller proportion of its hypermarkets in their earlier, high-growth, ramp-up stage (though entry of stores opened as of December 2013 into the like-for-like panel after they have been in operation 12 full months gives assurance that the proportion of hypermarkets in the very young, 1-3 year age group will continue to grow at least through January 2015). Like-for-like sales growth may also decline (or increase) over time due to lower (or higher) inflation or greater (or lower) competition or other factors affecting the attractiveness of Lenta's overall offering to customers.

The following table sets out certain financial and operating data for each quarter of 2013:

	2013			
	1Q	2Q	3Q	4Q
Like-for-like sales growth (%, year-on-year)	8.9	6.4	13.2	11.1
Like-for-like traffic growth (%, year-on-year)	0.8	(1.0)	2.9	3.9
Like-for-like average ticket growth (%, year-on-year)	8.0	7.4	10.0	6.8
Sales growth (%, year-on-year)[1]	26.8	26.6	35.0	35.0
Selling space growth (%)[1][2]	1.9	3.6	5.6	24.0

Notes:

(1) Includes both hypermarkets and supermarkets.

(2) Quarterly selling space growth calculated as selling space added during the quarter as a proportion of total selling space as of 31 December 2012.

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

During the years ended 31 December 2013, 2012 and 2011, Lenta significantly expanded its chain of hypermarkets. The number of hypermarkets operated by Lenta increased from 42 at year-end 2011 to 56 at year-end 2012 and to 77 at year-end 2013. The following table sets out the number of Lenta's hypermarkets in operation, as well as their total selling space as of year-end 31 December 2013, 2012 and 2011:

	As of the year ended 31 December		
	2013	2012	2011
Number of hypermarkets	77	56	42
Total selling space of hypermarkets (thousands of sq. m.)	495	376	287
Average selling space of hypermarkets (thousands of sq. m.)	412	313	272

Lenta believes that its growth in the medium term will be largely driven by expansion of its store network. With 14 new hypermarket openings in 2012, most of which began operations in the fourth quarter, and 21 new hypermarket openings in 2013, sales growth from new stores (% change, year-on-year) was 21.3% in 2013 (compared to 9.0% in 2012) and the share of new store sales growth in total sales growth (% of sales) was 68.2% in 2013 (compared to 39.9% in 2012). Over the next three years, Lenta plans to double its selling space.

The success of Lenta's expansion programme is largely based on its ability to identify suitable sites for purchase or lease both in cities where it currently has operations and in new cities, including increased use of its compact and supercompact hypermarket formats.

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

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

In carrying out its expansion programme, Lenta's emphasis will remain on real estate ownership, which shields Lenta from fluctuations in rental prices and the loss of leases. Importantly, ownership affords Lenta greater control over its hypermarket opening plans, both in terms of location and timing. By ownership, Lenta can pursue sites and open stores in cities where developers are not active or where suitable rented property is unavailable. Ownership also enables Lenta to control and oversee the construction of the hypermarket and set its schedule, which results in greater predictability of opening dates than is typically the case when using third-party developers who may have competing projects to complete. Finally, by ownership Lenta can optimise format and layout consistency across its store portfolio. As of 31 December 2013, Lenta owned 90% of its total selling space, leasing the remainder, and incurred rents for buildings and land (including land underneath owned premises) of 0.4% of sales. In the medium-term, Lenta plans to own at least 80-85% of its total selling space across all hypermarket formats, reflecting continued emphasis on Lenta's ownership of its hypermarkets but increased use of compact and supercompact hypermarkets, which are often leased, and supermarkets, which are usually leased.

Lenta's ongoing expansion programme will lead to higher capital expenditures and an increase in financial indebtedness. Lenta's net cash used in investing activities increased to RUB23,549 million in 2013, from RUB14,962 million in 2012 and RUB3,837 million in 2011, which to a significant extent reflected the opening of 21 new hypermarkets in 2013 and 14 new hypermarkets in 2012 and capital expenditure to bring the owned Moscow and Novosibirsk distribution centres into operation, expand the owned St. Petersburg distribution centre and purchase the sites for two new distribution centres in Rostov-on-Don and Togliatti. Lenta's capital expenditure is expected to further increase in the near to medium term, as Lenta continues to expand its store network, operations and footprint, acquiring land plots for and constructing new hypermarkets and building up its supply chain logistics (including the construction of three new distribution centres in Togliatti, Rostov-on-Don and the Urals region in 2014-2015). A significant share of these capital expenditures is expected to be financed with debt, and as a result Lenta expects its overall level of indebtedness to rise in the near to medium term. However, management expects that additional cash flow and EBITDA from the newly opened stores will offset the negative effect on leverage.

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

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

As Lenta has increased the pace of its expansion, it has seen improvements in the terms it receives from its suppliers. For example, in 2011, when Lenta experienced relatively high like-for-like sales growth of 21.2%, but opened only three new stores, suppliers rewarded Lenta with modestly improved bonus payments. However, in 2012 and 2013, when Lenta broadened the scale of its promotional activities and increased the pace of expansion, opening 14 new stores in 2012 and 21 new stores in 2013, suppliers began to view Lenta as an increasingly important part of their client portfolio. As such, Lenta has been able to negotiate more favourable purchasing terms, including higher bonus payments and promotional fees.

Lenta believes that the information and services it offers its suppliers will enable it to obtain further income from suppliers. In 2013, Lenta, in collaboration with the data analytics specialist emnos GmbH, began work on compiling a database that is expected to provide deeper insight on customer behaviour and market trends, including price elasticity of demand for given product categories, customer segmentation patterns and response rates to pricing and promotions (referred to as 'Big Data'). Such information is expected to enhance the impact of Lenta's direct marketing and be of value to suppliers as it enhances Lenta's ability to sell their products.

Ongoing development of Lenta's supply chain network

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

Lenta believes its supply chain system is essential to the successful execution of its low-cost strategy and the improvement of its gross margins. In operating its supply chain system, Lenta manages multiple supply flows, pursuing the optimal mix of supplies delivered via its distribution centres and delivered directly to hypermarkets. Lenta believes three important benefits result. First, by having its supply chain system expand in anticipation of its store expansion, Lenta expects to mitigate one of the highest risks of expansion: having stores in place without the ability to service them. Second, its supply chain system will enable Lenta to increase its capacity to handle direct imports and expand its network of regional/local suppliers, allowing it to source more of its private label brands regionally (potentially increasing the profitability of Lenta's own-branded articles), to deliver its product assortment to more remote areas and to develop closer collaboration with regional/local suppliers, thereby lowering sourcing costs. Third, its improved supply chain will allow Lenta to improve in-store availability from its current level of 97.0% of active SKUs to even higher levels.

Efficient operational management

Labour costs account for a significant share of Lenta's costs, with total adjusted labour costs comprising 7.8% of its sales in 2013. With Lenta's total labour costs increasing as it adds to its workforce to implement its expansion programme, Lenta seeks to maintain an efficient workforce with high productivity levels and low turnover.

In 2013, average FTE count for the year grew by 32.5% compared to sales growth of 31.3% and in 2012, average FTE count for the year grew by 11.0% compared to sales growth of 22.4%. In 2013, Lenta's sales per FTE of RUB7.1 million were amongst the highest of Russian federal food retailers.

The following table sets out information regarding Lenta's FTE workforce and labour costs as of and for the years ended 31 December 2013, 2012 and 2011:

	As of and for the year ended 31 December		
	2013	**2012**	**2011**
Average FTE count[1]	20,313	15,326	13,804
Sales per FTE (RUB millions)	7.1	7.2	6.5
Total adjusted labour costs[2] (RUB millions), *of which*	11,228	7,897	6,494
Wages and bonus	8,214	5,856	4,799
Social security levies[2]	2,095	1,510	1,341
Average adjusted labour costs[2] per FTE (RUB thousands), *of which*	552.7	515.3	470.5
Average wage + bonus per FTE (RUB thousands)	404.4	382.1	347.6
Total wages, bonuses and social security levies as a % of total labour costs	91.8	93.3	94.6
Total adjusted labour costs[2] as a % of sales (%)	7.8	7.2	7.2
Total SG&A labour costs as per IFRS as a % of sales	6.0	6.4	6.1
Own-production labour costs as a % of sales	1.2	1.1	1.1
Supply chain labour costs as a % of sales	0.3	0.2	0.2
Pre-opening labour costs as a % of sales	0.2	0.2	0.0

Notes:

(1) FTE count is derived from total paid hours divided by the normal working hours for a full time employee for that month. Normal working hours are the number of days excluding weekend days in the relevant month, multiplied by 8.

(2) Total adjusted labour costs includes own production labour costs, supply chain labour costs and labour costs that are part of preopening costs and excludes certain one-off effects.

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

The average salary of a Lenta employee is higher than the average Russian salary, which in part reflects Lenta's presence in urban centres where salaries are higher and Lenta's policy to pay managers on average roughly 10% above market to help attract and retain qualified staffing. Lenta's average monthly base salary per FTE was RUB33,699 in 2013, RUB31,840 in 2012 and RUB28,970 in 2011, compared to the Russian national average wage of RUB29,940 in 2013, RUB26,629 in 2012 and RUB23,369 in 2011, according to Rosstat. The growth in the average FTE count was the main driver of Lenta's total labour cost growth during the periods under review, followed by growth in average FTE wage. Lenta expects the upward trends in labour costs to continue in the near future in part due to its expansion in cities where average wages are higher than the Russian average, such as Moscow.

Of key importance to Lenta's future success will be its ability to attract, train and retain talented store, regional and senior management. To this end, in addition to its salary policy, Lenta offers its staff an attractive training and development package, including a three-week training programme for key hires in new stores. There is a relative shortage of managerial talent in Russia, and a competitive market for their services, especially in the retail sector. See "*Risk Factors—Risks Relating to Lenta's Business and Industry—Other risks relating to Lenta's Business—Lenta's competitive position depends on its management's experience and expertise, including that of its Senior Management, and Lenta's ability to recruit and retain key personnel*". Accordingly, Lenta has developed a pool of talent for promotion internally: in 2013, for example, 1,413 employees were promoted to higher level positions, including 15 out of 21 new store managers. Lenta believes it has benefited significantly from having its core senior management largely in place since 2011 and plans to continue cultivating experienced internal talent in an effort to maintain high workforce productivity.

Recent Developments

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

Trading Update

Stores and Space

In keeping with its plan to double its selling space in the three years ending December 2016, in 2014 Lenta plans to open at least 24 hypermarkets and 15 supermarkets with aggregate selling space growth of approximately 30%. This compares with 21 hypermarkets and 10 supermarkets with selling space growth of 35% in 2013. Two hypermarkets are currently scheduled for opening in the first quarter of 2014. The balance of hypermarkets are planned to be opened in the remaining three quarters of 2014, predominantly in the fourth quarter as was the case in 2013 (and in keeping with the Russian construction season). In 2013, Lenta opened one hypermarket in the first quarter, three in each of the second and third quarters and 14 in the fourth quarter.

As of the date of this Prospectus, Lenta's confirmed hypermarket pipeline (stores in the process of opening or under construction or stores for which land has been acquired or rental agreements signed) for 2014 was 23 stores, and its extended pipeline of a further 18 stores (which includes hypermarkets for which landplots are in an administrative transfer process or for which non-binding rental termsheets have been signed and landplots and rental agreements that are under negotiation) gives a total of 41 potential new hypermarket openings in 2014. All of the 18 hypermarkets in the extended pipeline are approved projects by the capital expenditure committee of the Board of Directors.

Relative to the targeted number of new store openings, the current new store pipeline is significantly stronger than it was at the same time in 2013: the confirmed pipeline of 23 hypermarkets is equivalent to 96% of the full year target of 24 hypermarkets, whereas in December 2012 the confirmed pipeline for 2013 stood at 11 hypermarkets, equivalent to 61% of the full year target for 2013 of 18 (and 52% of the 21 hypermarkets actually opened in 2013). While all new store openings are subject to significant risks of delay and in some cases cancellation, Lenta remains confident that, based on the size of the current pipeline and its past experience, the 2014 target of 24 stores can be achieved even if some difficulties in particular projects arise. In addition, there are 29 approved projects in the extended 2015-16 pipeline, for which two plots have been acquired and six are in the administrative transfer process. This is the first time during the tenure of the current Senior Management that Lenta has started a year with a significant pipeline extending beyond the current calendar year.

Lenta expects the average selling space of hypermarkets opened in 2014 to be in the range of 5,700-6,000 sq. m., compared with an average of 5,692 sq. m. of selling space for hypermarkets opened in 2013 and an average of 6,028 sq. m. of selling space for hypermarkets in the confirmed pipeline for 2014.

The supermarket business launch was formally approved in the fourth quarter of 2012, the first pilot store opened in the second quarter of 2013, followed by nine supermarkets in the second half of 2013, all in Moscow. Management considers the supermarket launch to be successful and promising; the confirmed supermarket pipeline for 2014 is significantly larger than it has been at any time since the business was launched, as a result of which Lenta believes the target of 15 supermarket openings, all in Moscow, will be achieved.

The following table sets out certain information regarding Lenta's store pipeline:

	Number of stores	Selling space (sq. m.)	Average (sq. m.)
Pipeline			
Carried over from 2013	4	23,600	—
Under construction[1]	9	56,425	—
Rental agreement signed	2	8,610	—
Land acquired; construction not started	8	50,000	—
Confirmed 2014 pipeline	**23**	**138,635**	**6,028**
Land transfer in progress or non-binding rental termsheet signed	9	47,875	—
Land or rental agreements under negotiation	9	47,655	—
Total potential pipeline for 2014	**41**	**234,165**	**5,711**
Total approved pipeline for 2015-16	**29**	**175,732**	**6,060**

Note:

(1) One of which is scheduled to open in 2015.

Sales growth

Lenta opened 21 hypermarkets in 2013, of which 13 were opened in November and December. Including supermarkets, Lenta had 507,811 sq. m. of selling space as of 31 December 2013, 22% more than its average selling space for 2013. As a result, average selling space in 2014 will be at least 22% above 2013, excluding the effect of any further increase due to new store openings in 2014. This 'built-in' increase in average selling space, combined with continuing price inflation, is expected by management to lead to significant sales growth in 2014. This growth will be further increased if Lenta is able to carry out its planned openings of at least 24 hypermarkets in 2014 and if Lenta is able to maintain like-for-like sales growth ahead of inflation (as has been the case during the four-year period ended 31 December 2013).

Based on trading results in January 2014, Lenta believes consumer demand for its product offering remains robust in the Russian market, consistent with Lenta's like-for-like sales growth in the fourth quarter of 2013 of 11.1%, which was above that of the full year 2013. Although Lenta did not open any new hypermarkets in January 2014, Lenta's sales growth and like-for-like growth for the month were both above the 35% and 11.1% growth rates achieved in the fourth quarter of 2013. Based on January 2014 results, together with two new hypermarket openings scheduled for March 2014, Lenta expects sales growth and like-for-like growth in the first quarter of 2014 to be at or above the levels seen in the fourth quarter of 2013.

These projections may not materialise for a variety of reasons discussed in more detail in "*Risk Factors*".

Margins

In 2013, Lenta benefited from improved terms from its suppliers, both in price and in bonuses (based on aggregate volumes of goods purchased) and fees (arising from promotional and logistical services rendered by Lenta), which, in aggregate, have historically represented a significant share of Lenta's gross margins and EBITDA margin. Lenta expects this trend to continue in 2014, both in terms of prices agreed with suppliers and improving rates of bonuses and fees (such bonuses and fees to be negotiated during the course of the year), for similar reasons, i.e., a combination of increased sales volumes, Lenta's rapid selling space growth, particularly in regions which are attractive for suppliers to penetrate and Lenta's ability to deliver nationally through its supply chain.

Lenta expects that the benefit of improved supplier terms will allow it to make continued investments in price and promotions to drive traffic and maintain its 'Value-for-Money' proposition to customers. These investments are likely to partially, though not fully, offset the improvement in terms from suppliers.

Supply chain costs are a significantly smaller component of costs of goods sold; Lenta expects they are likely to increase relative to sales in 2014 when compared with 2013, given the centralisation due to new distribution centres in Rostov-on-Don and Togliatti coming on line and additional costs related to expansion of the store network offsetting the benefits of increasing volume and reduced distance between existing stores. However, management expects that the increase in supply chain costs as a percentage of sales is likely to be partially offset by increased payments from suppliers for Lenta's service of distributing their products.

Lenta expects its SG&A as a percentage of sales to grow, particularly in the first quarter of 2014, based on the increased proportion of very young stores in the total store base, having opened 35 hypermarkets in the last two years out of a total of 77 at year-end 2013, including 14 in the fourth quarter of 2014. These very young stores are in the initial ramp-up phase of their development and therefore have lower sales and consequently a higher SG&A/sales ratio than the average for all stores.

Rental costs

Lenta expects rental cost as a percentage of sales to increase in 2014, due to the combined effect of increased rental costs for rented stores in 2013 that were only open for part of 2013 but will be open for the full year in 2014 and a higher proportion of rented stores among its new store openings. Lenta anticipates that less than a quarter of total new space in 2014 will be rented and total rented hypermarket space will remain between 15-20% of Lenta's total hypermarket selling space. Supermarket selling space is expected to remain close to 100% rented, but supermarket rental costs comprise a small part of Lenta's overall rental costs.

Loan Agreement with EBRD

In January 2014, Lenta LLC as borrower entered into a secured eight-year loan agreement with EBRD (the "**EBRD Loan Agreement**") allowing borrowings of up to RUB4.6 billion. The funds under the EBRD Loan Agreement are available for 24 months from the date of signing of the EBRD Loan Agreement. Among other

conditions precedent for each disbursement, Lenta LLC is required to pledge its real property in order to meet a specified ratio of the outstanding principal amount of the financing to the value of the pledged property. As of the date of this Prospectus, no amounts have been drawn under this facility and no real property has been pledged. The EBRD Loan Agreement is subject to a number of covenants, including certain maintenance covenants.

The proceeds from the EBRD Loan Agreement will be used to finance costs and expenses payable by Lenta LLC related to investments in Lenta's existing and new regional stores and in the construction of two new distribution centres, including investments to support energy efficiency and other sustainable resource investments.

The interest rate under the EBRD Loan Agreement is variable, consisting of the three-month MosPrime rate plus a margin that is determined taking into consideration Lenta's leverage ratio.

Results of Operations

The following table sets out selected financial information as of and for the years ended 31 December 2013, 2012 and 2011 derived from the Financial Statements (included elsewhere in the Prospectus), and shows Lenta's results of operations as a percentage of sales for the applicable period:

	Year ended 31 December					
	2013		2012		2011	
	(RUB millions, except for percentages)					
		% of sales		% of sales		% of sales
Sales	144,266	100.0	109,910	100.0	89,766	100.0
Total cost of sales	(112,809)	(78.2)	(87,233)	(79.4)	(73,055)	(81.4)
Gross profit	**31,457**	**21.8**	**22,677**	**20.6**	**16,711**	**18.6**
SG&A	(19,014)	(13.2)	(13,506)	(12.3)	(11,225)	(12.5)
Reversal of impairment of non-financial assets	—	—	0	0.0	44	0.0
Other operating income	1,460	1.0	1,119	1.0	1,011	1.1
Other operating expense	(171)	(0.1)	(125)	(0.1)	(122)	(0.1)
Operating profit	**13,732**	**9.5**	**10,165**	**9.2**	**6,419**	**7.2**
Interest expense	(4,342)	(3.0)	(3,218)	(2.9)	(1,311)	(1.5)
Interest income	82	0.1	78	0.1	24	0.0
Change in fair value of financial instruments at fair value through profit or loss	(234)	(0.2)	102	0.1	(374)	(0.4)
Put option revaluation	—	—	—	—	683	0.8
Other expenses	(91)	(0.1)	(215)	(0.2)	(2,573)	(2.9)
Foreign exchange gains/(losses)	(23)	0.0	70	0.1	(4)	0.0
Profit before income tax	**9,124**	**6.3**	**6,982**	**6.4**	**2,864**	**3.2**
Income tax expense	(2,032)	(1.4)	(1,846)	(1.7)	(1,167)	(1.3)
Profit for the year	**7,092**	**4.9**	**5,136**	**4.7**	**1,697**	**1.9**
Change in fair value of financial instruments at fair value through other comprehensive income	(54)	0.0	—	—	—	—
Income tax on other comprehensive income	11	0.0	—	—	—	—
Other comprehensive income for the year, net of tax	(43)	0.0	—	—	—	—
Total comprehensive income for the year, net of tax	**7,049**	**4.9**	**5,136**	**4.7**	**1,697**	**1.9**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to profit for the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Adjusted EBITDA	**16,395**	**12,718**	**9,079**
Changes in accounting estimates	—	—	(214)
One-off non-operating costs	(350)	(977)	(527)
EBITDA	**16,045**	**11,741**	**8,338**
Interest expense	(4,342)	(3,218)	(1,311)
Interest income	82	78	24
Income tax expense	(2,032)	(1,846)	(1,167)
Depreciation/amortisation	(2,313)	(1,576)	(1,963)
Other expenses	(91)	(215)	(2,573)
Reversal of impairment of non-financial assets	—	0	44
Revaluation of financial instruments at fair value through profit or loss	(234)	102	(374)
Put option revaluation	—	—	683
Foreign exchange gains/(losses)	(23)	70	(4)
Profit for the year	**7,092**	**5,136**	**1,697**

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

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

Explanation of Key Income Statement Items

Sales

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

Total Cost of Sales and Gross Profit

Total cost of sales includes:

- cost of goods sold, which is the actual cost of products purchased from suppliers, less any volume discounts and other types of rebates, promotional bonuses and fees paid by suppliers for Lenta's provision of logistical services;
- cost of own production, which includes raw materials, packaging and other materials used in own production, labour, utilities and repairs and maintenance costs in connection with Lenta's own production;
- supply chain cost, which includes all expenses related to delivering goods to Lenta stores, including distribution centre cost (own and outsourced), transportation cost (own and outsourced) and general management and labour cost for the supply chain; and
- losses due to inventory shrinkage, which are losses resulting from products being lost, stolen, damaged or otherwise defective, as well as provisions for slow-moving and old inventory.

The total cost of sales includes those employee benefits expenses directly attributable to cost of sales (e.g., personnel at the distribution centres, employees carrying out transport of goods and employees engaged in the own-production process). In the years ended 31 December 2013, 2012 and 2011, employee benefits expenses included in cost of sales equaled RUB2,280 million, RUB1,492 million and RUB1,224 million, respectively. All other employee benefits expenses are accounted for as SG&A. See "*—SG&A*".

Gross profit is equal to sales less cost of sales.

SG&A

Lenta's SG&A in the periods under review consisted of the following:

- employee benefits expenses (including contributions to the Russian state pension fund), including labour costs for in-store personnel and headquarters that are not included in cost of own production, supply chain costs or in pre-opening costs;
- depreciation of property, plant and equipment and amortisation of leasehold rights and other intangible assets;
- advertising;
- professional fees;
- utilities and communal payments;
- repairs and maintenance of stores and offices;
- taxes other than income tax, which include property tax, social tax and other taxes;
- cleaning and security services, which are provided by third-party service providers;
- land and equipment leasing;
- leasing of premises;
- pre-opening costs, which include rent, utilities, certain associated labour costs and other operating expenses incurred in respect of stores prior to their opening; and
- other expenses.

Reversal of Impairment of Non-Financial Assets

During the periods under review, Lenta recorded reversals of impairment of non-financial assets. An impairment reversal takes place when the carrying amount of an asset subject to an earlier impairment loss is increased to a revised estimate of its recoverable amount.

Other Operating Income

Other operating income includes: penalties due from suppliers; rental income; advertising income; gains on disposal of property, plant and equipment; and other income. Under Lenta's standard contracts with suppliers, penalties (being fines, which are contemplated by Russian law) may be imposed in circumstances where: (i) a supplier changes the goods it delivers without advance notice; (ii) the supplier provides improper documentation for the goods; (iii) the supplier does not deliver the agreed quantities; (iv) the supplier delivers goods below specification; or (v) the supplier fails to provide goods to be used in a promotion. Rental income generally arises from payments made by the small businesses in side galleries of hypermarkets to which Lenta rents space (e.g., cafes, dry cleaners, pharmacies). Advertising income generally reflects payments from non-suppliers for billboard space on store premises.

Other Operating Expense

Other operating expense includes expenses related to disposal of fixed assets, penalties and fines and other miscellaneous expenses.

Operating Profit

Operating profit during the periods under review was equal to the sum of gross profit, other operating income and the reversal of impairment of non-financial assets less SG&A and other operating expense.

Interest Income

Interest income comprises interest income on short-term bank deposits.

Interest Expense

Interest expense comprises interest on borrowings.

Change in Fair Value of Financial Instruments at Fair Value through Profit and Loss

Change in the fair value of financial instruments during the periods under review consisted of gains and losses on the fair value of interest rate swaps and caps provided to Lenta by VTB Capital in connection with the VTB Facility Agreement. See "*—Liquidity and Capital Resources—Indebtedness—Description of Material Financings—Facility Agreement arranged by VTB Capital*".

Put Option Revaluation

The put option revaluation reflects the net gain recorded by Lenta in connection with the cancellation of the EBRD Put/Call Option Agreement in 2011.

Other Expenses

Other expenses during the periods under review consisted of consulting expenses incurred as a part of Lenta's internal corporate restructuring, expenses related to resolution of the Shareholder Dispute in 2011, shareholder monitoring fees and a share option granted to an individual as compensation for assistance in the resolution of the Shareholder Dispute.

Foreign Exchange Gains/(Losses)

Foreign exchange gains or losses result from the impact of movements in the U.S. Dollar/Rouble and Euro/Rouble exchange rates on Lenta's U.S. Dollar-denominated and Euro-denominated transactions with certain suppliers and on the value of certain other expenses that are denominated in U.S. Dollars. Foreign exchange gains or losses reflect movements in exchange rates that arise between the date when an amount is recorded as payable and the date of the actual purchase in respect of a transaction.

Profit before Income Tax

Profit before income tax during the periods under review was equal to the sum of operating profit, interest income, any gain in fair value of financial instruments at fair value through profit and loss and any foreign exchange gains (and in 2011, the gain associated with the put option revaluation) less interest expense, any loss in fair value of financial instruments at fair value through profit and loss, other expenses and any foreign exchange loss.

Income Tax Expense

Income tax expense comprises current tax expense, deferred tax expense and current income tax related to the prior period. Lenta's principal tax liability is income tax. Lenta pays income taxes in accordance with the laws of the Russian Federation. During the periods under review, the statutory corporate income tax rate in Russia was 20%.

Deferred tax expense reflects the tax effect of tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their amounts as reported under IFRS in the Financial Statements. Deferred tax balances are measured at the tax rates enacted or substantively enacted on the reporting date which are expected to apply to the period when the tax loss carry-forwards will be utilised or when the temporary differences will reverse.

Deferred tax liabilities are recognised for all taxable temporary differences, except in the following circumstances:

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

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax assets are not recognised in the following circumstances:

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

See Notes 2.3 and 21 to the 2013 Financial Statements.

Profit for the Year

Profit for the year is equal to profit before income tax less income tax expense.

Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012

Lenta's total sales increased by RUB34,356 million, or 31.3%, to RUB144,266 million in the year ended 31 December 2013 from RUB109,910 million in the year ended 31 December 2012.

The following table sets out certain key operating performance indicators relevant to sales in the years ended 31 December 2013 and 2012. See "*Presentation of Financial and Other Information*" for information on the method of calculation of these indicators.

	As of or for the year ended 31 December	
	2013	**2012**
Total sales (RUB millions)	144,266	109,910
Total selling space (thousand of sq. m.) (as of year-end)	508	376
Average selling space (thousands of sq. m.)	416	313
Average sales density (RUB thousands/average sq. m.)	347	351
Total sales growth (% change, year-on-year)	31.3	22.4
Total average ticket (RUB)	1,092	1,061
Total average ticket growth (% change, year-on-year)	2.9	9.3
Total traffic growth (% change, year-on-year)	27.5	12.0
Like-for-like sales growth (% change, year-on-year)(1)	10.0	13.5
Like-for-like average ticket growth (% change, year-on-year)	8.1	10.1
Like-for-like additional articles per ticket (% change, year-on-year)	2.0	3.1
Like-for-like average price growth per article (% change, year-on-year)	6.0	6.8
Like-for-like traffic growth (% change, year-on-year)	1.8	3.1
Like-for-like average sales density (RUB thousands/sq. m. for the year)	399	376
Sales growth from new stores (% change, year-on-year)	21.3	9.0
Share of new store sales growth in total sales growth (%)	68.2	39.9

Note:

(1) The number of hypermarkets included in Lenta's like-for-like panel was 49 as of 31 December 2013 and 41 as of 31 December 2012. Like-for-like sales growth (% change, year-on-year) compares the annual sales of the hypermarkets in the like-for-like panel of hypermarkets as of 31 December of the prior year against the same panel of hypermarkets as of 31 December of the current year.

The increase in Lenta's total sales in 2013 compared to 2012 was due to a 21.3% increase in the sales from new stores opened in 2013, new stores opened in 2012 not yet part of the like-for-like panel and a 10.0% increase in like-for-like sales.

The increase in sales from new stores was due to the acceleration in new store openings in 2012 and 2013, with 32.9% increase in average selling space in 2013 compared to 2012, due to the opening of 21 new hypermarkets (and 10 supermarkets) in 2013 and the carry-over effect of 14 new hypermarkets opened in 2012 open for full year 2013.

The 10.0% like-for-like sales growth in 2013 was comprised of an 8.1% increase in like-for-like average ticket and a 1.8% increase in like-for-like traffic. The increase in like-for-like average ticket was comprised of a 6.0% increase in the average price per article and a 2.0% increase in the number of articles per ticket. The growth in the average price per article was due to a combination of inflation (in 2013, CPI inflation was 6.5% and the food products price index was up 7.3%), customers trading-up to more expensive articles within a particular product category (attributable to an increase in customer incomes, as borne out by a 3.3% increase in real disposable income in 2013 (based on preliminary data from Rosstat)) and a greater assortment offered at Lenta stores, partially offset by price investments by Lenta. The increase in like-for-like traffic was mainly attributable to a combination of new stores entering into the like-for-like panel and the positive effects of Lenta's promotional and marketing initiatives taken to improve Lenta's positioning and brand appeal. See "*Business—Operations—Promotions and Marketing*".

Total Cost of Sales and Gross Profit

The following table sets out sales, total cost of sales, gross profit and gross margin in the years ended 31 December 2013 and 2012, as well as the percentage change in sales, total cost of sales and gross profit:

	Year ended 31 December		Percentage change
	2013	2012	
	(RUB millions, except where indicated)		*(%)*
Sales	144,266	109,910	31.3
Total cost of sales	(112,809)	(87,233)	29.3
Gross profit	**31,457**	**22,677**	**38.7**
Gross margin[1](%)	**21.8**	**20.6**	**—**

Note:

(1) Gross margin is calculated as gross profit divided by sales, expressed as a percentage.

Total cost of sales increased by RUB25,576 million, or 29.3%, to RUB112,809 million in 2013 from RUB87,233 million in 2012. Lenta's sales grew more quickly (at 31.3%) than its total cost of sales (at 29.3%) in 2013, resulting in an increase in gross margin to 21.8% in 2013 compared to 20.6% in 2012, which allowed Lenta to further invest in promotions and lower prices for consumers, thereby strengthening its price position.

The following table sets out further details of Lenta's total cost of sales in the years ended 31 December 2013 and 2012, the percentage of sales that each of the components of total cost of sales represented in these two years and the percentage change in each component of total cost of sales between these two years:

	Year ended 31 December 2013	Percentage of total sales	Year ended 31 December 2012	Percentage of total sales	Percentage change
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*	*(%)*
Cost of goods sold[1]	95,801	66.4	74,331	67.6	28.9
Cost of own production	12,567	8.7	9,480	8.6	32.6
Supply chain cost	2,320	1.6	2,147	2.0	8.0
Losses due to inventory shortages	2,121	1.5	1,275	1.2	66.4
Total cost of sales	**112,809**	**78.2**	**87,233**	**79.4**	**29.3**

Note:

(1) Less volume discounts and other types of rebates, promotional bonuses from suppliers and fees paid by suppliers for Lenta's provision of logistical services.

The increase in total cost of sales in 2013 compared to 2012 was mainly driven by an increase in sales volumes, which in turn increased cost of goods sold and cost of own production.

Cost of goods sold increased by RUB21,470 million to RUB95,801 million in 2013 from RUB74,331 million in 2012 primarily due to an increase in sales driven by new store openings and greater like-for-like sales. Measured as a percentage of total sales, cost of goods sold decreased to 66.4% of total sales in 2013 compared to 67.6% in 2012. Lenta sales grew more quickly (at 31.3%) than its cost of goods sold (at 28.9%) in 2013. Volume

discounts, rebates and promotional bonuses from suppliers, which are deducted from Lenta's cost of goods sold, increased in 2013 in part as a result of Lenta's improved purchasing power that accompanied the increased scale of its operations in 2013 compared to 2012.

In keeping with the 28.8% increase in sales of own production (compared to the overall sales growth of 31.3%), which comprise fresh food products that Lenta prepares at its stores, the cost of own production increased by RUB3,087 million to RUB12,567 million in 2013 from RUB9,480 million in 2012. Measured as a percentage of total sales, cost of own production increased to 8.7% of total sales in 2013 compared to 8.6% in 2012, due to an increase in the share of new stores in ramp-up stage, which have relatively higher costs of own production. The costs of own production are predominantly raw materials and labour, which respectively accounted for 82.5% and 14.2% of total cost of own production in 2013.

Supply chain costs increased by RUB173 million to RUB2,320 million in 2013 from RUB2,147 million in 2012 primarily due to increased sales volumes, partially offset by improved efficiencies as the two new distribution centres were integrated into Lenta's operations and improved terms with third-party transport providers. The increase in supply chain costs in 2013 compared to 2012 would have equalled 27.4%, but for the reclassification in 2013 of certain supply chain costs related to own imports as 'cost of goods sold'; total amount of these reclassified costs was RUB415 million. Centralisation levels, i.e., the percentage of goods destined for hypermarkets (measured by the inbound value of goods received by the store) that are shipped via Lenta's distribution centres, remained largely consistent with the previous year at approximately 36.7%.

Losses due to inventory shortages, i.e., shrinkage, increased by RUB846 million, or 66.3%, to RUB2,121 million in 2013 from RUB1,275 million in 2012 mainly due to a greater proportion of new regional stores with higher fresh food shrinkage due to lower sales densities (i.e., lower turnover leading to fresh food going past its sell-by date).

For the reasons described above, Lenta's gross profit increased by RUB8,780 million, or 38.7%, to RUB31,457 million in 2013 from RUB22,677 million in 2012.

SG&A

Lenta's SG&A increased by RUB5,508 million, or 40.8%, to RUB19,014 million in the year ended 31 December 2013 from RUB13,506 million in the year ended 31 December 2012. Lenta's SG&A (at 40.8%) outpaced sales growth (at 31.3%) in 2013 largely due to the SG&A associated with Lenta's accelerated expansion programme in 2013 and 2012.

The following table sets out further details of Lenta's SG&A in the years ended 31 December 2013 and 2012, the percentage of total sales that each of the components of Lenta's SG&A represented in these two years and the percentage change in each of the components of Lenta's SG&A between these two years:

	Year ended 31 December 2013	**Percentage of total sales**	**Year ended 31 December 2012**	**Percentage of total sales**	**Percentage change**
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*	*(%)*
Labour costs	8,628	6.0	7,006	6.4	23.2
Depreciation and amortisation	2,259	1.6	1,576	1.4	43.3
Advertising	1,357	0.9	801	0.7	69.4
Professional fees	1,526	1.1	659	0.6	131.6
Utilities and communal payments	859	0.6	598	0.5	43.6
Repairs and maintenance	732	0.5	474	0.4	54.4
Taxes other than income tax	569	0.4	593	0.5	(4.1)
Cleaning services	653	0.5	406	0.4	60.9
Security services	500	0.3	355	0.3	40.8
Land and equipment lease	203	0.1	178	0.2	14.0
Premises lease	391	0.3	77	0.1	407.8
Pre-opening costs	721	0.5	399	0.4	80.7
Other	616	0.4	384	0.3	60.4
Total SG&A	**19,014**	**13.2**	**13,506**	**12.3**	**40.8**

As a percentage of total sales, SG&A increased to 13.2% in 2013 from 12.3% in 2012. Adjusted SG&A/Sales ratio was 10.9% in 2013 compared to 9.7% in 2012. Total SG&A increased by RUB5,508 million, or 40.8%, to RUB19,014 million in 2013 from RUB13,506 million in 2012 with increases in all cost lines, except for taxes other than income tax (which include property, land, transport and water taxes). All these increases were primarily the result of the costs associated with Lenta's expansion programme, including the opening of 21 new hypermarkets in 2013 and the expenditure incurred in anticipation of further significant expansion in the next three years in connection with putting infrastructure in place to support future growth. The opening in 2013 of five rented hypermarkets and nine rented supermarkets increased the cost of premises leased from 0.2% of sales in 2012 to 0.4% of sales in 2013.

Labour costs

Labour costs under SG&A reflects Lenta's labour costs that are not included in cost of own production, supply chain costs or in pre-opening costs. See "*—Explanations of Key Income Statement Items*".

The table below sets out a breakdown of Lenta's labour costs that are recorded as SG&A in the years ended 31 December 2013 and 2012:

	Year ended 31 December 2013	Percentage of total labour costs	Year ended 31 December 2012	Percentage of total labour costs
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Wages and salaries[1]	6,328	73.3	5,370	76.6
Social security levies	1,544	17.9	1,167	16.7
Employee benefits	756	8.8	469	6.7
Total labour costs	**8,628**	**100**	**7,006**	**100**

Note:

(1) Includes bonuses.

Labour costs increased by RUB1,622 million, or 23.2%, to RUB8,628 million in 2013 from RUB7,006 million in 2012 as a result of the increase in the number of Lenta employees and an increase in average salaries. Labour costs under SG&A accounted for 76.8% and 80.3% of Lenta's overall labour costs in 2013 and 2012, respectively. See "*—Significant Factors Affecting Results of Operations—Efficient operational management*" for a discussion of the reasons for the increase in Lenta's total labour costs.

Depreciation and Amortisation

Depreciation and amortisation charges increased by RUB683 million, or 43.3%, to RUB2,259 million in 2013 from RUB1,576 million in 2012, which was mainly due to a RUB308 million, or 62.6%, increase in depreciation charges in respect of Lenta's buildings to RUB800 million in 2013 from RUB492 million in 2012, reflecting depreciation taken on Lenta's recently constructed stores. The increase was also partially due to RUB54 million of depreciation charges in 2013 arising from capitalised pre-opening expenses.

Advertising

Advertising costs increased by RUB556 million, or 69.4%, to RUB1,357 million in 2013 from RUB801 million in 2012, which was mainly due to the growth in the number of stores and in particular an increase in 'opening campaign' costs in connection with these new stores.

Professional Fees

Professional fees increased by RUB867 million, or 131.6%, to RUB1,526 million in 2013 from RUB659 million in 2012, which was mainly due to costs in connection with retaining an industry expert on the analysis and use of 'Big Data' and professional service fees primarily incurred in connection with optimisation of the Lenta corporate legal structure, preparation for the Offering and development of employee incentive plans.

Other Operating Income

Lenta's other operating income increased by RUB341 million, or 30.6%, to RUB1,460 million in 2013 from RUB1,119 million in 2012.

The following table sets out Lenta's other operating income in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	(RUB millions)	
Penalties due by suppliers	619	516
Rental income	340	282
Advertising income	380	247
Gain on PPE disposal	1	1
Other	120	73
Total other operating income	**1,460**	**1,119**

Reflecting Lenta's increased intake of supplies and expansion, the increase in other operating income in 2013 was mainly due to a RUB103 million, or 19.9%, increase in penalties due by suppliers; a RUB58 million, or 20.6%, increase in rental income; and a RUB133 million, or 53.8%, increase in advertising income.

Other Operating Expense

Other operating expense increased by RUB46 million, or 36.9%, to RUB171 million in 2013 from RUB125 million in 2012.

Operating Profit

For the reasons set forth above, operating profit increased by RUB3,567, or 35.1%, to RUB13,732 million in 2013 from RUB10,165 million in 2012.

Interest Expense

Interest expense increased by RUB1,124 million, or 34.9%, to RUB4,342 million in 2013 from RUB3,218 million in 2012. The increase in interest expense was primarily due to an increase in long-term debt taken out to fund expansion. See "*—Liquidity and Capital Resources—Indebtedness*".

Interest Income

Interest income increased by RUB4 million, or 5.1%, to RUB82 million in 2013 from RUB78 million in 2012.

Change in Fair Value of Financial Instruments at Fair Value through Profit or Loss

In 2013, Lenta recorded a loss of RUB234 million as a result of a negative change in the fair value of Lenta's interest rate swaps and caps provided by VTB Capital, which were entered into as a hedge against an increase in the MosPrime interest rate, to which the floating rate under the VTB Facility Agreement is tied. In April 2013, Lenta entered into a set of swaps and caps to cover the extension in the maturity of two tranches of the VTB Facility Agreement; in November 2013, it entered into a set of swaps and caps to cover the RUB5 billion drawn under the third tranche of the VTB Facility Agreement. In 2012, Lenta recorded a gain of RUB102 million as a result of a positive change in the fair value of these interest rate swaps and caps provided by VTB Capital. See "*—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*" for a discussion of the VTB Facility Agreement.

Other Expenses

The following table sets out Lenta's other expenses in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	(RUB millions)	
Consulting	91	215
Total other expenses	91	**215**

Lenta engaged the services of various professional consultants and other third parties, including certain shareholders in the Company, to provide support to Lenta and help monitor its operations (such paid-for services

shall cease by the time of the Offering). See "*Transactions with Related Parties—Related Party Transactions—Shareholders' Fees and Expenses*". In 2013 and 2012, Lenta paid RUB91 million and RUB215 million, respectively, in consulting fees for these services.

Foreign Exchange Gains/(Losses)

In 2013, as the average nominal Rouble/U.S. Dollar exchange rate depreciated by 2.4%, Lenta incurred foreign exchange losses of RUB23 million, reflecting a decrease in the Rouble value of certain U.S. Dollar- and Euro-denominated contracts with suppliers between the date when amounts under such contracts were payable and the date when actual payment was made. In 2012, Lenta recorded a foreign exchange gain of RUB70 million.

Profit before Income Tax

For the reasons set forth above, profit increased by RUB2,142 million, or 30.7%, to RUB9,124 million in 2013 from RUB6,982 million in 2012.

Income Tax Expense

The following table sets out Lenta's income tax expense in the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	**2012**
	(RUB millions)	
Current tax expense	1,320	1,252
Deferred tax expense	946	591
Income tax credit	(234)	—
Adjustments in respect of current income tax of previous year	—	3
Income tax expense	**2,032**	**1,846**

Lenta's total income tax expense increased by RUB186 million, or 10.1%, to RUB2,032 million in 2013 from RUB1,846 million in 2012. Current tax increased by RUB68 million, or 5.4%, reflecting Lenta's increased profits. Deferred tax increased by RUB355 million, or 60.0%, mainly due to the increased difference in the depreciation of fixed assets under IFRS accounting and Russian tax accounting as a result of the significant increase in property investments in 2013. The Russian tax regime generally provides for a shorter period of depreciation than IFRS and also allows an initial one-off depreciation charge on certain assets of between 10% and 30% (intended as an investment incentive). The significant increase in investments in 2013 has significantly increased these immediate tax depreciation charges.

Lenta's effective tax rate (calculated as income tax expense divided by profit before income tax) was 22.3% in 2013 and 26.4% in 2012. In 2013, Lenta received a tax incentive totaling RUB234 million for investments made in St. Petersburg in 2009-2011, which lowered Lenta's effective tax rate for 2013. In 2012, the excess of the effective tax rate over the statutory tax rate of 20% was primarily influenced by the writing off of a permanent tax difference on fixed assets due to the depreciation and disposal of underlying fixed asset items.

Profit for the Year

For the reasons set forth above, profit for the year increased by RUB1,956 million, or 38.1%, to RUB7,092 million in the year ended 31 December 2013 from RUB5,136 million in the year ended 31 December 2012.

Year Ended 31 December 2012 Compared with the Year Ended 31 December 2011

Sales

Lenta's total sales increased by RUB20,144 million, or 22.4%, to RUB109,910 million in the year ended 31 December 2012 from RUB89,766 million in the year ended 31 December 2011.

The following table sets out certain key operating performance indicators relevant to sales in the years ended 31 December 2012 and 2011. See "*Presentation of Financial and Other Information*" for information on the method of calculation of these indicators.

	As of or for the year ended 31 December	
	2012	**2011**
Total sales (RUB millions)	109,910	89,766
Total selling space (thousand of sq. m.) (as of year-end)	376	287
Average selling space (thousands of sq. m.)	313	272
Average sales density (RUB thousands/average sq. m.)	351	330
Total sales growth (% change, year-on-year)	22.4	27.1
Total average ticket (RUB)	1,061	971
Total average ticket growth (% change, year-on-year)	9.3	9.1
Total traffic growth (% change, year-on-year)	12.0	16.5
Like-for-like sales growth (% change, year-on-year)(1)	13.5	21.2
Like-for-like traffic growth (% change, year-on-year)	3.1	10.6
Like-for-like average ticket growth (% change, year-on-year)	10.1	9.6
Like-for-like additional articles per ticket (% change, year-on-year)	3.1	6.0
Like-for-like average price growth per article (% change, year-on-year)	6.8	3.4
Like-for-like average sales density (RUB thousands/sq. m.)	376	340
Sales growth from new stores (% change, year-on-year)	9.0	6.0
Share of new store sales growth in total sales growth (%)	39.9	22.0

Note:

(1) The number of hypermarkets included in Lenta's like-for-like panel was 41 as of 31 December 2012 and 38 as of 31 December 2011. Like-for-like sales growth (% change, year-on-year) compares the annual sales of the hypermarkets in the like-for-like panel of hypermarkets as of 31 December of the prior year against the same panel of hypermarkets as of 31 December of the current year.

The increase in Lenta's total sales in 2012 compared to 2011 resulted from a 13.5% increase in like-for-like sales, a 9.0% increase in the sales from new stores opened in 2012, and new stores opened in 2011 not yet part of the like-for-like panel.

The 13.5% like-for-like sales growth in 2012 was comprised of a 10.1% increase in like-for-like average ticket and a 3.1% increase in like-for-like traffic. The increase in like-for-like average ticket was comprised of a 6.8% increase in the average price per article and a 3.1% increase in the number of articles per ticket. The growth in the average price per article was due to a combination of inflation (in 2012, CPI inflation was 6.6% and the food producer price index was up 7.5%), customers trading-up to more expensive articles within a particular product category (attributable to an increase in customer incomes, as borne out by a 4.4% increase in real disposable income in 2012), and a greater assortment of products offered at Lenta stores. The increase in like-for-like traffic was mainly attributable to a combination of better store operational management and to Lenta's promotional and marketing initiatives. See "*Business—Operations—Promotions and Marketing*".

The increase in sales from new stores was due to the 15.1% increase in average selling space in 2012 compared to 2011, which, in turn, was attributable to the opening of 14 new stores in 2012.

Total Cost of Sales and Gross Profit

The following table sets out sales, total cost of sales, gross profit and gross margin in the years ended 31 December 2012 and 2011, as well as the percentage change in sales, total cost of sales and gross profit:

	Year ended 31 December		Percentage change
	2012	2011	
	(RUB millions, except where indicated)		*(%)*
Sales	109,910	89,766	22.4
Total cost of sales	(87,233)	(73,055)	19.4
Gross profit	**22,677**	**16,711**	**35.7**
Gross margin[1](%)	**20.6**	**18.6**	**—**

Note:

(1) Gross margin is calculated as gross profit divided by sales, expressed as a percentage.

Total cost of sales increased by RUB14,178 million, or 19.4%, to RUB87,233 million in 2012 from RUB73,055 million in 2011. Lenta's sales grew more quickly (at 22.4%) than its total cost of sales (at 19.4%) in 2012, resulting in an increase in gross margin to 20.6% in 2012 compared to 18.6% in 2011.

The following table sets out further details of Lenta's total cost of sales in the years ended 31 December 2012 and 2011, the percentage of sales that each of the components of total cost of sales represented in these two years and the percentage change in each component of total cost of sales between these two years:

	Year ended 31 December 2012	Percentage of total sales	Year ended 31 December 2011	Percentage of total sales	Percentage change
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*	*(%)*
Cost of goods sold[1]	74,331	67.6	62,668	69.8	18.6
Cost of own production	9,480	8.6	7,299	8.1	29.9
Supply chain cost	2,147	2.0	1,853	2.1	15.9
Losses due to inventory shortages	1,275	1.2	1,235	1.4	3.2
Total cost of sales	**87,233**	**79.4**	**73,055**	**81.4**	**19.4**

Note:

(1) Less volume discounts and other types of rebates, promotional bonuses from suppliers and fees paid by suppliers for Lenta's provision of logistical services.

The increase in total cost of sales in 2012 compared to 2011 was mainly driven by an increase in sales volumes which in turn increased cost of goods sold and cost of own production.

Cost of goods sold increased by RUB11,663 million to RUB74,331 million in 2012 from RUB62,668 million in 2011 primarily due to an increase in sales driven by new store openings and greater like-for-like sales. Measured as a percentage of total sales, cost of goods sold decreased to 67.6% in 2012 compared to 69.8% in 2011. Lenta sales grew more quickly (at 22.4%) than its cost of goods sold (at 18.6%) in 2012. Volume discounts, rebates and promotional bonuses from suppliers, which are deducted from Lenta's cost of goods sold, increased in 2012 in part as a result of Lenta's improved purchasing power that accompanied the increased scale of its operations in 2012 compared to 2011.

In keeping with the 32.0% increase in sales of own production (compared to overall sales growth of 22.4%) the cost of own production increased by RUB2,181 million to RUB9,480 million in the year ended 31 December 2012 from RUB7,299 million in the year ended 31 December 2011. Measured as a percentage of total sales, cost of own production increased to 8.6% in 2012 compared to 8.1% in 2011, due to an increase in the share of new stores in ramp-up stage, which have relatively higher costs of own production. The costs of own production are predominantly raw materials and labour costs, which respectively accounted for 83.9% and 12.9% of total cost of own production in 2012.

Supply chain costs increased by RUB294 million, or 15.9%, to RUB2,147 million in 2012 from RUB1,853 million in 2012 primarily due to increased purchase volumes related to the increased sales volumes and build-up of inventory for 14 new stores in 2012.

For the reasons stated above, Lenta's gross profit increased by RUB5,966 million, or 35.7%, to RUB22,677 million in 2012 from RUB16,711 million in 2011.

SG&A

Lenta's SG&A increased by RUB2,282 million, or 20.3%, to RUB13,506 million in the year ended 31 December 2012 from RUB11,225 million in the year ended 31 December 2011. Because Lenta's sales grew more quickly (at 22.4%) than its SG&A (at 20.3%) in 2012 as compared to 2011, as well as due to certain store efficiency measures and scale effects on overhead costs, as a percentage of sales, SG&A fell to 12.3% in 2012 from 12.5% in 2011.

The following table sets out further details of Lenta's SG&A in the years ended 31 December 2012 and 2011, the percentage of total sales that each of the components of Lenta's SG&A represented in these two years and the percentage change in each of the components of Lenta's SG&A between these two years:

	Year ended 31 December 2012	Percentage of total sales	Year ended 31 December 2011	Percentage of total sales	Percentage change
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*	*(%)*
Labour costs	7,006	6.4	5,475	6.1	28.0
Depreciation and amortisation	1,576	1.4	1,963	2.2	(19.8)
Advertising	801	0.7	659	0.7	21.5
Professional fees	659	0.6	707	0.8	(6.9)
Utilities and communal payments	598	0.5	547	0.6	9.3
Repairs and maintenance	474	0.4	377	0.4	25.7
Taxes other than income tax	593	0.5	361	0.4	64.3
Cleaning services	406	0.4	307	0.3	32.2
Security services	355	0.3	331	0.4	7.3
Land and equipment lease	178	0.2	147	0.2	21.1
Premises lease	77	0.1	50	0.1	54.0
Pre-opening costs	399	0.4	44	0.0	806.4
Other	384	0.3	255	0.3	50.6
Total SG&A	**13,506**	**12.3**	**11,225**	**12.5**	**20.3**

Total SG&A increased by RUB2,281 million, or 20.3%, to RUB13,506 million in 2012 from RUB11,225 million in 2011 primarily due to the opening of new stores with increases in labour costs (28.0%), advertising expenses (21.5%), utilities and communal payments (9.3%), repairs and maintenance costs (25.7%), taxes other than income tax, which include property, land, transport and water taxes (64.3%), cleaning services (32.3%), security services (7.3%), costs associated with the leasing of land and equipment (21.1%), premises leases (54.0%) and pre-opening costs (to RUB399 million in 2012 from RUB44 million in 2011). The Adjusted SG&A/Sales ratio was 9.7% in 2012, compared to 9.5% in 2011.

Labour costs

The table below sets out a breakdown of Lenta's labour costs that are recorded as SG&A in the years ended 31 December 2012 and 2011:

	Year ended 31 December 2012	Percentage of total labour costs	Year ended 31 December 2011	Percentage of total labour costs
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Wages and salaries[1]	5,370	76.6	4,101	74.9
Social security levies	1,167	16.7	1,042	19.0
Employee benefits	469	6.7	332	6.1
Total labour costs	**7,006**	**100**	**5,475**	**100**

Note:

(1) Includes bonuses.

Labour costs increased by RUB1,531 million, or 28.0%, to RUB7,006 million in 2012 from RUB5,475 million in 2011 as a result of the increase in the number of Lenta employees and an increase in average salaries. Labour costs accounted for as SG&A accounted for 80.3% and 81.4% of Lenta's overall labour costs in 2012 and 2011, respectively. See "*—Significant Factors Affecting Results of Operations—Efficient operational management*" for a discussion of the reasons for the increase in Lenta's total labour costs.

Depreciation and Amortisation

Depreciation and amortisation charges decreased by RUB387 million, or 19.8%, to RUB1,576 million in 2012 from RUB1,963 million 2011, which was mainly due to a RUB443 million, or 47.4%, decline in depreciation charges in respect of Lenta's buildings to RUB492 million in 2012 from RUB935 million in 2011. This decrease was, in turn, caused by a change in the estimate for useful life of real estate from 15 years to 30 years, partially offset by an increase in depreciation from an increase in the number of new stores.

Reversal of Impairment of Non-Financial Assets

In 2011, Lenta recorded a RUB44 million gain in connection with the increase in the carrying amount of certain real estate assets that had been subject to earlier impairment losses.

Other Operating Income

Lenta's other operating income increased by RUB108 million, or 10.7%, to RUB1,119 million in 2012 from RUB1,011 million in 2011.

The following table sets out Lenta's other operating income in the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	**2011**
	(RUB millions)	
Penalties due by suppliers	516	444
Rental income	282	243
Advertising income	247	222
Gain on PPE disposal	1	17
Other	73	85
Total other operating income	**1,119**	**1,011**

Reflecting Lenta's increased intake of supplies and expansion, the increase in other operating income in 2012 was mainly due to a RUB72 million, or 16.2%, increase in penalties paid by suppliers; a RUB39 million, or 16.0%, increase in rental income; and a RUB25 million, or 11.3%, increase in advertising income.

Other Operating Expense

Other operating expense increased by RUB3 million, or 2.5%, to RUB125 million in 2012 from RUB122 million in 2011.

Operating Profit

For the reasons set forth above, operating profit increased by RUB3,746, or 58.4%, to RUB10,165 million in 2012 from RUB6,419 million in 2011.

Interest Expense

Interest expense increased by RUB1,907 million, or 145.5%, to RUB3,218 million in 2012 from RUB1,311 million in 2011. The increase in interest expense was primarily due to interest payable on the VTB Facility Agreement drawn down in September 2011. See "*—Liquidity and Capital Resources—Indebtedness*".

Interest Income

Interest income increased by RUB54 million, or 233.9%, to RUB78 million in 2012 from RUB24 million in 2011 largely as a result of Lenta depositing a portion of the RUB25,375 million drawn down under the VTB Facility Agreement into accounts with banks, such as JSC Raiffeisen Bank ("**Raiffeisen**"), Sberbank and VTB.

Change in Fair Value of Financial Instruments at Fair Value through Profit or Loss

In October 2011, Lenta purchased a series of swaps and caps from VTB Capital in connection with the VTB Facility Agreement, and their initial fair value was recognised. See "*—Liquidity and Capital Resources—Indebtedness—Description of Material Financings—Facility Agreement arranged by VTB Capital*". In 2012, Lenta recorded a gain of RUB102 million as a result of a positive change in the fair value of these swaps and caps. In the year ended 31 December 2011, Lenta recorded a loss of RUB374 million as a result of a negative change in the fair value of these interest rate swaps and caps. See "*—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*" for a discussion of the VTB Facility Agreement.

Put Option Revaluation

In 2011, Lenta and the EBRD cancelled the EBRD Put/Call Option Agreement, terminating the obligation on the part of Lenta to redeem EBRD's shares in the Company, which Lenta had accounted for as a put option liability. As a result of the cancellation, Lenta recognised a net gain of RUB683 million, which reflected a change in the fair value of the put option to RUB874 million, partially offset by the RUB191 million cash fee Lenta paid to the EBRD in consideration of the cancellation.

Other Expenses

The following table sets out Lenta's other expenses in the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	**2011**
	(RUB millions)	
Consulting	215	—
Expense related to the purchase of shares in the Company by a member of the Lenta group	—	1,594
Share option	—	979
Total other expenses	**215**	**2,573**

In 2011, Lenta incurred total other expenses in the amount of RUB2,573 million, of which RUB1,594 million were expenses related to Lenta's purchase (by its subsidiary Lakatomo Holdings Limited) of shares in the Company from Svoboda Corporation, including certain fees to, and the reimbursement of certain costs and expenses of, TPG, EBRD and VTB Capital. See "*Transactions with Related Parties—Related Party Transactions—Shareholders' Fees and Expenses*". The remaining RUB979 million in other expenses in 2011 reflected the fair value of the share option (as of the grant date) given to a private individual as compensation for assistance in settling the Shareholder Dispute (these options were repurchased by Lenta in 2013 as described above, other than options in respect of 80,000 Shares that were purchased and then exercised by Mr. Stephen Johnson, a director, in December 2013). See "*—Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012—Other Expenses*" for a description of consulting fees paid by Lenta in 2012.

Foreign Exchange Gains/(Losses)

In 2011, Lenta incurred foreign exchange losses of RUB4 million due to losses occurring between initial recognition of foreign currency payables and the time of actual payment. See "*—Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012—Foreign Exchange Gains/(Losses)*" for a discussion of Lenta's foreign exchange gains in 2012.

Profit before Income Tax

For the reasons set forth above, profit increased by RUB4,118 million, or 143.8%, to RUB6,982 million in 2012 from RUB2,864 million in 2011.

Income Tax Expense

The following table sets out Lenta's income tax expense in the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	2011
	(RUB millions)	
Current tax expense	1,252	1,011
Deferred tax expense	591	156
Current income tax related to previous period	3	—
Income tax expense	**1,846**	**1,167**

Lenta's total income tax expense increased by RUB679 million, or 58.1%, to RUB1,846 million in 2012 from RUB1,167 million in 2011. Current tax increased by RUB241 million, or 23.9%, reflecting Lenta's increased taxable profits. Deferred tax increased by RUB435 million, or 277.3%, mainly due to the significant increase in property investments in 2012. See "*—Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012—Income Tax Expense*" for a discussion of the differences in treatment of fixed assets depreciation under IFRS accounting and Russian tax accounting.

Lenta's effective tax rate (calculated as income tax expense divided by profit before income tax) was 26.4% in 2012 and 40.7% in 2011, compared to the Russian statutory corporate income tax rate of 20%. In 2011, the effective tax rate excess was mainly due to the costs related to the settlement of the Shareholder Dispute that were not tax deductible for Russian tax purposes. See "*Business—History and Development*" for a discussion of the Shareholder Dispute and "*—Year Ended 31 December 2013 Compared with the Year Ended 31 December 2012—Income Tax Expense*" for a discussion of the effective tax rate in 2012.

Profit for the Year

For the reasons set forth above, profit increased by RUB3,439 million, or 202.7%, to RUB5,136 million in the year ended 31 December 2012 from RUB1,697 million in the year ended 31 December 2011.

Liquidity and Capital Resources

In addition to financing existing operations, Lenta requires liquidity to finance the acquisition of land plots for new stores, the construction of new stores, the purchase of machinery and equipment necessary to support Lenta's expanding operations and the further development of Lenta's supply chain (including the construction of new distribution centres and assembling Lenta's fleet of delivery trucks). Since 1 January 2011, Lenta has met a majority of its liquidity needs with net cash generated from operations and the balance through long- and short-term bank borrowings, the issuance of Rouble-denominated bonds in Russia and, to a lesser extent, finance leases. Lenta expects that, going forward, its principal source of cash will be cash generated from operations together with a mix of bank borrowings, bond issuances and financial leasing, possibly augmented by equity issuances. In July 2013, Lenta LLC established a programme with MICEX under which Lenta LLC may issue bonds in total aggregate principal amount of RUB33 billion (as of the date of this Prospectus, no issuances have been made under this programme). As a result of its expansion programme, Lenta expects that its overall level of financial indebtedness to increase. At the same time, Lenta expects to borrow prudently, only taking on Rouble-denominated indebtedness, and within the limits set by its financial covenants. As of 31 December 2013, Lenta had in aggregate RUB24,850 million available to be drawn under existing credit lines.

Cash Flows

The following table sets out cash flow information for the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
		(RUB millions)	
Cash flows from operating activities Profit before income tax	**9,124**	**6,982**	**2,864**
Adjustments for:			
Loss/gain on disposal of property, plant and equipment	72	15	(19)
Loss from disposal of leasehold rights	(1)	—	—
Interest expense	4,342	3,218	1,311
Interest income	(82)	(78)	(23)
Inventory write-down to NRV	131	42	191
Change in bad debt allowance	35	(4)	25
Depreciation and amortisation	2,313	1,576	1,963
Reverse of impairment of non-financial assets	0	0	(44)
Share Options expense	66	—	979
Change in fair value of financial instruments at fair value through profit or loss	234	(102)	374
Put option revaluation	—	—	(683)
	16,234	**11,649**	**6,938**
Movements in working capital:			
(Increase) / decrease in trade and other receivables	(3,024)	(1,572)	84
(Increase) / decrease in advance paid	(597)	(497)	73
Increase in prepaid expenses	(55)	(12)	(7)
Increase in inventories	(3,752)	(1,847)	(1,015)
Increase in trade and other payables	7,470	6,374	3,701
Increase / (decrease) in advances received	(32)	11	(74)
(Decrease) / increase in net other taxes payable	(456)	(741)	28
Cash generated from operating activities	**15,788**	**13,365**	**9,728**
Income taxes paid	(976)	(1,084)	(1,220)
Interest paid	(4,048)	(3,099)	(1,761)
Interest received	89	79	21
Net cash generated from operating activities	**10,853**	**9,261**	**6,768**
Cash flows from investing activities			
Purchase of property, plant and equipment	(22,496)	(14,062)	(3,544)
Purchase of intangible assets other than leasehold rights	(274)	(263)	(122)
Purchase of leasehold rights	(813)	(638)	(386)
Proceeds from sale of property, plant and equipment	4	1	215
Proceeds from disposals of leaseholder rights	30	—	—
Net cash used in investing activities	**(23,549)**	**(14,962)**	**(3,837)**
Cash flows from financing activities			
Proceeds from borrowings	70,921	26,670	71,733
Repayment of borrowings	(54,045)	(22,837)	(54,574)
Repayment of obligations under finance lease	(15)	(11)	—
Proceeds from issue of new shares and sales of treasury shares	813	279	0
Cancellation of share option reserve	(2,227)	—	—
Payment of loan commission	(75)	—	—
Purchase of treasury shares	—	—	(15,724)
Net cash generated from / (used in) financing activities	**15,372**	**4,101**	**1,435**
Net (decrease) / increase in cash and cash equivalents	**2,676**	**(1,600)**	**4,366**
Cash and cash equivalents at the beginning of the year	**3,536**	**5,136**	**770**
Cash and cash equivalents at the end of the year	**6,212**	**3,536**	**5,136**

Net Cash Generated from Operating Activities

Year ended 31 December 2013 compared to the year ended 31 December 2012

Net cash generated from operating activities increased by RUB1,592 million, or 17.2%, to RUB10,853 million in 2013 from RUB9,261 million in 2012. This increase resulted primarily from: (i) a RUB2,142 million increase in profit before income tax to RUB9,124 million in 2013 from RUB6,982 million in 2012; (ii) as described below, a RUB2,443 million increase in aggregate adjustments to profit before income tax to RUB7,110 million in 2013 from RUB4,667 million in 2012; (iii) as described below, a RUB2,162 million change in movements in working capital to negative RUB446 million in 2013 from RUB1,716 million in 2012; (iv) a RUB108 million decrease in income taxes paid to RUB976 million in 2013 from RUB1,084 million in 2012 due to up-front tax deductions on Lenta's investments (such deductions can be taken in the financial quarter after such investments are put to use); and (v) a RUB949 million increase in interest paid to RUB4,048 million in 2013 from RUB3,099 million in 2012 primarily due to higher amounts of debt, partially offset by a RUB10 million increase in interest received. Net cash generated from operating activities before net interest paid amounted to RUB14.8 billion in 2013 compared to RUB12.3 billion in 2012. Lenta maintained its strong cash flow conversion with net cash from operating activities before net interest paid equal to 90% of Adjusted EBITDA in 2013, compared to 97% in 2012. Cash flow was slightly impacted by the higher working capital requirements associated with the opening of new hypermarkets.

The increase in aggregate adjustments to profit before income tax principally resulted from an increase of RUB1,124 million in accrued interest expense to RUB4,342 million in 2013 from RUB3,218 million in 2012 primarily due to higher amounts of debt and from an increase of RUB737 million in depreciation and amortisation to RUB2,313 million in 2013 from RUB1,576 million in 2012 due to an increase in investments in new stores and distribution centres.

The largest movements in working capital in 2013 were:

- a RUB7,470 million increase in accrued trade and other payables in 2013, compared to a RUB6,374 million increase in 2012, largely reflecting the opening of 13 new hypermarkets and 5 new supermarkets in November and December 2013 and increased sales levels in December 2013 compared to December 2012 (as year-end accounts payable are significantly higher than their annual average, reflecting the accounts payable in purchasing supplies to meet the annual sales uplift at year-end, to stock higher inventory at year-end to cover early January when most suppliers do not deliver due to public holidays, and to supply new hypermarkets, which are predominantly opened in November/ December);
- a RUB3,752 million increase in inventories in 2013, compared to a RUB1,847 million increase in 2012, reflecting more stores in operation and the build-up of inventory for new stores (in 2013, Lenta opened 21 new hypermarkets and 10 new supermarkets);
- a RUB3,024 million increase in accrued trade and other receivables in 2013, compared to a RUB1,572 million increase in 2012. This change was caused mainly by an increase in accounts receivable on supplier bonuses and rental and other services and on advertising of supplier products in 2013, including outstanding receivables for store opening fees payable by suppliers in connection with the 13 new hypermarkets and 5 new supermarkets opened in November and December. A store opening fee is payable upon the opening of the relevant store;
- a RUB456 million decrease in accrued net other taxes payable in 2013, compared to a RUB741 million decrease in 2012. This change was caused mainly by an offsetting increase in VAT receivables of RUB593 million as of 31 December 2013, which was due to an increase in construction activity in the fourth quarter of 2013; and
- a RUB597 million increase in advances paid (principally to suppliers of goods and in exchange for services), compared to a RUB497 million increase in 2012.

Year ended 31 December 2012 compared to the year ended 31 December 2011

Net cash generated from operating activities increased by RUB2,493 million, or 36.8%, to RUB9,261 million in 2012 from RUB6,768 million in 2011. This increase resulted from: (i) a RUB4,118 million increase in profit before income tax to RUB6,982 million in 2012 from RUB2,864 million in 2011; (ii) as described below, a RUB593 million increase in aggregate adjustments to profit before income tax to RUB4,667 million in 2012 from RUB4,073 million in 2011; (iii) as described below, a RUB 1,074 million decrease in cash-positive

movements in working capital to RUB1,716 million in 2012 from RUB2,790 million in 2011; (iv) a RUB136 million decrease in income taxes paid to RUB1,084 million in 2012 from RUB1,220 million in 2011 due to up-front tax deductions on Lenta's investments (such deductions can be taken in the financial quarter after such investments are put to use); and (v) a RUB1,338 million increase in interest paid (to RUB3,099 million in 2012 from RUB1,761 million in 2011) primarily due to higher amounts of debt.

The increase in aggregate adjustments to profit before income tax principally resulted from an increase of RUB1,907 million in accrued interest expense to RUB3,218 million in 2012 from RUB1,311 million in 2011 primarily due to higher amounts of debt and from the 2011 adjustment of RUB683 million in respect of the EBRD Put Option (as defined herein) (reflecting its fair value of RUB874 million net of the RUB191 million fee paid by Lenta at the cancellation of the EBRD Put Option). See "*—Year Ended 31 December 2012 Compared with the Year Ended 31 December 2011—Put Option Revaluation*". Depreciation and amortisation decreased by RUB387 million to RUB1,576 million in 2012 from RUB1,963 million in 2011 due to the increase in the estimate for useful life of real estate from 15 years to 30 years.

The largest movements in working capital in 2012 were:

- a RUB6,374 million increase in accrued trade and other payables in 2012, compared to a RUB3,701 million increase in 2011, largely reflecting the opening of 10 new hypermarkets in November and December 2012 and increased sales levels in December 2012 compared to December 2011. Payments for the opening inventories of the new hypermarkets were mostly made in 2013;
- a RUB1,847 million increase in inventories in 2012, compared to a RUB1,015 million increase in 2011 reflecting more hypermarkets in operation and the build-up of inventory for new hypermarkets (Lenta opened 14 new hypermarkets in 2012, compared to three new hypermarkets in 2011);
- a RUB1,572 million increase in accrued trade and other receivables in 2012, compared to a RUB84 million decrease in 2011. This change was caused mainly by an increase in accounts receivable on supplier bonuses and rental and other services and on advertising of supplier products in 2012, including outstanding receivables for store opening fees payable by suppliers in connection with the 10 new hypermarkets opened in November and December. A store opening fee is payable upon the opening of the relevant store;
- a RUB741 million decrease in accrued net other taxes payable in 2012, compared to a RUB28 million increase in 2011. This change was caused mainly by an offsetting increase in VAT receivables of RUB919 million and an increase in unclaimed VAT of RUB91 million as of 31 December 2012, which was due to a construction activity in the fourth quarter of 2012; and
- a RUB497 million increase in advances paid (principally to suppliers in exchange for products), compared to a RUB73 million decrease in 2011.

Net Cash Used in Investing Activities

Year ended 31 December 2013 compared to the year ended 31 December 2012

Net cash used in investing activities increased by RUB8,587 million, or 57.4%, to RUB23,549 million in 2013 from RUB14,962 million in 2012. Cash flows from investing activities were mainly used for purchases of property, plant and equipment. In 2013, purchases of property, plant and equipment totaled RUB22,496 million, compared to RUB14,062 million in 2012, which reflected the opening of 21 new hypermarkets in 2013, compared to 14 in 2012, as well as the opening of 10 new supermarkets, the Moscow and Novosibirsk distribution centres and expansion of the St. Petersburg-Shushary distribution centre. As a result of its expansion of hypermarkets, Lenta also increased its purchases of leasehold rights, spending RUB813 million in 2013 compared to RUB638 million in 2012, and of intangible assets other than leasehold rights, spending RUB274 million in 2013 compared to RUB263 million in 2012.

Year ended 31 December 2012 compared to the year ended 31 December 2011

Net cash used in investing activities increased by RUB11,125 million, or 289.9%, to RUB14,962 million in 2012 from RUB3,837 million 2011, which reflected the opening of 14 new hypermarkets in 2012, compared to three in 2011. Cash flows from investing activities were mainly used for purchases of property, plant and equipment. In 2012, purchases of property, plant and equipment totaled RUB14,062 million, compared to RUB3,544 million in 2011, which reflected the opening of 14 new hypermarkets in 2012, compared to three in 2011. As a result of its expansion of hypermarkets, Lenta also increased its purchases of leasehold rights, spending RUB638 million in 2012 compared to RUB386 million in 2011, and of intangible assets other than leasehold rights, spending RUB263 million in 2012 compared to RUB122 million in 2011.

Net Cash Generated from Financing Activities

Year ended 31 December 2013

Net cash generated from financing activities in 2013 equaled RUB15,372 million. This mainly reflected the placement of RUB10 billion in Rouble bonds in March 2013 and a drawdown of RUB5 billion under the VTB Facility Agreement. See "*Indebtedness—Description of Material Financings*". Net cash generated from financing activities in 2013 also reflected proceeds of RUB813 million from the sale of 431,765 Shares held by the Company's subsidiary Lakatomo Holdings Limited to certain members of Senior Management and of 80,000 Shares to a Lenta director pursuant to his exercise of share options. See "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*". In 2013, Lenta also made a payment of RUB2,227 million in consideration for the cancellation of a share option agreement.

Year ended 31 December 2012

Net cash generated from financing activities in 2012 equaled RUB4,101 million. This largely reflected net proceeds from new borrowings in the amount of RUB3,833 million. Borrowings in 2012 mainly consisted of proceeds received under the VTB Facility Agreement. See "*—Indebtedness—Description of Material Financings—VTB Facility Agreement*". Net cash generated from financing activities in 2012 also reflected the receipt of proceeds in the amount of RUB279 million from the allotment of 360,231 Shares (purchased by Senior Management of Lenta to whom Lenta had given cash bonuses in like amount). See "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisition"*.)

Year ended 31 December 2011

Net cash generated from financing activities in 2011 equaled RUB1,435 million. This reflected net proceeds from new borrowings in the amount of RUB17,159 million (including drawdown of the VTB Facility Agreement in the amount of RUB25,375 million, partially offset by Lenta's purchase of Shares from Svoboda Corporation for a total cash consideration of RUB15,724 million, which was deducted from equity as treasury shares, resulting in Lenta having negative equity of RUB6,378 million as of 31 December 2011 and RUB963 million as of 31 December 2012. The purchase of Shares from Svoboda Corporation was funded by the VTB Facility Agreement. See "*—Indebtedness—Description of Material Financings*". All short-term borrowings (revolving credit lines) were repaid in 2011 so that none was outstanding as of 31 December 2011.

Working Capital

Lenta's primary sources of liquidity are cash flows from operating activities, debt financings and domestic Rouble bond offerings. As of 31 December 2013, 2012 and 2011, Lenta's working capital—defined as current assets (excluding cash and cash equivalents) less current liabilities (excluding short-term borrowings and short-term portion of long-term borrowings)—was negative RUB10,558 million, negative RUB9,489 million and negative RUB 7,049 million, respectively. Lenta believes that working capital levels in the food retail industry are typically negative, largely reflecting accounts payable to suppliers. Furthermore, this tendency is exacerbated at year-end as more stores usually come into operation in November/December than other months, and accounts payable build up in connection with the supply of these new stores and are settled the following year. Lenta typically sells its inventory before it pays its suppliers for that inventory.

Indebtedness

The average maturity of Lenta's debt was 3.3 years as of 31 December 2013, 2.9 years as of 31 December 2012, and 4.6 years as of 31 December 2011, and the weighted average interest rate on Lenta's indebtedness was 10.5% as of 31 December 2013, 11.0% as of 31 December 2012 and 11.7% as of 31 December 2011. Average maturity of indebtedness is calculated on the basis of the weighted average (weighted by the principal amount of such indebtedness) of days from the date specified to the specified maturity of the indebtedness. Weighted average interest rate on indebtedness is calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the date specified. As of 31 December 2013, Lenta had available-for-draw under its financings in aggregate RUB24,850 million.

The following table sets out Lenta's total debt as of the dates indicated. As of 31 December 2013, 2012 and 2011, all of Lenta's debt was denominated in Roubles:

	As of 31 December		
	2013	2012	2011
	(RUB millions)		
Short-term debt, *of which*	**6,143**	**3,833**	**—**
Short-term portion of long-term borrowings[1]	6,142	3,333	—
Short-term borrowings	1	500	—
Long-term debt, *of which*	**39,900**	**25,044**	**24,961**
Long-term bank debt[2]	29,892	24,979	24,885
Bonds[3]	9,957	—	—
Long-term obligations under finance leases	51	65	76
Total borrowings	**46,043**	**28,877**	**24,961**

Notes:

(1) The short-term portion of long-term revolving credit lines.

(2) Long-term bank debt includes capitalised fees in connection with the VTB Facility Agreement of RUB483 million, RUB396 million, and RUB490 million as of 31 December 2013, 2012 and 2011, respectively.

(3) Reflects outstanding amounts under the March 2013 Rouble bond issuance and includes capitalized fees in connection therewith of RUB43 million as of 31 December 2013. See "*—Description of Material Financings—Description of Bonds*".

As of 31 December 2013, 87% of Lenta's total borrowings consisted of long-term debt, and approximately 85% of interest under long-term debt had fixed rates or hedged rates reducing exposure to floating interest rates. The total amount available under Lenta's credit facilities as of 31 December 2013 was RUB24,850 million.

Lenta considers net debt and certain leverage and coverage ratios as the principal measures for evaluating the impact of the total size of its debt on its operations. The following table sets out net debt and certain ratios as of the dates indicated:

	Year ended 31 December		
	2013	2012	2011
Other financial data			
Net debt (RUB millions)[1]	39,831	25,341	19,825
Net debt to Adjusted EBITDA ratio[1]	2.4	2.0	2.2
Adjusted EBITDA to net interest expense ratio[2]	3.8	4.1	7.1
Lease-adjusted net debt to Adjusted EBITDAR ratio[3]	2.6	2.1	2.3
Adjusted EBITDAR to net interest expense plus rental expense ratio	3.5	3.8	6.2

Notes:

(1) Net debt is calculated as the sum of short-term and long-term debt (including borrowings and obligations under finance leases and including capitalised fees and interest accrued) minus cash and cash equivalents.

(2) Net interest expense is interest expense less interest income.

(3) Lease-adjusted net debt is net debt plus capitalised operating leases multiplied by a capitalisation rate of 8.0x in accordance with the standard approach of debt ratings agencies for the retail industry.

Net debt, net debt to Adjusted EBITDA, Adjusted EBITDA to net interest expense, the lease-adjusted ratio of net debt to Adjusted EBITDAR, Adjusted EBITDAR to net interest expense plus rental expenses are non-IFRS measures and may not be comparable to similarly titled measures disclosed by other companies, and investors should not use these non-IFRS measures as a substitute for figures provided in the Financial Statements. See "*Selected Consolidated Financial Information and Operating Data*" for a discussion of the calculation of Adjusted EBITDA and Adjusted EBITDAR.

Short-Term Borrowings

During the periods under review, Lenta entered in a number of short-term, Rouble-denominated credit facilities. As of 31 December 2013, 2012 and 2011 the total amount of the short-term portion of Lenta's long-term borrowings was RUB6,143 million, RUB3,833 million and nil, respectively. Short-term loans as of 31 December 2013 bore a weighted average interest rate (as defined above) of 7.5%. For further information on Lenta's short-term indebtedness, see Note 19 to the 2013 Financial Statements. The most significant of these borrowings with amounts outstanding as of 31 December 2013 are described below in "*—Description of Material Financings*". As of 31 December 2013, 2012 and 2011, the total amount of interest accrued under Lenta's short-term borrowings was RUB19 million, RUB5 million and nil, respectively.

Long-Term Borrowings

In September 2011, Lenta entered into a long-term, Rouble-denominated credit facility with VTB, drawing down RUB25.375 billion. In April 2013, the VTB Facility Agreement was amended to allow for a total of RUB40.375 billion to be borrowed thereunder, and Lenta drew down RUB5 billion thereunder in November 2013. As of 31 December 2013, the amount outstanding under the VTB Facility Agreement was RUB30.375 billion. The VTB Facility Agreement bore a weighted average interest rate of 11.1% as of 31 December 2013. See *"—Description of Material Financings*" for a discussion of the VTB Facility Agreement.

Description of Material Financings

Set out below is a description of Lenta's most significant financings as of 31 December 2013:

Facility Agreement arranged by VTB Capital

In September 2011, the Company as guarantor and Lenta LLC as borrower entered into a secured five-year, dual-tranche facility agreement with VTB Capital (the "**VTB Facility Agreement**") allowing borrowings of up to RUB19 billion for the first tranche and RUB6.375 billion for the second tranche (which Lenta has fully drawn down in 2011). The VTB Facility Agreement is secured by, *inter alia*, a mortgage on real property owned by Lenta LLC, direct debit rights with respect to bank accounts of Lenta LLC and pledges of bank accounts of the Company, as well as a pledge of participatory interest in Lenta LLC and of the equity of other subsidiaries of the Company.

A portion of the proceeds from the VTB Facility Agreement equal to U.S.$515 million was used to finance the purchase of 19.96% of Shares via the Company's subsidiary Lakatomo Holdings Limited. The remainder of the proceeds was used to finance deal-related costs and settlements with former employees as well as current corporate activities and to refinance part of Lenta's existing loan portfolio of revolving credit lines.

In April 2013, the parties to the VTB Facility Agreement entered into an amendment agreement that extended the maturities on its initial two tranches to March 2018 (with bullet maturities) and provided for a third, five-year tranche (maturing in November 2018) in an amount up to RUB15 billion, secured on largely the same terms as the initial two tranches (but with four equal quarterly repayments of principal in its last year). This third tranche of funding remains available for drawdown within 540 days from the date of execution of the amendment agreement and can be used for expansion purposes and current corporate activities. As of 31 December 2013, Lenta has drawn down RUB5 billion of this third tranche.

The interest rate under the VTB Facility Agreement is variable, consisting of the three-month MosPrime rate plus a margin that is determined taking into consideration Lenta's leverage ratio. Depending on the leverage ratio, the margin is 3.7% or 4.2% per annum for the first tranche, 4.25% or 4.75% per annum for the second tranche and 3.5% or 4.0% per annum for the third tranche.

The VTB Facility Agreement is subject to a number of covenants, including certain maintenance covenants and certain restrictions on the pledging of real estate and on acquisitions.

Lenta has entered into a series of interest rate swap and cap agreements in respect of interest payments on amounts borrowed under the VTB Facility Agreement with JSC VTB Bank as a hedge against future increases in the MosPrime rate. As a result, as of 31 December 2013, a notional amount of RUB22.5 billion is subject to these swaps and caps in respect of the first two tranches of the VTB Facility Agreement to maturity and of RUB1.8 billion in respect of the third tranche to maturity.

As of 31 December 2013, the total amount outstanding under the VTB Facility Agreement was RUB30.375 billion.

Agreements with JSC Bank of Moscow

In December 2011, Lenta LLC entered into two revolving credit facilities with JSC TransCreditBank, allowing total borrowings of up to RUB4.95 billion. The facilities have a maturity date of 30 November 2014. In March 2013 both loans were assigned to JSC Bank of Moscow. The facilities are subject to a number of covenants, including certain restrictions on borrowing, the acquisition of shares in another company over a certain value and the payment of dividends over a certain value. As of 31 December 2013, no amount was outstanding under these revolving facilities.

Credit Facility with JSC VTB Bank

In February 2012, Lenta LLC entered into a revolving credit facility with JSC VTB Bank, allowing borrowings of up to RUB4.7 billion. The credit facility has a maturity date of 1 February 2015. The facility is subject to a number of covenants, including certain maintenance. As of 31 December 2013, the total amount outstanding under this facility was RUB1.3 billion.

Credit Facility with JSC Sberbank of Russia

In June 2012, Lenta LLC entered into a revolving credit facility with JSC Sberbank, allowing borrowings of up to RUB4.5 billion. The credit facility has a maturity date of 30 May 2015. The facility is subject to a number of covenants, including certain maintenance covenants and restrictions on the pledging or disposal of assets. As of 31 December 2013, no amount was outstanding under this facility.

Credit Facility with JSC Bank Saint-Petersburg

In April 2013, Lenta LLC entered into a revolving credit facility with JSC Bank Saint-Petersburg, allowing borrowings of up to RUB2 billion. The credit facility has a maturity date of 15 April 2016. The facility is subject to a number of covenants, including the requirement to provide certain financial information and maintain necessary licences. As of 31 December 2013, no amount was outstanding under this facility.

Agreements with Raiffeisenbank

In April 2013, Lenta LLC entered into a revolving credit facility with Raiffeisen Bank, allowing borrowings of up to RUB4.5 billion. The credit facility has a maturity date of 19 October 2014. The facility is subject to a number of covenants, including the requirement to provide certain financial information. As of 31 December 2013, the total amount outstanding under this facility was RUB4.5 billion.

In August 2013, Lenta LLC entered into an agreement on the issuance of bank guarantees of up to RUB1 billion with Raiffeisen Bank, which is available until 15 December 2015. As of 31 December 2013, no amount was outstanding under this agreement.

Finance Leases

Lenta has entered into finance leases (the aggregate value of which represent a small share of Lenta's overall indebtedness) with JSC VTB Leasing for the leasing of vehicles and printing equipment. Lenta's obligations under these leases are the Rouble equivalent of a Euro amount (based on the exchange rate at the time of payment). The interest rates under these leases are fixed at the commencement of the lease term, and all leases are on a fixed repayment basis.

Description of Bonds

In March 2013, Lenta LLC issued three tranches of bonds in an aggregate amount of RUB10 billion, which mature in March 2020 and are admitted to trading on the Moscow Exchange, with one tranche (in the amount of RUB4 billion) listed on the "B" quotation list of the Moscow Exchange. An interest rate of 10% per annum applies for the initial three years of the bonds, and then is reset for such further period and such interest rate as Lenta LLC selects, subject to the put right of the bondholders to have their bonds redeemed in the five day period before the reset of interest (put rights for which may be exercised in March 2016). The bonds contain a right of bondholders to demand early redemption if the bonds are de-listed or Lenta LLC fails to pay due interest for more than seven business days. In addition, the Company provided an irrevocable offer to bondholders to purchase the bonds in these circumstances or where Lenta LLC has failed to redeem the bonds for more than 30 calendar days after the due date.

In July 2013, Lenta LLC established a programme with the Moscow Exchange for the issuance of up to RUB33 billion of bonds in eight tranches. Under the programme, the bonds are to mature ten years after placement. The amount of an interest rate and how long that interest rate applies is determined upon placement. The bonds contain a put option right for bondholders to demand early redemption at the time of resetting the interest rate. The bonds contain a right of bondholders to demand early redemption if the bonds are de-listed. The Company expects to provide (but is not legally required to provide) an irrevocable offer to purchase the bonds if they are de-listed at the time of placement of the bonds. As of the date of this Prospectus, Lenta LLC has not issued any bonds under the programme.

Capital Expenditures

In the years ended 31 December 2013, 2012 and 2011, Lenta made capital expenditures, which consist of net cash used in investing activities, of RUB23,549 million, RUB14,962 million and RUB3,837 million, respectively. Lenta funded its capital expenditures in the years ended 31 December 2013, 2012 and 2011 in part from cash from operations and in part from funds raised through the issuance of bank borrowings and bonds.

Lenta's capital expenditures in 2013, 2012 and 2011 have mainly resulted from the expansion of its operations and, in particular, the construction of new hypermarkets and supermarkets and investment in its supply chain including construction of two distribution centres. In 2013, the average capital expenditure to open an owned hypermarket (blended across all three formats) was RUB974 million and to open a rented hypermarket was RUB230 million. Opening an owned distribution centre of approximately 20,000 sq. m. entails capital expenditure of approximately RUB1.1-1.3 billion.

The following table summarises Lenta's capital expenditures in the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
	(RUB millions)		
Purchase of property, plant and equipment	22,496	14,062	3,544
Purchase of intangible assets other than leasehold rights	274	263	122
Purchase of leasehold rights	813	638	386
Proceeds from sale of property, plant and equipment	(4)	(1)	(215)
Proceeds from disposals of leasehold rights	(30)	—	—
Total capital expenditures	**23,549**	**14,962**	**3,837**

In 2014-15, Lenta expects its total capital expenditure will surpass its 2013 level, in light of Lenta's plans to double its selling space over the next three years, depending on market conditions, cash flow from operations and available financing at the time of the proposed expenditures.

In the near to medium term, Lenta intends to continue its recent pace of expansion, acquire land plots for new stores and purchase (or lease) machinery and equipment necessary to support its expanding operations (including the construction of new distribution centres). To pursue this strategy, Lenta will require significant levels of capital expenditures. See "*Risk Factors—Risks relating to strategy—Lenta may not be able to implement its expansion strategy or execute its capital expenditure plan*s".

CROCI and ROIC

The following table summarises Lenta's CROCI and ROIC in the years ended 31 December 2013, 2012 and 2011:

	Year ended 31 December		
	2013	2012	2011
CROCI (%)[1]	34.8	44.0	41.3
ROIC (%)[2]	39.2	57.2	50.7

Notes:

(1) CROCI is defined as Adjusted EBITDA over average capital invested. Average capital invested is the average of the book value of gross non-current assets plus net working capital as of the beginning of the year and the book value of gross non-current assets plus net working capital as of the end of the year.

(2) ROIC is defined as operating profit (on a pre-tax basis) over average capital invested (book value of net non-current assets plus net working capital), calculated as simple average of capital invested as of the beginning of the year and the end of the year.

Lenta considers its CROCI and ROIC record during the period under review to be superior to the Russian food retail industry average (based on a review of publicly available information) and reflects Lenta's superior sales densities and low operational costs, notwithstanding Lenta's emphasis on ownership of its hypermarkets, which increases asset values and therefore negatively impacts its CROCI and ROIC results.

Contractual Obligations and Commercial Commitments

The following table sets forth Lenta's aggregate contractual obligations and commercial commitments as of 31 December 2013 and the payments due by period under such obligations and commitments:

	As of 31 December 2013			
	Total	Less than 1 year	1-5 years	More than 5 years
		(RUB millions)		
Long-term and short-term loans[1]	51,076	9,239	41,837	—
Bonds[2]	12,493	997	11,496	—
Finance leases	62	21	41	—
Capital expenditure commitments (excluding finance leases)[3]	7,809	7,809	—	—
Operating leases	17,237	1,077	3,714	12,446
Total contractual obligations and commercial commitments[4][5]	**88,677**	**19,143**	**57,088**	**12,446**

Notes:

(1) This amount includes future interest payments associated with the loans. Furthermore, the loans are subject to specific repayment terms and any default on the repayments could result in the acceleration of these payments.

(2) This amount represents the bonds issued in March 2013 (including future interest payments). These bonds have a fixed maturity date in March 2020, but have a put option right for the bondholder to take early repayment that initially vests three years after placement.

(3) Capital expenditure commitments represent payments expected to be made under contracts in existence as of 31 December 2013 for the acquisition of property, plant and equipment and intangible assets.

(4) This contractual obligations and commercial commitments table does not reflect purchase orders entered into in the normal course of business or long-term commitments for normal purchases and sales.

(5) This contractual obligations and commercial commitments table does not include amounts relating to deferred tax liabilities. Due to uncertainty regarding the timing of payments associated with these liabilities, Lenta is unable to make a reasonable estimate of the period for which these liabilities might be paid.

Off-Balance Sheet Arrangements

Lenta does not have any material off-balance sheet arrangements with any of its affiliates or with any unconsolidated entities.

Dividend Policy

In the past three calendar years, Lenta has not paid out any dividends, instead using cash flow from operations primarily to fund its expansion programme; Lenta does not expect to declare any dividends in 2014. In future years, Lenta will consider the pay out of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion, its debt profile and leverage ratios. As such, while Lenta's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out.

Critical Accounting Policies

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

The most significant areas requiring the use of management estimates and assumptions relate to: operating lease commitments; the treatment of transactions as asset purchases or business combinations; useful life of property, plant and equipment; assumptions on the renewal of leases; inventory valuation; and impairment of non-financial assets.

Operating Lease Commitments

As lessor, Lenta enters into certain leases of land and premises. Based on an evaluation of the terms and conditions of these leases, such as the lease term not constituting a substantial economic portion of the economic life of the commercial property, Lenta has determined that it retains all significant risks and rewards of ownership of these properties and accounts for these contracts as operating leases.

Treatment of Transactions as Asset Purchase or Business Combination

From time to time, in the ordinary course of business, Lenta acquires companies that are party to a lease contract or own a land plot in which Lenta is interested. If at the date of acquisition by Lenta, the acquired company is not engaged in any business activity, then Lenta treats such acquisition as a purchase of assets (a leasehold right or a landplot) in the Financial Statements. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

Useful life of property, plant and equipment

The estimation of the useful life of property, plant and equipment is a matter of judgment based on experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits inherent in the assets. Management of Lenta assesses the remaining useful life of an asset in accordance with its current technical condition of such asset and the estimated period during which such asset is expected to generate benefits for Lenta. In its assessment, Lenta's management considers the following primary factors: (i) expected usage of the asset; (ii) expected physical wear and tear, which depends on operational factors and the maintenance programme; and (iii) technical or commercial obsolescence arising from changes in market conditions.

The useful life of an asset is reviewed at least once a year—at the end of each financial year—and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

Assumption on Renewal of Leases

Lenta makes the assumption that the initial three-year leases on land where stores are being built will be renewed for 49 years upon completion of construction. Therefore, any long-term prepayments at the inception of the leases are presumed to have a 49-year useful life. Should Lenta fail to renew the land lease contracts for a 49-year period, leasehold rights would have to be written off at the end of the initial lease term.

Inventory Valuation

Lenta's management reviews inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review also includes the identification of slow moving and obsolete inventories, which is evidence of inventory net realisable value being lower than its carrying amount. Lenta marks down the net realisable value of slow-moving and obsolete articles, taking into account maximum shelf life and expected markdowns of seasonal articles at the end of the relevant season. These markdowns are applied monthly, and the resulting net realisable value of a particular good is compared with cost. To the extent net realisable value of such good is below cost, a percentage of the inventory value is written down.

Reflecting these write-downs as well as regular inventory shrinkage, Lenta recognised inventory losses (as expenses under cost of sales) for the years ended 31 December 2013, 2012 and 2011 of RUB2,121 million, RUB 1,275 million and RUB1,236 million, respectively.

Impairment of Non-Financial Assets

Lenta 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 calculation of fair value less costs to sell 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. The calculation of value in use is based on a discounted cash flow model. In determining the value in use of an asset or cash-generating unit, future cash flows are estimated from each store based on a projection of cash flows, using 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.

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

Disclosures about Market Risk

Interest Rate Risk

Interest rate risk is the risk that changes in variable interest rates will adversely impact Lenta's financial results. Lenta's interest rate risk arises mainly from long-term, variable-rate borrowings, and, in particular, the VTB Facility Agreement, which bears a floating interest rate of three-month MosPrime plus a margin. See "*—Liquidity and Capital Resources—Indebtedness—Description of Material Financings—VTB Facility Agreement*". As of 31 December 2013, approximately RUB30.375 billion, or 65.8% of Lenta's total indebtedness, consisted of variable interest rate debt.

Lenta uses interest rate swaps and caps to hedge its exposure to variability of interest rates. In particular, there are interest rate swap and caps contracts in place in respect of the two tranches of the VTB Facility Agreement to April 2018 and in respect of the third tranche under the VTB Facility Agreement to November 2018. As of 31 December 2013, outstanding interest rate swap and cap contracts in connection with the VTB Facility Agreement mature in 2014, 2015 and 2018. Taking into consideration the notional amount of these interest rate swaps and caps, the net exposure of Lenta's floating rate borrowings under the VTB Facility Agreement to interest rate fluctuations was 20% as of 31 December 2013. See Note 30 to the 2013 Financial Statements—Interest rate Risk.

Foreign Currency Risk

Lenta imports approximately 3% of its food and non-food products (as measured by the purchase price paid to suppliers) from overseas suppliers, paying in currencies other than the Rouble. Lenta's primary currency risk arises from the depreciation of the Rouble against the U.S. Dollar and Euro between the date when amounts are recorded as payable under Lenta's U.S. Dollar-denominated and Euro-denominated transactions and the date of actual purchase.

Roughly half of Lenta's leases for its supermarkets are effectively foreign-currency denominated. As of 31 December 2013, Lenta had no foreign currency denominated financial indebtedness. For an analysis of Lenta's foreign currency sensitivity, see Note 30 to the 2013 Financial Statements—Foreign currency risk, and—Foreign currency sensitivity.

Credit Risk

Lenta's financial assets that are exposed to credit risk consist mainly of trade receivables and cash and cash equivalents. Lenta has no significant concentrations of credit risk because its customer and supplier base is large and diverse. See Note 30 to the 2013 Financial Statements—Credit risk.

Lenta does not face significant credit risk with respect to trade receivables. Trade receivables mostly arise with suppliers and consist of bonuses and marketing income payable by the supplier, to whom Lenta also owes money in the ordinary course of business. No credit is extended to Lenta's customers. Lenta mitigates its credit risk by monitoring its balance of receivables on a weekly basis. The maximum exposure to credit risk associated with trade receivables is the carrying value of trade receivables as presented in the Financial Statements.

In the normal course of business, most of Lenta's cash is in transit from the stores to the banks where Lenta has accounts. Excess cash and cash equivalents are placed in financial institutions considered at the time of deposit to have a minimal risk of default.

Liquidity Risk

Liquidity risk is the risk that Lenta will not be able to settle all liabilities as they fall due. Because Lenta processes a large volume of transactions in cash, it is also exposed to the risk of cash shortages. Lenta monitors its liquidity risk through the use of a recurring liquidity planning tool, which takes into account the maturity of Lenta's financial assets and liabilities and projected cash flows from operations, as well as Lenta's anticipated funding needs. Lenta manages its liquidity risk through the use of bank overdrafts and bank loans. See Note 30 to the 2013 Financial Statements—Liquidity risk.

Capital Risk Management

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

capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. Lenta is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt and requirements to diversification of funding sources. Lenta's funding decisions are guided by the covenants in the VTB Facility Agreement. See "*—Liquidity and Capital Resources—Indebtedness"*. See Note 30 to the 2013 Financial Statements—Financial risk management—Capital management.

CERTAIN REGULATORY MATTERS IN RUSSIA

Set out below is a summary of material information concerning the regulation of Lenta's business. This description does not purport to be a complete description of all laws and regulations applicable to Lenta's business and should not be read as such.

The food retail industry in Russia is subject to Russian laws and regulations of general application as well as to the rules and regulations specific to retail markets, including consumer rights, food quality standards, sanitary rules and health and safety requirements. Key Russian legislation relating to the retail food market include:

- The Retail Law. See "*—Regulation of Food Retail Matters—Retail Law*" below.
- The Competition Law. See "*—Regulation of Food Retail Matters—Competition Law*" below.
- Federal Law No. 38-FZ "On Advertising", dated 13 March 2006, as amended (the "**Law on Advertising**") imposes certain requirements for advertising of goods and services and prohibits unfair, inaccurate or misleading advertising.
- Federal Law No. 171-FZ "On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Ethanol Containing Products", dated 22 November 1995, as amended (the "**Law on Alcohol**"), and Federal Law No. 15-FZ of "On Health Protection from Exposure to Environmental Tobacco Smoke and the Effects of Tobacco Consumption", dated 23 February 2013, as amended (the "**Law on Tobacco**"). See *"—Regulation of Food Retail Matters—Sale of Alcohol and Tobacco*" below.
- Federal Law No. 2300-1 "On Protection of Consumers' Rights", dated 7 February 1992, as amended (the "**Consumer Protection Law**"), governs the sale of goods, performance of works and rendering of services to consumers. This law sets forth the rights of individuals vis-à-vis producers, sellers and service providers, including the right to purchase goods of good quality and the right to receive information, and specifies the consequences for violation of consumers' rights.
- Federal Law No. 29-FZ "On Quality and Safety of Food Products", dated 2 January 2000, as amended (the "**Law on Quality and Safety**"), governs quality and safety requirements for the manufacture, packaging, storage, transportation and sale of food products as well as the disposal or destruction of poor-quality and unsafe food products.
- Federal Law No. 52-FZ "On Sanitary and Epidemiological Welfare of the Population", dated 30 March 1999, as amended (the "**Law on Sanitary and Epidemiological Welfare**"), establishes the legal framework for sanitary and epidemiology compliance matters in Russia. In particular, this law requires that food products meet certain sanitary standards and food products that represent a danger to customers must be withdrawn immediately from production and sale. In addition, there is a body of sanitary rules implemented pursuant to the Law on Sanitary and Epidemiological Welfare in connection with food production and retail sale, the construction of retail stores and the employment practices of retailers.
- Federal Law No. 69-FZ "On Fire Safety", dated 21 December 1994, as amended (the "**Law on Fire Safety**"), provides for fire safety measures applicable to construction and maintenance of stores.
- Federal Law No. 89-FZ "On Production and Consumption Waste", dated 24 June 1998, as amended (the "**Law on Waste**"), sets out general rules for handling waste resulting from food production and retail operations.
- Federal Law No. 184-FZ "On Technical Regulation", dated 27 December 2002, as amended (the "**Law on Technical Regulation**"), establishes the legal framework for the development and enactment of state standards, as well as voluntary technical requirements, relating to manufacture, use, storage, transportation, sale and utilisation of goods and for compliance with these standards and requirements. In particular, according to this law, food products and non-food products sold by retailers are subject to obtaining either mandatory certification in respect of children's clothes and domestic radio-electronic equipment or quality declaration in respect of most food products and clothing. There is an on-going process to replace rules adopted pursuant to the earlier laws superseded by the Law on Technical Regulation with new state standards adopted pursuant to the Law on Technical Regulation.
- The Customs Code of the Custom Union, adopted by the decision of the Interstate Council of the Eurasian Economic Community (EurAsEC) on 27 November 2009, as amended, regulates, amongst other things, customs clearance of goods imported to Russia. The Customs Union is currently comprised of Russia, Belarus and Kazakhstan, and operates within the framework of the EurAsEC.

Compliance with requirements imposed pursuant to the above laws may be costly and time-consuming, and may, in certain cases, result in delays in the commencement or continuation of Lenta's operations. Violation of any of the applicable legal requirements could result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers. Regulatory authorities exercise considerable discretion in matters of interpretation, application and enforcement of applicable laws and regulations, as well as in matters of issuance, renewal or withdrawals of consents and permits. The key state authorities regulating and supervising the food retail industry in Russia are as follows:

- Regional and local municipal authorities, which control compliance by the companies operating in their respective regions and municipalities with various regional and local rules. Regional authorities also issue licences for the retail sale of alcoholic beverages (though such powers may be delegated to municipal authorities).
- The FAS. See "*—Regulation of Food Retail Matters—Competition Law*" below.
- The federal service Rospotrebnadzor, which monitors compliance with sanitary and epidemiological laws and regulations and exercises control over consumer protection matters under the Consumer Protection Law.
- The Federal Service for Alcohol Market Regulation ("**Rosalkogol**"), which oversees the production, storage and sale of alcohol.
- The Federal Labour and Employment Service, which supervises labour relations and the social protection of employees under the Labour Code No. 197-FZ, dated 30 December 2001, as amended (the "**Labour Code**").
- The Federal Migration Service, which develops migration policy and supervises compliance with laws and regulations relating to entry, residence and work by migrants.
- The Ministry of Civil Defence Affairs, Emergencies and Remediation of Consequences of Natural Disasters (the "**Emergency Ministry**"), which, amongst other things, supervises compliance with fire safety regulations.
- The Federal Customs Service, which develops governmental policy and the regulatory regime for custom operations and exercises control over the transfer of goods across the borders of the Russian Federation.
- The Federal Service for Intellectual Property ("**Rospatent**"), which registers intellectual property rights, including rights to trademarks, and certain agreements relating to intellectual property rights, including licence agreements for the use of a trademark, agreements for the transfer of the right to a trademark and franchising agreements.
- The Federal Service for State Registration, Cadastre and Cartography ("**Rosreestr**"), which registers rights to, and transactions with, real estate, and now maintains the Real Estate Register.
- The Public Prosecutor's Office, the federal body that supervises compliance with laws and regulations and prosecutes violations thereof.

Regulation of Food Retail Matters

Retail Law

The Retail Law was enacted in 2009 in an effort to police perceived abusive practices by Russian retailers, in particular, practices involving the suppliers to the retailers. See "*Risk Factors—Risks Relating to Lenta's Business and Industry—Risks relating to competition and demand—Russian law caps the bonuses that Lenta can receive from suppliers and sets time limits for Lenta to pay suppliers for delivered goods, while changes in Russian law currently under consideration may further impact Lenta's relationship with its suppliers*". The Retail Law also establishes the use of a regional trade register to make publicly available information on suppliers and retailers and requires retailers to disclose their supply/purchase policies on their websites or upon request.

One aspect of the Retail Law is to cap the volume-based bonuses, discounts and rebates from suppliers to retailers at 10% of the original price agreed between the supplier and the retailer for food supplies while also providing that certain staples such as bread, milk and chicken cannot be subject to such arrangements. The Retail Law also prohibits practices whereby a retailer would demand (i) a fee from a supplier to be an eligible supplier for the retailer, (ii) a fee for the right of a supplier to substitute supply with comparable food products or (iii) a supplier to compensate retailer expenses other than expenses arising from the supply and sale of the food products, as well as practices whereby a supplier would demand a retailer to subscribe to ancillary services such

as advertising or marketing services as a precondition to entering into a supply contract. In addition, the Retail Law limits the time for payment by retailers to suppliers for deliveries to 10, 30 or 45 days from the date of delivery (depending on the shelf life of the relevant food products).

Furthermore, the Retail Law prohibits a food retail company holding a market share exceeding 25% of the aggregate amount measured by cost of food products sold during the preceding financial year within a particular region, municipal area or city district in Russia from acquiring or leasing additional retail space within such territory.

Finally, the Russian Government is empowered under the Retail Law to impose maximum retail prices for "socially important food products", which comprise meat (beef, pork and lamb), chicken (other than drumsticks), frozen whole fish, butter, sunflower oil, milk, chicken eggs, sand sugar, wheat flower, bread, rice, millet, buckwheat, vermicelli, salt, black tea, potatoes, cabbages, carrots, onions and apples, for a period of up to 90 days when retail prices have increased over 30% within a 30-day period in a Russian region.

Sale of Alcohol and Tobacco

According to the Law on Alcohol, retail sale of alcoholic beverages (excluding products containing less than 1.5% of ethanol, such as beer, cider and mead), is subject to licensing. A licence is issued by regional or local authorities for no more than five years and may be renewed, subject to the licensee being current on its payment of taxes.

The Law on Alcohol regulates the minimum age of customers, the permitted time for sales, and the territory where sales of alcohol products cannot be carried out—for example, sales are prohibited in the neighbourhood of educational and health institutions, sport facilities, airports and railway stations, with the borders of such neighbourhood set by the local authorities. Furthermore, regional authorities may impose additional restrictions with respect to time, conditions and places for retail of alcohol products, or absolutely prohibit any sales. For instance, retail sales of alcohol products in St. Petersburg are prohibited from 10 pm to 11 am. Moreover, pursuant to the Law on Alcohol, Rosalkogol is authorised to fix minimum prices for alcohol products.

According to the Law on Tobacco, as from January 2014, new rules on sales and advertising of tobacco, including minimum prices and increased tobacco excise duties, became effective in Russia; as from June 2014, the display of tobacco products will be generally prohibited, so that a retailer may only display a written list of tobacco products offered for sale, and also, as a general rule, tobacco products will not be sold outside of stores. Similarly to the Law on Alcohol, the Law on Tobacco regulates the age of customers and the territory for sales of tobacco products.

Competition Law

The Competition Law governs matters relating to promotion of competition in commodity markets and prevention and termination of monopolistic practices, unfair competition and other actions restricting competition. The Competition Law's restrictions on concerted actions and discrimination have been especially important for the Russian retail industry.

According to the Competition Law, concerted actions are actions taken in the absence of any agreement between market participants which meet the following criteria: (a) the result of such actions is in the interest of each concerting market participant; (b) such actions were known in advance to each of the market participants due to public announcement made by one of them regarding commitment of such actions; and (c) such actions are caused by market participants acting in concert and not by market circumstances equally affecting all economic entities in the respective market. Concerted actions are prohibited if they result or may result in, *inter alia*, (i) price fixing, discounts, extra charges or margins; (ii) coordination of auction bids; (iii) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (iv) reduction or termination of goods production; or (v) refusal to enter into contracts with certain buyers (customers). In addition, concerted actions are prohibited if they result or may result in restriction of competition by way of, among others, (x) imposing unfavourable contractual terms, (y) fixing disparate prices for the same goods, for reasons other than economic or technological reasons or (z) creating barriers to entering or exiting a market.

The Competition Law, as well as the Retail Law, prohibits retail companies from imposing on counterparties discriminating conditions for the entry into the market or making sales, such as establishing barriers to their entry into the market or disparate pricing.

The Competition Law, as well as the Law on Advertising, also restricts unfair competition in terms of information flow such as: (i) dissemination of false, inaccurate, or distorted information that may inflict losses on an entity or cause damage to its business reputation; (ii) misrepresentation with respect to the nature, method, and place of manufacture, consumer characteristics, quality and quantity of a commodity or with respect to its producers; (iii) incorrect comparison of the products manufactured or sold by it with the products manufactured or sold by other entities; (iv) sale of commodities in violation of intellectual property rights, including trademarks and brands; or (v) illegal receipt, use, and disclosure of information constituting commercial, official or other secret protected by law.

The FAS is the state body principally authorised to deal with and accordingly polices violations of the Competition Law, the Retail Law and the Advertising Law, such as cartels and concerted actions and coordination of business activities, anti-competitive economic concentration (including unlawful expansion of retail space in a market where the retailer has a 25% market share), unfair competition and unfair, inaccurate or misleading advertising.

Russian legislation vests ample powers in the FAS permitting it to take necessary actions, including to (i) initiate proceedings regarding violation of anti-monopoly legislation; (ii) issue orders or impose fines; (iii) bring judicial actions to enforce the antimonopoly laws against companies and their officers, including, *inter alia*, through invalidating in full or in part any agreements that violate anti-monopoly law. Historically, FAS has fined a number of Russian retailers on the grounds of their wrongful discrimination against suppliers by way of (x) imposing unequal or unfair conditions on suppliers, (y) refusing to enter into supply agreements with willing and able suppliers thus creating barriers to the suppliers' access to the market or (z) tying their entry into marketing agreements with suppliers to the turnover of their goods.

Regulation of Real Estate Matters

Since 1998, almost all rights to real estate (including land plots and buildings) and transactions involving real estate must be registered in the Real Estate Register maintained by Rosreestr pursuant to Federal Law No. 122-FZ "On State Registration of Rights to Immovable Property and Transactions Therewith", dated 21 July 1997, as amended (the "**Law on State Registration**").

Currently, under the Law on State Registration, registration with the Real Estate Register is required for, i*nter alia*, the following rights: (i) the right of ownership to newly-built buildings and facilities; (ii) the right of ownership to land plots; and (iii) transfer of title to real property through sale and purchase transactions. Rights to real property that are subject to registration are deemed to legally exist only upon registration. Moreover, lease agreements for land plots or buildings with a lease term of at least one year, as well as mortgage agreements, require state registration. Absent state registration, such lease agreements and mortgage agreements have no legal effect and rights and obligations with respect to real estate are not deemed to be created (changed or terminated).

From October 2013, a new concept of a "single immovable complex" has been introduced to simplify registration procedures with respect to buildings, infrastructure assets (such as railroads and pipelines) and the underlying land.

There are occasional inconsistencies in records contained in the Real Estate Register and the description of real estate contained in the technical cadastre maintained by local technical organisations pursuant to Federal Law No. 221-FZ "On State Cadastre of Real Estate", dated 24 July 2007, as amended, which may lead to significant delays in registrations until the inconsistency is cured. Such local technical organisations were recently integrated into Rosreestr, and it is expected that the Real Estate Register and the technical cadastre will become unified into a single register by 2016.

Information from the Real Estate Register is publicly available and contains material information about the registered property, including, *inter alia*, any registered encumbrances (limitations) on the property. Since 1 March 2013, a previous owner of property is entitled to register an objection to the registration of ownership rights in the Real Estate Register. If the person who registered the objection has not pursued his challenge in court within three months, the objection is annulled (and further objection by the same person is not permitted).

With respect to buildings, state registration is usually only carried out for a completed building. Although it is possible to register a building under construction as an 'unfinished construction', in practice this is cumbersome and very rarely happens, not least because subsequent state registration of the completed building is still required.

Ownership of Real Estate

Under the Land Code, legal entities generally hold land plots in ownership or leasehold. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities.

Under Russian law, land and building ownership are distinct, so that a building and the land on which it stands may be owned by different persons. However, the acquisition of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the prior owner of a building. In addition, the owner of a building located on another party's private land has a pre-emptive right to buy or lease such underlying land. On the other hand, if a building and underlying land plot are owned by the same person, they may be disposed only together (save for certain limited cases). Owners of land plots are subject to regulation and also bear certain liabilities with respect to such property and are required to use the land plot in accordance with its designated purpose and not to cause harm to the environment.

All land in Russia is principally categorised as: land for settlement (which is the category of land on which Lenta operates its stores); land for use by industrial enterprises, power companies and communication companies as well as for military and other special purposes; agricultural land; forestry land; land for waters; land for territories and objects of special protection; and reserved land (i.e., land which is owned by the state or municipalities and may be used only upon being transferred to other categories). Land must be used in accordance with its categorised purpose. The procedure for recategorising land is set out by the Federal Law No. 172-FZ "On Transfer of Land or Land Plots from One Category to Another", dated 21 December 2004, as amended, and is implemented by decisions of relevant state (municipal) authorities (depending on the owner of such land) and in practice can be a slow and difficult process.

The existing rules on the use of land sometimes lead to significant delays in construction and development. In August 2013, the Ministry of Economic Development of the Russian Federation published on its website a draft federal law aimed primarily at simplifying the existing rules on the use of land. If the draft law is adopted, as from 1 January 2016, the land categories will be abolished, and all land plots (except for the most valuable agricultural land) will be divided into certain functional zones. There will be a broader general list of activities permitted in each zone. Municipalities will be authorised to establish and change borders of zones and approve definite activities regarding an individual land plot on the basis of the general list of activities permitted in the respective zone.

Russian law provides that real estate may be expropriated for "state or municipal needs". The owner of expropriated real estate is entitled to one year's advance notice together with payment of the full market value determined by agreement with the respective state or municipal authority or by decision of a court and compensation for any other losses suffered.

Obtaining Land Plots for Construction Purposes

Russian law generally allows individuals and legal entities to acquire land owned by state or local authorities for the development and construction of buildings. Russian law provides that state or local authorities upon application may grant permission for land plots to be used for construction purposes unless a land plot (i) has been withdrawn from commerce, (ii) is not permitted to be privatised under Russian law or (iii) has been reserved for state or local needs. Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant state or local authorities.

Under the Land Code, land plots owned by the state or local authorities may be assigned for construction purposes either with or without preliminary approval of the location of buildings to be constructed on the land plots. If the land plot is located in a town and has been assigned a cadastre number, it can be granted only through a public tender process (unless a developer enters into an agreement on development of infrastructure for an entire housing district). The winning bidder may enter into a lease agreement or purchase the land depending on the terms of the tender. If there was only one bidder participating in the public tender, the state or local authorities may enter into a direct agreement with such bidder. Often, the state or local authorities grant an initial three-year term land lease agreement (to cover the expected time of construction) on the plot, and when construction is completed grant the owner of the building a 49-year term lease or sell the land underlying the building. If a winning bidder does not develop the property, the state and local authorities may terminate the lease pre-maturely or allow it to expire. Under court practice, once a lease agreement expires, a new public tender generally should be held to again dispose of the land plot. A land plot located outside of a town (and which has not been yet assigned a cadastre number) may be assigned for construction without a public tender on

the basis of a direct lease agreement. In this case, as part of the application, an applicant is required to arrange a feasibility study relating to the future construction and subsequent use of the land plot, and the relevant state or local authority then grants or denies preliminary approval for the use of the land plot for construction.

Construction and Operation Permits

The main stages of the building construction process typically comprise the following:

- obtaining land rights;
- obtaining a town planning 'solution plan' for the land plot;
- preparing design documentation and obtaining infrastructure/utilities documentation;
- carrying out expert examination of the design documentation (which may be carried out by a state official or a third party accredited with the Federal Accreditation Service);
- obtaining a construction permit;
- performing construction works;
- obtaining an operational permit; and
- registration of title to the new building.

Under Russian law, construction is primarily regulated by the Town Planning Code (No. 190-FZ, dated 29 December 2004, as amended) and the town planning acts of regional authorities. Construction of a building on a land plot may only be carried out after obtaining a construction permit from the relevant regulatory authorities, which is issued on the basis of the design documentation meeting various state standards, environmental and sanitary rules, as well as fire safety and other safety requirements. Upon completion of construction, the relevant authority issues a permit for putting the building into operation, which confirms the compliance of the new building with its design documentation. Upon obtaining an operational permit, title to the building may be registered in the name of the owner in the Real Estate Register.

Regulation of Labour and Employment Matters

Employment Contracts

As a general practice, employment contracts in Russia are for indefinite terms. Russian labour legislation restricts entrance into term employment contracts with limited exceptions, such as senior management positions (and in practice, only general directors are usually subject to the possibility of immediate dismissal).

Generally an employer may terminate an employment contract only on the basis of specific grounds listed in the Labour Code, including:

- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- failure of the employee to comply with the position's requirements due to lack of professional qualification as evidenced by the results of an evaluation;
- liquidation of an enterprise or downsizing of staff;
- provision by the employee of false documents prior to entry into the employment contract; and
- other grounds as stated in the Labour Code or other federal laws.

An employee dismissed due to downsizing or liquidation is entitled to receive compensation (including a severance payment) and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for certain categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss pregnant women. Termination of employment contracts with mothers having a child under the age of three, single mothers having a child under the age of 14 or a disabled child under the age of 18 or other persons taking care of a child under the age of 14 or caring for a disabled child under the age of 18 without a mother is also not permitted except in certain cases provided for in the Labour Code, including liquidation of an enterprise, systematic failure of the employee to fulfil his or her duties or any single gross violation by the employee of his or her duties.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts often vindicate employees' rights. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the illegal termination and reinstatement.

Work Time

The Labour Code sets the regular working week at 40 hours for most occupations. Any time worked beyond 40 hours per week as well as work on public holidays and weekends must be paid for at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for men and 55 years for women.

Salaries

The minimum monthly wage in Russia, as established by the applicable federal law, is RUB5,554 from 1 January 2014.

Strikes

The Labour Code contemplates that workers may go on strike with the intention to settle a collective labour dispute. Russian legislation contains several requirements relating to legal strikes. Participation in a legal strike may not constitute a ground for terminating an employment contract, although employers are generally not required to pay salaries to striking employees.

Regulation of Intellectual Property

The Civil Code generally provides for the legal protection of trademarks registered with Rospatent. In addition, in accordance with the Agreement Concerning the International Registration of Marks (Madrid, 1891) and protocols thereto, Russia protects trademarks registered with the Worldwide Intellectual Property Organisation if international registration of such trademarks extends to Russia. Upon the registration of a trademark, Rospatent issues a certificate of registration of the trademark, which is valid for 10 years from the date on which the application for registration was filed. This term may be extended for another 10 years an unlimited number of times. In the absence of registration (i) the entity using the designation may be not able to protect its trademark against unauthorised use by a third party; (ii) if a third party has previously registered a trademark similar to the designation in question, then the entity may be held liable for unauthorised use of such trademark. Agreements for assignment of rights to a trademark, franchising agreements, licence agreements and pledge agreements are subject to registration with Rospatent. An unregistered licence agreement is invalid and unenforceable under Russian law and may trigger civil, administrative and criminal liability.

Board of Directors

The Board of Directors is responsible for managing the Company and may exercise all powers of the Company in doing so except to the extent that any such power (either generally or in relation to a particular matter) is required or reserved by the BCA or the M&A to be exercised by the shareholders in the Company. The Board of Directors also, by virtue of the Company's direct or indirect shareholdings in the other companies comprising the Group, provides strategic management of the affairs of the wider Group (the day to day operations of Lenta LLC, the Group's operating company, being managed by Senior Management as described below).

The Board of Directors currently consists of 11 directors. Three directors are independent directors in the judgment of the Board of Directors, having regard to the provisions of the U.K. Corporate Governance Code relating to the independence of directors (on a voluntary basis, since the same does not apply to the Company). The CEO and CFO of the Company, who are also the general director and chief financial officer of Lenta LLC, are directors (who are ineligible to serve on committees of the Board of Directors). The remaining six directors were elected by the Company's shareholders pursuant to the nomination rights of the Major Shareholders.

As provided under the M&A expected to be in force at the time of the Offering:

- the CEO and CFO hold office by virtue of their position as such, and are appointed (and removed) by the Board of Directors.
- the Major Shareholders may nominate Major Shareholder Nominated Directors to be directors (and remove such directors), and the shareholders are obliged to vote to approve the appointment or removal of such candidates, as follows:
  - ***TPG***: three (including the Chairman) whilst it holds directly or indirectly an interest in 22.5% or more of the Shares; two (including the Chairman) whilst it holds directly or indirectly an interest in 15% or more of the Shares; one whilst it holds directly or indirectly an interest in 5% or more of the Shares;
  - ***EBRD***: two whilst it holds an interest in 15% or more of the Shares; one whilst it holds an interest in 5% or more of the Shares;
  - ***VTB***: one whilst it holds directly or indirectly an interest in 5% or more of the Shares.

  Immediately following the Offering, each Major Shareholder will hold sufficient Shares to nominate the maximum number of directors allocated to it. On each of the first two occasions where a Major Shareholder's holding of Shares falls below a threshold listed above, one of the directors nominated by that Major Shareholder must forthwith resign, and the number of directors on the Board of Directors shall be reduced by one (with the ultimate result that the Board of Directors will consist of nine members). On each subsequent occasion when a Major Shareholder's holding of Shares falls below a threshold listed above, one of the directors nominated by that Major Shareholder must resign no later than the next general meeting (but may be re-nominated and re-elected by simple majority resolution of the shareholders). These directors may otherwise be only removed by their nominating Major Shareholder. The Major Shareholders may not assign or transfer these nomination rights.
- there should at all times be at least three independent directors. Independent directors are elected by a majority resolution of the Board of Directors from a list of candidates proposed by the Board of Directors and considered by the Board of Directors to be independent, taking into account the criteria for independence set forth in the U.K. Corporate Governance Code, provided that each independent director shall be deemed to resign at the first general meeting following his election by resolution of directors, at which general meeting the independent directors shall be put forth for re-election. These directors may be removed by a majority resolution of the Board of Directors or by simple majority resolution of the shareholders upon a proposal made by shareholder(s) holding more than 15% of the Shares.
- each of the other directors (if any) shall be elected by simple majority resolution of the shareholders from a list of candidates which will include those candidates proposed by the Board of Directors, retiring directors consenting to being put forward for re-election, and/or put forward for election by shareholder(s) holding at least 15% of the Shares within the timeframe stipulated in the M&A. These directors may be removed in the same way as the independent directors.

The Board of Directors may appoint a director to fill a vacancy (subject to the rights of the Major Shareholders), in which case the director so appointed shall resign at the next general meeting and be put forth for re-election.

Immediately following the Offering, there will be six Major Shareholder Nominated Directors on the Board of Directors. The Major Shareholders have each transacted material related party transactions with Lenta. See "*Transactions with Related Parties*". The Major Shareholder Nominated Directors have a fiduciary duty under the laws of the BVI to act in the best interests of the Company. Under the M&A, a director who has an interest in a transaction likely to give rise to a conflict of interest may not vote on any resolution relating to the transaction (unless fewer than three directors are entitled to vote on such resolution, in which case each interested director may vote provided his interest is duly disclosed or certain other exceptions apply). See "*Description of Shares and Applicable BVI Legislation—M&A—Interests of Directors*". Under the M&A, the Major Shareholder Nominated Directors are expressly allowed to share confidential information regarding Lenta to their respective nominating Major Shareholder on a confidential basis. A Major Shareholder may elect to retain the director's fee otherwise payable to a Major Shareholder Nominated Director.

The following table sets out the name, year of birth, position (in the case of directors nominated by the Major Shareholders, also indicating the relevant nominating Major Shareholder) and committee membership of each member of the Board of Directors. The term of each current director (other than Messrs Dunning and Lemmens, whose terms last so long as they respectively continue as CEO and CFO) expires at the 2016 annual general shareholders' meeting.

Name	Year of birth	Year of appointment	Position	Committee Memberships
Stephen Johnson	1963	2010	Senior Independent Director	Audit; Nomination; Remuneration; Capex
Anton Artemyev	1960	2013	Independent Director	Audit; Nomination; Remuneration
Michael Lynch-Bell	1953	2013	Independent Director	Audit; Nomination; Remuneration
John Oliver	1959	2009	Chairman and Director; Major Shareholder Nominated Director (TPG)	Audit; Nomination; Remuneration
Dmitry Shvets	1972	2009	Director; Major Shareholder Nominated Director (TPG)	Nomination; Remuneration; Capex
Stephen Peel	1965	2011	Director; Major Shareholder Nominated Director (TPG)	—
Tim Demchenko	1973	2009	Director; Major Shareholder Nominated Director (VTB)	Nomination; Remuneration; Capex
Lindsay Forbes	1953	2009	Director; Major Shareholder Nominated Director (EBRD)	Audit
Martin Elling	1954	2011	Director; Major Shareholder Nominated Director (EBRD)	Capex
Jan Dunning	1959	2013	Director	—
Jago Lemmens	1968	2013	Director	—

The business address for each member of the Board of Directors in his capacity as a director of the Company is the Offices of Tricor Services (BVI) Limited, PO Box 3340, Road Town, Tortola, BVI.

A short summary of the qualifications and certain other information in relation to each member of the Board of Directors is set out below:

Stephen Johnson

Steve Johnson has over 20 years of experience in the retail industry, having been part of the team that turned around and successfully sold Asda to Walmart. Whilst at Asda, Steve held several senior positions including trading director, commercial finance director and marketing director. Following his time at Asda, he was CEO of Focus DIY Ltd and of Woolworths plc, as well as sales & marketing Director at GUS plc and Chairman at Dreams plc. He started his career in management consultancy with Bain & Co.

Steve has been an independent non-executive director of the Company since June 2010. He was appointed as Lenta's senior independent director in 2013 and also serves on Lenta's audit, nomination, remuneration and capital expenditure committees. He is currently a non-executive director of Big Yellow Group plc and of Unipart Group Ltd. Steve also works with a number of private equity firms primarily focused in Southern and Eastern Europe.

He graduated from University of Cambridge, Downing College with degrees in engineering in 1986 and manufacturing engineering in 1987.

Anton Artemyev

Anton Artemyev has over 10 years of experience in the consumer goods and food industry. He has worked as a senior vice president for Eastern Europe at Carlsberg Breweries A/S from 2008 to 2011, as president of Baltika Breweries from 2005 to 2011 and as executive vice president of Baltic Beverages Holding AB from 2000 to 2005. Anton also served on the board of directors at, *inter alia,* Baltika Breweries (2001-2011) and a number of Carlsberg group companies in Russia and the CIS. From 1992 to 2000, he headed Russian operations at Bossard Consultants (since 1998—Gemini Consulting). In addition, Anton was dean at the International Management Institute St. Petersburg (IMISP) from 1989 to 1992. From 2008 to 2011, Anton was a member of the management board of the Russian Union of Industrialists and Entrepreneurs.

Anton was appointed as an independent non-executive director of the Company in December 2013. In addition to his directorship at Lenta, he also currently serves on the boards of the real estate developer RBI and (as chairman) of the equipment rental company Fortrent.

Anton graduated with a degree in oceanography from Leningrad State University (1983), where he also received a Ph.D. in geography (1988). From 1989 to 1992, Anton completed coursework in management and economics at Bocconi University and Henley Management College.

Michael Lynch-Bell

Michael Lynch-Bell retired from Ernst & Young as Senior Partner in 2012 after a 38 year career with the firm. He was a member of Ernst & Young's audit practice from 1974 to 1997, becoming a partner in 1985. During this period as well as supervising and being involved in the audit of a number of multinational groups he advised a wide range of companies on systems and controls, corporate governance, risk management and accounting issues. In 1997, Michael moved to Ernst & Young's Transaction Advisory Services practice where he founded and led its U.K. Oil & Gas, Mining & Metals and IPO transaction teams. He has been involved with the CIS since 1991 and has advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.

Michael was appointed as an independent non-executive director of the Company in November 2013. In addition to his role at Lenta, he is also senior independent director, nomination committee member and audit committee chair of Kazakhmys plc; a non-executive director and audit, remuneration committees member and health and safety sub-committee chair at Equus Petroleum plc; and a non-executive director and audit committee chair at Seven Energy Limited. In addition, since July 2013 he is a director and 100% owner of Lynch-Bell Resources Limited. Michael currently also acts as a partner/director of two property development companies (Lanka Ocean Property and Ranjith Property Developers, each with one investment in the same piece of land), a member and *ex officio* Chairman of the UN Expert Group on Resource Classification and director at St. Pancras Chambers Residents Association Limited. Michael is also active with charities, including Action Aid International, The Children of Sri Lanka Trust and 21st Century Legacy.

Michael graduated from Sheffield University with a BA in Economics and Accounting in 1974, qualified as an English Chartered Accountant in 1977 and was awarded an Honorary Doctorate of Humane Letters by Schiller International University in 2006.

John Oliver

John Oliver, a former TPG partner, led TPG's European Operating Group until December 2013. Prior to joining TPG in 2006, John spent 15 years with General Electric. His roles at GE included CEO of GE Equipment Services Europe, a diverse portfolio of businesses operating in 20 countries and CEO of GE IT Solutions Europe, an IT infrastructure and services provider, which was turned around and sold under his leadership. Prior to this he held various roles at GE Medical Systems including GM EMEA Services, VP Global Radiation Therapy and VP Global Vascular Systems. He started his career in 1981 with Schlumberger oilfield services, holding various technical and country general management roles in Africa and Asia-Pacific, then worked for the Boston Consulting Group before joining GE.

John was appointed a non-executive director of the Company in October 2009 and has been Chairman of the Board of Directors since 2011. He is also a senior advisor to TPG and provides strategic advice to companies in Western Europe and Russia.

He graduated with a BSc in Chemical Engineering from Imperial College in 1981, and received an MBA from INSEAD in 1987.

Dmitry Shvets

Dmitry Shvets is the head of TPG Capital Russia. Prior to joining TPG Capital in 2008, Dmitry was operating director in the mining and metallurgical company Norilsk Nickel where he was in charge of optimisation of the company's key assets and also responsible for integration of newly acquired assets. From 1998 to 2004, Dmitry worked for McKinsey & Company where he led projects in such industries as consumer goods, retail, transportation, metals and mining and oil extraction. Dmitry also worked for the Coca-Cola Company in various marketing roles. He served on the board of the Russian shipping and logistics company FESCO plc in 2013. Dmitry was appointed a non-executive director of the Company in October 2009 and is also chairman of the Company's capital expenditure and human capital committees.

He received an MBA degree from Emory University in 1997 and graduated with honors from the Moscow State Institute of International Relations (MGIMO) in 1995.

Stephen Peel

Stephen Peel is a managing partner at TPG Capital based in Hong Kong. He has over 25 years of experience in finance and private equity. Stephen was a founder of TPG's European office in 1997. He also set up TPG's activities in Eastern Europe and Russia before assuming responsibility as a group head for the businesses in Asia in late 2008. Before joining TPG, Stephen worked in the Principal Investment Area of Goldman Sachs International in Europe from 1989 to 1997. Stephen has been a non-executive director of the Company since September 2011 and serves or has served on the boards of, *inter alia,* Newbridge Capital Limited, HCP Packaging Hong Kong Limited, China Grand Automotive Services Co. Ltd, Grohe AG, Mey Icki Sanayi ve Ticaret As and Far-Eastern Shipping Company PLC.

He graduated from the University of Cambridge, Downing College with a BA degree in 1987.

Tim Demchenko

Timothy Demchenko is Head of Private Equity and Special Situations at the VTB Capital group and has over 15 years' experience in private equity and corporate business development. During his career in leading international companies, including IBM, Siemens and Deutsche Bank, Tim has participated in multiple private equity and corporate transactions in Western Europe, the United States and Russia. Tim became a non-executive director of the Company in October 2009. He is also a director of Russ Outdoor and Brunswick.

He holds professional qualifications and certifications from CIMA and SFA, as well as a master's degree in finance from London Business School, which he received in 1999.

Lindsay Forbes

Lindsay Forbes has been at the EBRD since 1994 and is currently Director of Industry, Commerce and Agribusiness for Russia, based in Moscow. He has over 30 years experience in the banking industry, and has held multiple directorships over the past 20 years. Previously, Lindsay served as Director, Corporate Equity managing a portfolio of equity investments across all EBRD countries of operation. Before joining EBRD, he spent 13 years with the British Linen Bank, the investment bank subsidiary of the Bank of Scotland, working in both the United Kingdom and the United States. Prior to this, he worked as a lawyer with Norton Rose.

Lindsay became a non-executive director of the Company in October 2009 and is currently a member of Lenta's audit committee. In the past, he has represented EBRD on a number of corporate listed and unlisted investments including as a member of the board and chairman of the audit committee of International Moscow Bank (now UniCredit) as well as a board member of Orgresbank (now Nordea Bank).

Lindsay is a qualified solicitor, receiving a law degree from Oxford University, Hertford College in 1975 and an MBA from INSEAD in 1981.

Martin Elling

Martin Elling became a non-executive director of the Company in September 2011. Martin also currently serves as a non-executive board director for Pestova Ltd in Kosovo. He has over 30 years of international experience in finance, development and procurement, including over 20 years in the CIS. Martin also advises companies on

restructuring and corporate governance. Martin has served on a number of boards since 1997, most recently as a board director of Ilta Grain Inc. (2012 to January 2014), and UCC sàrl (2008 to 2013) and previously also worked at the EBRD (1992 to 1997) and the United Nations (1981 to 1992, as a financial analyst and economist), before leaving to concentrate on investment opportunities in agribusiness, leasing and business-to-business services in Ukraine and Russia.

In 1979, Martin graduated with a master's degree in economics from the University of Amsterdam and he has a post-graduate degree in development economics from the University of Wageningen.

Jan Dunning

Jan Dunning became CEO of the Company in October 2009 and general director of Lenta LLC in November 2009. Jan was appointed as a director of the Company in November 2013. Prior to joining Lenta, Jan had served as general manager of Metro Cash & Carry Ukraine, and previously was operations director of Metro Cash & Carry Russia. During his six years with METRO in Russia, the business expanded from four stores to 48. Jan's previous experience also includes three years as general manager of the Lukas Klamer wholesale business, a subsidiary of METRO in the Netherlands, and over ten years with Aldi North. Over the last 25 years he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

He obtained a BA in history from the University of Groningen in 1983 and a degree in business economics from the University of Amsterdam in 1989 and also attended a management accelerated development programme at London Business School in 2007 and a marketing programme at INSEAD in 2008.

Jago Lemmens

Jago Lemmens joined Lenta LLC in October 2010 as a director of accounting and reporting, becoming the CFO of both the Company and Lenta LLC in 2011. Jago was appointed as a director of the Company in November 2013. He has over 24 years of experience in the retail industry. Mr. Lemmens has previously worked for, *inter alia,* Lukas Klamer BV, Vomar Voordeelmarkt (Netherlands), Metro Cash & Carry (the Netherlands), OBI (Ukraine) and Unigro NV, with senior positions in the fields of finance, accounting and controlling management.

In 1993, Jago Lemmens graduated with a master's degree in finance and accounting from the Vrije Universiteit Amsterdam, where he also obtained a post-graduate qualification of Certified Public Auditor in 1996. In 2003, he undertook post graduate courses in financing, accounting and controls at the University of Amsterdam. Jago is a member of the Association of Chartered Auditors and the Association of Registered Controllers in the Netherlands.

Senior Management

The general director of Lenta's operating company Lenta LLC (currently Jan Dunning) has broad powers as a matter of Russian law, able to contract and enter into transactions on Lenta LLC's behalf and exercise executive authority over all day to day activities, subject to certain restrictions imposed by Russian law and by the charter of Lenta LLC. These require that the general director act in good faith, with due care and in the best interests of Lenta LLC, and that shareholder consent is required to: (i) enter into major transactions and/or interested party transactions (as such terms are defined under Russian law), (ii) declare dividends, (iii) issue securities, (iv) transfer any participation interest in Lenta LLC held in treasury or (v) dispose of real property.

As at the date of this Prospectus, Lenta's senior management (the "**Senior Management**") consists of the following members:

Name	Year of birth	Year of appointment	Position	Expiry of term
Jan Dunning	1959	2009	Chief executive officer (CEO) of Company; general director of Lenta LLC	February 2019[(1)]
Jago Lemmens	1968	2010	Chief financial officer (CFO) of Company and Lenta LLC	Indefinite
Herman Tinga	1957	2013	Commercial director (CCO) of Lenta LLC	Indefinite
Edward Doeffinger	1957	2011	Operations director (COO) of Lenta LLC	Indefinite
Joern Arnhold	1970	2011	Supply chain director of Lenta LLC	Indefinite
Tatiana Yurkevich	1972	2012	Human resources director of Lenta LLC	Indefinite
Sergey Prokofiev	1969	2012	Legal and government relations director of Lenta LLC	Indefinite
Maxim Shchegolev	1966	2012	Format integration and development director of Lenta LLC	Indefinite

Note:

(1) Jan Dunning's appointment as CEO of the Company is indefinite. In February 2014, the Board of Directors approved a five-year term for the general director of Lenta LLC (and for Mr. Dunning to serve such term) together with a corresponding amendment to the charter of Lenta LLC and Mr. Dunning was duly appointed to serve such term.

The business address for each member of Senior Management of Lenta LLC in such capacity is 112 Savushkina Street, St. Petersburg 197374, Russia.

A short summary of the qualifications and certain other information in relation to each member of Senior Management is set out below:

Jan Dunning

See "*—Board of Directors*" for a brief biography of Jan Dunning.

Jago Lemmens

See "*—Board of Directors*" for a brief biography of Jago Lemmens.

Herman Tinga

Herman Tinga was appointed commercial director (CCO) of Lenta LLC in April 2013. He previously worked as a global category management & sourcing director for METRO and served on the board of Makro Cash & Carry Netherlands during 2007-2012, as well as on the board of Metro Cash & Carry Russia during 2003-2007. With a background in marketing, category management and buying merchandising, Herman has extensive retail experience as senior manager for large retailers in both mature and emerging markets spanning 32 years.

Herman graduated from the NIMA (Netherlands Institute for Marketing) in 1980 with an A-diploma degree and in 1986 with a B-diploma degree (Bachelor) in marketing management.

Edward Doeffinger

Edward Doeffinger was appointed as operations director (COO) of Lenta LLC in November 2011. Edward Doeffinger started his career in private-sector retail in 1991 at Metro Cash & Carry Germany and has over 30 years of experience in the retail industry, including several years with the Ministry of Trade and Supply of the German Democratic Republic and 23 years of management experience, including different roles with Metro Cash & Carry (Germany, Hungary, China, Kazakhstan and Russia) as, *inter alia,* board consultant, store general manager and (for the two years prior to joining Lenta) operations director for Metro Cash & Carry Kazakhstan.

Edward graduated from the Berlin School of Economics in 1979 with a degree in economics, mathematics and informatics.

Joern Arnhold

Joern Arnhold was appointed as a supply chain director of Lenta LLC in August 2011, and brings over 15 years of global experience in the retail industry to the Group. Prior to joining Lenta, he held various positions in Metro Group Logistics, including, *inter alia,* logistics controller, divisional CEO (Turkey), project manager (Germany) and managing director (Moscow). As the managing director of Moscow Metro division, Joern dealt with processes in the field of warehouse storage, cross-docking and transportation of dry food, non-food and drinks.

Joern graduated from the Georg August University, Göttingen in 1996 with a degree in business administration.

Tatiana Yurkevich

Tatiana Yurkevich was appointed as human resources director of Lenta LLC in September 2012. Tatiana has 15 years of global experience in human resources in the heavy machinery, FMCG and retail industries, with prior roles as HR vice president for Fazer Russia (2008-2012), HR director in OJSC Izhorskiye Zavody (OMZ Group) (2005-2007) and Caterpillar Inc. (1998-2005).

Tatiana graduated from Novosibirsk State Pedagogical University in 1994 with a master's degree in the English and German languages and St. Petersburg State University in 1998 with a master's degree in international economics.

Sergey Prokofiev

Sergey Prokofiev was appointed as legal and government relations director of Lenta LLC in June 2012. Prior to this appointment, Sergey served as legal and compliance director at Metro Cash & Carry Russia for 11 years. He is a qualified Russian lawyer with 20 years of experience in law.

Sergey graduated from the Military Institute of the Ministry of Defence of Russia in 1991 with a degree in Pushtu, Dari, Arabic and English, and then obtained a degree in law from the Institute of Law of the Russian Interior Ministry of Russia in 1995. Sergey also received a Ph.D. in Law from the Institute of Legislation and Comparative Law under the Government of the Russian Federation in 2000 and an MBA degree in strategic management from California State University, East Bay, in 2007.

Maxim Shchegolev

Maxim Shchegolev was appointed as format integration and development director of Lenta LLC in September 2012. Before this, he held the position of expansion director in the North-West division of O'Key (from March 2004) responsible for various aspects of business development, including remodeling, expert assessment of the competitive environment and the purchase and lease of real estate for the construction of stores. In March 2012, Maxim Shchegolev took a similar position in MC Start, where he worked immediately prior to his employment with Lenta LLC.

Maxim Shchegolev graduated from the St. Petersburg State University of Economics and Finance in 1993 with a degree in finance and credit.

Corporate Governance

U.K. Corporate Governance Code

As a BVI company with GDRs admitted to the Official List, the Company will not be required to comply with the provisions of the U.K. Corporate Governance Code. As of the date of this Prospectus, the Company does not fully comply with the U.K. Corporate Governance Code, as (i) the chairman of the Board of Directors is not an independent director, and (ii) the Company's audit committee is not solely composed of independent directors, though independent directors represent a majority, including the chairman of the audit committee. Save as noted above, the Company intends to comply with the U.K. Corporate Governance Code to the extent appropriate and practicable.

MICEX Requirements

Currently, under Russian law and MICEX regulations, so long as the GDRs are listed on the London Stock Exchange, no additional corporate governance requirements shall result from the admission to trading of the GDRs on MICEX.

BVI requirements

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

Committees

The Board of Directors has established an audit committee, a nomination committee, a remuneration committee and a capital expenditure committee, with the responsibilities stated below. From time to time, further committees may be established by the Board of Directors.

Audit Committee

The audit committee assists the Board of Directors with the review of Lenta's internal and external audit activities, including the review of internal control systems, compliance with financial reporting requirements, and the scope, results and cost effectiveness of external audit. This committee consists of five directors, each with financial experience; currently, these are: Michael Lynch-Bell (independent, chairman), Anton Artemyev (independent), Stephen Johnson (independent), Lindsay Forbes (Major Shareholder nominee) and John Oliver (Major Shareholder nominee).

Nomination Committee

The nomination committee makes recommendations to the Board of Directors as regards the appointment of new directors (aside from Major Shareholder nominees, the CEO and the CFO), working to identify, interview and select candidates with suitable industry or key competency experience, and assessing the independence of such candidates. The committee also reviews senior management appointments and company-wide succession planning and other human resources related matters. This committee consists of six directors; currently, these are: Stephen Johnson (independent, chairman), Michael Lynch-Bell (independent), Anton Artemyev (independent), Tim Demchenko (Major Shareholder nominee), John Oliver (Major Shareholder nominee) and Dmitry Shvets (Major Shareholder nominee).

Remuneration Committee

The remuneration committee assists the Board of Directors in discharging its responsibilities in relation to remuneration, including reviewing Lenta's overall compensation policy, making proposals to the Board of Directors as to the remuneration of the directors of the Company and of Lenta's Senior Management, and advising on (and administering) Lenta management incentive plans. This committee consists of five directors; currently, these are: Stephen Johnson (independent, chairman), Michael Lynch-Bell (independent), Tim Demchenko (Major Shareholder nominee), John Oliver (Major Shareholder nominee) and Dmitry Shvets (Major Shareholder nominee).

Capital Expenditure Committee

The capital expenditure committee has the power, delegated from the Board of Directors, to review, modify and approve proposals relating to significant capital expenditure, which should be referred to this committee where the amount to be expended exceeds U.S.$2 million. This committee works within the framework of guidance provided by the Board of Directors as regards strategic, budgetary and return requirements. The capital expenditure committee also advises the Board of Directors as regards proposed projects which do not comply with this framework and are accordingly referred to the full Board of Directors. This committee consists of five directors; currently these are: Dmitry Shvets (Major Shareholder nominee, chairman), Anton Artemyev (independent), Stephen Johnson (independent), Tim Demchenko (Major Shareholder nominee) and Martin Elling (Major Shareholder nominee).

Arbitration under the M&A

See *"Description of Shares and Applicable BVI Legislation—M&A—Arbitration*" for a discussion of the M&A's arbitration provisions.

Interests of Directors and Senior Management

Remuneration

The aggregate amount of remuneration (including contingent or deferred compensation) the Group paid, and benefits in kind the Group granted, to the members of the Board of Directors and Senior Management for services in all capacities provided to Lenta in 2013 was RUB511 million, including amounts paid as a cash bonus to Steve Johnson and then applied to the purchase of an option on Shares and its exercise. See "*—Historical Share Acquisitions*".

Participation in the Offering and in an Expected Management-only Follow-on Offering

The following directors and Senior Management have agreed to participate in the Offering (paying the Offer Price, with no Company funding provided for this purpose): Messrs Oliver, Lynch-Bell, Elling, Dunning (who plans to purchase via a corporate vehicle controlled by him), Lemmens (who plans to purchase via a corporate vehicle controlled by him), Arnhold, Doeffinger and Tinga. The aggregate value of these purchases is U.S.$8.08 million; the GDRs so purchased will be subject to a lock-up of 365 days from the close of the Offering. See "*Plan of Distribution—Lock-up Arrangements*".

Separately, two members of Senior Management—Messrs Prokofiev and Shchegolev—together with up to 25 middle managers of Lenta LLC are expected to be offered Shares in a new Share issuance (limited to such managers) by the Company expected to be carried out after the MICEX Admission. The Company would deposit these Shares into the depositary receipt programme and deliver GDRs to these managers at the Offer Price. The aggregate value of any such purchases is to be less than U.S.$1 million; any GDRs so purchased will be subject to a lock-up of 365 days from the close of the Offering in the case of the Senior Management as described in "*Plan of Distribution—Lock-up Arrangements*" and in the case of the middle managers comparable thereto.

Share issuances pursuant to this expected offering and under the MIP and LTIP (as described below) are, in aggregate, to fall within the allowed issuance of Shares by the Company to employees (for which pre-emptive rights of shareholders do not apply) of up to 5% of Shares over a 10-year period.

MIP

The Company has instituted a share-settled MIP. Under the MIP, participating managers are allocated a specified number of phantom shares, in relation to which their entitlement under the MIP is calculated. Upon (i) an initial public offering (which the Offering will constitute) and (ii) any subsequent sale of Shares by a Major Shareholder to a third party (each, a "**Settlement Event**"), provided the per-Share price of that Settlement Event is greater than that manager's hurdle reference price plus 8% per annum from that manager's hurdle reference date, that manager is to receive a number of Shares (to be issued by the Company) equal to the number of that manager's phantom shares multiplied by the proportion of (x) Shares sold in the Settlement Event to (y) the total shareholding of the Major Shareholders collectively or TPG individually, whichever proportion is lower (the "**Settlement Event Proportion**"), multiplied by (b) the Share price of the Settlement Event (as determined under the terms of the MIP) minus that manager's base price, divided by the Settlement Event share price, and (unless the per-share Settlement Event price is greater than that manager's hurdle reference price plus 16% per annum from that manager's hurdle reference date) divided by two. A manager's eligibility to receive Shares in the circumstances described above is conditional on his compliance with certain covenants (including as to confidentiality, non-compete and non-solicitation). The vesting of Shares is subject to an annual cap, so that as of 31 March 2015 at most 20% of each manager's phantom shares will vest and at most a further 20% (based on the number of phantom shares originally awarded) vest each subsequent 31 March (and to the extent Shares do not vest due to application of this cap, they would vest in the next year subject to the cap applicable for that year). Where a Settlement Event occurs in relation to which the 8% per annum hurdle is not cleared, participating managers lose rights in relation to the Settlement Event Proportion of their phantom shares. Where a participating manager voluntarily terminates his employment with Lenta, has such employment terminated for cause, or otherwise breaches the terms of the MIP, he loses rights in respect of his then phantom (non-vested) shares. To the extent his phantom shares have not otherwise vested by such time, half a manager's original allocation vests and is exempted from this loss of rights on the fifth anniversary of that manager's vesting period commencement date, and the remainder on the seventh anniversary.

The key terms of each member of Senior Management's participation in the MIP are set forth in the table below:

Manager	Number of phantom shares	Base price (U.S.$)	Hurdle reference price (U.S.$)	Hurdle reference date	Vesting period commencement date
Jan Dunning	205,646	49.84	25.09	23 September 2011	1 April 2012
Jago Lemmens	102,823	49.84	25.09	23 September 2011	1 April 2012
Herman Tinga[1]					
1st grant	102,823	49.84	45.19	1 April 2013	1 April 2013
2nd grant	35,000	49.84	45.19	1 April 2013	1 April 2014
Edward Doeffinger	102,823	49.84	25.09	23 September 2011	1 April 2012
Joern Arnhold	85,686	49.84	25.09	23 September 2011	1 April 2012
Sergey Prokofiev	35,988	49.84	45.19	1 April 2013	1 April 2013
Maxim Shchegolev	35,988	49.84	45.19	1 April 2013	1 April 2013
Tatiana Yurkevich	35,988	49.84	45.19	1 April 2013	1 April 2013

Note:

(1) Herman Tinga has received two allocations under the MIP.

Upon completion of the Offering, the Company will issue to each manager participating in the MIP a number of Shares equal to (a) 20% (being the applicable cap on vesting and issuance to 31 March 2015 and assuming the applicable hurdle is satisfied) of the number of phantom shares allocated to that manager under the MIP, multiplied by (b) the Offer Price (net of Offering expenses) minus that manager's specified MIP base price, divided by the Offer Price. The table below sets forth the number of Shares to be issued to the members of the Senior Management under the terms of the MIP upon completion of the Offering:

Manager	Number of shares to be issued under the MIP in relation to the Offering
Jan Dunning	132
Jago Lemmens	66
Herman Tinga	44
Edward Doeffinger	66
Joern Arnhold	55
Sergey Prokofiev	12
Maxim Shchegolev	12
Tatiana Yurkevich	12

Historical Share Acquisitions

Several members of Senior Management, and one director of the Company, hold Shares as a result of purchases from the Group made prior to 31 December 2013, which purchases were funded by cash bonuses paid by the Group to such Senior Management and director.

Mr. Dunning subscribed for 360,231 Shares in September 2012, and received 314 Shares in December 2013 as a result of the transfer to the Historical Shareholders (as defined below) by a departing manager further described below. Mr. Dunning holds such Shares subject to arrangements with the Major Shareholders (secured by such Shares) such that he is restricted from freely dealing with such Shares unless and until the occurrence of a Settlement Event, upon the occurrence of which the Settlement Event Proportion of his Shares cease to be subject to such restrictions, provided that irrespective of the occurrence of a Settlement Event 50% of such Shares cease to be subject to such restrictions in September 2017 and the remainder of such Shares cease to be subject to such restrictions in September 2019. If Mr. Dunning voluntarily terminates his employment with Lenta LLC, he must transfer to the shareholders of record in the Company as of the time of his acquisition of these Shares (the "**Historical Shareholders**" (which term, as used in relation to other managers below, means the shareholders of record in the Company as of the time of the relevant manager's acquisition of the relevant Shares)), pro rata to their shareholdings at that time, all of his Shares which are then subject to such restrictions.

Mr. Dunning holds 178,661 further Shares, and Messrs Lemmens and Doeffinger each holds 89,331 Shares and Mr. Arnhold holds 74,442 Shares (in each case purchased in June 2013 from Lakatomo Holdings Limited, a subsidiary of the Company), subject to arrangements with the Major Shareholders (secured by such Shares) on similar terms to the MIP, such that the aforementioned members of Senior Management may not freely deal with

such Shares unless and until such would be released to the relevant member of Senior Management under the terms of the MIP (and such that where rights would be lost under the terms of the MIP, the relevant proportion of the Shares are to be transferred to the Historical Shareholders).

Mr. Johnson holds 80,000 Shares (issued to him in December 2013 pursuant to his exercise of share options he had acquired) subject to arrangements with the Major Shareholders (secured by such Shares) such that Mr. Johnson may not freely deal with such Shares until their vesting, provided that upon his voluntary departure from the Board of Directors or upon his breach of certain covenants, Mr. Johnson must transfer to the Historical Shareholders all of his Shares save those which have vested. 20% of his Shares will vest per annum, starting 31 March 2014, provided that his vesting, on a percentage basis, shall not exceed the percentage of the Company's shares then in free float, but 100% of his Shares in any case vest on 31 March 2018.

In December 2013, a departing manager transferred in aggregate 74,442 Shares pro rata to the Historical Shareholders pursuant to his arrangements with the Major Shareholders.

Total Interests following Offering

The table below sets out the interests in the Shares that the directors and Senior Management will hold immediately after the Offering (as adjusted to reflect the issuance of Shares under the MIP as a result of the occurrence of the Offering):

	Immediately following the Offering		
Names of directors and Senior Management	**Number of Shares beneficially held**	**of which Shares purchased in Offering**	**Number of MIP phantom shares outstanding post-IPO**
John Oliver	100,000	100,000	n/a
Michael Lynch-Bell	3,200	3,200	n/a
Martin Elling	10,000	10,000	n/a
Stephen Johnson	80,000	—	n/a
Jan Dunning	549,538	10,200	164,516.8
Jago Lemmens	104,597	15,200	82,258.4
Herman Tinga	7,044	7,000	110,258.4
Edward Doeffinger	93,397	4,000	82,258.4
Joern Arnhold	86,497	12,000	68,548.8
Sergey Prokofiev	12	— (1)	28,790.4
Maxim Shchegolev	12	— (1)	28,790.4
Tatiana Yurkevich	12	—	28,790.4

Note:

(1) May purchase newly-issued Shares in the follow-on management-only Share offering expected to be carried out after MICEX Admission.

LTIP

In January 2014, the Board of Directors approved the LTIP (an equity-based, long-term motivation and retention programme for issuing bonus shares to certain key executive and senior level employees). The Company expects approximately 60-70 employees to be immediately eligible to receive LTIP award Shares; participants in the MIP are not eligible to receive awards under the LTIP.

Awards under the LTIP are to be granted annually directly and will vest (with settlement in GDRs corresponding to such vesting) three years after the date of grant, apart from the first set of grants, which will vest in phases over a three-year period. The first set of grants is scheduled to take place in 2014 upon completion of the Offering, with 25% of the award vesting in each of 2015 and 2016 and 50% of the award vesting in 2017. Vesting is contingent upon the recipient's continuing employment with Lenta.

The base award for each LTIP recipient is to be based on Lenta-wide sales and EBITDA targets. Base awards are subject to adjustment by the Remuneration Committee of the Board of Directors to reflect personal performance, with top performers potentially receiving an uplift of 15% to their base LTIP award and the weakest performers receiving no LTIP award. The size of LTIP awards made immediately after the Offering will be calculated on the basis of the Offer Price and of awards made thereafter on the basis of the trading price of GDRs at the time of grant; the aggregate value of the awards in 2014 will not exceed RUB125 million.

As of the date of this Prospectus, the allocations to specific individuals have not been determined.

Service and Employment Contracts

Lenta enters into service contracts (or letters of undertaking) governed by BVI law with the members of the Board of Directors, which set forth their compensation and a summary of their duties and responsibilities. The members of the Senior Management have entered into employment contracts with Lenta LLC, which set forth their compensation and contain standard terms and conditions (including as to severance and other benefits typically granted) in compliance with Russian law.

No benefits are payable upon termination to the members of the Board of Directors or, other than payments required by their employment contracts or (in certain circumstances) issuances representing rights accrued under the MIP, the Senior Management.

Conflict of Interest

Other than the relationships between the Major Shareholders and their respective Major Shareholder Nominated Directors (as described above under "*—Board of Directors*"), there are no actual or potential conflicts of interest between the duties that any member of the Board of Directors or the Senior Management owes to the Company and such member's private interests or other duties.

Directors and Officers Insurance Liability; Indemnification

The Company maintains directors and officers insurance in favour of its directors and anyone acting in a managerial capacity, including Senior Management, pursuant to which such individuals are insured against certain costs and liabilities arising from their services as directors or management. The total insurance cover for directors and officers is determined and approved from time to time by the Board of Directors.

The Company further indemnifies its directors (pursuant to the M&A) against certain costs and liabilities arising from their services as directors, subject to certain conditions (including that the relevant director acted honestly and in good faith).

Litigation Statement about Directors and Senior Management

None of the directors or Senior Management:

1. have any convictions in relation to fraudulent offences;
2. have been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
3. have received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company,

in each case within the five years preceding the date of this Prospectus.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this Prospectus, the number of Shares was 86,052,995, all of which have been issued on a fully paid-up basis.

Principal Shareholders

The table below sets out certain information regarding the Company's shareholders as of the date of this Prospectus and their holdings immediately after the Offering:

	Immediately before the Offering		Immediately after the Offering (assuming no exercise of the Over-allotment Option)		Immediately after the Offering (assuming the Over-allotment Option is exercised in full)	
Name of Shareholder	**Number of Shares**	**% of Shares**	**Number of Shares**	**% of Shares**	**Number of Shares**	**% of Shares**
Luna Inc.	42,890,721	49.8%	33,311,751	38.7	31,874,907	37.0
Luna Holdings Inc.	10,089,780	11.7%	7,833,561	9.1	7,495,128	8.7
EBRD	18,497,955	21.5%	14,361,548	16.7	13,741,087	16.0
Loren Bough	4,437,797	5.2%	3,587,797	4.2	3,394,919	3.9
Edward Nicholson	1,701,407	2.0%	1,701,407	2.0	1,701,407	2.0
Alexander Easton	1,693,567	2.0%	1,693,567	2.0	1,693,567	2.0
Cebalrai Holdings Sàrl(1)	707,714	0.8%	92,311	0.1	0	0.0
Periwinkle Limited	435,851	0.5%	0	0.0	0	0.0
Bowdon Holdings Limited	1,000,871	1.2%	880,871	1.0	862,871	1.0
MEM (PE) LTD(2)	1,559,933	1.8%	881,701	1.0	779,966	0.9
Steep Rock Russia Fund, Ltd.(3)	1,112,802	1.3%	919,271	1.1	890,241	1.0
Steep Rock Russia Fund II(4)	1,052,287	1.2%	869,281	1.0	841,830	1.0
Other shareholders(5)	872,310	1.0%	872,310	1.0	872,310	1.0

Notes:

(1) Prior to Closing, Nicholson and Easton transferred the Shares they are selling in the Offering (assuming the Over-allotment Option is exercised in full) to their corporate vehicle Cebalrai Holdings Sàrl, a Luxembourg company.

(2) MEM (PE) LTD is an investment fund incorporated in the Bahamas.

(3) Steep Rock Russia Fund, Ltd. is an investment fund incorporated in the Cayman Islands.

(4) Steep Rock Russia Fund II is an investment fund incorporated in the Cayman Islands.

(5) The other shareholders in the Company comprise those directors and managers of Lenta who have purchased shares in the Company (not including GDRs purchased in the Offering). See *"Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions"*.

With respect to the three principal shareholders of the Company: Luna Inc. is an investment vehicle beneficially owned by the TPG group and incorporated in the Cayman Islands; Luna Holdings Inc. is an investment vehicle beneficially owned by the VTB Capital group and incorporated in the Cayman Islands; and EBRD is an international organisation formed by treaty.

None of the Company's shareholders has voting rights different from those of any other shareholder in the Company, except in relation to the Major Shareholders' director nomination rights. See "*Management and Corporate Governance—Board of Directors*".

The Company is not aware of any shareholder, which, immediately after the Offering, directly or indirectly, will own a majority of the Shares or could exercise control over the Company, or of any existing arrangements the operation of which may at a subsequent date result in a change in control of the Company. Luna Inc. is party to contractual arrangements whereby it is permitted to vote the Shares of Periwinkle Limited, Cebalrai Holdings Sàrl, Messrs Nicholson, Easton and Bough, but the aggregate total of such Luna Inc.'s and persons' Shares, immediately after the Offering, will not confer control (i.e., over 50% of the voting rights in respect of all Shares) over the Company. Further, Luna Inc. has entered into arrangement whereby Luna Holdings Inc. (so long as it holds any Shares itself) effectively directs the voting of 20% of such Shares.

Previous Transactions

Svoboda Transaction

In September 2011, EBRD (which initially invested into the Company in May 2007 by means of the purchase of treasury Shares and the subscription for new Shares, also entering into share options subsequently cancelled in

September 2011), Luna Inc (which initially invested into the Company in October 2009 by purchasing Shares from Robelco Limited, the vehicle of Lenta's founder, Oleg Zherebtsov), Luna Holdings Inc (which also at that time held a stake in Luna Inc.) and Lakatomo Holdings Limited (an indirect subsidiary of the Company incorporated for such purpose) purchased a total of 46,938,006 Shares from Svoboda Corporation and several entities and persons aligned with it: Four Runners Fund III LLC, Mr. Dmitry Kostygin, Mr. Sergei Yuschenko and Homebush Overseas S.A. (the "**Svoboda Transaction**"). The Svoboda Transaction took place in the context of the Shareholder Dispute. See "*Business—History and Development*". All litigation and claims between the contracting parties and some associated minority shareholders and managers were settled in connection with the resolution of the Shareholder Dispute.

Prior to the Svoboda Transaction, 1,210,000 Shares were issued to each of Luna Inc. and Svoboda Corporation pursuant to the terms of a share option entered into between the Company and Mr. Zherebtsov and subsequently assigned to such persons.

Subsequent Transactions

Following such transaction, Luna Inc. has been party to a number of Share transactions: (i) purchasing a total of 1,561,475 Shares from Periwinkle Limited and Mr. Bough and others in September 2011 (and, in the case of Mr. Bough, December 2012); (ii) transferring in September and October 2011 a net total (some Shares being transferred back to Luna Inc. in consideration of the transfer by Luna Inc.) of 967,924 Shares to MEM (PE) Ltd, pursuant to arrangements put in place in 2009, as subsequently amended, (iii) transferring in December 2011 604,630 Shares to Steep Rock Russia Fund, Ltd. and Steep Rock Russia Fund II, pursuant to arrangements put in place in 2009, as subsequently amended; (iv) transferring to Luna Holdings Inc. in October 2011 to hold directly a total of 6,815,451 Shares (the number of Shares in which it had an indirect interest by reason of its stake in, and contractual arrangements regarding, Luna Inc., cancelling, at the time of the first such transfer, Luna Holdings Inc.'s stake in Luna Inc.); and (v) purchasing 967,924 Shares from MEM (PE) Ltd in March 2012.

Selling Shareholders

The following table sets out the names and business addresses of the shareholders who will be selling GDRs in the Offering (the "**Selling Shareholders**"):

Name of Selling Shareholder	Business Address	Total Shares Offered (assuming the Over-allotment Option is exercised in full)
Luna Inc.	PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands	11,015,814
Luna Holdings Inc.	PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands	2,594,652
EBRD	One Exchange Square, London EC2A 2JN, United Kingdom	4,756,868
Loren Bough	PO Box 160909, 3866 Andesite Road, Big Sky, MT 59716, USA	1,042,878
Cebalrai Holdings Sàrl	58, rue Charles Martel, L-2134 Luxembourg, Grand Duchy of Luxembourg	707,714
Periwinkle Limited	Elia House, 77 Limassol Avenue, P.C. 2121 Nicosia, Cyprus	435,851
Bowdon Holdings Limited	PO Box 3340, Road Town, Tortola, BVI	138,000
MEM (PE) Ltd	c/o Citco Fund Services (Bahamas) Ltd., One Montague Place, Easy Bay Street, PO Box N-4906, Nassau, Bahamas	779,967
Steep Rock Russia Fund, Ltd.	Queensgate House, South Church Street, PO Box 1234, Grand Cayman, KYI-1108, Cayman Islands	222,561
Steep Rock Russia Fund II	Queensgate House, South Church Street, PO Box 1234, Grand Cayman, KYI-1108, Cayman Islands	210,457

TRANSACTIONS WITH RELATED PARTIES

The following is a description of significant transactions with related parties undertaken by Lenta from 1 January 2011 to the date of this Prospectus. For further details of these transactions, see Note 7 of the Financial Statements included in this Prospectus.

General

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined in IAS 24 "*Related Party Disclosures*". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Members of the Group are, and have been, party to various agreements and other arrangements with certain related parties.

The nature of Lenta's transactions with related parties for the years ended 31 December 2013, 2012 and 2011 and outstanding balances with related parties as of 31 December 2013, 2012 and 2011 is set forth below.

Related Party Transactions

Related party transactions for the years ended 31 December 2013, 2012 and 2011 consisted of the following:

	For the year ended 31 December		
	2013	2012	2011
	(RUB millions)		
VTB Capital			
Interest expense and commission on loans	3,265	2,958	1,179
Finance leasing charge	9	11	4
Financial charges on swaps and caps	154	155	38
Change in fair value of financial instruments through profit and loss	234	(102)	374
Change in fair value of financial instruments through other comprehensive income	54	—	—
Interest income on deposits	(64)	—	—
EBRD			
Put option revaluation	—	—	683
SG&A	2	—	—
Other expenses	4	—	32
TPG Capital			
SG&A	40	—	—
Other expenses	83	72	800
Luna Holdings Inc.			
SG&A	5	—	—
Other expenses	4	—	128

As of 31 December 2013, 2012 and 2011, related party balances were as follows:

	As of the year ended 31 December		
	2013	2012	2011
VTB Capital			
Cash and cash equivalents	1,122	2,565	3,330
Long-term loans payable	29,892	24,979	24,885
Short-term loans payable	1,300	2,833	—
Interest accrued	11	8	8
Finance lease liability	50	64	73
Liability on swaps and caps	560	272	374
Loan commission prepayments	75	—	—
Interest prepayments	—	—	12

	As of the year ended 31 December		
	2013	2012	2011
EBRD			
Accrued liabilities	—	—	191
TPG Capital			
Accrued liabilities	—	—	543
Prepayments	1	40	—
Luna Holdings Inc.			
Accrued liabilities	—	5	96

VTB Facility Agreement

During the period under review, interest expenses and commissions on loans represented the largest component of Lenta's transactions with related parties, accounting for RUB3,265 million in 2013, RUB2,958 million in 2012 and RUB1,179 million in 2011. Substantially all of these amounts were paid in connection with the VTB Facility Agreement.

The VTB Facility Agreement also accounts for the largest component of Lenta's outstanding balances during the period under review. Long-term loans payable, all of which reflect amounts borrowed under the VTB Facility Agreement, amounted to RUB29,892 million as of 31 December 2013, RUB24,979 million as of 31 December 2012 and RUB24,885 million as of 31 December 2011.

Other Financings

Short-term loans payable, which reflect current liabilities in connection with revolving credit facilities with VTB Bank, the Bank of Moscow (an affiliate of VTB Bank) and, in 2012, TransCredit Bank (an affiliate of VTB Bank), equaled RUB1,300 million as of 31 December 2013 and RUB2,833 million as of 31 December 2012.

See "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*" for a description of the VTB Facility Agreement and the other financings referenced above.

EBRD Put Option

In connection with EBRD's purchase in 2007 of an interest in the Company, the Company and EBRD entered into a put and call option agreement (the "**EBRD Put Option**"), providing the EBRD with the right to sell its Shares to the Company and the Company with the right to purchase the Shares held by EBRD if certain events occurred and/or failed to occur. On 23 September 2011, the EBRD Put Option was cancelled in exchange for a cancellation fee paid to EBRD by the Company in the amount of RUB191 million, which is recognised as an accrued liability as of 31 December 2011. As a result of the cancellation of the EBRD Put Option, Lenta recognised a net gain in 2011 of RUB683 million. See "*Operating and Financial Review—Results of Operations—Year Ended 31 December 2012 Compared with the Year Ended 31 December 2011—Put Option Revaluation*". See also "*Operating and Financial Review—Recent Developments—Loan Agreement with EBRD*" for a discussion of the EBRD Loan Agreement.

Shareholders' Fees and Expenses

The Company has paid fees in the amount of €2 million per annum to TPG in consideration for monitoring and operational support provided by TPG to the Company; payment of such monitoring fees will cease upon this Offering being completed. Lenta's payments to TPG of such monitoring fees amounted to RUB83 million in 2013 and RUB72 million in 2012. In 2011, in addition to the settlement of the EBRD put option discussed above, in connection with the resolution of the Shareholder Dispute, Lenta paid certain fees and expenses of TPG in the aggregate amount of RUB800 million and of VTB in the aggregate amount of RUB128 million.

Organisational Structure

See "*Business—Organisational Structure*" for a discussion of the reorganisation of Lenta's corporate structure.

Shareholders' Agreement

A shareholders' agreement in place since 2011 between certain entities of the TPG group and the VTB Capital group and EBRD regarding, *inter alia*, the corporate governance of Lenta will terminate upon the completion of the Offering.

Transactions with Directors and Management

See "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions"* for a discussion of related party transactions with directors and Senior Management.

Management Remuneration

The table below sets forth remuneration for members of the Board of Directors and Senior Management (which further includes remuneration of a manager who departed in 2013) for the periods indicated. The 2012 amounts reflect in part funding provided by Lenta to Senior Management to fund their purchases of Shares.

	For the year ended 31 December		
	2013	**2012**	**2011**
	(RUB millions)		
Short-term benefits	437	1,052	506
Share-based payments	65	—	—
Termination benefits	9	1	13
Total remuneration	**511**	**1,053**	**519**

See "*Management and Corporate Governance—Interests of Directors and Senior Management—Remuneration*" and "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*" for further discussion of compensation of the members of the Board of Directors and Senior Management.

Incorporation and Registered Office

The Company was incorporated under the laws of the BVI on 16 July 2003 with the name Istochnik Ltd., which name was subsequently changed to Lenta Ltd. on 24 October 2006. The Company is registered under number 1058643.

The principal legislation under which the Company was originally formed was the BVI International Business Company Act (Cap 291) (the "**IBC Act**"). However, following legislative change in the BVI, on 24 October 2006 the Company elected to re-register under the BCA and, at the same time, disapplied Part IV of Schedule 2 of the BCA (which contained certain transition provisions carried over from the IBC Act). Following such re-registration, the Company is now registered under, and therefore subject to, the BCA and is considered to be duly incorporated with limited liability under the BCA and the laws of BVI.

The liability of the members of the Company is limited.

The registered office of the Company is at the offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI, and its telephone number is 1-284-494-6004.

Description of Shares (Authorised and Issued)

The Company is authorised to issue an unlimited number of Shares of no par value. The Company currently has 86,052,995 issued and fully paid-up Shares (as of 1 January 2011, the first day covered by the Financial Statements, the number of issued Shares was 106,325,000). There are no partly-paid Shares in issue.

The following table sets out the changes in the Company's share capital that have occurred from the date of the Company's incorporation up to the date of this Prospectus:

Year of change	Type of shares	Type of change	Number of shares	Total number of shares after change
July 2003	Ordinary	Issuance	100	100
January 2004	Ordinary	Issuance	8,865	8,965
August 2006	Ordinary	Issuance(1)	118	9,083
September 2006	Ordinary	Issuance(2)	538	9,621
December 2006	Ordinary	Redemption(3)	377	9,244
March 2007	Ordinary	Redemption(3)	8	9,236
May 2007	Ordinary	Division(4)	—	92,360,000
May 2007	Ordinary	Issuance(5)	3,850,000	96,210,000
May 2007	Ordinary	Issuance(6)	7,695,000	103,905,000
May 2007	Preference	Issuance(7)	2	103,905,002
June 2011	Preference	Cancellation	2	103,905,000
August 2011	Ordinary	Issuance	2,420,000	106,325,000
September 2012	Ordinary	Issuance(8)	360,231	106,685,231
December 2013	Ordinary	Repurchase and cancellation(9)	20,712,236	85,972,995
December 2013	Ordinary	Issuance(8)	80,000	86,052,995

Notes:

(1) Share option granted to Sergei Yuschenko for 59 Shares and to Fortune Alliance Ltd for 59 Shares.
(2) Share option granted to Robelco Limited for 538 Shares.
(3) Shares redeemed and held as treasury shares.
(4) Division of each Share into 10,000 Shares on 17 May 2007.

(5) Re-issuance to EBRD of treasury shares held by the Company.
(6) Issuance of Shares to EBRD.
(7) Issuance of preference shares to EBRD pursuant to the terms of a subscription agreement dated 27 April 2007 entered into between, *inter alia*, the Company and EBRD. These were subsequently both cancelled.
(8) Shares issued to Jan Dunning and Stephen Johnson. See "*Management and Corporate Governance—Interests of Directors and Senior Management—Historical Share Acquisitions*".
(9) Shares repurchased from Lakatomo Holdings Limited by the Company on 20 December 2013 and cancelled upon repurchase.

The number of issued and fully paid-up Shares immediately following the Offering will be increased by the Shares to be issued following, and in connection with, the Offering to Senior Management under the terms of the MIP. See "*Management and Corporate Governance—Interests of Directors and Senior Management—MIP*" for a breakdown of such Shares.

Save as disclosed in the table above, since the Company's incorporation, there has been no issue of Shares, fully or partly paid, either in cash or for other consideration, and no such issues are proposed. Save as disclosed in the paragraph immediately above or in "*Management and Corporate Governance—Interests of Directors and Senior Management—MIP*", no Shares (issued or authorised but unissued) or shares of any of the Company's subsidiaries are under option or agreed conditionally or unconditionally to be put under option. As of the date of this Prospectus, the Company holds no Shares in treasury.

BVI Law

The Company is registered in the BVI as a business company limited by shares (a "**BVICo**") and is subject to BVI law. Certain key aspects of BVI law as it relates to companies incorporated in the BVI are summarised below, although this is not intended to provide a comprehensive review of the applicable law.

Shares

Subject to the BCA and to the memorandum and articles of association of a company, the directors of a BVICo have the power to offer, allot, issue, grant options over or otherwise dispose of shares in a BVICo. A BVICo may amend its memorandum of association to increase, divide, combine or decrease its authorised or issued shares.

Financial Assistance

Financial assistance to purchase shares of a BVICo or its holding company is not prohibited or controlled under BVI law. However, such assistance may constitute a distribution under the BCA and therefore require that the directors determine that, immediately following the grant of the assistance, the BVICo will be able to pay its debts as they fall due and that the value of the company's assets will exceed its liabilities (the "**Solvency Test**").

Purchase of Own Shares

Subject to satisfaction of the Solvency Test, the BCA and the provisions of its memorandum and articles of association, a BVICo may purchase, redeem or otherwise acquire its own shares.

Dividends and Distribution

Subject to the provisions of its memorandum and articles of association, the directors of a BVICo may declare dividends in money, shares or other property provided they determine that, immediately after the dividend, the company will satisfy the Solvency Test.

Protection of Minorities

BVI law permits derivative and class actions by shareholders. In addition, shareholders may bring actions for breach of a duty owed by a BVICo to him as shareholder or bring an action requiring the company and/or the director to comply with the BCA or the memorandum or articles of association.

However, BVI law does not treat holders of GDRs as shareholders and, as such, these rights will not be exercisable by the holders of the GDRs. There can be no assurance that the Depositary shall exercise such rights on behalf of the holders of GDRs, and it may be necessary to withdraw Shares from the GDR programme in order to exercise such rights.

Management

Subject to the provisions of its memorandum and articles of association, a BVICo is managed by its board of directors, each of whom has authority to bind the company. A director is required under BVI law to act honestly and in good faith and in what the director believes to be in the best interests of the BVICo, and to exercise the care, diligence and skill that a reasonable director would exercise, taking into account but without limitation, (i) the nature of the company, (ii) the nature of the decision and (iii) the position of the director and the nature of the responsibilities undertaken by him.

Accounting and Audit

A BVICo is obliged to keep financial records that (i) are sufficient to show and explain the company's transactions and (ii) will, at any time, enable the financial position of the company to be determined with reasonable accuracy. There is no statutory requirement to audit or file annual accounts unless the BVICo is engaged in certain business requiring a licence under BVI law. The Company does not have or require any such licence, and it is not anticipated that the Company's activities would require such a licence in the future.

Exchange Control

BVICos are not subject to any exchange control regulations in the BVI.

Stamp Duty

No stamp duty is payable in the BVI in respect of instruments relating to transactions involving shares or other securities in BVICos that do not hold an interest in land situated in the BVI. As of the date of the Prospectus, the Company does not hold any interest in land situated in the BVI, and it is not currently anticipated that any such interest will be acquired in the future. See "*Taxation—BVI Tax Considerations*".

Loans to and Transactions with Directors

Under BVI law, a transaction entered into by a BVICo in which a director is interested is voidable unless (i) such interest is disclosed to the board of directors prior to the company entering into the transaction or (ii) it is not required to be disclosed as it is a transaction between the company and the director entered into in the ordinary course of the company's business and on usual terms and conditions. Furthermore, a transaction entered into by a company in respect of which a director is interested is not voidable by the company if (i) the material facts of the interest of the director in the transaction are known by the shareholders entitled to vote at a meeting of shareholders and the transaction is approved or ratified by a resolution of shareholders or (ii) the company received fair value for the transaction, which is determined on the basis of the information known to the company and the interested director at the time that the transaction was entered into.

Redemption of Minority Shares

The BCA provides that, subject to its memorandum and articles of association, shareholders holding 90% or more of all the voting shares in a BVICo may instruct the BVICo to redeem the shares of the remaining shareholders. The BVICo is then required to redeem the shares of the minority shareholders, whether or not the shares are by their terms redeemable. The BVICo must notify the minority shareholders in writing of the redemption price to be paid for the shares and the manner in which the redemption is to be effected. In the event that a minority shareholder objects to the redemption price to be paid and the parties are unable to agree the redemption amount payable, the BCA sets out a mechanism whereby the shareholder and the BVICo may each appoint an appraiser, who will together appoint a third appraiser, and all three appraisers will have the power to determine the fair value of the shares to be compulsorily redeemed. Pursuant to the BCA, the determination of the three appraisers shall be binding on the BVICo and the minority shareholder for all purposes.

Inspection of Corporate Records

Shareholders of a BVICo are entitled to inspect a BVICo's memorandum and articles of association, its register of members (shareholders), its register of directors and the shareholder resolutions of the company on giving written notice to the company. However, the directors may refuse inspection or limit inspection rights (except a request to inspect the BVICo's memorandum and articles of association) on the grounds that inspection would be contrary to the interests of the BVICo.

The only corporate records generally available for inspection by members of the public are those required to be maintained with the BVI Registrar of Corporate Affairs (the "**BVI Registry**"), namely the certificate of incorporation and memorandum and articles of association together with any amendments thereto. A BVICo may elect to file with the BVI Registry a copy of its register of members and register of directors and may also file particulars of charges and other security interests created over the BVICo's assets, but this is not required under BVI law. The original or a copy of a BVICo's register of members, register of directors and register of charges must be kept at the office of the BVICo's registered agent. These may be inspected with the BVICo's consent or in limited circumstances pursuant to a court order.

Winding-up and Insolvency

BVI law makes provision for both voluntary and compulsory winding-up of a BVICo, and for appointment of a liquidator.

The shareholders or, if permitted by the BVICo's memorandum and articles of association, the directors may resolve to wind up a solvent BVICo voluntarily. In either case, the directors must prepare a plan of dissolution which (except in limited circumstances) must be approved by the shareholders.

A BVICo and any creditor may petition the court pursuant to the BVI Insolvency Act, 2003, for the winding-up of a BVICo upon various grounds, including, *inter alia*, that the BVICo is unable to pay its debts or that it is just and equitable that it be wound up.

Takeovers

BVI law does not include provisions governing takeover offers analogous to those set out in the U.K. City Code on Takeovers and Mergers (the "**City Code**").

Mergers

The BVI has a statutory merger and consolidation regime as set out in the BCA. Generally, the merger or consolidation of a BVICo requires approval by both its shareholders and its board of directors. However, a BVICo parent company may merge with one or more BVI subsidiaries without shareholder approval. Shareholders dissenting from a merger are entitled to payment of the fair value of their shares unless the BVICo is the surviving company and the shareholders continue to hold the same or similar shares in the surviving company. BVI law permits BVICos to merge with companies incorporated outside the BVI, provided the merger is lawful under the laws of the jurisdiction in which the non-BVI company is incorporated.

Under BVI law, a domestic statutory merger or consolidation may take the form of one or more existing companies merging into, and being subsumed by, another existing company (being the surviving company) or the consolidation of two or more existing companies into, and being subsumed by, a new company. In either case, with effect from the effective date of the merger, the surviving company or the new consolidated company assumes all of the assets and liabilities of the other entity(ies) by operation of law and the other constituent entities cease to exist.

Under BVI law, a merger can result in the compulsory cancellation of a shareholder's shares, although in such circumstances a shareholder will have the right to demand fair value for its shares. In the event that a minority shareholder objects to the merger consideration and the parties are unable to agree a price, the BCA sets out a mechanism whereby the shareholder and the BVICo may each appoint an appraiser, who will together appoint a third appraiser and all three appraisers will have the power to determine the fair value of the shares to be cancelled. Pursuant to the BCA, the determination of the three appraisers shall be binding on the BVICo and the minority shareholder for all purposes.

M&A

Subject to the BCA and any other BVI law, the Company has, irrespective of corporate benefit, full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and full rights, powers and privileges for those purposes.

The M&A were adopted by a resolution of the shareholders of the Company passed on 19 February 2014 and filed at the BVI Registry on the same date. The M&A contain the following provisions:

Share Rights

Save as described below under "—*Variation of Rights*", the Company is presently authorised to issue an unlimited number of Shares. Each such Share confers upon the holder:

- the right to one vote (unless expressly provided to the contrary in the M&A) at a meeting of shareholders or on any written resolution of the shareholders;
- the right to an equal share in any dividend paid by the Company; and
- the right to an equal share in the distribution of the surplus assets of the Company on its liquidation.

Variation of Rights

The rights attaching to any Shares may not be varied without the consent of the holders of more than 75% of the issued Shares. However, the rights attaching to any Shares shall not be deemed varied by the creation or issue of further Shares with rights ranking pari passu with such Shares.

Furthermore, should the Company wish to vary the rights of any existing class of shares or issue a new class of shares with different rights or of a different class, then the Company would be required, amongst other things, to amend the M&A to reflect those new rights. See "—*Amendment of M&A*".

Amendment of M&A

The M&A can generally only be amended by a resolution of the shareholders, including any amendment to the regulation in the M&A dealing with the appointment of directors (which in certain circumstances relating to their rights to representation on the Board of Directors must also be consented to by the Major Shareholders). Any amendment in relation to a matter requiring the approval of the shareholders by Special Resolution and any amendment in relation to the rights attaching to the Shares must be approved by a Special Resolution. Certain limited amendments may be made to the M&A by a resolution of the Board of Directors, in particular (i) any amendments to pre-emption rights to comply with any statutory, regulatory or applicable stock exchange requirements relating to rights issues and (ii) amendments necessary to implement the shareholder-approved continuation out of the Company from the BVI to another jurisdiction of the Company.

Authority to Issue Shares and Pre-emption

Save as described in the two paragraphs below, Shares may be offered, allotted and issued, and options to acquire the same may be granted, at such times, to such persons, for such consideration and on such terms as the Board of Directors may determine.

While the Board of Directors has the general authority to allot and issue Shares, the M&A require that, unless otherwise approved by the shareholders by Special Resolution or where one of the sets of circumstances described below applies, no such allotment and issuance of Shares for cash may be made unless the Shares have been offered by the Company to all current shareholders (or has made such issuance or allotment conditional on an offer to current Members), equally and in proportion to the number of Shares held by them (as nearly as possible without involving fractions), subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to legal or practical issues under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

Pre-emptive rights do not apply in respect of:

- issuances or allotments in connection with any placement of Shares or other securities on any stock exchange generally (including, but not limited to, Shares placed in a related follow-on placement) up to an aggregate amount not exceeding in the relevant calendar year 10% of the number of Shares as of the end of the immediately prior calendar year provided that such Shares are issued for cash only at a per-Share price not less than 90% of the middle market price of the Shares, including as calculated on a look-through basis by reference to the price of securities representing interests in Shares on the date of announcing the terms of the offer or of agreeing the placing (as applicable), determined by reference to the published daily price lists for the principal securities exchange on which Shares (or securities representing interests in Shares) trade for the relevant date (or alternatively, at the option of the Board, by reference to an on-screen intra-day price recognised by the market);

- issuances or allotments in connection with a placement of Shares or other securities where the issuance or allotment is to effect or fund the acquisition of asset(s) up to an aggregate amount in the relevant calendar year not exceeding 10% of the Shares as of the end of the immediately prior calendar year;
- issuances or allotments of Shares pursuant to any employee, officer and/or director share option scheme adopted by the Company up to an aggregate amount in any 120 full-month period equal to 5% of the Shares as of the start of that period; or
- issuances or allotments of bonus Shares (provided these are on a pro-rata basis) to shareholders to whom such offer can reasonably be made in light of legal or practical issues or issues for the purposes of scrip dividends.

The operation of pre-emptive rights as regards holders of GDRs is subject to arrangements being made with the Depository so that holders of GDRs receive equivalent and corresponding pre-emptive rights to those accruing to holders of Shares under the terms of the M&A.

Purchase of Own Shares

The Company may by resolution of the Board of Directors purchase, redeem or otherwise acquire and hold any of its own Shares save that the Company may not purchase, redeem or otherwise acquire its own Shares without the consent of the shareholder whose Shares are to be purchased, redeemed or otherwise acquired unless the Company is permitted by the BCA or any other provision in the M&A to purchase, redeem or otherwise acquire the Shares without such consent. Generally, purchase or redemption of shares by a company without consent of the relevant shareholder is permitted only where the terms of the shares afford the company such a right or the shares are subject to a right of forfeiture or may be compulsorily redeemed pursuant to section 176 of the BCA. See "*—BVI Law—Redemption of Minority Shares*" and "*—M&A—Forfeiture*".

Share Certificates, Depository Interests

Except if requested to issue a share certificate to a depositary (or its nominee), the Company will not otherwise issue certificates in respect of any of its Shares. However, a shareholder may request the Company to provide the shareholder with an extract from the Company's share register showing the shareholder's shareholding.

The directors shall, subject always to any applicable laws and regulations and the facilities and requirements of any relevant system concerned, have power to implement and/or approve any arrangements they may think fit in relation to the evidencing of title to and transfer of interests in Shares in the form of depository interests or similar interests, instruments or securities.

Forfeiture

If a shareholder fails to make payment in respect of any amount due to the Company in respect of Shares issued to him following a call notice from the Company requiring him to do so, then those Shares may be subject to forfeiture by the Company. Any such call notice shall name a further date (not being earlier than 14 calendar days from the date of service of the notice) on or before which the payment is to be made and shall include a statement that in the event of non-payment at or before the time named in the call notice, the Shares, or any of them, in respect of which payment has not been made, will be liable to be forfeited.

Transfer of Shares

Shares may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee, which instrument shall be sent to the Company for registration.

The Board of Directors may, in its absolute discretion, refuse to register the transfer of a Share that is not fully paid, provided that where any such Shares are admitted to trading or listing, this discretion may not be exercised so as to prevent dealings in partly paid or nil paid Shares generally or disturb the market in Shares.

The Board of Directors may also, subject to the rules of any relevant system (such as CREST), refuse to register a transfer of Shares (whether fully paid or not) in favour of more than four persons jointly or made to or by an infant or person who has been declared legally incompetent.

Mandatory Offer Requirements

The City Code will not apply to the Company, nor will the Company be subject to the jurisdiction of the Panel on Takeovers and Mergers in the United Kingdom (the "**Takeover Panel**"). However, the M&A provide that persons acquiring Shares (including GDRs) in circumstances where such would take their total holding of or interest in voting rights in the Company (taken together with persons acting in concert with them) to 30% or more of the total of such rights, or over an existing holding or interest of 30% or more but less than 50%, such persons must make a cash offer on the same terms to all holders of Shares to purchase all of their Shares at a price per Share equal to the higher of (i) the highest price paid by the proposed purchaser (or any person acting in concert with them) in the 12 months preceding the date of the offer or during the offer period and (ii) the volume weighted average market price of the Shares and/or GDRs in the six months immediately preceding the date of the offer, subject to such adjustment and/or determination by the Board of Directors as the Board of Directors may determine is fair and reasonable in the circumstances. Unless otherwise approved by resolution of directors, the offer to purchase the Shares of the other shareholders may be conditional only on the purchaser (together with persons acting in concert with it) receiving such number of acceptances as would result in the purchaser (together with persons acting in concert with it) having more than 50% of the voting rights in the Company.

A mandatory offer is not required solely as a result of a person's interest in Shares bearing an increased percentage of the voting rights in the Company due to a Share acquisition by the Company, nor where (unless the Board of Directors determines otherwise) (a) an acquisition or transfer of Shares is in connection with the exercise of security rights or the performance of obligations in relation to arrangements in place as of 31 January 2014 regarding the holding of Shares by managers or directors or (b) the exercise of pre-emptive rights.

The mandatory offer requirement (discussed above) is broadly based on the offer provisions of the City Code, albeit that the Board of Directors (rather than the Takeover Panel) would monitor and administer compliance with these requirements. The Board of Directors also has the power to require the provision of information from anyone holding an interest in Shares (including GDRs). Where a mandatory offer is not made or information is not provided, in breach of these requirements, the Board of Directors may impose sanctions regarding the voting and distribution rights of the defaulter's interest in Shares, and the ability of the defaulter to transfer his interests in Shares unless in a bona fide sale to an unconnected third party.

The M&A also provide that where any person (taken together with any person acting in concert with it) acquires or contracts to acquire pursuant to a general offer such number of (or interest(s) in) Shares that would together with any other Shares or interests in Shares held by that person (and persons acting in concert with him) carry 90% or more of the voting rights in the Company, that person may require any remaining shareholders who have not already accepted the offer, to do so.

The right to compulsorily acquire the Shares of persons who have not accepted an offer as described above is in addition to the statutory right of any person holding 90% or more of the Shares, whether acquired pursuant to such an offer or otherwise, to require the redemption of the Shares of the remaining minority. See "*—BVI Law—Redemption of Minority Shares*".

Chapters 3 and 5 of the U.K. Disclosure and Transparency Rules are applicable, by incorporation into the M&A, to the Company and holders of Shares and GDRs as if the Company were a U.K. issuer. Therefore, (i) a person discharging managerial responsibilities on behalf of the Company, and their connected persons, must notify the Company of all transactions conducted on their account in Shares or GDRs, or derivatives or any other financial instruments relating to the same; and (ii) any person must notify the Company of the percentage of voting rights in the Company he holds if such percentage reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100%. Where notice is not made or information is not provided in breach of these requirements, the Board of Directors may impose sanctions regarding the voting and distribution rights of the defaulter's interest in Shares, and the ability of the defaulter to transfer his interests in Shares unless in a bona fide sale to an unconnected third party.

Shareholder Meetings

An annual general meeting of the Company shall be held in each year (in addition to any other meetings of shareholders which may be held in that year). Not more than 15 months shall elapse between the date of one annual general meeting and the next.

At least 14 calendar days' notice of any meeting of the shareholders, or 21 calendar days' notice in respect of the annual general meeting or any meeting at which it is proposed to adopt a Special Resolution, shall be given to

shareholders (although a meeting of the shareholders convened without such notice shall be valid is shareholders holding at least 90% of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting).

The Board of Directors, when convening a meeting of shareholders, may fix as the record date for determining those shareholders that are entitled to vote at the meeting the date notice is given of the meeting, or such other date as may be specified in the notice, being a date not earlier than the date of the notice.

Upon the written request of a shareholder or shareholders entitled to exercise 15% or more of the voting rights in respect of the matter for which the meeting is requested, the Board of Directors shall convene a meeting of shareholders. Items shall be added to the agenda for a meeting of shareholders upon the request of a shareholder or shareholders entitled to exercise 15% or more of the voting rights in respect of the matter it is requested be added to the agenda, provided such request is made no later than 10 calendar days prior to the relevant meeting (with notice of such additional matters being given to the shareholders as soon as practicable thereafter), or such request is approved during the relevant meeting by holders of more than 50% of the issued Shares.

For a meeting of shareholders to be quorate, there must, at the commencement of the meeting, be present in person or by proxy not less than two shareholders entitled to vote on the matters to be considered at the meeting. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall stand adjourned to the next calendar day at the same time and place, and if at the adjourned meeting a quorum is not present within thirty minutes from the time appointed for the meeting the meeting shall be dissolved.

To be passed or adopted, a resolution of shareholders must be: (a) in the case of any resolution which is not a Special Resolution, either (i) approved at a duly convened and constituted meeting of the shareholders by the affirmative vote of a majority of the votes of the Shares entitled to vote thereon which were present at the meeting and were voted or (ii) consented to in writing by shareholders holding a majority of the votes of Shares entitled to vote thereon; or (b) in the case of a Special Resolution, either (i) approved at a duly convened and constituted meeting of the shareholders by the affirmative vote of at least 75% of the votes of the Shares entitled to vote thereon which were present at the meeting and were voted or (ii) consented to in writing by shareholders holding at least 75% of the votes of Shares entitled to vote thereon, in all cases subject to other specific or special majority and procedural requirements as laid down by the BCA or the M&A.

Company Sale of Assets

Section 175 of the BCA, which would otherwise require shareholder approval for disposals by the Company of more than 50% of its assets outside the ordinary course, has been disapplied under the M&A (as permitted by BVI law) so that no such approval is required.

Directors

The business and affairs of the Company shall be managed by, or under the direction or supervision of, the Board of Directors, which has all the powers necessary for managing, and for directing and supervising, the business and affairs of the Company. The directors may exercise all such powers of the Company not required by the BCA or the M&A to be exercised by the shareholders. See "*Management and Corporate Governance*".

Interests of Directors

A director of the Company who is interested in any contract, arrangement or transaction entered into or to be entered into by the Company must, forthwith after becoming aware that he is so interested, disclose the interest (and nature of such interest) to all other directors of the Company. An interest of which a director has no knowledge and of which it is unreasonable to expect him to have knowledge is not treated as his interest.

A director of the Company, notwithstanding his office:

(a) may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and on such terms as to remuneration and otherwise as the Board of Directors may arrange;

(b) may enter into or otherwise be interested in a contract, arrangement or transaction with the Company or in which the Company is otherwise interested which cannot reasonably be regarded as likely to give rise to a conflict of interest;

(c) may be a shareholder or director or other officer of or employed by or a party to a contract, transaction, arrangement or proposal with or be otherwise interested in a company: (i) promoted by the Company or in which the Company is otherwise interested; or (ii) in relation to which it cannot reasonably be regarded as likely that a conflict of interest will arise;

(d) may enter into or otherwise be interested in a contract, arrangement, transaction the entry into which by that director was authorised by the shareholders; and

(e) unless otherwise agreed, and subject to compliance with the BCA, is not liable to account to the Company for any remuneration, profit or other benefit received by him by virtue of such office, employment, contract, arrangement or transaction and no such contract, arrangement or transaction shall be liable to be avoided on the grounds of any such interest or benefit.

A director of the Company who is interested in a contract, arrangement or transaction entered into or to be entered into by the Company may not vote on, or be counted towards the quorum relating to, any resolution relating to the transaction (and any such vote shall be disregarded) unless fewer than three directors are entitled to vote on such resolution, in which case each interested director may vote provided his interest is duly disclosed, or the resolution relates to any of the following matters:

(a) a matter in relation to which the director holds: (i) an interest of which he is not aware and of which it was not reasonable for him to be aware, (ii) an interest which cannot reasonably be regarded as likely to give rise to a conflict of interest or (iii) an interest in relation to which the authorisation of a majority of the directors not interested in the relevant matter, or the approval of the shareholders, has been obtained;

(b) a matter in which the director has an interest only by virtue of interests in Shares, debentures or other securities of the Company;

(c) the giving to the director of a guarantee, security or indemnity in respect of money lent or obligations incurred by the director or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;

(d) the giving to a third party of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the director himself has assumed responsibility, in whole or in part, under a guarantee or indemnity or by the giving of security;

(e) a contract, arrangement or transaction concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;

(f) a contract, arrangement or transaction to which the Company is or is to be a party concerning any other company in which the director is interested as a shareholder only (a "**relevant company**"), if the director is not, directly or indirectly, the holder of or beneficially interested in 1% or more of a class of equity share capital of the relevant company (calculated exclusive of any shares of that class in that relevant company held as treasury shares) or of the voting rights available to shareholders of the relevant company or able to cause 1% or more of those voting rights to be cast at his direction;

(g) a contract, arrangement or transaction for the benefit of employees of the Company or any of its subsidiaries under which the director benefits in a similar manner to the employees and which does not accord to any director as such any privilege or benefit not accorded to the employees to whom it relates; and/or

(h) a contract, arrangement or transaction concerning the maintenance or purchase of any insurance policy which the Company is permitted by law to purchase and/or maintain for the benefit of directors or for the benefit of persons including directors.

Dividends and Other Distributions

The Board of Directors may authorise a distribution (including by way of dividend) at a time and of an amount it thinks fit if it is satisfied, on reasonable grounds, that, immediately after the distribution, the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due (such test being a repeat of the statutory Solvency Test).

Dividends may be paid in money, debentures, shares or other property. The Company may pay any dividend, interest or other amount payable in cash by cheque, dividend warrant or money order or by direct debit or a bank or other funds transfer system or by such other method as the relevant shareholder may by notice direct. In respect of Shares (or interests in Shares) traded on relevant system(s), the Company may also pay any such dividend, interest or other amount and send electronic tax vouchers in respect of any such dividend interest or other amount by means of the relevant system concerned.

Notice in writing of any dividend that may have been declared shall be given to each shareholder, and all dividends unclaimed for three years after notice has been given to the shareholder may be forfeited for the benefit of the Company. No dividend shall bear interest against the Company.

See "*Operating and Financial Review—Dividend Policy*" for discussion of the Company's dividend policy.

Accounts

The Company is obliged to keep accounting records which are sufficient to give a true and fair view of the state of the Company's affairs and to show and explain its transactions in accordance with the BCA.

The Company is also obliged under the M&A to, prior to each annual general meeting, circulate to all members (in printed and/or electronic form) copies of (i) the balance sheet and profit and loss accounts for the relevant year, (ii) an annual report prepared by the Company, and (iii) the corresponding auditors' report (or a summary financial statement derived from the Company's annual accounts and annual report), and copies shall also be sent to each relevant stock exchange in accordance with its regulations.

Liquidation

For so long as the Company is solvent, it may (subject to the BCA) appoint a voluntary liquidator by a resolution of the shareholders and by a resolution of the Board of Directors.

Indemnity

The Company shall indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any person who:

- is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director of the Company; or
- is or was, at the request of the Company, serving as a director of, or in any other capacity is or was acting for, another company or a partnership, joint venture, trust or other enterprise,

provided that the person in question acted honestly and in good faith with a view to the best interests of the Company and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

Arbitration

The M&A requires that any dispute or claim, controversy or matter arising under or in connection with the M&A (regardless of its nature and including disputes between shareholders or between shareholders and the Company) is to be exclusively settled by arbitration before the LCIA (in accordance with the LCIA Arbitration Rules and subject to the terms and qualifications as set out in regulation 24 of the M&A), rather than the courts of the BVI. Notwithstanding the terms of the M&A, the courts of the BVI could in some circumstances assume jurisdiction in respect of certain disputes, including those related to allegations of unfairly prejudicial conduct or applications to wind-up the Company. See "*Service of Process and Enforcement of Civil Liabilities—BVI—Enforcement of Arbitration Awards*".

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of ordinary shares (the "**Shares**") in LENTA LTD, a company incorporated under the laws of BVI (the "**Company**"), with five GDRs issued in respect of one Share, pursuant to and subject to an agreement dated 28 February 2014, and made between the Company and DEUTSCHE BANK LUXEMBOURG S.A., a société anonyme registered with the Luxembourg Register of Commerce and Companies under number B-9164, and its registered address is 2, boulevard Konrad Adenauer, L-1115, Luxembourg, as depositary (the "**Depositary**") for the "Regulation S Facility" and the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Deutsche Custody NV as Custodian (as defined below) to receive and hold on its behalf, as nominee, the Shares and any certificates issued in respect of such Shares (the "**Deposited Shares**") and all and any rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the "**Conditions**"), references to the "**Depositary**" are to DEUTSCHE BANK LUXEMBOURG S.A., and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the "**Custodian**" are to Deutsche Custody NV, or any other Custodian from time to time appointed under the Deposit Agreement and references to the "**Main Office**" mean, in relation to the Custodian, its office at DE Entree 99-197, 1101 HE Amsterdam, The Netherlands, (or such other office as from time to time may be designated by the Custodian or Custodians with the approval of the Depositary).

References in these Conditions to the "**Holder**" of any GDR shall mean the person registered as holder on the books of the Depositary maintained for such purpose (the "**Register**"). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 (except as set out in Clause 9.1 of the Deposit Agreement) and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and were the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

(A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:

(i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

(ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;

(iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to "Deposited Shares" or "Shares" shall include any such securities, where the context permits; and

(iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

For so long as the Shares are held in dematerialised form, "Shares" to be delivered or deposited with the Custodian shall mean the delivery or deposit of a certified extract of the Share Register, and for so long as the Shares are held in certificated form, "Shares" to be delivered or deposited with the Custodian shall mean the delivery or deposit of the share certificate(s) in respect of such Shares and a certified extract of the Share Register.

(B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.

(C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable BVI law or that such deposit would result in any violation of any applicable BVI laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

(D) Notwithstanding anything else contained in the Deposit Agreement to the contrary, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of Regulation S GDRs to Regulation S Deposited Property, would give rise to fractional Regulation S GDRs or, upon application of the ratio of Rule 144A GDRs to Rule 144A Deposited Property, would give rise to fractional Rule 144A GDRs.

(E) No Share shall be accepted for deposit unless accompanied by certifications and agreements and other evidence, if and to the extent required by the Depositary, that is satisfactory to the Depositary and the Custodian in their discretion that all conditions to the making and acceptance (as the case may be) of such deposit and the issuance of GDRs against such deposit have been satisfied under the laws and regulations of BVI and any necessary registration, filing, notification, permit, license and approval has been made with or granted by any state authority in BVI (which may include an opinion of counsel reasonably satisfactory to the Depositary provided at the cost of the person seeking to deposit Shares).

(F) Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement (a) any Shares or other Deposited Property required to be registered pursuant to the provisions of the Securities Act, unless a registration statement under the Securities Act is in effect as to such Shares or other Deposited Property, (b) any Shares or Deposited Property the deposit of which would violate any provisions of the Charter, or (c) any Shares or Deposited Property which, if accepted for deposit under the Deposit Agreement exceed such number as may be communicated to the Depositary by the Company from time to time in writing; provided that neither the Company nor the Depositary nor any of their affiliates shall have any liability to any Holder or Beneficial Owner in the event that the Depositary shall fail to comply with the requirements of these sub-clauses (a), (b) and (c). For purposes of the foregoing sentence, the Depositary shall be entitled to rely upon representations and warranties made or deemed made pursuant to the Deposit Agreement and shall not be required to make any further investigation. The Depositary will comply with written instructions of the Company (received by the Depositary reasonably in advance) not to accept for deposit hereunder any Shares identified in such instructions at such times and under such circumstances as may reasonably be specified in such instructions in order to facilitate the Company's compliance with the securities laws of any jurisdiction and/or any other applicable law or regulation (including but not limited to any anti-money laundering and "know your customer" requirements). The Depositary shall have no liability for any actions taken in accordance with such instructions.

(G) ***Intentionally Omitted.***

(H) ***Intentionally Omitted.***

(I) ***Intentionally Omitted.***

(J) Holders and Beneficial Owners shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in BVI, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of BVI.

(K) Notwithstanding anything herein to the contrary, if at any time the Depositary in good faith believes that the Shares deposited with it against issuance of GDRs, together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional Shares for deposit, would represent) such percentage as exceeds any threshold or limit (whether in aggregate or in respect of an individual Holder or Beneficial Owner) established by the Charter, any applicable law, directive, regulation or permit, or satisfies any condition for making any offer, filing, application, notification or registration or obtaining any approval, license or permit or taking any other action required by the Charter or any applicable law, directive or regulation, including without limitation any of the Conditions (as the same may be amended from time to time), the Depositary shall promptly consult with the Company in relation to its belief and may (i) close its books to deposits of additional Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied, or (ii) take such steps as are, in its opinion in good faith, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of Shares or other Deposited Property to the extent necessary or desirable to so comply.

(L) In considering whether any Condition or any other threshold has been reached or exceeded, the Depositary may, in addition to Shares deposited with it against the issuance of GDRs and other securities deposited with it against issuance of depositary receipts, take into consideration Shares or other securities of the Company (if any) held by itself and its affiliates for its or their proprietary account(s) or as to which it or they exercise voting or investment power.

(M) In its capacity as Depositary, the Depositary shall not (and shall not instruct the Custodian to) sell, convey, assign, lend or create any security interest over Shares or other Deposited Property held hereunder or GDRs, *provided that*, unless requested in writing by the Company to cease doing so, the Depositary may subject to applicable law and without prejudice to its obligations under the Deposit Agreement, execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be (a "**Pre-Release**"). The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those Shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary (or Custodian upon the Depositary's request) as soon as practicable and promptly but in no event more than five business days after the Depositary's request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such in satisfaction of such Pre-Release, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The aggregate number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30 per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary may with the prior written consent of the Company change such limit from time to time if it is deemed appropriate to do so. The Depositary may also set limits with respect to the number of Shares and GDRs involved in Pre-Releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in sub-Clause (b) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees in connection herewith, including the obligation to deliver the relevant Shares or GDRs, as the case may be, set forth in sub-Clause (a) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

Nothing in this Condition 1(M) shall obligate the Company to issue any new Shares in respect of any Pre-Release by the Depositary. The person to whom any Pre-Release of Rule 144A GDRs or

Rule 144A Shares is to be made pursuant to this Condition 1(M) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A, or in the case of affiliates of the Company, Schedule 4 Part C (or an electronic certification through the applicable clearing system in lieu of such executed certification). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1(M) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A or, in the case of affiliates of the Company, Schedule 3 Part B (or an electronic certification through the applicable clearing system in lieu of such executed certification).

(N) The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depositary will be entitled to make a Pre-Release pursuant to Condition 1(M), the Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1(M).

(O) Each person depositing Shares pursuant to the Deposit Agreement shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorized, validly issued, fully paid, non-assessable, and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorized so to do and has fulfilled all requirements of applicable law or regulation with respect to the Shares or the deposit thereof against the issuance of GDRs, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, (vi) with respect to Shares deposited into the Regulation S Facility, the Shares presented for deposit are not "restricted securities" (within the meaning of Rule 144) except, in the case of a deposit of Shares by affiliates of the Company contemplated by the terms of Clause 3.2(b)(ii)(b) of the Deposit Agreement, and the GDRs delivered upon issuance will not be "restricted securities" (within the meaning of Rule 144), (vii) such Shares are not subject to any unfulfilled requirements of applicable law or regulation, and (viii) except with respect to any deposit by an affiliate permitted in the Deposit Agreement, such person is not and shall not become at any time while such person holds GDRs or any beneficial interest therein, an affiliate of the Company. Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorized, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof. Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreement shall be deemed thereby to acknowledge that the GDR Certificates, the GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, transfer or surrender and withdrawal of the Shares or the GDR Certificates or any beneficial interest therein.

2. Withdrawal of Deposited Property

(A) Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed

certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement (or an electronic certification through the applicable clearing system in lieu of such executed certification), by or on behalf of each person who will be the Beneficial Owner of the Deposited Property (Part B of Schedule 4 may be modified in a manner not inconsistent with the provisions of the Deposit Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.

(B) Certificates for withdrawn Deposited Shares will contain such legends, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

(C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its specified office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate for the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(iii) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or

(iv) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

(D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

(E) Subject as set out above, upon request by any Holder in accordance with this Condition 2 for withdrawal of Deposited Property and upon compliance therewith, the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery at any time the Register is closed. For the avoidance of doubt, the Depositary is not under any obligation to refuse delivery for any other reason and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. The

Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of these Conditions.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(M). Notwithstanding the foregoing, each Holder and Beneficial Owner of Rule144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depositary receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, each of the Depositary and the Custodian agrees that, neither the Custodian nor the Depositary will make any actual delivery of Rule 144A Shares to any Holder or Beneficial Owner at an address within the United States. In addition, as necessary to reflect the special limitations or restrictions as to which any Regulation S GDR may be subject, similar restrictions on the delivery of Regulation S Shares to any Holder or Beneficial Owner at an address, within the United States may be imposed by the Depositary for specific issuances of Regulation S GDRs for specific periods.

(F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of these Conditions or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

(G) The Depositary shall refuse to deliver Deposited Property to any Holder or Beneficial Owner located in the Russian Federation that is unable to certify that it is a qualified investor within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On Securities Market" dated 22 April 1996, as amended.

(H) No surrender of GDR Certificates for the purpose of withdrawal of Deposited Property shall be accepted unless accompanied by evidence satisfactory to the Depositary that all necessary filings applicable to the Holder(s) or Beneficial Owner(s) of the GDRs surrendered (if any) have been made and approvals have been obtained (or in each case, have been properly waived) under the laws of BVI.

3. Transfer and Ownership

The GDRs are in registered form, with five GDRs issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in either (i) a violation of applicable laws, or (ii) a person being required by the Charter or applicable law to make an offer to acquire all of the outstanding Shares or GDRs of the Company, in which case the Depositary shall notify the Company and the Company reserves the right to instruct the relevant Holder(s) and Beneficial Owner(s) to deliver their GDRs for cancellation and withdrawal of the Deposited Property, so as to permit the Company to deal directly with them as holders of Shares, and the Holders and Beneficial Owners agree to comply with such instructions. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are "restricted securities" within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to or for the account of a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of these Conditions and the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement (or an electronic certification through the applicable clearing system in lieu of such executed certification) by or on behalf of each person who will be

the Beneficial Owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 24, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, provided that:

(i) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(ii) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 24 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

(iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale prior to such sale) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, gross negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or beneficial owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 24, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), Euroclear Bank S.A./N.V. ("**Euroclear**") or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

(B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. Capital Reorganisation

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 24 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

(A) Payments to Holders of dividends or other distributions or payments made to Holders on or in respect of the Deposited Shares will be subject to deduction of BVI and other withholding taxes, if any, at the applicable rates. In making such deductions, the Company shall have no obligation to any Holder to apply a rate under any treaty or other arrangement in effect between BVI and the country within which the Beneficial Owner of GDRs is resident.

(B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in BVI in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary, at the expense of the Company, without, in the opinion of the Depositary, unreasonable burden.

12. Voting Rights

The Depositary will exercise the voting rights attached to Deposited Shares only in accordance with this Condition 12 and the Deposit Agreement.

(A) The Company will use reasonable efforts to notify the Depositary of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, and the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. As soon as practicable after receipt from the Company of such notice, the Depositary shall, if requested by the Company in writing and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the Financial Conduct Authority and the admission and disclosure standards of the London Stock Exchange), Russian legal prohibitions (including, without limitation, the listing, admission and trading rules and regulations of MoEX and the CBR) or BVI legal prohibitions against such action exist, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between the Company and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in Luxembourg on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. The Company may, in accordance with Condition 28(B), instruct the Depositary by notice in writing as to the suspension of voting rights, if any, pertaining to the Shares or other Deposited Property relating to a Holder's GDRs, and the Depositary shall not vote or cause the Custodian to vote (and the Holder shall be deemed to have instructed the Depositary not to vote) any Shares or Deposited Property in relation to which such an instruction is received. Subject to the foregoing, upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depositary, the Depositary shall use its reasonable endeavours, insofar

as practicable and permitted under applicable law, the provisions of these Conditions, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

(B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote or in any way make use of for purposes of establishing a quorum or otherwise the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Moreover, neither the Depositary nor the Custodian shall, on behalf of, or at the initiative of, a Holder of a GDR, introduce proposals for the agenda of the Company's shareholders meeting or nominate candidates for the Company's board of directors without first receiving written consent from the Company to do so. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted.

The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.

(C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the Financial Conduct Authority and the admission and disclosure standards of the London Stock Exchange) Russian legal prohibitions or BVI legal prohibitions. The Company agrees that it shall not, except to the extent necessary (upon the advice of BVI legal counsel of reputable standing) to comply with applicable law in BVI, establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

(D) By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of Clause 7 of the Deposit Agreement as it may be amended from time to time in order to comply with applicable law.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to BVI law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 24.

14. Liability

(A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs.

(B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of BVI or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of its own wilful default, gross negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance, caused as aforesaid, of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

(C) None of the Depositary, the Custodian nor any Agent shall be liable (except for its own wilful default, gross negligence or bad faith or that of its agents (including any agents appointed pursuant to Clause 12.16 of the Deposit Agreement), officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

(D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or Beneficial Owners of GDRs, or any other person for any profit arising therefrom.

(E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 22 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable. In the absence of its own wilful default, gross negligence or bad faith (or that of its agents, officers, directors or employees) the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.

(F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

(G) Neither the Company nor the Depositary shall, subject to all applicable laws, have any responsibility whatsoever to the other, nor to any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

(H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 23, be obliged to have regard to the consequence thereof for the Holders or Beneficial Owners of GDRs or any other person.

(I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

(J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.

(K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the board of directors of the Company or by a person reasonably believed to have been duly authorised by the board of directors of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

(L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees.

(M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

(N) Subject to applicable law, the Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Subject to applicable law, the Depositary shall not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent, provided that it has exercised reasonable care in the selection of any such agent.

(O) The Depositary may, subject to applicable law, delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of these Conditions or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by these Conditions and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Clause, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated in substantially the same manner as such services are required to be provided under the Deposit Agreement and the

delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.

(P) The Depositary shall be at liberty to hold or to deposit these Conditions and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of gross negligence, bad faith or wilful default) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.

(Q) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register. For the avoidance of doubt, the Depositary has no obligation to inspect the Register.

(R) Subject to applicable law, the Depositary shall under no circumstances have any liability arising from the Deposit Agreement or the Conditions or from any obligations which relate to the Deposit Agreement or the Conditions, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

(S) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.

(T) Each Holder, where relevant, acting also on behalf of a Beneficial Owner or owner of GDRs, by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder, Beneficial Owner or owner of GDRs, mandates, authorises and empowers the Depositary to disclose, or make available for further processing, any information entrusted to it and concerning the relevant Holder, Beneficial Owner or owner of GDRs in the context of these Conditions or the Deposit Agreement which comes within the scope of the statutory confidentiality duty of the Depositary pursuant to Article 41 of the Luxembourg law dated 5 April 1993 on the financial sector, as amended, or the disclosure or making available of which is restricted under applicable data protection legislation ("**Confidential Holder Information**"), including, without limitation, information on (i) the relevant Holder, Beneficial Owner or owner of GDRs (including, without limitation, registered office or residence, business sector, financial data, representatives, beneficial ownership and ownership structure as well as other information obtained for customer identification and on-boarding purposes) and (ii) the transactions with the Holder, Beneficial Owner or owner of GDRs (including, without limitation, Deposited Property, GDRs and these Conditions, transaction positions, fees, taxes, corporate actions, events of default or similar data or information) to the Company, Deutsche Bank AG, London Branch, Deutsche Bank Trust Company Americas, any other person whose financial statements are consolidated with those of the Depositary's ultimate holding company, the Custodian, any securities clearing and settlement system, in particular DTC, Clearstream, Luxembourg and Euroclear or SWIFT (Society for Worldwide Interbank Financial Telecommunication), a bank or other payment services provider or other agent used by any of the foregoing for the receipt or payment of money, Agents used for making distributions to the Holders or proxy distribution agents ("**Disclosure Addressees**" and each a "**Disclosure Addressee**"), be such Disclosure Addressees incorporated or established inside or outside the European Union, for the purpose of and to the extent this is necessary for assisting or enabling the Depositary to perform its obligations under the Deposit Agreement and the Conditions ("**Disclosure Purposes**").

(U) In case a new delegation, sub-delegation or granting of a power to sub-delegate or a new employment of an agent or an amendment or extension of an existing delegation, sub-delegation, power to sub-delegate or agent employment relationship (including the appointment of a successor Custodian in accordance with Clause 3.1 of the Deposit Agreement and Condition 19) or the appointment of a successor depositary in accordance with Clause 14 of the Deposit Agreement and Condition 21 is envisaged which involves, or introduces or widens the possibility of, disclosure or making available of Confidential Holder Information to the relevant delegate, sub-delegate, potential sub-delegate, agent or successor depositary that is not a Disclosure Addressee, the Depositary shall give at least 15 business days prior notice thereof in accordance with Condition 24 to the Holders. Upon the lapsing of such notice period, the relevant delegate, sub-delegate, potential sub-delegate, agent or successor depositary shall be deemed to be a Disclosure Addressee and the Depositary shall be deemed to be mandated, authorised and empowered by the Holders, Beneficial Owners and owners of GDRs to disclose Confidential Holder Information to such new Disclosure Addressee for the Disclosure Purposes.

Holders, Beneficial Owners and owners of GDRs disagreeing with the disclosure or making available of Confidential Holder Information to a new Disclosure Addressee shall be given the possibility at any time before lapsing of such notice period to dispose of their holding, ownership or interest in a GDR and thereby to cease being a Holder, Beneficial Owner or owner of GDRs preventing disclosure and making available of Confidential Holder Information to a new Disclosure Addressee. A disagreeing Holder or a Holder acting on behalf of a disagreeing Beneficial Owner or owners of GDRs shall in particular be entitled at any time before the lapsing of such notice period to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 2 and upon compliance with Condition 2, payment by the Holder of the charge specified in Condition 16 (A)(i) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement. For the avoidance of doubt, each Holder, where relevant, acting also on behalf of a Beneficial Owner or owner of GDRs, by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder, Beneficial Owner or owner of GDRs, as appropriate, hereby waives to the extent necessary any confidentiality obligations that the Depositary may have vis-a-vis the relevant Holder, Beneficial Owner or owner of GDRs for the purpose of allowing the above-mentioned disclosures of Confidential Holder Information by the Depositary and authorises the Depositary to transmit any Confidential Holder Information as may be necessary to the Disclosure Addressees for the Disclosure Purposes.

(V) Each Holder by subscribing or acquiring a GDR and any time thereafter so long as it is a Holder represents and warrants that it is and will be duly authorised and has obtained and, where relevant, will obtain respective prior consent and waiver declarations from any Beneficial Owner or owner of GDRs and will for such purpose promptly as of receipt of notices given by the Depositary to the Holders inform these Beneficial Owners and owners of GDRs of the content of any such notices as foreseen in this Condition 14(W) so as to permit the disclosure of Confidential Holder Information by the Depositary and its employees, agents, delegates, sub-delegates or other representatives to the Disclosure Addressees for the Disclosure Purposes or to permit such Beneficial Owners and owners of GDRs to dispose of such GDRs before the lapsing of the relevant notice period if they disagree with a disclosure of Confidential Holder Information relating to them to a new Disclosure Addressee.

(W) The transmission of Confidential Holder Information via or transmission or making available of Confidential Holder Information to a communication medium belonging to any of the Disclosure Addressees (as and to the extent permitted hereunder) may entail all Confidential Holder Information being processed by, including stored in the central data banks of a Disclosure Addressee for the Disclosure Purposes. Such data banks may be located in Europe, in the United States of America (in particular, without limitation, in New York) or anywhere in the world. The Holder, where relevant, acting also on behalf of the Beneficial Owner or owner of GDRs, by subscribing or acquiring one or more GDRs and any time thereafter so long as it is a Holder, is informed and acknowledges of being aware that due to the fact that the Confidential Holder Information is transferred electronically or otherwise and made available outside of Luxembourg the same level of confidentiality and the same level of protection in relation to data protection and confidentiality laws and regulations as currently in force in Luxembourg may not be guaranteed while the Confidential Holder Information is transferred and stored abroad. Consequently, Confidential Holder Information thus stored may be disclosed or made available to authorities of the country of storage pursuant to that country's legislation. To the extent Confidential Holder Information consists of personal data of a Holder, Beneficial Owner or owner of GDRs who is an individual and such data are processed under the responsibility of the Depositary, such individual is hereby being informed that its data will only be processed by the Depositary for the purpose of performing its obligations under the Deposit Agreement and the Conditions and that such individual has a right of access to and rectification of its personal data in the premises of the Depositary upon its reasonable request.

(X) For the purposes of Condition 14(S):

(i) "consequential loss or damage" means loss or damage of a kind or extent which was not reasonably foreseeable at the time these Conditions were entered into as a serious possibility in the event of the breach of obligation in question; and

(ii) "special loss or damage" means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time these Conditions were entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following fees to the Holders, the Beneficial Owners and the persons depositing Shares or surrendering GDRs for cancellation:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering or any subsequent offering of Shares, offered in the form of GDRs by the Company) or the cancellation of GDRs upon the withdrawal of Deposited Property: up to USD 0.05 per GDR issued or cancelled (except for issuances and cancellations covered by paragraph (A)(vii) below);

(ii) for the issue of GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR Certificates in definitive registered form (other than pursuant to paragraph (A)(ii) above): a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): up to USD 0.05 per GDR for each such issue of rights, dividend or distribution;

(v) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Property, and for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of USD 0.03 per GDR;

(vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of up to USD 0.05 per GDR (or portion thereof); and

(vii) for transferring interests from and between the Rule 144A GDRs and the Regulation S GDRs: a fee of up to USD 0.05 per GDR.

(B) In addition, Holders, Beneficial Owners, persons depositing Shares for deposit and persons surrendering GDRs for cancellation and for the purpose of withdrawing Deposited Property shall be responsible for the following charges:

(i) taxes (including applicable interest and penalties thereon) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property in the Share Register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing Shares or Holders and Beneficial Owners of GDRs;

(iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency; and

(v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to Shares, Deposited Property, GDRs and GDR Certificates.

(C) Any other charges and expenses of the Depositary under the Deposit Agreement will be paid by the Company upon agreement between the Depositary and the Company. All fees and charges so payable

may, at any time and from time to time, be changed by agreement between the Depositary and Company but, in the case of fees and charges payable by Holders or Beneficial Owners, only in the manner contemplated by Condition 23. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request. The charges and expenses of the Custodian are for the sole account of the Depositary.

17. Agents

The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, inter alia, of making distributions to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List and admission to trading on the regulated market of listed securities of the London Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection therewith. In the event that a GDR listing on the Official List and admission to trading on the regulated market for listed securities of the London Stock Exchange are not obtained and maintained or it becomes unreasonably burdensome or impracticable for it to do so, and such listing is suspended, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 calendar days' notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (with notice of such appointment to the Company as soon as reasonably practicable), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (with notice of such appointment to the Company as soon as reasonably practicable), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as reasonably practicable following such change taking effect in accordance with Condition 24. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

The Custodian appointed by the Depositary shall satisfy any and all requirements for such Custodian under applicable law.

20. Share Register

(A) The Company agrees that it shall: (i) take any and all action reasonably necessary to ensure the accuracy and completeness of all information set forth in the Share Register in respect of the Shares;

(ii) provide to the Depositary, the Custodian or their respective agents access to the Share Register on reasonable notice and during ordinary business hours in BVI, in such manner and upon such terms and conditions as the Depositary, acting reasonably may deem appropriate, to permit the Depositary, the Custodian or their respective agents to regularly (and in any event not less than monthly) reconcile the number of Deposited Shares registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement and, in connection therewith, to provide the Depositary, the Custodian or their respective agents, upon request, with a duplicate extract from the Share Register duly certified by the Company (or some other evidence of verification which the Depositary, in its reasonable discretion, deems sufficient); (iii) promptly (and, in any event, within three (3) business days in BVI of the Company's receipt of such documentation as may be required by applicable law and regulation, or as soon as practicable thereafter) effect the re-registration of ownership of Deposited Shares in the Share Register in connection with any deposit or withdrawal of Shares under the Deposit Agreement; (iv) permit the Depositary or the Custodian to register any Shares held hereunder in the name of the Depositary, the Custodian or their respective nominees (which may, but need not be, a non-resident of BVI).

(B) In connection with the Deposit Agreement, the Company agrees that it shall be solely liable for the unavailability of Deposited Shares or for the failure of the Depositary to make any distribution of cash or other distributions with respect thereto as a result of any one or more of the following: (i) any act or failure to act of the Company or its agents, (other than such act or failure to act on the part of the Company arising in connection with any act or failure to act of the Depositary or the Custodian, or their respective directors, employees, agents or affiliates), or their respective directors, employees, agents or affiliates, (ii) any provision of any present or future Charter or any other instrument of the Company governing the Deposited Shares, or (iii) any provision of any securities issued or distributed by the Company or any offering or distribution thereof.

(C) The Depositary agrees for the benefit of Holders and Beneficial Owners that the Depositary or the Custodian shall reconcile regularly (and in any event not less than monthly) the number of Deposited Shares registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement. The Company and the Depositary agree that, for the purposes of the rights and obligations under the Deposit Agreement of the parties hereto, the records of the Depositary and the Custodian shall be controlling for all purposes with respect to the number of Shares which should be registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement; provided, however, that the Depositary agrees that it shall, and shall cause the Custodian to, at any time and from time to time take any and all action necessary to ensure the accuracy and completeness of all information set forth in the records of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the Deposit Agreement with respect to Shares registered in the name of any of them. The Depositary agrees that it will instruct the Custodian to maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents. In the event of any material discrepancy between the records of the Depositary or the Custodian and the Share Register, then, if the Depositary has knowledge of such discrepancy, the Depositary shall notify the Company promptly. In event of discrepancy between the records of the Depositary or the Custodian and the Share Register, the Company agrees that (whether or not it has received any notification from the Depositary) it will (i) reconcile its records to the records of the Depositary or the Custodian and make such corrections or revisions in the Share Register as may be necessary in connection therewith, and (ii) to the extent the Company is unable to so reconcile such records, and the number of Shares reflected in the Share Register differs by more than one-half of one percent from the number of Shares reflected in the records of the Depositary or the Custodian, promptly instruct the Depositary to notify the Holders of the existence of such discrepancy. Upon receipt of the Company's instruction to notify the Holders of such discrepancy, the Depositary shall give such notification promptly to the Holders (it being understood that the Depositary at any time may give such notification to the Holders, whether or not it has received instructions from the Company) and shall promptly cease issuing GDRs until such time as, in the opinion of the Depositary, such records have been appropriately reconciled.

21. Resignation and Termination of Appointment of the Depositary

(A) The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and

the Custodian. Notwithstanding the above, and without prejudice to Clauses 15 and 20.2 of the Deposit Agreement, the Depositary and the Company have agreed to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority, the London Stock Exchange and, if applicable, the MoEX. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 24.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary, until the appointment by the Company of a successor depositary, (b) until the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, and (c) until the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 24 and to the UK Listing Authority, the London Stock Exchange and, if applicable, the MoEX.

(B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

22. Termination of Deposit Agreement

(A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 21 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 calendar days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 24.

If the Company terminates the Deposit Agreement, it will be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company relating to the GDRs, Deposited Property or the provision of services by the Depositary to the Company in relation thereto.

(B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender in accordance with Condition 16(A)(i) and otherwise in accordance with the Deposit Agreement.

(C) If any GDRs remain outstanding after the date of termination, the Depositary (i) shall, if possible, as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement by public or private sale, and on such terms as the Depositary considers appropriate, and the Depositary shall, to the extent reasonably practicable, consult the Company in relation to the manner and terms of any such sale, prior to such sale; and (ii) shall not register transfers, pass on dividends or distributions

or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale and delivering the net proceeds of such sale proceeds, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for other cash comprising the Deposited Property without interest.

(D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as Deutsche Bank Luxembourg S.A. is acting as Depositary under the Deposit Agreement.

23. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 23 and Clause 16 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable but subject to and in accordance with this Condition 23. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 23, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or Beneficial Owners if (i) its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated or (ii) it is a change to the governing law of, or jurisdiction for settlement of disputes under, the Deposit Agreement and these Conditions.

Notwithstanding the foregoing, if any governmental or regulatory body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the GDRs at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the GDRs in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

For the avoidance of doubt, if at all relevant to the issuance of the GDRs, it is expressly agreed that articles 86 to 94-8 of the Luxembourg law of dated 10 August 1915 on commercial companies, as amended, shall not apply to the GDRs or to the representation of the Holders thereof.

24. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List and admitted to trading on the regulated market for listed securities of the London Stock Exchange and if to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices,

the Depositary shall forward such notices to the Holders in accordance with these Conditions. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

25. Reports and Information on the Company

(A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to send the Depositary a copy in the English language by electronic transmission of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List and admission to trading on the regulated market for listed securities of the London Stock Exchange, or any other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.

(B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

(C) For so long as any Rule 144A GDRs or shares represented thereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDR or the Beneficial Owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, Beneficial Owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is subject to but not in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, Beneficial Owner of an interest in Rule 144A GDRs or holder of shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, Beneficial Owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

(D) The Company has undertaken in the Deposit Agreement to provide the Depositary with sufficient information, as may be reasonably requested by the Depositary, so as to enable the Depositary to determine whether or not the Depositary is obliged, in respect of any payments to be made by it pursuant to the Deposit Agreement, to make any withholding or deduction pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations or agreements thereunder or official interpretations thereof ("FATCA", and such withholding or deduction, "**FATCA Withholding Tax**"). If applicable, the Depositary shall be entitled to deduct FATCA Withholding Tax to the extent required under FATCA and shall have no obligation to gross-up any payment hereunder or to pay any additional amount as a result of such applicable FATCA Withholding Tax.

(E) The Company has undertaken in the Deposit Agreement use its commercially reasonable efforts to provide a written notice described in Condition 12(A) of the Deposit Agreement to the Depositary in a timely manner in advance of the relevant meeting or solicitation of consent or proxy

26. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders or Beneficial Owners of GDRs) furnished to such holders or Beneficial Owners of the Shares or other Deposited Property by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

27. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker for its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

28. Obligations of Holders

(A) Notwithstanding any other provision contained in the Deposit Agreement, the Charter, these Conditions or applicable law, each Holder and Beneficial Owner agrees to comply with requests made in accordance with Condition 24 from the Company or the Depositary pursuant to applicable law, the rules and requirements of the London Stock Exchange, MoEX or any other stock exchange on which the Shares or GDRs are, or may be, registered, traded or listed, or the Charter, to provide information, inter alia, regarding (i) name, state registration details (including, with respect to legal entities only, country of registration, registration number, date of registration or formation and registered and (or) principal business address) and (with respect to individuals only) citizenship; (ii) the capacity in which such Holder or Beneficial Owner holds or owns GDRs (and Shares, as the case may be) and (iii) the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request. The Depositary agrees to use its reasonable efforts to forward upon the request of the Company, at the Company's expense, any such request from the Company to the Holders and to forward to the Company any such responses to such requests received by the Depositary, provided that the Depositary shall not be responsible or liable for any information contained in or omitted from such responses.

(B) Failure by a Holder or Beneficial Owner to provide in a timely fashion the information requested by the Company or required in each case pursuant to Condition 28(A), the Charter or any applicable law may, in the Company's sole and absolute discretion, result in the withholding of certain rights in respect of such Holder or Beneficial Owner's GDRs (including voting rights and certain rights as to dividends in respect of the Shares represented by such GDRs). The Depositary agrees to use its commercially reasonable efforts to comply with any reasonable instructions received from the Company requesting that the Depositary take the actions specified therein to obtain such information.

(C) In the event that the Company determines that there has been a failure by a Holder or Beneficial Owner to comply with the applicable reporting requirements under Condition 28(A), the Charter or any applicable law, with respect to any Deposited Property and that sanctions are to be imposed against such Deposited Property pursuant to applicable law by a court of competent jurisdiction or the Charter, the Company shall notify the Depositary, giving details thereof, and shall instruct the Depositary in writing as to the application of such sanctions to the Deposited Property. The Depositary shall have no liability for any actions taken in accordance with such instructions.

(D) Notwithstanding any other provision in the Deposit Agreement or these Conditions, the Company may restrict transfers of the Shares and Deposited Property where such transfer might result in (i) ownership of Shares exceeding the limits applicable to the Shares under applicable law, regulations and stock exchange rules or the Charter, or (ii) a person being required by the Charter or applicable law to make

an offer to acquire all of the outstanding Shares or GDRs of the Company. The Company may also restrict, subject to the Charter, applicable law, regulations and stock exchange rules, in such manner as it deems appropriate, and in such manner as the Depositary deems practicable, transfers of the GDRs where such transfer may result in the total number of Shares represented by the GDRs owned by a single Holder or Beneficial Owner to exceed any such limits referred to in Condition 28(D)(i) or (ii). The Company may, subject to applicable law, regulations and stock exchange rules and further subject to what the Depositary may deem to be practicable, instruct the Depositary to take action with respect to the ownership interest of any Holder or Beneficial Owner in excess of the limits referenced in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a Holder or Beneficial Owner of the Shares represented by the GDRs held by such Holder or Beneficial Owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the Charter. The Depositary, acting in good faith, shall have no liability for any actions taken in accordance with such instructions. Alternatively, the Company reserves the right to instruct a Holder or Beneficial Owner with an ownership interest in excess of the limits referenced in this Condition, to deliver their GDRs for cancellation and withdrawal of the Deposited Shares so as to permit the Company to deal directly with them as holders of Shares and Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.lentainvestor.com) information on the number of outstanding voting Shares so as to enable Holders and Beneficial Owners to determine if they have met or exceeded any applicable thresholds.

(E) Applicable laws, regulations and stock exchange rules, including those of the BVI Financial Services Commission, the London Stock Exchange, the UK Listing Authority, the Financial Conduct Authority, MoEX, the CBR or other state authorities in the United Kingdom, the Russian Federation or BVI, may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. Each Holder and each Beneficial Owner hereby agrees to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. Neither the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

(F) By holding GDRs or interests therein, Holders and Beneficial Owners agree to immediately notify the Company in writing at such time as they own or otherwise control such number of Regulation S GDRs, Rule 144A GDRs and Shares that, taken together, equal or exceed three percent (3%) (or subsequently increase or decrease their holding by one percent (1%) increments) of the voting shares of the Company provided that the Company has complied with its obligation in the final sentence of this Condition 28(F). The Company reserves the right to instruct Holders and Beneficial Owners who do not provide such notices or who provide notice that the total number of Shares represented by the GDRs exceeds the limits set out in Condition 28 (D) (i) or (ii) to deliver their GDRs for cancellation and withdrawal of the Deposited Property so as to permit the Company to deal directly with them as holders of Shares and the Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.lentainvestor.com) information on the number of outstanding voting shares of the Company so as to enable Holders and Beneficial Owners to determine if they have met or exceeded the thresholds set forth above.

(G) The Depositary shall have no obligations with respect to any such obligations of Holders and Beneficial Owners, except to the extent set forth in this Condition 28.

29. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

(A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.

(B) To the extent that provisions of or governing any Deposited Property, the Charter, or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and Beneficial Owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and Beneficial Owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or Beneficial Owners.

31. Governing Law

(A) The Deposit Agreement, including these Conditions, and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by BVI law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction described in (B) below.

(B) Any dispute, controversy or cause of action arising out of or in connection with these Conditions and the GDRs, including any question regarding its scope, existence, validity or termination, shall be referred to and finally resolved by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**"), which are deemed incorporated by reference into this Condition. The arbitration shall be conducted by three arbitrators: one nominated by the Claimant, one nominated by the Respondent, and one nominated by the two party-appointed arbitrators within thirty (30) calendar days of the confirmation of the nomination of the second arbitrator. If any arbitrator has not been appointed within the time limits specified herein and in the Rules, then such arbitrator shall be appointed by the LCIA in accordance with the Rules. The seat of the arbitration shall be London, England, and the language of the arbitration shall be English. The parties hereby waive any rights under the Arbitration Act 1996 or otherwise to appeal any arbitration award to, or seek determination of a preliminary point of law by, the courts of England.

(C) The Depositary irrevocably appoints the Managing Director for the time being of Deutsche Trustee Company Limited, currently situated at Winchester House, 1 Great Winchester Street, London EC2N 2DB, UK, as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

32. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR will be registered in the name of Cede & Co as nominee for DTC on the date the GDRs are issued. The Regulation S Master GDR will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depositary for Euroclear and Clearstream, Luxembourg on the date the GDRs are issued.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs whilst they are in master form. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in paragraphs (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

(i) DTC, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, notifies the Company that it is unwilling or unable to continue as common depository and a successor common depository system is not appointed within 90 calendar days; or

(ii) Either DTC, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) in respect of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg, NSD or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 5 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 4, 5, 6, 7 or 9 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 2, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR, be made by the Depositary through Euroclear, Clearstream, Luxembourg (and NSD as participant thereof) and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, in the case of GDRs represented by the Regulation S Master GDR, or by DTC, in the case of GDRs represented by the Rule 144A Master GDR, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs and to issue voting instructions.

Notices

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear and Clearstream, Luxembourg, and the Rule 144A Master GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 24.

The Master GDRs shall be governed by and construed in accordance with English law.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GDRS

The Depositary

The Depositary is a wholly-owned subsidiary of Deutsche Bank AG, a German global banking and financial services company. The Depositary is a credit institution and is licensed as such by the Commission de Surveillance du Secteur Financier.

Rights of Holders of GDRs

Relationship of Holders of GDRs with the Depositary: The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which are governed by English law. The Depositary and the Company are parties to the Deposit Agreement. Holders of GDRs have contractual rights in relation to cash or other Deposited Property (including Deposited Shares, which are Shares of the Company represented by GDRs) deposited with the Depositary under Clause 9.1 of the Deposit Agreement, and otherwise under the Deposit Agreement by virtue of the Deed Poll.

Voting: With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that, upon receipt of notice from the Company of any meeting at which the holders of Shares or other Deposited Property are entitled to vote, or of a solicitation of consent or proxy from holders of Shares or Deposited Property, the Depositary shall, providing that no relevant legal prohibitions exist, send to any person who is a Holder on the record date established by the Depositary for that purpose such notice of meeting or solicitation of consent or proxy, along with a brief statement on the manner in which such Holders may provide the Depositary with voting instructions for matters to be considered. The Deposit Agreement provides that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from Holders. As of the date of this Prospectus, the Company confirms that there are no restrictions under applicable law, the M&A or the provisions of the Deposited Shares that would prohibit or restrict the Depositary from voting any of the Deposited Shares in accordance with instructions from Holders.

Delivery of GDRs: The Deposit Agreement provides that the Deposited Shares can only be delivered out of the Regulation S and Rule 144A GDR facilities to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs, or in connection with a pre-release.

Rights of the Company

The Company has broad rights to remove the Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

Insolvency of the Depositary

Applicable insolvency law: If the Depositary becomes insolvent, the insolvency proceedings will be governed by Luxembourg law.

Effect of applicable insolvency law in relation to cash: The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current Luxembourg law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash that would be also be available to general creditors of the Depositary.

Effect of applicable insolvency law in relation to non-cash assets: The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current Luxembourg law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's receiver or conservator to deliver such Depositary Shares and other non-cash assets that would be unavailable to general creditors of the Depositary.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Deposit Agreement or otherwise engages in a default for which it would be liable under the terms of the Deposit Agreement, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary for the Depositary's breach of its contractual obligations under the Deposit Agreement.

The Custodian

The Custodian is Deutsche Custody NV, a company organised under Dutch law.

Relationship of Holders of GDRs with the Custodian: The Custodian and the Depositary are parties to a custody agreement, which is governed by Dutch law. The Holders do not have any contractual relationship with, or rights enforceable against, the Custodian. The Custodian will hold one or more certificates representing Deposited Shares, each of which will be registered in the Company's share register in the name of the Depositary or its nominee, as the case may be, and deposited in the Regulation S and Rule 144A GDR facilities.

Default of the Custodian

Failure to deliver cash: Notwithstanding the fact that the Company expects to pay dividends, if at all, in U.S. Dollars, payments denominated in any currency which are made in accordance with Depositary's current procedures and pursuant to the terms of the Deposit Agreement and Conditions will not be made through the Custodian. Rather, payments in U.S. Dollars will be made directly from the Company to an account in New York and then credited to the U.S. Dollar denominated accounts of the Holders. To the extent that payments are in a currency other than U.S. Dollars, such payments may be made to an account outside the United States, converted into U.S. Dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders.

Failure to deliver non-cash assets: If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. In such case, the Depositary will have a claim under Dutch law against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Depositary's obligations: The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that such default arises as a result of the wilful default, gross negligence or bad faith of the Custodian.

Applicable law: The custody agreement is governed by Dutch law.

Insolvency of the Custodian

Applicable law: If the Custodian becomes insolvent, the insolvency proceedings will be governed by applicable Dutch law.

Effect of applicable insolvency law in relation to cash: For the reasons outlined above, it is not expected that any claim for cash will subsist against the Custodian as the Company will make payments directly to the Depositary or its nominee, as the case may be, and no cash will be paid to the Custodian.

Effect of applicable insolvency law in relation to non-cash assets: Under the Deposit Agreement, all Deposited Shares are registered in the name of the Custodian, in its capacity as nominee of the Depositary, and are held by the Custodian, for the account and to the order of the Depositary (on behalf of Holders) and must be identified as being held to the account of the Depositary and segregated from all other property held by the Custodian. The Custodian must maintain records of all Deposited Shares held by it for the account and to the order of the Depositary and make such records available to the Depositary. The Custodian's sole corporate activity consists of holding deposited securities as nominee for the Depositary and it will incur no liabilities in connection with such activity. However, under Dutch law, as the Custodian holds legal title to the Deposited Shares, which are

registered in its name, in the event the Custodian becomes insolvent, the Deposited Shares would be deemed to form part of the assets of the Custodian and the Depositary (on behalf of the Holders) would only have a claim in respect of the Deposited Shares together with any other general creditors of the Custodian.

The Depositary's obligations: The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the Holders have no direct recourse to the Custodian under the Deposit Agreement, though the Depositary can remove the Custodian and appoint a substitute or additional custodian(s) and may exercise such rights if it deems necessary.

PERSONS HOLDING BENEFICIAL TITLE TO GDRS OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.

PLAN OF DISTRIBUTION

Structure of the Offering

The Offering is being made by way of an offer of GDRs (1) within the United States to QIBS, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act and (2) outside the United States to institutional investors in "offshore transactions" as defined in, and in reliance on, Regulation S.

Underwriting Arrangements

The Company, the Selling Shareholders, the Managers and Deutsche Bank Ltd. have entered into an underwriting agreement dated 28 February 2014 (the "**Underwriting Agreement**") with respect to the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Manager has agreed, severally but not jointly, to purchase such number of Shares, in the form of GDRs, as are set forth opposite its name in the following table.

Managers	Number of Shares (in the form of GDRs)	Number of Shares (in the form of GDRs) in respect of the Over-Allotment Option
Credit Suisse Securities (Europe) Limited	4,571,429	685,715
J.P. Morgan Securities plc.	4,571,429	685,715
VTB Capital	4,571,429	685,714
Deutsche Bank AG, London Branch	2,190,476	328,571
UBS Limited	2,190,476	328,571
TPG Capital BD, LLC	952,380	142,857
Total	**19,047,619**	**2,857,143**

The GDRs will be represented by a Rule 144A Master GDR and a Regulation S Master GDR and will be subject to certain restrictions as further discussed in "*Terms and Conditions of the Global Depositary Receipts*".

The Offer Price is U.S.$10 per GDR. The Managers will receive total commissions of approximately U.S.$27.1 million, assuming no exercise of the Over-allotment Option, or approximately U.S.$31.2 million, assuming that the Over-allotment Option is exercised in full (in each case assuming full payment of the discretionary fee to the Managers), which commissions are payable by the Selling Shareholders. Other than such commissions, the total fees and expenses in connection with the Offering will be approximately U.S.$9 million, which will be paid by the Company. The GDRs settled through the NSD may be purchased by investors at the Rouble equivalent of the Offer Price equal to RUB360.50 determined at the U.S.$/RUB exchange rate of 36.0501.

In the Underwriting Agreement, the Company and each of the Selling Shareholders have made certain representations and warranties, and the Company and each of the Selling Shareholders have agreed to severally indemnify in respect of itself the several Managers and Deutsche Bank Ltd. against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, the Company and each of the Selling Shareholders have agreed to severally contribute in respect of itself to any payments that the Managers and Deutsche Bank Ltd. are required to make in respect of the liabilities against which the Company and each of the Selling Shareholders, as applicable, have agreed to indemnify them.

The Managers are offering the GDRs, subject to prior sale, when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Managers of officers' certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or MICEX or a material adverse change in the Group's financial condition or business, and on certain other conditions, the Managers and Deutsche Bank Ltd. have the right, collectively but not individually, to withdraw from the Offering before delivery of GDRs.

Selling Agency Arrangements

In connection with the Offering, the Company has entered into an engagement agreement with Russian brokers, including OTKRITIE Brokerage House JSC and Finam CSJC, pursuant to which such brokers will provide indications of interest by "qualified investors" (as defined under the Russian Securities Law) in Russia ("**Russian Qualified Investors**") procured by them for the offer and allotment of GDRs in the Offering, and the Company will pay such brokers a commission of 0.5% of the aggregate price of the GDRs purchased in the Offering by them (either for their own account or for the account of their clients who are Russian Qualified Investors).

Stabilisation

In connection with the Offering, the Stabilising Manager, or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the GDRs or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the Closing Date. However, the Stabilising Manager is not required to enter into such transactions. Such stabilising, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during the Stabilisation Period.

In connection with the Offering, the Stabilising Manager or any persons acting for the Stabilising Manager, may, for stabilisation purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs being sold in the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilising Manager during the Stabilisation Period, the Selling Shareholders have granted the Managers the Over-Allotment Option pursuant to which the Managers may require the Selling Shareholders to sell additional GDRs, up to a maximum of 15% of the total number of GDRs being sold in the Offering, at the Offer Price.

The Over-allotment Option is exercisable in whole or in part on one occasion only during the Stabilisation Period for the purposes of meeting over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions upon written notice from the Managers to the Selling Shareholders and to the extent not previously exercised by the Managers may be terminated by the Managers at any time. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

Lock-up Arrangements

Each of the Company and the Selling Shareholders has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 180 days from the date of the London Admission, it will not without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, or announce an offering or issue of, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs, or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing, save in respect of:

(i) Shares or GDRs issued or sold pursuant to the Offering (including the lending of Shares or GDRs pursuant to the Stock Lending Agreeement between the Selling Shareholders and Stabilising Manager);

(ii) with respect to the Company only, options to subscribe for Shares or GDRs granted under employee share option schemes in existence on the date of London Admission or Shares or GDRs issued pursuant to such employee option schemes; and

(iii) with respect to the Company only, Shares or GDRs issued at a subscription price equal to the Offer Price (or its equivalent in Shares) following the MICEX Admission, where the aggregate amount raised by the Company pursuant to this paragraph (iii) does not exceed U.S.$3 million, subscribed by certain members of management as described in *"Management and Corporate Governance—Interests of Directors and Senior Management—Participation in the Offering and in an Expected Management-only Follow-on Offering"*, provided that the Company procures that each such member of management

(other than the directors and Senior Management (see below)) enters into a lock-up agreement in favour of the Company, which the Company has agreed in the Underwriting Agreement not to waive without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), which expires no earlier than the first anniversary of the date of the London Admission.

Each member of Senior Management and Messrs Johnson, Lynch-Bell, Oliver and Elling (all of whom are directors of the Company) has undertaken to each of the Managers and Deutsche Bank Ltd. that from the date of the Underwriting Agreement until 365 days from the date of the London Admission, he or she will not without the prior written consent of the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.), offer, lend, sell, contract to sell, grant or sell options over, purchase any option or contract to sell, transfer, charge, pledge, grant any right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares or GDRs (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or GDRs or any security or financial product whose value is determined directly or indirectly by reference to the price of any such underlying Shares or GDRs, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities or agree to do any of the foregoing or announce or publish the intention to do any of the foregoing.

Pursuant to the terms of the lock-up arrangements, none of the Selling Shareholders and such directors or members of Senior Management are prohibited from:

(i) accepting a takeover offer made to holders of issued Shares or GDRs on terms which treat all such holders alike;

(ii) executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in (i) immediately above;

(iii) selling or otherwise disposing of Shares pursuant to any offer by the Company to purchase its own Shares or GDRs which is made on identical terms to all holders of Shares or GDRs in the Company; and

(iv) transferring or disposing of Shares in accordance with any order made by a court with competent jurisdiction;

and further in the case of such a director or member of Senior Management (or in the case of (ii) below, any Selling Shareholder that is a physical person) none of such persons are prohibited from:

(i) any disposal to an entity wholly legally and beneficially owned and controlled by a director or member of Senior Management (so such director or member of Senior Management, as the case may be, retains the full beneficial interest in the Shares or GDRs) provided that the entity has entered into a similar lock-up arrangement;

(ii) any disposal by personal representatives of a director or member of Senior Management (or any Selling Shareholder that is a physical person) if he/she dies during the 365 days from the date of the London Admission; and

(iii) any disposal by way of gift:

(a) to a family member;

(b) to any person or persons acting in the capacity of trustee or trustees of a trust created by such director or member of Senior Management or, upon any change of trustees of a trust so created, to the new trustee or trustees, provided that the trust is established for charitable purposes only or there are no persons beneficially interested under the trust other than such director or member of Senior Management or his family members; or

(c) by the trustee or trustees of a trust to which sub-paragraph (b) immediately above applies to any person beneficially interested under that trust,

provided that, prior to the making of any such disposal, the relevant individual shall have satisfied the Joint Global Coordinators (on behalf of the Managers and Deutsche Bank Ltd.) that the transferee falls within one of the categories (a) to (c) immediately above.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholders and their respective

affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and the Selling Shareholders and their respective affiliates in the future. As a result, the Managers and their respective affiliates may have a commercial interest in continuing to provide services to the Company and the Selling Shareholders that may be material to the Offering. In particular, Deutsche Bank AG through its wholly owned subsidiary Deutsche Bank Luxembourg S.A. acts as the Depositary for the Company's GDR programme.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account, may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Managers and any affiliate acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholders and in accordance with any legal or regulatory obligation to do so.

The TPG group, acting through its vehicle Luna Inc., owns 42,890,721 Shares, of which it proposes to sell 11,015,814 Shares in the form of GDRs, assuming full exercise of the Over-allotment Option. See "*Principal and Selling Shareholders—Selling Shareholders*". The Co-Manager is an affiliate of Luna Inc. In addition, John Oliver, Stephen Peel and Dmitry Shvets, TPG's Major Shareholder Nominated Directors, also currently have relations with the TPG group. John Oliver is a former TPG partner and currently serves as a senior advisor to TPG; Stephen Peel is a managing partner with TPG Capital; and Dmitry Shvets is the head of TPG Capital Russia.

The VTB Capital group, acting through its vehicle Luna Holdings Inc., owns 10,089,780 Shares, of which it proposes to sell 2,594,652 Shares in the form of GDRs, assuming full exercise of the Over-allotment Option. See "*Principal and Selling Shareholders—Selling Shareholders*". In addition, Tim Demchenko, a Major Shareholder Nominated Director nominated by VTB, also serves as Global Head of Private Equity and Special Situations at the VTB Capital group.

MATERIAL CONTRACTS

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this Prospectus and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to Lenta as of the date hereof:

Material Financings

For details of Lenta's material financings that are outstanding as of the date of this Prospectus, see "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Financings*" *and "Operating and Financial Review—Recent Developments—Loan Agreement with EBRD"*.

Agreements Relating to the Offering

Underwriting Agreement

On 28 February 2014, the Company, the Selling Shareholders, the Managers and Deutsche Bank Ltd. entered into the Underwriting Agreement providing for, *inter alia*, the underwriting of the Offering. See "*Plan of Distribution—Underwriting Arrangements*".

Deposit Agreement

On 28 February 2014, the Company and the Depositary entered into the Deposit Agreement for the establishment and maintenance of (i) the Regulation S Facility and the Regulation S GDRs issued pursuant thereto and (ii) the Rule 144A Facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which the Company also executed a Deed Poll in favour of the holders of the GDRs in the form attached to the Deposit Agreement. See "*Terms and Conditions of the Global Depositary Receipts*".

TAXATION

*The following summary of material U.S. federal income, U.K. and BVI tax consequences of ownership of the GDRs, as well as the summary of the proposed European financial transactions tax (the "**FTT**"), is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as of the date of the Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date hereof and of any actual changes in applicable tax laws after such date.*

U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSES OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OF MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion describes certain U.S. federal income tax consequences to U.S. Holders (as defined below) of an investment in the GDRs. This discussion applies only to U.S. Holders that hold GDRs as capital assets for U.S. federal income tax purposes. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase GDRs by any particular investor, and you should consult your own tax advisor concerning personal tax consequences, including the consequences under state, local or foreign tax laws, of an investment in the GDRs.

In particular, this discussion does not address tax considerations applicable to a U.S. Holder that may be subject to special tax rules, including, without limitation, a dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, banks, thrifts, or other financial institutions, an insurance company, a tax-exempt organisation, a person that holds GDRs as part of a hedge, straddle or conversion transaction for tax purposes, a person whose functional currency for tax purposes is not the U.S. Dollar, a person subject to the U.S. alternative minimum tax or a person that owns or is deemed to own 10% or more of the Company's voting stock or equity capital. In addition, the discussion does not address tax consequences to an entity treated as a partnership for U.S. federal income tax purposes that holds GDRs, or a partner in such partnership. The U.S. federal income tax treatment of each partner of such partnership generally will depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are partners in a partnership holding GDRs should consult their own tax advisors.

This summary is based upon the Internal Revenue Code, proposed, temporary and final Treasury Regulations promulgated under the Internal Revenue Code and judicial and administrative interpretations of the Internal Revenue Code and Treasury Regulations, all of which are subject to change, possibly with retroactive effect.

For the purposes of this summary, you are a "**U.S. Holder**" if you are a beneficial owner of the GDRs and a citizen or resident of the United States or a domestic corporation or otherwise subject to U.S. federal income tax on a net income basis in respect of the GDRs.

In general, if you hold GDRs, you will be treated as the holder of the underlying Shares represented by those GDRs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognised if you exchange GDRs for the Shares represented by those GDRs.

Taxation of Distributions

The gross amount of distributions paid by Lenta out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the Shares generally will be taxed as dividend (at ordinary income rates) at the time of receipt by the Depositary. The dividends generally will be treated as

foreign-source income and will not be eligible for the dividends-received deduction available to domestic corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your basis in the Shares and thereafter as capital gain. Lenta does not expect to maintain earnings and profits computation in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend. You should consult your own tax advisor with respect to the appropriate U.S. federal income tax treatment of any distribution received from Lenta.

Taxation of Sales or Other Dispositions of GDRs

You generally will recognise gain or loss on the sale or other taxable disposition of the GDRs in an amount equal to the difference between (i) the amount realised on such disposition and (ii) your tax basis in the GDRs. Your basis in a GDR generally will equal its purchase price. Gain or loss recognised by you on a sale or other taxable disposition of the GDRs will be capital gain or loss, and will be long-term capital gain or loss if you have held the GDRs for more than one year at the time of disposition. Any gain or loss recognised by you generally will be U.S.-source gain or loss. Long-term capital gains recognised by a non-corporate U.S. Holder generally are subject to tax at a lower rate than short-term capital gain or ordinary income. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of the GDRs and the proceeds from the sale, exchange or redemption of the GDRs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient, such as a corporation. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend income. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

U.K. Tax Considerations

The following is a general summary of certain U.K. tax considerations relating to the ownership and disposal of the GDRs. It is based on current U.K. tax law and published HM Revenue & Customs ("**HMRC**") practice as of the date of the Prospectus, both of which are subject to change, possibly with retrospective effect.

The summary applies only to persons who are resident (and, in the case of individuals only, domiciled) in the U.K. for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected ("**U.K. Holders**"). Persons (a) who are not resident (or, if resident, are not domiciled) in the U.K. for tax purposes, including those individuals and companies who trade in the U.K. through a branch, agency or permanent establishment in the U.K. to which the GDRs are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the U.K., are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.K. tax law. In particular:

- this summary only applies to the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Shares where the dividends are regarded for U.K. tax purposes as that person's own income (and not the income of some other person);
- this summary: (a) only addresses the principal U.K. tax consequences for investors who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold GDRs otherwise than as an investment, (c) does not address the tax consequences for holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities and tax-exempt organisations, (d) assumes that the holder is not an officer or employee of Lenta (or of any related company) and has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment, (e) assumes that the holder does not control or hold (and is not deemed to control or

hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in the Shares, voting power, and/or rights to profits or capital of the Company, and is not otherwise connected with Lenta and (f) assumes that the holder is not a "small company" for the purposes of Part 9A of the Corporation Tax Act 2009.

This summary further assumes that:

- a holder of GDRs is, for U.K. tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the Shares are not registered in a register kept in the U.K., by or on behalf of Lenta, and they will not become so registered; and
- any instrument effecting a transfer of Shares to the Depositary is executed and retained outside the U.K. and does not relate to any property situated in the U.K. or to any matter or thing done, or to be done, in the U.K.

Potential investors in the GDRs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under U.K. tax law and HMRC practice of the acquisition, ownership and disposal of the GDRs, in their own particular circumstances by consulting their own tax advisors.

Taxation of Dividends

Withholding Tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of U.K. tax.

Income Tax

Dividends received by individual U.K. Holders will be subject to U.K. income tax on the full amount of the dividend paid, grossed up for the amount of the non-refundable U.K. dividend tax credit referred to below.

The rate of U.K. income tax which is chargeable on the gross amount of dividends received in the tax year 2013/2014 by (i) additional rate taxpayers is 37.5%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 10%. Individual U.K. Holders will be entitled to a non-refundable tax credit equal to one-ninth of the amount of the dividend received from the Company, which will be taken into account in computing the gross amount of the dividend which is chargeable to U.K. income tax. The tax credit will be credited against the U.K. Holder's liability (if any) to U.K. income tax on the gross amount of the dividend. After taking into account the tax credit, the effective rate of tax (i) for additional rate taxpayers will be approximately 30.6% of the dividend paid, (ii) for higher rate taxpayers will be 25% of the dividend paid, and (iii) for basic rate taxpayers will be nil. An individual shareholder who is not subject to U.K. income tax on dividends received from the Company will not be entitled to claim payment of the tax credit in respect of such dividends. An individual's dividend income is treated as the top slice of their total income which is chargeable to U.K. income tax.

Corporation Tax

A U.K. Holder within the charge to U.K. corporation tax should generally be entitled to exemption from U.K. corporation tax in respect of dividend payments. However, if the conditions for the exemption are not or cease to be satisfied, or a U.K. Holder elects for an otherwise exempt dividend to be taxable, U.K. corporation tax will be chargeable on the amount of any dividends. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of Information

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of GDRs (or the persons for whom GDRs are held), details of the persons to whom payments derived from GDRs are or may be paid and information and documents in connection with transactions relating to GDRs. Information may be required to be provided by, amongst others, the holders of GDRs, persons by or through whom payments derived from GDRs are made or who receive such payments (or who would be

entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to GDRs on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

Taxation of Disposals

A disposal or deemed disposal of GDRs by an individual U.K. Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of U.K. capital gains tax. The principal factors that will determine the capital gains tax position on a disposal or deemed disposal of GDRs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**Annual Exemption**"). The Annual Exemption for the 2013/2014 tax year is £10,900 (announced to be increasing to £11,000 for the 2014/2015 tax year). If, after all allowable deductions, an individual U.K. Holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal or deemed disposal of GDRs may be taxed at 18% or 28% or at a combination of both rates.

An individual U.K. Holder who ceases to be resident in the U.K. for a period of less than five years and who disposes or is deemed to dispose of his or her GDRs during that period of temporary non-residence may be liable to U.K. capital gains tax on a chargeable gain accruing on such disposal or deemed disposal on his or her return to the U.K. (subject to available exemptions or reliefs).

A disposal or deemed disposal of GDRs by a corporate U.K. Holder may give rise to a chargeable gain or an allowable loss for the purpose of U.K. corporation tax. Such a holder should be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the GDRs would be brought into account on the disposal.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty or stamp duty reserve tax will be payable on (i) the transfer of Shares to the Depositary, or (ii) the issue of the GDRs or their delivery into Euroclear, DTC or Clearstream, Luxembourg (as applicable).

No U.K. stamp duty or stamp duty reserve tax will be payable on any transfer of the GDRs once they are issued into Euroclear, DTC and Clearstream, Luxembourg, where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, DTC or Clearstream, Luxembourg (as applicable).

Inheritance Tax

U.K. inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs where the owner is an individual who is domiciled or deemed to be domiciled in the U.K. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

Individual U.K. Holders should consult an appropriate professional advisor if they make a gift or transfer of value of any kind in relation to GDRs, or intend to hold GDRs through trust arrangements.

The Proposed European FTT

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**FTT Participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in GDRs (including secondary market transactions) in certain circumstances.

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the FTT Participating Member States. Generally, it would apply to certain dealings in GDRs where at least one party is a financial institution, and at least one party is established in an FTT Participating Member State. A financial institution may be, or be deemed to be, "established" in an FTT Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in an FTT Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in an FTT Participating Member State.

The FTT proposal remains subject to negotiation between the FTT Participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EEA Member States may decide to participate. Prospective holders of GDRs are advised to seek their own professional advice in relation to the FTT.

BVI Tax Considerations

The following summary of BVI tax considerations assumes that neither the Company nor any of its subsidiaries (a) holds or is otherwise interested in any land situated in the BVI; or (b) has any employees located in the BVI. As of the date of this Prospectus, the Company and its subsidiaries do not have any interest in land or any employees in the BVI, and it is not anticipated that this will change in the immediate future.

The Company is not subject to any tax under BVI law, including income tax, capital gains tax, inheritance tax or gift tax.

No stamp duty, notarial fees, registration, transfer taxes and duties or equivalent is payable in the BVI on (i) the sale, purchase, acquisition, ownership, redemption or other disposal of Shares or GDRs representing such Shares; or (ii) the issue of any new Shares or GDRs representing such Shares. Transfers and other disposals of Shares and GDRs are also exempt from capital gains tax in the BVI.

No estate, inheritance, succession or gift tax is payable by persons who are not resident in the BVI with respect to the Shares or GDRs.

Under BVI law, the Company is not required to withhold tax at the source when paying a dividend.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDRs and to the purchase, ownership and disposition of the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on Lenta's understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations. See "*Risk Factors—Risks Relating to Russia—Risks relating to the Russian legal system and Russian legislation—Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and Lenta therefore may be subject to a greater than expected tax burden that could materially adversely affect Lenta's business and results of operations*".

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regional, local or other non-federal authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisors regarding the tax consequences of investing in the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties and by the absence of special provisions with respect to transactions with GDRs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "**Russian Non-Resident Holder**" means (i) an individual holder of a GDR who is actually present in the Russian Federation for an aggregate period of less than 183 days (including days of arrival in Russia and days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or (ii) a holder that is a legal entity or other legal entity or organisation, in each case not organised under Russian law that purchases, holds and/or disposes of the GDR otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "**Russian Resident Holder**" means a GDR holder not qualifying as a Russian Non-Resident Holder. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future. The residency rules may be affected by the applicable double tax treaty.

Taxation of Acquisition of the GDRs

No Russian tax implications should arise for holders of the GDRs upon purchase of the GDRs.

However, under certain conditions, material gain may arise for Russian Resident Holders which are individuals if the GDRs are purchased at the price below the market value. Such material gain is generally subject to personal income tax at 13%.

Taxation of Dividends

Currently, Russian tax legislation does not have special provisions regarding the taxation of income on GDRs. However, the Russian Government in its "Major Trends in Russian Tax Policy for 2014-2016" has indicated that it intends to introduce amendments aimed at the taxation of operations with depositary receipts. It is expected that the Russian Tax Code will directly provide that the redemption of depositary receipts and receipt of underlying securities would be a non-taxable operation.

Starting from 1 January 2014, amendments to the Russian Tax Code came into force that contain special provisions regarding the taxation of dividends paid with respect to GDRs issued based on the shares of Russian companies. However, the law does not introduce any specific rules with respect to dividends from GDRs issued based on the shares of foreign companies, such as the Company.

According to the Russian Tax Code, should income from a source outside of Russia be recognised as dividends in accordance with the law of the foreign country where it arises, it should also be recognised as dividends for Russian taxation purposes.

The tax treatment of dividends on GDRs will primarily depend on the status of the dividend's recipient. No Russian tax consequences shall arise for Russian Non-Resident Holders with respect to dividends on or capital gains derived from GDRs. Russian tax consequences for Russian Resident Holders are described below.

Corporate Holders

Dividends on GDRs paid by a foreign company to a Russian legal entity will be taxable at 9%, unless the 0% rate below applies.

Dividends paid to a Russian Resident Holder which is a legal entity are taxed at 0% rate provided that the following conditions are met: (i) the Russian company holds at least 50% of the equity of the distributing entity or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed; (ii) the Russian company has held such participation for at least 365 days at the time the decision to distribute dividends is made.

The above participation exemption is not applicable if the foreign entity distributing the dividends is included in the list (prepared by the Russian Ministry of Finance) of countries and territories with beneficial tax treatment and/or which do not require the disclosure and provision of information with respect to financial operations. Currently, BVI is included in this list. Therefore, the 0% rate could not be applied with respect to dividends received by a Russian Resident Holder

Since current Russian legislation contains no specific instructions as to whether the income on GDRs shall be regarded as dividends, there is some risk that income received by Russian Resident Holders will be taxed at the standard 20% corporate tax rate.

Individuals

Dividends on GDRs received by a Russian Resident Holder which is an individual are subject to personal income tax at 9% rate.

Similar to corporate holders, there is some risk that the income of individual Russian Resident Holders received on GDRs may be treated by the tax authorities as other income subject to the standard income tax rate of 13% and not as dividends.

Foreign tax credit

Currently, the Russian Federation has no double tax treaty with the BVI; therefore, a foreign tax credit is not available.

Taking into account the absence of dividend taxation in the BVI, Russian Resident Holders are only liable to dividend taxation in Russia at tax rates stipulated under Russian tax legislation.

Taxation of capital gains

The following sections summarise the taxation of capital gains in respect of the disposal of the GDRs. Russian legislation related to the taxation of capital gains earned by Russian Resident Holders (both corporate holders and individuals) on GDRs is unclear. Therefore, Russian residents should consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of GDRs in their particular situation.

Corporate Holders

Capital gains arising from the sale of GDRs by a Russian Resident Holder which is a legal entity shall be generally taxable at the regular Russian corporate income tax rate of 20%.

Russian tax legislation requires that profit from dealings in securities quoted on a stock exchange be calculated and accounted for separately from profit from dealings in securities that are not quoted on a stock exchange and from other profits. Therefore, Russian Resident Holders may be able to apply losses arising in respect of the GDRs to offset capital gains, or as a carry-forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or dealer licence.

The Russian Tax Code also establishes special rules for the calculation of the tax basis for transactions with securities.

Individuals

Capital gains arising from the sale, exchange or other disposition of the GDRs by individuals who are Russian Resident Holders shall be declared on the holder's tax return and are generally subject to personal income tax at a rate of 13%. Income from the sale of GDRs by an individual is calculated as sale proceeds less documented confirmed expenses related to the purchase of such GDRs (including the cost of the GDRs and expenses associated with the purchase, keeping and sale of the GDRs).

The tax basis for income taxed at 13% may be reduced by the amount of loss generated under operations with securities generated in previous periods starting from the 2010 tax year.

Stamp Duties and Other Taxes

No Russian stamp duty will be payable by the holders of the GDRs upon the purchase or sale of the GDRs.

No value added tax will be payable in Russia in respect of the purchase, ownership and disposition of the GDRs by Russian Resident Holders and Russian Non-Resident Holders.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

Each of the Managers severally, and not jointly or jointly and severally, represents and agrees that the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act; and represents and agrees that (i) neither it nor any of its affiliates, nor any person acting on its or their behalf has solicited and/or will solicit offers for, or has offered, sold or procured subscribers for or will offer, sell or procure subscribers for, GDRs by means of any general solicitation or general advertising or otherwise in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) neither it nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the GDRs, and (iii) neither it nor any person acting on its behalf has offered or sold or solicited offers for or procured subscribers for and will offer or sell or solicit offers for or procure subscribers for, the GDRs, as part of their initial distribution, only (A) to or from persons whom it reasonably believes are QIBs, or if any such person is buying for one or more institutional accounts of which such person is acting as fiduciary or agent, only when such Manager reasonably believes that each such account is a QIB, in reliance on Rule 144A under the Securities Act or pursuant to another exemption from or in a transaction not subject to the registration requirements of the Securities Act; or (B) in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act.

United Kingdom

Each of the Managers severally, and not jointly or jointly and severally, represents and agrees that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the Offering in circumstances in which Section 21(1) of the FSMA does not apply.

EEA

In relation to each EEA Relevant Member State, each Manager represents and warrants that it has not made and will not make an offer to the public of any GDRs which are the subject of the Offering contemplated herein in that EEA Relevant Member State once the Prospectus has been approved by the competent authority in the U.K. and published in accordance with the Prospectus Directive as implemented in the U.K., except that it may make an offer to the public in that EEA Relevant Member State of any GDRs at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that EEA Relevant Member State:

(a) to legal entities which are qualified investors as defined under the Prospectus Directive;

(b) to fewer than 100, or, if the EEA Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer to the public**" in relation to any GDRs in any EEA Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that EEA Relevant Member State by any measure implementing the Prospectus Directive in that EEA Relevant Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the EEA Relevant Member State), and includes any relevant implementing measure in each EEA Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Russian Federation

Each of the Managers severally, and not jointly or jointly and severally, acknowledges that neither it nor any of its affiliates, nor any person acting on its or their behalf has advertised, offered or sold or otherwise transferred, nor will advertise, offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any GDRs to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, except that it may offer, sell or otherwise transfer GDRs to qualified investors within the meaning of Article 51.2 of the Russian Securities Law before the MICEX Admission, and to the extent otherwise permitted under Russian law.

BVI

Each of the Managers severally, and not jointly or jointly and severally, acknowledges that it has not made and will not make an offer to the public or any other person of any GDRs which are the subject of the Offering contemplated herein in the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI.

Transfer Restrictions

Rule 144A GDRs

Each purchaser of GDRs located in the United States pursuant to Rule 144A, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser: (1) is a QIB as that term is defined in Rule 144A under the Securities Act; (2) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act; (3) is acquiring such GDRs for its own account or for the account of one or more QIBs; and (4) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer and are being offered in the United States only in transactions not involving any public offering in the United States and are Restricted Securities.
3. The purchaser understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.
4. The purchaser agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, except in accordance with the following legend, which the GDRs purchased pursuant to Rule 144A under the Securities Act or

another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF LENTA LTD REPRESENTED HEREBY (THE "**SHARES**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**US SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs ACKNOWLEDGES AND AGREES FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") (WITHIN THE MEANING OF RULE 144A UNDER THE US SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

4. For so long as Shares or GDRs are Restricted Securities, it will not deposit such Shares or GDRs into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.

5. The Company, the Managers, the Depositary and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S GDRs

Each purchaser of the Regulation S GDRs outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;

2. The purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are being offered outside the United States in reliance on Regulation S;

3. Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs;

4. The purchaser understands that the Regulation S GDRs and the Regulation S Master GDR will bear a legend substantially to the following effect:

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF LENTA LTD REPRESENTED HEREBY (THE "**SHARES**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**US SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE US SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF LENTA LTD AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

5. It understands that the Master Regulation S GDR and the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications; and

6. The Company, the Managers, the Depositary and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

If a purchaser of GDRs is acquiring such GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Other Provisions regarding Transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Regulation S GDR only upon receipt by the Depositary of written certification (in the form provided in the Deposit Agreement) from the transferor to the effect that, amongst other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Rule 144A GDR only upon receipt by the Depositary of written certifications from the transferor (in the forms provided in the Deposit Agreement) to the effect that, amongst other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg, NSD and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised Lenta as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "*Taxation—U.S. Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

NSD

NSD is the central securities depository of the Russian Federation and is a part of the Moscow Exchange Group. NSD is Russia's national numbering agency and the substitute numbering agency for the CIS and is authorised to assign the international ISIN and CFI codes. NSD is a central system for handling securities by law. The status of central securities depository was assigned to the NSD by an order of the FSFM on 6 November 2012. NSD holds a professional securities market participant licence for depositary activity, a clearing activities licence and a licence to perform banking operations. NSD holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes

in accounts of such participants. NSD participants are financial institutions, including underwriters, securities brokers and dealers, banks, clearing corporations and certain other organisations and entities. Access to NSD is also available to other organisations and entities which clear through or maintain a custodial relationship with an NSD participant, either directly or indirectly.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Regulation S Master GDR registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Rule 144A Master GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions, including NSD, as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg, DTC and NSD will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg, DTC and NSD, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC. The address for DTC is 55 Water Street, New York, New York 10041, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg. The address for NSD is 12 Spartakovskaya Street, Moscow 105066, Russia.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg, DTC or NSD and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global Clearing and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see "*Terms and Conditions of the Global Depositary Receipts—Transfer and Ownership*" and "*Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between NSD Participants

Secondary market sales of book-entry interests in the GDRs held through NSD to purchasers of book-entry interests in the GDRs through NSD will be conducted in accordance with the normal rules and operating procedures of NSD and will be settled using the usual procedures applicable to depositary receipts.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment or a delivery versus payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, DTC will on the settlement date instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

Trading between Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment or a delivery versus payment instruction at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment, as applicable, to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

Trading between NSD Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a Euroclear or Clearstream, Luxembourg participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will credit the account of its participant, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the Euroclear or Clearstream, Luxembourg participant.

Trading between Euroclear/Clearstream, Luxembourg Seller and NSD Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of an NSD participant, the Euroclear or Clearstream, Luxembourg participant must submit a delivery free of payment or a delivery versus payment instruction to Euroclear or Clearstream, Luxembourg, as the case may be, at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further transfer to the relevant NSD participant.

Trading between NSD Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a DTC participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

Trading between DTC Seller and NSD Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of an NSD participant, the DTC participant must send a delivery free of payment or a delivery versus payment instruction to DTC at least one business day prior to the settlement date. DTC will, in turn, transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, and Euroclear or Clearstream, Luxembourg, as the case may be, will transmit it to NSD on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the NSD participant. On the settlement date, DTC will debit the account of its participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further credit to the relevant NSD participant. In addition, DTC will on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the nominee for DTC and represented by the Rule 144A Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg, DTC and NSD in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg, DTC and NSD, none of Euroclear, Clearstream, Luxembourg, DTC or NSD is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Lenta, the Managers, the Depositary, the Custodian or its or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg, DTC or NSD or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Luxembourg S.A. Deutsche Bank Luxembourg S.A. was established on 12 August 1970 as a public limited liability company (*société anonyme*) under the name "Compagnie Financière de la Deutsche Bank", in the Grand Duchy of Luxembourg in accordance with the Luxembourg Act dated 10 August 1915 on commercial companies, as amended. The notarial act of incorporation was published on 27 August 1970 in the Mémorial C-142, Recueil des Sociétés et Associations (the "**Mémorial C**"). The original name of Deutsche Bank Luxembourg S.A. was changed to Deutsche Bank Compagnie Financière Luxembourg S.A. on 11 October 1978 and to its present name on 16 March 1987. The articles of incorporation of Deutsche Bank Luxembourg S.A. have been most recently amended by a notarial deed of 15 April 2013, published in the Mémorial C under number C-1429 of 17 June 2013 on page 68582. Deutsche Bank Luxembourg S.A. was incorporated for an unlimited duration. The registered office of Deutsche Bank Luxembourg S.A. is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg (telephone no. (+352) 421. 22-1). Deutsche Bank Luxembourg S.A. is registered with the Luxembourg trade and companies register under number B. 9164.

A copy of the Depositary's by-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary is available for inspection at the principal administrative establishment of the Depositary located at 2, boulevard Konrad Adenauer, L-1115, Luxembourg and at the office of Deutsche Bank AG, London Branch located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDRs are admitted to listing on the Official List and admitted to trading on the London Stock Exchange's regulated market for listed securities and Deutsche Bank Luxembourg S.A. is the Depositary.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for Lenta and the Selling Shareholders in respect of the laws of England and the United States by Cleary Gottlieb Steen & Hamilton LLP, in respect of the laws of the Russian Federation by Cleary Gottlieb Steen & Hamilton LLC and in respect of the laws of BVI by Ogier. Certain legal matters with respect to the Offering will be passed upon for the Managers in respect of the laws of England and the United States by Skadden, Arps, Slate, Meagher & Flom (U.K.) LLP and in respect of the laws of BVI by Conyers Dill & Pearman.

INDEPENDENT AUDITORS

The Financial Statements included in this Prospectus have been audited by Ernst & Young LLC, independent auditors, as stated in their audit reports appearing herein. The address of Ernst & Young LLC is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow, 115035, Russian Federation. Ernst & Young LLC is a member of the Audit Chamber of Russia. Ernst & Young LLC does not have a material interest in Lenta.

Ernst & Young LLC has consented to the inclusion in the Prospectus of its report on the 2013 Financial Statements on page F-5 and its report on the 2012 Financial Statements on page F-67 in the form and context in which they are included and authorised the contents of such reports for the purposes of Prospectus Rule 5.5.4R(2)(f) and item 23.1 of Annex X of the Commission Regulation (EC) No 809/2004.

For the purposes of Prospectus Rule 5.5.4R(2)(f), Ernst & Young LLC is responsible for its reports on pages F-5 and F-67 as part of the Prospectus and declare that it has taken all reasonable care to ensure that the information contained in such reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X to the Commission Regulation (EC) No 809/2004.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Regulation S Master GDR and the Rule 144A Master GDR, to the Official List on or about 5 March 2014. Application has been made for the GDRs to be traded on the London Stock Exchange's regulated market for listed securities. Prior to the London Admission, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when issued basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
2. The MICEX Admission is expected to take place after the London Admission on or about 6 March 2014. Dealings in the GDRs on MICEX prior to the MICEX Admission are not permitted.
3. The Company has obtained all consents, approvals and authorisations required under BVI law in connection with the issue of the GDRs. The Company's entry into the Underwriting Agreement and the Deposit Agreement was duly authorised by the Board of Directors on 29 January 2014 and the shareholders of the Company on 19 February 2014 in accordance with the M&A.
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company from the date of publication of this Prospectus:
   - the Prospectus;
   - the M&A;
   - the Deposit Agreement;
   - the Deed Poll;
   - the Financial Statements; and
   - the Nielsen Reports.

   The registered office of the Company is at the Offices of Tricor Services (BVI) Limited of PO Box 3340, Road Town, Tortola, BVI, and its telephone number is 1-284-494-6004.
5. If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom.
6. There has been no significant change in the financial or trading position of Lenta since 31 December 2013, the end of the last financial period for which financial information has been published. The cash and cash equivalent position of Lenta has changed since 31 December 2013 as discussed in the last sentence of "Capitalisation".
7. The GDRs are not denominated in any currency and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offering will be made public by Lenta through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
8. Holders of GDRs may contact Deutsche Bank Luxembourg S.A. as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's principal administrative establishment located at 2, Boulevard Konrad Adenaur, L-1115, Luxembourg.
9. The ISIN for the Rule 144A GDRs is US52634T1016, the Common Code for the Rule 144A GDRs is 103087635, the CUSIP number for the Rule 144A GDRs is 52634T 101 and the SEDOL for the Rule 144A GDRs is BJS93Z7. The CFI Code is ESVTFA.
10. The ISIN for the Regulation S GDRs is US52634T2006, the Common Code for the Regulation S GDRs is 103087686, the CUSIP number for the Regulation S GDRs is 52634T 200 and the SEDOL for the Regulation S GDRs is BJ621Y3. The CFI Code is ESVTFA.
11. The London Stock Exchange trading symbol for Regulation S GDRs is LNTA and for Rule 144A GDRs is LNTR. The MICEX Regulation S GDR trading symbol is LNTA.
12. No expenses or taxes are to be charged to the subscriber or purchaser of GDRs.
13. As of the date hereof, the Company has a corporate credit rating of B+ from Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") (outlook stable) and a corporate family rating of B1 from Moody's Investors Service, Ltd. ("**Moody's**") (outlook stable). Standard & Poor's and Moody's are established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"). As such, Standard & Poor's and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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Lenta Limited and Subsidiaries

Consolidated financial statements

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2013

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 2013 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 2013 were approved by management on 29 January 2014.

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

Jan Dunning
(CEO of Lenta Ltd)

Jago Lemmens
(Chief Financial Officer/Financial Director of Lenta Ltd)

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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 2013, 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' judgement, 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

30 January 2014

Consolidated statement of financial position as at 31 December 2013

(in thousands of Russian Roubles (RR)

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	8	51,165,287	30,582,875
Prepayments for construction	9	2,576,068	1,459,501
Leasehold rights	10	2,771,664	2,214,195
Intangible assets other than leasehold rights	11	623,158	446,200
Total non-current assets		**57,136,177**	**34,702,771**
Current assets			
Inventories	12	12,994,188	9,373,700
Trade and other receivable	13	8,466,099	5,448,429
Advances paid	14	1,404,388	808,090
Taxes recoverable	15	1,714,755	1,121,760
Prepaid expenses		180,860	50,904
Cash and cash equivalents	16	6,211,965	3,536,464
Total current assets		**30,972,255**	**20,339,347**
Total assets		**88,108,432**	**55,042,118**
Equity and liabilities			
Equity			
Share capital	17,19	284	284
Additional paid-in capital	17	4,407,154	3,972,544
Share Options	27	65,510	978,698
Hedging reserve	17	(42,959)	–
Treasury shares	17	–	(15,724,392)
Retained earnings		307,478	9,809,527
Total equity		**4,737,467**	**(963,339)**
Liabilities			
Non-current liabilities			
Long-term borrowings	20	39,849,089	24,978,988
Deferred tax liabilities	21	1,639,997	705,323
Long-term portion of cash flow hedging instruments	20	370,939	130,089
Long-term obligations under finance leases		50,429	65,420
Total non-current liabilities		**41,910,454**	**25,879,820**
Current liabilities			
Trade and other payables	22	33,806,922	25,044,300
Advances received		124,802	156,671
Other taxes payable	23	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	6,143,087	3,833,004
Total current liabilities		**41,460,511**	**30,125,637**
Total liabilities		**83,370,965**	**56,005,457**
Total equity and liabilities		**88,108,432**	**55,042,118**

The accompanying notes are an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013

(in thousands of Russian Roubles (RR)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Sales		144,266,474	109,909,902
Cost of goods sold	24	(112,809,423)	(87,233,080)
Gross profit		**31,457,051**	**22,676,822**
Selling, general and administrative expenses	25	(19,013,847)	(13,506,345)
Reversal of impairment of non-financial assets		–	401
Other operating income	26	1,459,666	1,118,420
Other operating expense		(170,542)	(124,618)
Operating profit		**13,732,328**	**10,164,680**
Interest expense		(4,341,902)	(3,217,459)
Interest income		82,153	77,779
Change in fair value of financial instruments at fair value through profit or loss	20	(234,367)	102,330
Other expenses		(91,220)	(215,122)
Foreign exchange gains/(losses)		(23,171)	69,967
Profit before income tax		**9,123,821**	**6,982,175**
Income tax expense	21	(2,031,644)	(1,846,377)
Profit for the year		**7,092,177**	**5,135,798**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	18	(53,699)	–
Income tax relating to the components of OCI	21	10,740	–
Other comprehensive income for the year, net of tax		**(42,959)**	**–**
Total comprehensive income for the year, net of tax		**7,049,218**	**5,135,798**
Earnings per share (in RR per share) (Note 19)			
- basic and diluted, for profit for the year attributable to equity holders of the parent		0.083	0.060

The accompanying notes are an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2013

(in thousands of Russian Roubles (RR)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Profit before income tax		**9,123,821**	**6,982,175**
Adjustments for:			
Loss from disposal of property, plant and equipment		72,586	15,000
Gain on disposal of leasehold rights		(633)	–
Interest expense		4,341,902	3,217,459
Interest income		(82,153)	(77,779)
Inventory write-down to net realizable value		131,382	42,400
Change in bad debt allowance		34,606	(3,639)
Depreciation and amortization	8,25	2,312,255	1,576,364
Reverse of impairment of non-financial assets		–	(401)
Share options expense	27	65,510	–
Change in fair value of financial instruments at fair value through profit and loss	20	234,367	(102,330)
		16,233,643	**11,649,249**
Movements in working capital:			
Increase in trade and other receivables		(3,023,813)	(1,571,933)
Increase in advances paid	14	(596,557)	(496,797)
Increase in prepaid expenses		(54,956)	(12,052)
Increase in inventories	12	(3,751,870)	(1,846,838)
Increase in trade and other payables	22	7,469,635	6,373,866
(Decrease)/increase in advances received		(31,869)	10,748
Decrease in net other taxes payable	15,23	(456,150)	(740,885)
		15,788,063	**13,365,358**
Cash from operating activities			
Income taxes paid		(976,252)	(1,083,862)
Interest received		89,411	78,202
Interest paid		(4,048,443)	(3,099,041)
Net cash generated from operating activities		**10,852,779**	**9,260,657**
Cash flows from investing activities			
Purchases of property, plant and equipment		(22,496,319)	(14,061,626)
Purchases of intangible assets other than leasehold rights		(274,387)	(262,709)
Purchases of leasehold rights		(813,439)	(638,074)
Proceeds from sale of property, plant and equipment		4,361	680
Proceeds from disposals of leasehold rights		30,443	–
Net cash used in investing activities		**(23,549,341)**	**(14,961,729)**
Cash flows from financing activities			
Proceeds from borrowings		70,921,176	26,670,004
Repayments of borrowings		(54,045,200)	(22,837,000)
Repayments of obligations under financial lease		(14,990)	(10,836)
Proceeds from issue of new shares and sales of treasury shares	17	813,251	278,949
Amount paid on cancelation of share option	27	(2,227,174)	–
Payment of loan commission		(75,000)	–
Net cash generated from financing activities		**15,372,063**	**4,101,117**
Net increase/(decrease) in cash and cash equivalents		2,675,501	(1,599,955)
Cash and cash equivalents at the beginning of the period	16	3,536,464	5,136,419
Cash and cash equivalents at the end of the period	16	**6,211,965**	**3,536,464**

The accompanying notes are an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2013

(in thousands of Russian Roubles (RR)

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2013	**284**	**3,972,544**	**–**	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**
Profit for the period	–	–	–	–	–	7,092,177	**7,092,177**
Other comprehensive income	–	–	(42,959)	–	–	–	**(42,959)**
Total comprehensive income	**–**	**–**	**(42,959)**	**–**	**–**	**7,092,177**	**7,049,218**
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	**284**	**4,407,154**	**(42,959)**	**–**	**65,510**	**307,478**	**4,737,467**
Balance at 1 January 2012	**284**	**3,693,595**	**–**	**(15,724,392)**	**978,698**	**4,673,729**	**(6,378,086)**
Profit for the period	–	–	–	–	–	5,135,798	**5,135,798**
Other comprehensive income	–	–	–	–	–	–	**–**
Total comprehensive income	–	–	–	–	–	5,135,798	**5,135,798**
Issue of shares (Note 17)	–	278,949	–	–	–	–	**278,949**
Balance at 31 December 2012	**284**	**3,972,544**	–	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**

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.

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.

At 31 December 2012 and 31 December 2013 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 (RR 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 Company does not prepare stand-alone financial statements, as BVI law does not require it. Its accounting records are kept only for the Group financial reporting purposes. 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.

At 31 December 2013, the Group had net current liabilities of approximately RR 10,488,256 (31 December 2012: RR 9,786,290).

Unused credit facilities available as of 31 December 2013 were RR 24,850,000. Management believes that operating cash flows and available borrowing capacity will provide it adequate resources to fund its liabilities for the next year.

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

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 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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.

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.

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 (“RR”), 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.

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:

	Useful lives in years
Buildings	30
Land improvements	30
Machinery and equipment	5 to 15
Other	3 to 5

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.

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 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.

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. Deferred tax assets are recognised 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.

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.

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 vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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.

Where there is an alternative to settle the transaction in cash or by issuing shares at the discretion of counter-party, debt and equity components of the instrument are to be identified and treated appropriately

Pre-opening costs

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

Development projects on behalf of third parties

Where the Group undertakes a short-term development project for a new store construction on behalf of a third party, expenditure incurred on construction of the store is recorded within other receivables while on-account payments received from the third party are recorded as advances received. The Group acts as an agent in such projects and recognizes commission earned as other operating income.

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.

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

2.3. Summary of significant accounting policies (continued)

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.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments through the expected life of the financial asset/liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset/liability.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Interest income is shown in separate line in the statement of comprehensive income.

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.

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

2.3. Summary of significant accounting policies (continued)

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease 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.

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 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.

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

2.3. Summary of significant accounting policies (continued)

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.

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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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

2.3. Summary of significant accounting policies (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

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.

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.

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

2.3. Summary of significant accounting policies (continued)

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

Current versus non-current classification

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

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

3. Significant accounting judgments, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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.

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

Judgments (continued)

Assets versus business acquisition

From time to time in the normal course of business the Group acquires the companies that are a party to a lease contract or own the land plot in which the Group is interested. If at the date of acquisition by the Group, the company is not engaged in any business activity, the Group treats such acquisitions as a purchase of assets (a leasehold right or a land plot) 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.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

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.

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.

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.

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

Estimates and assumptions (continued)

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.

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 2012, except for the adoption of new or revised standards and interpretations effective as of 1 January 2013

Annual Improvements to IFRSs 2010-2012 Cycle

Annual Improvements to IFRSs 2010-2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010-2012 cycle for annual improvements to IFRSs. It includes the following amendments:

- IFRS 2 *Share-based Payment: Definition of vesting condition*
- IFRS 3 *Business Combinations: Accounting for contingent consideration in a business combination*
- IFRS 8 *Operating Segments: Aggregation of operating segments*
- IFRS 8 *Operating Segments: Reconciliation of the total of the reportable segments' assets to the entity's assets*
- IFRS *13 Fair Value Measurement: Short-term receivables and payables*
- IAS 16 *Property, Plant and Equipment: Revaluation method—proportionate restatement of accumulated depreciation*
- IAS 24 *Related Party Disclosures: Key management personnel*
- IAS 38 *Intangible Assets: Revaluation method—proportionate restatement of accumulated amortisation*

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

Annual Improvements to IFRSs 2011-2013 Cycle

Annual Improvements to IFRSs 2011-2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011-2013 cycle. It includes the following amendments:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards: Meaning of 'effective IFRSs'*
- IFRS 3 *Business Combinations: Scope exceptions for joint ventures*
- IFRS 13 *Fair Value Measurement: Scope of paragraph 52 (portfolio exception)*
- IAS 40 *Investment Property: Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property*

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified (or recycled) to profit or loss at a future point in time (e.g., net loss or gain on available for sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 has no impact on the consolidation of investments held by the Group.

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

IAS 19 Employee Benefits (Revised 2011)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets, to simple clarifications and rewording. Actuarial gains and losses are now recognized in other comprehensive income. Interest on the net defined benefit liability (asset) is recognized using the discount rate used to measure the defined benefit obligation. IAS 19R has no impact on the Group's financial position or performance.

IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted.

IAS 32 Financial Instruments, Presentation (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment did not have an impact on the consolidated financial statements for the Group, as there is no tax consequences attached to distributions to equity holders.

IAS 16 Property, Plant and Equipment (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment has no impact on the consolidated financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment did not have an impact on the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 has no impact on the Group's financial position or performance.

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 has no impact on financial statement disclosures, financial position or performance of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has no material impact on the Group's financial position or performance.

IFRS 13 also requires specific disclosures on fair values. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 29.

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: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

On 19 November 2013 the IASB issued package of amendments to the accounting requirements for financial instruments. The amendments: bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

5. Standards issued but not yet effective (continued)

Hedge accounting

The amendments introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.

Own credit

As part of the amendments, the changes introduced also enable entities to change the accounting for liabilities that they have elected to measure at fair value, before applying any of the other requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk on such liabilities are no longer recognised in profit or loss. These amendments will facilitate earlier application of this long-awaited improvement to financial reporting

IFRS 9 effective date

The IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 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 are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

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 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact on the financial statements.

5. Standards issued but not yet effective (continued)

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 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact on the financial statements.

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. The amendment is applicable for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group's financial position and performance.

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.

6. Operating segments (continued)

The segment information for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales	144,266,474	109,909,902
EBITDA	16,044,583	11,740,643

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

	Year ended 31 December 2013	Year ended 31 December 2012
EBITDA	**16,044,583**	**11,740,643**
Interest expense	(4,341,902)	(3,217,459)
Interest income	82,153	77,779
Income tax expense (see Note 21)	(2,031,644)	(1,846,377)
Depreciation / amortization (see Note 8,10,11,25)	(2,312,255)	(1,576,364)
Reversal of impairment of non-financial assets	–	401
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	(234,367)	102,330
Other expenses	(91,220)	(215,122)
Foreign exchange gain	(23,171)	69,967
Profit for the year	**7,092,177**	**5,135,798**

7. Balances and transactions with related parties

Related parties may enter into transactions, which unrelated parties might not. Transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at 31 December 2013 the Group's ownership structure is as follows:

Shareholders	Percentage of shares held, 31 December 2013	Percentage of shares held, 31 December 2012
Luna Inc.	49.84%	40.17%
Lakatomo Holdings Limited (subsidiary of Lenta Ltd)		19.89%
European Bank for Reconstruction and Development	21.50%	17.32%
Luna Holdings Inc.	11.73%	9.45%
Others	16.93%	13.17%
Total shareholders' equity	**100.00%**	**100.00%**

7. Balances and transactions with related parties (continued)

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

Entities with significant influence over the Group:

	31 December 2013	31 December 2012
VTB Capital		
Cash and cash equivalents	1,121,546	2,564,946
Long-term loans payable	29,891,695	24,978,988
Short-term loans payable	1,300,000	2,833,000
Interest accrued	11,480	7,975
Finance lease liability	49,612	63,511
Liability on swaps and caps	559,712	271,647
Loan commission prepayments	75,000	–
TPG Capital		
Prepayments	1,020	39,451
Luna Holdings Inc.		
Accrued liabilities	–	4,591

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2013	Year ended 31 December 2012
VTB Capital		
Interest expense	3,264,516	2,957,497
Finance leasing charge	8,597	10,538
Financial charges on swaps and caps	153,955	155,156
Change in fair value of financial instruments through profit and loss	234,367	(102,330)
Change in fair value of financial instruments through OCI	53,698	–
Interest income on deposits	(63,545)	–
EBRD		
Selling, general and administrative expenses	2,260	–
Other expenses	3,928	–
TPG Capital		
Selling, general and administrative expenses	39,576	–
Other expenses	83,365	72,426
Luna Holdings Inc.		
Selling, general and administrative expenses	5,316	–
Other expenses	3,928	–

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

	Year ended 31 December 2013	Year ended 31 December 2012
Short-term benefits	436,774	1,051,783
Share-based payment	65,510	–
Termination benefits	8,555	1,124
Total remuneration	**510,839**	**1,052,907**

8. Property, plant and equipment

Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2013	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Additions	–	–	–	3,873	22,644,151	**22,648,024**
Transfers from construction in progress	1,245,871	944,060	13,677,629	4,656,266	-20,523,826	**–**
Transfers from leasehold rights	173,810	–	**–**	–	–	**173,810**
Disposals	(2,295)	–	(792)	(152,192)	(22,366)	**(177,645)**
Balance at 31 December 2013	**4,959,072**	**3,802,799**	**36,414,582**	**13,836,780**	**3,698,823**	**62,712,056**
Accumulated depreciation and impairment						
Balance at 1 January 2013	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Charge for the year	–	92,228	799,540	1,270,707	–	**2,162,475**
Disposals	–	–	(666)	(100,032)	–	**(100,698)**
Balance at 31 December 2013	**–**	**715,616**	**5,275,490**	**5,555,663**	**–**	**11,546,769**
Net book value						
Balance at 1 January 2013	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**
Balance at 31 December 2013	**4,959,072**	**3,087,183**	**31,139,092**	**8,281,117**	**3,698,823**	**51,165,287**

Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2012	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Additions	219,688	–	–	129	13,583,065	**13,802,882**
Transfers from construction in progress	1,475,481	645,211	8,103,379	2,502,336	(12,726,407)	**–**
Disposals	–	–	(4,116)	(81,983)	(31,865)	**(117,964)**
Balance at 31 December 2012	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Accumulated depreciation and impairment						
Balance at 1 January 2012	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Charge for the year	–	73,995	491,672	909,996	–	**1,475,663**
Disposals	–	–	(3,244)	(64,912)	–	**(68,156)**
Balance at 31 December 2012	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Net book value						
Balance at 1 January 2012	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**
Balance at 31 December 2012	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**

Land and buildings with a carrying amount of RR 15,966,475 (31 December 2012: RR 10,927,425) are pledged under loan agreement with VTB Capital Plc (see Note 20).

During the year ended 31 December 2013 and year ended 31 December 2012 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2013 was RR 62,847 (31 December 2012: RR 79,251). Leased assets are pledged as security for the related finance lease. There were no additions during the year ended 31 December 2013 under finance leases.

8. Property, plant and equipment (continued)

Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2013 and year ended 31 December 2012 is presented within Depreciation and amortization in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Depreciation of property, plant and equipment (Note 8)	2,162,475	1,475,663
Amortization of intangible assets (Note 11)	97,430	57,278
Leasehold rights amortization (Note 10)	52,350	43,423
Total depreciation and amortization	**2,312,255**	**1,576,364**

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 2013 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2013	**2,443,067**
Additions	813,439
Transfer to PPE	(180,000)
Disposals	(119,987)
At 31 December 2013	**2,956,519**

Accumulated amortization and impairment	Leasehold rights
At 1 January 2013	**228,872**
Additions	52,350
Transfer to PPE	(6,190)
Disposals	(90,177)
At 31 December 2013	**184,855**
Net book value	
At 1 January 2013	**2,214,195**
At 31 December 2013	**2,771,664**

10. Leasehold rights (continued)

Leasehold rights as at 31 December 2012 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2012	**1,829,754**
Additions	840,453
Transfer to PPE	(227,140)
At 31 December 2012	**2,443,067**

Accumulated amortization and impairment	Leasehold rights
At 1 January 2012	**210,612**
Charge for the year	43,423
Reversal of impairment	(401)
Transfer to PPE	(24,762)
At 31 December 2012	**228,872**
Net book value	
At 1 January 2012	**1,619,142**
At 31 December 2012	**2,214,195**

11. Intangible assets other than leasehold rights

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

	Software	Trade marks	Total
Cost			
At 1 January 2013	**910,470**	**549**	**911,019**
Additions	274,388	–	**274,388**
At 31 December 2013	**1,184,858**	**549**	**1,185,407**
Accumulated amortization			
At 1 January 2013	**464,385**	**434**	**464,819**
Amortization for the period	97,353	77	**97,430**
At 31 December 2013	**561,738**	**511**	**562,249**
Net book value			
At 1 January 2013	**446,085**	**115**	**446,200**
At 31 December 2013	**623,120**	**38**	**623,158**

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2012 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2012	**647,762**	**549**	**648,311**
Additions	262,708	–	**262,708**
At 31 December 2012	**910,470**	**549**	**911,019**
Accumulated amortization			
At 1 January 2012	**407,197**	**344**	**407,541**
Amortization for the period	57,188	90	**57,278**
At 31 December 2012	**464,385**	**434**	**464,819**
Net book value			
At 1 January 2012	**240,565**	**205**	**240,770**
At 31 December 2012	**446,085**	**115**	**446,200**

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

12. Inventories

	31 December 2013	31 December 2012
Goods for resale	12,478,316	8,985,132
Raw materials	515,872	388,568
Total inventories	**12,994,188**	**9,373,700**

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

During the reporting period the Group wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2013 in the amount of RR 2,120,784 (year ended 31 December 2012: RR 1,274,891).

13. Trade and other receivables

	31 December 2013	31 December 2012
Accounts receivable on rental and other services and on suppliers' advertising	5,719,509	3,538,067
Suppliers' rebates receivable	2,585,789	1,733,039
Receivables for construction of stores on behalf of third parties	14,911	129,886
Other receivables	151,646	54,307
Bad debt allowance	(5,756)	(6,870)
Total trade and other receivables	**8,466,099**	**5,448,429**

Receivables for construction represent expenditure on construction of stores on behalf of third parties, advance payments from which have been included in advances received (31 December 2013: nil, 31 December 2012: RR 106,131).

13. Trade and other receivables (continued)

Most amounts are receivable within 25 days. The Group has recognized an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. 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 the 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 2013:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	38,151	4,017	5,815	2,535,980	**2,583,963**
Accounts receivable on rental and other services	558,644	22,951	5,828	5,129,564	**5,716,987**
Receivables for construction for stores on behalf of third parties	–	–	7,063	7,848	**14,911**
Other receivables	27,419	330	228	122,261	**150,238**
Total	**624,214**	**27,298**	**18,934**	**7,795,653**	**8,466,099**

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2012:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	44,258	8,621	7,964	1,672,161	**1,733,004**
Accounts receivable on rental and other services	217,902	11,970	12,686	3,295,107	**3,537,665**
Receivables for construction for stores on behalf of third parties	–	–	345	123,108	**123,453**
Other receivables	–	–	–	54,307	**54,307**
Total	**262,160**	**20,591**	**20,995**	**5,144,683**	**5,448,429**

14. Advances paid

	31 December 2013	31 December 2012
Advances to suppliers of goods	674,363	406,532
Advances for services	579,375	289,529
Guarantee payments under lease contracts	150,650	112,029
Total advances paid	**1,404,388**	**808,090**

15. Taxes recoverable

Taxes recoverable as at 31 December 2013 are represented by a VAT receivable of RR 1,163,700 (31 December 2012: RR 918,963) and input VAT that has not yet been claimed for reimbursement from tax authorities of RR 551,055 (31 December 2012: RR 202,797).

16. Cash and cash equivalents

	31 December 2013	31 December 2012
RR short-term deposits	4,545,856	35,057
RR denominated cash in transit	1,245,195	3,303,108
RR denominated cash on hand and balances with banks	419,370	196,265
Foreign currency denominated cash on hand and balances with banks	1,544	2,034
Total cash and cash equivalents	**6,211,965**	**3,536,464**

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 RR 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 2013 the Company's share capital was comprised of 86,052,995 authorized and issued ordinary shares (as at 31 December 2012, 106,685,231) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the year ended 31 December 2013 and for the year ended 31 December 2012.

17. Issued capital and reserves (continued)

The movements in the number of shares the year ended 31 December 2013 and for the year ended 31 December 2012 were as follows.

	31 December 2013 No.	31 December 2012 No.
	unlimited	unlimited
Authorized share capital (ordinary shares with no par value)		
Issued and fully paid (no par value)	86,052,995	106,685,231
Treasury shares		(21,218,443)

	31 December 2013 No.	Year ended 31 December 2012 No.
Balance of shares outstanding at beginning of financial year	85,466,788	85,106,557
Sale of treasury shares	506,207	–
Additional issue of shares	80,000	360,231
Balance of shares outstanding at the end of financial year	**86,052,995**	**85,466,788**

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 RR 694,751. The excess of selling price over the carrying value of shares was recorded as increase of additional paid-in capital.

In 2013 year 80,000 ordinary shares were issued by the Group for a total cash consideration of RR 118,500 (USD 3,615,200 at the exchange rate at the date of the transaction). In 2012 year 360,231 ordinary shares were issued by the Group for a total cash consideration of RR 278,949 (USD 9,038,196 at the exchange rate at the date of the transaction). All amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

Share options reserve

	Share options reserve
As at 1 January 2012	**978,698**
Changes during the period	–
At 31 December 2012	**978,698**
Changes during the period	(913,188)
At 31 December 2013	**65,510**

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.

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:

As at 31 December 2013	**Hedging reserve**
Interest rate swaps and caps	(42,959)
	(42,959)

As at 31 December 2012	**Hedging reserve**
Interest rate swaps and caps	–
	–

18. Components of other comprehensive income (OCI)

	Year ended 31 December 2013	**Year ended 31 December 2012**
Cash flow hedges:		
Reclassification during the year to profit or loss	89,090	–
Losses arising during the year	(142,789)	–
Net loss during the year	**(53,699)**	**–**

19. Earnings per share

	Year ended 31 December 2013	**Year ended 31 December 2012**
Earnings per share (in RR per share)		
- basic and diluted, for profit for the period attributable to equity holders of the parent	0.083	0.060

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2013: RR 7,049,218 for the year ended 31 December 2012: RR 5,135,798) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2013	**Year ended 31 December 2012**
Number of issued shares at the beginning of period	85,466,788	85,106,557
Number of shares issued in December 2013	80,000	–
Number of treasury shares sold in June 2013	506,207	–
Number of shares issued in September, 2012	–	360,231
Number of shares at the end of reporting period	86,052,995	85,466,788
Weighted average number of shares	**85,721,825**	**85,211,624**

The Group has issued share-based payments (Note 27) instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

20. Borrowings

Short-term borrowings:

	Due date	Currency	Weighted average interest rate for the year ended 31 December 2013, %	Weighted average interest rate for the year ended 31 December 2012, %	31 December 2013	31 December 2012
Short-term portion of long-term borrowings						
Sberbank	–	RR	–	9.27	–	500,000
TransCreditBank	–	RR	–	7.97	–	1,203,000
TransCreditBank	–	RR	–	7.99	–	1,630,004
Raiffeisen Bank	2014	RR	7.26	–	4,517,056	–
VTB OAO	2014	RR	7.18	–	1,301,359	–
VTB Capital Plc	2014	RR	11.08	–	9,565	–
Bonds	2014	RR	10.00		314,551	–
Total short-term portion of long-term borrowings					**6,142,531**	**3,333,004**
Short-term borrowings						
VTB OAO	2014	RR	8.29	–	556	-
Bank Saint-Petersburg	–	RR	–	7.6	–	500,000
Total short-term borrowings					**556**	**500,000**
Total short-term borrowings and short-term portion of long-term borrowings					**6,143,087**	**3,833,004**

Long-term borrowings:

	Due date	Currency	Weighted average interest rate for the year ended 31 December 2013, %	Weighted average interest rate for the year ended 31 December 2012, %	31 December 2013	31 December 2012
VTB Capital Plc	2019	RR	11.08	11.05	29,891,695	24,978,988
Bonds	2016	RR	10.00	–	9,957,394	–
Total long-term borrowings					**39,849,089**	**24,978,988**

In September 2011, Lenta LLC entered into a secured loan agreement with VTB Capital Plc. Under the agreement the Group is entitled to borrow RR 25,375,000. In April 2013 the Group negotiated an additional 5 year tranche of RR 15,000,000. At the reporting date the Group received loan tranches A, B amounting to RR 25,375,000 with redemption date 12 April 2018 and partially utilized tranche C amounting to RR 5,000,000 with redemption date upon 60 months after utilization date. The loan facility is secured by, inter alia, immovable property of the Group, pledge of Lenta LLC-2 participatory interest in Lenta LLC as well as guarantee of Lenta Ltd, Zorovno Holdings Ltd and Lenta LLC-2.

Unused loan facility related to the third tranche C (RR 10,000,000) is available for drawdown by the Group within 540 days from 12 April 2013.

20. Borrowings (continued)

Borrowed funds of RR 15,724,392 were utilized in 2011 on funding the purchase of 19.96% of the Company's shares by its subsidiary Lakatomo Holdings Ltd, wholly owned through Lenta Luxemburg S.a.r.L (100% subsidiary of the Lenta LLC) . The remaining part has been used on market expansion and on current corporate activities.

The loan has covenants with respect to the Debt/EBITDA ratio and interest coverage, which were met as at 31 December 2013 and 31 December 2012.

The Group's short-term portion of long-term loans represents amounts borrowed under revolving credit lines and interest liability accrued on bonds.

There were no breaches of the loan agreements during the year ended 31 December 2013 and the year ended 31 December 2012.

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate. As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2013	Notional amount 2012	Fixed interest rate	Fixed commission	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	–	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	–	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	5,000,000	5,000,000	12.00%	0.79%	31 December 2011	31 December 2014
Interest rate cap	5,000,000	5,000,000	12.00%	0.78%	31 December 2011	31 December 2014
Interest rate cap	10,000,000	–	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	–	12.00%	0.45%	31 December 2013	12 November 2018

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

	31 December 2013	31 December 2012
Non-current liability	370,939	130,089
Current liability	188,773	141,558
Total	**559,712**	**271,647**

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

	31 December 2013	31 December 2012
Swaps	329,111	134,645
Caps	230,601	137,002
Total fair value	**559,712**	**271,647**

20. Borrowings (continued)

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 2013	Year ended 31 December 2012
Profit or loss		
Change in fair value of financial instruments at fair value through profit or loss (before designation of hedge accounting (1 July 2013)	(196,049)	102,330
Ineffective portion of the change in the fair value of cash flow hedging instruments	(38,318)	–
	(234,367)	**102,330**
Other comprehensive income		
Effective portion of the change in the fair value of cash flow hedging instruments	(53,698)	–
Total change in fair value of financial instruments	**(288,065)**	**102,330**

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 2013	Year ended 31 December 2012
Finance charges on swaps and caps	153,955	155,156
Total finance charges on financial instruments	**153,955**	**155,156**

In October 2012 the Group signed a Sole Shareholder Decision on the Issuance of Lenta LLC bonds. On 7 February 2013 Federal Financial Markets Service registered the bond issue. In March 2013 the public floatation of certified non-convertible bearer bonds was placed in three tranches of RR 3,000,000, 3,000,000 and 4,000,000, with a nominal value of RR 1 each, a 10% coupon rate, 2,548 days to maturity and put option right on early redemption after 1,092 days.

The Groups' borrowings as at 31 December 2013 and 31 December 2012 are denominated in Russian Roubles.

As at 31 December 2013, the Group had RR 24,850,000 of unused credit facilities (as at 31 December 2012: RR 11,817,000). All other available borrowing facilities were fully utilized.

21. Income taxes

Income tax expense is comprised of:

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expense	1,320,392	1,252,573
Deferred tax expense	945,414	590,682
Income tax credit	(234,162)	
Adjustments in respect of current income tax of previous year		3,122
Income tax expense recognized in profit for the year	**2,031,644**	**1,846,377**

	Year ended 31 December 2013	Year ended 31 December 2012
Effective portion of change in the fair value of cash flow hedging instruments	(10,740)	–
Income tax (benefit)/expense recognized in OCI	**(10,740)**	–

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	**9,123,821**	**6,982,175**
Theoretical tax charge at 20%	(1,824,764)	(1,396,435)
Difference in tax rates for foreign companies	(76,781)	–
Add tax effect of non-deductible expenses	**(364,261)**	**(480,130)**
- effect of partially-deductible fixed assets	–	(268,570)
- expenses on inventory shrinkage and surpluses	(256,417)	(142,670)
- share option expenses	(13,102)	–
- others	(94,742)	(68,890)
Add tax effect of non-taxable gains	–	**33,310**
- others	–	33,310
Current income tax related to previous period		**(3,122)**
Current income tax credit	**234,162**	**–**
Income tax expense	**2,031,644**	**1,846,377**

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.

21. Income taxes (continued)

	1 January 2013	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2013
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(1,006,404)	(770,701)	–	(1,777,105)
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)
Interest on 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	**(705,323)**	**(945,414)**	**10,740**	**(1,639,997)**

	1 January 2012	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2012
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(307,657)	(698,747)	–	(1,006,404)
Leasehold rights	(125,414)	(73,358)	–	(198,772)
Unused vacation and employee bonuses accrual	86,894	125,111	–	212,005
Suppliers' bonuses	(92,514)	(89,574)	–	(182,088)
Interest on borrowings	(98,020)	18,818	–	(79,202)
Intangible assets other than leasehold rights	7,339	(3,451)	–	3,888
Inventory	307,923	100,361	–	408,284
Bad debt provision	3,881	11,530	–	15,411
Finance leasing	18,925	(4,028)	–	14,897
Consulting and other accruals	4,662	15,112	–	19,774
Customs duty payable	–	30,677		30,677
Other	79,340	(23,133)	–	56,207
Total deferred tax (liabilities)/assets	**(114,641)**	(590,682)	**–**	**(705,323)**

21. Income taxes (continued)

As at 31 December 2013 and 31 December 2012 the Group did not recognize a deferred tax liability with respect to taxable temporary differences associated with investments in subsidiaries of RR 3,039,417 and RR 2,037,764 respectively 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 2013	31 December 2012
Trade payables	28,927,222	21,639,226
Accrued liabilities and other creditors	2,418,750	2,482,531
Payables for purchases of property, plant and equipment	2,460,950	922,543
Total trade and other payables	**33,806,922**	**25,044,300**

The trade and other payables were denominated in:

	31 December 2013	31 December 2012
RR	33,748,859	24,148,893
USD	5,453	870,916
EUR	52,610	21,672
GBP	–	2,819
Total trade and other payables	**33,806,922**	**25,044,300**

23. Other taxes payable

	31 December 2013	31 December 2012
Social taxes	269,087	179,885
Property tax	167,948	122,285
Personal income tax	95,088	68,409
Other taxes	183,322	176,930
Total other taxes payable	**715,445**	**547,509**

24. Cost of sales

Cost of sales for the years ended 31 December 2013 and 31 December 2012 consisted of the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Cost of goods sold	95,801,289	74,331,374
Cost of own production	12,567,611	9,479,812
Supply chain cost	2,319,739	2,147,003
Losses due to inventory shortages	2,120,784	1,274,891
Total cost of sales	**112,809,423**	**87,233,080**

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

24. Cost of sales (continued)

The cost of own production consisted of the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Raw materials	10,362,035	7,953,812
Labour costs	1,780,493	1,226,000
Utilities	381,181	272,277
Repairs and maintenance	43,902	27,723
Total cost of own production	**12,567,611**	**9,479,812**

Cost of sales for the year ended 31 December 2013 included employee benefits expense of RR 2,280,344 (year ended 31 December 2012: RR 1,491,766) of which contributions to state pension fund comprised RR 362,652 (year ended 31 December 2012: RR 238,900).

25. Selling, general and administrative expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Labour costs	8,628,126	7,005,688
Depreciation and amortization (Note 8,10,11)	2,258,711	1,576,364
Professional fees	1,526,150	658,837
Advertising	1,356,459	801,078
Utilities and communal payments	858,999	598,159
Cleaning	653,108	405,682
Repairs and maintenance	732,091	474,363
Taxes other than income tax	568,471	593,097
Security services	500,104	355,367
Premises lease	390,977	77,265
Land and equipment lease	203,056	178,353
Pre-opening costs	721,259	398,608
Other	616,336	383,484
Total selling, general and administrative expenses	**19,013,847**	**13,506,345**

Labour costs for the year ended 31 December 2013 included contributions to state pension fund of RR 1,155,985 (year ended 31 December 2012: RR 841,011).

Pre-opening costs for the year ended 31 December 2013 included labour costs of RR 319,170 (year ended 31 December 2012: RR 224,247) of which contributions to state pension fund comprised RR 35,177 (year ended 31 December 2012: RR 25,880).

Pre-opening costs for the year ended 31 December 2013 included depreciation expense of RR 53,544 (for the year ended 31 December 2012: nil)

26. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Penalties due by suppliers	618,824	516,293
Rental income	339,385	281,992
Advertising income	380,131	247,071
Gain on property, plant and equipment disposal	1,429	731
Other	119,897	72,333
Total other operating income	**1,459,666**	**1,118,420**

27. Share-based payments

Share option

In September 2011, an option to buy 3,375,000 ordinary shares at USD 25.086 per share was granted to a private individual for services provided in relation to coordination of Svoboda Corporation shares purchase.

The Group's management engaged the services of an independent appraiser, and used the results of such appraisal in considering management's assessment of the fair value of option. The value of the option is estimated at RR 978,698 as of the grant date using a Black Scholes option pricing model.

On 14 November 2013 the deed of termination was signed under which option to buy 3,375,000 ordinary shares was cancelled with a consideration being paid to the option holder in the amount of RR 2,227,173.

On 10 December, 2013 deed of novation and amendment was agreed whereby 80,000 option shares were novated and transferred to the member of the Board of Directors. This amendment deed was accompanied by share option deed between the member of the Board of Directors and the Company whereby 80,000 ordinary shares were issued for a consideration of USD 45.19 per share upon option exercising.

The following tables list the inputs to the models used for the option plan as of the termination date:

Dividend yield (%)	0%
Expected volatility (%)	30%
Risk-free interest rate (%)	2.46%
Expected life of share options (years)	0,5
Model used	Black-Scholes

The fair market value of the option per share at a termination date was defined as a range between maximum and minimum amounts. The management of the Group made an estimation of fair market value of share option within the specified range.

The amount of consideration paid to the option holder does not exceed estimated fair value of the terminated share option, thus no additional expense was recognized in the statement of comprehensive income.

The excess of consideration paid by the Group to the option holder over the balance value of terminated share option was recorded to the retained earnings (effect on the retained earnings comprised RR 1,248,475).

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.

27. Share-based payments (continued)

The contractual conditions of the options are as follows:

- 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.
- The performance conditions are based on achieving certain equity growth targets for the period from the vesting period commencement dates till the end of the vesting periods: 16% p.a. (in such case 100% of SVARs vest) or 8% (in such case 50% of SVARs vest and 50% of SVARs lapse worthless).
- 50% of the SVARs vest on the 5 year anniversary after the grant date and 50% on the 7 year anniversary after the grant date. Employees must remain in service at the date of vesting.
- Vesting of the SVARs is triggered in the event of IPO, change of control transaction or key shareholder sale event. Upon occurrence of such event the number of SVARs that vest is calculated in such way that the cumulative percentage of SVARs that have vested is equal to the total percentage of shares sold in an IPO or the total percentage of shares sold by the key shareholders.
- In the case of an IPO the cumulative percentage of SVARs that have vested and are due to be settled is subject to cap of 20% per year.
- The SVARs will be settled in ordinary shares in Lenta Ltd and there are no cash alternatives for the employees.

Movements during the year

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

	2013 Number	2013 WAEP, USD	2012 Number	2012 WAEP, USD
Outstanding at 1 January	–	–	–	–
Granted during the year	828,451	49.84	–	–
Forfeited during the year	(85,686)	49.84	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 December	**742,765**	**49.84**	**–**	**–**
Exercisable at 31 December	–	–	–	–

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2013 was 6.8 years.

The weighted average fair value of options granted during the year was RR 0.36.

The exercise prices for options outstanding at the end of the year was USD 49.84.

27. Share-based payments (continued)

Movements during the year (continued)

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

	Year ended 31 December 2013	Year ended 31 December 2012
Expense arising from the equity-settled share based payment transaction	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.

The following tables list the inputs to the models used for the option plan as of the grant date:

Dividend yield (%)	0%
Expected volatility (%)	35%
Risk-free interest rate (%)	6.2% - 7.2%
Expected life of share options (years)	5
Spot share price (USD)	45.19
Expected exercise price (USD)	49.84
Model used	Black-Scholes

The expected life of share option is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the option is indicative of future trends, which may not necessarily be the actual outcome.

28. Commitments

Capital expenditure commitments

At 31 December 2013 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RR 7,808,933 (31 December 2012: RR 6,373,203).

Operating lease commitments

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

	31 December 2013	31 December 2012
Not later than 1 year	1,077,130	456,134
Later than 1 year and not later than 5 years	3,714,116	1,411,931
Later than 5 years	12,445,337	6,455,736
Total operating lease commitments	**17,236,583**	**8,323,801**

29. Financial instruments

Categories of financial instruments

	31 December 2013	31 December 2012
Financial assets		
Cash	6,211,965	3,536,464
Trade and other receivables	8,466,099	5,448,429
Financial liabilities		
At fair value through profit or loss	–	271,647
At fair value through OCI	559,712	–
At amortised cost:		
Floating rate long-term borrowings	29,891,695	24,978,988
Fixed rate long-term borrowings	9,957,394	–
Fixed rate short-term borrowings and short-term portion of long-term borrowings	6,143,087	3,833,004
Trade and other payables	32,673,601	23,403,407
Long-term obligations under finance leases	50,429	65,420
Total financial liabilities at amortised cost	**78,716,206**	**52,280,819**

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 2013:

	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed:				
Interest–bearing borrowings		–	45,992,176	–
Obligations under finance leases		–	50,429	
Financial liabilities measured at fair value:				–
Cashflow hedging instruments		–	559,712	–

	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed:				
Interest–bearing borrowings		–	28,811,992	–
Obligations under finance leases		–	65,420	
Financial liabilities measured at fair value:				–
Financial instruments at fair value through profit and loss		–	271,647	–

During the reporting periods ending 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

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:

	Carrying amount		Fair value	
	2013	2012	2013	2012
Financial liabilities				
Interest-bearing loans and borrowings				
Obligations under finance leases	50,429	65,420	50,429	65,420
Floating rate borrowings	29,891,695	24,978,988	30,283,314	25,839,065
Fixed rate borrowings	16,100,481	3,833,004	16,100,481	3,833,004
Derivatives not designated as hedges				
Interest rate swaps and caps	–	271,647	–	271,647
Derivatives in effective hedges				
Interest rate swaps and caps	559,712	–	559,712	–
Total	**46,602,317**	**29,149,059**	**46,993,936**	**30,009,136**

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

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

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

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 December 2013 was assessed to be insignificant.
- 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 2013, 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.

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 2012 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.

At 31 December 2013 and at 31 December 2012 there were no significant amounts in foreign currencies.

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

Foreign currency sensitivity

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

	Change in USD rate	Effect on profit before tax
Year ended 2013	10.21%	(557)
	-10.21%	557
Year ended 2012	10.72%	(4,985)
	-10.72%	4,985

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 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 2013 and 31 December 2012 these obligations are represented with long-term borrowing from VTB Capital PLC, which bears interest of MosPrime 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	
	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)**

	Profit or loss		OCI	
	109 bp increase	109 bp decrease	109 bp increase	109 bp decrease
2012				
Variable rate instruments	(276,347)	276,347	–	–
Interest rate swaps and caps	251,932	(259,079)	–	–
Cash flow sensitivity (net)	**(24,415)**	**17,268**	**–**	**–**

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2013 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.

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 2013 was as follows:

	31 December 2013
Total floating rate borrowings (gross of direct issue costs)	30,375,000
Less notional amount of interest rate financial instruments (Note 20)	(24,300,000)
Net exposure to interest rate fluctuations	**6,075,000**
% of floating rate borrowings exposed to interest rate fluctuations	**20%**

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 RR 6,149,636.

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 2013, 31 December 2012 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MOSPRIME, EURIBOR, LIBOR index) existing at the reporting date:

31 December 2013

	Less than 12 months	1-5 Years	Total
Borrowings	10,236,178	53,333,044	**63,569,222**
Trade and other payables	32,673,601	–	**32,673,601**
Amounts payable under swaps and caps	198,031	448,296	**646,327**
Finance leasing	21,136	40,987	**62,123**
Total	**43,128,946**	**53,822,327**	**96,951,273**

31 December 2012

	Less than 12 months	1-5 Years	Total
Borrowings	6,785,656	31,740,309	**38,525,965**
Trade and other payables	23,403,407	–	**23,403,407**
Amounts payable under swaps and caps	161,155	153,229	**314,384**
Finance leasing	25,778	75,747	**101,525**
Total	**30,375,996**	**31,969,285**	**62,345,281**

Capital management

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

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

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, 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:

	31 December 2013	31 December 2012
Borrowings	45,992,176	28,811,992
Obligations under finance leases	50,429	65,419
Cash and cash equivalents (Note 16)	(6,211,965)	(3,536,464)
Net debt	**39,830,640**	**25,340,947**

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 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.

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RR 3,989 as at 31 December 2013 (31 December 2012: RR 76,963). 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.

31. Contingencies (continued)

Legal contingencies (continued)

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RR 903,120 (31 December 2012: RR 639,839). No tax provisions were recorded as at 31 December 2013 and 31 December 2012. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of 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 2013 and 31 December 2012.

Environmental matters

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

32. Events occurring after the reporting period

On 21 January 2014 the Group entered into a secured loan agreement with EBRD, which entitles it to borrow funds to finance investments in existing and new regional stores and distribution centre(s), including energy efficiency and other sustainable resource investments. The Loan is to be available to the Group on any business day during the commitment period in one or more disbursements upon (and in accordance with) the request of the Group and must not exceed RR 4,554,240. The commitment period commences on 21 January 2014 and terminates on the date falling twenty-four months from the date of this agreement.

The loan bears covenants with respect to leverage ratio, interest coverage, loan to value ratio.

Lenta Limited and subsidiaries

Consolidated financial statements

for the year ended 31 December 2012

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2012

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 2012 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 2012 were approved by management on 24 September 2013:

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

Jan Dunning
(CEO of Lenta Ltd)

Jago Lemmens
(Chief Financial Officer/Financial Director of Lenta Ltd)

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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 2012, 2011 and 2010 and the consolidated statements of comprehensive income, statements of changes in equity and cash flow statements for each of the years 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 auditor's judgment, including the assessment of the risks of material misstatement of the 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 2011 and 2010 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

24 September 2013

Consolidated statement of financial position as at 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	31 December 2012	31 December 2011	31 December 2010
Assets				
Non-current assets:				
Property, plant and equipment	8	30,582,875	18,305,464	17,003,770
Prepayments for construction	9	1,459,501	646,300	293,856
Leasehold rights	10	2,214,195	1,619,142	1,221,199
Intangible assets other than leasehold rights	11	446,200	240,770	172,923
Deferred tax asset	21	–	–	41,924
Total non-current assets		**34,702,771**	**20,811,676**	**18,733,672**
Current assets:				
Inventories	12	9,373,700	7,569,262	6,745,591
Trade and other receivable	13	5,448,429	3,873,283	3,978,886
Advances paid	14	808,090	311,293	384,040
Taxes recoverable	15	1,121,760	112,199	69,800
Prepaid expenses		50,904	38,852	32,246
Cash and cash equivalents	16	3,536,464	5,136,419	770,794
Total current assets		**20,339,347**	**17,041,308**	**11,981,357**
Total assets		**55,042,118**	**37,852,984**	**30,715,029**
Equity				
Share capital	17,18	284	284	284
Additional paid-in capital	7, 17	3,972,544	3,693,595	462,438
Share options reserve	19	978,698	978,698	–
Treasury shares	17	(15,724,392)	(15,724,392)	–
Retained earnings		9,809,527	4,673,729	2,219,550
Total equity		**(963,339)**	**(6,378,086)**	**2,682,272**
Non-current liabilities:				
Long-term borrowings	20	24,978,988	24,884,900	–
Deferred tax liabilities	21	705,323	114,641	–
Financial instruments at fair value through profit or loss	7, 20	130,089	201,047	–
Long-term obligations under finance leases		65,420	76,256	–
Total non-current liabilities		**25,879,820**	**25,276,844**	**–**
Current liabilities:				
Trade and other payables	22	25,044,300	18,125,776	14,617,999
Advances received		156,671	145,923	219,532
Other taxes payable	23	547,509	278,833	208,212
Current income tax payable		402,595	230,764	398,038
Short-term portion of financial instruments at fair value through profit or loss	7, 20	141,558	172,930	–
Short-term borrowings and short-term portion of long-term borrowings	7, 20	3,833,004	–	7,725,920
Put option liability	17	–	–	4,863,056
Total current liabilities		**30,125,637**	**18,954,226**	**28,032,757**
Total liabilities		**56,005,457**	**44,231,070**	**28,032,757**
Total liabilities and equity		**55,042,118**	**37,852,984**	**30,715,029**

The accompanying notes on pages 8-57 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Sales		109,909,902	89,766,025	70,628,291
Cost of goods sold	24	(87,233,080)	(73,055,318)	(57,876,195)
Gross profit		**22,676,822**	**16,710,707**	**12,752,096**
Selling, general and administrative expenses	25	(13,506,345)	(11,224,598)	(9,214,186)
Reversal of impairment of non-financial assets		401	44,200	–
Other operating income	26	1,118,420	1,011,229	784,213
Other operating expense		(124,618)	(122,476)	(100,525)
Operating profit		**10,164,680**	**6,419,062**	**4,221,598**
Interest expense		(3,217,459)	(1,310,778)	(986,276)
Interest income		77,779	23,294	7,173
Change in fair value of financial instruments at fair value through profit or loss	7, 20	102,330	(373,977)	–
Put option revaluation	17	–	682,980	(259,415)
Other expenses	19	(215,122)	(2,572,534)	–
Foreign exchange gains/(losses)		69,967	(3,932)	33,493
Profit before income tax		**6,982,175**	**2,864,115**	**3,016,573**
Income tax expense	21	(1,846,377)	(1,167,611)	(796,452)
Profit for the year		**5,135,798**	**1,696,504**	**2,220,121**
Other comprehensive income for the year, net of tax		**–**	**–**	**–**
Total comprehensive income for the year, net of tax		**5,135,798**	**1,696,504**	**2,220,121**
Earnings per share (in RR per share) - basic and diluted, for profit for the year attributable to equity holders of the parent		0.060	0.017	0.021

The accompanying notes on pages 8-57 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities				
Profit before income tax		**6,982,175**	**2,864,115**	**3,016,573**
Adjustments for:				
Loss/(gain) on disposal of property, plant and equipment		15,000	(19,063)	19,624
Loss from disposal of leasehold rights		–	–	41,549
Interest expense		3,217,459	1,310,778	986,276
Interest income		(77,779)	(23,294)	(7,173)
Inventory write-down to NRV		42,400	191,183	71,896
Change in bad debt allowance		(3,639)	24,745	2,622
Depreciation and amortisation	8,25	1,576,364	1,963,551	1,911,306
Reverse of impairment of non-financial assets		(401)	(44,200)	
Net foreign exchange gain attributable to financing activities		–	–	(33,493)
Share Options expense	19	–	978,698	–
Change in fair value of financial instruments at fair value through profit or loss	7,20	(102,330)	373,977	–
Put option revaluation	17	–	(682,980)	259,415
		11,649,249	**6,937,510**	**6,268,595**
Movements in working capital:				
(Increase) / decrease in trade and other receivables		(1,571,933)	83,721	(1,320,717)
(Increase) / decrease in advances paid	14	(496,797)	72,747	38,128
Increase in prepaid expenses		(12,052)	(6,607)	(8,692)
Increase in inventories	12	(1,846,838)	(1,014,854)	(1,853,515)
Increase in trade and other payables		6,373,866	3,701,153	2,586,713
Increase/(decrease) in advances received		10,748	(73,609)	63,361
(Decrease)/increase in net other taxes payable	15, 23	(740,885)	28,222	(46,926)
Cash generated from operating activities		**13,365,358**	**9,728,283**	**5,726,947**
Income taxes paid		(1,083,862)	(1,219,903)	(591,881)
Interest paid		(3,099,041)	(1,760,526)	(999,329)
Interest received		78,202	20,431	6,307
Net cash generated from operating activities		**9,260,657**	**6,768,285**	**4,142,044**
Cash flows from investing activities				
Purchase of property, plant and equipment		(14,061,626)	(3,543,559)	(1,180,921)
Purchase of intangible assets other than leasehold rights		(262,709)	(121,672)	(46,946)
Purchase of leasehold rights		(638,074)	(386,368)	(85,389)
Proceeds from sale of property, plant and equipment		680	214,344	1,981
Net cash used in investing activities		**(14,961,729)**	**(3,837,255)**	**(1,311,275)**
Cash flows from financing activities				
Proceeds from borrowings		26,670,004	71,733,200	40,471,310
Repayment of borrowings		(22,837,000)	(54,574,220)	(43,243,958)
Repayment of obligations under finance lease		(10,836)	–	–
Proceeds from issue of new shares	7, 17	278,949	7	–
Purchase of treasury shares	17	–	(15,724,392)	–
Net cash generated from / (used in) financing activities		**4,101,117**	**1,434,595**	**(2,772,648)**
Net (decrease)/increase in cash and cash equivalents		**(1,599,955)**	**4,365,625**	**58,121**
Cash and cash equivalents at the beginning of the period	16	**5,136,419**	**770,794**	**712,673**
Cash and cash equivalents at the end of the period	16	**3,536,464**	**5,136,419**	**770,794**

The accompanying notes on pages 8-57 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Share capital	Additional paid–in capital	Treasury shares	Share options reserve	Retained earnings/ (Accumulated deficit)	Total equity
Balance at 1 January 2010	**284**	**462,438**	**–**	**–**	**(571)**	**462,151**
Profit for the period	–	–	–	–	2,220,121	**2,220,121**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	2,220,121	**2,220,121**
Balance at 31 December 2010	**284**	**462,438**	**–**	**–**	**2,219,550**	**2,682,272**
Profit for the period	–	–	–	–	1,696,504	**1,696,504**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	1,696,504	**1,696,504**
Issue of shares	–	7	–	–	–	**7**
Put option cancellation (Note 17)	–	3,231,150	–	–	757,675	**3,988,825**
Purchase of own shares (Note 17)	–	–	(15,724,392)	–	–	**(15,724,392)**
Share-based payment transaction (Note 19, 27)	–	–	–	978,698	–	**978,698**
Balance at 31 December 2011	**284**	**3,693,595**	**(15,724,392)**	**978,698**	**4,673,729**	**(6,378,086)**
Profit for the period	–	–	–	–	5,135,798	**5,135,798**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	5,135,798	**5,135,798**
Issue of shares (Note 17)	–	278,949	–	–	–	**278,949**
Balance at 31 December 2012	**284**	**3,972,544**	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**

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.

2. Corporate information

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

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

At 31 December 2010, 31 December 2011 and 31 December 2012 the Group had one main operational fully-owned subsidiary, LLC Lenta, a legal entity registered under the laws of the Russian Federation. The principal activity of LLC Lenta is retail trade.

3. Basis of preparation of the financial statements

2.1. Basis of preparation

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).

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 (RR 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 Company does not prepare stand-alone financial statements, as BVI law does not require it. Its accounting records are kept only for the Group financial reporting purposes. 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.

2. Basis of preparation of the financial statements (continued)

2.1. Basis of preparation (continued)

At 31 December 2012, the Group had net current liabilities of approximately RR 9,786,290 (31 December 2011: RR 1,912,918, 31 December 2010: RR 16,051,400).

Unused credit facilities available as of 31 December 2012 were RR 11,817,000. 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 comprise the financial statements of the Group and its subsidiaries.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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 assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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.

2. Basis of preparation of the financial statements (continued)

2.2. Basis of consolidation (continued)

Business combinations and goodwill (continued)

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 circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3. Summary of significant accounting policies

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian Rouble ("RR"), 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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Functional and presentation currency (continued)

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.

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 are capitalised and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

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

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

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

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

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Land improvements	30
Machinery and equipment	5 to 15
Other	3 to 5

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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Intangible assets (continued)

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

Intangible assets with finite lives are amortised over the useful economic life 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 income statement 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.

2. Basis of preparation of the financial statements (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 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.

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. Deferred tax assets are recognised 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.

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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Income taxes (continued)

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.

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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

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

To deal with agency issues between shareholders and those charged with governance, long-term incentive schemes in the form of Share Option Plans have been put in place by the Group. By aligning individual goals with those of the Group, more assurance regarding the protection of long-term shareholder value can be achieved. The accounting treatment of the share-based payment depends on how the transaction will be settled: by the issuance of equity, cash, or equity and cash.

For equity-settled share-based payment transactions, the Group measures the value of services received and the corresponding increase in equity, directly, at the fair value of the services received or indirectly by reference to the fair value of the equity instruments granted. The fair value of the share-based payment is determined at the grant date with no further revaluation and expensed over the vesting period.

Cash-settled share-based payment transactions (phantom options) are treated as a liability rather than equity. Until the liability is settled, the entity is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognised in profit or loss for the period.

Where there is an alternative to settle the transaction in cash or by issuing shares, debt and equity components of the instrument are to be identified and treated appropriately.

In 2011 the Group granted an equity option that represents a share-based payment transaction with cash alternative. The option was recognised in equity (Note 27).

Pre-opening costs

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

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Development projects on behalf of third parties

Where the Group undertakes a short-term development project for a new store construction on behalf of a third party, expenditure incurred on construction of the store is recorded within other receivables while on-account payments received from the third party are recorded as advances received. The net result of such projects is recognised as other operating income upon completion of the project.

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.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments through the expected life of the financial asset/liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset/liability.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Interest income is shown in separate line in the statement of comprehensive income.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Financial assets (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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets (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 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, other than on a business combination, are shown within equity as a deduction from the proceeds.

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.

2. Basis of preparation of the financial statements (continued)

2.3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

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 remeasured 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.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging 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 (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

3. Significant accounting judgements and estimates

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

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

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

Judgements

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 or own the land plot in which the Group is interested. If at the date of acquisition by the Group, the company does not constitute a business, the Group treats such acquisitions as a purchase of assets (a leasehold right or a land plot) 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.

Estimation uncertainty

Useful life of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Leases renewal assumption

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

Inventory valuation

Management reviews 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 is an evidence of inventory net realizable value being lower than its carrying amount.

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 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 judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 28 for further discussion.

Impairment of non-financial assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets 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.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (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.

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.

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 are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012:

IAS 12 Income Taxes (amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

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

IFRS 7 Financial Instruments: Disclosures − Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

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.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after 1 January 2013. The Group management believes that the amendment will have no impact on the Group's financial position or performance.

IAS 27 Separate Financial Statements (revised)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (revised)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

IAS 32 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 are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures − Offsetting Financial Assets and Financial Liabilities − Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an impact on classification and measurements of financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation − Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities − Non-monetary Contributions by Venturers*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 21 Levies

The interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 and the accounting for a liability to pay a levy whose timing and amount is certain. If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is only recognised when that minimum activity threshold is reached. If the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time), the liability to pay a levy is recognised progressively. The Interpretation is applicable for annual periods beginning on or after 1 January 2014 and will not have significant impact on the Group's financial position or performance.

IAS 36 Impairment of Assets – Amendments to IAS 36

The amendment relates to disclosures in respect of fair value less costs of disposal. When IAS 36 was originally changed as a consequence of IFRS 13 Fair Value Measurement, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount were based on fair value less costs of disposal. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by this amendment. The amendment is applicable for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group's financial position and performance.

5. Standards issued but not yet effective (continued)

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. The amendment is applicable for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group, as it does not apply hedge accounting.

Annual improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

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 subsidiaries Lakatomo Holdings 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, amortisation (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 2012 is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Sales	109,909,902	89,766,025	70,628,291
EBITDA	11,740,643	8,338,413	6,132,904

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

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
EBITDA	**11,740,643**	**8,338,413**	**6,132,904**
Interest expense	(3,217,459)	(1,310,778)	(986,276)
Interest income	77,779	23,294	7,173
Income tax expense (see Note 21)	(1,846,377)	(1,167,611)	(796,452)
Depreciation / amortisation (see Note 8,25)	(1,576,364)	(1,963,551)	(1,911,306)
Other expenses (see Note 19)	(215,122)	(2,572,534)	–
Reversal of impairment of non-financial assets	401	44,200	–
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	102,330	(373,977)	–
Put option revaluation (see Note 17)	–	682,980	(259,415)
Foreign exchange gains/(losses)	69,967	(3,932)	33,493
Profit for the year	**5,135,798**	**1,696,504**	**2,220,121**

7. Balances and transactions with related parties

Related parties may enter into transactions, which unrelated parties might not. Transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

On 20 September 2012 the Board of Directors of the Group approved the plan for the reorganisation of the corporate structure of the Group. During 2012 the following steps were performed:

1. A new holding company was established outside the Lenta Group by TPG/Luna: Lenta Holdings Ltd (a BVI Company).
2. Lenta Holdings Ltd incorporated a new Cypriot company called Zoronvo Holdings Ltd.
3. Zoronvo Holdings Ltd (99%) and Lenta Holdings Ltd (1%) set up a new Russian company "Lenta-2 LLC".
4. Lenta Holdings Ltd sold its 100% interest in Zoronvo Holdings Ltd and 1% interest in Lenta-2 LLC to Lenta Ltd.
5. Lenta LLC was moved to the new ownership structure by Lenta-2 LLC purchasing Lenta LLC from Lenta Ltd and paying in consideration A Promissory Notes of RR141,000,000.

On 20 September 2012 360,231 ordinary shares of zero par value were issued to the CEO in return for the consideration of USD 9,038,196 (RR 278,949). These shares are held subject to first fixed charge created pursuant to Share Pledge Agreement dated 18 September 2012 between Jan Dunning (as chargor), Luna Inc., Luna Holdings Inc and EBRD.

The Group's ownership structure is as follows:

Shareholders	Percentage of shares held, 31 December 2012	Percentage of shares held, 31 December 2011	Percentage of shares held, 31 December 2010
Luna Inc. (1)	40.17%	38.45%	30.78%
Svoboda Corporation (2)	–	–	41.04%
Lakatomo Holdings Limited (subsidiary of Lenta Ltd)	19.89%	19.96%	
European Bank for Reconstruction and Development	17.32%	17.38%	11.11%
Luna Holdings Inc.(3)	9.45%	9.48%	
Others	13.17%	14.73%	17.07%
Total shareholders' equity	**100.00%**	**100.00%**	**100.00%**

(1) As at 1 December 2010, an investment vehicle for TPG Capital and VTB Capital together, and as at 31 December 2011 and 31 December 2012, an investment vehicle (subsidiary) for TPG Capital alone

(2) An investment vehicle for A. Meyer

(3) An investment vehicle (subsidiary) for VTB Capital

7. Balances and transactions with related parties (continued)

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

Entities with significant influence over the Group:

	31 December 2012	31 December 2011	31 December 2010
VTB Capital			
Cash and cash equivalents	2,564,946	3,330,342	199,604
Long-term loans payable	24,978,988	24,884,900	–
Short-term loans payable	2,833,000	–	5,226,053
Finance lease liability	63,511	73,291	–
Liability on swaps and caps at fair value through profit or loss	271,647	373,977	–
Interest accrued	7,975	8,180	5,485
Interest prepayments	–	11,887	–
EBRD			
Accrued liabilities	–	191,445	290
Put option liability	–	–	4,863,056
TPG Capital			
Accrued liabilities	–	542,926	–
Prepayments	39,451	–	–
Luna Holdings Inc.			
Accrued liabilities	4,591	95,625	–

Outstanding balances were originated from the transactions with related parties stated below.

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
VTB Capital			
Interest expense and commission on loans	2,957,497	1,179,049	474,210
Finance leasing charge	10,538	4,000	–
Financial charges on swaps	155,156	37,934	–
Loss/(income) on financial instruments at fair value through profit or loss (swaps and caps)	(102,330)	373,977	–
EBRD			
Put option revaluation	–	682,980	(259,415)
Other expenses	–	31,875	290
TPG Capital			
Other expenses	72,426	799,508	–
Luna Holdings Inc.			
Other expenses	–	127,500	–

7. Balances and transactions with related parties (continued)

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

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Short-term benefits	1,051,783	505,668	166,060
Termination benefits	1,124	13,593	76,849
Total remuneration	**1,052,907**	**519,261**	**242,909**

8. Property, plant and equipment

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2010	**1,921,776**	**1,753,439**	**12,388,199**	**5,599,884**	**654,455**	**22,317,753**
Additions	–	–	–	37	1,420,305	**1,420,342**
Transfers from construction in progress	170,544	131,144	680,193	414,638	(1,396,519)	**–**
Disposals	–	–	(592)	(56,567)	(198,790)	**(255,949)**
Balance at 31 December 2010	**2,092,320**	**1,884,583**	**13,067,800**	**5,957,992**	**479,451**	**23,482,146**
Accumulated depreciation and impairment						
Balance at 1 January 2010	**156,202**	**303,915**	**2,186,437**	**2,092,163**	**122,099**	**4,860,816**
Charge for the year	–	117,095	878,401	767,461	–	**1,762,957**
Disposals	–	–	(97)	(47,811)	(97,489)	**(145,397)**
Balance at 31 December 2010	**156,202**	**421,010**	**3,064,742**	**2,811,813**	**24,610**	**6,478,376**
Net book value						
Balance at 1 January 2010	**1,765,574**	**1,449,524**	**10,201,762**	**3,507,721**	**532,355**	**17,456,936**
Balance at 31 December 2010	**1,936,117**	**1,463,573**	**10,003,059**	**3,146,179**	**454,841**	**17,003,770**

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2011	**2,092,320**	**1,884,583**	**13,067,800**	**5,957,992**	**479,451**	**23,482,147**
Additions	–	–	–	146	3,438,841	**3,438,987**
Transfers from construction in progress	114,400	328,944	1,605,266	1,067,149	(3,115,759)	**–**
Disposals	(360,202)	–	(34,584)	(116,936)	(26,462)	**(538,184)**
Balance at 31 December 2011	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Accumulated depreciation and impairment						
Balance at 1 January 2011	**156,202**	**421,010**	**3,064,741**	**2,811,813**	**24,610**	**6,478,377**
Charge for the year	–	128,383	935,310	813,409	–	**1,877,102**
Disposals	(156,202)	–	(11,864)	(85,317)	(24,610)	**(277,993)**
Balance at 31 December 2011	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Net book value						
Balance at 1 January 2011	**1,936,117**	**1,463,573**	**10,003,059**	**3,146,179**	**454,841**	**17,003,770**
Balance at 31 December 2011	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**

8. Property, plant and equipment (continued)

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2012	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Additions	219,688	–	–	129	13,583,065	**13,802,882**
Transfers from construction in progress	1,475,481	645,211	8,103,379	2,502,336	(12,726,407)	**–**
Disposals	–	–	(4,116)	(81,983)	(31,865)	**(117,964)**
Balance at 31 December 2012	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Accumulated depreciation and impairment						
Balance at 1 January 2012	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Charge for the year	–	73,995	491,672	909,996	–	**1,475,663**
Disposals	–	–	(3,244)	(64,912)	–	**(68,156)**
Balance at 31 December 2012	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Net book value						
Balance at 1 January 2012	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**
Balance at 31 December 2012	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**

During 2012 year the Group acquired premises in Voronezh for RR 527,500, in Yaroslavl for RR 1,007,000, in Belgorod for RR 646,900 and in Orenburg for RR 1,336,000, all previously owned by another retail chain. Hypermarkets in Voronezh, Yaroslavl (two stores) and Orenburg were opened in 2012, a hypermarket in Belgorod is currently undergoing rebranding and is expected to be launched in July 2013. Another ten stores were constructed using internal resources and opened during 2012.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2012 was RR 79,251 (31 December 2011: RR 93,314, 31 December 2010: nil). Additions during the twelve months ended 31 December 2011 include RR 90,888 of property, plant and equipment under finance leases (2012: RR 0). Leased assets are pledged as security for the related finance lease.

Land and buildings with a carrying amount of RR 10,927,425 (31 December 2011: RR 8,724,323, 31 December 2010: nil) are pledged under a loan agreement with VTB Capital Plc (see Note 20). During the year ended 31 December 2010, the year ended 31 December 2011 and the year ended 31 December 2012, the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs. Thus, no borrowing costs were capitalised during those periods.

The amount of depreciation charged during the years ended 31 December 2010, 31 December 2011 and December 2012 is presented within Depreciation and amortisation in the Group's consolidated statement of comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Depreciation of property, plant and equipment	1,475,663	1,877,102	1,762,957
Amortisation of intangible assets other than leasehold rights (Note 11)	57,278	53,831	120,401
Leasehold rights amortisation (Note 10)	43,423	32,618	27,948
Total depreciation and amortisation	**1,576,364**	**1,963,551**	**1,911,306**

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 2012 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2012	**1,829,754**
Additions	840,453
Transfer to PPE	(227,140)
At 31 December 2012	**2,443,067**
Accumulated amortisation and impairment	
At 1 January 2012	**210,612**
Charge for the year	43,423
Reversal of impairment	(401)
Transfer to PPE	(24,762)
At 31 December 2012	**228,872**
Net book value	
At 1 January 2012	**1,619,142**
At 31 December 2012	**2,214,195**

Leasehold rights as at 31 December 2011 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2011	**1,443,393**
Additions	386,361
Transfer to PPE	-
At 31 December 2011	**1,829,754**
Accumulated amortisation and impairment	
At 1 January 2011	**222,194**
Charge for the year	32,618
Reversal of impairment	(44,200)
Transfer to PPE	
At 31 December 2011	**210,612**
Net book value	
At 1 January 2011	**1,221,199**
At 31 December 2011	**1,619,142**

10. Leasehold rights (continued)

	Leasehold rights
Cost	
At 1 January 2010	**1,529,434**
Additions	90,718
Disposal	(175,001)
Transfer to PPE	(1,758)
At 31 December 2010	**1,443,393**
Accumulated amortisation and impairment	
At 1 January 2010	**324,127**
Charge for the year	27,948
Disposals	(129,881)
At 31 December 2010	**222,194**
Net book value	
At 1 January 2010	**1,205,307**
At 31 December 2010	**1,221,199**

11. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2012 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2012	**647,762**	**549**	**648,311**
Additions	262,708	–	**262,708**
At 31 December 2012	**910,470**	**549**	**911,019**
Accumulated amortisation			
At 1 January 2012	**407,197**	**344**	**407,541**
Amortisation for the period	57,188	90	**57,278**
At 31 December 2012	**464,385**	**434**	**464,819**
Net book value			
At 1 January 2012	**240,565**	**205**	**240,770**
At 31 December 2012	**446,085**	**115**	**446,200**

Intangible assets other than leasehold rights as at 31 December 2011 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2011	**526,084**	**549**	**526,633**
Additions	125,351	–	**125,351**
Disposals	(3,673)	–	**(3,673)**
At 31 December 2011	**647,762**	**549**	**648,311**
Accumulated amortisation			
At January 2011	**353,460**	**250**	**353,710**
Amortisation for the period	53,737	94	**53,831**
At 31 December 2011	**407,197**	**344**	**407,541**
Net book value			
At 1 January 2011	**172,624**	**299**	**172,923**
At 31 December 2011	**240,565**	**205**	**240,770**

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2010 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2010	**480,960**	**549**	**481,509**
Additions	45,124	–	**45,124**
At 31 December 2010	**526,084**	**549**	**526,633**
Accumulated amortisation			
At January 2010	**233,153**	**156**	**233,309**
Amortisation for the period	120,307	94	**120,401**
At 31 December 2010	**353,460**	**250**	**353,710**
Net book value			
At 1 January 2010	**247,807**	**393**	**248,200**
At 31 December 2010	**172,624**	**299**	**172,923**

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

12. Inventories

	31 December 2012	31 December 2011	31 December 2010
Goods for resale	8,985,132	7,319,804	6,488,458
Raw materials	388,568	249,458	257,133
Total inventories	**9,373,700**	**7,569,262**	**6,745,591**

Raw materials are primarily represented by inventories used in the production of own meal products.

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for obsolescence and wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2012 in the amount of RR 1,274,891 (31 December 2011: RR 1,235,521; 31 December 2010: RR 899,467).

The write down to net realizable value was determined by applying the percentages of discount on book value of slow moving goods. The percentages of discounts were based on the best management estimate following the experience of the discount sales.

13. Trade and other receivables

	31 December 2012	31 December 2011	31 December 2010
Accounts receivable on rental and other services and on suppliers' advertising	3,538,067	1,825,294	2,160,474
Suppliers' rebates receivable	1,733,039	1,966,892	1,689,865
Receivables for construction for stores on behalf of third parties	129,886	86,058	107,339
Other receivables	54,307	14,283	23,830
Bad debt allowance	(6,870)	(19,244)	(2,622)
Total trade and other receivables	**5,448,429**	**3,873,283**	**3,978,886**

Receivables for construction represent expenditure incurred in the construction of stores on behalf of third parties, advance payments from which have been included in advances received. As at 31 December 2012 and 31 December 2011 these are RR 106,131 (31 December 2010: RR 151,145).

The majority of amounts are receivable within 25 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are due beyond 365 days are not recoverable. 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 the counterparty and an analysis of the counterparty's current financial position.

Amounts receivable from suppliers and accounts receivable for rental and other services disclosed above include amounts (see below for aged analysis) that are 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.

An ageing of trade and other receivables that are past due dates but not impaired as at 31 December 2012 is detailed below:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	44,258	8,621	7,964	1,672,161	**1,733,004**
Accounts receivable on rental and other services	217,902	11,970	12,686	3,295,107	**3,537,665**
Receivables for construction for stores on behalf of third parties	–	–	345	123,108	**123,453**
Other receivables	–	–	–	54,307	**54,307**
Total	**262,160**	**20,591**	**20,995**	**5,144,683**	**5,448,429**

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2011:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	10,116	1,499	196	1,950,089	**1,961,900**
Accounts receivable on rental and other services	298,477	8,273	2,275	1,503,838	**1,812,863**
Receivables for construction for stores on behalf of third parties	–	–	–	84,237	**84,237**
Other receivables	–	–	–	14,283	**14,283**
Total	**308,593**	**9,772**	**2,471**	**3,552,447**	**3,873,283**

13. Trade and other receivables (continued)

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2010:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	10,734	30,338	23,577	1,625,216	**1,689,865**
Accounts receivable on rental and other services	634,391	149,495	34,224	1,339,742	**2,157,852**
Receivables for construction for premises on behalf of third parties	–	–	–	107,339	**107,339**
Other receivables	13,752	1,638	878	7,562	**23,830**
Total	**658,877**	**181,471**	**58,679**	**3,079,859**	**3,978,886**

14. Advances paid

	31 December 2012	31 December 2011	31 December 2010
Advances to suppliers of goods	406,532	109,182	218,960
Advances for services	289,529	188,157	165,080
Guarantee payments under lease contracts	112,029	13,954	–
Total advances paid	**808,090**	**311,293**	**384,040**

15. Taxes recoverable

Taxes recoverable as at 31 December 2012 are represented by a VAT receivable of RR 918,963 (31 December 2011 and 31 December 2010: nil) and input VAT that has not been claimed for reimbursement from tax authorities of RR 202,797 (31 December 2011: RR 112,199, 31 December 2010: RR 69,800).

16. Cash and cash equivalents

	31 December 2012	31 December 2011	31 December 2010
RR short-term deposits	35,057	3,229,605	–
RR denominated cash in transit	3,303,108	1,736,126	708,461
RR denominated cash on hand and balances with banks	196,265	169,407	60,823
US$ denominated cash on hand and balances with banks	2,034	1,281	1,510
Total cash and cash equivalents	**3,536,464**	**5,136,419**	**770,794**

Cash in transit represents cash receipts made on 29, 30 and 31 December, which were sent to banks but not deposited into the respective bank accounts until January of the following financial year as these 3 days were non-banking days in Russia. As at 31 December 2011, only the last 2 days of sales were in transit (end of 2010, one day of sales).

16. Cash and cash equivalents (continued)

Significant RR denominated cash in transit resulted from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year's Eve as well as the Russian bank holiday. If the closing day is on non-banking days, the amount of cash in transit increases.

Greater RR denominated cash balances with banks at 31 December 2011 refer to funds available from the VTB loan, which were placed by the Group on deposit. 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. Equity and put option liability to shareholders

As at 31 December 2012 the Company's share capital was comprised of 106,685,231 authorised and issued ordinary shares (as at 31 December 2011 106,325,000, as at 31 December 2010 103,905,000) with equal voting rights save that the voting rights attaching to any shares held by a member of the Group (including, therefore, the 21,218,443 shares held by Lakatomo Holdings Limited) are suspended for so long as they are so held. 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, LLC Lenta, 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 net profits recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the years ended 31 December 2012, 31 December 2011 and 31 December 2010.

Pursuant to the Subscription Agreement dated 27 April 2007, on 21 May 2007 EBRD subscribed for 11,545,000 ordinary shares, equal to a 11.1% ownership interest, in the capital of the Company, and one Class A Preference Share and one Class B Preference Share for an aggregate total consideration of US$125 million. The Preference Shares were subsequently cancelled, as confirmed in the share register of the Company on 30 June 2011. In connection with the Subscription Agreement, the Company also entered into a put and call option agreement in relation to the Company's ordinary shares owned by EBRD, which provided EBRD with the right to put the shares of the Company and provided the Company with the right to purchase the shares if certain events occur and/or fail to occur.

Under IFRS the put option represented an obligation to redeem EBRD shares, and accordingly, the Group recognised a put option liability to a shareholder at its fair value with a corresponding reduction in equity. The fair value of a put option liability was measured as the highest redemption value, i.e. at the higher of (a) US$125 million plus interest (4.25% over LIBOR) and (b) the fair market value of 11,454,000 ordinary shares in Lenta Ltd based on the fair market value of the Company as a whole taking into account the value of any subsidiaries. The Group's management engaged services of an independent appraiser to determine the fair market value of the Group, and used the results of such appraisal in considering its assessment of the fair value of the put option. Put option liability as at 31 December 2010 was stated as US$125 million plus interest (4.25% over LIBOR).

17. Equity and put option liability to shareholders (continued)

On 23 September 2011, the put option agreement between the Company and EBRD was cancelled, for US$6 million fee (RR 191,251). Accordingly, the obligation was transferred to Equity in the historical amount of US$ 125 million (RR 3,231,150) – total consideration for EBRD's subscribing for 11,545,000 ordinary shares (net gain recognised in profit or loss comprised RR 682,980 including the effect of change in carrying amount of RR 874,231 and cancellation fee of RR (191,251)).

Gains and losses arising from changes in the value of the put option are included in profit or loss in the period in which they arise.

	31 December 2012	31 December 2011	31 December 2010
Beginning of the period, carrying value of put option	–	4,863,056	4,603,641
Change in fair value	–	(874,231)	259,415
Transfer to APIC	–	(3,231,150)	–
Cancelation effect	–	(757,675)	–
End of the period, carrying value of put option	**–**	**–**	4,863,056

The movements in the number of shares during the years ended 31 December 2012, 31 December 2011 and 31 December 2010 were as follows.

	2012 No. ('000)	2011 No. ('000)	2010 No. ('000)
	unlimited	unlimited	unlimited
Authorized share capital (ordinary shares with no par value)			
Issued and fully paid (no par value)	106,685,231	106,325,000	103,905,000
Treasury shares	(21,218,443)	(21,218,443)	–

	2012 No. ('000)	2011 No. ('000)	2010 No. ('000)
Balance of shares outstanding at beginning of financial year	85,106,557	103,905,000	103,905,000
Additional issue of shares	360,231	2,420,000	–
Share-buyback	–	(21,218,443)	–
Balance of shares outstanding at the end of financial year	**85,466,788**	**85,106,557**	**103,905,000**

In 2012 360,231 ordinary shares were issued by the Group for a total cash consideration of RR 278,949 (USD 9,038,196 at the exchange rate at the date of the transaction). The difference between cash received and the carrying value of shares was recorded as increase of additional paid-in capital.

In 2011 2,420,000 ordinary shares of no par value were issued to Luna Inc. and Svoboda (both then shareholders in Lenta Ltd) pursuant to the terms of a share option deed entered into by Lenta Ltd with Oleg Zherebtsov and subsequently novated to Luna Inc. (50% of the interest in which was subsequently transferred to Svoboda Corporation) (see Note 7).

In 2011 the Group purchased 21,218,443 of own shares from Svoboda Corporation for US$515 million (RR 15,724,392).

18. Earnings per share

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Earnings per share (in RR per share)			
-basic and diluted, for profit for the year attributable to equity holders of the parent	0.060	0.017	0.021

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2012: RR5,135,798, for the year ended 31 December 2011: RR 1,696,504, for the year ended 31 December 2010: RR 2,220,121) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Number of issued shares at the beginning of period	85,106,557	103,905,000	103,905,000
Number of shares issued in September, 2012	360,231	–	–
Number of shares issued in August, 2011	–	2,420,000	–
Number of treasury shares purchased in September, 2011		(21,218,443)	
Number of shares at the end of reporting period	85,466,788	85,106,557	103,905,000
Weighted average number of shares	85,211,624	98,623,787	103,905,000

The Group has not issued any share options that would result in issuing shares at below fair value, so there are no any dilutive options.

19. Other expenses

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Consulting	215,122	–	–
Expense related to the purchase of shares in Lenta Ltd by a member of the Group	–	1,593,836	–
Share option	–	978,698	–
Total other expenses	**215,122**	**2,572,534**	**–**

The Group engaged the services of various professional consultants to assist management in Group restructuring, budgeting processes, valuation of real estate portfolio etc.

Lenta Ltd is also obliged to pay amounts to TPG Capital in consideration for ongoing monitoring and operational support provided by TPG Capital to Lenta Ltd.

A number of third parties (including certain shareholders in Lenta Ltd) provided support to the Group in respect of the share purchase transaction, resolving the shareholder dispute, which support included arranging and negotiating such transaction. Lenta Ltd agreed to pay certain fees to, and pay amounts in respect of certain costs and expenses of, TPG Capital, European Bank for Reconstruction and Development, and Luna Holdings Inc.

19. Other expenses (continued)

In September 2011, an option to buy 3,375,000 ordinary shares at US$25.086 per share was granted to a private individual who helped to settle the dispute between the shareholders - this option can be exercised in connection with an IPO or when a key shareholder (Luna Inc., EBRD or Luna Holdings Inc.) sells shares to a third party (see Note 27).

The Group's management engaged the services of an independent appraiser, and used the results of such appraisal in considering management's assessment of the fair value of option. The value of the option is estimated at RUR 978,698 as of the grant date.

20. Borrowings

Short-term borrowings:

Lender	Due date	Cur-rency	Weighted average interest rate for the year ended 31 December 2012, %	Weighted average interest rate for the year ended 31 December 2011, %	Weighted average interest rate for the year ended 31 December 2010, %	31 December 2012	31 December 2011	31 December 2010
Short-term portion of long-term borrowings								
Sberbank 0162-102612	2013	RR	9.27	–		500,000	–	–
TransCreditBank 11-27	2013	RR	7.97	–	–	1,203,000	–	–
TransCreditBank 11-28	2013	RR	7.99	–	–	1,630,004	–	–
TransCreditBank 10-02	2012	RR	–	–	8.60	–	–	1,000,000
TransCreditBank 10-08	2012	RR	–	–	7.61	–	–	500,000
VTB 102/10	2011	RR	–	–	7.50	–	–	450,000
Total short-term portion of long-term borrowings						**3,333,004**	**–**	**1,950,000**
Short-term borrowings								
Saint-Petersburg Bank	2013	RR	7.6	–		500,000	–	–
VTB 101/10	2011	RR	–	–	5.00	–	–	215,053
VTB 05/10	2011	RR		–	9.16			601,000
VTB 107/09	2011	RR	–	–	9.65	–	–	1,210,000
VTB 115/09	2011	RR	–	–	9.41			1,250,000
Sberbank 0162-RKL-1	2011	RR	–	–	8.29			1,999,968
Sberbank 0162-RKL-2	2011	RR	–	–	8.27	–	–	499,899
Total short-term borrowings						**500,000**	**–**	**5,775,920**
Total short-term borrowings and short-term portion of long-term borrowings						**3,833,004**	**–**	**7,725,920**

20. Borrowings (continued)

Long-term borrowings:

Lender	Due date	Cur-rency	Weighted average interest rate for the year ended 31 December 2012, %	Weighted average interest rate for the year ended 31 December 2011, %	Weighted average interest rate for the year ended 31 December 2010, %	31 December 2012	31 December 2011	31 December 2010
VTB	2016	RR	11.05	10.97		24,978,988	24,884,900	–
Total long-term borrowings						**24,978,988**	**24,884,900**	**–**

In September 2011, LLC Lenta entered into a secured 5 year loan agreement with VTB Capital PLC. Under the agreement the Group borrowed RR 25,375,000, secured by, inter alia, immovable property of the Group, bank account pledges related to bank accounts of LLC Lenta and a pledge of Lenta Ltd's participatory interest in LLC Lenta.

The loan bears interest of MosPrime 3m plus a margin: a maximum of 4.2% per annum for the first tranche (RR 19,000,000) and a maximum of 4.75% for the second tranche (the remaining RR 6,375,000).

Borrowed funds of US$515 million were utilized in funding the purchase of 19.96% of the Company's shares by its newly acquired subsidiary Lakatomo Holdings Limited, wholly owned through Lenta Luxemburg S.a.r.L). The remaining part has been used on deal related costs, settlements with former employees, to refinance the existing loan portfolio of revolving credit lines and on current corporate activities.

The loan has covenants with respect to the Debt/EBITDA ratio and interest coverage, which have been complied with as at 31 December 2012.

The Group's short-term portion of long-term borrowings represents amounts borrowed under revolving credit lines.

There were no breaches of the loan agreements during the years ended 31 December 2012, 31 December 2011 and 31 December 2010.

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate, effective from 31 December 2011. As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2012	Notional amount 2011	Fixed interest rate	Fixed commission	Expiry date
Interest rate swap	6,250,000	6,250,000	7.33%	n/a	31 March 2015
Interest rate swap	3,000,000	3,000,000	8.00%	n/a	31 March 2015
Interest rate swap	3,250,000	3,250,000	8.15%	n/a	31 March 2015
Interest rate cap	5,000,000	5,000,000	12.00%	0.79%	31 December 2014
Interest rate cap	5,000,000	5,000,000	12.00%	0.78%	31 December 2014

20. Borrowings (continued)

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

	31 December 2012	31 December 2011	31 December 2010
Non-current liability	130,089	201,047	–
Current liability	141,558	172,930	–
Total	**271,647**	**373,977**	**–**

Finance charges on swaps and caps

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Finance charges on swaps and caps	155,156	37,934	–
Total finance charges on financial instruments	**155,156**	**37,934**	**–**

Swaps and caps are stated at fair value, with any resultant gain or loss recognised in profit or loss immediately. The Group engaged services of VTB Capital for fair value determination and used their valuation in considering its assessment of the fair values of swaps and caps.

	31 December 2012	31 December 2011	31 December 2010
Swaps at fair value through profit or loss (liability)	134,645	219,477	–
Caps at fair value through profit or loss (liability)	137,002	154,500	–
Net debt	**271,647**	**373,977**	**–**

The Group's borrowings as at 31 December 2012, 31 December 2011 and 31 December 2010 are denominated in Russian Roubles.

As at 31 December 2012, the Group had RR 11,817,000 of unused credit facilities (RR 14,150,000 as at 31 December 2011, RR 6,374,080 as at 31 December 2010). All other available borrowing facilities were fully utilized.

21. Income taxes

Russian subsidiaries of the Group were subject to income tax at the rate of 20% on taxable profits for the calendar years 2010 to 2012. Deferred tax assets and liabilities were measured at the rate of 20%.

Income tax expense is comprised of:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense	1,252,573	1,011,046	923,482
Deferred tax expense	590,682	156,565	(127,030)
Current income tax related to previous period	3,122	–	–
Income tax expense	**1,846,377**	**1,167,611**	**796,452**

21. Income taxes (continued)

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Profit before tax	**6,982,175**	**2,864,115**	**3,016,573**
Theoretical tax charge at 20%	(1,396,435)	(572,823)	(603,315)
Add tax effect of non-deductible expenses	**(480,130)**	**(749,474)**	**(194,113)**
Expenses related to fixed assets	(268,570)	–	–
Expenses on inventory shrinkage and surpluses	(142,670)	(121,263)	(102,539)
Expense related to deal on purchase of own shares	–	(521,794)	–
Swaps, caps at fair value through profit or loss	–	(74,795)	–
Put option revaluation	–	–	(51,883)
Others	(68,890)	(31,622)	(39,691)
Add tax effect of non-taxable gains	**33,310**	**154,686**	**976**
Swaps, caps at fair value through profit or loss	20,465	–	–
Put option revaluation	–	136,596	–
Others	12,845	18,090	976
Current income tax related to previous period	**(3,122)**	**–**	**–**
Income tax expense	**1,846,377**	**1,167,611**	**796,452**

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

	1 January 2012	Differences in recognition and reversals recognised in profit or loss	31 December 2012
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(307,657)	(698,747)	(1,006,404)
Leasehold rights	(125,414)	(73,358)	(198,772)
Unused vacation and employee bonuses accrual	86,894	125,111	212,005
Suppliers' bonuses	(92,514)	(89,574)	(182,088)
Interest on borrowings	(98,020)	18,818	(79,202)
Intangible assets other than leasehold rights	7,339	(3,451)	3,888
Inventory	307,923	100,361	408,284
Bad debt provision	3,881	11,530	15,411
Finance leasing	18,925	(4,028)	14,897
Consulting provision	4,662	15,112	19,774
Customs duty payable	–	30,677	30,677
Other	79,340	(23,133)	56,207
Total deferred tax (liabilities)/assets	**(114,641)**	**(590,682)**	**(705,323)**

21. Income taxes (continued)

	1 January 2011	Differences in recognition and reversals recognised in profit or loss	31 December 2011
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(266,386)	(41,271)	(307,657)
Leasehold rights	(45,862)	(79,552)	(125,414)
Unused vacation and employee bonuses accrual	89,537	(2,643)	86,894
Suppliers' bonuses	–	(92,514)	(92,514)
Interest on borrowings	–	(98,020)	(98,020)
Intangible assets other than leasehold rights	10,997	(3,658)	7,339
Inventory	239,682	68,241	307,923
Bad debt provision	524	3,357	3,881
Finance leasing	–	18,925	18,925
Consulting provision	9,137	(4,475)	4,662
Other	4,295	75,045	79,340
Total deferred tax (liabilities)/assets	**41,924**	**(156,565)**	**(114,641)**

	1 January 2010	Differences in recognition and reversals recognised in profit or loss	31 December 2010
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(298,458)	32,072	(266,386)
Leasehold rights	58,564	(104,426)	(45,862)
Unused vacation and employee bonuses accrual	37,619	51,918	89,537
Interest on borrowings	(3,266)	3,266	–
Intangible assets other than leasehold rights	(9,332)	20,329	10,997
Inventory	98,904	140,778	239,682
Bad debt provision	–	524	524
Consulting provision	–	9,137	9,137
Other	30,863	(26,568)	4,295
Total deferred tax (liabilities)/assets	**(85,106)**	**127,030**	**41,924**

At 31 December 2012, 31 December 2011 and 31 December 2010 the Group did not recognize a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries of RR 2,037,764, RR 1,381,704 and RR 809,223 respectively, because management believed that it was in 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 2012	31 December 2011	31 December 2010
Trade payables	21,639,226	15,589,475	13,417,823
Accrued liabilities and other creditors	2,482,532	2,227,746	1,026,438
Payables for purchases of property, plant and equipment	922,542	308,555	173,738
Total trade and other payables	**25,044,300**	**18,125,776**	**14,617,999**

The trade and other payables were denominated in:

	31 December 2012	31 December 2011	31 December 2010
RR	24,148,893	16,902,191	14,603,182
US$	870,916	1,216,750	12,559
EUR	21,672	2,602	2,151
GBP	2,819	4,233	107
Total trade and other payables	**25,044,300**	**18,125,776**	**14,617,999**

23. Other taxes payable

	31 December 2012	31 December 2011	31 December 2010
Social taxes	179,885	132,856	77,960
Property tax	122,285	75,059	69,795
Personal income tax	68,409	50,495	43,601
Output VAT	–	3,233	974
Other taxes	176,930	17,190	15,882
Total other taxes payable	**547,509**	**278,833**	**208,212**

24. Cost of sales

Cost of sales, for the periods ended 31 December 2012, 31 December 2011 and 31 December 2010 consisted of the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Cost of goods sold	74,331,374	62,668,459	50,685,137
Cost of own production	9,479,812	7,298,505	5,188,454
Supply chain cost	2,147,003	1,852,833	1,103,137
Losses due to inventory shortages	1,274,891	1,235,521	899,467
Total cost of sales	**87,233,080**	**73,055,318**	**57,876,195**

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

24. Cost of sales (continued)

The cost of own production consisted of the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Raw materials	7,953,812	6,019,281	4,248,454
Labor cost	1,226,000	1,010,000	742,000
Utilities	272,277	248,041	195,017
Repairs and maintenance	27,723	21,183	2,983
Total cost of own production:	**9,479,812**	**7,298,505**	**5,188,454**

Cost of sales for the year ended 31 December 2012 included employee benefits expense of RR 1,487,025 (for the year ended 31 December 2011: RR 1,223,890, for the year ended 31 December 2010: RR 910,767).

25. Selling, general and administrative expenses

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Employee benefits expense	7,005,688	5,475,319	4,344,396
Depreciation and amortisation (Note 8)	1,576,364	1,963,551	1,911,306
Advertising	801,078	658,871	520,048
Professional fees	658,837	707,420	381,269
Utilities and communal payments	598,159	546,938	445,138
Repairs and maintenance	474,363	377,340	299,358
Taxes other than income tax	593,097	361,000	368,280
Cleaning	405,682	306,778	260,188
Security services	355,367	331,167	272,840
Land and equipment lease	178,353	147,173	139,729
Premises lease	77,265	50,325	23,926
Pre-opening costs	398,608	43,977	28,921
Other	383,484	254,739	218,787
Total selling, general and administrative expenses	**13,506,345**	**11,224,598**	**9,214,186**

Employee benefits expense for the year ended 31 December 2012 included contributions to the Russian state pension fund of RR 1,079,911 (for the year ended 31 December 2011: RR 1,005,656, for the year ended 31 December 2010: RR 632,894).

26. Other operating income

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Penalties due by suppliers	516,293	443,832	291,491
Rental income	281,992	243,284	214,273
Advertising income	247,071	222,208	202,377
Gain on PPE disposal	731	17,171	894
Other	72,333	84,734	75,178
Total other operating income	**1,118,420**	**1,011,229**	**784,213**

27. Share-based payments

During the year ending 31 December 2011 the Group granted a share option to a third party individual for services provided in relation to coordination of Svoboda Corporation (Note 17) shares purchase.

The fair value of the share option is estimated at a grant date using a Black Scholes option pricing model, taking into account the terms and conditions upon which the share option was granted. The contractual conditions of the option are as follows:

- The option is deemed exercised upon an exit event for the Group, being either an Initial Public Offering ("IPO") or through a key shareholder sale to a third party.
- On an IPO, the settlement method of the option is at the holder's election, being through the issuance of shares (in full at the exchange of the exercise price, or solely the upside). In the event of a sale by a key shareholder options may be settled through the issuance of shares or cash. The settlement method is at the sole election of the Group unless the sale is for 50% or more of the voting power of the Group to a third party. In this case, the holder can employ a 'Tag Right'.
- Providing the option is exercised, in the event of a sale by a key shareholder it will be settled in the same proportion as the key shareholder, e.g. if a key shareholder sells 50% of their shareholding, 50% of the option will be exercised.
- On an IPO, the option is triggered in full, regardless of the proportion of equity initially offered. Since in this case the option is settled in shares, the holder may elect to have the shares issued to be included in any secondary portion of the IPO in the same proportion that the key shareholders participate in any secondary portion of the IPO.
- The option is also subject to conditions prior to being exercised, if these conditions are not met the option is cancelled. The conditions relate to exceeding the current equity valuation for 100% of the Group of $2,667,272,313 or $25.086 per share and are designed as follows:
  - On a key shareholder sale: The purchase price per share payable must represent an equity valuation for 100% of the Group that is greater than the base valuation.
  - On an IPO exit: The IPO price must represent an equity valuation for 100% of the Group that is greater than the base valuation increased by a 10% internal rate of return p.a. from the valuation date.

The contractual term of the option is 5 years. The Exercise Price of the option is $25.086 per share.

The expense recognised for the services received from the third party individual during the year is shown in the following table:

	2012	2011	2010
Expense arising from the equity-settled share based payment transaction	–	978,698	–

There were no cancelations or modifications to the awards in 2012, 2011 and 2010.

27. Share-based payments (continued)

The following tables list the inputs to the models used for the option plan as of the grant date:

Dividend yield (%)	0%
Expected volatility (%)	40%
Risk-free interest rate (%)	5.14%
Expected life of share options (years)	5
Weighted average share price (USD)	25.086
Model used	Black-Scholes

The expected life of share option is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the option is indicative of future trends, which may not necessarily be the actual outcome.

28. Commitments

Capital expenditure commitments

At 31 December 2012 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets of RR 6,373,203 (31 December 2011: RR 2,542,310, 31 December 2010 RR 891,607).

Operating lease commitments

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

	31 December 2012	31 December 2011	31 December 2010
Not later than 1 year	456,134	159,741	135,659
Later than 1 year and not later than 5 years	1,411,931	330,824	325,631
Later than 5 years	6,455,736	2,399,750	2,488,195
Total operating lease commitments	**8,323,801**	**2,890,315**	**2,949,485**

29. Financial instruments

Categories of financial instruments

	31 December 2012	31 December 2011	31 December 2010
Financial assets			
Cash	3,536,464	5,136,419	770,794
Trade and other receivables	5,448,429	3,873,283	3,978,886
Financial liabilities			
At fair value through profit or loss	271,647	373,977	4,863,056
At amortised cost:			
Floating rate long-term borrowings	24,978,988	24,884,900	–
Fixed rate short-term borrowings and short-term portion of long-term borrowings	3,833,004	–	7,725,920
Trade and other payables	23,403,407	17,210,253	14,016,439
Long-term obligations under finance leases	65,420	76,256	–
Total financial liabilities at amortised cost	**52,280,819**	**42,171,409**	**21,742,359**

Fair values

The fair value of financial liabilities except for derivatives is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of derivative financial instruments are estimated using various valuation techniques, such as option pricing models.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2012, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Interest rate swaps − non-hedged	134,645	–	134,645	–
Interest rate caps − non-hedged	137,002	–	137,002	–

29. Financial instruments (continued)

Fair value hierarchy (continued)

As at 31 December 2011, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2011	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Interest rate swaps − non-hedged	219,477	−	219,477	−
Interest rate caps − non-hedged	154,500	−	154,500	−

As at 31 December 2010, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2010	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Put option	4,863,056	−	−	4,863,056

The fair value of the option was determined based on the income approach (the discounted cash flow method) supported by the market approach.

During the reporting periods ending 31 December 2012, 31 December 2011 and 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

30. Financial risk management

Market risk

Market risk is the risk that the fair value or 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.

The retail business in Russia is a highly competitive industry sector. The basis of competition for retail chains is location and fit out, quality of goods and services, pricing, assortment. Any increase in the level of competition on the part of domestic and foreign members of the retail market may exert a negative influence on the operating results of the Group.

Foreign currency risk

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

During the years ended 31 December 2011 and 31 December 2012, the Group did not conclude any amounts of foreign currency denominated borrowings in comparison with previous reporting periods, and as a consequence is not materially exposed to foreign currency risk. During the year ended 31 December 2010, the Group had EUR/USD denominated loan from Royal Bank of Scotland, which was fully repaid at the end of 2010 year.

30. Financial risk management (continued)

Foreign currency risk (continued)

At 31 December 2011 the Group had a USD denominated payables to the shareholders that were settled during the year ended 31 December 2012. At 31 December 2012 the Group had USD denominated payables to top-management represented by loyalty bonuses.

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 US$ rate	Effect on profit before tax
2012	10.72%	(4,985)
	-10.72%	4,985
2011	12.50%	(110,279)
	-12.50%	110,279
2010	8.90%	(433,930)
	-8.90%	433,930

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 2012 these obligations are represented with long-term borrowing from VTB Capital PLC, which bears interest of MosPrime 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).

In case the assumption of the MosPrime rates would have been 1.09% higher and 1.09% lower, the fair value of the swaps and caps would deviate as follows:

	MosPrime + 1.09%	MosPrime – 1.09%
Sensitivity of swaps and caps fair value	251,932	(259,079)

	Change in basis points	Annualized effect on profit before tax
Increase in basis points	109	(24,656)
Decrease in basis points	(109)	17,508

30. Financial risk management (continued)

Interest rate risk (continued)

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2012 all of the Group's borrowings were denominated in Russian Roubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 20 of these financial statements. The sensitivity analysis below has 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 2012 was as follows:

	31 December 2012
Total floating rate borrowings (gross of direct issue costs)	25,375,000
Less notional amount of interest rate financial instruments (Note 20)	(22,500,000)
Net exposure to interest rate fluctuations	**2,875,000**
% of floating rate borrowings exposed to interest rate fluctuations	**11%**

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 age 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 recognised, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards

Cash and cash equivalents

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

30. Financial risk management (continued)

Cash and cash equivalents (continued)

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 of cash and cash equivalents is RR 3,488,247 at 31 December 2012, RR 5,095,921 – at 31 December 2011, RR 743,523 – at 31 December 2010.

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 2012, 31 December 2011 and 31 December 2010 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 2012

	Less than 12 months	1-5 years	Total
Borrowings	6,785,656	31,740,309	**38,525,965**
Trade and other payables	23,403,407	–	**23,403,407**
Charges on financial instruments at fair value through profit or loss settled on a net basis	161,155	153,229	**314,384**
Finance leasing	25,778	75,747	**101,525**
Total	**30,375,996**	**31,969,285**	**62,345,281**

31 December 2011

	Less than 12 months	1-5 years	Total
Borrowings	3,001,997	35,015,644	**38,017,641**
Trade and other payables	17,210,253	–	**17,210,253**
Charges on financial instruments at fair value through profit or loss settled on net basis	183,550	255,734	**439,284**
Finance leasing	25,778	101,525	**127,303**
Total	**20,421,578**	**35,372,903**	**55,794,481**

30. Financial risk management (continued)

Liquidity risk (continued)

31 December 2010

	Less than 12 months	1-5 years	Total
Borrowings	7,846,708	3,047	**7,849,755**
Trade and other payables	14,016,439	–	**14,016,439**
Put option liability	4,863,056	–	**4,863,056**
Total	**26,726,203**	**3,047**	**26,729,250**

Capital risk 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 optimisation of the debt and equity balance.

While the Group has not established any formal policies regarding debt to equity ratios, the Group reviews the capital needs of the Group 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. However the Group is guided in its decisions to fund with debt by the covenants in the VTB term loan.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, 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:

	31 December 2012	31 December 2011	31 December 2010
Borrowings	28,811,992	24,884,900	7,725,920
Cash and cash equivalents (Note 16)	(3,536,464)	(5,136,419)	(770,794)
Net debt	**25,275,528**	**19,748,481**	**6,955,126**

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. Calculation of net debt excludes the put option liability to shareholder of RR 4,863,056 at 31 December 2010 (see Note 17).

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 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.

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RR 76,963 as at 31 December 2012 (31 December 2011: RR 38,674 and 31 December 2010: RR 14,115). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RR 639,839 (RR 269,268 at 31 December 2011, nil at 31 December 2010). No tax provisions were recorded as at 31 December 2012, 31 December 2011 and 31 December 2010. 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 2010, 31 December 2011 and 31 December 2012.

31. Contingencies (continued)

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.

32. Events occurring after the reporting period

On 15 October 2012 the Group signed a Sole Shareholder Decision on the Issuance of Lenta LLC bonds. On 7 February 2013 Federal Financial Markets Service registered the bond issue. In March 2013 the public floatation of certified non-convertible bearer bonds was placed in three tranches of 3,000,000, 3,000,000 and 4,000,000, with a nominal value of RR 1 each, a 10% coupon rate, 2,548 days to maturity and put option right on early redemption after three years.

On 28 June 2013 the Group signed a Sole Shareholder Decision on the Issuance of 33,000,000 Lenta LLC bonds with a nominal value of RR 1 each, 3,640 days to maturity and put option right on early redemption. On 29 July 2013 ZAO FB MMVB (stock exchange) registered the prospectus and decision on issuance.

In April 2013 the Group concluded an additional 5 year tranche on the VTB Capital PLC facility of RR 15,000,000 secured on the same terms as the first two tranches. The loan bears interest of Mosprime 3m plus 3.5-4% of margin. Borrowed funds are available for drawdown within 540 days and are expected to be used for expansion purposes and current corporate activities.

The Group also negotiated to prolong the maturity of the first two tranches till 2018 year, agreed to revise financial covenants in favor of more advantageous indicators and reset loan-to-value threshold for the entire VTB facility from 70% to 100%.

On 16 April 2013, the Group entered into a loan agreement with OAO Bank Saint-Petersburg, with a limit of indebtedness of RR 2,000,000, validity of the contract to 15 April 2016. The interest rate is specified in each separate case and may not be less than 2/5 (two - fifths) of the refinancing interest rate (discount rate), established by the Central Bank of the Russian Federation on the date of signing by the parties of the relevant credit transaction.

In April 2013 the Group negotiated a revolving credit line of RR 3,000,000 with Raiffeisen Bank, which is available until October 2014. The interest rate is specified at each drawdown of credit and may not be higher than 6m Mosprime on the grant date plus 5%.

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Printed by RRDonnelley 674380