Lenta Limited and subsidiaries

Unaudited interim condensed
consolidated financial statements

For the six months ended 30 June 2017

Contents

Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2017

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

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries (the "Group") as of 30 June 2017, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* ("IAS 34").

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

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

Management is also responsible for:

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

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 were approved by management on 24 August 2017:

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

Jan Dunning
(CEO of Lenta Limited)

Jago Lemmens
(CFO of Lenta Limited)

Совершенствуя бизнес,
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Report on Review of Interim Financial Information

To the shareholders of Lenta Limited

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Lenta Limited and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2017, the interim condensed consolidated statement of profit or losses and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of Lenta Limited is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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улучшаем мир

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.Y. Grebeniuk
Partner
Ernst & Young LLC

24 August 2017

Details of the entity

Name: Lenta Limited
Incorporated under the laws of the BVI on 16 July 2003, State Registration Number 1058643.
Address: PO Box 3340, Road Town, Tortola, BVI.

Details of the auditor

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

Interim condensed consolidated statement of financial position as at 30 June 2017

(in thousands of Russian roubles)

	Note	30 June 2017, unaudited	31 December 2016, audited
Assets			
Non-current assets			
Property, plant and equipment	6	150,030,365	147,812,289
Prepayments for construction	7	9,207,463	7,741,743
Leasehold rights	8	3,245,270	3,744,009
Intangible assets other than leasehold rights	9	1,846,025	1,890,176
Long-term portion of cash flow hedging instruments	28	1,650	62,618
Deferred tax assets		118,629	123,508
Other non-current assets		220,534	199,131
Total non-current assets		**164,669,936**	**161,573,474**
Current assets			
Inventories	10	27,671,942	27,490,941
Trade and other receivables	11	7,686,460	17,035,789
Advances paid	12	2,504,616	2,669,761
Taxes recoverable	13	1,090,818	3,920,940
Advance payments for income tax		512,739	–
Prepaid expenses		130,139	131,932
Short-term portion of cash flow hedging instruments	28	121,850	309,592
Cash and cash equivalents	14	11,490,897	13,037,767
Total current assets		**51,209,461**	**64,596,722**
Total assets		**215,879,397**	**226,170,196**
Equity and liabilities			
Equity			
Share capital	15	284	284
Additional paid-in capital	15	26,480,481	26,216,147
Share options	15, 25	647,794	668,200
Hedging reserve	15	240,590	431,570
Treasury shares		(53,647)	–
Retained earnings		35,544,609	31,052,910
Total equity		**62,860,111**	**58,369,111**
Liabilities			
Non-current liabilities			
Long-term borrowings	18	78,542,837	66,955,931
Deferred tax liabilities		8,320,045	7,359,998
Long-term portion of cash flow hedging instruments	28	349	2,137
Total non-current liabilities		**86,863,231**	**74,318,066**
Current liabilities			
Trade and other payables	20	33,515,132	56,171,598
Advances received		410,077	340,062
Other taxes payable	22	907,110	1,111,306
Current income tax payable		–	568,345
Short-term portion of cash flow hedging instruments	28	38,391	46,588
Short-term borrowings and short-term portion of long-term borrowings	18	31,285,345	35,245,120
Total current liabilities		**66,156,055**	**93,483,019**
Total liabilities		**153,019,286**	**167,801,085**
Total equity and liabilities		**215,879,397**	**226,170,196**

The accompanying notes on pages 10-34 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017

(in thousands of Russian roubles)

	Note	Six months ended 30 June 2017, unaudited	Six months ended 30 June 2016, unaudited
Sales		163,530,864	140,086,587
Cost of sales	22	(127,996,370)	(109,430,167)
Gross profit		**35,534,494**	**30,656,420**
Selling, general and administrative expenses	23	(26,012,030)	(21,691,789)
Other operating income	24	1,725,515	1,496,668
Other operating expenses	24	(367,646)	(385,641)
Operating profit		**10,880,333**	**10,075,658**
Interest expense		(5,638,086)	(5,085,556)
Interest income		237,278	633,265
Foreign exchange gain		80,871	26,469
Profit before income tax		**5,560,396**	**5,649,836**
Income tax expense	19	(1,068,697)	(1,323,836)
Profit for the period		**4,491,699**	**4,326,000**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss on cash flow hedges	16	(238,725)	(305,638)
Income tax relating to the components of OCI	19	47,745	61,128
Other comprehensive loss for the period, net of tax		**(190,980)**	**(244,510)**
Total comprehensive income for the period, net of tax		**4,300,719**	**4,081,490**
Earnings per share (in thousands of Russian roubles per share)			
- basic and diluted, for profit for the period attributable to equity holders of the parent		0.046	0.044

The accompanying notes on pages 10-34 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows
for the six months ended 30 June 2017
(in thousands of Russian roubles)

	Note	Six months ended 30 June 2017, unaudited	Six months ended 30 June 2016, unaudited
Cash flows from operating activities			
Profit before income tax		**5,560,396**	**5,649,836**
Adjustments for:			
Net loss on disposal of property, plant and equipment		42,813	156,673
Loss on disposal of intangible assets		19,666	
Loss on disposal of leasehold rights		–	1,279
Interest expense		5,638,086	5,085,556
Interest income		(237,278)	(633,265)
(Reversal of inventory write-down to net realisable value) / Inventory write-down to net realisable value	10	(57,479)	384,475
Change in bad debt allowance, impairment of advances paid and prepayments for construction	7, 11, 12 24	190,474	175,427
Depreciation and amortisation	6, 8, 9, 23	4,738,653	3,600,088
Share options expense	25	190,281	119,416
		16,085,612	**14,539,485**
Movements in working capital			
Decrease in trade and other receivables		9,134,019	1,223,071
Decrease/(increase) in advances paid	12	164,269	(693,436)
(Increase)/decrease in prepaid expenses		(1,652)	10,299
(Increase)/decrease in inventories	10	(123,522)	594,499
Decrease in trade and other payables	20	(20,683,977)	(9,162,512)
Increase in advances received		70,015	29,309
Increase in net other taxes payable	21	2,625,926	609,982
Cash from operating activities		**7,270,690**	**7,150,697**
Income taxes paid		(1,097,940)	(263,692)
Interest received		243,714	686,043
Interest paid		(6,319,528)	(4,907,243)
Net cash generated from operating activities		**96,936**	**2,665,805**
Cash flows from investing activities			
Purchases of property, plant and equipment		(9,756,454)	(16,099,564)
Settlements on acquisition of subsidiaries*		78,869	–
Purchases of intangible assets other than leasehold rights	9	(192,774)	(226,434)
Purchases of leasehold rights		(119,735)	(42,373)
Proceeds from sale of property, plant and equipment		34,270	240,143
Net cash used in investing activities		**(9,955,824)**	**(16,128,228)**
Cash flows from financing activities			
Proceeds from borrowings		87,146,875	13,741,083
Repayments of borrowings		(78,834,857)	(14,590,806)
Repayments of obligations under financial lease		–	(18,577)
Net cash generated from/(used in) financing activities		**8,312,018**	**(868,300)**
Net decrease in cash and cash equivalents		**(1,546,870)**	**(14,330,723)**
Cash and cash equivalents at the beginning of the period	14	13,037,767	22,455,945
Cash and cash equivalents at the end of the period	14	**11,490,897**	**8,125,222**

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

The accompanying notes on pages 10-34 are an integral part of these unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2017

(in thousands of Russian roubles)

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2017	**284**	**26,216,147**	**431,570**	–	**668,200**	**31,052,910**	**58,369,111**
Profit for the period						4,491,699	**4,491,699**
Other comprehensive loss	–	–	(190,980)	–	–		**(190,980)**
Total comprehensive (loss)/income	**–**	**–**	**(190,980)**	**–**	**–**	**4,491,699**	**4,300,719**
Share-based payments (Note 25)	–	–	–	–	190,281	–	**190,281**
Issue of shares (Note 15, 25)	–	264,334	–	(53,647)	(210,687)	–	**–**
Balance at 30 June 2017 (unaudited)	**284**	**26,480,481**	**240,590**	**(53,647)**	**647,794**	**35,544,609**	**62,860,111**

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

Notes

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

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

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, Lit. B, Savushkina Street, 197374, Saint Petersburg, Russia.

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

At 30 June 2017 and 31 December 2016 the Group had one main operational fully owned subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The principal activity of Lenta LLC is retail trade.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2016, which include a full description of the Group's accounting policies, and critical accounting estimates and judgments in applying accounting policies.

Management has considered the Group's cash flow forecasts for the period ending 31 December 2018, which takes into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, loan covenant compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores.

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

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

Changes in accounting policies and estimates

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new or revised standards and interpretations effective as of 1 January 2017, noted below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance.

Annual Improvements Cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments do not have any impact on the Group as there has been no entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale during the period.

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

Changes in accounting policies and estimates (continued)

Standards issued but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued, but is not yet effective. The Group expects that the adoption of the pronouncements will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for IFRS 16 *Leases* described below:

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

The Group is currently assessing the potential effect of IFRS 16 on its consolidated financial statements.

3. Operating segments

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

The Group has no significant assets outside the Russian Federation excluding investments in its foreign wholly owned intermediate holding subsidiary Zoronvo Holdings Limited and newly incorporated wholly owned subsidiary Lenta LTIP Limited (BVI), 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).

(in thousands of Russian roubles)

3. Operating segments (continued)

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyse performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA).

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

The segment information for the six months ended 30 June 2017 and 30 June 2016, respectively, is as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Sales	163,530,864	140,086,587
EBITDA	15,618,986	13,675,746

Reconciliation of EBITDA to IFRS profit for the six months ended 30 June 2017 and 2016 is as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
EBITDA	**15,618,986**	**13,675,746**
Interest expense	(5,638,086)	(5,085,556)
Interest income	237,278	633,265
Income tax expense (see Note 19)	(1,068,697)	(1,323,836)
Depreciation/amortisation (see Note 6, 8, 9, 23)	(4,738,653)	(3,600,088)
Foreign exchange gain	80,871	26,469
Profit for the year	**4,491,699**	**4,326,000**

4. Seasonality of operations

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

5. Balances and transactions with related parties

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

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

(in thousands of Russian roubles)

5. Balances and transactions with related parties (continued)

Entities with significant influence over the Group:

	30 June 2017	31 December 2016
TPG Capital		
Accrued liabilities	–	3,260
EBRD		
Accrued liabilities	–	75

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Six months ended 30 June 2017	Six months ended 30 June 2016
EBRD		
Repayments of borrowings	–	(4,554,240)
Interest expense	–	340,077
TPG Capital		
Business trip expenses	234	304
Directors fee	5,929	7,866

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Short-term benefits	202,418	365,053
Long-term benefits (share-based payments, Note 25)	174,791	101,918
Termination benefits	8,462	–
Total remuneration	**385,671**	**466,971**

(in thousands of Russian roubles)

6. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2017	**17,870,601**	**10,063,825**	**100,491,459**	**42,961,063**	**3,288,066**	**174,675,014**
Additions	–	–	–	53	6,201,687	**6,201,740**
Transfers from construction in progress	419,200	423,351	2,581,244	2,162,981	(5,586,776)	**–**
Transfers from leasehold rights	571,501	–	–	–	–	**571,501**
Disposals	(31,630)	–	(3,576)	(129,045)	(17,593)	**(181,844)**
Balance at 30 June 2017	**18,829,672**	**10,487,176**	**103,069,127**	**44,995,052**	**3,885,384**	**181,266,411**
Accumulated depreciation and impairment						
Balance at 1 January 2017	**–**	**1,300,128**	**11,325,932**	**14,236,665**	**–**	**26,862,725**
Charge for the year	–	171,017	1,797,028	2,506,376	–	4,474,421
Disposals	–	–	(1,684)	(99,416)	–	(101,100)
Balance at 30 June 2017	**–**	**1,471,145**	**13,121,276**	**16,643,625**	**–**	**31,236,046**
Net book value	**–**					
Balance at 1 January 2017	**17,870,601**	**8,763,697**	**89,165,527**	**28,724,398**	**3,288,066**	**147,812,289**
Balance at 30 June 2017	**18,829,672**	**9,016,031**	**89,947,851**	**28,351,427**	**3,885,384**	**150,030,365**

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

(in thousands of Russian roubles)

6. Property, plant and equipment (continued)

During the six months ended 30 June 2017 and the six months ended 30 June 2016 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalisation. Thus, no borrowings costs were capitalised during those periods.

No property, plant and equipment is held by the Group under finance leases at 30 June 2017 and as at 31 December 2016.

The amount of depreciation charged during the six months ended 30 June 2017 and the six months ended 30 June 2016 is presented within depreciation and amortisation in the Group's interim condensed consolidated statement of profit or loss and other comprehensive income and interim condensed consolidated statement of cash flows as follows:

	Six months ended 30 June 2017	**Six months ended 30 June 2016**
Depreciation of property, plant and equipment (Note 6)	4,474,421	3,426,282
Amortisation of intangible assets (Note 9)	217,259	140,930
Leasehold rights amortisation (Note 8)	46,973	32,876
Total depreciation and amortisation	**4,738,653**	**3,600,088**

See Note 26 for capital commitments.

7. Prepayments for construction

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

Prepayments are regularly monitored on the subject of impairment. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of prepayments. As at 30 June 2017 the Group impaired RUB 497,044 of prepayments (31 December 2016: RUB 378,672).

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2017
(in thousands of Russian roubles)

8. Leasehold rights

Leasehold rights as at 30 June 2017 consist of the following:

	Leasehold rights
Cost	
At 1 January 2017	**3,979,647**
Additions	119,735
Transfer to PPE	(597,103)
At 30 June 2017	**3,502,279**
Accumulated amortisation	
At 1 January 2017	**235,638**
Charge for the period	46,973
Transfer to PPE	(25,602)
At 30 June 2017	**257,009**
Net book value	
At 1 January 2017	**3,744,009**
At 30 June 2017	**3,245,270**

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

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

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

(in thousands of Russian roubles)

9. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 30 June 2017 consist of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2017	**3,167,432**	**549**	**3,167,981**
Additions	192,774	–	192,774
Disposals	(75,692)	–	(75,692)
At 30 June 2017	**3,284,514**	**549**	**3,285,063**
Accumulated amortisation			
At 1 January 2017	**1,277,256**	**549**	**1,277,805**
Amortisation for the period	217,259	–	217,259
Disposals	(56,026)	–	(56,026)
At 30 June 2017	**1,438,489**	**549**	**1,439,038**
Net book value			
At 1 January 2017	**1,890,176**	**–**	**1,890,176**
At 30 June 2017	**1,846,025**	**–**	**1,846,025**

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

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

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

10. Inventories

	30 June 2017	31 December 2016
Goods for resale (at lower of cost and net realisable value)	26,660,017	26,191,962
Raw materials	1,011,925	1,298,979
Total inventories	**27,671,942**	**27,490,941**

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

(in thousands of Russian roubles)

10. Inventories (continued)

	30 June 2017	31 December 2016
Goods for resale (at cost)	27,847,663	27,437,087
Write down to net realizable value	(1,187,646)	(1,245,125)
Goods for resale (at lower of cost and net realisable value)	**26,660,017**	**26,191,962**

During the reporting period the Group accounted for reversal of write down of inventories to their net realizable value, which resulted in recognition of reversal of expenses within cost of sales in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017 in the amount of RUB 57,479.

During the six months ended 30 June 2016 the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the amount of: RUB 384,475.

11. Trade and other receivables

	30 June 2017	31 December 2016
Accounts receivable on rental and other services and on suppliers' advertising	5,943,769	12,892,578
Suppliers' rebates receivable	1,750,313	3,858,738
Other receivables	132,639	352,258
Provision for impairment of receivables	(140,261)	(67,785)
Total trade and other receivables	**7,686,460**	**17,035,789**

Receivables are due normally within 25 days according to the terms of standard contracts. Outstanding receivables are regularly monitored. An impairment analysis is performed at each reporting date on an individual basis for counterparties. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Usually for receivables over 365 days the allowance for doubtful debts is 100%, unless there are strong indications from the nature of the agreement underlying the debt that no allowance is needed as the long term of the receivable is in line with the agreement. Allowances for doubtful debts are recognised against receivables of under 365 days based on estimated irrecoverable amounts determined by reference to past default experience of each particular counterparty and an analysis of the counterparty's current financial position.

Amounts receivable from suppliers and accounts receivable on rental and other services disclosed above include amounts (see below for ageing analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2017
(in thousands of Russian roubles)

11. Trade and other receivables (continued)

Ageing of trade and other receivables that are past due but not impaired as at 30 June 2017:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Accounts receivable on rental and other services	128,561	5,175	223,533	5,521,626	**5,878,895**
Suppliers' volume rebates receivable	35,503	10,687	14,695	1,638,205	**1,699,090**
Other receivables	41,974	10,812	4,896	50,793	**108,475**
Total	**206,038**	**26,674**	**243,124**	**7,210,624**	**7,686,460**

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2016:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Accounts receivable on rental and other services	758,337	53,411	60,141	11,975,546	**12,847,435**
Suppliers' volume rebates receivable	322,208	5,613	22,260	3,486,694	**3,836,775**
Other receivables	64,594	9,814	20,689	256,482	**351,579**
Total	**1,145,139**	**68,838**	**103,090**	**15,718,722**	**17,035,789**

12. Advances paid

	30 June 2017	31 December 2016
Advances for services	1,476,711	1,109,412
Advances to suppliers of goods	626,888	1,162,541
Guarantee payments under lease contracts	401,017	397,808
Total advances paid	**2,504,616**	**2,669,761**

13. Taxes recoverable

Taxes recoverable as at 30 June 2017 are represented by a VAT recoverable of RUB 1,090,818 (31 December 2016: RUB 3,920,940).

(in thousands of Russian roubles)

14. Cash and cash equivalents

	30 June 2017	31 December 2016
Rouble short-term deposits	9,492,047	5,669,714
Rouble denominated cash in transit	1,187,406	5,272,838
Rouble denominated cash on hand and balances with banks	715,230	2,062,814
Foreign currency denominated cash on hand and balances with banks	96,214	32,401
Total cash and cash equivalents	**11,490,897**	**13,037,767**

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

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

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

15. Issued capital and reserves

As at 30 June 2017 the Company's share capital is comprised of 97,416,963 authorised and issued ordinary shares (as at 31 December 2016: 97,318,746) 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 realisable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends in the amount limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the six months ended 30 June 2017 and for the year ended 31 December 2016.

The movements in the number of shares for the six months ended 30 June 2017 and for the six months ended 30 June 2016 are as follows:

	30 June 2017 No.	30 June 2016 No.
Authorized share capital (ordinary shares with no par value)	unlimited	unlimited
Issued and fully paid (no par value)	97,416,963	97,318,746
Treasury shares	(31,744)	–

(in thousands of Russian roubles)

15. Issued capital and reserves (continued)

	Six months ended 30 June 2017 No.	Six months ended 30 June 2016 No.
Balance of shares outstanding at the beginning of reporting period	**97,318,746**	**97,318,746**
Additional issue of shares	98,217	–
Share-buyback	(31,744)	–
Balance of shares outstanding at the end of reporting period	**97,385,219**	**97,318,746**

In June 2017 the Group issued 98,217 shares of no par value with respect to long-term incentive plans to certain members of management (31,744 shares) and share value appreciation rights to top management (66,473 shares) (see Note 25).

Total expense for the services received from the employees previously recognised with respect to issued shares under long-term incentive plans was RUB 53,647. Total expense for the services received from the employees recognised with respect to shares issued under share value appreciation rights was RUB 210,687.

66,473 shares were transferred into GDR and distributed to relevant participants, while 31,744 shares were retained by the Group as treasury shares until their forthcoming transfer to employees.

Share options reserve

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

Hedging reserve

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

16. Components of other comprehensive income (OCI)

	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flow hedges		
Reclassification during the year to profit or loss	(151,830)	(230,696)
Related tax effect	30,366	46,140
Loss arising during the year	(86,895)	(74,942)
Related tax effect	17,379	14,988
Net loss during the six months	**(190,980)**	**(244,510)**

17. Earnings per share

	Six months ended 30 June 2017	Six months ended 30 June 2016
Earnings per share (in thousands of Russian roubles per share) - basic and diluted, for profit for the period attributable to equity holders of the parent	0.046	0.044

The calculation of basic earnings per share for reporting periods is based on the profit attributable to shareholders (for the six months ended 30 June 2017: RUB 4,491,699, for the six months ended 30 June 2016: RUB 4,326,000) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Six months ended 30 June 2017	Six months ended 30 June 2016
Number of issued shares at the beginning of reporting period	**97,318,746**	**97,318,746**
Number of shares issued on 14 June 2017	98,217	–
Share-buyback on 20 June 2017	(31,744)	–
Number of shares at the end of reporting period	97,385,219	97,318,746
Weighted average number of shares	**97,325,674**	**97,318,746**

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

18. Borrowings

Short-term borrowings:

	Currency	30 June 2017	31 December 2016
Fixed rate bonds (liability for interests)	RUB	745,093	713,803
Fixed rate long-term bank loans (liability for interests)	RUB	58,601	32,612
Floating rate long-term bank loans (liability for interests)	RUB	20,410	803,918
Fixed rate short-term bank loans (liability for interests)	RUB	37,292	82,853
Floating rate short -term bank loans (liability for interests)	RUB	–	3,266
Short-term portion of fixed rate long-term bank loans	RUB	25,436,124	11,400,000
Fixed rate bonds	RUB	4,987,825	–
Short-term portion of floating rate long-term bank loans	RUB	–	3,270,650
Fixed rate short-term bank loans	RUB	–	18,938,018
Total short-term borrowings and short-term portion of long-term borrowings		**31,285,345**	**35,245,120**

(in thousands of Russian roubles)

18. Borrowings (continued)

Long-term borrowings:

	Currency	30 June 2017	31 December 2016
Fixed rate bonds	RUB	16,965,889	16,958,600
Fixed rate long-term bank loans	RUB	34,839,598	16,931,549
Floating rate long-term bank loans	RUB	26,737,350	33,065,782
Total long-term borrowings		**78,542,837**	**66,955,931**

The Groups' borrowings as at 30 June 2017 and 31 December 2016 are denominated in Russian roubles.

On 25 April 2017 the Group signed 3 year non-revolving credit line of RUB 5,000,000 with VTB Bank PJSC. The loan bears financial covenant.

On 16 May 2017 the Group signed 3 year non-revolving credit line of RUB 10,000,000 with Sberbank PJSC. The loan bears financial covenant.

On 30 May 2017 the placement of interest-bearing certified non-convertible bearer bonds with mandatory centralised storage was completed in the amount of RUB 5,000,000 with a nominal value of one thousand roubles each, 8.7% coupon rate, 1,092 days to maturity.

During six month ended 30 June 2017 the Group received RUB 67,210,000 under credit agreements concluded before 1 January 2017 and repaid RUB 78,834,857.

As at 30 June 2017 the Group had RUB 54,632,000 of unused credit facilities (as at 31 December 2016: RUB 44,150,000).

As at 30 June 2017 the Group is in compliance with all financial covenants of loan agreements.

19. Income taxes

The Group's income tax expense for the six months ended 30 June 2017 and 30 June 2016 is as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Current tax expense	16,856	67,057
Deferred tax expense	1,051,841	1,256,779
Income tax expense recognised in profit or loss	**1,068,697**	**1,323,836**
Tax effect related to effective portion of change in the fair value of cash flow hedging instruments	(47,745)	(61,128)
Income tax benefit recognised in OCI	**(47,745)**	**(61,128)**

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2017
(in thousands of Russian roubles)

19. Income taxes (continued)

	Six months ended 30 June 2017	Six months ended 30 June 2016
Profit before tax	**5,560,396**	**5,649,836**
Theoretical tax charge at 20%	**(1,112,079)**	**(1,129,967)**
Difference in tax rates for foreign companies	36,412	(72,223)
Add tax effect of non-deductible income/(expenses)	6,970	(121,646)
- share option expenses	(38,056)	(23,883)
- others	45,026	(97,763)
Income tax expense	**1,068,697**	**1,323,836**

20. Trade and other payables

	30 June 2017	31 December 2016
Trade payables	26,501,340	46,612,578
Accrued liabilities and other creditors	4,217,187	4,437,082
Payables for purchases of property, plant and equipment	2,796,605	5,121,938
Total trade and other payables	**33,515,132**	**56,171,598**

The trade and other payables are denominated in:

	30 June 2017	31 December 2016
Russian roubles	32,900,237	55,569,398
USD	512,999	418,393
EUR	99,665	165,950
GBP	2,231	17,857
Total trade and other payables	**33,515,132**	**56,171,598**

21. Other taxes payable

	30 June 2017	31 December 2016
Property tax	389,505	381,379
Social taxes	359,368	559,625
Personal income tax	142,428	157,637
Other taxes	15,809	12,665
Total other taxes payable	**907,110**	**1,111,306**

(in thousands of Russian roubles)

22. Cost of sales

Cost of sales for the six months ended 30 June 2017 and 30 June 2016 consists of the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Cost of goods sold	110,785,253	93,422,008
Cost of own production	12,589,966	11,529,746
Supply chain cost	1,481,288	1,700,298
Losses due to inventory shortages and write down to net realisable value	3,139,863	2,778,115
Total cost of sales	**127,996,370**	**109,430,167**

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

The cost of own production consists of the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Raw materials	9,985,456	9,458,053
Labour costs	2,092,617	1,702,644
Utilities	429,188	326,285
Repairs and maintenance	78,351	42,764
Other	4,354	–
Total cost of own production	**12,589,966**	**11,529,746**

Cost of sales for the six months ended 30 June 2017 includes employee benefits expense of RUB 2,954,332 (for the six months ended 30 June 2016: RUB 2,362,074) of which contributions to state pension fund comprised RUB 412,446 (for the six months ended 30 June 2016: RUB 350,640).

23. Selling, general and administrative expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Employee benefits	9,575,384	8,433,420
Depreciation and amortisation (Note 6)	4,738,653	3,600,088
Premises lease	1,815,968	1,527,134
Utilities and communal payments	1,749,154	1,433,105
Advertising	1,714,422	1,547,190
Professional fees	1,287,262	1,114,359
Cleaning	1,152,380	860,885
Repairs and maintenance	880,703	682,451
Taxes other than income tax	838,597	593,710
Security services	800,881	607,332
Land and equipment lease	161,559	169,576
Pre-opening costs	182,499	166,874
Other	1,114,568	955,665
Total selling, general and administrative expenses	**26,012,030**	**21,691,789**

(in thousands of Russian roubles)

23. Selling, general and administrative expenses (continued)

Employee benefits for the six months ended 30 June 2017 include contributions to state pension fund of RUB 1,362,106 (for the six months ended 30 June 2016: RUB 1,171,368).

Pre-opening costs for the six months ended 30 June 2017 include employee benefits of RUB 94,623 (for the six months ended 30 June 2016: RUB 79,785) of which contributions to state pension fund amount to RUB 13,212 (for the six months ended 30 June 2016: RUB 9,867).

Professional fees for the six months ended 30 June 2017 include fees billed by Ernst & Young LLC: for the audit and review of the consolidated financial statements in the amount of RUB 11,699 (for the six months ended 30 June 2016: RUB 11,551) and for consulting and other non-audit services in the amount of RUB 5,732 (for the six months ended 30 June 2016: RUB 3,413).

24. Other operating income and expenses

Other operating income is comprised of the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Rental income	591,849	466,959
Penalties due by suppliers	432,289	335,936
Sale of secondary materials	321,877	228,923
Advertising income	291,129	209,337
Gain on property, plant and equipment disposal	4,717	3,976
Amounts received from lawsuit settlement	–	188,089
Other	83,654	63,448
Total other operating income	**1,725,515**	**1,496,668**

Other operating expenses are comprised of the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Change in bad debt allowance, impairment of advances paid and prepayments for construction (Note 7, 11, 12)	190,474	175,427
Loss on fixed assets and intangible assets disposal	67,196	161,928
Penalties for breach of contracts with suppliers and lessors	30,060	186
Penalties from government authorities	13,975	8,522
Other	65,941	39,578
Total other operating expenses	**367,646**	**385,641**

25. Share-based payments

Long-term incentive plan

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

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

(in thousands of Russian roubles)

25. Share-based payments (continued)

In June 2017 the Group issued 31,744 shares of nor par value with respect to LTIP Tranche 2014 (see Note 15). Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 53,647. The shares were retained by the Group as treasury shares until their forthcoming transfer to employees.

The vesting date of 100% of Tranche 2015 is 1 April 2018. The vesting dates of awards granted during the year 2016 are 31 December 2018 and 1 April 2019. The vesting date of 100% of newly granted in the year 2017 award is 1 April 2020.

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

Total expense recognised for the services received from the employees covered by long-term incentive plan for the six months ended 30 June 2017 and for the six months ended 30 June 2016 is shown in the following table:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Expense arising from the equity-settled long-term incentive plan payments	112,506	25,933

Share value appreciation rights

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

Movements during the year

In June 2017 the Group issued 66,473 shares of no par value with respect to share value appreciation rights to top management (see Note 15). Total expense for the services received from the employees previously recognised with respect to issued shares was RUB 210,687. The shares were transferred into GDR and distributed to relevant participants.

(in thousands of Russian roubles)

25. Share-based payments (continued)

The weighted average remaining contractual life for the SVARs outstanding as at 30 June 2017 was 0.95 year (31 December 2016: 1.76 years).

The weighted average exercise price for options outstanding as at 30 June 2017 is RUB 1.585 (31 December 2016: RUB 1.562).

The weighted average fair value of options outstanding as at 30 June 2017 is RUB 0.94 (31 December 2016: RUB 0.89).

The expense recognized for the services received from the employees covered by SVARs plan during the six months 2017 and the six months 2016 is shown in the following table:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Expense arising from the equity-settled SVARs transaction	77,775	93,483

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

26. Commitments

Capital expenditure commitments

At 30 June 2017 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 19,900,842 net of VAT (31 December 2016: RUB 21,055,701 net of VAT).

Operating lease commitments

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

	30 June 2017	31 December 2016
Not later than 1 year	4,535,195	4,353,739
Later than 1 year and not later than 5 years	18,204,072	17,616,198
Later than 5 years	30,316,361	32,311,175
Total operating lease commitments	**53,055,628**	**54,281,112**

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2017
(in thousands of Russian roubles)

27. Financial instruments

Categories of financial instruments

	30 June 2017	31 December 2016
Financial assets		
Cash	11,490,897	13,037,767
Trade and other receivables	7,686,460	17,035,789
Cash flow hedging instruments	123,500	372,210
Financial liabilities		
Cash flow hedging instruments	38,740	48,725
At amortised cost:		
Fixed rate long-term borrowings and bonds	52,359,480	34,636,564
Floating rate long-term borrowings	26,757,760	33,869,700
Floating rate short-term borrowings and bonds	–	3,273,916
Fixed rate short-term borrowings and bonds	30,710,942	30,420,871
Trade and other payables	33,515,132	56,171,598
Total financial liabilities at amortised cost	**143,343,314**	**158,372,649**

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures of fair value measurement hierarchy for financial assets and financial liabilities as at 30 June 2017 are:

	30 June 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	123,500	–	123,500	–
Financial liabilities measured at fair value				
Cash flow hedging instruments	38,740	–	38,740	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	23,318,615	23,318,615	–	–
Fixed rate borrowings	59,685,319	–	59,685,319	–
Floating rate borrowings	26,757,760	–	26,757,760	–

	31 December 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Cash flow hedging instruments	372,210	–	372,210	–
Financial liabilities measured at fair value				
Cash flow hedging instruments	48,725	–	48,725	–
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	18,260,825	18,260,825	–	–
Fixed rate borrowings	47,002,207	–	47,002,207	–
Floating rate borrowings	37,143,616	–	37,143,616	–

(in thousands of Russian roubles)

27. Financial instruments (continued)

During the reporting periods ending 30 June 2017 and 31 December 2016, there were no transfers between Level 1, Level 2 and Level 3 of fair value measurements.

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

	30 June 2017		31 December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash flow hedging instruments	123,500	123,500	372,210	372,210
Financial liabilities				
Interest-bearing loans and borrowings				
Fixed rate borrowings and bonds	83,070,422	83,003,934	65,057,435	65,263,032
Floating rate borrowings	26,757,760	26,757,760	37,143,616	37,143,616
Derivatives in effective hedges				
Cash flow hedging instruments	38,740	38,740	48,725	48,725
Total financial liabilities	**109,866,922**	**109,800,434**	**102,249,776**	**102,455,373**

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

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

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

- Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow ("DCF") method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 June 2017 and 31 December 2016 was assessed to be insignificant.
- The fair value of bonds is based on the price quotations at the reporting date at Moscow Exchange where transactions with bonds take place with sufficient frequency and volume.
- The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 30 June 2017 and 31 December 2016, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

(in thousands of Russian roubles)

28. Hedge and hedging instruments

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

Type of instrument	Notional amount 2017	Notional amount 2016	Fixed interest rate	Fixed commission	Effective date	Expiry date
Interest rate swap	12,500,000	12,500,000	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	900,000	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	10,000,000	10,000,000	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	900,000	12.00%	0.45%	31 December 2013	12 November 2018

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

	30 June 2017	31 December 2016
Non-current asset	1,650	62,618
Current assets	121,850	309,592
Non-current liability	(349)	(2,137)
Current liability	(38,391)	(46,588)
Net derivative asset	**84,760**	**323,485**

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

	30 June 2017	31 December 2016
Swaps	123,500	372,210
Caps	(38,740)	(48,725)
Net derivative asset	**84,760**	**323,485**

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

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

(in thousands of Russian roubles)

28. Hedge and hedging instruments (continued)

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Profit or loss		
Ineffective portion of change in fair value of cash flow hedging instruments	–	–
Reclassification from hedge reserve into interest expense	151,830	230,696
	151,830	**230,696**
Other comprehensive income		
Effective portion of change in fair value of cash flow hedging instruments	(86,895)	(74,942)
Reclassification from hedge reserve into interest expense	(151,830)	(230,696)
	(238,725)	**(305,638)**

29. Contingencies

Operating environment of the Group

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

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 101,884 as at 30 June 2017 (31 December 2016: RUB 511,656). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group, which have not been disclosed in these interim condensed consolidated financial statements.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RUB 305,577 (31 December 2016: RUB 288,582). No tax provisions are recorded as at 30 June 2017 and 31 December 2016. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

29. Contingencies (continued)

Land leases

Certain lease agreements for land plots containing a short lease term 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 are accrued as at 30 June 2017 and 31 December 2016.

Environmental matters

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

30. Events occurring after the reporting period

In July 2017 the Group signed an agreement to lease hypermarkets in Moscow and Russian regions which were operated under the NASH brand.