Annual Report 2021

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01

Strategic Report

Lenta at a glance

254
hypermarkets

52,857
employees

18.9 mn
Lenta active card holders[1]

503
supermarkets and convenience stores

89
cities of operation

89
cities of online presence

14
distribution centres

[1] Number of loyalty card holders who have made at least 2 purchases a year

Financial and operational highlights

Sales
483.6 bn RUB

Retail sales
475.8 bn RUB

Gross margin
23 %

EBITDA margin
9.7 %

Free cash flow
7.1 bn RUB

Lenta card holders
+12 %

Sales area
+15.6 %

Online sales
+208 %

Chairman's statement

Dear shareholders,

The year 2021 was another challenging one for Lenta as well as for the entire world. The Covid-19 pandemic continued to pose unprecedented challenges for our business. Despite this, the Lenta team managed to deliver strong operational and financial results while undergoing major transformation.

Our employees showed incredible dedication growing and sustaining Lenta's business while maintaining the highest standards of service in our stores and supplying Russian customers with necessary goods. I would like to express my gratitude on behalf of the Board for their efforts and commitment.

Alexey Mordashov,
Chairman

Our Strategy

In March 2021, we announced our Growth Strategy. We plan to double our business within 5 years and become champions of Russian food retail.

The Russian food retail sector has evolved rapidly over recent years and I believe that we are now on the brink of another key transformative stage. I am genuinely excited and enthusiastic about this, as I strongly believe Lenta has a number of key competitive advantages and is idealy positioned to become a leader in the next stage of Russian food retail.

To become a champion, we need to achieve the following goals:

1. **Growth:** Double FY 2020 Sales to 1 trillion roubles and to increase our market share in the food retail sector to 5%.
2. **Profitability:** At the same time, we will be a growth leader, we also aim to retain the title of Russia's most profitable food retailer.
3. **Competitiveness:** Over the next 5 years, Lenta will follow the principle to be the #1 or #2 player wherever it chooses to compete, whether that be geographies or segments.
4. **Returns:** We strive to deliver sector-leading total shareholder return, which includes capital gains and dividends.

As a result, we believe Lenta is to become the fastest growing federal food retailer over the next 5 years.

M&A

We intend to grow our business both organically and by M&A. In 2021, we acquired Billa and Semya retail chains in Moscow and Perm. These deals create new opportunities for Lenta to expand in smaller formats and and gain market share in the Moscow and Perm Regions.

The acquisition of Utkonos, online-only food retailer based in Moscow, announced in December 2021, will enable Lenta to significantly expand its online market share with an additional delivery platform featuring a loyal customer base, unique competencies and competitive advantages and the ability to compete in the Moscow online market more effectively, especially within the upper-middle and premium segments.

Leadership

At the beginning of 2021, we strengthened our senior management team and organisational structure by creating two new structural units within the Company – the Commercial and Marketing Department and the Strategy and Transformation Department. The changes enabled us to excel at creating the most relevant customer value proposition and become a truly customer-focused retailer whilst strengthening our strategic and transformation capabilities.

During the year, we made several appointments to replace senior management team members who decided to step down. Andreas Jueterbock was appointed Chief Operational Officer to take over from Edward Doeffinger and Igor Ovsienko took the role of Chief Supply Chain Officer instead of Joern Arnhold. These internal promotions were done within our succession planning programme. Andreas and Igor have been working for Lenta since 2013 and 2006 respectively and possess substantial experience and knowledge of Lenta's operations.

The Board of Directors also followed the recommendation of the Audit and the Nomination Committees to appoint Maria Klevtsova as the Internal Audit Director replacing Anna Logunova, and Sergey Sergeev as Chief Information Officer who took over from Sergey Korotkov who decided to pursue career opportunities outside Lenta.

As Chairman of the Board, I am confident these changes to our management team will support the development and implementation of our new growth strategy.

Organisation

In the course of 2021, the Board was busy with revisiting Lenta's corporate values to ensure we hire best professionals who are capable of driving the business forward. We also continued working on the organisational structure of the Company to fit the requirements of Lenta's long-term strategy.

Sustainable Development

Sustainability is important to our employees, customers, investors and other stakeholders. In 2021, we established Lenta's Sustainability Strategy and set environmental, social and governance targets to lead the positive change for our employees, customers and society at large.

Redomiciliation

On 17 February 2021, we announced that redomiciliation to the Russian Federation had been achieved, with Lenta duly registered as an international public joint-stock company with its legal seat at Oktyabrsky Island, City of Kaliningrad, Kaliningrad Region, Russian Federation.

In November 2021, in continuation of the Company's redomiciliation and for the purpose of aligning the Company's corporate governance system with the requirements of the Company's Articles of Association and the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014, the Board approved the Company's Dividend Policy, as well as Regulations on Board Committees, and formally documented the Internal Audit Charter and Regulations on the Corporate Secretary of the Company.

With effect from 26 November 2021, the Company's ordinary shares have been included in the Level 1 part of the list of securities admitted to trading on the MOEX.

The trading in the Ordinary Shares on MOEX commenced on 1 December 2021. With effect from 19 April 2022 the global depositary receipts representing ordinary shares in the Company will be excluded from Level 1 part of the list of securities admitted to trading on MOEX and no longer trade on MOEX. GDRs will continue to be listed and traded on the London Stock Exchange.

Returns to Shareholders

Our ultimate goal is to generate sector-leading returns to shareholders. We believe that we should use our funds in the most appropriate way in the interest of shareholders. In 2021, our priority was the growth of our business, and we see very good opportunities to use the momentum of growth. Because of it, we have decided not to pay dividends in 2022. During the next year we will review this. However, our top priorities in our Capital Allocation Strategy are to maintain leverage in line with our long-term target and to finance business development, including M&As and organic growth.

Corporate Governance

It has always been crucially important for the Board of Directors to comply with existing regulations of the corporate governance and ensure that we implement best practices of the governance of the Company.

As we initiated the process of redomiciliation to Russia, the Board focused on compliance with the principles and recommendations of the Corporate Governance Code of the Russian Federation (the Code).

In particular, in November 2021, the Board approved the Dividend Policy, Regulations on Board Committees as well as Regulations on Internal Audit and the Corporate Secretary of the Group. These were consecutive steps towards aligning the corporate governance system with applied requirements of MOEX and recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014.

In the reported year, we performed initial analysis of compliance with the principles and recommendations of the Code in a form recommended by the Bank of Russia. In future, we will strive to implement the principles and recommendations of the Code that the Company does not comply or partially complies with.

Outlook

Lenta is already the #1 Russian hypermarket chain by total sales. We are recognised as the strongest player in this format, and our expertise in category management across more than 35 thousand SKUs will help us successfully launch and operate new formats.

Lenta has one of the largest nationwide networks. Without a doubt, we have one of the widest assortment of products and can offer our customers the best selection of goods to meet their daily needs.

Lenta has one of the most loyal customer bases – as demonstrated by the fact that 98% of purchases are made by loyalty card holders. This level is amongst the highest in the world.

Last, but not least, Lenta is the most profitable publicly traded food retailer in Russia today, with an 8.1% EBITDA margin.

These strengths give us a strong foundation to become the growth leader in the next stage of Russian food retail.

Chief Executive Officer's Review

Dear shareholders,

I'm pleased to present Lenta's 2021 Annual Report. 2021 was a very important year for the Company. We started implementing our growth strategy, launched complex transformation programme, and embarked on path to significant changes.

Despite all current challenges connected to the Covid-19 pandemic and the increasingly competitive food retail sector, Lenta delivered strong results and achieved important milestones during 2021.

Our total sales increased by 8.6% with solid like-for-like results and EBITDA margin of 8.1% (IAS 17). The total selling space increased by 15.6%. We accelerated the development of our Mini Lenta stores and added 364 supermarkets and convenience stores on a net basis during the year[1].

We completed the acquisition of Billa and Semya retail chains and our online channel recorded impressive 208% year-on-year growth.

I am pleased with these results and immensely proud of the entire Lenta team for such a performance.

Vladimir Sorokin
Chief Executive Officer

Covid-19 pandemic

The Covid-19 pandemic continued affecting our business and overall economies. We have seen an increasing number of Covid-19 cases in Russia and, unfortunately, in Lenta. We remained committed to the safety and well-being of our employees and clients and continued investing into safety measures in all our stores, DCs and offices.

These investments allowed us to keep our supply chain running and our stores open in full compliance with government guidelines and regulations. These measures allowed our customers and employees to feel safe while shopping and working at Lenta. Consequently, more customers named Lenta as their favourite store and increased their spending in our stores.

[1] Includes Billa and Semya stores.

2021 performance

In 2021, retail sales increased by 8.8% to RUB 475.8 billion despite changing customer behaviour. This increase was mainly driven by an 11.1% rise in the number of tickets and partially offset by a 2.1% decrease in the average ticket resulted from an expansion in small formats.

We successfully closed two transformative M&A deals and began to integrate 234 Billa and Semya stores, 3 distribution centres, and more than 10,000 employees. These acquisitions will strengthen Lenta's market positions in Moscow and Perm via locations with established customer traffic. Importantly, we have acquired not only Billa's and Semya's physical stores, but also their deep expertise in operating smaller formats. The integration process will continue in 2022, but we have already made good progress.

Our online business continues to deliver strong results, both in terms of our own Lenta Online and third-party partnerships, which are together generating more than 50 thousand orders per day.

The acquisition of Utkonos announced in December 2021, enables us to significantly enhance our competitive position in Moscow with an additional delivery platform featuring a loyal customer base, unique competencies, such as an ultra-wide unique assortment, strong fulfilment infrastructure and high client satisfaction rates. Together, Lenta Online and Utkonos will create a comprehensive online offering covering all key shopping missions and market segments.

We accelerated the roll-out of our new Mini Lenta format, opening 133 new stores primarily in Moscow, Moscow Region, and St Petersburg. With each new store we open, we are making improvements along the way to enhance the customer experience and increase efficiency.

In 2021, Lenta added 364 stores on a net basis, bringing the total number of retail stores to 757 and total selling space to 1.75 million square metres representing 15.6% year-on-year growth.

Our relaunched loyalty programme continues to have a positive effect on our results. Throughout 2021, we further improved our algorithms and marketing in order to achieve more personalised offers. As of the end of 2021, we had 18.9 million loyalty card users and loyalty cards were used in more than 98% of sales. Over the next few quarters, we will continue to invite Billa's and Semya's customers into our loyalty programme.

In May 2021, we announced an evolution of our corporate brand that reflects the changes in the Company, shift to multi format, online development and client centric concept. All the formats in which Lenta operates – hypermarkets, supermarkets, convenience stores and online – got their own identity. Our well-recognised sunflower became lighter and digital friendly appealing for all our customers groups.

We worked hard to adapt our corporate culture to the evolving environment. Our updated corporate values enable us to choose professionals who will move our business forward and help us to build an agile innovation oriented and customer centric corporate culture that is crucial for successful fulfilment of our srategic plan over next years.

Retail sales increased by
8.8%

Total number of retail stores
757

Loyalty card users
18.9 million

Looking forward

Looking ahead, we will focus on improved performance, enhanced efficiency of the core business, accelerated roll-out of our small-format stores, and further development of our own online business, as well as the phased integration of the Utkonos business to capture meaningful synergies and unlock long-term value in our combined online business. Despite the challenging macroeconomic situation due to rising inflation and the ongoing Covid-19 pandemic, we stay committed to our mission to help our customers live a better life by spending less.

Strategy overview

Our updated Strategy 2025 aims to transform Lenta into a food retail champion during the next stage of the Russian food retail sector. It builds on the company's existing strengths as Russia's fourth largest and most profitable food retailer with a nationwide presence, a leading and widely recognised brand, and a highly loyal customer base.

We seek to achieve the following four goals:

Growth
to double FY 2020 revenues to RUB 1 trillion by 2025

Profitability
to remain the most profitable Russian food retailer

Competitiveness
to be the #1 or #2 player in those geographies or segments where Lenta chooses to compete

Returns
to generate a sector-leading TSR by 2025

We aspire to become the Champion of Russian food retail over the next five years.

We defined our
key strategic priorities

	Priority	Long-term targets
1 **Improve our core business** through the Champion offer, Great Experience and Best Individualisation	Champion Offer	• Improved price positioning • Tailored assortment up to store level • Exclusive non-food • Best in-class private label
	Great Experience	• Convenient navigation • Attractive activities and events • OMNI access
	Best Individualisation	• Best perks and rewards for your loyalty • Personalisation
2 Become **closer to customers** by expansion in small formats and online development	Become closer to customers	• ~1.5 mn sq.m. expansion primarily in SMs and proximity • Online share up to 10% of Lenta's Total Sales
3 Implement **continuous improvement** via embracing innovations and developing the corresponding corporate culture	Implement continuous improvement	• Wide range of efficiency projects aimed at continuous improvement of Lenta's operations
4 Integration of the principles of **sustainable development** into the Lenta business run.	ESG	• Sustainable business development in line with the market's best practice

Market overview

Even though Russia's economy saw a strong rebound in the first half of the year and GDP is expected to have grown by 4.5% in 2021, both Russian retailers and consumers continued to face a challenging macroeconomic environment throughout 2021. The Covid-19 pandemic also put additional pressure on Russian households' budgets in 2021.

As Covid-19 restrictions were eased in Russia in late 2020 and early 2021, consumer demand surged ahead in the second quarter, supported by savings built up over 2020 and rapid credit growth. However, by autumn, it became clear that a damaging new pandemic wave was underway, which, with relatively low vaccination rates, is a risk to both economic activity and human health. With new Covid control measures and the consumer rebound fizzling out, economic activity cooled in the second half of the year.

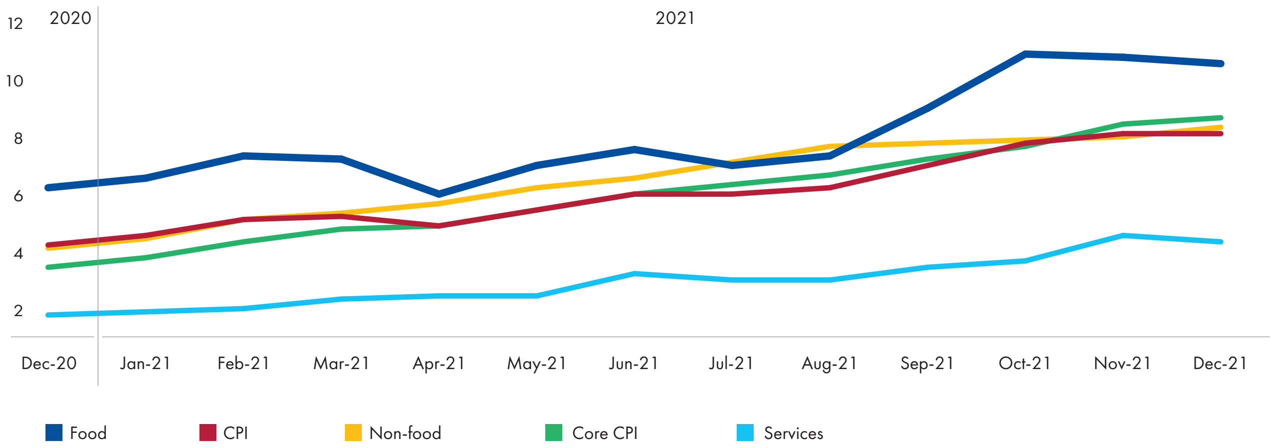
Inflation has been on the rise throughout 2021 ending the year at 8.39 %,[1] with food inflation rate of 10.62%,[2] and became the highest since 2015 as Russia copes with high demand, rising commodity prices and supply bottlenecks. The Central Bank of Russia (CBR) was one of the first central banks to begin tightening monetary policy in 2021 as inflation moved above the CBR's target rate from December 2020. Since March, it has raised rates several times, by a total of 425 basis points to stand at 8.5% at the year end.

At the end of 9 months of 2021, real disposable income increased by 4.1% compared to 9 months of 2020. According to the forecast of the Ministry of Economic Development, in 2021, real disposable cash income of the population is expected to grow by 3%, 2.4% in 2022 and 2.5% in 2023–2024.

In Q3 2021, the poverty line was RUB 11,970. At the same time, the number of people with cash incomes below the poverty line in Q3 2021 decreased to 16 million people, which is 11% of the total population. The decline in the population of the country with incomes below the poverty line is associated with an increase in social benefits for various categories of citizens, as well as with the restoration of economic activity, which led to an increase in employment and an increase in wages.

The Russian food retail market still provides opportunities for growth and consolidation. Market share of modern trade of 78% is still lower than in countries we compare with and by 2025 could reach 90% with an increasing share of top-5 retailers. Despite ongoing consolidation and several significant M&A deals executed in 2021, the Russian retail market remains fragmented with visible potential for top players market share growth.

CPI, % YoY



Source: Rosstat.

In 9M 2021, retail trade turnover in Russia increased by 8.4%, to RUB 28 trillion. Food retail turnover increased by 2.1% to RUB 13 trillion. The turnover of retail trade in non-food products increased by 14.7%, to RUB 15 trillion.

Despite the slight improvement in real disposable incomes, looking for saving opportunities and promo hunting continued to be the core patterns of consumer behaviour. This fostered the growth of discounter and hard discounters formats in the Russian market. In 2021, the share of FMCG in discounters comprised approximately 32%.[3]

Rapid growth of the e-grocery segment remained a trend in 2021 with more players entering the online food segment. The competition in this segment has vastly intensified. Not only food retailers widened their online capacities but typically non-food players have made attempts to sell groceries utilising existing and creating new infrastructure.

Online food retailing is the fastest growing segment in e-commerce and is set to see a 6.4x sales surge to RUB 2.5 trillion by 2026 forecast and 9% of the total food segment.[4]

Lenta remained the fourth largest retailer in Russia in 2021, while competitive landscape has undergone some changes.

Market share of TOP-100 food retailers in Russia exceeded 50% for the first time in 2021 while the share of TOP-10 players increased from 36.5% at the beginning of 2021 to 37.7% at year-end.[5]

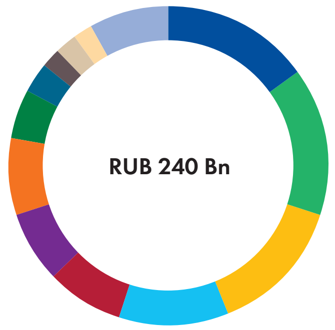
In 9M 2021 food retail turnover increased

by **2.1**% to RUB **13** trillion

Online food retailing is the fastest growing segment in e-commerce.

a **6.4x** sales surge | to RUB **2.5** trillion | and **9**% of the total food segment

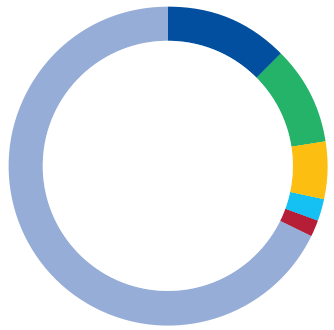
Largest operators, 9 M 2021



Market Share

Sbermarket	15%
X5 Group	15%
Vkusvill	14%
Samokat	11%
Yandex.Lavka	8%
Wildberries	7%
Ozon	8%
Utkonos	5%
Yandex.Eats	3%
Delivery Club	2%
Lenta	2%
AV.ru	2%
Other	8%

Top-5 Russian retailers



Market share

Magnit	9.9%
X5 Group	12.7%
Mercury Retail Group	5.8%
Lenta	2.3%
Svetofor	1.7%
Other	67.6%

[1] Rosstat
[2] Rosstat

[3] NielsenIQ
[4] VTB Capital
[5] Source: InfoLine

2021 Performance

Covid-19 pandemic

In 2021, the Covid-19 pandemic continued impacting both our operations and customers.

Our Covid-19 Response Team established in 2020, went on working to ensure proper the focus on an effective response to the pandemic. We continued to equip our stores and DCs with safety equipment, provide staff with Covid personal protective gear and disinfectors.

In November 2021, local authorities introduced limitations on visiting shopping malls and – in some regions – grocery stores of large sales area. This influenced operations of some of our supermarkets and hypermarkets and resulted in double digit traffic decline.

Two main vectors in which the pandemic has impacted retail are the growth of consumers looking for savings with increasing demands on product quality and boost of online retail development including related services such as express delivery.

This year, the cost of ensuring the safety of customers and employees exceeded RUB 1 billion.

Our offices continued working in remote mode, 95% of our office staff worked from home with all the necessary technical facilities provided by the Company.

To secure the health and safety of our people, we conducted a company-wide campaign to promote vaccination and by the end of the year 81% of Lenta's people were vaccinated.

We carried on with our social initiatives to support vulnerable groups of customers during this period. This included volunteer and charity programmes, and additional discounts for medical workers. We offered our elderly shoppers additional discounts, the option to shop at specified hours, and dedicated separate cash registers.

Nr of cases	1113
Nr of deaths	27
Share of vaccinated employees, %	81
Safety related expenses, RUB mn	+ 1,000

The cost of ensuring the safety of customers and employees in 2021 exceeded

RUB 1 bn

95 %

of our office staff worked from home

Hypermarkets

Hypermarket Sales represented 86% of total Retail Sales in 2021. Lenta continued gaining market share in Russia's hypermarket segment. Despite increased competition from discounters and e-grocery, our hypermarkets delivered 4.4% Sales growth, and an increase of 4.6% in LFL average ticket.

In this segment Lenta continues to grow despite a declining share of the hypermarket segment in Russia.

In 2021, we opened 3 new hypermarkets in regions of the Company's operations and closed 2 inefficient stores, and one hypermarket was closed as a result of fire.

One hypermarket in Tomsk with selling space of 5,209 sq.m was closed in December 2021 as a result of fire. It is expected that this hypermarket will be reconstructed and returned to operation.

Looking ahead

Hypermarket format is our core business, and we know how to manage it. We will continue balancing the customer-value proposition of our hypermarkets to enhance the attractiveness of the format. We have plans to convert some of our hypermarkets into hybrid or dark stores to develop our Lenta Online business and launched a pilot in three hypermarkets in 2021.

Nr of new stores, gross	3
New sales area, sq.m	0
LFL Sales,%	3.1
LFL Average Ticket, %	4.6
LFL Traffic, %	−1.5

3

new hypermarkets were opened in regions of the Company's operations

Becoming closer to the customer

Small Formats

Nr of added stores, gross	373
New sales area, sq.m	235,882
LFL Sales,%	−4.3
LFL Ticket, %	0.8
LFL Traffic, %	−5.0

In the fourth quarter, LFL sales in small formats were a negative 2.8%, primarily resulting from a traffic decline of 6.3%, which only partly resulted from COVID-related restrictions.

Mini

In 2021, we accelerated the roll-out of our new Mini Lenta format, opening 133 new stores primarily in Moscow, the Moscow Region, and St Petersburg. With each new store we open, we are making improvements along the way to enhance the customer experience and increase efficiency.

Development of the Mini Lenta store format enables us to be closer to our customers and covers their small shopping missions: including quick and spontaneous purchases of dry food, ready-to-eat meals, and fresh product.

The average selling space area of a Mini Lenta is 300–700 square metres and the stores feature an assortment of 4,400 to 8,700 SKUs. The share of non-food in sales is around 10%. Private Label constitutes around 17% of sales in Mini format. Our Mini Lentas which are located in areas that have high traffic levels are equipped with self-service coffee zones, an enhanced ready-to-go assortment, and bakeries.

Super

In March 2021, we opened a supermarket in a new concept in Moscow. The store space is organised to cover different customer missions – to grab a snack on the run or to buy a basket for a day or two to cook at home. The store offers ready-to-eat meals and a cafe with an open kitchen.

In the new supermarket, we implemented the concept of hospitality by providing the workforce with additional training and implementing new service standards.

The supermarket is equipped with self-check-outs and click&collect points.

365+

We see that consumers are not getting richer, and Russian citizens' budgets are still under pressure. As a result, the share of hard discounters in the Russian market is growing and has reached about 4%, which is already significant.

Taking this trend into account, we launched pilot stores in the Hard Discounter format – 365+ – , where we are testing customers demand, preferences, and the operating model. According to our strategy, we positioned ourselves as a multi-format retailer and do not exclude that the share of hard discounters in our portfolio will increase.

2

365+ discounters were opened in regions of the Company's operations

Billa and Semya acquisitions

In the middle of 2021, we completed
2
M&A

and acquired
159 Billa and
75 Semya stores

These two transactions materially strengthen Lenta's market positions in Moscow, the Moscow Region, and Perm via high-quality locations with established customer traffic, including in central neighbourhoods where Lenta previously had no presence.

With the acquisition of Billa stores, Lenta now has a total food retail market share of approximately 3% in Moscow and the Moscow Region making it the #2 supermarket operator in Moscow.

Together with Semya, Lenta occupies a total food retail market share of approximately 7% in the Perm Region and maintains the #4 position in the Perm Region's food retail market.

The newly acquired stores will serve as a platform for faster and more efficient development of the Lenta Online business in both geographies. We have already begun fulfilling online orders in Moscow from former Billa stores.

By integrating these businesses, we see potential for synergies in procurement, supply-chain management, cost savings, back-office functionality, and other business processes. At the same time, the Company will benefit from newly acquired expertise in small format operations, Billa's Ultra Fresh category management, and Semya's in-house production excellence.

During 2021, we were busy with the integration of Billa stores, logistics infrastructure and employees into the Lenta chain. 118 of the Billa supermarkets have been rebranded to Lenta, and the remaining stores will be converted to the Lenta brand over the coming months. We use a "CapEx light" model to minimise renovation costs and speed up the integration process.

Semya's stores in the Perm Region are expected to switch to the Lenta brand in the first half of 2022.

Looking ahead

Looking ahead to the remainder of 2022, we will focus on the improved performance and enhanced efficiency of our small format stores. This is our key priority for 2022. We are now revising the assortment, promo, and our loyalty programme, as well as other operating components of our small format stores. In addition, we have plans to expand our retail footprint by opening more than 200 new stores. In 2022, the majority will be convenience stores, and the rest will be supermarkets.

Online

Sales growth

Total Online, %	208
Online Partners , %	102
Lenta Online , %	813
Click & Collect , %	406

Our fast-growing online sales platform, which offers services across all core customer missions, continued to be an engine of growth for the Company throughout 2021. Our online business delivered strong results, both in terms of our own Lenta Online and third-party partnerships, which are together generating more than 50 thousand orders per day.

Total Online Sales during the reported period amounted to RUB 19,340 million, an increase of 208% year-over-year, while total online orders were up 221% and amounted to 10,442 thousand.

The average ticket for Lenta's own online delivery service was RUB 1,883, which is 46% higher than the average ticket in our hypermarkets. During 2021, online sales represented 4.1% of Lenta's total retail sales.

We continued to improve the quality of our delivery in terms of lead times and goods availability.

As part of our own online development plan, we launched a pilot to test a hybrid model in three of our hypermarkets in Moscow and Krasnodar where we have made a room for picking online orders. This is a space of approximately 100–250 square metres inside our hypermarkets that is being used to store most demanded goods that are being picked by Lenta Online workers. It enables us to speed up the process of order collection, preserve the quality of items, and secure the availability of goods for customers who prefer online shopping. Besides, the work of our personnel does not disturb Lenta clients in stores.

We believe, such a model is key to increasing the operational efficiency of our own online business as well as big boxes. Unlike construction of dark stores, it requires less capital expenditures and does not entail any changes in logistics.

Acquisition of Billa and Semya provided us with new opportunities to grow online sales. As part of integration activities, we launched delivery from ex-Billa supermarkets, which was a kick-start of another important development of Lenta Online. We gave our customers the opportunity to choose between express delivery of a limited range within an hour or a larger basket and with lead time. Depending on the client's choice, the order is collected and delivered either from a supermarket, or from a hypermarket. Thus, we manage to cover various customers' missions and ensure a great online experience.

To reach additional consumers and expand the client base, we partner with marketplaces and food aggregators, such as Ali Express, Ozon and Yandex.Eda. These partnerships enable us to attract new clients and grow the sales of our private labels, non-food and own produced meals.

In December 2021, we announced an agreement to acquire online-retailer Utkonos to create a leading e-grocery platform covering all key shopping missions and market segments.

The acquisition of Utkonos will enable us to expand our online market share with an additional delivery platform featuring a loyal customer base, unique competencies and competitive advantages and the ability to compete in the Moscow online market more effectively, especially within the upper-middle and premium segments.

Currently, Utkonos operates two wholly owned warehouse dark stores totaling 80,000 square metres and two rented dark stores totalling 21,000 square metres located in Moscow and the Moscow Region. The company utilises its own logistics and fulfilment infrastructure consisting of 920 vehicles.

Utkonos unique assortment constitutes more than 85 thousand SKUs with the widest fresh assortment amongst online and offline food-retailers in Russia. Utkonos offers affordable goods of the highest quality under six own brands, with a total assortment of private label goods of more than 400 SKUs.

Utkonos customers can place orders through the website or via a convenient mobile application.

Looking ahead

We are very well on track towards achieving our strategic goal – to grow the Lenta e-grocery segment exponentially and reach 10% of market share by 2025.

In 2022 and beyond, we will continue developing express delivery from our small format stores, we plan to polish and roll-out a hybrid model of our hypermarkets, introduce new services, such as delivery from drug stores and establish new partnerships.

Improving the core business

To become the next Russian food retail champion, we kept on improving our offer across all of our formats. We want Lenta to become the first customer choice when it comes to one-stop-shop, best prices, precisely tailored assortment, best ultra fresh and fresh food as well as exclusive non-food and our own brands. We also believe that a great customer experience is what differentiates us in the market and attracts and retains loyal clients.
During 2021, we made multiple improvements in our stores that were appreciated by our customers.

Champion Offer

A wide product range and affordable prices are the key reasons for customers to choose Lenta. Our clients also appreciate the high quality of goods in our stores, especially fruits and vegetables, meat, fish, bakery and culinary. Management of these goods categories was the focus of our attention during the year.

Assortment Tailoring

The Assortment Tailoring project aims at creating best in class varieties in each of our stores that is relevant for each specific location. It has been implemented by an agile team consisting of employees from our commercial and Big Data units.

Within the project, we constantly analyse the demand of our local customers, and rotate SKUs with a low relevance rate. We introduced this approach in 22 stores in Moscow in all categories excluding non-food, fruits and vegetables and own production. We also applied the tailoring methodology to 5 categories in 120 stores in 24 cities.

The project proves its efficiency – we record a sales increase in pilot stores compared to stores where we did not change anything.

In 2022, we will further work on the methodology improvement and development of an IT tool for our category managers in order to apply it in all our stores.

Best Ultra Fresh Food

We aim at offering a wide choice of fresh food to our customers. We strive to prepare the food in compliance with high quality standards using up-to-date technologies.

We know that our clients value ready meals that we produce in our own facilities made by traditional and authentic recipes, and seek to extend the range taking into account changing customer preferences.

To ensure the highest quality of this offering and its relevance, we launched the Best Ultra Fresh project. Within the project, we analysed customers' feedback about our ranges and conducted experiments to improve the customer experience.

We also consulted with our employees who work in our own production units and considered their feedback when deciding on changes we implement. We experimented with sales equipment for ready food, price tags and in-store communication to promote the categories, we also elaborated new packaging for ready-to-eat goods to emphasise freshness and quality of the product.

The result of the project implementation is an impressive 10.8% sales increase of our own production category. Further on, we will continue experimenting with various mechanics to make our ultra fresh food the best in the market.

Revamp non-food

Historically, we had a wide offering of non-food goods, which has been one of our differentiators. Our proposition of non-food is one of the best in the market. However, market trends are changing, people tend to purchase non-food goods online, their habits alter, and our task is to respond to this transformation.

In 2021, we carefully analysed market tendencies, indicated customers' preferences in terms of purchasing non-food goods in off-line stores and started transforming our ranges accordingly.

We destocked from goods that were not demanded by our clients in favour of those that a customer looks for in Lenta stores. For instance, we saw that cooking at home is still a significant trend and put our efforts into strengthening the proposition of household items.

We carefully studied trends in cosmetics and introduced the most popular products into our assortment. We collaborated with beauty retailer Rive Gauche to propose their most popular items to our clients. We launched a shop-in-shop concept with them to please our customers with their favourite beauty products that they can buy while making grocery shopping.

We revisited the look-and-feel of non-food sections in our hypermarket to create the atmosphere of coziness and make the presentation more attractive.

This year, we will focus on further improvements in our non-food as we see that our efforts bring promising results.

Private Labels

Our private label portfolio is comprised of 13 exclusive brands and over 2,000 SKUs in all price segments, both in food and non-food categories.

As our clients increasingly seek for value-for-money, we have seen growth of our private labels, with LFL sales up by 7.1%. This strong performance has been underpinned by a deeper trust from our customers, which is the result of our consistent work with the variety and quality of goods.

We redesigned the package of our key own brand Lenta to align it with our renewed corporate brand and make it more appealing on the shelf. We are looking forward to seeing new packaging in our stores at the beginning of 2022.

In 2021, we were busy with producing our exclusive brands development strategy that we will be implementing in 2022 and beyond. The essence of the strategy is steady growth of private labels sales up to 22% in Lenta's retail sales by 2025. We are confident, we will reach this target.

Great Experience

A great customer experience is another key driver of our core improvements, alongside pricing and assortment.

During the reported year, we started implementing numerous initiatives that focus on improvement of the customer experience, many of which were crowdsourced from our employees within a dedicated project. We provided our store managers with a Customer Journey Map (CJM) tool and trained them to use it for improvement ideas generation, quick trial and roll-out.

We kept on furnishing our stores with self-check-outs and scanners for convenient shopping. In 2021, we equipped our newly opened proximity stores with self-check-outs to enhance the customer's experience in this format.

We piloted several technologies that allowed us to make the customer journey more comfortable. Among those is video recognition of on-shelf availability of goods. We recorded a 2% sales increase in piloted stores that was the outcome of availability improvement.

Video recognition and forecasting of queues helped us to decrease the time a customer loses in lines at check-outs, and mobile in-store navigation enabled clients to find all the goods they intended to buy. This led to an approximately 1.5% growth of an average ticket in pilot hypermarkets.

We rolled out a chat bot that allows our cashiers to perform cancellations in case a customer refuses to buy some goods, without personal involvement of the chief cashier. This entailed speeding up the service and increasing customer satisfaction.

We have always cared a lot about the feedback that our customers leave using multiple digital tools and a traditional complaint book. In 2021, we focused on systemising the approach to processing this huge volume of information. Our platform unites such channels as our phone line, website and apps we run, paper complaint book, messengers platforms and Lenta's official accounts in social media. We also collect feedback from external websites and ensure full and timely reaction to it.

Customers' feedback is crucial for us in terms of decisions we make on what to improve in our stores. Therefore it will be our focus further on, with the increase of speed of reaction to complaints and implementation of improvements when needed – as the priority.

Best Individualisation

Our loyalty programme has been a great differentiator in the Russian market. Over 98% of purchases in Lenta stores are made together with a Lenta loyalty card.

The data that is derived from our loyalty cards, provide us with valuable knowledge about customers' preferences and helps us to anticipate the changes in their behaviour. In turn, this allows us to promptly adapt our proposition to retain loyal customers and increase Lenta's share in their wallet.

At the end of 2020, we launched a totally refreshed loyalty programme, which uses advanced data analytics to customise special offers for individual customers. We reconsidered our approach to loyalty and offered our customers more than just a discount – we provided them access to numerous benefits – personalised discounts, individual offerings, exclusive goods and special offers from our partners.

The essence of the new approach is rewarding customers for purchases in their favourite categories as well as for purchasing goods they never bought before. Each card holder can choose 5 favourite categories of goods every month to get more perks and rewards for purchasing within the chosen varieties. The more the customer shops with Lenta using their loyalty card, the more they benefit from the programme. All card holders enjoy a permanent 5% discount as well as 15% off as our birthday gift that they can use a day before and after and on the day of birth.

The launch of the refreshed loyalty programme resulted in a 70% increase of Lenta App MAU. The number of Lenta card holders comprised 18.9 million people by year-end.

Continuous improvement

We consider continuous improvement as a key success factor for our business. We defined four pillars of continuous improvement – Innovation, Big Data, People and Culture

Innovation

To manage the innovation process, we established a dedicated Innovation Centre that is to search, test and implement innovative solutions to enable us to increase the efficiency of the business and advance towards a unique shopping experience.

In 2021, our Innovations Centre collected over 1,000 innovative solutions, 982 of which were proposed by Lenta employees within the ideas sourcing project Lenta.Up. 518 solutions were recommended for piloting, out of which 7 projects were rolled out. Most of solutions were dedicated to different aspects of operational efficiency improvement.

We were the first Russian retailer that launched Food Tech Accelerator to search for innovative food and beverages across the Globe in an organised manner. These are products of unique recipes, or packed in innovative packages, that are not represented in our competitors' stores. We collected over 400 food innovations and transferred more than 100 offerings to our Commercial Department for assessment of their potential.

We worked a lot with start-ups. Our innovation funnel currently contains 1,400 start-ups, with 724 joined in 2021. We conducted 11 pilots, including automated scheduling, cleaning technologies, queue video recognition, smart scales, on-shelf availability distance control and others, that potentially can add about RUB 1.2 billion to our operational savings.

Our priorities for 2022 and on:

- Continue sourcing innovative solutions for better operational efficiency and a supreme customer experience
- Roll-out of Lenta.Up project and further shaping the innovative culture within the organisation
- Elaboration of working tools for quick piloting and rolling out of innovations

Our innovation funnel currently contains

1,400 start-ups,

with 724 joined in 2021

Big Data

The use of advanced data analytics enables us to improve efficiency of the business by making precise decisions. It also greatly contributes to our client centricity concept development.

We use in-house capabilities to develop analytics products and services that help us to differentiate from our competitors both in terms of enhancing the customer experience and business agility.

Our Big Data Department that employs over 50 professionals, creates products for internal and external use, such as automated assortment optimisation, assortment tailoring, data-driven promo tools, dynamic pricing, as well as new openings process optimisation,evaluation of investment initiatives and supporting online business.

Cyber security

At Lenta, we deal with an immense volume of data including personal data of our employees and commercial information, on a daily basis. We are responsible for keeping this data safe since its leakage can entail significant financial and reputational losses.

The Covid-19 pandemic brought forward the issues of safe remote access to corporate resources, protection of the Company's information systems as well as control over corporate users and monitoring of cyber threats.

In 2021, phishing, frauds, DDoS-attacks and potential assaults on our supply chain were the focus of our attention.

To manage cyber security in a proper way, we established a dedicated unit in the Business Support Department, elaborated the cyber security strategy, issued and implemented the relevant policy and worked hard to raise awareness of Lenta's employees on the matter.

We conducted a comprehensive audit of our websites and applications to ensure that we can guarantee their resistance to probable cyber threats, proper protection of personal and commercial data and compliance with the Russian legislation that regulates personal data processing. The results of the audit confirmed that our digital sites are well protected, whilst identified some vulnerabilities that were later eliminated.

IT

Almost all Lenta's operations depend to some extent upon leading-edge business applications. In 2021, we continued to invest in key IT projects to improve the efficiency and transparency of our processes.

Our IT infrastructure is crucial for supporting and strengthening our existing operations, while also contributing to the digital transformation of our business. This includes infrastructure to big data analytics and automation. The IT Department has responsibility for integrity and reliability of existing infrastructure, as well as its scalability to meet business needs over time.

2021 was a busy one for our IT Department since every single initiative of our growth strategy implementation required high degree of IT engagement.

Supply chain

The growth of our store network depends on an efficient, flexible and sophisticated supply chain to keep the shelves full. Our stores are served by a combination of Lenta's own distribution centres and direct deliveries from our suppliers.

We operate 14 distribution centres, which run on a 24/7 basis. Designed for maximum operating efficiency, they are strategically located, with the capacity to service our existing stores with the potential to support our expansion.

We use our own car fleet of 330 trucks to deliver goods to our stores as well as third parties transport to ensure timely fulfilment of the shelves in Lenta stores of all formats. We also partner with Russian Railways to supply products to remote locations in an efficient way.

Our logistic ensures deliveries of food and non-food import produce from 53 countries.

In 2021, we piloted delivery of fresh berries from the South of Russia to Siberia by plane and intend to use this way of shipment since it enables us to make an unique offer to our customers.

Sustainable development

Our sustainable development agenda includes a wide range of activities, from providing our employees with fair and safe working conditions, ensuring the high quality of goods we sell, and contributing to the economic growth of our partners and suppliers as well as supporting local communities in areas where we operate.

In 2021, we adopted Lenta's Sustainability strategy and set specific targets in each of the impact points to be reached by 2025.

Our strategy is based on stakeholders' expectations and the UN Sustainable Development Goals.

We defined five focus areas of our sustainable development and set KPIs in each of the impact points:

1. Leadership in Business
2. Environment Protection
3. Nutrition Excellence
4. Talent Engagement
5. Actions for Good

Our commitments[1]

Leadership in Business	Corporate governance	• Improve ESG corporate governance • Retain the share of women in the Board of Directors at the level of not less than 10% • Retain the share of women in Senior management team of not less than 25%
	Cooperation	• Participate in industry associations and unions and promote the principles of sustainable development • Develop programmes to promote sustainability among consumers, together with suppliers and partners
	Business ethics	• Maintain the share of hotline reports undergoing investigation at no less than 100% • Ensure zero tolerance to corporate ethics violations
	Responsible supply chain	• Support local business and development of local suppliers
Environment Protection	Climate action	• Reduce the intensity of energy (electricity, heat) consumption per 1 m^2 of total space by 15% • Optimise the fleet in own operations • Calculation of GHG emissions and setting targets until 2023
	Responsible resources management	• Develop programmes to transfer of cardboard, plastic, polyethylene and other fractions for recycling • Develop programmes to prevent waste generation, including food waste • Improve the environmental friendliness of private label packaging and own production packaging • Increase the volume of collected hazardous waste by 25% and solid waste by 45%
Nutrition Excellence	Healthy products	• Develop a healthy assortment in response to consumer requests, • Increase the share of vegetarian options in own production assortment • Develop and implement product healthiness labelling for own production • Increase the share of own production assortment whose formulas have been improved
	Healthy lifestyle promotion	• Promote product categories related to active and healthy lifestyle
	Food safety	• Enlarge product quality control programmes and develop verification of product features corresponding to a healthy diet
Talent Engagement	Talent motivation and retention	• Retain the share of vacancies fulfilled by internal candidates at the level of not less than 35% • Retain the share of employees promoted at 15% • Retain the share of employees who have completed at least one training in the reporting year at the level of not less than 90% • Increase employee engagement level to 75% • Maintain a turnover rate of not higher than 40%
	Health and safety	• Develop well-being programmes • To carry out continuous improvement of the occupational health management system
Action for Good	Community engagement	• Develop corporate volunteering programmes • Increase by 60% the volume of products transferred through community support programmes, per one family • Develop programmes to increase the economic accessibility of goods
	Inclusive practices	• Improve the Lenta's accessibility for people with special needs

Our commitments are underpinned by the planned activities and the targets set within the strategic priorities of our functional units.

[1] The KPIs will be reviewed on an annual basis

ESG indicators

Indicator	Unit	2018	2019	2020	2021
Environment Protection					
Energy and fuel consumption					
Total electricity consumption	MWh	1,015,294	1,061,176	1,063,855	1,124,896
Electricity consumption per sq.m, total selling space	kWh/sq.m	690.67	712.20	699.90	642.80
Heat consumption for heating	Gcal	716,308	397,637	365,106	377,017
Heat consumption per sq.m, total selling space	Gcal/sq.m	487.28	266.87	240.20	215.44
Diesel consumed by transportation	l	15,709,211	17,805,226	17,323,726	18,125,301
Gasoline (petrol) consumed by transportation	l	647,983	705,319	542,889	738,413
Water management					
Water withdrawal by retail, logistics and in-house production facilities	cubic m	2,489,470	2,871,180	2,711,466	3,130,409
Waste management					
Amount of recyclable waste sold for processing by stores and distribution centres	tonnes	n/a	75,428	80,894	84,912
Cardboard	tonnes	n/a	64,960	64,590	69,806
Plastic	tonnes	n/a	2,642	2,056	2,505
Shrink wrap	tonnes	n/a	5,651	5,551	6,584
Other		n/a	2,175	8,697	6,017
Amount of food waste diverted from landfills	tonnes	n/a	952	6,587	21,436
Community engagement					
Amount of hazardous waste collected from the communities (waste batteries and accumulators)	tonnes	29	93	120	133
Amount of recyclables collected from the communities	tonnes	n/a	n/a	38	277
Talent Engagement					
Employees – General					
Headcount[1]	#	45,759	48,391	51,832	52,857
Voluntary turnover for all employees	%	29.5	30.4	24.9	30.9
Percentage of men among employees	%	29	29	29	29
Percentage of women among employees	%	71	71	71	71
Number of new employees	#	n/a	n/a	32,470	22,671
Number of vacancies filled by internal candidates	#	n/a	10,562	14,168	13,873
Number of employees with disabilities	#	n/a	n/a	203	223
Employee engagement[2]	%	n/a	74	67	n/a
Percentage of employees who took part in the engagement survey	%	n/a	n/a	91	n/a
Employee Training					
Average hours of training per employee	h	50	41	19	26
Occupational health and safety (OHS)					
Number of identified OHS violations	#	n/a	n/a	2,942	3,507
Number of OHS violations resolved within 5 days	#	n/a	n/a	1,471	1,754
Number of accidents	#	203	206	217	223
Number of fatal accidents	#	0	1	0	0
Lost time injury frequency rate (LTIFR) among employees	ratio	2.5	2.7	2.9	2.7
Percentage of employees covered by OHS management system	%	100	100	100	100
Number of employees taking part in OHS training (excluding compulsory briefings)	%	78	71	95	95
Investment in OHS	mn	570	651	651	790

1 Number of stores, taking into account the acquired Billa and Semya facilities
2 Number of employees as of 31 December 2021
3 Employee engagement survey was not conducted in 2021

Indicator	Unit	2018	2019	2020	2021
Action for Good					
The number of customers who participated in the support programme for customers with a limited budget	mn	2.3	2.4	2.3	2.2
Number of employees participating in social projects (volunteering)	#	n/a	n/a	n/a	1,348
Amount of food donated as part of the Giving Food project	tonnes	n/a	n/a	133	88
Number of families that became beneficiaries from the Giving Food project	#	n/a	n/a	17,000	13,782
Number of institutions that became beneficiaries from the company's social projects	#	387	565	583	486
Number of children who became beneficiaries from the company's social campaigns	#	12,500	28,600	32,874	34,986
Number of institutions that became beneficiaries from the Help to Get a Child Ready for School campaign	#	192	263	300	217
Number of children who became beneficiaries from the Help to Get a Child Ready for School campaign	#	n/a	14,200	14,200	16,012
Number of institutions that became beneficiaries from the Lenta's Good Days (Lenta's Good Deeds, Wishing Tree) campaign	#	195	302	283	269
Number of children who became beneficiaries of the Lenta's Good Days (Lenta's Good Days, Wishing Tree) campaign	#	12,500	14,400	18,674	18,974
Nutrition Excellence					
Quality of products					
Number of laboratory tests	#	10,778	10,448	8,653	7,290
Number of laboratory tests on suppliers' goods	#	7,228	7,681	7,207	6,235
Number of laboratory tests of own-brand and direct imported goods	#	3,550	2,767	1,446	1,055
Number of customer complaints on quality resolved	#	58,585	80,349	84,569	71,363
Number of supplier audits	#	71	66	16	128
Number of suppliers whose deliveries were terminated as a result of the audit	#	5	4	0	0
Number of cases where products were not allowed to enter the range as a result of the audit	#	5	5	2	1
Suppliers					
Percentage of purchases from Russian suppliers	%	93	94	93	94
Percentage of purchases from local suppliers in the regions	%	19	19	18	19
Leadership in Business					
Corporate governance					
Number of members of the Board of Directors	#	9	9	9	9
Percentage of men in the Board of Directors	%	89	89	89	89
Percentage of women in the Board of Directors	%	11	11	11	11
Number of members of the Board of Directors who are Russian citizens	#	2	4	5	5
Number of members of the Board of Directors who are foreign citizens	#	7	5	4	4
Business ethics					
Total number of requests received to the ethics hotline	#	n/a	n/a	381	591
Confirmed and resolved requests	#	n/a	n/a	n/a	266
Policy					
Percentage of employees aware of the Policy on Anti-Misconduct, Including Fraud and Corruption	%	100	100	100	100
Percentage of employees aware of the Code of Business Conduct and Ethics	%	100	100	100	100

Stakeholder engagement

Our approach to stakeholder engagement builds upon the principles of transparency, partnership and ethical behaviour to ensure sustainable development of the Company.

We strive to meet the expectations of all stakeholders' groups and, thus, add value to the business and society.

Way of engagement	Stakeholders' expectations	Value for the business	Performance
Employees			
• Omni channel internal communication platform • Regular business updates • Training and development platform • Succession planning programme • Ensuring that human rights are fully respected and that employees are provided with all the freedoms they are entitled to • Implementation of occupational health and safety policies	• Respect for labour legislation and human rights • Fair salary, safe working conditions • Recognition and development opportunities • Motivational programmes	Recruitment development and retention of high potential employees who shape the client-centric culture of the Company and make our stores the first customer choice	22,671 new working places 13,873 internal promotions 26 hours or trainings per employee 223 accidents 0 fatalities Human rights policy implementation
Customers			
• Customer hotline • Company's website and official accounts in social media as well as messengers • Customer-centric programmes • Tailored offers and loyalty programme • Various sales channels • Big data analytics of customers' preferences to meet their needs • NPS assessment	• Wide choice of qualitative goods at affordable prices • Unique shopping experience • Attractive promotions • High level of service	Unique shopping experience, attraction of new customers and retention of loyal ones.	Relaunch of the loyalty programme 2 mn new clients
Investors			
• Communications programme, including annual reports, quarterly trading updates and financial results disclosures, Capital Market Day, roadshows and regular meetings • Corporate website	• Sustainable profitable growth, strong corporate governance and transparency	Support of the business growth	Capital Markets Day 5 investor calls 40 meetings with investors 30 disclosures
Government authorities			
• Compliance with the legislative requirements • Responsible use of labour and environmental resources • Partnerships with local suppliers	• A reliable, responsible partner contributing to regional social and economic development, creating jobs for locals	Support of the regional expansion of the Company and development of local varieties of goods.	
Suppliers			
• Fair open and ethical collaboration with business partners • Regular meetings and updates • Common profitable growth programme	• Long-term partnerships aimed at profitable growth • Timely payment	High level of the availability of goods, fair prices for customers, profitability of the business	+513 new suppliers +372 new local producers Food Tech Accelerator launch for fast search and listing of innovative goods
Local communities			
• Cooperation on social, economic and environmental initiatives • Cooperation focused on addressing specific social needs • Charitable projects	• Meeting the needs of people, support to economic development of the region • Respect for environmental and social obligations	Improving the quality of life of local residents, social partnerships	2 federal charity projects 34,982 of kids supported Tulip bulbs donated to 4 cities 88 thousand kg of food donated to people in need via Dari Edu joint initiative

Code of Business Conduct

Our Code of Business Conduct sets out the standards and rules of the way we do business. It defines our obligations to behave ethically and exhibit the high standards of behaviour we expect of our people, partners and contractors. The Code, supported by our corporate values, sets the basis for the way we run our business and formulates pointers for the composition of our sustainability agenda.

These include:
- Upholding the integrity and good name of the Company in developing long-term relationships with customers, communities and suppliers
- Strict prohibition against directly or indirectly offering, paying, soliciting or accepting bribes or kickbacks in any form
- No conflicts between personal interests and those of the Company
- Abiding by Lenta's corporate rules and standards, which impose stricter ethical restrictions on employees than those provided in current legislation

Our values:

Excellence and Ownership	We manage our business skillfully and diligently as if it were our own, continuously improving our mastery
Agility and Goal Commitment	We are brave to set ambitious goals that inspire us to achieve more. The world changes rapidly and so do we.
Customer Centricity	We take care of our customers, external and internal, and are committed to high service level.
Respect and Care	We treat our employees, partners and the planet with great care and are committed to creating a positive and safe working environment.
Team Work	Together, we are stronger. Cooperation is key to greater achievements

Our Ethics Committee regularly reviews complaints and non-compliance. Its work is overseen by the Audit Committee and the Board. Failure to comply with the Code of Business Conduct may lead to a disciplinary action, including dismissal.

Customers, employees and suppliers can contact the Ethics Committee in a variety of ways: anonymously through the Lenta website and Company Hotline, or via information desks in our stores.

In 2021, we received 591 complaints to our hotline, all of them were diligently investigated, with 266 confirmed and resolved cases.

266
resolved cases in 2021

Overview of our main policies

Code of Business Conduct

The Code defines the key rules of conduct and the liability of the Company employees towards each other, towards the Company, and towards business partners thereof.

The Code is specifically designed to help our employees and Company representatives make the right decisions in difficult situations related to the performance of their official duties.

Anti-Corruption Policy

The Policy is the main internal regulating document of Lenta which establishes the approach and principles applied by the Company within the framework of countering possible corrupt practices of Employees and Contractors of the Company as well as third parties in cases where such practices may have an effect upon legal interest of the Company and/or inflict damage upon it or entail loss of profits.

The goals of the Policy are mitigation of risks of corrupt practices of Employees and Contractors/third parties; protection of the Company's legitimate interests and ensuring integrity of its assets; ensuring that applicable legislation is conformed to; development of a culture of honesty and inadmissibility of corrupt practices; improvement of the Company's reputation and building of the Company's public image as an enterprise intolerant towards corrupt practices, including fraud and corruption.

Human Rights Policy

The purpose of the Policy is to define the main approaches and principles of the Company to respect, support and promote the development of human rights.

In all areas of its activities and at any stage, the Company strives to identify, assess and eliminate human rights risks in accordance with the Policy in relations with its personnel; the local communities and business partners.

Labour and Environment Protection Policy

Occupational Safety, Labour and Environment Protection Policy regulates the purposes and principles of Lenta's operations in the sphere of occupational safety, environment protection, and industrial safety of hazardous production facilities.

The Policy describes goals and objectives of the Company, public obligations of the Company in the sphere of occupational safety, environment protection, and industrial safety of hazardous production facilities.

Corporate Social Responsibility Policy

The Policy defines a common understanding and key directions for implementation of the social responsibility principle by all departments of the Company. It is based on the concepts of the Company's social role and commitments stemming from the Company's mission and strategy, adopted ethical principles and corporate values.

The Policy defines key principles and approaches of the Company in this sphere and is detailed in the documents regulating human resources management, occupational and industrial safety, environmental protection, management of external social programmes, interactions with business partners.

Information Security Policy

The Policy defines purposes, principles, approaches and methods of protecting interests of Lenta in the information sphere, and is a declaration of the Company's Management intention to support achievement of the goals and compliance with the information security principles of the Company.

The purpose of the Company's activities in the sphere of information security is to ensure successful achievement of the key strategic goals of the Company, and resilient business operation in cyber risk conditions.

Energy Saving and Energy Efficiency Improvement Policy

The Police defines goals, objectives and methods for undertaking activities aimed to save energy and improve energy efficiency in Company.

We will provide a comprehensive overview of our activities in our Sustainability Report 2021 that will be published in June, 2022.

Chief Financial Officer Review

Lenta's strong performance in the past year provides momentum to execute the ambitious growth strategy we presented to our shareholders in 2021. Measuring this performance against our long-term strategic objectives, we are well on the way to transform Lenta into a champion multi-format food retailer. Concurrently, we also remained focused on improving our operational efficiency and controlling expenditures. I am pleased to say that despite the intense expansion in small formats, two acquisitions, and the strong growth of our Online business we were able to deliver an EBITDA Margin on an industry-leading level of over 8.0% (IAS 17) and improved our leverage position in 2021(IAS 17).

Rud Pedersen
Chief Financial Officer (CFO)

Sales

Total Sales demonstrated strong growth of 8.6% and amounted to RUB 483.6 billion compared to RUB 445.5 billion in 2020. This growth was primarily driven by the Selling Space growth of 15.6% which was further amplified by 2.4% LFL Sales growth. Retail Sales grew by 8.8% to reach RUB 475.8 billion, while Wholesale decreased by 2.5% and constituted 1.6% of Lenta's Total Sales in 2021.

Our core Hypermarket business is gaining market share and delivering solid results, posting sales growth and improved efficiency. In 2021, Hypermarket Sales represented over 87% of total Retail Sales. Last year this format delivered 4.4% Sales growth, positive LFL Sales growth of 3.1%, and an increase of 4.6% in the LFL Average Ticket. In addition, we are working to increase the productivity of this format through several initiatives, including dedicated zones for online order picking at our big boxes. We believe that these results position us to take further market share in the format.

In 2021, we intensified expansion in Small Format. 133 new Lenta Mini stores were opened during the period. The acquisitions of Billa and Semya has strengthened Lenta's market positions in Moscow and Perm, while their competencies in small stores will support our organic expansion. Lenta's Small-format stores demonstrated significant year-over-year Sales Growth of 53.6%, primarily driven by acquisitions of Billa and Semya. Small-format stores demonstrated negative LFL Sales growth of 4.3%, resulting from LFL Traffic decline by 5.0%, which was partially offset by the growth of LFL Average Ticket by 0.8%. Small-format stores efficiency improvement is our key priority for 2022.

Lenta's online business is becoming an increasingly important contributor to our growth. Total Online Sales during the period amounted to RUB 19.3 billion, an increase of 208% year-over-year, while Total Online Orders were up 221% and amounted to 10.4 million. The Average Ticket for Lenta's own online delivery was RUB 1,883 and increased by 29% year-over-year. In 2021, Online Sales continued to gain share in Lenta's Retail Sales and reached 4.1% of Lenta's total Retail Sales, while own online represented 45% of Lenta's Total Online Sales.

Gross Margin

In 2021, Gross Profit rose by 9.4% year-over-year to RUB 111.4 billion, and Gross Margin increased by 17 bps to 23.0% due to the better promotional margins resulting from the revision of promo campaigns, a higher centralisation ratio as well as positive dynamics of stock provisions. The growth was slightly offset by intensified cashback investments related to the revamped loyalty programme. Despite the consolidation of Billa and Semya and a higher share of new stores in the ramp-up stage shrinkage as a proportion of Sales decreased by 4 bps year-over-year.

Cost Controls

Sales, General, and Administrative (SG&A) expenses increased by approximately RUB 11.3 billion year-over-year primarily due to growing online business and increased number of stores in ramp-up stage SG&A as a percentage of Total Sales increased by 93 bps to 18.9%. This growth was mainly driven by higher payroll and related taxes and lease expenses as a percent of sales, as well as an increase in-store operations costs and Online delivery costs.

The ability to attract and retain employees is a continuing challenge, not least due to the current deficit of qualified people in the market resulting from COVID-19 outbreak. In 2021, Lenta faced increasing competition for employees, and in order to be able to attract and retain employees as well as be in line with market benchmarks the Company proceeded with salary indexation of in-store and supply-chain employees. Payroll and related taxes rose by 13.3% year-over-year in connection with salary indexation (in Q4 2021), new store openings, as well as the two acquisitions, while personnel expenses as a percent of Total Sales increased by 31 bps.

D&A as a percent of Total Sales increased by 31 bps due to the Total Selling Space growth by 15.6%.

Store Operations increased by 12.6% year-over-year, mainly driven by costs associated with security services, cleaning, as well as store repairs and maintenance.

In 2021, the competition intensified on the Russian e-grocery market. All players made significant investments in marketing, client acquisition and retention. Lenta Online is an important driver of Lenta future growth. In 2021, we increase our advertising expenses to support the effort of our online team in their battle for e-grocery customers. Therefore, advertising costs during 2021 were up 12.9% year-over-year, due to investments into our growing online channel.

The health and safety of our customers and employees have been our highest priority. During the year, Covid-19 related costs in the amount to RUB 1 billion put extra pressure on profitability. Other expenses increased by 23% year-over-year, primarily due to COVID-related expenses and rising delivery expenses resulting from the development of Lenta Online.

We remain focused on strict cost management amidst the volatile macro environment in 2022.

Total Sales amount to
RUB 483.6 bn

Total Sales growth
8.6%

Gross Profit rose by
9.4%

EBITDA

Despite the significant investments into Lenta's growth strategy and resulting higher SG&A, EBITDA came in at RUB 46.9 billion and increased by 4.4% compared to the previous year, when Lenta benefitted from abnormal surge buying and stocking up customers' behaviour during lockdown period.

In 2021, Lenta's EBITDA margin remained at an industry-leading level of 9.7% Lenta's IAS 17 EBITDA was 8.1%, in line with the company's Guidance for the full year.

CAPEX

Capital Expenditure in 2021 amounted to RUB 9.3 billion, an increase of 23% year-over-year. The increase resulted from an accelerated pace of new organic store openings, completing construction of new distribution centres, continuing IT development costs, and expenses related to the integration of Billa stores. As of 31 December 2021, Lenta had contractual capital expenditure commitments connected to property, plant and equipment (PP&E) and Intangible assets totaling RUB 4.5 billion net of VAT compared to RUB 4.3 billion net of VAT on 31 December 2020.

Interest

Lenta's Net Interest expenses in 2021 amounted to RUB 8.4 billion, which was a decrease of 5.3% compared to 2020 (RUB 8.9 billion), primarily due to lower weighted average effective interest rate for Lenta's debt portfolio in 2021.

Net Income

In 2021, Lenta Net Income decreased by 24.6% and amounted to RUB 12.5 billion, compared to RUB 16.5 billion in 2020, primarily due to increased SG&A, significantly lower reversal of impairment of non-current assets, and higher income tax compared to the previous year. This equated to a net income margin of 2.6% in 2021.

Cash Flow

In 2021, Net Cash generated from Operating Activities amounted to RUB 37.9 billion, up 26.3%, reflecting business growth and healthy profitability. The positive change in Working Capital of RUB 2.3 billion during FY 2021, compared to a negative RUB 2.4 billion in FY 2020, was mainly driven by higher trade and other payables and net other tax payables.

Net Cash used in Investing Activities increased to RUB 30.8 billion in FY 2021 from RUB 7.4 billion in 2020, as a result of the two acquisitions.

Free Cash Flow for FY 2021 was RUB 7.1 billion, which was RUB 15.5 billion lower than Free Cash Flow in 2020, mainly due to higher Net Cash used in Investing Activities.

Net Debt and Leverage

Despite two acquisitions which we partially financed by our own cash, we continued to improve our leverage position over the course of 2021.

Lenta's cash position at the end of FY 2021 was RUB 33.3 billion. Gross Debt increased by RUB 35.6 billion or 31.4% compared to 31 December 2020 and stood at RUB 149.0 billion as of 31 December 2021. Lease liabilities increased by 76% due to the acquisitions of Billa and Semya, both of which have a higher percentage of leased versus owned stores in their portfolios. The share of leased selling space for Lenta overall increased to 34.0% as of 31 December 2021 compared to 25.8% a year ago. Net Debt increased by RUB 24.1 billion compared with 31 December 2020 and stood at RUB 115.6 billion. All of the Company's debt has fixed interest rates and is fully Rouble denominated matching its revenue structure. Lenta's Net Debt to EBITDA ratio was 2.5x as of 31 December 2021 vs 2.0x as of 31 December 2020.

Lenta's IAS 17 Net Debt to EBITDA ratio was 1.4x as of 31 December 2021 vs 1.5x as of 31 December 2020.

Capital Allocation Strategy

We are driven mainly by the consideration of value creation for our shareholders, and we believe that we should use our funds in the most appropriate way in the interest of business and our shareholders. Last year we made an important step. In November 2021, our Board of Directors approved Lenta's Dividend Policy.

Our key priority in 2021 was business growth. We made significant investments into the development of our online business, small-format stores expansion, and executed several M&A deals.

Our log-term priorities in Capital Allocation are as follow:

1. Maintain the leverage on a decent level (long-term target 1.5x)
2. Development, including M&As and organic growth
3. Paying dividends

Looking ahead

Our resilient operational base and strong balance sheet make us well positioned to grow as we invest in our new strategy and pursue exciting organic and inorganic growth opportunities.

The current macroeconomic, geopolitical situation and inflationary environment create headwinds for the entire sector, but we are confident that Lenta is well-positioned to navigate the challenges and deliver strong results in 2022. We will continue to execute our strategy investing in expansion and online development as well as continuous improvements of our operations to ensure Lenta's long-term growth and leadership.

Risk management

Lenta is managing its risks focusing on the most critical threats to the business.

Lenta defines risk as 'an uncertain future event that could affect the Group's ability to achieve its objectives'. Understanding how various risks potentially influence our business is integral to the decision-making process within the Group. We monitor all material risks to our operations on an ongoing basis, acting whenever necessary to mitigate and manage them.

We also anticipate and evaluate new threats as and when they arise. Our risk management process applies across all functions and comprises the following principal stages:

- Identification
- Assessment
- Response
- Monitoring, reporting and escalation

Risk management policy

Lenta's Risk Management Policy determines the risk management strategy, principles and structure. It provides the basis which allows us to maintain risk management at the level required, as applied to all current business processes.

In addition, it sets out minimum requirements to risk management operations, including allocation of responsibility between management levels in Lenta.

The objectives for the implementation of Lenta's Risk Management Policy are:

- A global view of the objectives, significance, and principles of risk management
- Providing a uniform vocabulary for risk management within the group of companies
- Structuring the process of identification and management of key risks which might have a significant impact on business
- Allocation of responsibility for risk management
- Enhancement and structuring of risk analysis processes for decision-making
- An improved perception of key control tools and their efficiency

Lenta's Risk Management Policy provides a comprehensive and robust framework, enabling us to ensure that risk is managed to a consistently high standard across all of our operations. It sets out the Group's principles and standards and establishes a common approach and the minimum requirements for risk management activities.

The Risk Management Policy is approved by the Board of Directors.

1 Risk Identification

We conduct a 'top down' strategic risk identification on an annual basis. This supplements a biannual functional 'bottom up' evaluation, which identifies risks at operational levels in the Group. These activities enable us to create a comprehensive risk profile.

Risk identification is also embedded into key business processes including budgeting, planning, capital expenditure and performance management.

Our risk identification process ensures that new risks are identified, assessed and responded to, while risks no longer relevant are excluded from the risk register, and that the information is up-to-date and appropriate for monitoring, escalation and mitigation.

2 Risk Assessment

Risks are individually assessed to determine their likelihood of occurrence, and their potential impact on the business.

Risks are assessed over a three year timescale using Lenta's Risk Assessment Criteria, which are comprised of a four-step probability and severity scale.

The impact assessment is based on a qualified and formal review of how the risk occurrence may influence the Group's operations and financial performance.

3 Risk Response

Risk Owners are accountable for managing risks, with details of planned mitigation activities and delivery milestones set out in their risk response plans. The decision to respond to risk is made after analysing several alternatives, during which the costs of the response, potential effects and additional opportunities are assessed.

4 Risk Monitoring, Reporting and Escalation

This stage involves the timely tracking, capture, and sharing of risk information to enable the review and notification of changes in risk exposure by management. The process supports better understanding of risk and enables decision-making on the appropriate response. Such responses include management interventions to avoid a risk becoming reality in the first place or, if not possible, then to reduce its impact after the event.

The process is supported by a governance structure that clearly defines risk-related roles and responsibilities at each level within Lenta. The Board has overall accountability for ensuring that the risks are effectively managed across functional business units.

The Audit Committee oversees and evaluates the effectiveness of management's approach. Management provides risk oversight of commercial operations and undertakes a biannual 'top down' assessment for the Audit Committee and Board to review. Functional heads within the Group are responsible for implementing risk management activities in their areas.

In 2021, Lenta updated the risk register and updated our risk management policy with regard to the assessment thresholds of the risks' impact. The Group assessed the impact of a risk occurring as a percentage of its annual EBITDA.

The risk landscape

Covid-19 became a new reality for almost all the businesses in Russia. Measures to limit the spread of the virus had a negative impact on business operations in the country.

Lenta, like many other companies, faced certain challenges caused by the global Covid-19 pandemic. Given the situation, the Group was forced to react urgently in an unknown environment to ensure the safety of its customers, employees, and partners. The Group's office based personnel were transferred to a remote mode of work in the early spring of 2020 and managed with the challenges of remote interaction between the functional and regional teams well. Employees working in stores were provided with personal protection equipment; various forms of signage and physical barriers were installed in Lenta stores to ensure the appropriate social distancing between employees and/or our customers.

In addition to the pandemic specific challenges, in 2021 the Russian retail industry had to deal with an unstable macroeconomic environment, rising inflation and interest rates, changes in legal and regulatory requirements as well as ongoing active competition.

Trends related to consumer behaviour have intensified during the pandemic. Customers began to prefer shopping online more often. In this regard, we may experience the cannibalisation effect when our customers began to leave offline for own and partner online channels. Lenta continues to engage and cooperate with numerous suppliers and partners across its value chain to maintain competitive sourcing and supply. In doing so, Lenta ensures that all its dealings are in line with relevant legislation as well as external and internal standards and regulations, including policies regarding ethical behaviour.

Food safety is one of the main priorities for Lenta. We make sure that the products offered to customers are of the highest quality at all times and that all relevant safety and sanitary standards are met.

As work force mobility in retail industry is high, Lenta works continuously to attract and retain employees; the ability to do so is one of key focuses of Lenta.

During 2021, one new significant risk was identified through our risk management process, which is reflected on the risk map.

A Continued focus on safety of our customers and employees

B Effective and efficient operation of our hypermarkets and small format stores

C Execution of our new growth strategy

D Innovate, develop, pilot, and implement existing and new technologies

E Build and strengthen organisational capabilities

Description of principal risks

1. Changing legal and regulatory environment
2. Macro-economic instability and decreasing purchasing power
3. Shift of customer behaviour negatively impacts on sales for HM channel as well as industry consolidation
4. Competitive sourcing and security of supply
5. Attracting and retaining qualified personnel and training successors
6. Food safety and quality
7. Taxation
8. Capital markets and liquidity
9. Cyber and IT risks
10. Covid-19
11. Cannibalisation between online and offline channels as well between own and partners online channels

Likehood / Impact	1	2	3	4
4	11	1		
3		2 3 5 7 10	9	
2		6	4	
1		8		

Viability statement

Lenta's viability assessment considers its solvency and liquidity over a period exceeding that of the going concern assessment. Understanding our main priorities and our principal risks is a key element in the assessment of Lenta's prospects, as well as the formal consideration of viability.

Our value-for-money business model is aimed at consistently applying affordable prices combined with efficient promotions. Our federal reach and sales volumes enable us to negotiate competitive conditions with suppliers.

We prefer to own the majority of our hypermarkets, as this provides an efficient cost hedge versus rent inflation, as does Lenta's incremental borrowing rate when compared to the required return on invested capital of real estate investors.

While Lenta continues to be reliant on banks and financial markets for funding, our policy is to maintain a strong balance sheet to ensure the Company has access to capital markets. As part of managing our viability, we ensure our debt has relatively long maturities, is not exposed to currency fluctuations and has limited interest rate risk. Continued free cash flow – after capital expenditure and financing cost – is expected.

Severe economic turbulences could, however, affect our business – as it could other retailers' – and could therefore influence our cash generation and debt service capacity. This in turn could affect the level of ambition we are able to apply to our further development.

Our approach to the viability of the business is influenced by our key priorities that are focused on adapting our customer-value proposition across all formats we manage to changing customers' preferences so we can grow and deliver best-in-class profitability. Along with an agile organisational culture that is committed to reducing time-to-market, and a meticulous focus on operational execution to maintain our position as the most cost-efficient food retailer in Russia, thereby maximising customer and shareholder value.

The Board of Directors has determined that Lenta's long-term planning horizon – which is the existing year plus the four following consecutive years – is an appropriate timeframe for assessment of the long-term viability of Lenta. Lenta has significant financial resources, including committed and uncommitted banking and debt facilities. In assessing the Company's viability, the Board of Directors has assumed that the existing banking and debt facilities will remain in place or mature as intended. The Board of Directors has also considered mitigating actions available to Lenta, including restrictions on capital investment, further cost reduction opportunities and future dividend policy. The Board of Directors has assumed that these mitigating actions can be applied on a timely basis and at insignificant or no cost.

Based on the results of our viability assessment, the Board of Directors has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during this period.

No on map	Risk Description		Risk category	Current severity		Objectives affected	Outlook/ trend	How we manage it
	Risk	Impact		Impact	Likelihood			
1	Changing legal and regulatory environment	Introduction of new and complexity of existing legal and regulatory requirements drives cost of compliance and may disrupt our value chain.	Strategic	2	4	BCD	Stable	Lenta manages regulatory risks by regular monitoring of legislation, risk assessment framework, implemented in the legal department. The Company has developed relevant controls procedures for internal controls and internal audit departments to detect, report and respond to the incidents in a timely manner. There is regular reporting on status of the compliance programmes to the Audit Committee.
2	Macro-economic instability and decreasing purchasing power	Impact of pandemic on economic situation, supply chain, compliance with security of customers and personnel. Potential instability of customer behaviour caused by economy stagnation in the mid-term perspective.	Strategic	2	3	C	Increasing	Monitor main economic indicators. Rolling 60 months forecast. Consistently keeping our customer offer relevant to consumer spending power. Continued improvement in our supply chain.
3	Shift of customer behaviour negatively impacts on sales for HM channel as well as industry consolidation	Negative impact on sales for HM channnel due to: 1. shift of customers to smaller formats & online 2. decreasing purchasing power 3. lack of differentiation vs competition	Strategic	2	3	BCD	Stable	Actively track and measure competitors' behaviour and changes, understand structural changes in the market and implement changes to our offer, formats and price positioning.
4	Competitive sourcing and security supply	Slower growth may result in weaker competitive bargain power towards suppliers and hence impact margins Competitors investing in price may put our low price/low cost model under pressure	Strategic	3	2	BCD	Stable	Increasing share of direct import and local sourcing through taking charge of full value chain. Consolidate purchasing power on fewer suppliers. Developing private label. Participating retail alliance of independent retailers.
5	Attracting and retaining qualified personnel and training successors	Failure to attract and retain the required capability could not allow us to support our efficiency at the target level, implement our strategic goals and implement the succession plan. Lack of successors as a back-up at various levels of organisation	Operational	2	3	E	Stable	Talent planning and people development processes are set up in Lenta. The Company has been developing the employee engagement programme, LTIP and succession planning tools. Talent and succession planing is discussed by the Board of Directors on a regular basis. Regular succession planning process.
6	Food safety and quality	There is a risk that customers may suffer from the consumption of food and non-food goods sold by Lenta, whether they are contaminated or defective. Realisation of the risk could seriously destroy Lenta's reputation, impact revenue, loss sales and market share.	Operational	2	2	A	Stable	Lenta integrated quality control procedures, implemented monitoring and control of food safety and quality. The Company's focus is to ensure superb quality of goods by importing goods (explicit quality control by Lenta's quality assurance), direct cooperation with growers, introducing the approrpiate control from field to shelf, developing a network of DCs.
7	Taxation	Negative impact on the Company's financial performance caused by potential threats of tax payments and fines. Additionally, in case of the risk realisation, the Company might face reputational risks.	Financial	2	3	B	Stable	The Company is monitoring tax legislation on a regularly basis in accordance with designed control procedures. Also Lenta uses external advisors to ensure appropriate treatment of taxation and depreciation.
8	Capital markets and liquidity	Access to funding markets being restricted or limited, and growing cost of capital with negative impact on Lenta financial performance, cash liquidity and ability to fund operations.	Financial	2	1	C	Stable	Lenta maintains an infrastucture of systems, policies and procedures to enable strict discipline and oversight on financing and liquidity issues. Our liquidity levels and sources of cash are regularly reviewed and reported to governance committees.
9	Cyber and IT risks	Failure to ensure data security and privacy resulting in inability to operate, loss of sensitive information, reputational damage, fines or other adverse consequences.	IT	3	3	BCDE	Stable	We have launched an access control infrastructure, segregation of duties procedures to detect and proactively respond to security incidents. We continue to implement a number of initiatives to increase the transparency of the IT infrastructure. We have implemented data security and privacy monitoring and report to governance committees. We have implemented a project to increase the level of compliance of personal data processing processes with the legislation of the Russian Federation and the security of online services.
10	Covid-19	Measures to contain the virus had its negative impact on business operations throughout societies. As governments and companies took aggressive measures to protect their citizens, customers, operations, and employees at home and abroad, such actions could lead to business interruptions, travel risks, and other effects that could affect the Group's supply chain. There is a possibility of new waves of the epidemic in Russia	Operational	2	3	AB	Stable	The Group's office-based personnel were transferred to a remote mode of work starting in the early spring of 2020 and handled the challenges of remote interaction between the functional and regional teams quite well. Employees working in our stores and in our supply chain were provided with personal protection equipment and various forms of signage and physical barriers were installed in our stores to ensure the appropriate social distancing between employees and/or our customers. The company strives to maintain the highest possible rate of staff vaccination.
11	Cannibalisation between online and offline channels as well between own and partners online channels	Cannibalisation between offline/online channels, which leads to a decrease in offline traffic. Competition/cannibalisation between your own solution and partner channels, which leads to pressure in the field of promotions and an increase in the cost of attracting traffic, which reduces the sales margin.	Strategic	1	4	BC	New	Regular and standardised analysis of cannibalisation between channels in parallel with an assessment of cannibalisation between offline/online.

02

Corporate Governance Report

Board of Directors

The key objective of Lenta's Board is to secure the Company's long-term success and deliver sustainable returns for its shareholders. This involves a range of tasks including establishment of strategic goals, oversight of financial and human resources and review of management performance.

The Board plays an important role in providing support to the executive team in implementing Lenta's strategy. The Board also sets the overall tone for the management culture of the Company. Lenta's governance framework combines leadership with collaboration and delegation – and this is the basis for our decision-making process.

Specific responsibilities are delegated to four Board Committees: Audit, Remuneration, Nomination and Operational and Capital Expenditure.

Details of their responsibilities and activities during the year are set out on pages 56 to 63 of this report.

Alexey Mordashov,
Chairman

Alexey Mordashov was appointed a non-executive director of Lenta Plc in May 2019.

Board Committees: Nomination

Experience: Born in 1965, Alexey Mordashov has been working for Severstal since 1988. He started his career as a Senior Economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. Between 2002 and 2006 he served as CEO of Severstal Group and was Chairman of Severstal's Board of Directors. From December 2006 to December 2014 Alexey was CEO of Severstal. From December 2014 until May 2015 Alexey Mordashov served as CEO of AO Severstal Management – managing company of PAO Severstal. Alexey was elected Chairman of the Board of Directors of PAO Severstal in May 2015.

Other roles: Serves on the Entrepreneurial Council of the Government of Russian Federation. Co-chairman of the "Trade as a Global Driver" Taskforce of the "Business 20" of "Group of Twenty". Co-chairman of the Northern Dimension Business Council. Vice President of Russian-German Chamber of Commerce, member of the Russian-German workgroup responsible for strategic economic and finance issues. Member of the EU-Russia Business Cooperation Council. Alexey earned his undergraduate degree from the Leningrad Institute of Engineering and Economics.

Qualifications: Alexey graduated from the Leningrad Institute of Engineering and Economics, holds an MBA from the Business School at the University of Northumbria in Newcastle, United Kingdom. He is awarded an Honorary Doctorate of Science from the Saint Petersburg University of Engineering and Economics (2001) and the Northumbria University (2003).

Stephen Johnson,
Senior Independent Director

Stephen Johnson has been an independent non-executive Director of Lenta Plc since 2010. He was appointed as Lenta's Senior Independent Director in 2013.

Board Committees: Nomination (Chairman), Remuneration, Audit, Operation and Capital Expenditure

Experience: Steve has over 20 years' 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. He started his career in management consultancy with Bain & Co.

Other roles: Steve is currently Chairman of Matalan Limited and also a non-executive Director of DFC Group Plc. He also works with a number of private equity firms primarily focused on Southern and Eastern Europe.

Qualifications: Steve graduated from Cambridge University, United Kingdom, with an Engineering degree.

Michael Lynch-Bell,
Independent Director

Michael Lynch-Bell was appointed an independent non-executive Director of Lenta Plc in 2013.

Board Committees: Audit (Chairman), Remuneration (Chairman), Nomination

Experience: Michael 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, becoming a partner in 1985. In1997, Michael moved to Ernst & Young's Transaction Advisory practice, where he founded and led its UK IPO and Global Natural Resources transaction teams. He has been involved with the CIS since 1991 and has advised many CIS companies on fundraising, reorganisations, transactions, corporate governance and IPOs.

Other roles: Michael is also Senior Independent Director and Audit Committee Chairman of Gem Diamonds Limited, Chairman at Little Green Pharma Ltd and a non-executive Director of Barloworld Limited.

Qualifications: 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.

Julia Solovieva,
Independent Director

Julia Solovieva was appointed an independent non-executive director of Lenta Plc in 2018.

Board Committees: Audit, Nomination, Remuneration.

Experience: Julia has over 20 years experience in the internet search, media, retail and telecoms sectors. Julia joined Google in 2013 as Managing Director/Country Manager Russia, and has been Director, Business Operations for Emerging Markets EMEA since 2016. From 2007 to 2012 she held various senior positions including the role of President, at Prof-Media, one of Russia's largest media groups. Prior to this she held various corporate development and other leadership roles in the telecoms sector and also has experience in strategy consulting with Booz Allen Hamilton Netherlands and as Director of Operations for Mary Kay Russia and CIS.

Other roles: Julia is currently Director, Business Operations Emerging Markets EMEA, Google

Qualifications: Julia holds an MBA from Harvard Business School and a BA in foreign languages from Moscow State Linguistic University.

Alexey Kulichenko,

Non-Executive Director

Alexey Kulichenko was appointed a non-executive director of Lenta Plc in May 2019.

- **Experience:** Between 1996 and 2003 Alexey worked for Sun Interbrew, starting his career there as a cash flow economist at the Rosar plant in Omsk and ending it as Efficiency Planning and Managing Director of Sun Interbrew. Between 2003 and 2005 Alexey worked as CFO at Unimilk. From December 2005 to July 2009 he worked as CFO of ZAO Severstal Resource. In July 2009, Alexey Kulichenko was appointed CFO of OAO Severstal. From 8 November 2016 until 11 December 2016 he was CEO of AO Severstal Management.
- **Other roles:** Alexey currently serves as CFO of JSC "Severstal Management" – managing company for PAO Severstal and CFO of Severgroup LLC.
- **Other Selective Directorships:** PAO Severstal.
- **Qualifications:** Alexey graduated from the Omsk Institute of World Economy with a degree in Economics.

Roman Vasilkov,

Non-Executive Director

Roman Vasilkov was appointed a non-executive director of Lenta Plc in May 2019

- **Board Committees:** Operation and Capital Expenditure (Chairman)
- **Experience:** Roman Vasilkov joined Severstal in 2006. From 2008 until 2012 he held various positions in Severstal Invest which is part of Severstal's Russian Steel division. In 2012, he joined Corporate Control at Severgroup LLC.
- **Other roles:** Since 2016, Roman is the Head of Corporate Control at Severgroup LLC. His responsibilities include financial control as well as business and investment analysis of Severgroup's companies and projects.
- **Qualifications:** Roman graduated from the Military Engineering and Space Academy of Mozhaysky, St Petersburg. In 2013, he graduated with honours from the Institute of Management and Information Technologies (branch of the St Petersburg State Polytechnic University) majoring in financial management.

Tomas Korganas,

Non-Executive Director

Tomas Korganas was appointed a non-executive director of Lenta Plc in August 2019.

- **Board Committees:** Operation and Capital Expenditure.
- **Experience:** Tomas Korganas started his career at BCG and Goldman Sachs, after that he worked in and led Corporate M&A at GE, RUSAL and Vympelkom for the next 10 years. In 2012, Tomas joined Severstal as Head of Corporate Development and soon after he was asked to assume same role at Severgroup. Since 2018, Tomas is also heading the Strategy of Severgroup.
- **Other roles:** Tomas currently serves as a Director for Strategy and M&A of Severgroup LLC and Head of Corporate Development of JSC Severstal.
- **Qualifications:** Tomas graduated with B.Sc. in Engineering from Kaunas University of Technology in 1993, M.Sc. in International Strategy from Helsinki University of Technology in 1996, and MBA from Sloan School of Management, MIT in 2000.

Vladimir Sorokin

Chief Executive Officer (CEO)

Vladimir Sorokin was appointed CEO in September 2020.

- **Experience:** Vladimir Sorokin started his career in 1994 at Gillette and has had a number of top leadership positions at both Russian and international retail and FMCG companies. In 2013, Mr Sorokin joined the X5 Group where he became the General Director of the Perekrestok Supermarkets. In 2019, he joined Magnit as the Deputy Chief Executive – Commercial Director and a member of the Management Board.
- **Qualifications:** Vladimir Sorokin is a graduate of St Petersburg State University of Trade and Economics (Engineering) and the Higher School of Economics (Finance).

Rud Pedersen

Chief Financial Officer (CFO)

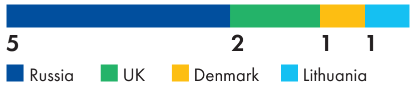
Rud Pedersen was appointed Chief Financial Officer in April 2019.

- **Experience:** Before his current role, Rud served as CFO of Carlsberg Eastern Europe and was responsible for operations in five FSU markets. Over the last 26 years he has held a number of senior management positions in a diverse range of businesses including FMCG, fashion and apparel retail and pharma. Rud has had experience in regional and group level roles, including Cadbury (Russia), Astrazeneca (Belgium), Levi Strauss (Belgium) and IC Group (Denmark). He started his career with Deloitte.
- **Qualifications:** Rud holds Master of Science degree in International Business Administration & Commercial Law from Aarhus School of Business, Denmark. He also has an EMBA from London Business School.

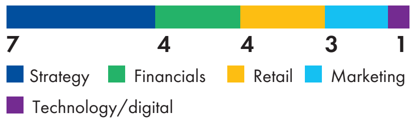
Board Diversity and Expertise

Composition

Nationality



Expertise



Senior management team

Andreas Jueterbock

Chief Operational Officer (COO)

Andreas joined Lenta in 2013 as the Divisional Director.

- **Experience:** Before Lenta, he held various positions in Metro Cash&Carry in Germany and Ukraine for 11 years.
- **Qualifications:** Andreas is an executive MBA candidate at IE business school

Igor Ovsienko

Chief Supply Chain Officer

Igor Ovsienko joined Lenta in 2006 as a Logistics Manager.

- **Experience:** In 2012 Igor entered the role of Distribution Centre Director. Since 2018 Igor has been working as Transport and Distribution Director.
- **Qualifications:** Igor has a degree from Baltic State Technical University VOENMEH named after D.F. Ustinov.

Dmitry Bogod

Chief Commercial Officer

Dmitry Bogod joined Lenta in 2018 as Chief Strategy Officer and was appointed as Chief Commercial Officer in January 2021.

- **Experience:** Dmitry has over ten years of experience in strategy consulting for international companies. Before joining Lenta, Dmitry was an associate partner in McKinsey's Moscow office and prior to that, Dmitry worked at Oliver Wyman, advising companies on consumer related strategy and operational topics. Before working as a consultant, he worked with Aon Benfield Securities, RBC Capital Markets, and Manulife Financial.
- **Qualifications:** Dmitry has an Honors Bachelor of Science Degree in Applied Mathematics from the University of Toronto.

Anastasia Volokhova,

Strategy and Transformation Director

Anastasia Volokhova joined Lenta in 2021 as Strategy and Transformation Director.

- **Experience:** Prior to joining Lenta, Anastasia held senior roles at Magnit and the Boston Consulting Group in the areas of transformation and business efficiency.
- **Qualifications:** Anastasia holds a Master's degree in International Business from Plekhanov Russian University of Economics.

Tatiana Yurkevich,

Human Resources Director

Tatiana Yurkevich joined Lenta in 2012 as Human Resources Director.

- **Experience:** Prior to joining Lenta, Tatiana served as Human Resources Director at Fazer Bakeries & Confectionery, Russia. During her 19 years in HR management, she has held senior positions including Head of HR at United Heavy Machinery Group and Izhora Plants, and HR Director of Caterpillar European Fabrications and Caterpillar Tosno. Tatiana has experience in leading Six Sigma Programme implementation as a Deployment Champion in Caterpillar.
- **Qualifications:** Tatiana has a Master's degree in International Economics from St Petersburg State University as well as English and German language degrees from Novosibirsk State Pedagogical University and an MBA in Strategy from International Management Institute Link (the UK's Open University).

Sergey Prokofiev

Legal and Government Relations Director

Sergey Prokofiev joined Lenta as Legal and Government Relations Director in 2012.

- **Experience:** Prior to joining Lenta, Sergey worked for Metro Cash & Carry, Russia for 11 years in different positions including Legal and Compliance Director. He started his career as an expert interpreter and later worked as a lawyer in a major Russian law firm and as a defending attorney at the Moscow City Bar.
- **Qualifications:** Sergey graduated from the Military Institute of Foreign Languages ('VKIMO') and the Institute of Law. He holds a PhD in Law from the Institute of Legislation and Comparative Law under the Government of the Russian Federation and an MBA in Strategic Management from California State University.

Sergey Sergeev

Chief Information Officer

Sergey Sergeev joined Lenta in February 2022.

- **Experience:** Prior to joining Lenta, Sergey worked at Prosveshcheniye education holding, where he led information technologies and the development of digital products. Prior to Prosveshcheniye, Sergey held various positions at M.Video-Eldorado Group. He also led projects for different business functions, including the transformation of the IT department.
- **Qualifications:** Sergey holds a Master of Business Administration degree from the Higher School of Economics.

Dmitry Gerasimov

Business Support Director

Dmitry Gerasimov joined Lenta in October 2020.

- **Experience:** Prior to joining Lenta, Dmitry worked for Nordgold Management as Deputy Business Support Director and previously for Severstal where he was responsible for economic business security, he also served in the State Internal Affairs.
- **Qualifications:** In 1998, Dmitry graduated from Kolomenskoye State Pedagogical University. In 2018, he graduated from Nordgold Executive Programme in Darden School of Business, University of Virginia.

Dmitry Skyba

Chief E-commerce Officer

Dmitry joined Lenta as Strategy and Innovations Director in 2019.

- **Experience:** Before joining Lenta, Dmitry worked in McKinsey & Company as part of strategic, commercial and operational projects for retail and telecom. Before McKinsey, Dmitry held various positions in Procter & Gamble in Russia and Ukraine.
- **Qualifications:** Dmitry holds a Master's degree in Economic Cybernetics from Poltava University of Economics and Trade, and an MBA from INSEAD business school.

Maria Klevtsova,

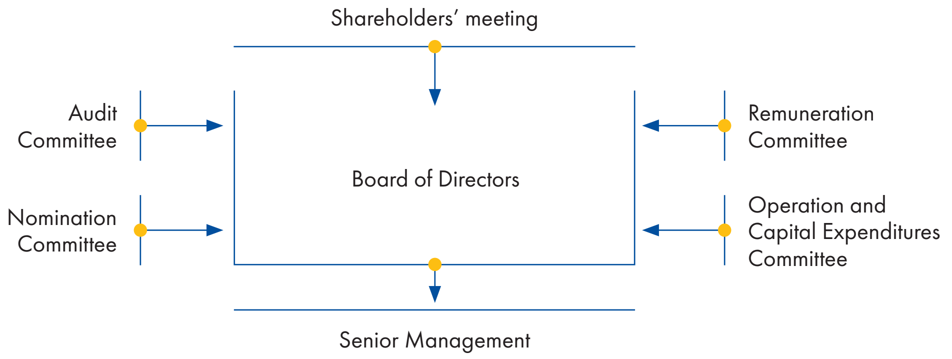
Internal Audit Director

Maria Klevtsova joined Lenta in 2018.

- **Experience:** Prior to joining Lenta, Maria served as Head of internal audit of Prisma Russia for 7 years. She has 19 years' experience in internal and external audit, including 8 years in KPMG.
- **Qualifications:** Maria helds a degree with honours in Accounting and Audit from St Petersburg State University. She also holds a Certified Internal Auditor (CIA) certification.

Corporate governance report

Corporate Governance Framework



Compliance statement

This section sets out how Lenta has applied the principles of good governance during the year.

Lenta's Corporate Governance system is aligned with the recommendations of the abovementioned and is based on the following main principles:

- The Company strives to implement efficient and transparent mechanisms to guarantee the rights and interests of its shareholders in compliance with the law, the Company's Articles of Association and other regulatory documents as well as those recommended by international corporate governance standards.
- The Company adheres to a policy of equal treatment of all shareholders irrespective of the size of their shareholding, nationality or jurisdiction.
- The Company ensures application of its shareholders' rights to participate in the Company's governance by public disclosure of information on the Company's activity, inviting shareholders to participate (vote) in shareholders' (annual and extraordinary) meetings.

Lenta is listed on the MOEX and on the London Stock Exchange. Accordingly, Lenta follows the provisions of the:

1 Recommendations from the Corporate Governance Code (2014)

approved by the Central Bank of Russia and recommended for application by the joint-stock companies with listed securities

2 UK Corporate Governance Code (2018)

- The Company intends to maintain high quality engagement with all stakeholders, including customers, suppliers, workforce and communities

In addition to the Company's Articles of Association, the activities of Lenta management and supervisory bodies, as well as other internal activities, are governed by a set of internal corporate documents, which are available on our website corp.lenta.com

Compliance with UK Corporate Governance Code

The UK Corporate Governance Code ('the Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve good standards of corporate governance. As a company incorporated in the Russian Federation, we are not required to comply with the provisions of the Code. However, we have chosen to comply with the Code to an appropriate and practicable extent.

As of the date of this report, the Board considers that Lenta fully complies in all material respects with the Code, with the exception of the following provisions:

- The Chairman of the Board was not independent on his appointment
- There is not a majority of independent directors on the Board
- The whole Board is available to attend the AGM but it is not a requirement that each member attends

The Board does not consider that the above areas of non-compliance expose the Company to any additional risks.

The Code was revised in July 2018 for application to accounting periods beginning on or after 1 January 2019 and has not been amended since then.

Compliance with the Corporate Governance Code approved by the Bank of Russia

As a company registered in the Russian Federation, we are advised to follow the Corporate Governance Code approved by the Bank of Russia. At the time of publication of this report, the Board of Directors believes that the Company's corporate governance system complies with the main recommendations of the Code, with the exception of the most important ones listed below. Key inconsistencies will be corrected during 2022.

Electronic voting for shareholders;

Providing additional information to shareholders in preparation for holding general meetings;

Formalised remuneration policy for members of the Board of Directors and an internal control system policy.

In 2021, for the first time, we initiated an internal audit of the Company's compliance with the principles and recommendations of the Code in the form recommended by the Bank of Russia, which will be completed in March 2022. Report on compliance with the principles and recommendations based on the results of the completed audit will be considered by the Board of Directors, approved and published no later than the expiration of the deadlines established by Russian law and the Company's charter.

Redomiciliation

Lenta accomplished the redomiciliation to the Russian Federation in the form of an international public joint-stock company effective from 17 February 2021.

Lenta is duly registered as an international public joint-stock company with its legal seat at Oktyabrsky Island, City of Kaliningrad, Kaliningrad Region, Russian Federation. The Company's legal name is, in Russian, Международная компания публичное акционерное общество «Лента» (short form, МКПАО «Лента») and, in English, Lenta International public joint-stock company (short form, Lenta IPJSC).

In November 2021, in continuation of the Company's redomiciliation from Cyprus to the Russian Federation and for the purpose of aligning of the Company's corporate governance system with the requirements of the Company's Articles of Association and the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014 the Board approved the Company's Dividend Policy, as well as Regulations on Board Committees, and formally documented the Internal Audit Charter and Regulations on the Corporate Secretary of the Company.

With effect from 26 November 2021, the Company's ordinary shares have been included into the "Level 1" part of the list of securities admitted to trading on MOEX.

The trading in the Ordinary Shares on MOEX commenced on 1 December 2021.

Leadership

The Chairman leads the Board, ensuring its effectiveness at the same time as taking the interests of the Group's various stakeholders into account and promoting high standards of corporate governance. The roles of Chairman and CEO are distinct and separate.

The Chairman's responsibilities include

- Ensuring that the Directors receive accurate, timely and clear information
- Facilitating the effective contribution of non-executive Directors and engagement between executive and non-executive Directors
- Building an effective Board
- The induction of new Directors and further training for all Directors as required
- Communicating effectively with shareholders and other stakeholders and ensuring the Board develops an understanding of the view of stakeholders
- Leading the performance evaluation of the CEO and non-executive Directors

The CEO's responsibilities include

- Leading the development of the Company's strategic direction and implementing the agreed strategy
- Dentifying and executing new business opportunities
- Managing the Group's risk profile and implementing and maintaining an effective framework of internal controls
- Building and maintaining an effective management team
- Ensuring effective communication with shareholders and regularly updating institutional shareholders on business strategy and performance

The key roles and responsibilities of the Senior Independent Director (SID) include:

- Acting as a sounding board for the Chairman
- Serving as an intermediary for the other Directors when necessary
- Ensuring an annual evaluation of the Board is conducted
- Being available to assist in resolving shareholder concerns, should alternative channels be exhausted
- Holding at least one meeting each year with the independent non-executive Directors without the Chairman being present
- Monitoring the training and development requirements of Directors
- Overseeing the Chairman's appraisal and succession, and
- Ensuring that Committee chairmen conduct performance evaluations of their Committees

Stephen Johnson was the SID throughout the year ending 31 December 2021. He was selected for the role thanks to his extensive experience and expertise in both executive and non-executive capacities in the retail world, including international experience.

Though Mr Johnson has served on the Company Board for more than eleven years, the Board of Directors considers him to be independent, due to the following significant factors:

- He has not received and does not receive any additional remuneration from the Company apart from a director's fee, does not participate in the Company's performance-related pay scheme, and and does not participate in any Company pension scheme.
- He is not and has not been an employee of the Company or the Group within the last five years, does not have any close family ties with any of the Company's advisers, directors or senior employees.
- He holds no cross-directorships and has no significant links with other directors through involvement in other companies or bodies, and does not represent any significant shareholder.

Non-Executive Directors (NEDs)

The NEDs provide an essential independent element to the Board, and a solid foundation for strong corporate governance. They fulfil a vital role in corporate accountability, albeit all Directors are equally accountable under the Russian Federation law. NEDs are required to challenge, in a constructive way, the strategies proposed by the executive Directors. They are also responsible for scrutinising the performance of management in achieving agreed goals and objectives. Furthermore, they play a key role in the functioning of the Board and its Committees.

Between them, the current NEDs have an appropriate balance of skills, experience, knowledge and independent judgement to undertake their roles effectively.

Matters specifically reserved for the decision of Lenta's Board of Directors

Management, strategy and planning

The Board is responsible for the overall management of the Group.

The Board discharges some of its responsibilities directly and discharges others through Board Committees and the Senior Management team. This includes approval of the strategy, for which it has collective responsibility, business plans and budgets, as well as approval of any material restructuring or reorganisation. It also includes the establishment of material new areas of business. The Board also reviews performance in light of the strategy, objectives, business plans and budgets, ensuring that any necessary corrective action is taken.

Operations and transactions

This includes approval of significant capital and non-capital expenditure as well as approval of significant asset disposals and any other transactions that could have a material effect on the strategic or financial plans of the Company and the Group, including making or responding to takeover bids.

Capital structure

The Board approves changes relating to capital structure including allotment of shares, reduction of capital (except under employee share plans) and share buybacks. It also approves major changes to the Group's corporate structure and the Company's listings or its status as a company limited by shares.

Loans and dividends

This includes approval of any substantial new loan or similar facility (including financial leases) from third parties or material amendment to any such facilities including material loans or similar facilities made available to third parties. The Board also oversees the Company's dividend policy, declaration of interim and recommendation of final dividends and approval of other distributions to shareholders.

Public reporting and controls

The Board approves half-yearly results announcements as well as the Annual Report and Accounts. It also approves material changes in principal accounting policies and practices, treasury policies and related risk management strategy and framework. On the recommendation of the Audit Committee, the Board recommends that the Shareholders should appoint or remove the external auditor.

The Board discharges some of its responsibilities directly and discharges others through Board Committees and the Senior Management team

Remuneration

This includes approving the Directors' and Officers' insurance cover and establishing policies and rules relating to share-based incentive schemes. The Board also determines the remuneration policy for executive Directors and certain senior executives. It also recommends that the shareholders should approve the remuneration of the non-executive Directors.

Corporate governance

The Board reviews its own performance and that of its Committees and individual Directors. It is responsible for determining the risk appetite of the Group and ensuring maintenance of an effective system of internal control and risk management.

It also approves and revises policies, including health, safety and environment policies, share dealing rules, the code of conduct, the anti-bribery and anti-corruption policy and corporate governance arrangements. The Board also calls any general meetings and approves documents sent to shareholders. It also recommends any changes to the Company's Charter and considers material litigation or regulatory investigations affecting the Lenta Group. It is responsible for appointment of key corporate advisors.

Board of Directors

The Board of Directors manages, directs and supervises the business of the Company.

The Board oversees the officers of the Company and succession planning. The Board, in some circumstances, may elect a Director to fill an empty seat on the Board. The Board may also establish committees and set their responsibilities.

As shown below, our Directors have a wide range of complementary skills and experience. The Board currently consists of nine Directors, of which three – Michael Lynch-Bell, Julia Solovieva and Stephen Johnson – are judged by the Board to be Independent Directors according to the provisions of the UK Corporate Governance Code and MOEX listing rules.

The remaining six Directors – including the Chairman, Chief Executive Offier and Chief Financial Officer of Lenta LLC – were elected by the shareholders pursuant to the nomination rights of the Major Shareholders.

On 12 November 2021 the Board of Directors issued resolutions to admit Mr Lynch-Bell and Mr Johnson as independent directors despite the existence of formal criteria (having each been members of the Board for more than 7 years) of their affiliation with the Company (term of office).

Investor relations

The Board makes considerable efforts to establish and maintain good relationships with shareholders and the wider investment community. There is regular dialogue with institutional investors during the year, primarily though the Head of Investor Relations and the team.

Corporate Secretary

The Corporate Secretary ensures Lenta's compliance with the requirements of applicable law, the Company's Articles of Association and internal documents regulating the needs and interests of the Company's shareholders. The Corporate Secretary is responsible for safeguarding the rights and interests of shareholders, as well as establishing transparent and effective regulations to secure the rights of shareholders. Full information on the responsibilities of the Corporate Secretary is available on our website corp.lenta.com

The activity of the Corporate Secretary is governed by the Company's Regulations on Corporate Secretary.

The Board of Directors appointed Ekaterina Kitova as Corporate Secretary of Lenta IPJSC on 23 July 2021.

Ekaterina Kitova

The Board of Directors appointed Ekaterina Kitova as Corporate Secretary of Lenta IPJSC on 23 July 2021.

- **Experience:** Ekaterina Kitova has been working as a corporate secretary on behalf of the Company since June 2019.
- **Qualifications:** Ekaterina graduated from the State University – Higher School of Economics in 2006.

The Board of Directors approved the appointment of new Corporate secretary effective 3 March 2022 as Ekaterina decided to step down at the end of February 2022.

Other

The Board also considers other matters of strategic or reputational importance likely to have a significant impact on the Company.

When, exceptionally, decisions on matters specifically reserved for the Board are required to be taken urgently between Board meetings, such decisions shall be taken by a Directors' written resolution. The Board is responsible for managing the business and may exercise all of the business's powers in doing so, except to the extent that any such power must be exercised by the shareholders in accordance with applicable law or the Company's Charter.

The Board also, by virtue of direct or indirect shareholdings in our consolidated subsidiaries, provides strategic management of our affairs and those of our consolidated subsidiaries.

The day-to-day operations of our operating companies are managed by Senior Management as described below.

Board focus during the year

In 2021, the Board considered a wide range of matters, including but not limited to:

- Business strategy
- Covid-19 pandemic response set of actions
- Assessing and monitoring the Company culture
- Budgets and long-term plans for the Company
- Review of estimates of future cash flows, financing arrangements and fundraising
- Industry and competitive environment
- Responding to the changing dynamics of the Russian economy
- Maintaining and increasing efficiency of the Company's development
- Individual business and overall Group performance and future capital expenditures
- The review and execution of mergers and acquisitions transactions
- Development of the Company's corporate governance
- Financial statements and announcements
- Reviewing reports from its Committees
- Shareholder feedback and reports from brokers and analysts
- Risk management and risk oversight

Covid-19

In 2021, the activity of the Board was influenced by the Covid-19 pandemic

While travelling was constrained, Board meetings and the sessions of the committees were held remotely. the Board believes that the remote mode did not affect its performance.

The Board oversaw the set of measures taken by the Senior Management Team to protect the health and well-being of Lenta's employees and customers as well as securing the supply chain.

The measures included transfer of approximately 95% of office employees to home office working, furnish of Lenta stores with safety equipment and supply of PPEs for the company employees.

Anti-bribery and anti-corruption

Lenta has in place the Compliance Programme, which includes our Code of Business Conduct, Hotline and Corporate Guidelines. The purpose of the Programme is to assist in the prevention of unlawful activities by individuals and to comply with current Russian legislation and best practice.

The Board takes a firm stance on bribery and corruption and attaches the utmost importance to the Programme in clarifying the standards expected of all employees of the Group.

The Foundation of the Programme is our Code of Business Conduct, along with the subset of policies and internal guidelines which provide a process for operating in accordance with the rules in specific situations. These policies and guidelines include procedures for dealing with public officials, giving and receipt of gifts and hospitality, due diligence processes carried out on third party business partners, and policies on conflicts of interest.

We carry out regular awareness campaigns across Lenta, and both the Internal Audit Team and external advisers undertake the monitoring and assurance of processes.

Anti-bribery and anti-corruption clauses are included in contracts with the Group's business partners. Lenta's Compliance Officer and Ethics Committee investigates hotline complaints of unethical behaviour with reports to the Audit Committee. As a result, appropriate measures are taken to enhance control and compliance with the Programme.

Lenta undertakes due diligence checks on potential suppliers, customers, consultants, agents, distributors and other business partners to check they are suitable to do business with, are reputable and ethical, and do not commit or engage in any form of violations.

During 2021, all employees, including newcomers, were trained on the Compliance Programme. We reviewed and updated the Group's policies during the year. A number of these policies can be viewed on our website corp.lenta.com

Risk management and control

The Board has overall responsibility for risk management, and determines the Group's risk strategy; it assesses and approves risk appetite and monitors risk exposure consistent with strategic priorities. The Board has established a Group-wide system of risk management and internal control, which identifies and enables risk management and the Board to evaluate and manage the Group's principal risks. Due to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss and is designed to manage rather than eliminate risk.

The effectiveness of the Group's system of internal control is regularly reviewed by the Board, as is the Group's risk management framework, with specific consideration given to material financial, operational and sustainability risks and controls, with appropriate steps taken to address any issues identified.

During 2021, no significant internal control failings were identified.

The Board has authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems. Each Board Committee provides updates on any risks considered within its remit when providing regular updates to the Board.

The Board confirms that throughout 2021 and up to the date of approval of this Annual Report and Accounts, rigorous processes have been in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with Principle C.2 of the Code and the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council.

During 2021, no significant internal control failings were identified.

The Group's approach to risk management, the risks identified and how it profiles these risks is set out in the Risk Management Overview and Principal Risks section on pages 38–43.

Internal audit

Internal Audit provides independent, objective assurance to the Group. This is designed to improve the Group's operations and safeguard the Group's assets and integrity. It advises management on the extent to which systems of internal control and governance processes are appropriate and effective to manage business risk, safeguard the Group's resources and maintain compliance with the Group's policies and legal and regulatory requirements. It advises on ways in which areas of risk can be addressed and provides objective assurance on risk and controls to senior management, the Audit Committee and the Board.

Internal Audit's work is focused on the Group's principal risks; the Head of Internal Audit and the Group Risk function work together when considering the appropriate scope and focus of internal audits. The programme of work of the Internal Audit Department is considered and approved by the Audit Committee, subject to any additional suggestions from the Committee.

The audit plan has space for ad hoc audits as required by the Committee or management.

Under the Internal Audit plan, a number of audits take place across the Group's operations and functions to identify areas for improvement of the Group's internal controls.

Findings are reported to relevant operational management who put in place processes for strengthening controls. Internal Audit follows up on the implementation of recommendations and reports on progress to senior management and to the Audit Committee. The Head of Internal Audit reports regularly to the Chair of the Audit Committee and attends Audit Committee meetings four times a year to present the findings from internal audits.

Political donations

It is the policy of the Group not to give any money for political purposes, nor to make any donations to any political organisations. No such expenditure was incurred during the year.

Effectiveness

The appointment of new Directors is led by the Nomination Committee, the majority of whose members are independent non-executives.

All new Directors receive a personalised induction programme, tailored to their experience, background and particular area of focus. This is designed to develop their knowledge and understanding of the Company's culture and operations.

The programme incorporates a wide-ranging schedule of meetings with Senior Management across the Company, comprehensive briefing materials and opportunities to visit the Company's operations, including sparing time at new store openings, in store and in our distribution network. All Directors have the opportunity to increase their knowledge of the Company through visits to the Company's operations and meetings with senior executives across the business.

The Board makes a careful assessment of the time commitments required from the Chairman and non-executive Directors to discharge their roles properly. This is discussed with candidates as part of the recruitment process and a commitment to the appropriate time requirements is included in engagement letters. Directors are expected to attend every Board meeting and every meeting of any Committee of which they are a member, unless there are exceptional circumstances preventing their attendance. Scheduled Board and Committee meetings are arranged at least a year in advance to allow the Directors to manage other commitments.

The Chairman reviews each Director's development needs as part of the annual performance evaluation process and puts appropriate arrangements in place for specific training. The Nomination Committee reviews the Directors' skills and experience as a group against those needed to oversee and support the Company's future operations, and identifies any gaps. Training is arranged to develop the knowledge and skills of the Directors in a variety of areas relevant to Lenta's business.

Board papers are, ordinarily, circulated approximately a week before each meeting to give the Directors and Committee members sufficient time to fully consider the information.

All Directors have access to the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Conflicts of interest

The Directors have a statutory duty to avoid situations in which they have or could have a direct or indirect interest that conflicts or may conflict with the interests of the Company. A Director has a duty to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she has a personal interest. The Board has a procedure for authorising conflicts or potential conflicts of interest.

Under this procedure, Directors are required to declare all directorships or other appointments outside the Company that could give rise to a conflict or potential conflict of interest.

Board committees

Board and committee attendance during the year

Normally the Board holds at least four meetings in person and a number of ad hoc meetings in person or via teleconference. We consider that any Director, participating via teleconference, videoconference or other digital means shall be considered to be physically present, provided each Director is able to hear all other Directors and, in turn, be heard by all other Directors.

In 2021, due to the outbreak of the Covid-19 pandemic, the Board and Committees' meetings were held online.

The Board also holds regular update calls during the year, but participation is not mandatory.

Board attendance

	Board of Directors (6 meetings)	Audit Committee (4 meetings)	Remuneration Committee (5 meetings)	Nomination Committee (4 meetings)	Operation and Capital Expenditure Committee (6 meetings)
Alexey Mordashov	6	0	0	0	0
Vladimir Sorokin	6	4	5	4	6
Stephen Johnson	6	4	5	4	4
Alexey Kulichenko	6	4	0	0	0
Rud Pedersen	6	4	5	4	6
Roman Vasilkov	6	4	0	0	6
Michael Lynch-Bell	6	4	5	4	0
Julia Solovieva	6	4	5	4	3
Tomas Korganas	5	0	0	0	5

Changes to the Board in 2021

There were no changes to the Board of Directors in 2021.

Length of service and independence of non-executive directors

Stephen Johnson (Independent)	Since 2010	Considered to be independent by the Board
Michael Lynch-Bell (Independent)	Since 2013	Considered to be ndependent by the Board
Julia Solovieva (Independent)	Since 2018	Considered to be independent by the Board

Month	Day	Meeting
February	18	Nomination Committee Remuneration Committee Audit Committee Operation and Capex Committee meeting
February	19	Board meeting
March	26	Remuneration Committee
June	22	Operation and Capex Committee
July	22	Nomination Committee Remuneration Committee Audit Committee Operation and Capex Committee
July	23	Board of Directors
September	28	Board of Directors
October	21	Nomination Committee Remuneration Committee Audit Committee Operation and Capex Committee
October	22	Board of Directors;
November	22	Operation and Capex Committee;
December	14	Nomination Committee Remuneration Committee meeting Audit Committee Operation and Capex Committee
December	15	Board of Directors

The terms of reference for Lenta's Board were last revised and updated in February 2021 and the Committees' terms of reference – in November 2021.

Details are set out in the Corporate Governance section of the Company website: corp.lenta.com

Special Committee

Given Severgroup LLC's common ownership of Lenta and Utkonos, an independent committee of the Board of Directors (the "Special Committee") was formed, to review, consider, negotiate, and approve the transaction and to consider the contemplated closed subscription share offering to fund the transaction. The Special Committee comprised Lenta's three independent directors, and was chaired by Stephen Johnson, the Senior independent director.

The Special Committee retained Citigroup Global Markets Limited ("Citi") to advise on the transaction, and Citi has rendered a fairness opinion stating that the consideration to be paid in the Transaction by Lenta is fair.

In addition, a thorough due diligence and valuation process was conducted through the engagement of an international Big 4 consultancy, evaluating Utkonos' business model and recent performance, future growth prospects, and the potential synergies that Lenta and Utkonos can together achieve, primarily in the areas of commercial, logistics and marketing.

The Special Committee unanimously approved the transaction, and in accordance with Lenta's Articles of Association, the Board of Directors approved the transaction. In light of the interest in both Lenta and the Seller, Alexey Mordashov did not vote on the deal approval at the Board meeting. The Company's Board of Directors also approved the convocation of the Extraordinary General Meeting (the "EGM") to approve the closed subscription share offering to finance the acquisition. The quorum of the Board included other Directors of the Severgroup.

The Committee was dissolved by the Board of Directors' resolution dated the 15th of December with effect from the 31st of December.

The remuneration for the Independent directors-members of the Special Committee is set out in the table below:

Member of the Committee	Amount payable, USD
Stephen Johnson	21,656.00
Michael Lynch-Bell	20,344.00
Julia Solovieva	22,252.00

Audit committee report

The Audit Committee supports the Board in its responsibilities with regard to corporate reporting and risk management and internal controls, as well as with maintaining a relationship with the Company's external auditor.

The Committee's activities include the review of internal control systems and risk management, compliance with financial reporting requirements and the scope, results and cost effectiveness of the external audit and the internal audit function.

Although the Committee's terms of reference set out very specific duties, it serves a much wider purpose in reassuring shareholders that their interests are properly protected with regard to the Company's financial management and reporting.

As part of our commitment to good corporate governance, we aim to do this in line with international best practice.

The Committee regularly reports to the Board on the matters it discusses. The Board has delegated responsibility to the Committee for reviewing the Company's procedures and system of internal control in relation to risk management, with a focus on the methodology used by senior management. It also oversees the internal and external audit processes that report to it.

The Chairman, CEO and CFO, the Company Secretary, Head of Internal Audit, external auditors and Chief Legal Counsel are invited to attend all Committee meetings.

Other members of senior management are invited to attend to discuss any matters specifically relevant to them.

Committee members

Michael Lynch-Bell
(Independent, Chairman)

Julia Solovieva
(Independent)

Stephen Johnson
(Independent)

At the end of each meeting, where they are in attendance, the Committee offers both the external auditor and Head of Internal Audit the opportunity to meet with them without members of senior management being present.

Role and responsibilities

The key roles and responsibilities of the Audit Committee include:

- Monitoring and challenging, where necessary, the integrity of the financial statements and half yearly results and any other formal announcement relating to financial performance
- Reviewing and challenging, where necessary, the actions and judgements of management, taking into account the views of the external auditor, in relation to the Company's financial statements, strategic review, financial review, governance statement and half yearly reports, including the going concern assumption and the long-term viability statement
- Reviewing the Company's internal controls, including financial controls and updated risk management systems
- Reviewing the Company's IT security measures and IT control systems
- Reviewing the content of the Annual and interim reports and Accounts when requested by the Board
- Reviewing reports on changes in tax legislation and management's proposed response
- Reviewing the Company's significant insurance arrangements
- Reviewing the Company's treasury policy
- Reviewing the Company's procedures for detecting and preventing bribery and fraud
- Reviewing the Company's compliance with the UK Corporate Governance Code
- Overseeing and reviewing the Internal Audit function, its terms of reference, effectiveness, plan, budget and reporting
- Reviewing the Company's speakup policy and receiving reports on matters raised via the speakup facilities
- Recommending the appointment of the external auditor and overseeing the relationship
- Reviewing the terms of reference of the Committee, the results of the performance evaluation and the training requirements of Committee members
- Reporting to the Board on how the Committee has discharged its responsibilities

A copy of the Committee's full terms of reference is available on the Company's website: corp.lenta.com

External auditor

The External auditor is elected at the Annual Shareholders' Meeting at the recommendation of the Board of Directors.

The Committee and the Board approved the terms of engagement of the external auditor, the fees paid to it and the scope of work undertaken.

The Committee also reviewed the performance and effectiveness of the external auditor in respect of the year ended 31 December 2021.

Consideration was given to the performance, objectivity, independence, resources and relevant experience of the external auditor. In this process, the Committee reviewed a report from the external auditor on all relationships that might reasonably have a bearing on its independence and the audit partner and staff's objectivity, and the related safeguards and procedures.

The Committee also performed its annual review of the policies on the external auditor's independence and objectivity, their use for non-audit services and the recruitment of former employees of the external auditor.

To safeguard auditor objectivity and independence, the Committee oversees the process for the approval of all non-audit services provided by EY.

Consideration is given to whether it is in Lenta's best interests that non-audit services are purchased from EY.

The Committee received reports on the findings of the external auditor during its half yearly review and annual audit.

It reviewed the recommendations made to management by the external auditor and management's responses, as well as the letters of representation to the external auditor.

Procedures used to select the external auditors and ensuring their independence and objectivity are set in the Committee's terms of reference.

Professional fees billed by Ernst & Young LLC are shown in the table below.

	2021, kRUB	2020, kRUB
Audit of consolidated financial statements	21,684	29,222
Consulting and other non-audit services	15,238	12,844
Total fees	**36,922**	**42,066**

Significant issues considered by the audit committee

The significant issues – and how they were addressed – are set out below.

Suppliers' allowances

The Committee reviewed the accounting for and recognition of suppliers' allowances received for the provision of services. The review included consideration of the types of allowances received, the period of coverage and the timing of receipt. Based on this review, the Committee is satisfied that the allowances are recognised in the period in which they are earned and that appropriate disclosure has been made in the financial statements.

Inventories and inventory allowances

The Committee reviewed the accounting for inventories and the recognition of write-downs during the period. The review took into consideration the calculation of the cost of inventories, the identification of slow-moving inventories and the reasons why shrinkage had occurred. Based on this review, the Committee agreed with the accounting treatment and disclosures adopted by management.

Capital construction

The Committee examined the accounting for capital construction including the recognition of direct costs incurred, the allocation of directly attributable overheads and land lease expense. The review included a consideration of potential fraud risk, the construction tender process and the acquisition or leasing of land. The Committee agreed with the accounting treatment and disclosures adopted by management.

Ethics Committee

The Committee reviewed the work of the Ethics Committee; in particular, its report on the Company hotline. The Audit Committee approved measures taken by management to mitigate risks of impropriety and hold culpable employees to account.

Taxation

The Committee received regular updates on tax developments in Russia from the management and the Company's advisors, together with the management's interpretation of the impact of current tax legislation on the Company. The Committee concurred with the management's judgement on the positions adopted and the related disclosures.

Going concern

The Committee reviewed the management's adoption of the going concern basis of accounting. The management had taken into account the Company's financial position, available borrowing facilities, loan covenant compliance, planned store opening programme and the anticipated cash flows and related expenditures from our retail stores.

The Committee considered the position taken by the management and, taking into account the external auditor's review, concluded that the management's recommendation to prepare the financial statements on a going concern basis was appropriate. The annual report also includes a long-term viability statement, which can be found on page 41.

The Committee considered the statement and approved management's disclosures.

Activities in 2021

In 2021, the Committee reviewed the Company's financial results, including significant financial reporting estimates and judgements, as well as the financial disclosures in the interim management statements.

It also monitored the Company's system of internal control and management of the Company's risks and oversaw the relationship with the external auditor and with the internal audit function.

The Committee worked on improvements to the Company's insurance processes to guarantee all insurance is properly covered by the Company's dedicated policy.

We reviewed the reports from our risk manager and the recommendations for changes to our risk matrix. We also focused on business continuity management as well as key Company's policies, such as Code of Business Conduct, Anti-Corruption Policy, Commercial Policy and others.

We continued to monitor the implementation of the recommendations from the IT security review completed during 2020.

The Company's external auditor EY contributes a further independent perspective on certain aspects of the Company's financial control systems and reports both to the Audit Committee and directly to the Board.

In October 2021, we started a tender process to choose the external audit provider. The Committee analysed proposals of the Big 4 companies: Deloitte, Ernst&Young, KPMG and PricewaterhouseCoopers. In accordance with Lenta's Tender Policy, the Chairman of the Audit Committee and CFO as well as representatives of key Lenta functions, together comprising the Tender Committee, held meetings with respective companies to ensure comprehensive and fair analysis of their proposals.

The proposals were evaluated by the Tender Committee against technical requirements and scored separately by CFO and the Accounting team. In result of the tendering process, the Tender Committee voted for Deloitte as external audit provider for the period from 2022 to 2026 followed by respective recommendation by the Audit Committee to the Board.

The Committee oversaw the process of appointing the new Internal Audit Director of Lenta.

The Committee also worked in cooperation with the Boar on the following issues:the approach to cyber risks and insurance; ESG strategy approval; the 2 major store acquisitions; impairment and redomicilliation.

As the Company has made a long-term viability statement in this Annual Report, the Committee also considered management's assumptions and disclosures relating to it.

Looking ahead to the coming year, the Committee will maintain its focus on the audit and assurance processes within the business. These include the monitoring of key risks as well as tax developments that might affect the Group as well as acquisition of Utkonos and acquisition accounting. In conjunction with management, the Committee will also review and assess the implications of new and proposed accounting standards, the Utkonos acquisition and acquisition accounting.

Nomination Committee report

The Nomination Committee facilitates the efficient operation of the Board, pre-addresses matters concerning the implementation of succession planning, and strengthen the professional profile of the Board.
The Committee is an advisory body of the Board and is fully accountable to it. All proposals to the Board developed by the Committee are advisory.

Committee members

Stephen Johnson
(Independent, Chairman)

Michael Lynch-Bell
(Independent)

Julia Solovieva
(Independent)

Alexey Mordashov
(Non-executive)

Role and responsibilities

The key roles and responsibilities of the Nomination Committee remain the same as in previous years and include:

- Ensuring that proper procedures are established for the nomination, selection and training of the Company's Directors and Senior Management
- Keeping under review the size, structure, balance of skills, experience, independence, knowledge and general diversity of the Board to ensure the balance and composition of the Board and its Committees remain appropriate
- Making recommendations to the Board of Directors' conflicts of interest for authorisation, where appropriate
- Making recommendations to the Board regarding the appointment of new Directors, and identifying, interviewing, selecting, and determining the independence of candidates with suitable industry or key competency experience
- Reviewing Board level, Senior Management and Company-wide succession planning and other human resources-related matters
- Reviewing the leadership needs of the Company, both executive and non-executive, to ensure the continued ability of the organisation to compete in the marketplace. A copy of the Committee's full terms of reference is available on the Company's website: corp.lenta.com
- The Human Resources Director may be invited to attend any meeting of the Committee, except for portions of the meetings where their presence would be inappropriate, as determined by the Committee Chairman.

There are 4 Committee meetings scheduled for 2022.

Performance appraisal system

Lenta has a very well-developed system for performance appraisal across all functions in the business. This is embedded in the way the company works and is used to manage performance and identify high achievers with development needs and the potential to move into more senior roles.

Lenta's appraisal system plays an important part in the Company's succession planning process. The Committee receives regular reports on the conduct of the appraisal process and the outputs from appraisals for all levels of employees, with particular focus on the more senior levels of the management team.

Succession planning

Lenta continues to be able to offer significant and exciting opportunities for its high-performing employees. One of our key objectives is to ensure there are role model opportunities for talented people to progress their careers at Lenta, and that any vacant positions can be filled with the minimum of disruption to the business. Our approach is kept under constant review within the business and is regularly examined by the Committee.

Board performance

Lenta's policy is to assess Board performance annually, with an external review every three years. In 2020, the Board executed an internal evaluation, the results of which have been analysed. The recommendations received as the result of the evaluation, were implemented during 2021.

Activities in 2021

1

The Committee has had a busy year. Our focus has been on ensuring that Lenta has adequate succession planning and organisational improvement, both for the Executive Directors and for the Board, as well across the wider business.

2

The Committee plays an active role in reviewing changes to the Senior Management Team, and in 2021 appointed Andreas Jueterbock as Chief Operational Officer and Igor Ovsienko as Chief Supply Chain Officer after Edward Doeffinger and Joern Arhhold stepped down. These Internal promotions have been made as part of the Company's well established succession planning programme.

3

The Committee recommended that the Board should appoint Maria Klevtsova as Internal Audit Director, who took over Anna Logunova; and oversaw the process of recruiting the new Chief Information Officer Sergey Sergeev to replace Sergey Korotkov.

4

The Committee continued to review the organisational improvement project that has been ongoing inside the business over the last 12 months including approving the scope of the project, which is to ensure that the organisational structure of the Company fits the requirements of Lenta's long-term strategy.

5

The Committee also supported the business in developing its organisation structure to better support the growing size and importance of the small format businesses during the course of the year.

6

Finally, we also oversaw the Board's performance and its appraisal as well as scrutinising our succession planning process and key personnel retention. The market in Russia for talented retail employees continues to be strong and Lenta's highly professional workforce remains a target for our competitors. Our objective is to ensure that our succession planning process is fit for purpose and we have well trained professionals to drive our business.

Remuneration Committee report

The principal task of the Remuneration Committee is to ensure that Lenta is able to recruit, motivate and retain the right talented and experienced people, enabling it to continue delivering its growth plans as well as managing the business successfully.

Committee members

Michael Lynch-Bell
(Independent, Chairman)

Stephen Johnson
(Independent)

Julia Solovieva
(Independent)

The Committee seeks to do this in several ways:

- **Salaries:** Base salaries are kept under review with internal and external benchmarking. The Committee works closely with the Senior Management Team to ensure that necessary salary increases are identified and implemented in a timely manner based on both labour market and individual performance.
- **Annual Bonus:** Lenta operates a Company-wide bonus plan, monthly and quarterly for stores and DCs line personnel, quarterly and annually for head office employees and management in stores and the DCs. The KPIs for these plans are set annually by the Committee in consultation with the CEO and HR Director. The Committee is mindful that annual bonus payments are not just a reward for great performance but also a significant element in retaining and recruiting good people. During 2021, Lenta achieved very good results and the bonus payout for corporate KPIs for top 100 employees is achieved at 105% of target.
- **Incentive Plans:** The Company operates a number of long-term incentive plans for both senior and middle management. These are designed to ensure reward for – and retention of – managers against a set of performance criteria, which are aligned with shareholder interests.

Roles, responsibilities and activities during the year

The key roles and responsibilities of the Remuneration Committee include:

- Determining and recommending the broad policy for executive remuneration within the Group
- Determining, on behalf of the Board, the remuneration of the executive Directors and senior management;
- Approving the design of, and determining targets for any performance-related plans
- Making recommendations regarding employee equity participation schemes
- Determining the policy for and scope of service agreements and termination payments

A copy of the Committee's full terms of reference is available on the Company's website: corp.lenta.com

Incentive plan for senior management

The Company operates a number of long-term incentive plans for both the senior and middle management.

In 2020, the new Lenta Top Member Award (LTMA) combining long-term and short-term incentive programmes was introduced as follows in order to assure better alignment between interests of the management and shareholders and improve the retention power of award:

- LTMA offers the same structure of award for the senior and middle management.
- The LTMA award is granted every year subject to approval of the Remuneration Committee.
- LTMA is linked to the same KPIs as the annual bonus.
- LTMA is the combination of annual bonus and LTI award, target award amounts for both programmes were merged and treated as one award pool.
- The actual LTMA award depends on achievement of annual bonus KPIs as well as individual performance evaluation.
- The vesting period of the award is 3 years: 50% of this award pool is paid in April of the year following grant year and remaining 50% is paid in 2 equal instalments over the following 2 years.
- The new LTMA award is 100% cash based.
- Award target amount and eligibility are based on job grade.
- Manager's eligibility to receive the LTMA award is conditional on their employment with Lenta and compliance with certain covenants, including confidentiality, noncompetition and non-solicitation.

The LTMA scheme is given below
Award = (Salary × 12) × Target % of award × % of KPI achievement × Performance management coefficient

The interests in the Company's share capital held by Senior Management and the remuneration received by the Chairman and the non-executive Directors are set out on page 71. The Directors' interests in the Company's share capital are set out on page 72.

The combined short term (annual bonus) and long term (LTI) award pool 2021 was approved. This amount is based on 2021 corporate KPI achievement; 50% of it is payable in April 2021 as annual bonus and remaining 50% over next 2 years, fully vesting in 2023.

Due to redomiciliation of Lenta Ltd in 2020, it was agreed that it is more practical to modify share based awards granted prior to 2020 into cash based awards. The vesting period remained the same.

2021 annual bonus scheme approval

The Committee approved the bonus KPIs, target and payout scales for 2021.

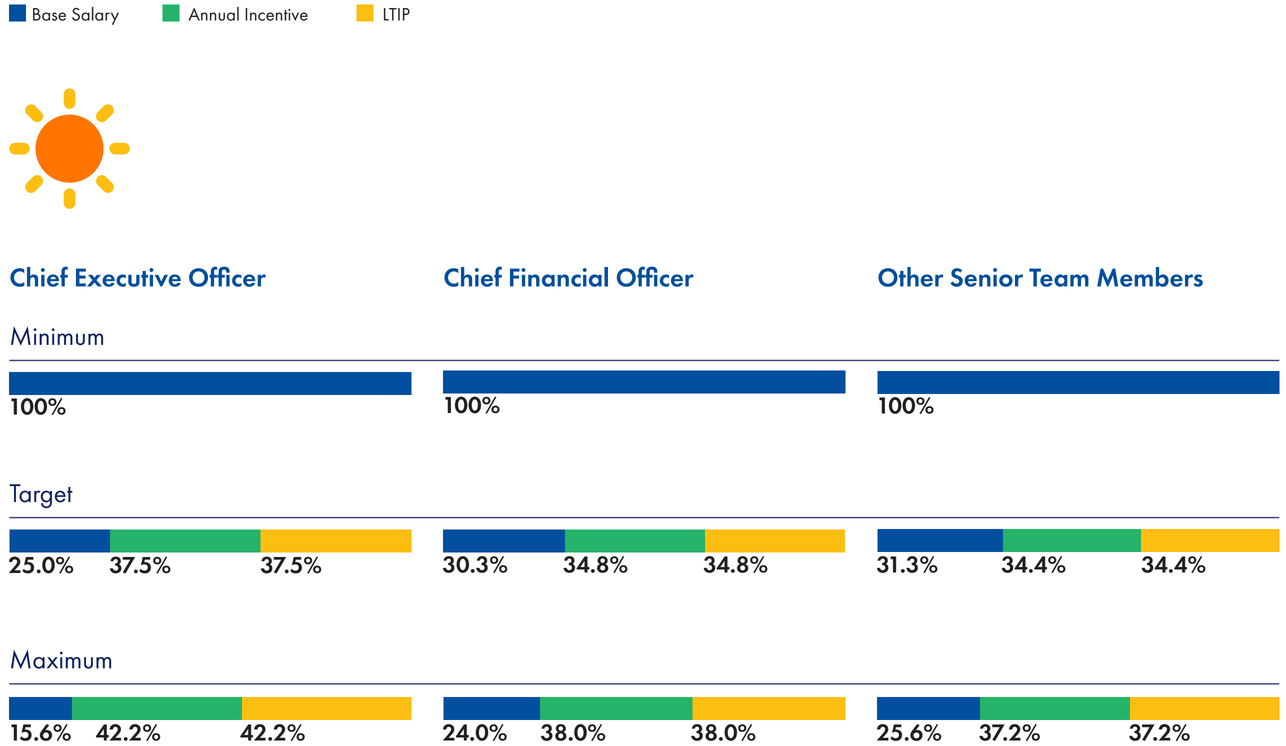
Salary review in comparison to labour market

The Committee reviewed the labour market situation and salary dynamics in Russia and it was decided to apply salaries indexation for Lenta's front-line employees.

Summary of senior management team remuneration policy

Element	Principles	Opportunity
Base pay	Base pay is reviewed annually by the Remuneration Committee, considering a number of factors, including: • Individual performance evaluation • Salaries in comparable roles in the same industry and activities scope.	There is no set maximum or minimum, it is in line with labour market trends and/or individual role scope changes.
Benefits	• Company car, for some senior managers with a driver • Medical insurance with family coverage • Relocation support • Partial reimbursement of school fees for expatriates' children attending school in Russia	There are maximums set for each compensation element depending on the job grade.
Annual bonus	All senior management are eligible for the annual bonus scheme, which is a discretionary, non-contractual scheme. Performance is measured against quantifiable financial targets, which are set at the start of the year and approved by the Remuneration Committee. In addition to financial targets, the bonus is affected by the individual performance evaluation, which may increase or decrease the payout.	Target annual bonus for senior management is 100% of annual base pay.
Incentive plan	All senior managers are eligible for the long-term incentive plan (LTIP) that is linked to business performance indicators and is cash based subject to the Remuneration Committee's approval. The LTIP awards are granted annually with a vesting period of three years. A senior manager's eligibility to receive shares is conditional on his or her employment with Lenta and compliance with certain covenants, including confidentiality, non-competition and non-solicitation covenants.	Maximum target LTIP annual value is 130% of annual salary; the actual amount varies between senior managers based on their job grade and individual performance evaluation.

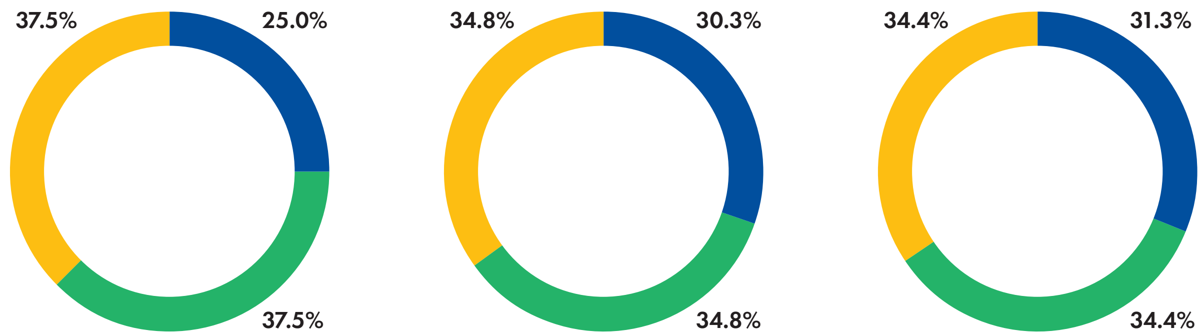
Pay structure of CEO, CFO and Senior Management Team



CEO total cash reward (fixed vs.variable target)

CFO total cash reward (fixed vs.variable target)

Other Senior Team Members Total Cash Reward



Strategic alignment of pay

The table below shows the integration between Lenta's financial key performance indicators and the senior remuneration framework for 2020/21. This demonstrates a clear linkage between performance metrics, payments to Managers and business performance over the short and long term.

	KPI	Incentive scheme
Financial objectives		
Company revenue	Turnover	Annual Bonus Scheme, LTMA
Increase earnings and returns	EBITDA	Annual Bonus Scheme, LTMA
Increase shareholder value	Rolling TWC	Annual Bonus Scheme, LTMA
Non-financial objectives		
Efficient operations	Productivity	Annual Bonus Scheme
Sales space growth	Number of openings 2021	Annual Bonus Scheme

Non-executive Directors' fees

	Amount payable (USD)
Base fee for non-executive Directors	165,000
Additional fees:	
Senior Independent Director	25,000
Chairman of the Audit Committee	40,000
Chairman of the Remuneration Committee	17,500
Chairman of the Nomination Committee	17,500
Members of the Audit and Capital Expenditure Committee	15,000
Members of the Nomination and Remuneration Committee	10,000

Interests of Directors in Lenta shares are summarised in the table below:

Name of director	Total holding as of 31 Dec 2021 (interest in shares)	Approximate holding as of 31 Dec 2021 (% of share capital)
Stephen Johnson	1	less than 0.01%
Michael Lynch-Bell	3,200	less than 0.01%
Julia Solovieva		
Alexey Kulichenko		
Roman Vasilkov		
Tomas Korganas		
Vladimir Sorokin	513,445	less than 0.01%
Rud Pedersen		

In addition, Alexey Mordashov is the controlling shareholder in Severgroup LLC which owns 76,110,584 shares of the Company, which represents 77.99% of the share capital or 78.73% of the voting rights.

Operation and capital expenditure committee report

Role and responsibilities

The key roles and responsibilities of the Operation and Capital Expenditure Committee include:

- Advising the Board with regard to the overall capital expenditure strategy of the Group
- Reviewing the Company's processes for approving capital expenditure projects
- Approving the limits of authority for capex-related decisions
- Reviewing and approving all capex and mergers and acquisitions projects within the Committee's limits of authority
- Reviewing and making recommendations on how the overall capex plan aligns with the Company's strategy
- Endeavouring to ensure that improvement programmes relating to the design, construction and operation of new stores are defined and implemented in cooperation with management
- Monitoring capex projects' returns and making adjustments to the capex processes to reflect the lessons learned

There are 4 Committee meetings scheduled for 2022; this number may be increased as necessary.

A copy of the Committee's full terms of reference is available on the Company's website: corp.lenta.com

Committee members

Roman Vasilkov
(Independent, Chairman)

Stephen Johnson
(Independent)

Tomas Korganas
(Non-executive)

Activities in 2021

It was an eventful year for the Committee busy with projects to support the growth strategy of the Company with the focus on the efficiency of expenditure. In 2020, the Committee continued evaluating opportunities in the market reviewing and making recommendations to the Board on the Company's investment strategy.

The Committee reviewed over 30 projects during the year.

These include new stores pipeline, existing stores performance, Lenta Online development as well as projects that ensure the compliance of the Company's operations with existing legislation.

The Committee continued to focus on informational and technical solutions to develop client-centric activities and processes as well as initiatives to enhance customer experience and champion offer in line with the Company's strategy.

Within the efficiency agenda, the Committee recommended to the Board to terminate agreement with ADG Group that Lenta entered in early 2017 to lease 36 premises for supermarkets, due to underperformance of the opened stores.

Relations with shareholders

We are committed to conducting constructive dialogue with shareholders to ensure that we understand what is important to them and enable clear communication of our position. The CEO and CFO hold regular meetings with shareholders and update the Board on the outcomes of those meetings. In 2021, due to the Covid-19 pandemic, all meetings with shareholders were conducted via video and conference calls.

CFO keeps the Board informed of investor, broker and analyst sentiment, and presents a report on the topic to the Board at each scheduled Board meeting.

We support engagement with institutional shareholders as envisaged by the Stewardship Code and have a dedicated investor relations team focused on communicating with tnem via a dedicated investor website, one-on-one meetings and conference calls.

At our AGM, all resolutions are proposed and voted upon individually by shareholders or their proxies. All votes taken during the AGM are by way of a poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting.

Schedule of investor calls in 2022[1]

Month	Date	Day
February	21	Monday
April	25	Monday
July	25	Monday
October	21	Friday

We, members of the Board, confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of Lenta IPJSC and its subsidiaries taken as a whole.

This annual report includes a fair review of the development and performance of the business and the position of Lenta IPJSC and its subsidiaries, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

Alexey Mordashov
Chairman, Lenta IPJSC
21 February 2022

[1] Dates and time are subject to change

03

Financial Statements

Consolidated financial statements for the year ended 31 December 2021

February 2022

Board of Directors' responsibility statement

Directors are responsible for preparing these consolidated financial statements that give a true and fair view of the financial position of Lenta IPJSC and its subsidiaries as of 31 December 2021 and of the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In preparing the consolidated financial statements, the Directors are 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 is 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

The Directors are 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 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
- Preventing and detecting fraud and other irregularities

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by Directors on 18 February 2022.

On behalf of the Directors as authorised by the Board of Directors

Vladimir Sorokin (Director)
Rud Pedersen (Director)

Independent auditor's report

To the shareholder of Lenta IPJSC, the Board of Directors of Lenta IPJSC

Opinion

We have audited the consolidated financial statements of Lenta IPJSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, and consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current non-financial assets	
As a result of impairment testing held for the smallest group of assets that can generate independent cash flows, the Group recognised a reversal of impairment of property, plant and equipment in the amount of RUB 369,671 thousand. Impairment testing for property, plant and equipment and right-of-use assets was one of the matters of most significance in our audit because the balance of property, plant and equipment and right-of-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgement, including judgements about future cash flows, capital expenditures and the discount rate, as well as about assumptions used in the assessment. Property, plant and equipment and impairment testing are disclosed in Note 7 to the consolidated financial statements.	Our procedures in relation to impairment testing of property, plant and equipment and right-of-use assets performed by management included an assessment of key management assumptions, including those in respect of forecast revenue and operating expenses. We, among others, compared management assumptions with historical data. We also analysed discount rates used by management. We engaged our internal valuation specialists in performing these procedures. We performed the sensitivity analysis to determine whether a reasonably possible change in key assumptions would result in the carrying amount exceeding the recoverable amount. We analysed the accuracy of previous budget and forecast data prepared by management. We verified the mathematical accuracy of impairment tests. We assessed disclosures in the consolidated financial statements.
Recognition of suppliers' allowances	
The Group receives various types of allowances from suppliers in connection with the purchase of goods for resale in the form of volume rebates and other payments. The recognition of allowances was one of the matters of most significance in our audit because it has a significant impact on trade and other receivables, cost of goods sold and inventories. In addition, management exercises judgement in determining the period over which these allowances should be recognised considering the nature and the level of fulfilment of the Group's obligations and estimates of purchase volumes. Information about suppliers' rebates receivable and accounts receivable on suppliers' advertising is disclosed in Note 15 to the consolidated financial statements.	We compared the terms of providing allowances used in the calculation of allowances recognised to supporting documents approved by individual suppliers. We analysed the assumptions underlying management estimates of recognised amounts of allowances from suppliers, such as the degree of fulfilment of conditions provided for in agreements with suppliers. On a sample basis, among others, we received direct confirmations of outstanding balances from suppliers. We agreed the balances of suppliers' allowances receivables to the post yearend cash settlements.
Provisional purchase price allocation assessment	
In August and September 2021 the Group purchased 100% stake in Billa Realty LLC, Billa LLC (Billa Group) and 100% stake in Semya Retail LLC and Bolshaya Semya LLC (Semya Group) and obtained control over these entities. The provisional purchase price allocation assessment was one of the matters of most significance in our audit due to the fact that the goodwill from these acquisitions, represented by the excess of the consideration paid over the fair value of identifiable net assets of the acquired companies significantly affected the Group's assets. Determining the fair value of assets and liabilities and the value of separately identifiable intangible assets acquired during business combination involves significant judgements and estimates by the management. The acquisitions of subsidiaries are disclosed in Note 8 to the consolidated financial statements.	In the course of the audit procedures we read the sale-purchase agreements and other transaction documentation necessary to recognise business combinations transactions. We evaluated the methodology and assumptions behind the significant judgements involved in the determination of the provisional fair values of the identifiable net assets acquired. We involved our internal valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets and liabilities of the acquired subsidiaries, and, among others, analysed, on a sample basis, estimates of the fair values of assets and liabilities of the subsidiaries acquired. We analysed management's assessment of the nature and value of separately identifiable intangible assets acquired. We assessed the presentation and disclosures of business combinations in the consolidated financial statements.

Emphasis of matter

We draw attention to Note 1 to the consolidated financial statements, which discloses the fact that on 17 February 2021 the Company was registered as an international public joint-stock company in the Russian Federation. Our opinion is not modified in respect of this matter.

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may

cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is I.Y. Ananyev.

I.Y. Ananyev, acting on behalf of Ernst & Young LLC on the basis of power of attorney dated 13 October 2020, partner in charge of the audit resulting in this independent auditor's report (main registration number 21906101744)
18 February 2022

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: 77 Sadovnicheskaya Embankment, Building 1, Moscow, 115035, Russia.

Ernst & Young LLC is a member of Self-regulatory organisation of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations, main registration number 12006020327.

Details of the audited entity

Name: Lenta IPJSC

Record made in the State Register of Legal Entities on 17 February 2021, State Registration Number 1213900001545.

Address: 25 Solnechnyy Boulevard, Room B/66, Kaliningrad, Kaliningrad Region, 236006, Russia.

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment	7	170,369,752	163,900,997
Prepayments for construction	9	178,546	557,739
Right-of-use assets	10	59,720,407	33,771,261
Goodwill	8	8,383,630	–
Intangible assets	12	3,064,387	2,580,972
Deferred tax assets	21	81,338	–
Other non-current assets	13	482,524	445,171
Total non-current assets		**242,280,584**	**201,256,140**
Current assets			
Inventories	14	51,352,966	42,071,533
Trade and other receivables	15	13,124,546	10,902,839
Advances paid	16	2,903,422	1,754,066
Taxes recoverable		63,254	361,376
Prepaid expenses		236,760	306,354
Cash and cash equivalents	17	33,326,489	21,808,874
Total current assets		**101,007,437**	**77,205,042**
TOTAL ASSETS		**343,288,021**	**278,461,182**
Equity and liabilities			
Equity			
Share capital	18	8,906	6,711
Additional paid-in capital	18	27,053,874	27,056,040
Share options reserve	29	–	46,943
Treasury shares		(1,011,190)	(1,011,190)
Retained earnings		80,909,333	68,382,844
Total equity		**106,960,923**	**94,481,348**
Liabilities			
Non-current liabilities			
Long-term borrowings	20	66,912,432	45,941,038
Long-term lease liabilities	10	54,149,744	31,327,074
Other non-current liabilities	29	503,091	–
Deferred tax liabilities	21	7,485,860	6,522,551
Total non-current liabilities		**129,051,127**	**83,790,663**
Current liabilities			
Trade and other payables	22	74,031,012	61,466,433
Short-term borrowings and short-term portion of longterm borrowings	20	21,502,003	33,010,536
Short-term lease liabilities	10	6,398,401	3,114,433
Contract liabilities	23	1,108,388	790,075
Advances received		350,197	173,063
Other taxes payable	24	2,456,537	1,407,748
Current income tax payable		1,429,433	226,883
Total current liabilities		**107,275,971**	**100,189,171**
Total liabilities		**236,327,098**	**183,979,834**
TOTAL EQUITY AND LIABILITIES		**343,288,021**	**278,461,182**

On 18 February 2022 the Board of Directors of Lenta IPJSC authorised these consolidated financial statements.

Vladimir Sorokin (Director)

Rud Pedersen (Director)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Sales		483,640,887	445,543,829
Cost of sales	25	(372,280,247)	(343,728,186)
Gross profit		**111,360,640**	**101,815,643**
Selling, general and administrative expenses	26	(91,447,017)	(80,114,179)
Other operating income	27	6,579,047	5,199,902
Other operating expenses	27	(1,234,352)	(522,470)
Operating profit before impairment		**25,258,318**	**26,378,896**
Reversal of impairment of non-financial assets	7, 10	163,906	2,907,125
Operating profit		**25,422,224**	**29,286,021**
Interest expense	28	(9,323,651)	(9,512,254)
Interest income		895,365	609,970
Foreign exchange losses		(523,448)	(386,122)
Profit before income tax		**16,470,490**	**19,997,615**
Income tax expense	21	(3,990,944)	(3,456,984)
Profit for the year		**12,479,546**	**16,540,631**
Other comprehensive income for the year, net of tax		**–**	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**12,479,546**	**16,540,631**
Earnings per share (in thousands of Russian roubles per share)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	19	0.129	0.171

	Note	Year ended 31 December 2021	Year ended 31 December 2020*
Cash flows from operating activities			
Profit before income tax		16,470,490	19,997,615
Adjustments for:			
Net loss on disposal of property, plant and equipment	27	260,038	159,897
Loss on disposal of intangible assets	27	121	4,672
Net gain on disposal of right-of-use assets	27	(23,713)	(41,448)
Interest expense	28	9,323,651	9,512,254
Interest income		(895,365)	(609,970)
(Reversal of write-down) / write-down of inventories to net realisable value	14	(402,707)	595,286
Net foreign exchange losses		523,448	386,122
Change in expected credit losses of accounts receivable	27	72,572	19,371
Changes in allowance for impairment and write-offs of advances paid and prepayments for construction	27	328,689	67,147
Depreciation and amortisation	7, 10, 12	21,626,854	18,540,233
Reversal of impairment of non-financial assets	7, 10	(163,906)	(2,907,125)
Share options expense	29	–	463,590
		47,120,172	**46,187,644**
Movements in working capital			
Increase in trade and other receivables	15	(1,734,571)	(2,388,253)
Increase in advances paid	16	(892,002)	(259,025)
Decrease/(increase) in prepaid expenses		87,369	(203,295)
Increase in inventories	14	(6,104,302)	(4,213,554)
Increase in trade and other payables	22	9,279,773	4,302,001
Increase in contract liabilities and advances received		452,028	289,025
Increase in net other taxes payable	24	1,230,415	36,173
Cash from operating activities		**49,438,882**	**43,750,716**
Income taxes paid		(3,088,847)	(4,768,884)
Interest received		776,425	660,905
Interest paid		(9,247,475)	(9,654,711)
Net cash generated from operating activities		**37,878,985**	**29,988,026**
Cash flows from investing activities			
Purchases of property, plant and equipment		(8,352,631)	(6,834,086)
Purchases of intangible assets		(986,621)	(778,002)
Acquisition of subsidiaries, net of cash acquired	8	(21,584,151)	–
Proceeds from sale of property, plant and equipment		144,888	238,340
Net cash used in investing activities		**(30,778,515)**	**(7,373,748)**
Cash flows from financing activities			
Proceeds from borrowings	20, 31	41,925,200	45,792,775
Repayments of borrowings	20, 31	(32,707,263)	(117,240,001)
Payments for the principal portion of the lease liabilities	10	(4,330,107)	(2,814,842)

	Note	Year ended 31 December 2021	Year ended 31 December 2020*
Net cash generated from / (used in) financing activities		**4,887,830**	**(74,262,068)**
Net increase/(decrease) in cash and cash equivalents		**11,988,300**	**(51,647,790)**
Effect of exchange rates on cash and cash equivalents		(470,685)	51,904
Cash and cash equivalents at the beginning of the year	17	21,808,874	73,404,760
Cash and cash equivalents at the end of the year	**17**	**33,326,489**	**21,808,874**

* Certain amounts shown here do not correspond to the financial statements for the period ended 31 December 2020 reflect reclassification described in Note 4.

	Share capital	Additional paid-in capital	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2021	**6,711**	**27,056,040**	**(1,011,190)**	**46,943**	**68,382,844**	**94,481,348**
Profit for the year	–	–	–	–	12,479,546	12,479,546
Total comprehensive income	**–**	**–**	**–**	**–**	**12,479,546**	**12,479,546**
Reclassification following share option modification (Note 29)	–	–	–	(46,943)	46,943	–
Sale of treasury shares	–	29	–	–	–	29
Amendment to par value of ordinary shares (Note 18)	2,195	(2,195)	–	–	–	–
BALANCE AT 31 DECEMBER 2021	**8,906**	**27,053,874**	**(1,011,190)**	**–**	**80,909,333**	**106,960,923**

	Share capital	Additional paid-in capital	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2020	**–**	**27,062,751**	**(1,011,190)**	**390,536**	**51,708,795**	**78,150,892**
Profit for the year	–	–	–	–	16,540,631	16,540,631
Total comprehensive income	**–**	**–**	**–**	**–**	**16,540,631**	**16,540,631**
Share option expenses (Note 29)	–	–	–	463,590	–	463,590
Share option modification (Note 29)	–	–	–	(346,393)	–	(346,393)
Share option settlement by cash (Note 29)	–	–	–	(440,304)	112,932	(327,372)
Share option expired worthless (Note 29)	–	–	–	(20,486)	20,486	–
Amendment to par value of ordinary shares (Note 18)	6,711	(6,711)	–	–	–	–
BALANCE AT 31 DECEMBER 2020	**6,711**	**27,056,040**	**(1,011,190)**	**46,943**	**68,382,844**	**94,481,348**

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 IPJSC ("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 company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003.

In September 2019, the Company established a representative office in St Petersburg.

In October 2019, the Company was registered as a Russian tax resident.

In December 2019, the Company started the process of its redomiciliation to Cyprus.

In February 2020, the redomiciliation process was completed. The Department of Registrar of Companies and Official Receiver issued the Certificate of Continuation of the Company by which it certifies that the Company was registered from 21 February 2020 in accordance with the Cyprus Companies Law Cap 113, in particular section 354H as a company continuing in the Republic of Cyprus.

On 22 July 2020, an Extraordinary Meeting of Shareholders approved the proposed redomiciliation of the Company from the Republic of Cyprus to the Russian Federation into the special administrative region of Oktyabrsky Island, Kaliningrad.

Starting from 17 February 2021 the Company is registered as an international public joint-stock company with its legal seat at Oktyabrsky Island, City of Kaliningrad, Kaliningrad Region, Russian Federation. The Company's legal name is Lenta International public joint-stock company (short form, Lenta IPJSC).

The Company's registered address is 25 Solnechnyy Boulevard, Room B/66, Kaliningrad, Kaliningrad Region, 236006, Russia.

As at 31 December 2020, the Group had one main operating subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The registered office of Lenta LLC, is located at 112, Lit. B, Savushkina Street, 197374, Saint Petersburg, Russia.

In August 2021, Lenta LLC, an indirect subsidiary of Lenta IPJSC completed acquisition of supermarket business of Billa Russia GmbH through the purchase of 100% stakes in Billa Realty LLC and Billa LLC.

In September 2021, Lenta LLC, an indirect subsidiary of Lenta IPJSC completed acquisition of 100% stake in Semya Group.

Other subsidiaries are property or investment holding companies by their nature.

The following is a list of the Group's subsidiaries and the effective ownership holdings therein.

	Country of incorporation	Principal activities	Holding, % 31 December 2021	31 December 2020
Lenta LLC	Russia	Retail	100	100
Lenta-2 LLC	Russia	Holding of investments	100	100
Lenta Global Ltd	Cyprus	Holding of investments	100	100
TRK Volzhsky LLC	Russia	Holding of investments	100	100
TK Zheleznodorozhny LLC	Russia	Holding of property	100	100
Billa LLC*	Russia	Retail	100	–
Billa Realty LLC*	Russia	Retail	100	–
Semya Retail LLC*	Russia	Retail	100	–
Bolshaya Semya LLC*	Russia	Retail	100	–
Semya Logistika LLC*	Russia	Logistics	100	–
Smak LLC*	Russia	Production	100	–
Vostorg LLC*	Russia	Production	100	–
Semya LLC*	Russia	Retail	100	–
Novaya Semya LLC*	Russia	Retail	100	–
Semya na Borchaninova LLC*	Russia	Retail	100	–
Semya na Vedeneeva LLC*	Russia	Retail	100	–
Semya na Karbisheva LLC*	Russia	Retail	100	–
Semya na Gashkova LLC*	Russia	Retail	100	–
Semya na M. Ribalko LLC*	Russia	Retail	100	–
Semya na Krupskoy LLC*	Russia	Retail	100	–
Semya na Parkovom LLC*	Russia	Retail	100	–
Semya na Sadovom LLC*	Russia	Retail	100	–
Semya fresh LLC*	Russia	Retail	100	–
Semya na Pushkina LLC*	Russia	Retail	100	–
Semya na Mira, 41 LLC*	Russia	Retail	100	–
Semya v Dobryanke LLC*	Russia	Retail	100	–
Mega LLC*	Russia	Retail	100	–
Universam-1 LLC*	Russia	Retail	100	–
Universam-2 LLC*	Russia	Retail	100	–
Semya Opt LLC*	Russia	Retail	100	–
Semya na Geroev Khasana LLC*	Russia	Retail	100	–
Semya na Sibirskoy LLC*	Russia	Retail	100	–
Semya u doma LLC*	Russia	Retail	100	–

* Subsidiaries were acquired in 2021 (Note 8).

Starting from March 2014, the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDR) and Moscow Exchange in the form of Depositary Receipts (DR). Starting from December 2021, the trading in the ordinary shares on Moscow Exchange was commenced. DR will no longer trade on Moscow Exchange from April 2022.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

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

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

Prolonged impact on the global economy from COVID-19, continued economic uncertainty and consequent challenging market conditions may affect the ability to continue as a going concern.

Management has considered the Group's cash flow forecasts for the foreseeable future, which take into account the current and expected economic situation in Russia, the Group's financial position, available borrowing facilities, loan covenant compliance, planned store opening programme and the anticipated cash flows and related expenditures from retail stores. The Group does not expect any material adverse impact from the current economic slowdown to its operations.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

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

At 31 December 2021, the Group had net current liabilities of RUB 6,268,534 (net current liabilities at 31 December 2020: 22,984,129).

Unused credit facilities available as of 31 December 2021 were RUB 180,000,000. Management believes that operating cash flows and available borrowing capacity will provide the Group with adequate resources to fund its liabilities for the next year.

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.

2.2 Summary of significant accounting policies

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. Subsequently contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within the 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.

Goodwill is not deductible for tax purposes.

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 from disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/ noncurrent 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
- 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 31.

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
- 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 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.

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 categorised 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 reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian rouble ("RUB"), the national currency of the Russian Federation, the primary economic environment in which operating entities function.

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss from change in fair value of the item.

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 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.

Land improvements comprises costs related to enhancement to a plot of land adjoining a store including parking lots, driveways, walkways.

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	7
Machinery and equipment	2 to 15

Leases

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

Land	1 to 50 years
Buildings	1 to 30 years

Depreciations is charged to profit or loss, except for depreciation of right-of-use assets representing right to use leased land plots during the construction process, which is included in carrying value of assets under construction. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date or initial application date and do not contain a purchase option). Lease payments on short- term leases are recognised as expense on a straight-line basis over the lease term.

Lease and non-lease components

At initial application and subsequently as well the Group accounts for lease and non-lease components (e.g. advertising, maintenance fees etc.) separately.

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.

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method to 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 unit, 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 cashgenerating 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.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. The management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Income taxes

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 realisable value. Cost of inventory is determined on the weighted average basis. Net realisable 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 is comprised only the 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 capitalised 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 from contracts with customers

The sole source of revenue from contracts with customers is retail sales.

The Group recognises revenue when control of the goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The loyalty programme offered by the Group gives rise to a separate performance obligation because it generally provides a material right to the customer.

The Group allocates a portion of the transaction price to the loyalty programme based on relative stand-alone selling price and recognise as a contract liability.

Other income

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.

Sale from secondary materials is recognised within the other operating income in the consolidated statement of profit or loss and other comprehensive income at a point in time.

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 consolidated statement of profit or loss and other 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. These allowances 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.

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 a 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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

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.

The Group measures amounts of loans and receivables at amortised cost if both of
the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI)

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions.

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 profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

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

Additional paid-in capital

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

Earnings per share

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

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

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of transaction costs.

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.

Cash flows arising from proceeds from borrowings with a fixed maturity up to three months and repayments of those borrowings are reported on a gross basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and caps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income (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 from the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised 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 other comprehensive income 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 other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income 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 noncurrent 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.

2.3 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 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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.

3. Significant accounting judgements, estimates and assumptions

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 future periods if the revision affects both current and future 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

Assets versus business acquisition

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

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.

Compensation from insurance company for fire case

In December 2021, as a result of fire in one of the stores the Group incurred losses on property, plant and equipment disposal, inventory disposal and interruption of operations since the fire case. The damage incurred was insured and management believes that indemnification for losses is virtually certain. See Note 15 for further description.

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. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

The value in use calculation is based on a discounted cash flow model. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available. The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 29.

Lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

For leased land plots under the stores the Group defines lease term as the longest of non-cancellable term of the lease or remaining useful life of a store. The Group typically exercises its option to renew for these leases because it has an exclusive right as an owner of real estate.

The periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases – estimating the incremental borrowing rate

The Group measures the lease liability by discounting lease payments using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses its incremental borrowing rate, adjusted to take into account the specific terms and conditions of a lease and to reflect the interest rate that the Group would pay to borrow:

- Over a similar term to the lease term
- The amount needed to obtain an asset of a similar value to the right-of-use asset,
- In a similar economic environment

4. New standards, interpretations and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).
The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group due to the Group has only fixed-rate financial instruments.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases
The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification.
A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.
The amendment applies to annual reporting periods beginning on or after 1 April 2021.

This amendment had no impact on the consolidated financial statements, as the Group did not elect to use this practical expedient.

Reclassifications in the condensed consolidated statement of cash flows

Certain reclassifications were done in terms of presentation of foreign exchange differences.

5. Standards issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts
- IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

The amendments to the classification of liabilities is not expected to have a significant impact on the Group's consolidated financial statements.

In November 2021 the IASB proposed amendments to IAS 1 Presentation of Financial Statements to improve the information companies provide about long-term debt with covenants.

IAS 1 requires a company to classify a liability as non-current only if the company has a right to defer settlement of the liability for at least 12 months after the reporting date. However, such a right is often subject to the company complying with covenants after the reporting date. For example, a company might have long-term debt that could become repayable within 12 months if the company fails to comply with covenants after the reporting date.

The proposed amendments would specify that, in such a situation, covenants would not affect the classification of a liability as current or non-current at the reporting date. Instead, a company would:

- Present non-current liabilities that are subject to covenants on the statement of financial position separately from other non-current liabilities,
- Disclose information about the covenants in the notes to its financial statements, including their nature and whether the company would have complied with them based on its circumstances at the reporting date

The IASB expects that these proposals will improve the information a company provides about non-current liabilities with covenants by enabling investors to assess whether such liabilities could become repayable within 12 months.

The proposals also address feedback from stakeholders about the classification of debt as current or non-current when applying requirements introduced in 2020 that are not yet in effect. Consequently, the IASB is also proposing to defer the effective date of those requirements to align with the proposed amendment.

The amendments are not expected to have a material impact on the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework.
The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a firsttime adopter

As part of its 2018–2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendment is not applicable to the Group as the Group is not IFRS 1 adapter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018–2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

This standard is not applicable to the Group.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.
The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

This standard is not applicable to the Group.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The IASB has amended IAS 12, Income Taxes, to require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations.

Paragraphs 15 and 24 of IAS 12 were amended to include an additional condition where the initial recognition exemption is not applied. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences. Paragraph 22A has been added to provide further clarification of this principle. Paragraphs 22(b) and 22(c) of IAS 12 have also been amended.

These amendments might have a significant impact on the preparation of financial statements by companies that have substantial balances of right-of-use assets, lease liabilities, decommissioning, restoration and similar liabilities. The impact for those affected would be the recognition of additional deferred tax assets and liabilities.

These amendments should be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments should be applied on a modified retrospective basis.

The amendments are not expected to have a material impact on the Group as the Group did not use initial recognition exception if that transaction gave rise to equal amounts of taxable and deductible temporary differences.

6. Balances and transactions with related parties

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

In 2019, Severgroup LLC ("Severgroup") completed its acquisition of 76,109,776 shares of the Company. As at 31 December 2021 76,110,590 shares of the Company belong to Severgroup, which represents 77.99% of the share capital or 78.73% of the voting rights.

As at 31 December 2021 and 31 December 2020 Alexey Mordashov is the ultimate controlling party of the Group.

Related parties of the Group include key management personnel and other entities that are under the control of the Group's ultimate controlling party. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

	Year ended 31 December 2021	Year ended 31 December 2020
Entities under common control		
Revenue from related parties	71,068	95,194
Other operating income from related parties	16,617	10,440
Purchases of services from related parties	(360,906)	(460,034)
Prepaid expense from related parties	(174,652)	(278,187)
Purchases of inventories from related parties	(29,848)	(131,424)
Purchases of non-current assets from related parties	(34,251)	–

	31 December 2021	31 December 2020
Entities under common control		
Amounts owed by related parties	893	35,304
Amounts owed to related parties	(144,968)	(146,635)
Advances received	(211)	(197)
Advances paid	9,821	603

The Company has not provided loans to related parties, any members of its Board and executive bodies.

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

	Year ended 31 December 2021	Year ended 31 December 2020
Short-term benefits	641,530	1,260,167
Long-term benefits	909,556	1,002,208
Termination benefits	108,530	98,941
TOTAL REMUNERATION	**1,659,616**	**2,361,316**

7. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2021	**23,952,454**	**13,449,140**	**136,404,022**	**68,185,418**	**2,405,111**	**244,396,145**
Additions	–	–	–	427	7,769,304	7,769,731
Transfers from construction in progress	–	288,201	2,004,636	5,294,714	(7,587,551)	–
Acquisition of subsidiaries (Note 8)	284,000	–	9,717,656	4,087,241	68,222	14,157,119
Disposals	–	–	(677,048)	(959,156)	(67,878)	(1,704,082)
Balance at 31 December 2021	**24,236,454**	**13,737,341**	**147,449,266**	**76,608,644**	**2,587,208**	**264,618,913**
Accumulated depreciation and impairment						
Balance at 1 January 2021	**1,192,486**	**7,549,745**	**33,464,010**	**37,744,749**	**544,158**	**80,495,148**
Depreciation charge	–	2,388,322	5,414,290	7,333,796	–	15,136,408
Impairment charge / (reversal of impairment)	(74,624)	–	(442,920)	105,161	42,712	(369,671)
Transfer of accumulated impairment	–	–	75,315	51,896	(127,211)	–
Disposals	–	–	(333,142)	(679,582)	–	(1,012,724)
Balance at 31 December 2021	**1,117,862**	**9,938,067**	**38,177,553**	**44,556,020**	**459,659**	**94,249,161**
Net book value						
Balance at 1 January 2021	22,759,968	5,899,395	102,940,012	30,440,669	1,860,953	163,900,997
BALANCE AT 31 DECEMBER 2021	**23,118,592**	**3,799,274**	**109,271,713**	**32,052,624**	**2,127,549**	**170,369,752**

	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Cost						
Balance at 1 January 2020	**23,523,525**	**12,690,508**	**132,371,508**	**64,442,345**	**2,910,262**	**235,938,148**
Additions	–	–	–	1,623	9,914,019	9,915,642
Transfers from construction in progress	372,126	758,632	4,412,725	4,664,286	(10,207,769)	–
Transfers from right-of-use assets	68,201	–	–	–	–	68,201
Disposals	(11,398)	–	(380,211)	(922,836)	(211,401)	(1,525,846)
Balance at 31 December 2020	**23,952,454**	**13,449,140**	**136,404,022**	**68,185,418**	**2,405,111**	**244,396,145**
Accumulated depreciation and impairment						
Balance at 1 January 2020	**1,799,114**	**4,795,619**	**31,777,892**	**31,802,328**	**319,956**	**70,494,909**
Depreciation charge	–	2,757,326	4,484,206	6,803,597	–	14,045,129
Impairment charge / (reversal of impairment)	(606,628)	(3,200)	(2,579,873)	(109,635)	387,905	(2,911,431)
Disposals	–	–	(218,215)	(751,541)	(163,703)	(1,133,459)
Balance at 31 December 2020	**1,192,486**	**7,549,745**	**33,464,010**	**37,744,749**	**544,158**	**80,495,148**
Net book value						
Balance at 1 January 2020	21,724,411	7,894,889	100,593,616	32,640,017	2,590,306	165,443,239
BALANCE AT 31 DECEMBER 2020	**22,759,968**	**5,899,395**	**102,940,012**	**30,440,669**	**1,860,953**	**163,900,997**

During the year ended 31 December 2021 and the year ended 31 December 2020 the Group was not involved in acquisition or contribution 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.

Depreciation, amortisation and impairment expense

As at 31 December 2021 the Group performed impairment test of property, plant and equipment, intangible assets and right-of-use assets, where indicators of such impairment were identified.

Following the impairment test net reversal of impairment losses was recognised in the consolidated statement of profit or loss in respect of property, plant and equipment amounted to RUB 369,671 (including reversal of impairment losses in respect of land in the amount of RUB 74,624, reversal of impairment losses in respect of buildings in the amount of RUB 442,920, impairment loss in respect of assets under construction in the amount of RUB 42,712 and machinery and equipment in the amount of RUB 105,161) and impairment of right-of-use assets was recognised in the amount of RUB 205,765. The respective impairment charge resulted primarily from underperforming stores, at the same time the reversal of previously recorded impairment losses was due to improved performance of certain stores.

The evaluation was performed at the lowest level of aggregation of assets that is able to generate independent cash inflows (CGU), which is generally at the individual store level.

In identifying whether cash inflows are largely independent, the management considers various factors, including:

- How it monitors the entity's operations or how it makes decisions about continuing or disposing of the entity's assets and operations
- Cannibalisation effect
- Leakage of customers upon a store closure

The impairment test has been carried out by comparing recoverable amount of the individual store with its carrying value. The recoverable amount was defined as the higher of its fair value less costs to sell and value in use.

Due to number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

The key assumptions used in determining the value in use are:

- Future cash flows are based on the current budgets and forecasts approved by the management and represented by forecast EBITDA along with terminal value of forecast free cash flows that are expected to be generated beyond the forecast period (12 months), the years beyond the forecast period the long term consumer price index forecast of 4% is used.
- Cash flow forecasts for capital expenditure are based on past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position.
- Cash flow forecast for overheads presented mainly by personnel expense being allocated on reasonable basis.
- Carrying value of corporate assets that do not generate independent cash inflows (offices, distribution centres) were allocated to CGUs on a consistent basis.
- Projections were made in the functional currency of the Group's entities, being the Russian rouble and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets – 13%.

The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect the management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 300 b.p. higher than the management's estimates, the Group would need to reduce the carrying value of non-current non-financial assets by RUB 2,768,701. If the annual revenue growth rate used in calculations of value in use had been 50 b.p. lower, the Group would need to decrease the carrying value of non-current non-financial assets by RUB 342,712.

Fair value less costs of disposal of CGU was defined by an external appraiser by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 2 of the fair value hierarchy.

The amount of depreciation and amortisation during the year ended 31 December 2021 and the year ended 31 December 2020 is presented within depreciation and amortisation in the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Depreciation of property, plant and equipment (Note 7)	15,136,408	14,045,129
Amortisation of right-of-use assets (Note 10)	5,792,641	3,913,127
Amortisation of intangible assets (Note 12)	721,680	603,898
Capitalisation of right-of-use asset depreciation to assets under construction (Note 10)	(23,875)	(21,921)
TOTAL DEPRECIATION AND AMORTISATION	**21,626,854**	**18,540,233**

See Note 30 for capital commitments.

8. Acquisition of subsidiaries

Acquisition of Billa Realty LLC and Billa LLC

In August 2021, Lenta LLC, an indirect subsidiary of Lenta IPJSC completed acquisition of supermarket business of Billa Russia GmbH through the purchase of 100% stakes in Billa Realty LLC and Billa LLC for consideration, including cash paid of RUB 19,596,144 less adjustment for working capital. The acquisition significantly accelerates Lenta's expansion in Moscow.

The financial position and results of operations of Billa Realty LLC and Billa LLC were included in the Group's consolidated financial statements beginning from August 2021.

The Group assigned provisional values to net assets acquired based on estimates of an independent appraiser. The Group will finalise the purchase price allocation within 12 months from the acquisition date.

Provisional fair values of the identifiable assets and liabilities of Billa Realty LLC and Billa LLC at the date of acquisition were:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 7)	13,471,043
Right-of-use assets (Note 10)	18,631,066
Other non-current assets	145,049
Inventories	1,924,989
Trade and other receivable	98,911
Advances paid	85,706
VAT and other taxes recoverable	16,109
Income tax prepaid	14,620
Prepaid expenses	17,775
Cash and cash equivalents	403,048
Deferred tax liabilities (Note 21)	(1,307,975)
Long-term lease liabilities (Note 10)	(15,603,950)
Trade and other payables	(3,550,005)
Advances received	(35,008)
Other taxes payable	(137,333)
Short-term lease liabilities (Note 10)	(1,512,082)
Fair value of the identifiable net assets	12,661,963
Goodwill	6,934,181
Fair value of purchase consideration	19,596,144

During the year ended 31 December 2021 cash flow of acquisition was as follows:

	Cash flow of acquisition
Cash paid	19,596,144
Less cash acquired with subsidiaries	(403,048)
Net cash flow on acquisition	19,193,096

From the date of acquisition the contribution to revenue and loss before income tax of Billa Realty LLC and Billa LLC was RUB 9,501,250 and RUB 1,097,054 respectively. It is not practicable to determine contribution to revenue and profit before tax of Billa Realty LLC and Billa LLC if it had been acquired at the beginning of the year due to different management and operational styles of acquired business and the Group.

The goodwill recognised was attributable to expected cost synergies from the business combination and acquired traffic from existing customers. The goodwill was allocated to the stores acquired in result of the acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable and unfavourable terms of the lease relative to market terms.

The fair value of the trade and other receivables amounts to RUB 98,911. The gross amount of trade receivables is RUB 149,334 and it is expected that the full contractual amounts can be collected.

Acquisition of Semya Group

In September 2021, the Group acquired 100% stake in Semya Group, one of the largest retailer in the Perm Region, for cash consideration of RUB 2,454,904. This acquisition further supports Lenta's strategic expansion in the supermarket and convenience store segments, as a result of the transaction, Lenta will significantly increase its total food retail market share in the Perm Region.

The financial position and results of operations of Semya Group were included in the Group's consolidated financial statements beginning from September 2021.

The Group assigned provisional values to net assets acquired based on estimates of an independent appraiser. The Group will finalise the purchase price allocation within 12 months from the acquisition date.

Provisional fair values of the identifiable assets and liabilities of Semya Group at the date of acquisition were:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 7)	686,076
Prepayments for construction	117
Right-of-use assets (Note 10)	4,183,936
Intangible assets (Note 12)	186,660
Deferred tax assets (Note 21)	73,339
Inventories	849,435
Trade and other receivable	46,960
Advances paid	105,987
Income tax prepaid	11,896
Cash and cash equivalents	63,849
Long-term lease liabilities (Note 10)	(3,644,123)
Trade and other payables	(820,792)
Contract liabilities	(8,385)
Advances received	(25)
Other taxes payable	(35,553)
Short-term borrowings and short-term portion of long-term borrowings (Note 32)	(168,748)
Short-term lease liabilities (Note 10)	(525,174)
Fair value of the identifiable net assets	1,005,455
Goodwill	1,449,449
Purchase consideration	2,454,904

During the year ended 31 December 2021 cash flow of acquisition was as follows:

	Cash flow of acquisition
Cash paid	2,454,904
Less cash acquired with subsidiaries	(63,849)
Net cash flow on acquisition	2,391,055

From the date of acquisition the contribution to revenue and profit before income tax of Semya Group was RUB 4,159,083 and RUB 54,909 respectively. It is not practicable to determine contribution to revenue and profit before tax of Semya Group if it had been acquired at the beginning of the year as Semya Group did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended.

The goodwill recognised was attributable to expected cost synergies from the business combination and acquired traffic from existing customers. The goodwill was allocated to the stores acquired in result of the acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable and unfavourable terms of the lease relative to market terms.

The fair value of the trade and other receivables amounts to RUB 46,960. The gross amount of trade receivables is RUB 58,919 and it is expected that the full contractual amounts can be collected.

Impairment test of goodwill

As at 31 December 2021 total amount of goodwill is RUB 8,383,630.

The Group performed impairment test of goodwill. For the purposes of impairment testing goodwill is allocated to groups of cash-generating units being stores purchased in result of business acquisition of Billa and Semya respectively. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is tested for impairment at the group of CGUs level by comparing the carrying values of a particular group of CGU assets including allocated goodwill to their value in use. The discounted future cash flow approach is applied based on forecasts approved by the management. Future cash flows are based on the current budgets and forecasts approved by the management and represented by forecast EBITDA along with terminal value of forecast free cash flows that are expected to be generated beyond the forecast period (5 years).

Growth rate of 4% is applied for the forecast period. The years beyond the forecast period the long-term growth rate of 2% is used. Projections were made in the functional currency of the Group's entities, being the Russian rouble and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets – 13%.

The recoverable amount of the groups of CGUs calculated exceeds their carrying amounts and therefore no impairment was recognised for them during the year ended 31 December 2021.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows.
The calculation of value in use is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Annual revenue growth rate

Gross margins are defined in accordance with data of the strategic business plan and internal forecasts based on budget. Decrease in consumer demand may lead to reduction in gross margin. Decrease in growth margin by 5% would result in reduction in the discounted future cash flows but no impairment would be recognised. A rise in the estimated discount rate being the Group pre-tax weighted average cost of capital by 300 b.p. higher than the management's estimates would result in a decrease in the discounted future cash flows but no impairment would be recognised. If the annual revenue growth rate used in calculations of value in use had been 50 b.p. lower than the management's estimates no impairment is to be recognised in the consolidated statement of profit or loss and other comprehensive income.

The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect the management's best knowledge.

9. Prepayments for construction

Prepayments for construction are made to contractors building stores and to suppliers.

Prepayments are regularly monitored for the indicators of impairment.

As at 31 December 2021 prepayments for construction were impaired in the amount of RUB 542,366 (31 December 2020: RUB 216,592).

10. Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets and the movements during the year ended 31 December 2021 and year ended 31 December 2020:

Cost	Land	Buildings	Total
Balance at 1 January 2021	**5,149,650**	**36,208,231**	**41,357,881**
Additions	332,614	9,972,842	10,305,456
Acquisition of subsidiaries (Note 8)	1,088,357	21,726,645	22,815,002
Termination and decrease in scope of lease contracts	(29,273)	(2,468,670)	(2,497,943)
Other changes*	6,830	855,476	862,306
Balance at 31 December 2021	**6,548,178**	**66,294,524**	**72,842,702**
Accumulated depreciation and impairment			
Balance at 1 January 2021	**500,085**	**7,086,535**	**7,586,620**
Depreciation charge	181,421	5,611,220	5,792,641
Impairment charge	205,765	–	205,765
Termination and decrease in scope of lease contracts	(5,529)	(457,202)	(462,731)
Balance at 31 December 2021	**881,742**	**12,240,553**	**13,122,295**
Net book value			
BALANCE AT 1 JANUARY 2021	**4,649,565**	**29,121,696**	**33,771,261**
BALANCE AT 31 DECEMBER 2021	**5,666,436**	**54,053,971**	**59,720,407**

Cost	Land	Buildings	Total
Balance at 1 January 2020	**5,368,027**	**31,300,482**	**36,668,509**
Additions	19,227	4,802,559	4,821,786
Termination and decrease in scope of lease contracts	(272,919)	(824,258)	(1,097,177)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(72,004)	–	(72,004)
Other changes*	107,319	929,448	1,036,767
Balance at 31 December 2020	**5,149,650**	**36,208,231**	**41,357,881**
Accumulated depreciation and impairment			
Balance at 1 January 2020	**439,396**	**3,561,670**	**4,001,066**
Depreciation charge	169,980	3,743,147	3,913,127
Impairment charge	(93,369)	97,675	4,306
Termination and decrease in scope of lease contracts	(12,119)	(315,957)	(328,076)
Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease	(3,803)	–	(3,803)
Balance at 31 December 2020	**500,085**	**7,086,535**	**7,586,620**
Net book value			
BALANCE AT 1 JANUARY 2020	**4,928,631**	**27,738,812**	**32,667,443**
BALANCE AT 31 DECEMBER 2020	**4,649,565**	**29,121,696**	**33,771,261**

* Other changes are represented by changes in the right-of-use assets due to indexations and modifications except for decrease in scope of lease contracts.

Transfer to property, plant and equipment resulted from purchase of the underlining assets in the lease.

Set out below are the carrying amounts of the Group's lease liabilities and the movements during the year ended 31 December 2021 and year ended 31 December 2020:

	Year ended 31 December 2021	Year ended 31 December 2020
Lease liabilities at the beginning of the year	**34,441,507**	**32,160,006**
Additions	10,322,212	4,731,148
Acquisition of subsidiaries (Note 8)	21,285,329	–
Termination and decrease in scope of lease contracts	(2,058,925)	(810,549)
Other changes*	862,306	1,036,767
Interest expense	3,569,369	2,716,486
Payments for the principal portion of the lease liabilities	(4,330,107)	(2,814,842)
Payments for the interest portion of the lease liability	(3,569,369)	(2,716,486)
Foreign exchange loss	25,823	138,977
LEASE LIABILITIES AT THE END OF THE YEAR	**60,548,145**	**34,441,507**

* Other changes are represented by changes in the right-of-use assets due to indexations and modifications except for decrease in scope of lease contracts.

	31 December 2021	31 December 2020
Long-term lease liabilities	54,149,744	31,327,074
Short-term lease liabilities	6,398,401	3,114,433
TOTAL LEASE LIABILITIES	**60,548,145**	**34,441,507**

Set out below are the amounts recognised in profit or loss for the year ended 31 December 2021 and year ended 31 December 2020:

	Year ended 31 December 2021	Year ended 31 December 2020
Depreciation of right-of-use assets	5,792,641	3,913,127
Capitalisation of depreciation to assets under construction	(23,875)	(21,921)
Impairment of right-of-use assets	205,765	4,306
Termination and decrease in scope of lease contracts	(23,713)	(41,448)
Interest expense on lease liabilities	3,569,369	2,716,486
Interest income on security deposits	(63,676)	(31,532)
Foreign exchange loss	25,823	138,977
Rent expense – short-term leases	634,977	681,886
Rent expense – variable lease payments	577,319	349,473
TOTAL AMOUNTS RECOGNISED IN PROFIT OR LOSS	**10,694,630**	**7,709,354**

In an ordinary course of the business the Group constantly arranges for leases of new premises and land. As at 31 December 2021 and 31 December 2020 the Group had a certain amount of leases to which the Group was committed but the lease did not commence. The Group assesses that the amount of future cash outflows to which the lessee is potentially exposed is not significant.

11. 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 Lenta Global Limited, which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segments represented by stores into one reportable operating segment.

Within the segment all business components are similar in respect of:
- The products
- The customers
- Centralised Group structure (commercial, operational, logistic, finance, HR and IT functions are centralised)

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). EBITDA is a non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

The segment information for the year ended 31 December 2021 and 31 December 2020 is as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Sales	483,640,887	445,543,829
EBITDA	46,885,172	44,919,129

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

	Year ended 31 December 2021	Year ended 31 December 2020
EBITDA	46,885,172	44,919,129
Interest expense (see Note 28)	(9,323,651)	(9,512,254)
Interest income	895,365	609,970
Income tax expense (see Note 21)	(3,990,944)	(3,456,984)
Depreciation and amortisation (see Notes 7, 10, 12)	(21,626,854)	(18,540,233)
Reversal of impairment of non-financial assets (see Notes 7, 10)	163,906	2,907,125
Foreign exchange losses	(523,448)	(386,122)
PROFIT FOR THE YEAR	**12,479,546**	**16,540,631**

12. Intangible assets

Intangible assets as at 31 December 2021 consist of the following:

	Software	Trade marks	Total
Cost			
Balance at 1 January 2021	**5,682,127**	**–**	**5,682,127**
Additions	1,018,556	–	1,018,556
Acquisition of subsidiaries (Note 8)	12,358	174,302	186,660
Disposals	(1,004)	–	(1,004)
Balance at 31 December 2021	**6,712,037**	**174,302**	**6,886,339**
Accumulated amortisation and impairment			
Balance at 1 January 2021	**3,101,155**	**–**	**3,101,155**
Amortisation charge	702,870	18,810	721,680
Disposals	(883)	–	(883)
Balance at 31 December 2021	**3,803,142**	**18,810**	**3,821,952**
Net book value			
BALANCE AT 1 JANUARY 2021	**2,580,972**	**–**	**2,580,972**
BALANCE AT 31 DECEMBER 2021	**2,908,895**	**155,492**	**3,064,387**

Intangible assets as at 31 December 2020 consisted of the following:

	Software	Total
Cost		
Balance at 1 January 2020	**4,770,994**	**4,770,994**
Additions	918,567	918,567
Disposals	(7,434)	(7,434)
Balance at 31 December 2020	**5,682,127**	**5,682,127**
Accumulated amortisation and impairment		
Balance at 1 January 2020	**2,500,019**	**2,500,019**
Amortisation charge	603,898	603,898
Disposals	(2,762)	(2,762)
Balance at 31 December 2020	**3,101,155**	**3,101,155**
Net book value		
BALANCE AT 1 JANUARY 2020	**2,270,975**	**2,270,975**
BALANCE AT 31 DECEMBER 2020	**2,580,972**	**2,580,972**

Amortisation expense is included in selling, general and administrative expenses (Note 26).

13. Other non-current assets

Other non-current assets are represented by guarantee deposits under lease contracts subject to reimbursement by cash at the end of lease.

14. Inventories

	31 December 2021	31 December 2020
Goods for resale (at lower of cost and net realisable value)	48,942,271	39,817,567
Raw materials (at lower of cost and net realisable value)	2,410,695	2,253,966
TOTAL INVENTORIES AT LOWER OF COST AND NET REALISABLE VALUE	**51,352,966**	**42,071,533**

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

During the year ended 31 December 2021 the Group accounted for reversal of write down of inventories to their net realisable value within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 in the amount of RUB 402,707.

During the year ended 31 December 2020 the Group wrote down inventories to their net realisable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 in the amount of RUB 595,286.

15. Trade and other receivables

	31 December 2021	31 December 2020
Accounts receivable on rental and other services and on suppliers' advertising	6,434,915	6,293,355
Suppliers' rebates receivable	6,092,218	4,465,410
Other receivables	726,802	268,201
Expected credit losses of accounts receivable	(129,389)	(124,127)
TOTAL TRADE AND OTHER RECEIVABLES	**13,124,546**	**10,902,839**

As at 31 December 2021 the Group recognised within the other receivables the amount due from insurance company of RUB 498,290 which relates to compensation for lost property, plant, and equipment of RUB 343,100, lost inventory of RUB 155,005 and for other assets of RUB 185 as a result of the fire case in one of the stores.

Debtor credit risk is managed in accordance with the Group's established policy, procedures and control relating to debtor credit risk management. Credit quality of a debtor is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than three years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 32.

The detailed analysis of impact of COVID-19 on debtors' financial conditions and review of any other factors which might result in revision of the allowance matrix performed as at 31 December 2021 led to the conclusion that there was no significant deterioration of credit quality of customers.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables as at 31 December 2021 using a provision matrix:

	Current	<60 days overdue	60–120 days overdue	>120 days overdue	Total
Expected credit loss rate	<1.5%	2–5%	15–40%	70–100%	
Estimated total gross carrying amount at default	12,663,738	400,123	59,756	130,318	**13,253,935**
Expected credit loss	2,241	10,577	11,075	105,496	**129,389**

Set out below is the information about the credit risk exposure on the Group's trade and other receivables as at 31 December 2020 using a provision matrix:

	Current	<60 days overdue	60–120 days overdue	>120 days overdue	Total
Expected credit loss rate	<1.5%	2–5%	15–40%	70–100%	
Estimated total gross carrying amount at default	10,455,452	413,196	30,996	127,322	**11,026,966**
Expected credit loss	11,804	8,264	5,993	98,066	**124,127**

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	2021	2020
As at 1 January	**124,127**	**179,010**
Allowance for expected credit losses	72,572	19,371
Write-off	(67,310)	(74,254)
AS AT 31 DECEMBER	**129,389**	**124,127**

The Group does not hold any collateral or other credit enhancements over these balances.

16. Advances paid

	31 December 2021	31 December 2020
Advances for services	2,187,368	1,362,282
Advances to suppliers of goods	742,262	415,077
Allowance for impairment of advances paid	(26,208)	(23,293)
TOTAL ADVANCES PAID	**2,903,422**	**1,754,066**

17. Cash and cash equivalents

	31 December 2021	31 December 2020
Rouble denominated short-term deposits	22,977,795	18,489,546
Rouble denominated balances with banks	7,611,496	1,527,464
Rouble denominated cash in transit	1,501,890	1,065,216
Foreign currency denominated balances with banks	759,497	95,606
Rouble denominated cash on hand	475,811	276,294
Foreign currency denominated short-term deposits	–	354,748
TOTAL CASH AND CASH EQUIVALENTS	**33,326,489**	**21,808,874**

The cash and cash equivalents are denominated in:

	31 December 2021	31 December 2020
RUB	32,566,992	21,358,520
USD	533,905	391,083
EUR	225,592	59,047
GBP	–	224
TOTAL CASH AND CASH EQUIVALENTS	**33,326,489**	**21,808,874**

Cash in transit represents cash receipts during the last days of the reporting period (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 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 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.

18. Issued capital and reserves

Issued capital

With effect from the registration of the Company as an international public joint-stock company in the Unified State register of Legal Entities of the Russian Federation the authorised share capital of the Company was converted from EUR 200,000 divided into 200,000,000 ordinary shares with EUR 0.001 par value to Russian roubles 18,252,640 divided into 200,000,000 ordinary shares with Russian roubles 0.0912632 par value.

As at 31 December 2021 the Company's share capital is comprised of 97,585,932 authorised and issued ordinary shares with Russian roubles 0.0912632 par value (as at 31 December 2020: 97,585,932 with EUR 0.001 par value). Following the conversion of par value of ordinary shares the amount of the Company's share capital increased from RUB 6,711 to RUB 8,906. Relevant reclassification from additional paid-in capital to share capital in the consolidated statement of financial position in the amount of RUB 2,195 was made.

Immediately before a continuation of the Company into the Republic of Cyprus in February 2020, each share of no par value was automatically converted into an ordinary share of EUR 0.001 par value and reclassification from additional paid-in capital to share capital in the consolidated statement of financial position in the amount of RUB 6,711 was made.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. No dividends to holders of ordinary shares were declared for the year ended 31 December 2021 and for the year ended 31 December 2020.

	Number of shares	31 December 2021 RUB
Authorised		
Ordinary shares of Russian roubles 0.0912632 each	200,000,000	18,253
Issued and fully paid		
Balance at the beginning of the period	**97,585,932**	**6,711**
Amendment to par value of ordinary shares	–	2,195
BALANCE AT THE END OF THE PERIOD	**97,585,932**	**8,906**

The number of shares as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021 No.	31 December 2020 No.
Authorised share capital (ordinary shares)	200,000,000	200,000,000
Issued and fully paid	97,585,932	97,585,932
Treasury shares	(910,522)	(910,546)

The movements in the number of shares for the year ended 31 December 2021 and for the year ended 31 December 2020 are as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Balance of shares outstanding at beginning of the year	**96,675,386**	**96,675,386**
Sale of treasure shares	24	–
BALANCE OF SHARES OUTSTANDING AT THE END OF THE YEAR	**96,675,410**	**96,675,386**

Treasury shares

In October 2018, the Group launched GDR repurchase programme up to an aggregate value of RUB 11,600,000, which was terminated on 2 April 2019. As the result of the programme 910,522 shares were repurchased as at 31 December 2021 and 31 December 2020.

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 29 for further details of these plans.

19. Earnings per share

	Year ended 31 December 2021	Year ended 31 December 2020
Earnings per share (in thousands of Russian roubles per share)		
- basic and diluted, for profit for the year attributable to equity holders of the parent	0.129	0.171

The calculation of basic earnings per share for the period is based on the profit/(loss) attributable to shareholders (profit for the year ended 31 December 2021: RUB 12,479,546, profit for the year ended 31 December 2020: RUB 16,540,631) and weighted average number of ordinary shares outstanding during the respective periods (96,675,409 shares at 31 December 2021 and 96,675,386 shares as at 31 December 2020).

20. Borrowings

Short-term borrowings:

	Currency	31 December 2021	31 December 2020
Fixed rate short-term bank loans	RUB	1,000,000	31,986,386
Fixed rate short-term bonds	RUB	19,995,518	538,515
Fixed rate short-term bonds (liability for interests)	RUB	330,137	16,472
Fixed rate long-term bonds (liability for interests)	RUB	51,775	375,953
Fixed rate short-term bank loans (liability for interests)	RUB	19,912	66,842
Fixed rate long-term bank loans (liability for interests)	RUB	104,661	26,368
TOTAL SHORT-TERM BORROWINGS AND SHORT-TERM PORTION OF LONG-TERM BORROWINGS		**21,502,003**	**33,010,536**

Long-term borrowings:

	Currency	31 December 2021	31 December 2020
Fixed rate long-term bank loans	RUB	56,924,688	15,973,413
Fixed rate long-term bonds	RUB	9,987,744	29,967,625
TOTAL LONG-TERM BORROWINGS		**66,912,432**	**45,941,038**

The Groups' borrowings as at 31 December 2021 and 31 December 2020 bear market interest rates, all of them are denominated in Russian roubles.

As at 31 December 2021 the Group had RUB 180,000,000 of unused credit facilities (as at 31 December 2020: RUB 177,600,000).

The loan agreements contain financial and non-financial covenants. As at 31 December 2021 the Group is in compliance with the covenants. As at 31 December 2021 and 31 December 2020 the loans and borrowings of the Group are unsecured.

21. Income taxes

The Group's income tax expense for the year ended 31 December 2021 and 31 December 2020 is as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Current tax expense	(4,343,609)	(3,442,921)
Deferred tax benefit/(expense)	352,665	(14,063)
Income tax expense recognised in profit for the year	**(3,990,944)**	**(3,456,984)**

	Year ended 31 December 2021	Year ended 31 December 2020
Profit before tax	**16,470,490**	**19,997,615**
Theoretical tax charge at 20% being statutory tax rate in Russia	**(3,294,098)**	**(3,999,523)**
Difference in tax regimes of foreign companies	60,586	237,014
Add tax effect of non-taxable income and non-deductible expenses	(338,404)	(28,163)
(Uncertain tax provision) / reversal of previously unrecognised uncertain tax position	(419,028)	333,688
INCOME TAX EXPENSE	**(3,990,944)**	**(3,456,984)**

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 2021	Differences in recognition and reversals recognised in profit or loss	Deferred tax on acquisition of subsidiaries (Note 8)	31 December 2021
Tax effect of (taxable)/ deductible temporary differences				
Property, plant and equipment	–	4,664	(100,507)	(95,843)
Right of use	–	44,468	(836,787)	(792,319)
Unused vacation and employee bonuses accrual	–	458	10,590	11,048
Intangible assets	–	(12)	(16,957)	(16,969)
Inventory	–	1,819	20,720	22,539
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	–	(1,343)	3,047	1,704
Accrued liabilities	–	4,470	593	5,063
Lease liabilities	–	(33,219)	833,859	800,640
Tax loss carryforward	–	(15,213)	147,949	132,736
Other	–	1,907	10,832	12,739
TOTAL NET DEFERRED TAX ASSETS	**–**	**7,999**	**73,339**	**81,338**

	1 January 2021	Differences in recognition and reversals recognised in profit or loss	Deferred tax on acquisition of subsidiaries (Note 8)	31 December 2021
Tax effect of (taxable)/ deductible temporary differences				
Property, plant and equipment	(9,374,745)	(182,414)	(1,379,501)	(10,936,660)
Right of use	(6,661,321)	(940,890)	(3,400,052)	(11,002,263)
Unused vacation and employee bonuses accrual	813,172	(40,429)	20,576	793,319
Suppliers' bonuses	(84,385)	58,358	–	(26,027)
Borrowings	2,744	1,270	–	4,014
Intangible assets	(137,755)	(59,777)	–	(197,532)
Inventory	942,209	(139,351)	(39,366)	763,492
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	63,829	63,926	1,039	128,794
Accrued liabilities	909,304	656,279	47,301	1,612,884
Lease liabilities	6,888,301	990,332	3,430,357	11,308,990
Other	116,096	(62,638)	11,671	65,129
TOTAL NET DEFERRED TAX LIABILITIES	**(6,522,551)**	**344,666**	**(1,307,975)**	**(7,485,860)**

	1 January 2020	Differences in recognition and reversals recognised in profit or loss	31 December 2020
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(8,538,465)	(836,280)	(9,374,745)
Right of use	(6,437,964)	(223,357)	(6,661,321)
Unused vacation and employee bonuses accrual	407,281	405,891	813,172
Suppliers' bonuses	(59,780)	(24,605)	(84,385)
Borrowings	2,397	347	2,744
Intangible assets	(76,608)	(61,147)	(137,755)
Inventory	793,055	149,154	942,209
Provision for expected credit losses of accounts receivable, impairment of advances paid and prepayments for construction	70,750	(6,921)	63,829
Accrued liabilities	799,696	109,608	909,304
Lease liabilities	6,432,001	456,300	6,888,301
Other	99,149	16,947	116,096
TOTAL NET DEFERRED TAX LIABILITIES	**(6,508,488)**	**(14,063)**	**(6,522,551)**

The temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability has not been recognised in the periods presented, aggregate to RUB 100,845,682 and RUB 91,811,752 as of 31 December 2021 and 2020 respectively.

22. Trade and other payables

	31 December 2021	31 December 2020
Trade payables	59,887,528	48,730,068
Accrued liabilities and other creditors	7,335,805	4,845,792
Accrued liabilities to employees	3,819,954	4,367,684
Payables for purchases of property, plant and equipment	2,987,725	3,522,889
TOTAL TRADE AND OTHER PAYABLES	**74,031,012**	**61,466,433**

The trade and other payables are denominated in:

	31 December 2021	31 December 2020
Russian roubles	72,736,275	60,205,933
USD	1,039,250	1,021,454
EUR	251,626	236,211
GBP	3,861	2,835
TOTAL TRADE AND OTHER PAYABLES	**74,031,012**	**61,466,433**

23. Contract liabilities

	31 December 2021	31 December 2020
Advances received for gift cards	711,875	582,455
Contract liabilities related to loyalty programmes	296,182	124,588
Advances received from wholesale customers	100,331	83,032
TOTAL OTHER TAXES PAYABLE	**1,108,388**	**790,075**

24. Other taxes payable

	31 December 2021	31 December 2020
Social taxes	1,231,553	1,099,531
Output VAT	604,127	–
Personal income tax	324,191	284,232
Property tax	262,755	–
Other taxes	33,911	23,985
TOTAL OTHER TAXES PAYABLE	**2,456,537**	**1,407,748**

25. Cost of sales

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

Cost of sales for the year ended 31 December 2021 includes employee benefits expense of RUB 10,512,309 (for the year ended 31 December 2020: RUB 9,419,920) of which social charges are comprised of RUB 1,468,483 (for the year ended 31 December 2020: RUB 1,330,005).

Cost of sales for the year ended 31 December 2021 includes cost of raw materials used in own production of RUB 20,579,284 (for the year ended 31 December 2020: RUB 17,194,010).

26. Selling, general and administrative expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Employee benefits	35,435,772	31,264,457
Depreciation and amortisation (Notes 7, 10, 12)	21,626,854	18,540,233
Advertising	6,489,346	5,748,928
Utilities and communal payments	5,625,990	4,969,707
Professional fees	4,489,152	4,318,190
Repairs and maintenance	3,885,549	3,523,836
Cleaning	3,878,696	3,508,353
Security services	2,497,105	2,082,074
Taxes other than income tax	1,583,929	1,456,812
Rent expense (Note 10)	1,212,296	1,031,359
Other	4,722,328	3,670,230
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**91,447,017**	**80,114,179**

Employee benefits for the year ended 31 December 2021 includes social charges of RUB 4,769,933 (for the year ended 31 December 2020: RUB 3,922,267). The average number of employees employed by the Group during the year ended 31 December 2021 was 49,838 (during the year ended 31 December 2020: 43,323).

Professional fees for the year ended 31 December 2021 include fees billed by Ernst & Young LLC: for the audit of the consolidated financial statements in the amount of RUB 21,684 (for the year ended 31 December 2020: RUB 29,222) and for other professional services in the amount of RUB 15,238 (for the year ended 31 December 2020: RUB 12,844).

27. Other operating income and expenses

Other operating income is comprised of the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Sale of secondary materials	2,177,095	1,133,736
Penalties due by suppliers	1,930,929	1,152,192
Rental income	1,852,678	1,475,979
GDR programme reimbursement	176,805	331,111
Advertising income	159,074	609,191
Gain on property, plant and equipment disposal	38,836	45,730
Gain from termination and decrease in scope of lease contracts (Note 10)	33,596	47,244
Insurance compensation	–	218,038
Other	210,034	186,681
TOTAL OTHER OPERATING INCOME	**6,579,047**	**5,199,902**

Income generated from the GDR programme represents reimbursements done by the depositary out of revenue charged from GDR holders.

Other operating expenses are comprised of the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Changes in allowance for impairment and write-offs of advances paid and prepayments for construction	328,689	67,147
Loss from property, plant and equipment and intangible assets disposal	298,995	210,299
Compensation for termination of contracts with providers	127,366	35,046
Penalties from government authorities	80,303	36,774
Changes in expected credit losses of accounts receivable	72,572	19,371
Loss from termination and decrease in scope of lease contracts (Note 10)	9,883	5,796
Non-recoverable VAT	108,636	15,975
Other	207,908	132,062
TOTAL OTHER OPERATING EXPENSES	**1,234,352**	**522,470**

28. Interest expense

Interest expenses are comprised of the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Interest expense on borrowings	5,754,282	6,795,768
Interest expense on lease liabilities	3,569,369	2,716,486
TOTAL INTEREST EXPENSE	**9,323,651**	**9,512,254**

29. Share options reserve

Long-term incentive plan

The Group approved a long-term incentive plan (LTIP) to certain members of senior and middle management, according to which the Group annually granted award shares in 2014, 2015, 2016, 2017, 2018 and 2019 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 coefficient and individual performance rating coefficient.

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

As at 31 December 2021, Tranche 2014, 2015, 2016, 2017, 2018 are fully vested.

Share-option modification

In the fourth quarter of the year ended 31 December 2020, equity-settled unvested awards Tranche 2018 and Tranche 2019 to the middle and top management were converted so as to become fixed remuneration but their terms are otherwise unchanged. The number of converted instruments at fixed price of US$3.6 remained unchanged. The fixed remuneration was accounted for as other long-term employee benefits in accordance with IAS 19.

At the conversion date the total amount of fixed remuneration payable of RUB 346,393 in the extent to which the related services have been received was reclassified from share option reserve in the consolidated statement of changes in equity to trade and other payables.

Set out below is the information about awards settlement during year ended 31 December 2021:

	2017 tranche	2019 tranche	Total
Settlement by cash payment (USD 3.6$ per GDR)			
Settlement by cash in April 2020	79,843	115,513	**195,356**
Excess of expenses accrued vs. payment made	64,727	29,642	**94,369**

Total expense recognised for the services received from the employees covered by long-term incentive plan for the year ended 31 December 2021 and for the year ended 31 December 2020 is shown in the following table:

	Year ended 31 December 2021	Year ended 31 December 2020
Expense arising from the equity-settled long-term incentive plan payments	–	342,297
Incremental fair value arising from conversion of the equity-settled long-term incentive plan into employee benefits under IAS 19	–	119,092
TOTAL	**–**	**461,389**

Share value appreciation rights

During the year 2013 and the year 2016 the Group granted share value appreciation rights (SVARs) to certain members of the top management as part of the management long-term incentive plan. Each SVAR entitles the holder to a quantity of ordinary shares in Lenta IPJSC based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.

As at 31 December 2019, SVARs of 2013 year were fully vested.

In April 2020, SVARs of 2016 year expired worthless. The total expense for the services received from the employees previously recognised with respect to expired SVARs was RUB 20,486.

	Year ended 31 December 2021	Year ended 31 December 2020
Expense arising from the equity-settled SVARs transaction	–	2,201

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.

At the end of 2020, the new Lenta Top Member Award (LTMA) combining long-term and short-term incentive programme was introduced for the senior and middle management. The remuneration was accounted for as employee benefits in accordance with IAS 19. Other long-term liability represents the long-term portion of the liability to employees under the LTMA programme.

30. Capital expenditure commitments

At 31 December 2021, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling RUB 4,494,385 net of VAT (31 December 2020: RUB 4,333,015 net of VAT).

31. Financial instruments

Categories of financial instruments

	31 December 2021	31 December 2020
Financial assets measured at amortised cost		
Cash and cash equivalents	33,326,489	21,808,874
Trade and other receivables	13,124,546	10,902,839
Other non-current financial assets	482,524	445,171
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST	**46,933,559**	**33,156,884**
Financial liabilities measured at amortised cost		
Fixed rate long-term bank loans and bonds	66,912,432	45,941,038
Fixed rate short-term bank loans and bonds and short-term liability for interests for long-term bank loans and bonds	21,502,003	33,010,536
Lease liabilities	60,548,145	34,441,507
Trade and other payables	74,031,012	61,466,433
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**222,993,592**	**174,859,514**

Fair values

Quantitative disclosures of fair value measurement hierarchy for the Group's financial liabilities as at 31 December 2021 and 31 December 2020 are presented below:

	31 December 2021	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	31,164,878	31,164,878	–	–
Fixed rate bank loans	57,154,598	–	57,154,598	–

	31 December 2020	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed				
Fixed rate bonds	31,702,693	31,702,693	–	–
Fixed rate bank loans	47,814,126	–	47,814,126	–

During the reporting periods ended 31 December 2021 and 31 December 2020, there are 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:

	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Interest-bearing loans and borrowings				
Fixed rate bank loans and bonds	88,414,435	88,319,476	78,951,574	79,516,819
TOTAL FINANCIAL LIABILITIES	**88,414,435**	**88,319,476**	**78,951,574**	**79,516,819**

The management assessed that the carrying amounts of cash and short-term deposits, trade receivables, trade payables, other liabilities approximate their fair values 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 are used to estimate the fair values:

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2021 and 31 December 2020 is assessed to be insignificant.
- The fair value of bonds is based on the price quotations at the reporting date on the Moscow Exchange where transactions with bonds take place with sufficient frequency and volume.

Changes in liabilities arising from financing activities

	31 December 2020	Proceeds from borrowings	Repay-ments of borrowings	Reclas-sifications	Acquisition of subsidiaries (Note 8)	Other	31 December 2021
Long-term borrowings	45,941,038	41,925,200	–	(20,992,237)	–	38,431	66,912,432
Short-term borrowings	33,010,536	–	(32,707,263)	20,992,237	168,748	37,745	21,502,003
TOTAL	78,951,574	41,925,200	(32,707,263)	–	168,748	76,176	88,414,435

	31 December 2019	Proceeds from borrowings	Repay-ments of borrowings	Reclas-sifications	Other	31 December 2020
Long-term borrowings	82,110,441	30,792,775	(10,000,000)	(56,998,068)	35,890	45,941,038
Short-term borrowings	68,430,816	15,000,000	(107,240,001)	56,998,068	(178,347)	33,010,536
TOTAL	150,541,257	45,792,775	(117,240,001)	–	(142,457)	78,951,574

The 'Other' column includes the net effect of accrued and paid interest on interest bearing loans. The Group classifies interest paid as cash flows from operating activities.

32. Financial risk management

The Group's principal financial liabilities, other than derivatives, are comprised 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 summarised 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 years ended 31 December 2021 and 2020, the Group does not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk. The only balances that are exposed to foreign currency risk are accounts payables to several foreign suppliers.

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 2021	15.00%	(123,272)
	-15.00%	123,272
Year ended 2020	16.00%	(143,763)
	-16.00%	143,763

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 2021	15.00%	(33,180)
	-15.00%	33,180
Year ended 2020	16.00%	(36,367)
	-16.00%	36,367

Foreign currency exchange rate reasonable possible change range was prepared for the purpose of market risk disclosures in accordance with IFRS 7 and is derived from statistical data, in particular time series analysis.

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. As at 31 December 2021 and as at 31 December 2020, the Group has no financial instruments with floating interest rates.

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.

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. 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 credit risk is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards.

Cash and cash equivalents

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RUB 32,850,678 (31 December 2020: RUB 21,532,580).

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 analyses its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2021 and 31 December 2020 bases 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.

31 December 2021

	Less than 12 months	1–5 periods	Over 5 periods	Total
Borrowings	26,925,594	72,073,987	–	98,999,581
Lease liabilities	2,757,782	38,664,212	40,680,931	82,102,925
Trade and other payables	74,031,012	–	–	74,031,012
TOTAL	**103,714,388**	**110,738,199**	**40,680,931**	**255,133,518**

31 December 2020

	Less than 12 months	1–5 periods	Over 5 periods	Total
Borrowings	37,062,819	49,167,294	–	86,230,113
Lease liabilities	5,765,364	20,666,697	28,338,092	54,770,153
Trade and other payables	61,466,433	–	–	61,466,433
TOTAL	**104,294,616**	**69,833,991**	**28,338,092**	**202,466,699**

Capital management

The Group 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.

The Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. The Group is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt, requirements to diversification of funding sources. Dividends are to be declared based on the capital requirements of the business and with reference to continuing compliance with the financial policy.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, lease liabilities less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Net debt of the Group comprises of the following:

	31 December 2021	31 December 2020
Borrowings	88,414,435	78,951,574
Lease liabilities	60,548,145	34,441,507
Cash and cash equivalents (Note 17)	(33,326,489)	(21,808,874)
Net debt	115,636,091	91,584,207

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

33. 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 the outbreak of coronavirus infection, 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.

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 global spread of COVID-19 may have a significant and prolonged impact on global economic conditions, disruptions in supply chain, increase in employee absenteeism and adversely impact operations.

Since 2020, the Russian authorities have taken a number of measures to mitigate the effect of COVID-19 on the Russian economy. The range of measures is very broad and includes, amongst others, the deferral of tax and lease payments, suspension of field audits, prolongation of various state licences and permits, credit holidays and bank loans at reduced rates. Food retail was not included in the list of most affected sectors. The Group was included in the list of systemically important companies. The Government of Russia provided the following support measures for companies, added to the list of systemically important ones: budget subsidies, deferral of taxes and tax advances, state guarantees for credits and loans. The Group did not apply for support measures provided by the Government.

COVID-19 and Omicron variant of COVID-19 continue to impact operations, albeit less than in previous periods. Consumer's shopping behaviour and thus traffic remains difficult to predict and the Group is incurring additional COVID-19 preventive costs on antibacterial protection equipment and liquids for employees and customers, masks and gloves as well as cleaning services. Consumer demand for food products is stable. The Group performed assessment of the impact of COVID-19 on the impairment of non-financial assets (Note 7, 10) and on credit risk with respect to receivables (Note 15).

While the full financial impact of the crisis in a long-term perspective is impossible to predict with a high degree of certainty, the management strongly believes in positive outcome on the performance of the Group.

The management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

The Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. The management assesses the maximum exposure relating to such lawsuits and disputes to be RUB 577,399 as at 31 December 2021 (31 December 2020: RUB 89,974). The 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.

The management also assesses the maximum exposure from possible tax risks to be RUB 3,267,036 (31 December 2020: RUB 2,123,772). The management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

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, the management believes that there are no significant liabilities for environmental damage.

34. Events occurring after the reporting period

In February 2022, the Company obtained control over Noviy Impuls-50 LLC through purchase of 100% interest from Severgroup, the parent. Noviy Impuls-50 LLC is an online-retailer operating under the brand Utkonos. As a result of the transaction the Group plans to create a leading e-grocery platform covering all key shopping missions and market segments.

The purchase consideration amounts to RUB 20,000,000. The acquisition of 100% interest of Noviy Impuls-50 LLC by Lenta IPJSC will be financed by issue of 23,590,795 additional ordinary shares of Lenta IPJSC through a private placement offering to Severgroup at a price of RUB 1,087 per share. Other shareholders of the Company may participate by exercising preemptive rights to acquire additional shares. On 11 February 2022, an Extraordinary Meeting of Shareholders approved the proposed increase in the Lenta IPJSC's share capital by way of additional share issuance by closed subscription.

The Group is in the process of calculation of provisional values of net assets acquired and purchase price allocation. The Group will finalise the purchase price allocation within 12 months from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

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Appendices

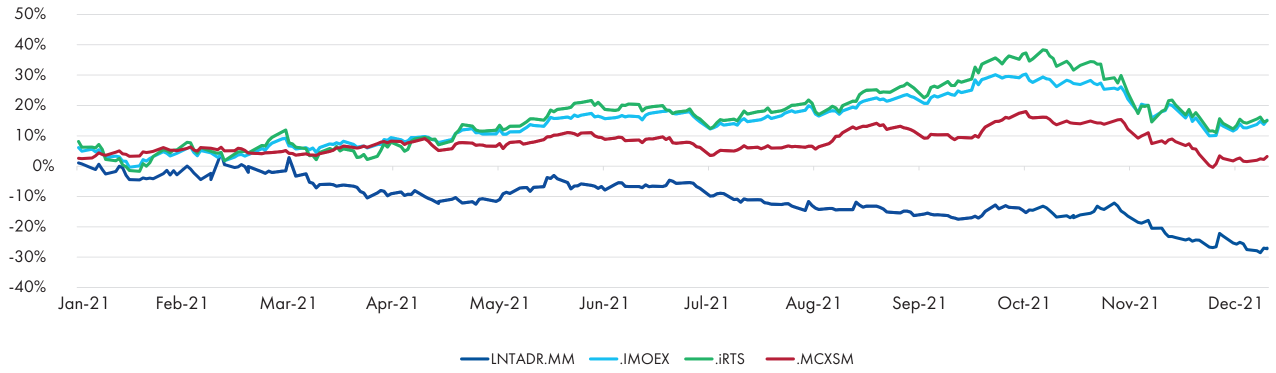
Share capital

As of 31 December 2021, Lenta share capital comprises 97,585,932 authorised and issued ordinary shares with RUB 0.0912632 par value.

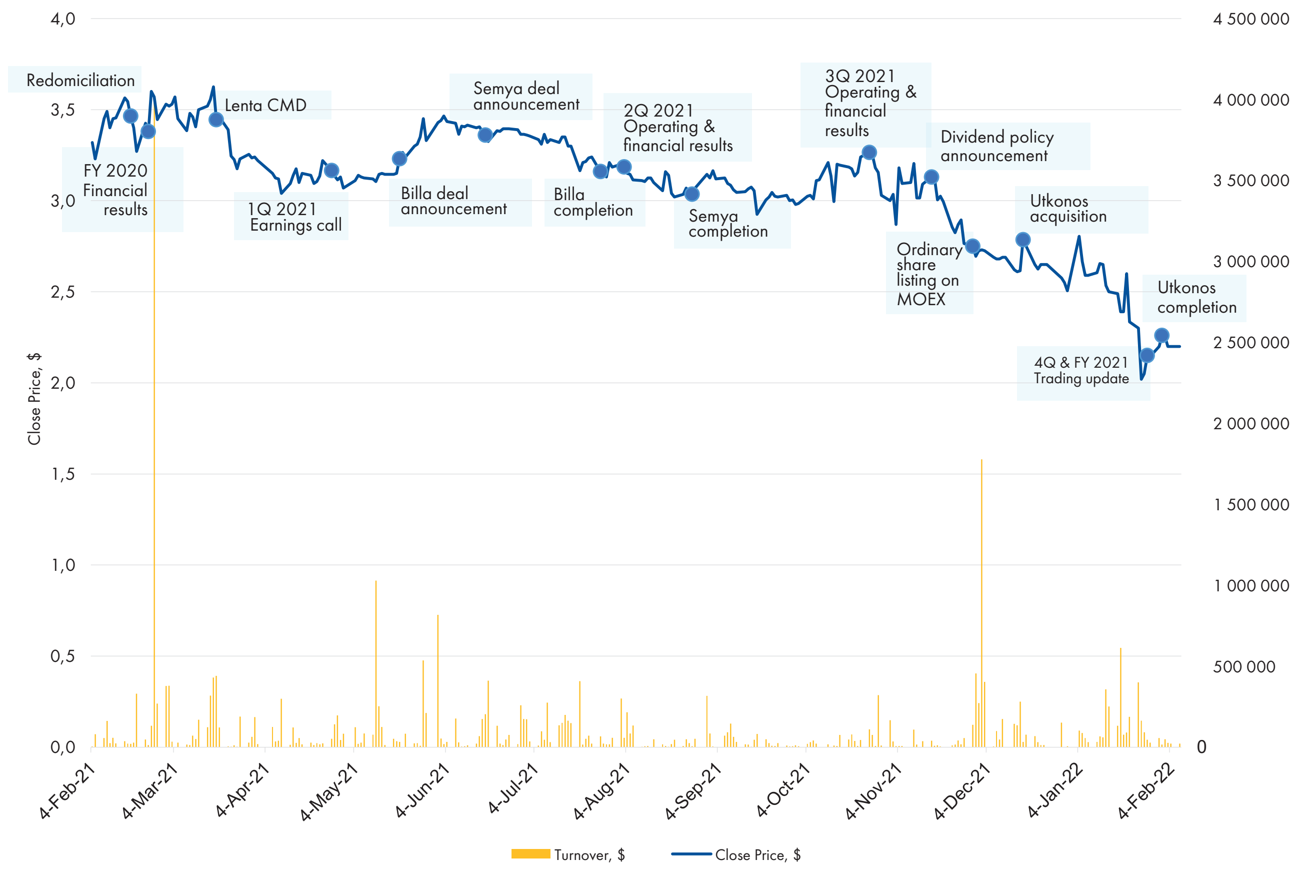
All Lenta's shares carry equal voting and distribution rights. GDR holders are entitled to receive dividends and participate in the General Meeting of Shareholders. The rights to the shares represented by the GDRs, including the right to vote, are limited by the terms of the Deposit Agreement and the relevant requirements of Russian legislation.

Equity capital structure as of 31 December 2021	Share, % Shareholders' equity capital
Severgroup LLC	77.99%
Treasury shares	0.93%
Institutional investors and employees	21.08%
Total	**100.00%**

LTM Stock Performance



Lenta stock price performance



Company's subsidiaries and associates

The Company had the following subsidiaries and associates as at 31 December 2021:

	Country of incorporation	Principal activities	Holding, % 31 December 2021	31 December 2020
Lenta LLC	Russia	Retail	100	100
Lenta-2 LLC	Russia	Holding of investments	100	100
Lenta Global Ltd	Cyprus	Holding of investments	100	100
TRK Volzhsky LLC	Russia	Holding of investments	100	100
TK Zheleznodorozhny LLC	Russia	Holding of property	100	100
Billa LLC*	Russia	Retail	100	–
Billa Realty LLC*	Russia	Retail	100	–
Semya Retail LLC*	Russia	Retail	100	–
Bolshaya Semya LLC*	Russia	Retail	100	–
Semya Logistika LLC*	Russia	Logistics	100	–
Smak LLC*	Russia	Production	100	–
Vostorg LLC*	Russia	Production	100	–
Semya LLC*	Russia	Retail	100	–
Novaya Semya LLC*	Russia	Retail	100	–
Semya na Borchaninova LLC*	Russia	Retail	100	–
Semya na Vedeneeva LLC*	Russia	Retail	100	–
Semya na Karbisheva LLC*	Russia	Retail	100	–
Semya na Gashkova LLC*	Russia	Retail	100	–
Semya na M. Ribalko LLC*	Russia	Retail	100	–
Semya na Krupskoy LLC*	Russia	Retail	100	–
Semya na Parkovom LLC*	Russia	Retail	100	–
Semya na Sadovom LLC*	Russia	Retail	100	–
Semya fresh LLC*	Russia	Retail	100	–
Semya na Pushkina LLC*	Russia	Retail	100	–
Semya na Mira, 41 LLC*	Russia	Retail	100	–
Semya v Dobryanke LLC*	Russia	Retail	100	–
Mega LLC*	Russia	Retail	100	–
Universam-1 LLC*	Russia	Retail	100	–
Universam-2 LLC*	Russia	Retail	100	–
Semya Opt LLC*	Russia	Retail	100	–
Semya na Geroev Khasana LLC*	Russia	Retail	100	–
Semya na Sibirskoy LLC*	Russia	Retail	100	–
Semya u doma LLC*	Russia	Retail	100	–
Domoi Dostavim LLC*	Russia	Delivery	25	–

* Subsidiaries were acquired in 2021 (Note 8).

List of cities as of 31 December 2021[1]

- Achinsk
- Almetyevsk
- Arkhangelsk
- Armavir
- Astrakhan
- Balakovo
- Barnaul
- Belgorod
- Biysk
- Bratsk
- Bryansk
- Cheboksary
- Chelyabinsk
- Cherepovets
- Cherkessk
- Dimitrovgrad
- Ekaterinburg
- Engels
- Grozny
- Irkutsk
- Ivanovo
- Izhevsk
- Kaluga
- Kamensk-Uralsky
- Kazan
- Kemerovo
- Khanty-Mansiysk
- Kostroma
- Krasnodar
- Krasnoyarsk
- Kurgan
- Kursk
- Lipetsk
- Magnitogorsk
- Maykop
- Moscow
- Murmansk
- Naberezhnye Chelny
- Nizhnevartovsk
- Nizhnekamsk
- Nizhniy Novgorod
- Nizhniy Tagil
- Novocherkassk
- Novokuznetsk
- Novorossiysk
- Novoshakhtinsk
- Novosibirsk
- Noyabrsk
- Obninsk
- Omsk
- Orel
- Orenburg
- Orsk
- Penza
- Perm
- Petrozavodsk
- Prokopievsk
- Pskov
- Rostov-on-Don
- Ryazan
- Samara
- Saransk
- Saratov
- Shakhty
- Smolensk
- St Petersburg
- Stavropol
- Sterlitamak
- Surgut
- Syktyvkar
- Taganrog
- Tobolsk
- Togliatti
- Tomsk
- Tula
- Tver
- Tyumen
- Ufa
- Ulyanovsk
- Velikiy Novgorod
- Vladimir
- Volgograd
- Vologda
- Volzhskiy
- Voronezh
- Yaroslavl
- Yoshkar Ola
- Yurga
- Zheleznovodsk

[1] From 1 May 2015, all stores located in Moscow city and the Moscow Region are shown as 'Moscow'; all stores located in the Leningrad Region and St Petersburg are shown as 'St Petersburg'.

Glossary

Unless otherwise specified, the terms 'we', 'us', and 'our' refer to Lenta IPJSC, or where the context allows, to the Lenta business more generally.

active card holder – a customer who has purchased goods at one of our stores at least twice in the past 12 months using our loyalty card

average sales density – total sales during the relevant year divided by the average selling space for that year

average ticket – the figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year

the Board – the Board of Directors of Lenta IPJSC

BVI – the British Virgin Islands

Capex – capital expenditure

CAGR – compounded annual growth rate

EGAIS – national automated information system for the control of alcohol production and distribution

FMCG – fast-moving consumer goods – products that are sold quickly and at relatively low cost

GDRs – global depositary receipts

in-store availability – the number of SKUs 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

LFL – like-for-like

MAU – monthly active users

NPS Net Promoter score

P&L – profit and loss statement

SG&A – selling, general and administrative expenses which is a major non-production cost presented in the income statement

Shares – our ordinary shares

SKU a 'stock keeping unit', or a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise

sq.m – square metre(s)

ticket – the receipt issued to a customer for his/her basket (the amount spent by a customer on a shopping trip)

total selling space – the area inside our stores used to sell products, excluding areas rented out to third parties, own-production areas, storage areas and the space between store entry and the cash desk line

traffic – the number of tickets issued for the period under review

Further information

In this annual report, we present certain operating and financial information regarding our hypermarkets supermarkets and convenience stores, which we define as follows:

EBITDA
Profit for the period before foreign exchange gains/losses, revaluation of financial instruments at fair value through profit or loss, reversal of impairment of non-financial assets, other expenses, depreciation and amortisation, interest and tax. The reconciliation of EBITDA to IFRS profit is presented in tabular format in Note 6 to the Consolidated Financial Statements.

EBITDA Margin
EBITDA as a percentage of sales

EBITDAR
EBITDA before rent paid on land, equipment and premises leases

EBITDAR Margin
EBITDAR as a percentage of sales

Like-for-Like sales (LFL)
We distinguish between sales attributable to new stores and sales attributable to existing stores. We consider 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 our like-for-like panel as of 31 December 2021 and 2020 was 372 (247 hypermarkets and 125 supermarkets) and 351 (230 hypermarkets and 121 supermarkets) respectively. 'Like-for-like average ticket growth', 'like-for-like average price growth per article', 'like-for-like traffic growth', and 'like-for-like average sales density' are calculated using the same methodology as like-for-like sales.

Net Debt
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

SG&A/Sales
SG&A as a proportion of sales.

The ratio of Net Debt to EBITDA
Net Debt divided by EBITDA

The ratio of EBITDA to net interest expense
EBITDA divided by net interest expense, which is calculated as interest expense less interest income

Cautionary statements

Forward-looking statements

This document contains certain ‘forward-looking statements’ which include all statements other than those of historical facts that relate to our plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters.

We generally use words such as ‘estimates’, ‘expects’, ‘believes’, ‘intends’, ‘plans’, ‘may’, ‘will’, ‘should’, ‘projects’, ‘anticipates’, ‘targets’, ‘aims’, ‘would’, ‘could’, ‘continues’ and other similar expressions to identify forward-looking statements. We have based these forward-looking statements on the current views of our management with regard to future events and performance. These views reflect the management’s best judgement, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside our control, the occurrence of which could cause actual results to differ materially from those expressed in our forward-looking statements.

Market and industry data

Statements referring to our competitive position and the Russian retail food sector reflect our beliefs and, in some cases, private and publicly available information and statistics, including annual reports, industry publications, market research, press releases, filings under various securities laws, official data published by Russian governmental entities and data published by international organisations and other third-party sources.

Rounding

Certain figures in this document 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.

Notes