Joint-Stock Company "Avangard-Agro"

Consolidated Financial Statements for the year ended 31 December 2014 and Auditors' Report

Contents

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Auditors' Report

To the Shareholders and Board of Directors of JSC "Avangard-Agro"

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: JSC "Avangard-Agro"

Entered in the Unified State Register of Legal Entities on 30 January 2004 by the Inter-Regional Tax Inspectorate No. 6 of the Ministry of Taxes and Duties of the Russian Federation for Orel Oblast under the principal state registration number 1045736000089, Certificate series 57 No. 000456023.

Address of audited entity: Russian Federation, 18, Ulitsa 8 Marta, Urban-Type Settlement of Zmievka, Orel Oblast 303320.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

Registered by the Moscow Registration Chamber. Certificate No. 011.585 of 25 May 1992.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation for Moscow, Registration No. 1027700125628. Certificate series 77 No. 005721432.

Member of the Non-Commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 10301000804.

Basis for Qualified Opinion

We did not observe the counting of inventories with a carrying amount of RUB 3,142,682 thousand as at 1 January 2013 because we were engaged as auditors of the Group only after that date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the cost of sales presented in the statement of profit or loss and other comprehensive income, and relevant line items of the statement of changes in equity and statement of cash flows for the year ended 31 December 2013. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2013 dated 2 September 2014 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2013 and the possible effects on the comparability of the current year's figures of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Sheremet V.G.

Director, (power of attorney dated 16 March 2015 No. 154/15)

JSC "KPMG"

10 April 2015

Moscow, Russian Federation

’000 RUB	**Note**	**31 December 2014**	**31 December 2013**
ASSETS			
Property, plant and equipment	12	15,249,208	13,083,605
Financial assets	13	1,638	36,065
Biological assets	16	197,879	184,234
Other non-current assets	14	332,825	322,483
Non-current assets		**15,781,550**	**13,626,387**
Inventories	15	6,661,048	4,978,491
Biological assets	16	1,775,091	936,934
Trade and other receivables	17	2,167,505	1,453,980
Financial assets	13	270,670	617,201
Cash and cash equivalents	18	48,472	51,523
Current assets		**10,922,786**	**8,038,129**
Total assets		**26,704,336**	**21,664,516**
EQUITY AND RESERVES			
Share capital	19	10,000	10,000
Retained earnings		9,216,153	6,906,306
Equity attributable to owners of the Company		**9,226,153**	**6,916,306**
Total equity and reserves	19	**9,226,153**	**6,916,306**
LIABILITIES			
Loans and borrowings	21	7,562,700	7,573,900
Non-current liabilities		**7,562,700**	**7,573,900**
Bonds	21	2,228,716	-
Loans and borrowings	21	6,642,818	5,993,053
Trade and other payables	22	1,043,949	1,181,257
Current liabilities		**9,915,483**	**7,174,310**
Total liabilities		**17,478,183**	**14,748,210**
Total equity and liabilities		**26,704,336**	**21,664,516**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

’000 RUB	Note	2014	2013
Revenue	5	8,371,868	4,582,329
Cost of sales		(7,394,233)	(4,070,657)
Net gain on initial recognition of agricultural produce and change in fair value of biological assets	16	2,738,693	1,480,749
Gross profit		**3,716,328**	**1,992,421**
Distribution expenses	6	(108,834)	(51,723)
Administrative expenses	7	(486,352)	(435,499)
Other expenses, net	8	(151,737)	(140,501)
Results from operating activities		**2,969,405**	**1,364,698**
Finance income	9	1,015,001	673,927
Finance costs	9	(1,443,200)	(986,461)
Net finance costs		**(428,199)**	**(312,534)**
Gain on disposal of subsidiaries	25	589	-
Profit before income tax		**2,541,795**	**1,052,164**
Income tax expense	11	(3,098)	(2,333)
Profit for the year		**2,538,697**	**1,049,831**
Total comprehensive income for the year		**2,538,697**	**1,049,831**
Profit attributable to:			
owners of the Company		2,538,697	1,049,831
Profit for the year		**2,538,697**	**1,049,831**
Total comprehensive income attributable to:			
owners of the Company		2,538,697	1,049,831
Total comprehensive income for the year		**2,538,697**	**1,049,831**

These consolidated financial statements were approved by management on 10 April 2015 and were signed on its behalf by:

General Director of JSC “Avangard-Agro” Financial Director of JSC “Avangard-Agro”

Kirkin A.N. Korolyova T.A.

«АВАНГАРД-АГРО»
ОРЛОВСКАЯ ОБЛАСТЬ

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 RUB		Equity attributable to owners of the Company				
	Note	Share capital	Retained earnings	Total	Non-controlling interests	Total equity and reserves
Balance at 1 January 2013		**10,000**	**6,120,127**	**6,130,127**	**681,973**	**6,812,100**
Profit for the year		-	1,049,831	**1,049,831**	-	**1,049,831**
Total comprehensive income for the year		**-**	**1,049,831**	**1,049,831**	**-**	**1,049,831**
Transactions with shareholders of the Company						
Distributions to shareholders	19	-	(743,090)	**(743,090)**	(62,653)	**(805,743)**
Total transactions with shareholders of the Company		**-**	**(743,090)**	**(743,090)**	**(62,653)**	**(805,743)**
Acquisition of non-controlling interests without a change in control		-	479,438	**479,438**	(619,320)	**(139,882)**
Total changes in ownership interests		**-**	**479,438**	**479,438**	**(619,320)**	**(139,882)**
Total transactions with shareholders of the Company		**-**	**(263,652)**	**(263,652)**	**(681,973)**	**(945,625)**
Balance at 31 December 2013		**10,000**	**6,906,306**	**6,916,306**	**-**	**6,916,306**
Profit for the year			2,538,697	**2,538,697**	-	**2,538,697**
Total comprehensive income for the year		**-**	**2,538,697**	**2,538,697**	**-**	**2,538,697**
Transactions with shareholders of the Company						
Contributions and distributions						
Distributions to shareholders	19	-	(228,850)	**(228,850)**	-	**(228,850)**
Total contributions and distributions		**-**	**(228,850)**	**(228,850)**	**-**	**(228,850)**
Total transactions with shareholders of the Company		**-**	**(228,850)**	**(228,850)**	**-**	**(228,850)**
Balance at 31 December 2014		**10,000**	**9,216,153**	**9,226,153**	**-**	**9,226,153**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 RUB	Note	2014	2013
Cash flows from operating activities			
Profit for the year		2,538,697	1,049,831
Adjustments for:			
Depreciation	12	1,098,489	826,348
Government grants		(983,519)	(759,733)
Foreign exchange differences	9	(221,528)	(2,809)
Other finance costs/(income)	9	1,083	(25,930)
Interest expense	9	1,440,338	986,461
Gain on disposal of subsidiaries	26	(589)	-
Unrealised net gain on initial recognition of agricultural produce and change in fair value of biological assets	16	(438,451)	(773,671)
Write-off of accounts receivable	8	38,041	33,681
Write-off of input VAT	8	28,792	-
Loss of crop, product deterioration and shortage of inventory	8	31,657	68,468
Other non-cash transactions		(33,761)	4,797
Income tax expense	11	3,098	2,333
Cash flows from operating activities before changes in working capital		**3,502,347**	**1,409,776**
Change in inventories		(1,655,292)	(1,112,292)
Change in biological assets		(304,187)	(439,826)
Change in trade and other receivables		(680,675)	172,301
Change in trade and other payables		62,346	32,258
Cash flows from operations before income taxes and interest paid		**924,539**	**62,217**
Income tax paid		(4,533)	(569)
Net cash from operating activities		**920,006**	**61,648**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 RUB	Note	2014	2013
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,353,846)	(1,973,959)
Acquisition of land lease rights		(64,166)	(47,585)
Proceeds from sale of property, plant and equipment		32,161	13,598
Disposal of investments in related parties		30,756	-
Disposal of subsidiaries	26	(140)	-
Acquisition of investments		-	(6,869)
Net cash used in investing activities		**(3,355,235)**	**(2,014,815)**
Cash flows from financing activities			
Government grants compensating interest expense	9	792,928	644,470
Interest paid		(1,412,449)	(1,037,458)
Bonds issue		3,000,000	-
Proceeds from borrowings		8,725,265	9,325,167
Repayment of borrowings		(8,445,950)	(6,297,190)
Distributions to shareholders		(228,850)	(805,743)
Net cash from financing activities		**2,430,944**	**1,829,246**
Net decrease in cash and cash equivalents		**(4,285)**	**(123,921)**
Effect of foreign exchange rate fluctuations	9	1,234	(718)
Cash and cash equivalents at the beginning of the year	18	**51,523**	**176,162**
Cash and cash equivalents at the end of the year	18	**48,472**	**51,523**
Non-cash transactions:			
Offsetting of promissory notes issued and promissory notes obtained from related parties		438,135	2,709,274
Acquisition of promissory notes obtained from related parties due to disposal of investments in related parties' equity instruments and subsequent offsetting against promissory notes issued		-	766,000
Settlement of non-controlling interests by promissory notes obtained from related parties		-	139,882

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

1 Reporting entity

(a) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Joint-Stock Company "Avangard-Agro" (the "Company") and its subsidiaries (the "Group") comprise Russian open joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad.

The Company was registered at the address: Russian Federation, 18, Ulitsa 8 Marta, Urban-Type Settlement of Zmievka, Orel Oblast 303320.

The ultimate beneficiary of the Group is Minovalov K.V.

The Group's principal activities are production and sale of agricultural produce. The Group carries out its activities in Voronezh, Kursk, Orel, Belgorod, and Lipetsk. The Group's products are sold in the Russian Federation and abroad.

The majority of the Group's funding is from loans provided by a related party bank with a B2 credit rating by Moody's. Further information about related party transactions is disclosed in note 30.

2 Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("rouble" or "RUB"), which is the functional currency of the Company and all its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in roubles has been rounded to the nearest thousand unless otherwise stated.

4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most critical judgment formed by management in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements concerns the recognition of government grants based on actual amounts received rather than using an accrual basis; this choice is preconditioned by irregular payment of such grants by the state authorities.

Critical accounting judgments applied by management in the course of preparing these consolidated financial statements are included in the following notes:

- Note 33(e)(iii) – useful life of property, plant and equipment;
- Note 15 – revaluation of agricultural produce;
- Note 16 – revaluation of biological assets.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values of an asset or a liability is disclosed in the notes specific to that asset or liability.

(a) Biological assets

The fair value of biological assets is based on the market price of the estimated harvest, net of the estimated costs to manage the crop until harvest and harvesting costs and a reasonable profit margin based on the effort required to manage and harvest the crops.

(b) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. The valuation technique used includes analysis of market ratios (multiples) and discounting of expected future cash flows using a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(c) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when respective receivables are acquired in a business combination.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Revenue

'000 RUB	**2014**	**2013**
Sales of agricultural produce	8,361,508	4,571,651
Rendering of services	10,360	10,678
	8,371,868	**4,582,329**

6 Distribution expenses

'000 RUB	**2014**	**2013**
Agricultural produce sale services	28,119	12,630
Wages and salaries	17,787	-
Commission fee	11,652	10,628
Packaging and other materials	10,647	3,267
Certification and produce quality analysis	10,247	1,534
Storage and shipment expenses	3,834	1,680
Other distribution expenses	26,548	21,984
	108,834	**51,723**

7 Administrative expenses

'000 RUB	**2014**	**2013**
Wages and salaries	324,278	304,226
Software	22,649	18,201
Maintenance and repair of property, plant and equipment	16,112	14,889
Other taxes and duties	18,553	13,727
Depreciation of property, plant and equipment	16,708	13,719
Legal, advisory and audit services	13,294	12,750
Materials	9,581	2,801
Business trip expenses	7,062	5,677
Bank services	5,730	6,223
Other administrative expenses	52,385	43,286
	486,352	**435,499**

8 Other income and expenses

'000 RUB	2014	2013
Reversal of provision for impairment of property, plant and equipment	73,360	-
Proceeds from fines and penalties under contracts	2,334	2,538
Rental income	90	8,436
Other income	12,007	31,483
Total other income	**87,791**	**42,457**
Financial aid	(69,911)	(21,969)
Write-off of accounts receivable	(38,041)	(33,681)
Loss of crop, product deterioration and shortage of inventory	(31,657)	(68,468)
Write-off of VAT	(28,792)	-
Write-down of inventories	(22,505)	-
Net loss on disposal of other assets	(8,664)	(4,798)
Other costs	(39,958)	(54,042)
Total other expenses	**(239,528)**	**(182,958)**
Total other expenses, net	**(151,737)**	**(140,501)**

9 Finance income and finance costs

'000 RUB	2014	2013
Government grants	792,928	644,470
Disposal of securities	-	22,106
Interest income	1,779	3,824
Foreign exchange gain	220,294	3,527
Finance income	**1,015,001**	**673,927**
Interest expense	(1,440,338)	(986,461)
Other finance costs	(2,862)	-
Finance costs	**(1,443,200)**	**(986,461)**

Government grants compensate the Group for interest expenses under bank loan agreements.

Also in 2014 the Group received government grants amounting to RUB 190,591 thousand (2013: RUB 115,263 thousand) that partially compensate the insurance premiums paid under agricultural insurance contracts and the provision of arm's-length support to crop farmers. Such government grants were recognised in the cost of sales.

10 Employee benefit expenses

'000 RUB	2014	2013
Cost of sales	848,168	719,727
Distribution expenses	17,787	-
Administrative expenses	324,278	304,226
	1,190,233	**1,023,953**

11 Income tax expense

The Group’s applicable tax rate is the corporate income tax rate of 0% for Russian companies involved in the production of agricultural produce.

Reconciliation of effective tax rate:

	2014	2013
	’000 RUB	’000 RUB
Profit before tax	2,541,795	1,052,164
Income tax for the year at the tax rate for agricultural producers	-	-
Tax using the Company’s domestic tax rate and tax rates in effect in foreign jurisdictions	1,958	2,139
Other differences	1,140	194
	3,098	**2,333**

12 Property, plant and equipment

’000 RUB	Land	Buildings and constructions	Machinery and equipment, vehicles	Other fixed assets	Construction in progress	Total
Historical cost						
Balance at 1 January 2013	**4,782,351**	**2,112,777**	**4,263,211**	**37,442**	**1,842,021**	**13,037,802**
Additions	333,316	-	968,688	-	1,053,851	**2,355,855**
Disposals	(8,651)	(267)	(10,322)	(1,834)	(4,685)	**(25,759)**
Transfers	98,687	1,186,626	685,955	-	(1,971,268)	**-**
Balance at 31 December 2013	**5,205,703**	**3,299,136**	**5,907,532**	**35,608**	**919,919**	**15,367,898**
Additions	876,265	62,083	1,893,471	581	499,390	**3,331,790**
Disposals	(7,230)	(1,233)	(9,791)	-	(5,090)	**(23,344)**
Disposal of a subsidiary	(201)	(46,080)	-	-	-	**(46,281)**
Transfers	10,808	858,023	-	-	(868,831)	**-**
Balance at 31 December 2014	**6,085,345**	**4,171,929**	**7,791,212**	**36,189**	**545,388**	**18,630,063**
Depreciation						
Balance at 1 January 2013	**-**	**(65,518)**	**(1,416,971)**	**(3,469)**	**-**	**(1,485,958)**
Depreciation for the year	-	(94,156)	(710,827)	(715)	-	**(805,698)**
Disposals	-	10	7,336	17	-	**7,363**
Balance at 31 December 2013	**-**	**(159,664)**	**(2,120,462)**	**(4,167)**	**-**	**(2,284,293)**
Depreciation for the year	-	(137,453)	(959,912)	(1,124)	-	**(1,098,489)**
Disposals	-	324	1,603	-	-	**1,927**
Balance at 31 December 2014	**-**	**(296,793)**	**(3,078,771)**	**(5,291)**	**-**	**(3,380,855)**
Carrying amount						
At 1 January 2013	**4,782,351**	**2,047,259**	**2,846,240**	**33,973**	**1,842,021**	**11,551,844**
At 31 December 2013	**5,205,703**	**3,139,472**	**3,787,070**	**31,441**	**919,919**	**13,083,605**
At 31 December 2014	**6,085,345**	**3,875,136**	**4,712,441**	**30,898**	**545,388**	**15,249,208**

Depreciation charges were included in the cost of production and administrative expenses in the amount of RUB 1,064,077 thousand (2013: RUB 744,362 thousand).

As at 31 December 2014 outstanding transactions on land acquisitions were included in construction in progress in the amount of RUB 69,988 thousand (31 December 2013: RUB 70,178 thousand).

(a) Pledged assets

As at 31 December 2014 items of property, plant and equipment with the carrying value of RUB 4,843,819 thousand (31 December 2013: RUB 2,920,677 thousand) and long-term lease rights for land plots of 116,431 ha (31 December 2013: 109,619 ha) were pledged to secure bank loans received by the Group (see note 21).

(b) Leased property, plant and equipment

The Group leases land plots under a number of lease agreements. Some of them provide the Group with a pre-emptive right to repurchase a respective land plot at a market price. Such transactions are recognised as leases based on the terms and conditions of the lease agreements. Lease liabilities are secured by leased land plots.

(c) Property, plant and equipment under construction

During 2013 the Group put into use a malt plant located in the urban-type settlement of Korenevo. Plant construction costs, including the cost of equipment to be assembled, amounted to RUB 1,397,966 thousand and were incurred by the Group during 2012 and 2013.

During 2013 the Group incurred costs related to the construction of a dairy farm MTK Staronikolsky and a seed complex in the village of Novospasskoe-1 in the amount of RUB 373,536 thousand and RUB 58,619 thousand respectively. During 2014 the Group incurred costs related to the construction of a dairy farm MTK Staronikolsky and a seed complex in the village of Novospasskoe-1 in the amount of RUB 68,118 thousand and RUB 32,749 thousand respectively. In August 2014 the Group put into use the above-mentioned dairy farm MTK Staronikolsky and the seed complex in the village of Novospasskoe-1.

(d) Acquisition of land plots

In 2014 the Group acquired ownership of 27,434 ha of land and related real estate objects in Kamensky and Podgorensky districts of Voronezh Oblast from a Black Earth Farming group of companies. Consideration paid for the land acquired amounted to RUB 453,324 thousand, for buildings and constructions – RUB 294,924 thousand (including VAT in the amount of RUB 44,988 thousand).

13 Financial assets

'000 RUB	**31 December 2014**	**31 December 2013**
Non-current		
Investments in equity instruments of related parties	1,638	36,065
	1,638	**36,065**
Current		
Promissory notes obtained from related parties	270,670	617,201
	270,670	**617,201**

Investments in equity instruments of related parties are measured at fair value which is based on the expected cost of subsequent sale.

As at 31 December 2014 financial assets with the carrying value of RUB 266,453 thousand (31 December 2013: RUB 585,231 thousand) were pledged to secure bank loans (see note 21).

Information about non-cash transactions involving financial assets of the Group is disclosed in the consolidated statement of cash flows.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 23.

14 Other non-current assets

'000 RUB	31 December 2014	31 December 2013
Land lease rights	254,129	197,686
Other non-current assets	78,696	124,797
	332,825	**322,483**

15 Inventories

'000 RUB	31 December 2014	31 December 2013
Agricultural produce	3,597,991	2,898,629
Investments in future crops	798,442	992,608
Processed agricultural produce	1,665,368	609,185
Raw materials and consumables	599,247	478,069
	6,661,048	**4,978,491**

In 2014 raw materials, consumables and movements in finished goods and work-in-progress which were recognised within the cost of production amounted to RUB 2,487,020 thousand (2013: RUB 2,297,536 thousand).

In 2014 the reversal of the allowance for the write-down of inventories to net realisable value resulted in a decrease in the cost of sales and amounted to RUB 378,621 thousand (2013: RUB 27,963 thousand).

Inventories with the carrying value of RUB 3,375,645 thousand at 31 December 2014 (31 December 2013: RUB 1,832,153 thousand) were pledged to secure bank loans (see note 21).

As at 31 December 2014 investments in future crops amounted to 214,026 ha (31 December 2013: 243,172 ha).

At the reporting dates the agricultural produce comprised the following:

	31 December 2014		31 December 2013	
	'000 RUB	Tonnes	'000 RUB	Tonnes
Wheat	1,716,899	234,518	1,489,050	220,710
Sunflower	524,410	38,011	482,283	51,742
Barley	985,266	169,003	595,498	104,690
Buckwheat	73,968	9,348	138,460	18,198
Sugar beet	-	-	15,740	11,055
Pea	33,024	1,728	-	-
Corn	235,226	36,862	95,500	18,479
Other	29,198	-	82,098	-
	3,597,991	**489,470**	**2,898,629**	**424,874**

At the reporting dates the processed agricultural produce comprised the following:

	31 December 2014		31 December 2013	
	'000 RUB	**tonnes**	**'000 RUB**	**tonnes**
Malt	957,586	99,159	308,758	39,635
Sugar	707,782	26,229	300,427	13,915
	1,665,368	**125,388**	**609,185**	**53,550**

16 Biological assets

As at 31 December 2014 biological assets classified as non-current assets comprised oxen and milk cows (3,113 live animals) and had a fair value of RUB 197,879 thousand (31 December 2013: 3,529 animals, fair value of RUB 184,234 thousand).

As at 31 December 2014 biological assets classified as current assets comprised winter wheat and had a fair value of RUB 1,775,091 thousand; the planting acreage was 140,610 ha (31 December 2013: RUB 936,934 thousand and 87,247 ha respectively).

(a) Movements in biological assets classified as non-current assets

'000 RUB	**Livestock inventory**	**Fair value '000 RUB**
Fair value less costs to sell at 1 January 2014	**3,529**	**184,234**
Growth due to asset acquisition	139	2,466
Natural increase	1,192	64,272
Decrease due to distemper	(334)	(14,976)
Decrease due to disposal of assets	(1,413)	(38,117)
Fair value less costs to sell at 31 December 2014	**3,113**	**197,879**

(b) Movements in biological assets classified as current assets

Presented in the table below are movements in the current value of biological assets classified as current assets during 2014 and 2013:

	2014	**2013**
Opening balance	**936,934**	**584,393**
Increases due to purchases	4,830,125	3,751,904
Fair value gain included in profit or loss under "Net gain on initial recognition of agricultural produce and change in fair value of biological assets"	2,738,693	1,480,749
Decrease due to harvest	(6,730,661)	(4,880,112)
Closing balance	**1,775,091**	**936,934**

As at 31 December 2014 unrealised net gain on initial recognition of agricultural produce and change in fair value of biological assets amounted to RUB 1,829,023 thousand (31 December 2013: RUB 1,390,572 thousand).

(c) Fair value

Biological assets classified as non-current

Fair value of livestock as at 31 December 2014 and 2013 was determined based on the active market data. The Russian market for these categories of livestock may be considered active, therefore the Group has sufficient data on sales and purchases of similar assets to apply a market approach to determine the fair value of livestock. When determining the market value, management of the Group used available information about sales and purchases of these categories of livestock in similar geographical regions.

Biological assets classified as current

Fair value of biological assets as at 31 December 2014 and 2013 was determined using a DCF method.

When determining the fair value, the following key assumptions were used:

- revenue is forecasted based on the estimated crops' yield, which is determined based on such factors as location of farmland, natural environment and climate conditions, as well as price growth rates on the valuation date;
- data on grain harvest prices are obtained from the state statistical reporting or other public sources as at the end of the reporting period or from existing sale-and-purchase agreements as of the dates of their execution (if applicable);
- cost of production and sales costs were forecast based on actual operating expenses;
- for the purpose of determining the fair value of biological assets at the reporting date a discount rate of 20% was applied (31 December 2013: 12.3%). The above rate was calculated based on the market rate which reflects the current market assessment of risks inherent in the activities of the Group;
- risks related to a biological transformation subsequent to the end of the reporting period.

The above-mentioned main assumptions represent management's assessment of future trends in agriculture and are based on historical data from both external and internal sources.

Based on management's assessment, reasonably possible changes to the key assumptions used to determine fair value of biological assets would have affected the value of the Group's biological assets by the amounts shown below:

	31 December 2014	**31 December 2013**
1% increase in discount rate (in absolute terms)	(9,811)	(5,571)
1% decrease in discount rate by (in absolute terms)	9,924	5,655
10% increase in grain harvest prices	193,977	77,432
10% decrease in grain harvest prices	(193,977)	(77,432)

(d) Harvest quantity (in tonnes)

Annual harvest of agricultural produce (in tonnes) was as follows:

	2014	**2013**
Sugar beet	466,006	598,427
Wheat	423,553	325,970
Barley	323,386	272,648
Sunflower	39,223	56,655
Corn	42,688	21,568
Buckwheat	4,074	3,373
Rye	-	3,125
Soya	1,301	2,696
Pea	1,751	1,829
	1,301,982	**1,286,291**

(e) Risk management in agribusiness

The Group is exposed to a number of risks related to agricultural assets:

Raw materials price risk

The Group's operating results are particularly sensitive to fluctuations in prices on core raw materials, including seeds, fertilisers and agrochemicals. In order to manage this risk the Group takes measures aimed at optimising its consumption of fertilisers and agrochemicals, and in order to guarantee the best bid price the Group runs purchases on a tender basis.

Soil and climatic risks

Biological assets are exposed to a risk of deterioration caused by climatic conditions and changes to soil fertility of areas where the Group operates. The Group regularly monitors its exposure to these risks; measures taken include diversification of land masses in regions with varying soil and climatic characteristics, cultivation of spring and winter crops within the framework of a crop rotation link, and farming rotation of crops with varying sensitivity to soil fertility.

17 Trade and other receivables

'000 RUB	31 December 2014	31 December 2013
Trade receivables	1,006,610	279,389
VAT receivable	799,335	882,942
Advances given	290,579	179,632
Insurance of future crop	12,314	35,025
Prepayment of other taxes and duties	10,049	16,528
Other receivables	48,618	60,464
	2,167,505	**1,453,980**

(a) Overdue trade and other receivables

The ageing analysis of accounts receivable is presented in the table below:

'000 RUB	31 December 2014	31 December 2013
Not overdue	1,054,161	301,121
Past due not more than 30 days	-	-
From 30 to 180 days	-	32,717
From 180 to 360 days	1,050	-
Over 360 days	17	6,015
	1,055,228	**339,853**

No provision for the impairment of receivables was created at 31 December 2014 and 2013. In 2014 receivables written off amounted to RUB 38,041 thousand (2013: RUB 33,681 thousand).

The Group's exposure to credit and currency risks is disclosed in note 23.

18 Cash and cash equivalents

'000 RUB	Currency	31 December 2014	31 December 2013
Petty cash		1,291	371
Bank balances	RUB	27,227	12,166
Bank balances	USD	2,064	38,037
Bank balances	EUR	17,890	949
		48,472	**51,523**

As at 31 December 2014 cash balances at a related party bank with a B2 credit rating by Moody's amounted to RUB 42,254 thousand (31 December 2013: RUB 49,635 thousand) – see note 30.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

19 Equity and reserves

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	2014	2013
Authorised shares	10,000	10,000
Par value	RUB 1,000	RUB 1,000
Outstanding at the beginning of the year	10,000	10,000
Outstanding at the end of the year, fully paid	**10,000**	**10,000**

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group companies, all rights are suspended until those shares are reissued.

(b) Non-controlling interest and transactions with non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations.

For the period from 1 January to 10 June 2013:

'000 RUB	LLC "Avangard-Agro-Voronezh"	LLC "Avangard-Agro-Orel"
Non-controlling interest (%)	**9.82%**	**19.55%**
Revenue	614,219	150,454
Profit for the period	7,256	1,167
Total comprehensive income for the period	**7,256**	**1,167**
Profit attributable to a non-controlling interest	713	228

On 10 June 2013 the Group purchased shares in LLC "Avangard-Agro-Voronezh" and LLC "Avangard-Agro-Orel" (see note 25).

In 2014 no transactions with non-controlling interests were performed.

(c) Dividends and other distributions to shareholders

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

The Company's shareholders decided not to pay dividends for 2013. However, in 2013 the shareholders received other distributions in the amount of RUB 805,743 thousand.

The Company's shareholders decided not to pay dividends for 2014. However, in 2014 the shareholders received other distributions in the amount of RUB 228,850 thousand.

20 Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

Management of the Group regularly assesses a EBITDA/total borrowed funds ratio. EBITDA is determined as profit for the period excluding depreciation and amortisation and net finance income/costs. Total borrowed funds are determined as the total of current and non-current loans and borrowings, bonds, trade and other payables. Provided that the method of calculating EBITDA and total borrowed funds is not prescribed by IFRS and there are no uniform rules for determining these indicators, other companies may calculate them differently.

	Year ended 31 December 2014	**Year ended 31 December 2013**
Profit for the year	2,538,697	1,049,831
Income tax expense	3,098	2,333
Net finance costs	428,199	312,534
Depreciation of property, plant and equipment	1,064,077	744,362
EBITDA	**4,034,071**	**2,109,060**
Total borrowed funds	17,478,183	14,748,210
Total borrowed funds/EBITDA	**4.33**	**6.99**

21 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, currency and liquidity risks, refer to note 23.

'000 RUB	**31 December 2014**	**31 December 2013**
Long-term		
Long-term bank loans	-	504,671
Long-term bank loans from related parties	7,562,700	7,069,229
	7,562,700	**7,573,900**

'000 RUB	31 December 2014	31 December 2013
Short-term		
Bonds	2,228,716	-
Short-term bank loans from related parties	4,735,177	4,200,250
Short-term promissory notes issued to related parties	369,021	792,803
Short-term promissory notes issued to other parties	3,095	-
Short-term bank loans	1,507,735	1,000,000
Short-term borrowings from other parties	9,480	-
Short-term borrowings from related parties	18,310	-
	8,871,534	**5,993,053**
	16,434,234	**13,566,953**

In October 2014 in the course of a public subscription the Group placed 3,000,000 non-convertible bonds with the par value of RUB 1,000 each and the total nominal value of RUB 3,000,000 thousand maturing in 1,092 days after the placement date (October 2017). The bonds have 6 coupon periods of 182 days. The coupon rate is 12.0% per annum.

Terms of issue do not provide for an early redemption. Given, however, that at the date of issue the Group declared rates only for the first 2 coupons, bond holders are entitled to bring these bonds for redemption within 5 working days of the last in series bond coupon, amount of which was determined by the Group. As a result, as at 31 December 2014 the Group has classified bond payables as short-term debt liability.

In December 2014, 827,000 bonds were bought back by one of the Group's companies, LLC "Avangard-Agro Trade". The total transaction value amounted to RUB 848,204 thousand, including an accumulated coupon yield of RUB 21,204 thousand.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	31 December 2014				
'000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured bank loans from related parties	RUB	6%–13%	2014–2029	10,234,603	10,234,603
Unsecured bank loans from related parties	RUB	6%–13%	2014–2029	2,063,274	2,063,274
Bonds	RUB	12%	2017 (2015 – an offer)	2,173,000	2,228,716
Unsecured bank loans	RUB	11%	2015	1,500,000	1,507,735
Unsecured borrowings from other entities	EUR	4%	2015	18,310	18,310
Unsecured borrowings from other entities	RUB	-	2015	9,480	9,480
Promissory notes issued to related parties	RUB	0%	2015	369,021	369,021
Promissory notes (third parties)	RUB	-	2015	3,095	3,095
Total liabilities				**16,370,783**	**16,434,234**

	31 December 2013				
'000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured bank loans from related parties	RUB	7.75–13%	2014–2028	10,523,367	10,552,367
Secured bank loans from related parties	USD	4–11%	-	29,641	29,641
Unsecured bank loans from related parties	RUB	7.75–13%	2014–2022	694,858	694,858
Unsecured bank loans	RUB	11%	2014–2015	1,500,000	1,504,671
Promissory notes issued to related parties	RUB	0–12%	2013	760,588	760,588
Promissory notes issued to related parties	EUR	0–4%	2014	24,772	24,828
Total liabilities				**13,533,226**	**13,566,953**

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying value of RUB 4,843,819 thousand (31 December 2013: RUB 2,920,677 thousand) – see note 12;
- long-term land lease rights for plots of 116,431 ha (31 December 2013: 109,619 ha) – see note 12;
- inventories with the carrying value of RUB 3,375,645 thousand (31 December 2013: RUB 1,832,153 thousand) – see note 15;
- financial assets with the carrying value of RUB 266,453 thousand (31 December 2013: RUB 585,231 thousand) – see note 13.

(b) Breach of loan covenant

As at 31 December 2014 and 2013 no additional terms (covenants) under loan agreements were applicable to the Group.

22 Trade and other payables

'000 RUB	**31 December 2014**	**31 December 2013**
Trade payables	675,195	1,002,101
Advances received	225,863	33,756
Other taxes payable	42,930	13,661
Other payables	99,961	131,739
	1,043,949	**1,181,257**

As at 31 December 2014 trade and other payables to related parties amounted to RUB 381,605 thousand (31 December 2013: RUB 37,653 thousand) – see note 30.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 23.

23 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks.

This note presents information about the Group’s exposure to each of the above risks and the Group’s objectives, policies and processes for measuring and managing risk and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and investments in securities.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure of the Group. The maximum exposure to credit risk at the reporting date was:

’000 RUB	**31 December 2014**	**31 December 2013**
Trade and other receivables	1,055,228	339,853
Promissory notes	270,670	617,201
Cash and cash equivalents	48,472	51,523
	1,374,370	**1,008,577**

At 31 December 2014 cash in the amount of RUB 42,254 thousand and promissory notes amounting to RUB 265,442 thousand were placed with a related party bank with a B2 credit rating by Moody’s (31 December 2013: RUB 49,635 thousand and RUB 585,231 thousand respectively).

(ii) Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group’s customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic environment. 15% of the Group’s revenue for 2014 is attributable to sales transactions with one customer (2013: 18%). However, geographically there is no concentration of credit risk.

The Group's products are sold to different categories of customers based on different terms:

– to customers in the Russian Federation – on a prepayment basis;

– to customers outside the Russian Federation – on a CAD basis (cash against documents) or based on a letter of credit.

Credit terms for certain customers are approved by the Board of Directors. Sale limits are established for each such customer, and represent the maximum open amount without requiring an approval. These limits are reviewed quarterly.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are individual or legal entity, wholesale, retail or end-user customer, as well as their location, industry, ageing profile, maturity and existence of previous financial difficulties. Trade and other receivables relate only to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Board of Directors, and future sales are made on a prepayment basis with approval of the Board of Directors.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

No provision for the impairment of receivables was created at 31 December 2014 and 2013.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has contractual commitments for the purchase of property, plant and equipment (see note 28).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

'000 RUB	Carrying amount	Contractual cash flows	On demand	Less than 3 months	3–12 months	1–5 years	More than 5 years
31 December 2014							
Loans and borrowings	14,205,518	21,020,882	399,425	1,464,415	5,047,963	6,119,186	7,989,893
Bonds	2,228,716	2,228,716	-	-	2,228,716	-	-
Trade and other payables	775,156	775,156	294,968	448,897	31,283	8	-
Balance at 31 December 2014	**17,209,390**	**24,024,754**	**694,393**	**1,913,312**	**7,307,962**	**6,119,194**	**7,989,893**
31 December 2013							
Loans and borrowings	13,566,953	17,442,324	1,480,764	734,149	4,803,169	5,480,670	4,943,572
Trade and other payables	1,133,840	1,133,840	257,553	69,352	800,369	6,566	-
Balance at 31 December 2013	**14,700,793**	**18,576,164**	**1,738,317**	**803,501**	**5,603,538**	**5,487,236**	**4,943,572**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on investments.

(i) Currency risk

The Group generates foreign currency revenues from sales of agricultural produce at European markets, which partially balances the Group's exposure to currency risk related to loans and payables. Net exchange gain for 2014 amounted to RUB 220,294 thousand (2013: RUB 3,527 thousand) (see note 9).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk, based on nominal values, was as follows:

	31 December 2014	
'000 RUB	**USD-denominated**	**EUR-denominated**
Cash and cash equivalents	2,064	17,890
Loans and borrowings	-	(18,310)
Trade and other receivables	197,136	325,083
Trade and other payables	(3,272)	(2,788)
	195,928	**321,875**

	31 December 2013	
	USD-denominated	**EUR-denominated**
Cash and cash equivalents	38,037	949
Loans and borrowings	(29,641)	(24,828)
Trade and other payables	(45,707)	(10,733)
	(37,311)	**(34,612)**

The following significant exchange rates have been applied during the year:

RUB	**Average exchange rate**		**Reporting date spot rate**	
	2014	**2013**	**2014**	**2013**
USD 1	38.42	31.85	56.26	32.73
EUR 1	50.81	42.31	68.34	44.97

Sensitivity analysis

A reasonably possible strengthening (weakening) of the RUB, as indicated below, against all other currencies at 31 December would have increased (decreased) equity and profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. Sensitivity analysis for 2013 was performed using the same principles although reasonably possible changes to foreign currency exchange rates were different (see below):

'000 RUB	Strengthening		Weakening	
	Equity	Profit or (loss)	Equity	Profit or (loss)
31 December 2014				
USD (10% movement)	(19,593)	(19,593)	19,593	19,593
EUR (10% movement)	(32,188)	(32,188)	32,188	32,188
31 December 2013				
USD (10% movement)	3,731	3,731	(3,731)	(3,731)
EUR (10% movement)	3,461	3,461	(3,461)	(3,461)

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

'000 RUB	Carrying amount	
	31 December 2014	31 December 2013
Fixed rate instruments		
Financial assets	270,670	617,201
Financial liabilities	(16,434,234)	(13,525,468)
	(16,163,564)	**(12,908,267)**
Variable rate instruments		
Financial liabilities	-	(41,485)
	-	**(41,485)**

Fair value sensitivity analysis for variable rate instruments:

	Profit or loss for the period		Equity	
'000 RUB	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2014				
Variable rate instruments	-	-	-	-
Cash flow sensitivity (net amount)	**-**	**-**	**-**	**-**
2013				
Variable rate instruments	(4,150)	4,150	(4,150)	4,150
Cash flow sensitivity (net amount)	**(4,150)**	**4,150**	**(4,150)**	**4,150**

(iii) *Other market price risk*

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(e) Fair value of financial instruments

Management of the Group believes that the carrying amounts of cash (see note 18), short-term receivables (see note 17) and payables (see note 22), short-term promissory notes acquired (see note 13) and long-term investments in equity instruments of related parties (see note 13), cost of which was determined based on the expected cost of subsequent sale, approximate their fair values.

As at 31 December 2014 and 2013 fair values of current bank loans and short-term borrowings, promissory notes issued and bonds determined on the basis of the current value of future cash flows using discount rates which present the best management assessment does not differ significantly from their carrying amounts.

As at 31 December 2013 the fair value of non-current bank loans did not differ significantly from their carrying amount.

Financial instruments with carrying amounts different from their fair values are presented below (in '000 RUB):

	31 December 2014		31 December 2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term bank loans from related parties	7,562,700	5,871,391	7,069,229	6,454,944
	7,562,700	**5,871,391**	**7,069,229**	**6,454,944**

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

At the reporting dates the fair value hierarchy of the Group's assets was as follows (in '000 RUB):

	31 December 2014		
Long-term financial assets available-for-sale	**Level 1**	**Level 2**	**Level 3**
Equity investments in related parties	-	-	1,638
Other assets measured at fair value			
Biological assets	-	-	1,972,970
Short-term financial liabilities measured at fair value			
Bonds	2,173,000	-	-

	31 December 2013		
Long-term financial assets available-for-sale	**Level 1**	**Level 2**	**Level 3**
Equity investments in related parties	-	-	36,065
Other assets measured at fair value			
Biological assets	-	-	1,121,168

In order to determine the fair value of equity instruments, at the reporting dates management of the Group applied cost calculated based on the expected cost of subsequent sale.

24 Significant subsidiaries

		Ownership and voting rights	
Subsidiary	**Country of registration**	**31 December 2014**	**31 December 2013**
LLC “Avangard-Agro-Voronezh”	Russia	100%	100%
LLC “Avangard-Agro-Orel”	Russia	100%	100%
LLC “Avangard-Agro-Kursk”	Russia	100%	100%
LLC “Avangard-Agro-Belgorod”	Russia	100%	100%
LLC “Avangard-Agro-Lipetsk”	Russia	100%	100%
LLC “Avangard-Agro-Trade”	Russia	100%	100%
Avangard Agro Trade AG	Switzerland	100%	100%
LLC “Korenevsky Malt Plant”	Russia	0%	100%

In December 2013 the Group acquired a share in its subsidiary, Avangard Agro Trade AG (Switzerland), for CHF 109,000. As a result, the Group increased its share in the subsidiary to 100%.

In December 2013 the Group concluded a sale-and-purchase agreement on the sale of its investments in its subsidiary, Avangard Shipyard DD, Pula, Croatia, to a related party for EUR 627,000. Ownership rights terminated in 2014. Though as at 31 December 2013 the Group held a controlling interest in this subsidiary, management of the Group believed it had no opportunity to exercise control over the subsidiary, and at the above date this investment was measured at fair value within long-term financial assets.

In September 2014 the Group sold its share in LLC “Korenevsky Malt Plant” to a related party. Further information about this transactions is disclosed in note 26.

25 Acquisition of non-controlling interest

In July 2013 the Group bought non-controlling interests in its subsidiaries – LLC “Avangard-Agro-Orel” for RUB 21,954 thousand, and LLC “Avangard-Agro-Voronezh” at the nominal price of RUB 117,928 thousand. Non-controlling interests were bought from an entity under common control of the Group. As a result, the Group increased its share in these subsidiaries to 100%. Consideration was paid by promissory notes previously acquired from a related party.

On the acquisition date the carrying amounts of LLC “Avangard-Agro-Orel” and LLC “Avangard-Agro-Voronezh” net assets recognised in the consolidated financial statements amounted to RUB 332,813 thousand and RUB 286,507 thousand respectively. The Group recognised a decrease in the non-controlling interest in the amount of RUB 619,320 thousand and an increase in the retained earnings in the amount of RUB 479,438 thousand.

In 2014 no transactions with non-controlling interests were performed.

26 Disposal of subsidiary

On 30 September 2014 the Group sold its investments in LLC "Korenevsky Malt Plant" to a related party. Profit generated by this subsidiary and included in the net profit for the year amounted to RUB 889 thousand, including proceeds from its disposal in the amount of RUB 589 thousand.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

'000 RUB	Note	Carrying amount at date of disposal
Non-current assets		**46,281**
Property, plant and equipment	12	46.281
Current assets		**23,088**
Trade and other receivables	17	22,938
Cash and cash equivalents	18	150
Current liabilities		**69,949**
Trade and other payables	22	69,949
Net liabilities		**(579)**
Consideration received, satisfied in cash		10
Cash and cash equivalents disposed of		(150)
Net cash outflow		**(140)**

27 Operating leases

At 31 December, the lease payments under non-cancellable operating leases were payable as follows:

'000 RUB	2014	2013
Less than 1 year	36,250	37,844
From 1 to 5 years	141,091	134,895
More than 5 years	417,597	621,724
	594,938	**794,463**

Generally, lease payments are revised on an annual basis and are increased in accordance with the market rates. A number of lease agreements provide for additional payments depending on changes in local price indices.

In 2014 operating lease expenses in the amount of RUB 290,376 thousand (2013: RUB 69,176 thousand) were recognised in profit or loss.

28 Capital commitments

As at 31 December 2014 the Group had contracts for the acquisition of agricultural equipment amounting to RUB 187,085 thousand (31 December 2013: RUB 743,649 thousand).

29 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings arising in the normal course of business, both as a plaintiff and a defendant. Management does not believe that the Group has claims which could have a material adverse impact on its operating results, financial condition of cash flows and which are not recognised in these IFRS consolidated financial statements or in notes thereto.

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Related party transactions

(a) Beneficiaries of the Group

The controlling shareholder of JSC "Avangard-Agro" is K.V. Minovalov.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management personnel received the following remuneration during the year, which is included in personnel costs (see note 10):

'000 RUB	2014	2013
Salaries and bonuses	6,000	5,000
Contributions to the RF State Pension Fund	1,200	1,000
	7,200	**6,000**

Key management personnel of the Group holds positions in other entities being related parties to the Group, and part of such remuneration is paid by respective entities.

(c) Other related party transactions

Information on the Group's transactions with other related parties is presented in the table below:

'000 RUB	Transaction value		Outstanding balance	
	2014	2013	31 December 2014	31 December 2013
Sales of agricultural produce and related receivables	100,955	50,160	15,857	40,324
Purchases and related payables	732,247	361,675	(381,605)	(37,653)
Loans received, promissory notes issued and related liability	23,281,951	9,279,696	(12,685,207)	(12,062,282)
Loans issued, promissory notes acquired and related liability	39,359,194	11,141,510	270,670	617,201
Balances at settlement accounts	-	-	42,254	49,635

During 2014 the Group repaid and extended liability on promissory notes issued to related parties, with no cash received, for the total amount of RUB 14,556,686 thousand and acquired related party promissory notes, without cash consideration paid, for RUB 39,236,834 thousand.

31 Subsequent events

In March 2015 OJSC "Avangard-Agro" was renamed JSC "Avangard-Agro".

32 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets measured at fair value through profit or loss, biological assets, agricultural produce at the harvest point, and property, plant and equipment, which were independently appraised as at 1 January 2012 to determine their deemed cost as part of the adoption of IFRSs.

33 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see note 33(a)(iii)).

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired less liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for acquisition of non-controlling interests

Non-controlling interests that do not result in a loss of control by the Group are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Non-controlling interests are adjusted based on the proportionate interest in the net assets of a subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

In preparing the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest payments accrued using the effective interest method and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets include investments in equity and debt securities, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to another party. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 33(h)(i)).

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 17, loans issued and promissory notes acquired as presented in note 13, and cash and cash equivalents as presented in note 18.

Cash and cash equivalents

Cash and cash equivalents comprise petty cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities initially recognised at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises the financial liability when its obligations relating to a corresponding contract are discharged or annulled or the effective term expires.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2012, the Group's date of transition to IFRSs, was determined by reference to its fair value at that date. Information about fair values of property, plant and equipment is disclosed in note 12.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of related equipment is capitalised as part of that equipment.

When certain parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a major component of an item of property, plant and equipment increases the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is written off. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Each component of an item of property, plant and equipment is generally recognised in profit or loss on a straight-line basis over its estimated useful live, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- buildings and constructions 7–60 years;
- machinery, equipment and vehicles 3–10 years;
- other property, plant and equipment 2–10 years.

Depreciation methods, expected useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of self-manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Agricultural produce

Agricultural produce, which is the harvested product of the Group's biological assets, is measured at fair value less expected costs to sell at the point of harvest, which represents its cost of production. If applicable, sales costs include brokers and dealers' commission, duties payable to regulators and stock exchanges, as well as transfer payments in the form of taxes and duties. Sales costs do not include transportation and other costs required to deliver assets to a market. After harvest agricultural produce is treated as inventory and is measured at the lower of cost or net realisable value.

(ii) Investments in future crop

Investments in future crop represent pre-planting preparation of land and include the cost of fertilisers and cultivation costs. After the seeding season is over, the carrying amount of investments in future crop is reclassified in the cost of biological assets.

(g) Biological assets

Initially biological assets represent unharvested agricultural produce and both at initial and subsequent recognition at each reporting date are measured at fair value less costs to sell. If subsequent to initial recognition of costs only insignificant biological transformation occurred or, according to expectations, the transformation will not have a material impact on price, the cost of production will approximate the fair value.

The difference between the fair value less expected costs to sell and the total cost of production so far is allocated to available biological assets at each reporting date as a fair value adjustment. Gains and losses upon a change of such adjustment of biological assets in different periods and upon valuation of agricultural produce at fair value at the harvest point less costs to sell are recognised in the consolidated statement of profit or loss and other comprehensive income in the period when occurred within "Net gain/(loss) on initial recognition of agricultural produce and change in fair value of biological assets". Write-offs of recognised biological assets as a result of crop failure in the current period are also recorded within this line item.

The Group classifies biological assets as current assets based on their average useful lives.

Provided that presently it is not practicable to determine market price or cost of unharvested crop in its current state, fair value of such unharvested crop is assessed by determining the present value of net cash flows expected from such assets and discounted at the current market rate taking into account biological transformation at the reporting date.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables are individually assessed for impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata basis.*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Revenue

(i) Sale of finished products and goods

Revenue from the sale of finished products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and any trade or wholesale discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be provided and it can be measured reliably, the discount is to be recognised as a reduction of revenue as the sale is recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of wheat, the transfer usually occurs when the product is received by the customer at the dispatcher's (supplier's) warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. For sales of other agricultural produce, the transfer of risks and rewards varies depending on the individual terms of the sales agreement and occurs when the product is received by the customer either at the dispatcher's (supplier's) warehouse or at the customer's warehouse. Generally for such products the customer has a right of return if supplied products do not satisfy contractual terms. The term for accepting and verifying quantity and quality of products is stipulated in individual contracts.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

Grants that compensate the Group for expenses incurred are recognised net in the cost of sales in the same periods in which such grants are actually received.

Grants that compensate the Group for interest expenses incurred under bank loan agreements are recognised gross within finance costs.

(j) Other costs

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group’s borrowing rate.

(k) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale investments, incremental fair value of financial assets measured through profit or loss, and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, losses on the remeasurement of the fair value of financial assets measured at fair value through profit or loss, and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(l) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events.

New information may become available that causes the Group to change its judgments regarding the adequacy of existing tax liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

34 New standards and interpretations not yet adopted

Standards and interpretations applied in the reporting period

In the reporting year the Group applied all new standards and interpretations approved by the International Financial Reporting Interpretations Committee (IFRIC), which are mandatory for the preparation of annual reporting for periods beginning on 1 January 2013.

Standards and interpretations issued but not yet applicable

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments.* IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements:

- IFRS 14 *Regulatory Deferral Accounts*.
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*

Management of the Group plans to adopt all of the above-mentioned standards and interpretations in the preparation of the consolidated financial statements for respective reporting periods. Management of the Group is assessing the potential impact on its consolidated financial statements resulting from the application of the above-mentioned standards and interpretations.

35 Operating segments

Operating segments are determined based on the internal component reports which are reviewed by the Board of Directors on a regular basis.

Management of the Group has determined one segment, "Agricultural production", which comprises production and sale of agricultural produce in the Russian Federation and abroad.

During 2014 revenue from the sale of agricultural produce to end customers in Russia and abroad amounted to RUB 5,249,618 thousand and RUB 3,122,250 thousand respectively (2013: RUB 3,925,285 thousand and RUB 657,044 thousand respectively).

As at 31 December 2014 and 2013 all non-current assets of the Group were located in the Russian Federation.