Joint-Stock Company “Avangard-Agro”

Consolidated Financial Statements for 2019 and Independent Auditors’ Report

Contents

Independent Auditors' Report

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

Opinion

We have audited the 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 2019, 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 significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of fair value of biological assets	
See note 14 to the consolidated financial statements.	
Key audit matter	**Audit procedures regarding the key audit matter**
As at 31 December 2019 the Group had current biological assets amounting to RUB 2,472 million recognized at fair value. Fair value is measured on the basis of discounted cash flow model and can vary significantly depending on changes in the model of estimates. Therefore, it is considered as a key audit matter.	– Our audit procedures in this area included testing of input data which is used as basis for calculation of fair value, as well as the collection process of data used by the Group at preparation of the discounted cash flow model. – We have compared the assumptions used by the Group in the model of discounted cash flows with the available external data, as well as with our evaluation of key input data, such as forecasted prices, exchange rates and growth rates of expenditures. – We have also recalculated the discount rate considering risks inherent to these biological assets. – We have compared crop acres used in the model of fair value measurement of biological assets with the crop plan approved by the Group management. – Moreover, we have evaluated reasonableness of the Group's disclosures in this area, as well as by performing sensitivity analysis of assumptions used in the model.

Measurement of fair value of land plots	
See note 10 to the consolidated financial statements.	
Key audit matter	**Audit procedures regarding the key audit matter**
The Group recognizes land plots at fair value. In 2018 revalued amount was determined by involving an independent external appraiser based on the market prices of similar transactions adjusted for bargaining and location discounts. In 2019 the Group's management, having analyzed the current economic situation, concluded that the value of land plots as at 31 December 2019 does not significantly differ from their fair value. Considering the significance of the value of land plots and the need to apply judgments when drawing conclusions regarding the fair value, we consider this issue as a key audit matter.	Our audit procedures included an analysis of prices for recent transactions, considering the purpose, status and location of land plots presented in public sources and transactions conducted by the Group in 2019 for acquisition of land plots. Based on the information obtained we compared the value of land plots in accounting as at 31 December 2019 to the market prices of similar transactions, taking into account adjustments for bargaining. Our audit procedures also included testing data on area and location of land plots for completeness and accuracy, based on which the analysis is performed.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of

our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Samoylova N.S.

JSC "KPMG"
Moscow, Russia

31 March 2020

RUB mln	Note	31 December 2019	31 December 2018*
ASSETS			
Property, plant and equipment	10	29,712	28,982
Biological assets	14	170	159
Deferred tax assets		11	35
Other non-current assets	12	21	235
Non-current assets		**29,914**	**29,411**
Inventories	13	11,021	11,147
Biological assets	14	2,472	2,767
Trade and other receivables	15	1,740	1,295
Financial assets	11	7,186	4,845
Cash and cash equivalents	16	326	83
Current assets		**22,745**	**20,137**
Total assets		**52,659**	**49,548**
EQUITY AND RESERVES			
Share capital	17	7	7
Property, plant and equipment revaluation surplus		8,999	9,031
Retained earnings		20,126	16,392
Equity attributable to owners of the Company		**29,132**	**25,430**
Total equity and reserves		**29,132**	**25,430**
LIABILITIES			
Loans and borrowings	19	8,131	8,023
Product supply liabilities under land leases		336	-
Long-term liabilities		**8,467**	**8,023**
Bonds	19	4,064	3,504
Loans and borrowings	19	9,806	11,871
Trade and other payables	20	952	674
Other short-term liabilities	7(b)	238	46
Short-term liabilities		**15,060**	**16,095**
Total liabilities		**23,527**	**24,118**
Total equity and liabilities		**52,659**	**49,548**

* The Group has initially applied IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of the initial application of IFRS 16 is recognized in retained earnings at the date of initial application. Refer to Note 3.

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 13 to 56.

RUB mln	Note	2019	2018*
Revenue	4	20,684	17,322
Cost of sales		(20,487)	(15,989)
Revaluation of biological assets	14	6,838	4,871
Gross profit		**7,035**	**6,204**
Distribution expenses		(216)	(268)
Administrative expenses	5	(861)	(815)
Other income/(expenses), net	6	(105)	(8)
Results from operating activities		**5,853**	**5,113**
Finance income	7	1,240	1,649
Finance costs	7	(3,045)	(2,063)
Net finance costs		**(1,805)**	**(414)**
Profit before tax		**4,048**	**4,699**
Income tax benefit/(expense)	9	(26)	33
Profit for the year		**4,022**	**4,732**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss:			
Revaluation of property, plant and equipment		(32)	2,861
Other comprehensive income for the year		**(32)**	**2,861**
Total comprehensive income for the year		**3,990**	**7,593**
Profit attributable to:			
Owners of the Company		4,022	4,732
Profit for the year		**4,022**	**4,732**
Total comprehensive income attributable to:			
Owners of the Company		3,990	7,593
Total comprehensive income for the year		**3,990**	**7,593**

* The Group has initially applied IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of the initial application of IFRS 16 is recognized in retained earnings at the date of initial application. Refer to Note 3.

These consolidated financial statements were approved by the management on 31 March 2020 and were signed on its behalf by:

General Director of JSC "Avangard-Agro"

A.N. Kirkin

Financial Director of JSC "Avangard-Agro"

T.A. Korolyova

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1045736000089 * «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 13 to 56.

RUB mln	Note	Share capital	Retained earnings	Property, plant and equipment revaluation surplus	Total equity and reserves
Balance at 1 January 2018		**8**	**15,200**	**6,170**	**21,378**
Profit for the year		-	4,732	-	4,732
Other comprehensive income					
Revaluation surplus		-	-	2,861	2,861
Total other comprehensive income		**-**	**-**	**2,861**	**2,861**
Total comprehensive income for the year		**-**	**4,732**	**2,861**	**7,593**
Transactions with shareholders of the Company					
Reacquisition of shares	17(b)	(1)	(3,239)	-	(3,240)
Distributions to shareholders	17(d)	-	(301)	-	(301)
Total transactions with shareholders of the Company		**(1)**	**(3,540)**	**-**	**(3,541)**
Balance at 31 December 2018		**7**	**16,392**	**9,031**	**25,430**
Balance at 1 January 2019*		**7**	**16,392**	**9,031**	**25,430**
Profit for the year		-	4,023	-	4,023
Other comprehensive income					
Decrease in value upon disposal of assets		-	-	(32)	(32)
Total other comprehensive income		**-**	**-**	**(32)**	**(32)**
Total comprehensive income for the year		**-**	**4,023**	**(32)**	**3,991**
Transactions with shareholders of the Company					
Distributions to shareholders	17(d)	-	(289)	-	(289)
Total transactions with shareholders of the Company		**-**	**(289)**	**-**	**(289)**
Balance at 31 December 2019		**7**	**20,126**	**8,999**	**29,132**

* The Group has initially applied IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of the initial application of IFRS 16 is recognized in retained earnings at the date of initial application. Refer to Note 3.

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 13 to 56.

RUB mln	Note	2019	2018*
Cash flows from operating activities			
Profit for the year		4,023	4,732
Adjustments			
Depreciation	5,10	1,677	1,443
Government grants	7(a)	(836)	(823)
Foreign exchange differences	7	41	(1)
Interest income and income on forward contracts	7	(551)	(1,045)
Interest expense on loans, borrowings and forward contracts	7	3,004	1,887
Allowance for financial assets impairment	7	(121)	176
Change in fair value of current biological assets and finished goods	14	(1,044)	(287)
(Reversal)/accrual of allowance for reduction of inventory net realizable value	13	596	(769)
Write-off of accounts receivable	6	16	5
Surpluses on the stock taking results	6	(15)	(8)
Loss on disposal of property, plant and equipment	6	21	5
Loss on disposal of other assets		6	30
Other non-cash transactions		41	(47)
Income tax expense/(benefit)	9	26	(33)
Cash flows from operating activities without changes in working capital		**6,884**	**5,265**
Change in inventories		1,266	(1,348)
Change in biological assets		(212)	1,004
Change in trade and other receivables		(633)	(252)
Change in trade and other payables		227	(467)
Cash flows from operating activities before income tax		**7,532**	**4,202**
Income tax paid		-	-
Net cash flow from operating activities		**7,532**	**4,202**

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 13 to 56.

RUB mln	Note	2019	2018*
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,896)	(2,457)
Promissory notes received		(1,927)	(446)
Proceeds from sale of property, plant and equipment		45	4
Cash payments on currency forward contracts		(613)	151
Net cash flow used in investing activities		**(4,391)**	**(2,748)**
Cash flows from financing activities			
Government grants compensating interest expense	7	568	603
Interest paid		(1,874)	(1,836)
Proceeds from borrowings		21,351	21,627
Bonds issue/reacquisition		554	(181)
Repayment of borrowings		(23,106)	(17,975)
Reacquisition of shares		-	(3,240)
Lease payments		(102)	(75)
Distributions to shareholders		(289)	(301)
Net cash flow used in financing activities		**(2,898)**	**(1,378)**
Net increase in cash and cash equivalents		**243**	**76**
Cash and cash equivalents at the beginning of the year	16	**83**	**7**
Cash and cash equivalents at the end of the year	16	**326**	**83**

* The Group has initially applied IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of the initial application of IFRS 16 is recognized in retained earnings at the date of initial application. Refer to Note 3.

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 13 to 56.

1 Reporting entity

(a) Organization 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 is registered at the address: the Russian Federation, 18, Ulitsa 8 Marta, Urban-Type Settlement of Zmievka, Orel Region 303320.

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

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

In 2019, Joint-Stock Company "Avangard-Agro" has been rated BBB-(RU) by the Analytical Credit Rating Agency (ACRA (JSC)) based on the results of 2018.

The subsidiaries of the Group are:

		Ownership and voting rights	
Subsidiary	**Country of registration**	**31 December 2019**	**31 December 2018**
Avangard-Agro-Voronezh LLC	Russia	100%	100%
Avangard-Agro-Orel LLC	Russia	100%	100%
Avangard-Agro-Kursk LLC	Russia	100%	100%
Avangard-Agro-Belgorod LLC	Russia	100%	100%
Avangard-Agro-Lipetsk LLC	Russia	100%	100%
Avangard-Agro-Trade LLC	Russia	100%	100%
Avangard-Agro-Tula LLC	Russia	100%	100%
Avangard Agro Trade AG	Switzerland	100%	100%

(b) 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 the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which contribute, together with other legal and fiscal impediments, to the challenges faced by entities operating in the Russian Federation.

Starting from 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to an 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 debt financing. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support of their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

In addition, in early 2020, global markets demonstrated a significant volatility caused by the coronavirus breakout. Together with other factors, this led to a fall in oil prices and a decline in stock

market indices, as well as a devaluation of the Russian rouble. These events increase the uncertainty of the business environment in the Russian Federation.

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.

2 Basis of accounting

(a) Statement of compliance

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

This is the first set of the Group's annual financial statements prepared using the requirements of IFRS 16 *Leases*. Changes in significant accounting policies are disclosed in Note 3.

(b) 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 RUB has been rounded to the nearest million, except when otherwise indicated.

(c) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs 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 those 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 29(e)(iv)– useful life of property, plant and equipment;
- Note 10(a)– revaluation of land plots;
- Note 13 – evaluation of agricultural produce;
- Note 14 – revaluation of biological assets.

(d) Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10(a) – land plots;
- Note 14 – biological assets;
- Note 21(e) – fair value of financial instruments.

(i) 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. For leases the market rate of interest is determined by reference to similar lease agreements.

3 Changes in significant accounting policies

Except for the changes listed below, the Group has consistently applied the accounting policies set out in Note 29 to all the periods presented in these consolidated financial statements.

The Group has applied the following amendments to its accounting policies from the date of initial application on 1 January 2012:

In 2015, the Group changed the recognition of land plots from a cost-based accounting model to a revalued cost accounting model. This change was applied prospectively from the date of change in accounting policy.

IFRS 16

The Group has initially applied IFRS 16 Leases on 1 January 2019.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group applied IFRS 16 using a modified retrospective approach, according to which the cumulative effect of the initial application of the standard is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17, and related interpretations. The details of changes in accounting policies are disclosed in Note 29.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is a lease or contains a lease relationship if the contract conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(b) Impacts on the financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognized additional right-of-use assets and additional product supply liabilities under land leases. The impact on transition is summarized below.

RUB mln	**1 January 2019**
Right-of-use assets presented in property, plant and equipment	580
Reclassification of rights of land leases from other non-current assets	(173)
Product supply liabilities under land leases:	
short-term	67
long-term	340

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments, determined on the basis of forward prices for agricultural products, using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 8.5%.

RUB mln	**1 January 2019**
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	689
Discounted using the incremental borrowing rate at 1 January 2019	284
– Exemption related to recognition of leases of low-value items	(3)
– Future minimum lease payments under contracts on which payments do not depend on an index or rate	(100)
– Revaluation of obligation based on forward prices under non-cash contracts settled by agricultural products	226
Product supply liabilities under land leases recognized at 1 January 2019	407

4 Revenue

RUB mln	Russia 2019	Russia 2018	Exports 2019	Exports 2018	Total 2019	Total 2018
Agricultural produce	**7,195**	**4,660**	**5,932**	**6,640**	**13,127**	**11,300**
Wheat	2,623	1,005	5,356	6,116	7,979	7,121
Sunflower	3,143	1,962	-	-	3,143	1,962
Corn	711	142	576	524	1,287	666
Barley	204	541	-	-	204	541
Lupine	4	83	-	-	4	83
Sugar beet	274	597	-	-	274	597
Other	236	330	-	-	236	330
Processed agricultural produce	**6,022**	**5,404**	**1,535**	**618**	**7,557**	**6,022**
Malt	5,760	5,137	1,535	618	7,295	5,755
Sugar	118	127	-	-	118	127
Milk	144	140	-	-	144	140
Grand total	**13,217**	**10,064**	**7,467**	**7,258**	**20,684**	**17,322**

The Group identifies two operating segments:

Agricultural production includes production and sale of agricultural produce, as well as sale of other processed agricultural produce, such as sugar and milk, in the Russian Federation and abroad.

Malt production includes production and sale of barley and wheat malt in the Russian Federation and abroad. Detailed information is provided in Note 31.

5 Administrative expenses

RUB mln	2019	2018
Wages and salaries	434	397
Other taxes and duties	75	96
Depreciation of property, plant and equipment	70	47
Legal, advisory and audit services	24	26
IT services	37	36
Other administrative expenses	221	213
	861	**815**

Comparative data for 2018 were adjusted upwards for administrative expenses and downwards for cost of sales by RUB 43 million due to a change in the classification approach.

6 Other income and expenses

RUB mln	2019	2018
Rental income	6	74
Insurance compensation from related parties	-	-
Inventory surplus	15	8
Reversal of inventory impairment allowance	-	-
Write-off of accounts payable	2	16
Other income	4	12
Total other income	**27**	**110**
Financial aid	(32)	(40)
Accrual of inventory impairment allowance	(2)	(2)
Loss of crop, spoilage of products, shortages on the stock taking results	-	-
Loss on disposal of property, plant and equipment	(21)	(5)
Loss on disposal of other assets	(6)	(30)
Write-off of accounts receivable	(16)	(5)
Other expenses	(55)	(36)
Total other expenses	**(132)**	**(118)**
Total other expenses, net	**(105)**	**(8)**

Insurance compensations received by the Group under crop insurance contracts were recognized in other income with regard to land plots where reseeding after loss of crops was impossible. Insurance compensations on land plots where it was possible to seed other cultures after loss of crops or it was impossible to gather crops due to unfavorable weather conditions were recognized as decrease in the cost of sales. The compensations amounted to RUB 10 million (in 2018: RUB 257 million).

7 Finance income and costs

RUB mln	2019	2018
Government grants (refer to Note 7(a))	568	603
Interest income on promissory notes	551	429
Reversal of allowance for financial assets impairment (refer to Note 11)	121	-
Foreign exchange gain	-	1
Net change in fair value of currency forward contracts measured at fair value through profit or loss (refer to Note 7(b))	-	616
Finance income	**1,240**	**1,649**
Interest expenses	(1,796)	(1,887)
Interest expenses for lease of land plots (refer to Note 22)	(34)	-
Allowance for financial assets impairment	-	(176)
Net change in fair value of currency forward contracts measured at fair value through profit or loss (refer to Note 7(b))	(1,174)	-
Foreign exchange loss	(41)	-
Finance costs	**(3,045)**	**(2,063)**
Net finance costs	**(1,805)**	**(414)**

(a) Government grants

Government grants represent a compensation by state authorities for interest expenses on the Group's bank loans.

Also, in 2019 the Group received government grants to partially compensate for insurance premiums paid under crop insurance contracts, arm's-length support, elite seed production and livestock totaling RUB 410 million recognized in the cost of sales (2018: RUB 220 million). Out of them, government grants in the amount of RUB 142 million were received in cash.

(b) Currency forward contracts

During 2019, the Group entered into several currency forward contracts with a related party. As at 31 December 2019 the Group has opened forward contracts for purchase of USD 57,930 thousand at the average exchange rate of RUB/USD 67.17 and EUR 39,100 thousand at the average exchange rate of RUB/EUR 76.87 (as at 31 December 2018 forward contracts for purchase of USD 45,820 thousand at the average exchange rate of RUB/USD 68.49 and EUR 34,320 thousand at the average exchange rate of RUB/EUR 81.82). The fair value of currency forward contracts was recognized in other financial assets and other short-term liabilities and amounted to RUB 26 million and RUB 238 million respectively (2018: RUB 395 million and RUB 46 million respectively).

8 Employee benefit expenses

RUB mln	2019	2018
Production personnel wages and salaries including mandatory contributions to state funds	2,140	1,993
Administrative personnel wages and salaries including mandatory contributions to state funds	434	397
Distribution personnel wages and salaries including mandatory contributions to state funds	63	53
	2,637	**2,443**

The Group's average number of employees during the years ended 31 December 2019 and 2018 was 5,383 employees and 4,823 employees, respectively.

9 Income tax (expense) benefit

In accordance with Russian legislation, the income tax rate for agricultural companies is 0%. The income tax rate for companies taxable at the standard rate is 20%.

10 Property, plant and equipment

RUB mln	Land	Buildings and constructions	Machinery and equipment, vehicles	Other PPE	Under construction	Total
Historical cost						
Balance at 1 January 2018	**13,794**	**7,944**	**10,745**	**41**	**186**	**32,710**
Additions	111	16	1,842	11	527	**2,507**
Disposals	(4)	-	(10)	-	-	**(14)**
Transfers	18	362	(68)	(2)	(310)	**-**
Revaluation	2,861	-	-	-	-	2,861
Balance as at 31 December 2018	**16,780**	**8,322**	**12,509**	**50**	**403**	**38,064**
Recognition of right-of-use assets on initial application of IFRS 16	580	-	-	-	-	**580**
Additions	125	651	951	8	190	**1,925**
Disposals	(71)	(24)	(8)	-	(1)	**(104)**
Transfers	-	(87)	307	4	(224)	-
Revaluation	(32)	-	-	-	-	**(32)**
Balance at 31 December 2019	**17,382**	**8,862**	**13,759**	**62**	**368**	**40,433**
Depreciation						
Balance at 1 January 2018	**-**	**(1,065)**	**(6,544)**	**(34)**	**-**	**(7,643)**
Depreciation for the year	-	(323)	(1,123)	(4)	-	**(1,450)**
Disposals	-	-	4	7	-	**11**
Balance as at 31 December 2018	**-**	**(1,388)**	**(7,663)**	**(31)**	**-**	**(9,082)**
Depreciation for the year	(77)	(357)	(1,238)	(5)	-	**(1,677)**
Disposals	27	2	9	-	-	**38**
Reclassification between groups	-	23	(23)	-	-	-
Balance at 31 December 2019	**(50)**	**(1,720)**	**(8,915)**	**(36)**	**-**	**(10,721)**
Carrying amount						
At 1 January 2018	**13,794**	**6,879**	**4,201**	**7**	**186**	**25,067**
At 31 December 2018	**16,780**	**6,934**	**4,846**	**19**	**403**	**28,982**
At 31 December 2019	**17,332**	**7,142**	**4,844**	**26**	**368**	**29,712**

In 2019 depreciation charge of RUB 1,604 million was included in the cost of sales (in 2018: RUB 1,443 million).

At 31 December 2019 outstanding transactions on land acquisitions were included in property, plant and equipment under construction in the amount RUB 4 million (at 31 December 2018 - RUB 6 million).

(a) Land plots

In 2018, the management involved an appraiser, REGAL Consulting LLC, to perform an independent appraisal of land plots as at 31 December 2018, which, according to the accounting policies of the Group, are recognized at fair value. The fair value of land plots was determined in the amount of RUB 16,780 million and was based on the market prices of recent similar transactions adjusted for bargaining and location discounts. The estimated fair value of land plots refers to Level 3 of the fair value hierarchy: input data for assets and liabilities that are not based on observable market data (unobservable inputs).

- For each group of land plots, similar transactions were selected from open sources based on the following criteria: the purpose of a land plot, location, area.
- For evaluation purposes, selected similar transactions were adjusted for bargaining (19.4%) and location (from -25% to 34%) discounts.

The Group's management, having analyzed the current economic situation, has concluded that the value of land plots as at 31 December 2019 does not differ significantly from their fair value. The fair value measurement with the involvement of an expert was not conducted.

(b) Security

At 31 December 2019 items of property, plant and equipment with the carrying value of RUB 9,223 million (31 December 2018: RUB 7,670 million) and long-term lease rights for land plots of 0 ha (as at 31 December 2018 - 0 thousand ha) were pledged to secure bank loans received by the Group (refer to Note 19).

(c) Leased property, plant and equipment

In 2018, the Group entered into finance lease agreements for agricultural machinery. As at 31 December 2019 leased PPE are fully repurchased (as at 31 December 2018, the carrying amount of leased PPE was RUB 176 million).

11 Financial assets

RUB mln	**31 December 2019**	**31 December 2018**
Current		
Promissory notes acquired from related parties	7,160	4,450
Currency forward contracts	26	395
	7,186	**4,845**

Information about the Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 21.

12 Other non-current assets

RUB mln	31 December 2019	31 December 2018
Land lease rights	-	198
Other non-current assets	21	37
	21	**235**

Land lease rights were transferred to right-of-use assets in the transition to IFRS 16 and are disclosed in Note 3.

13 Inventories

RUB mln	31 December 2019	31 December 2018
Agricultural produce	7,060	8,154
Processed agricultural produce	1,530	811
Fallow land and spring crop costs	1,616	1,531
Raw materials and consumables	815	651
	11,021	**11,147**

In 2019 raw materials, consumables, finished goods and work-in-progress which were recognized within the cost of sales amounted to RUB 5,015 million (2018: RUB 4,707 million).

In 2019 the amount received from the accrual of the allowance for impairment of inventories to net realizable value resulted in an increase in the cost of sales and amounted to RUB 596 million. In 2018 the amount received from the use of the allowance for impairment of inventories to net realizable value resulted in a decrease in the cost of sales and amounted to RUB 769 million.

Inventories with the carrying amount of RUB 6,712 million at 31 December 2019 (at 31 December 2018: RUB 5,040 million) were pledged to secure bank loans (refer to Note 19).

As at 31 December 2019 fallow land and spring crop land plots amounted to 259,732 ha (at 31 December 2018: 262,542 ha).

At the reporting dates the agricultural produce comprised the following:

	31 December 2019		31 December 2018	
	RUB mln	Tonnes	RUB mln	Tonnes
Wheat	1,718	171,453	3,121	266,430
Barley	3,182	252,696	2,237	193,111
Sunflower	1,328	82,180	2,059	113,045
Corn	746	83,119	639	78,711
Buckwheat	85	3,292	95	7,571
Other	1	882	3	1,636
	7,060	**593,622**	**8,154**	**660,504**

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

	31 December 2019		31 December 2018	
	RUB mln	**Tonnes**	**RUB mln**	**Tonnes**
Sugar	455	18,842	404	14,029
Malt	1,075	55,406	407	25,413
Other	-	-	-	-
	1,530	**74,248**	**811**	**39,442**

14 Biological assets

At 31 December 2019 biological assets classified as non-current assets comprised oxen and milk cows of 3,018 heads and had a fair value of RUB 170 million (31 December 2018: 3,085 heads, fair value of RUB 159 million).

At 31 December 2019 biological assets classified as current assets comprised winter wheat and had a fair value of RUB 2,472 million; the land area was 129,817 ha (31 December 2018: RUB 2,767 million, area of 129,511 ha).

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

		Fair value
RUB mln	**Heads**	**RUB mln**
Fair value less costs to sell at 1 January 2018	**3,180**	**239**
Natural increase	1,337	75
Increase due to asset acquisition	32	2
Decrease due to mortality	(297)	(6)
Decrease due to sale of assets	(1,167)	(56)
Net change in fair value	-	(95)
Fair value less costs to sell at 31 December 2018	**3,085**	**159**
Natural increase	1,352	59
Decrease due to mortality	(238)	(4)
Decrease due to sale of assets	(1,181)	(56)
Net change in fair value	-	12
Fair value less costs to sell at 31 December 2019	**3,018**	**170**

(b) Movements in biological assets classified as current assets

The following represents the changes in current value of biological assets classified as current assets during the years, ended 31 December 2019 and 2018:

RUB mln	**2019**	**2018**
At the beginning of the year	**2,767**	**3,028**
Increase due to costs	9,224	6,900
Net change in fair value less estimated costs to sell	6,838	4,870
Decrease due to harvest	(16,357)	(12,031)
At the end of the year	**2,472**	**2,767**

As at 31 December 2019 an unrealized part of revaluation of current biological assets and finished goods amounted to RUB 4,133 million (31 December 2018: RUB 3,102 million).

(c) Fair value

The estimated fair value of biological assets refers to Level 3 of the fair value hierarchy: input data for assets and liabilities that are not based on observable market data (unobservable inputs).

Biological assets classified as non-current assets

Fair value of oxen and milk cows was calculated on the basis of simplified DCF model. Calculation of expected milk yield, milk and meat prices was based on actual data of companies for 2019. Calculated income and costs were discounted to the date of determining fair value depending on the period that they are originated. Discount rate as at 31 December 2019 was 7.5%.

Biological assets classified as current assets

The fair value of biological assets as at 31 December 2019 and 2018 was determined using a DCF method.

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

- revenue is forecasted based on the estimated wheat yield, which is determined based on factors such as location of farmland, natural-climatic conditions and other conditions as well as price growth rates on the valuation date. Average crop yield for the areas was determined as 47 q/ha (2018: 45.9 q/ha);
- expected market prices of wheat based on data from open sources at the end of the reporting period. The expected export price per ton of crop was determined as RUB 10.2 thousand with the expected exchange rate at the date of sale of 74.04 RUB/EUR (2018: RUB 13 thousand with the expected exchange rate at the date of sale of 86.53 RUB/EUR);
- cost of production and sales costs were forecasted based on actual operating expenses;
- for the purpose of determining the fair value of biological assets at the reporting dates a discount rate of 7.5% was applied;
- risks related to a biological transformation subsequent to the reporting period end were considered.

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

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

RUB mln	**2019**	**2018**
Increase in discount rate by 1% (in absolute terms)	(12)	(14)
Decrease in discount rate by 1% (in absolute terms)	12	14
Increase in grain harvest prices by 10%	200	248
Decrease in grain harvest prices by 10%	(200)	(248)

(d) Harvest quantity (in tonnes)

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

	2019	2018
Wheat	598,518	497,911
Barley	454,031	303,980
Sugar beet	263,571	197,091
Sunflower	133,837	129,040
Corn	135,225	132,226
Buckwheat	-	5,411
	1,585,182	**1,265,659**

(e) Risk management in agricultural business

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 territories where the Group is having its business. 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.

15 Trade and other receivables

RUB mln	31 December 2019	31 December 2018
Trade receivables	1,177	645
Other receivables	91	124
VAT receivable	59	298
Advances given	366	212
Prepayment of other taxes and duties	47	16
	1,740	**1,295**

(a) Overdue trade and other receivables

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

RUB mln	31 December 2019	31 December 2018
Not overdue	1,231	752
Past due not more than 30 days	31	7
From 30 to 180 days	2	3
From 180 to 360 days	3	-
Over 360 days	1	7
	1,268	**769**

As at 31 December 2019, an allowance was created in respect of the expected credit losses on accounts receivable in the amount of RUB 17 million (as at 31 December 2018: RUB 2 million). The write-off of accounts receivable during the 12 months ended 31 December 2019 amounted to RUB 2 million (during the year ended 31 December 2018 - RUB 5 million).

During 2019 trade receivables from a third party in the amount of RUB 126 million were repaid with related party promissory notes presented and paid in full at 31 December 2019.

The Group's exposure to credit and currency risks is disclosed in Note 21.

16 Cash and cash equivalents

RUB mln	Currency	31 December 2019	31 December 2018
Bank balances	RUB	32	80
Bank balances	EUR	290	1
Bank balances	USD	2	-
Petty cash		2	2
		326	**83**

At 31 December 2019 cash balances at a related party bank with a B2 credit rating by Moody's amounted to RUB 324 million (as at 31 December 2018: RUB 81 million), refer to Note 26.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

17 Capital and reserves

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	31 December 2019	31 December 2018
Authorized shares	7,290	8,100
Par value	RUB 1,000	RUB 1,000
Outstanding at the beginning of the year	7,290	8,100
Reacquisition of shares	-	(810)
Outstanding at the end of the year, fully paid	**7,290**	**7,290**

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 the 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) Reacquisition of shares

In 2019 there were no reacquisitions of shares.

In the 4th quarter of 2018 the Group repurchased 810 shares from shareholders for RUB 3,240 million. As the result of the transaction total quantity of outstanding shares decreased to 7,290 shares.

(c) Revaluation of land plots

In 2018, the Group revalued land plots in accordance with the accounting policy. The increase in value amounted to RUB 2,861 million and was recognized as other comprehensive income.

(d) 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 financial statements prepared in accordance with Russian Accounting and Reporting Principles.

In 2019, other payments in the amount of RUB 289 million were made in favor of the shareholders (in 2018: dividends for 9 months of 2018 in the amount of RUB 100 million and other payments in the amount of RUB 201 million were provided).

18 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 by efficient cash management, permanent monitoring of the Group's revenues and profit, and long-term investment plans financed by the Group's operating cash flows. By taking these measures the Group aims for steady profit 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 financial 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.

RUB mln	**2019**	**2018**
Profit for the year	4,022	4,732
Income tax (benefit)/expense	26	(33)
Net finance costs	1,805	414
Depreciation of property, plant and equipment	1,677	1,443
EBITDA	**7,530**	**6,556**
Total liabilities	23,527	24,118
Total liabilities/ EBITDA	**3.12**	**3.68**

19 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, currency and liquidity risks refer to Note 21.

RUB mln	**31 December 2019**	**31 December 2018**
Long-term		
Long-term bank loans from third parties	-	94
Long-term bank loans from related parties	8,131	3,789
Long-term borrowings from non-bank companies	-	4,091
Finance lease liabilities	-	49
	8,131	**8,023**
Short-term		
Short-term bank loans from related parties	1,496	3,306
Short-term bank loans from third parties	8,151	6,015
Bonds	4,064	3,504
Short-term promissory notes issued to third parties	159	384
Short-term borrowings from non-bank companies	-	2,110
Finance lease liabilities	-	56
	13,870	**15,375**
	22,001	**23,398**

The Group's funding is provided by loans issued by a related party bank with a B2 credit rating by Moody's.

During 12 months of 2019 the Group signed assignment agreements on long-term borrowings from a non-bank related party in favor of a bank that is also a related party. The total amount of the assigned rights was RUB 4,090 million.

At the end of December 2018, the Group entered into contracts for the sale of 2,173,679 bonds for the amount of RUB 2,092 million with an obligation to repurchase them in early January. Outstanding amount under such contracts is recognized as short-term borrowings from non-bank companies.

In 2019 the Group entered into contracts for the sale of previously repurchased bonds in the amount of RUB 561 million, including coupon income of RUB 7 million. As at 31.12.2019 bonds redeemed by the Group at the end of the period made up RUB 1,992 million in total of 1,963,679 pieces, excluding coupon income of RUB 35 million.

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 4 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, at 31 December 2019 the Group has classified bond payables as short-term liablity.

(a) Debt repayment terms and schedule

Terms and conditions of outstanding loans were as follows:

	31 December 2019				
RUB mln	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured bank loans from related parties	RUB	1*-11.25%	2020-2030	9,748	9,569
Secured bank loans from third parties	RUB	1.5*-9.35%	2020	5,835	5,846
Unsecured bank loans from related parties	RUB	1*-12.5%	2020-2023	58	58
Unsecured bank loans from third parties	RUB	7.5-9%	2020	2,300	2,305
Bonds	RUB	8.5%	2020	4,008	4,064
Promissory notes issued to third parties	RUB	7.5-8.75%	2020	155	159
Total liabilities				**22,104**	**22,001**

	31 December 2018				
RUB mln	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured bank loans from related parties	RUB	1*-11.25%	2018-2030	7,026	7,026
Secured bank loans from third parties	RUB	2.1*-8.2%	2019-2020	2,095	2,099
Unsecured bank loans from related parties	RUB	1*-8.25%	2019-2023	69	69
Unsecured bank loans from third parties	RUB	8-8.4%	2019	4,000	4,010
Bonds	RUB	8.5%	2019	3,454	3,504
Unsecured borrowings from other companies	RUB	0-11.5%	2019-2030	6,206	6,201
Promissory notes issued to third parties	RUB	8.25-9%	2019	374	384
Finance lease liabilities	RUB	9.9%	2019-2021	115	105
Total liabilities				**23,339**	**23,398**

*Low interest rates apply to subsidized loan agreements. The Group receives grants through accredited banks that provide loans to farmers at a reduced rate. The reduced rate can be canceled if the Group does not fulfill certain contract terms or if the budget is insufficient to provide a grant. The Group recognizes such government grants as financial income (Note 7(a)).

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying amount of RUB 9,223 million (as at 31 December 2018: RUB 7,670 million) – refer to Note 10;
- long-term lease rights for land plots of 0 ha (as at 31 December 2018: 0 thousand ha) – refer to Note 10;
- inventories with the carrying amount of RUB 6,712 million (as at 31 December 2018: RUB 5,040 million) – refer to Note 13.

(b) Reconciliation of changes of liabilities and cash flows from financing activities

	Liabilities		
RUB mln	**Loans and borrowings**	**Bonds**	**Total**
Balance at 1 January 2019	**19,894**	**3,504**	**23,398**
Changes due to cash flows from financing activities			
Interest paid on loans and borrowings	(1,587)	(287)	**(1,874)**
Lease payments	(102)	-	**(102)**
Borrowings	21,351	-	**21,351**
Repayment of borrowings	(23,106)	-	**(23,106)**
Bonds issued/(redeemed), net	-	554	**554**
Total changes due to cash flows from financing activities	**(3,444)**	**267**	**(3,177)**
Other changes			
Interest expense on loans and borrowings	1,503	293	**1,796**
Promissory notes exchange	(16)	-	**(16)**
Total other changes	**1,487**	**293**	**1,780**
Balance at 31 December 2019	**17,937**	**4,064**	**22,001**

	Liabilities		
RUB mln	**Loans and borrowings**	**Bonds**	**Total**
Balance at 1 January 2018	**16,448**	**3,710**	**20,158**
Changes due to cash flows from financing activities			
Interest paid on loans and borrowings	(1,438)	(398)	**(1,836)**
Lease payments	(75)	-	**(75)**
Borrowings	21,627	-	**21,627**
Repayment of borrowings	(17,975)	-	**(17,975)**
Bonds issued/(redeemed), net	-	(181)	**(181)**
Total changes from financing cash flows	**2,139**	**(579)**	**1,560**
Other changes			
Interest expense on loans and borrowings	1,498	373	**1,871**
Interest expense under lease contracts	16	-	**16**
Recognition of liabilities under lease contracts	65	-	**65**
Promissory notes exchange	(272)	-	**(272)**
Total other changes	**1,307**	**373**	**1,680**
Balance at 31 December 2018	**19,894**	**3,504**	**23,398**

20 Trade and other payables

RUB mln	**31 December 2019**	**31 December 2018**
Trade payables	167	286
Short-term product supply liabilities under land leases	26	-
Other payables	147	165
Other taxes payable	208	74
Prepayments received	404	149
	952	**674**

As at 31 December 2019 trade and other payables to related parties amounted to RUB 5 million (as at 31 December 2018: RUB 45 million) – refer to Note 26.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 21.

21 Financial risk management

(a) Overview

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

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

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 analyze 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 investment 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:

RUB mln	**31 December 2019**	**31 December 2018**
Promissory notes	7,160	4,450
Trade and other receivables	1,268	769
Cash and cash equivalents	324	81
Other financial assets	26	395
	8,778	**5,695**

At 31 December 2019 cash in the amount of RUB 324 million was placed with a related party bank with a B2 credit rating by Moody's (31 December 2018: cash in the amount of RUB 81 million).

Promissory notes are not overdue at the reporting date, default risk has been assessed as low on the basis of financial performance of debtors. The estimated allowance for losses from impairment in the amount of RUB 55 million as at 31 December 2019 (as at 31 December 2018: RUB 176 million). The tax effect from reversal of allowance for losses from impairment amounted to RUB 24 million.

(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 characteristics 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. 16% of the Group's revenue for 2019 is attributable to sales with one customer (for 2018: 19%) with which the Group has trade relations for more than 4 years. However, geographically there is no concentration of credit risk.

As a rule, sales are performed::

– 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.

For certain customers the Board of Directors agrees sales with deferred payment. 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.

The sale of goods is performed on the terms of retaining ownership, so that the Group has a secured right of claim in the event of non-payment by the customer. The Group does not require collateral in respect of trade and other receivables.

The expected credit loss level is calculated for receivables based on the status of overdue amount and actual experience of credit losses over the past three years. The Company individually determines the ratings of the major debtors and assesses the default risk on them as low. The estimated allowance for losses from impairment of receivables as at 31 December 2019 amounted to RUB 17 million (as at 31 December 2018 the allowance was not created due to insignificance).

In order to reduce the credit risk on receivables, the Group enters into factoring agreements. As at 31 December 2019, the total amount of transferred debt on them amounted to RUB 1,409 million (as at 31 December 2018: RUB 551 million).

(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 (refer to Note 24).

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

RUB mln	Carrying amount	Contractual cash flows	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years
31 December 2019							
Loans and borrowings	17,937	20,656	-	3,203	7,492	9,126	835
Bonds	4,064	4,395	-	139	4,256	-	-
Finance lease liabilities	-	-	-	-	-	-	-
Trade and other payables	340	340	214	80	41	5	-
Foreign exchange forward contracts used for hedging (refer to Note 7(b))	238	361	-	88	273	-	-
Outflow	-	*5,010*	-	*900*	*4,110*	-	-
Inflow	-	*(4,649)*	-	*(812)*	*(3,837)*	-	-
Balance at 31 December 2019	**22,579**	**25,752**	**214**	**3,510**	**12,062**	**9,131**	**835**
31 December 2018							
Loans and borrowings	19,789	23,087	-	4,072	8,570	8,563	1,882
Bonds	3,504	3,797	-	123	3,674	-	-
Finance lease liabilities	105	115	-	11	53	51	-
Trade and other payables	451	451	158	276	15	2	-
Foreign exchange forward contracts used for hedging (refer to Note 7(b))	46	64	-	-	64	-	-
Outflow	-	*622*	-	-	*622*	-	-
Inflow	-	*(558)*	-	-	*(558)*	-	-
Balance at 31 December 2018	**23,895**	**27,514**	**158**	**4,482**	**12,376**	**8,616**	**1,882**

The gross inflows (outflows) disclosed in the table above represent the contractual undiscounted cash flows related to derivative financial liabilities held for the risk management purposes. Such liabilities are not usually paid off till the maturity date. Cash flows are presented on the net basis for derivatives which are calculated on the net basis, and on the gross basis for derivatives which provide for full simultaneous settlement, e.g. foreign exchange forward contracts.

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 negative 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.

(i) Currency risk

The Group generates foreign currency revenues from sales of agricultural produce at European markets, the majority of which is aimed at conclusion of currency forward contracts. Net foreign exchange loss for 2019 amounted to RUB 41 million (for 2018 – net gain of RUB 1 million). Also, net loss from changes in the fair value of currency forward contracts for 2019 amounted to RUB 1,174 million (for 2018 – gain of RUB 616 million). Refer to Note 7.

Exposure to currency risk

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

	31 December 2019	
RUB mln	**USD-denominated**	**EUR-denominated**
Trade and other receivables	334	274
Cash and cash equivalents	2	290
Currency forward contracts used for hedging	(214)	(193)
Trade and other payables	(2)	(6)
	120	**364**

	31 December 2018	
RUB mln	**USD-denominated**	**EUR-denominated**
Trade and other receivables	2	25
Cash and cash equivalents	-	1
Currency forward contracts used for hedging	127	33
Trade and other payables	(3)	(10)
	126	**49**

The following significant exchange rates were applied during the year:

RUB	**Average exchange rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	64.74	62.71	61.91	69.47
EUR 1	72.50	73.95	69.34	79.46

Sensitivity analysis

Strengthening/(weakening) of the RUB, as indicated below, against foreign currencies at 31 December 2019 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 2018 was performed using the same principles although reasonably possible changes to foreign currency exchange rates were different (see below):

RUB mln	**Strengthening**		**Weakening**	
	Equity	**Profit or (loss)**	**Equity**	**Profit or (loss)**
31 December 2019				
USD (10% movement)	(397)	(397)	397	397
EUR (10% movement)	(336)	(336)	336	336
Other (10% movement)	(6)	(6)	6	6
31 December 2018				
USD (10% movement)	(321)	(321)	321	321
EUR (10% movement)	(285)	(285)	285	285
Other (10% movement)	(9)	(9)	9	9

(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). The Group's 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.

Structure

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

RUB mln	**Carrying amount**	
	31 December 2019	**31 December 2018**
Fixed rate instruments		
Financial assets	7,186	4,845
Financial liabilities	(9,880)	(23,398)
Total fixed rate instruments	**(2,694)**	**(18,553)**
Variable rate instruments		
Financial assets		
Financial liabilities	(12,121)	
Total variable rate instruments	**(12,121)**	**-**
Total	**(14,815)**	**(18,553)**

(iii) Other market price risks

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 such financial instruments as cash (refer to Note 16), short-term receivables (refer to Note 15), payables (refer to Note 20) and short-term promissory notes received (refer to Note 11) approximate their fair values.

As at 31 December 2019 and 2018 fair values of short-term bank loans, borrowings and promissory notes issued and bonds determined on the basis of the current value of future cash flows using discount rates which represent the best management assessment does not differ significantly from their carrying amounts.

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

	31 December 2019		31 December 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term loans and borrowings	8,131	7,894	7,974	8,063
	8,131	**7,894**	**7,974**	**8,063**

Financial instruments at fair value as at the reporting dates are represented by foreign currency forward contracts (Note 7(b)). Fair value is based on forward currency quotes and refers to the Level 2 of the fair value hierarchy.

22 Leases

(a) Leases as lessee

The Group leases warehouse and production facilities. A lease agreement is generally concluded initially for a term from 1 to 6 years with the right of its subsequent extension.

The leases for warehouse and production facilities were entered into many years ago as part of the general lease of land and buildings located on it. These agreements were previously classified as operating leases in accordance with IAS 17.

The Group decided not to recognize right-of-use assets and lease liabilities in respect of these leases due to the insignificance of amounts.

The Group leases land plots with an area of 56,946 ha. Lease agreements are concluded for a term from 1 to 50 years with the right of its subsequent extension. A number of lease agreements provide for additional payments depending on changes in local price index. These agreements were previously classified as operating leases in accordance with IAS 17.

Payments under lease agreements for land plots were usually made in kind.

(i) Right-of-use assets

Right-of-use assets that do not meet the definition of investment property are presented within property, plant and equipment (refer to Note 10).

RUB mln	Land plots
2019	
Balance as at 1 January	580
Depreciation charged for the year	(77)
Depreciation disposal for the year	27
Proceeds from right-of-use assets	2
Disposals of right-of-use assets	(68)
Balance as at 31 December	463

(ii) Amounts recognized in profit or loss

RUB mln	2019
2019 – Leases under IFRS 16	
Interest on lease liabilities	34
Depreciation of right-of-use assets	77
Municipal lease expenses	25
2018 – Operating Leases under IAS 17	
Lease expenses	105
Income from sublease presented in Other revenues	(74)

(iii) Options for lease extension

The Group has applied judgment to some lease contracts as a lessee to determine the lease term by reference to the period during which the contract is enforceable. The Group considers that enforceability of the lease is established not only by the written contract (including penalty clauses) in combination with applicable legislation related to renewal or termination rights, but also by economic disincentives for the lessee and/or the lessor that might create a 'penalty' in a broader meaning. This might result in the lease enforceability period going beyond the boundaries of the written contract because of inclusion of additional period which lasts until the moment when the 'penalty' becomes insignificant for both parties. The 'penalty' in the Group's interpretation includes, in addition to "contractual penalties", investments in land cultivation and fertilization.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of product supply liabilities under land leases and right-of-use assets recognised.

23 Finance lease liabilities

During 2017 and 2018, the Group entered into finance lease agreements for agricultural machinery. The smallest interest rate on borrowed capital and interest rates under the lease contract were used for capitalization of leased assets. In 2019, the Group repurchased leasing items in ahead of schedule.

Finance lease liabilities are payable as follows:

	2018		
RUB mln	**Minimum future lease payments**	**Interest**	**Present value of minimum lease payments**
Less than 1 year	64	8	56
From 1 to 5 years	51	2	49
	115	10	105

24 Capital commitments

As at 31 December 2019, the Group entered into agreements for acquisition of agricultural machinery in the amount of RUB 32 million (as at 31 December 2018: RUB 153 million).

25 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) Litigations

During the year, the Group was 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) Tax risks

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.

All 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.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These rules provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 market price determination methods prescribed by the Tax Code. Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of Russian tax authorities, that such transfer prices could be challenged. Given the fact that the current Russian transfer pricing rules became effective relatively recently, the impact of such challenge cannot be reliably estimated. At the same time, it may be significant to the financial position and/or the overall operations of the Group.

26 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 (refer to Note 8):

RUB mln	**2019**	**2018**
Salaries and bonuses	14	11
Contributions to State Pension Fund	3	2
	17	**13**

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

(i) Related party balances

RUB mln	2019	2018
Promissory notes	7,160	4,450
Other financial assets	26	395
Balances on settlement accounts	324	81
Trade and other receivables	3	1
Trade and other payables	(5)	(45)
Other short-term liabilities	(238)	(46)
Loans received	(9,627)	(11,218)
	(2,357)	**(6,382)**

In 2019, insurance indemnities were received from a related party in the amount of RUB 10 million (in 2018: RUB 257 million), loans in the amount of RUB 13,136 million and RUB 14,513 million were received and repaid respectively (in 2018: RUB 11,487 million and RUB 8,232 million respectively). During 2019, the Group repaid debts on its own promissory notes issued to third parties, using related party promissory notes in the amount of RUB 16 million (2018: RUB 272 million). During the period ended 31 December 2019, promissory notes in the amount of RUB 1,877 million were purchased for cash (in 2018: RUB 231 million) and purchases from related parties in the amount of RUB 784 million were performed (in 2018: RUB 189 million).

27 Subsequent events

In February 2020 the Company's share capital was reduced to RUB 7.3 million by redemption of shares acquired by the company.

28 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 and also land plots from 2015.

29 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 (refer to Note 29(a)(ii)).

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

- the recognized 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 recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized 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 is measured at fair value at the date of acquisition. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) 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 in full to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Acquisitions from entities under common control

Business combinations arising from acquisition of assets and liabilities of business under control of the Group's shareholder are accounted for using the acquisition method as at the date of control transfer to the Group at fair value at the transfer date according to IFRS 3. If a bargain purchase gain arose during the process of recognition of such transaction using the acquisition method, it is recognized in equity as shareholder contribution.

(iv) Loss of control

Upon the loss of control, the Group derecognizes 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 recognized 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.

(v) 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. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized 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 translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 translated 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 on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognized in other comprehensive income.

(c) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized upon origination. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component are initially measured at the transaction price.

(ii) Classification and subsequent measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of 'held to maturity', 'loans and receivables' and 'available-for-sale'.

Financial assets classification depends on the Group's business model for managing financial assets and contractual characteristics of cash flows from financial assets. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL based on the Group's assessment:

- it is held within a business model, whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's assets carried at amortized cost consist of trade and other receivables, promissory notes received, cash and cash equivalents. These assets are measured at amortized cost, which is calculated using the effective interest rate method, less impairment losses (refer to Note 29(h) (i)).

Cash and cash equivalents comprise 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.

The Group's financial liabilities are measured at amortized cost using the effective interest rate method. The Group has loans and borrowings, bank overdrafts and trade and other payables.

(iii) Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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.

(iv) Derivative financial instruments

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Group holds forward derivative financial instruments to hedge its currency risk. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in the profit or loss.

(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, except for land, are measured at cost less accumulated depreciation and 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 10.

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 labor costs, any other costs directly attributable to bringing the assets 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Revaluation of land plots

Land plots are measured at fair value based on periodic evaluation conducted by external independent appraisers. A revaluation increase on land plots is recognised directly in Revaluation surplus in other comprehensive income. However, this increase shall be recognized in profit or loss to the extent that it reverses a decrease of the same asset previously recognized in profit or loss.

A revaluation decrease shall be recognized in profit or loss for the period. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in Revaluation surplus.

(iv) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and 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 recognized 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 items of property, plant and equipment for the current and comparative periods were as follows:

- buildings and constructions 7–60 years;
- machinery, equipment and vehicles 3–10 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 weighted-average cost method, 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 "Revaluation of biological assets". Write-offs of recognised biological assets as a result of crop failure in the current period are also recorded within "Revaluation of biological assets".

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) Financial assets

IFRS 9 replaced the 'incurred loss' model with a forward-looking 'expected credit loss' (ECL) model according to the prospective approach to impairment. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Under IFRS 9, loss will be measured on the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group selected lifetime ECLs measurement approach as an accounting policy for trade receivables and promissory notes received.

When determining the credit risk of a financial asset at the time of initial recognition and at the reporting date, the Group considers relevant information available without undue effort. This includes both quantitative and qualitative information and analysis, including the Group's expert forecast regarding credit risk dynamics.

The Group assumes that the credit risk has increased significantly if it is more than 90 days past due.

For the purpose of ECL measurement the Group specifies the following indicators of a potential default:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the financial asset is more than 90 days past due and there is no arrangement on the timing of debt settlement.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows in accordance with the contract and the cash flows that the Group expects to receive). The effective interest rate is applied to the ECLs on non-current financial assets.

At each reporting date, the Group assesses whether financial assets are non-refundable. The financial asset is 'non-refundable' when one or more events that have a detrimental impact on cash flows owed to the Group.

Impairment allowances are deducted from the carrying amount of financial assets carried at amortized cost. Impairment losses on trade and other receivables are presented as part of the net operating expenses, impairment losses on promissory notes received are presented as part of financial expenses.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group determined that the application of the requirements of IFRS 9 relating to impairment results in an insignificant accrual of additional amounts of allowance for impairment losses as at 1 January 2018, therefore, this effect is not considered in a comparable period. As at 31 December 2018 the estimated allowance for impairment losses on promissory notes received amounted to RUB 176 million. The tax effect from the allowance accrual amounted to RUB 35 million.

As at 31 December 2018 and 31 December 2017 the estimated allowance for impairment losses on receivables was not created due to insignificance.

(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 for the period. Impairment losses recognized 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 recognized 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

The Group's revenue is represented by revenue from contracts with customers.

Revenue from the sale of finished products and goods in the course of ordinary activities is measured based on the consideration specified in a contract with a customer, net of returns and any trade or wholesale discounts. The Group recognizes revenue when control over goods and services passes to the customer.

The timing of the control transfers 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 control occurs when the product is received by the customer either at the dispatcher's (supplier's) warehouse or at the customer's warehouse depending on the terms of the agreement. Generally the customer has a right of return that do not meet the contractual conditions and revenue is recognized to the extent that there is a very high probability that there will be no need to reverse this amount and recognize a significant decrease in the total amount of recognized revenue.

Products are sold to customers under contracts that generally differ in terms, but not exceeding one year (therefore, there is no significant financing component) and pricing mechanisms, including with respect to a certain volume sold on the spot market.

As a rule, sales are made on a prepaid basis for customers on the territory of the Russian Federation and on CAD (Cash against documents) terms, or against a letter of credit for foreign customers. Credit terms for certain customers are approved by the Board of Directors.

(j) Government grants

Grants that compensate the Group for expenses incurred are recognised net in the cost of sales in the 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.

(k) Other expenses

(i) Lease payments (before 1 January 2019)

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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 is the case if the fulfillment 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 recognized 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 recognized using the Group's incremental borrowing rate.

(l) 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.

(m) 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 income 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 income 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 judgment 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, 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.

(n) Leases

The Group applied IFRS 16 using a modified retrospective approach and, accordingly, comparative information was not restated and recognized in accordance with the requirements of IAS 17 and IFRIC 4. The accounting policy under IAS 17 and IFRIC 4 is detailed separately, refer to Note 3.

Accounting policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted

for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has decided not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Group has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

The Group has lease agreements for joint ownership of land plots with payments in the form of fixed amount of harvested crop.

The Group considers such agreements as contracts with buyers in accordance with IFRS 15 where lease rights serve as consideration for supplies of grain. On transition to IFRS 16 Leases, the Group determined

that the term of a contract with a buyer is defined as a lease term, wherein, the buyer makes advance payments for future supplies of grain through transfer of an asset to the Group representing the Right to Use a land plot.

The amount of the contract liability is determined as at the lease commencement date based on forward prices of separate sale of grain.

(ii) Accounting policies applied before January 1, 2019

In the comparative period, the Group as a lessee classified lease agreements under which all significant risks and rewards of ownership are transferred to the lessee, are classified as financial leases. Other leases are classified as operating leases.

The leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease liability is recognized in statement of financial position. Lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Interest expenses are recognized directly in profit and loss, unless they are directly attributable to certain assets and capitalized.

30 New standards and interpretations not yet adopted

Two new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

(a) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (amendments to IFRS 3)*
- *Definition of Material (amendments to IAS 1 and IAS 8)*
- *IFRS 17 Insurance Contracts.*

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.

31 Operating segments

Operating segments are determined based on the internal component reports which are reviewed by the Board of Directors on a regular basis. For each of the strategic business units, internal management reports are reviewed by the manager responsible for the Group's operational decisions on at least a monthly basis. A brief overview of operations performed by each of the Group's reportable segment is presented below:

- *Agricultural production.* Comprises production and sale of agricultural produce in the Russian Federation and abroad.

- *Malt production.* Comprises production and sale of barley and wheat malt in the Russian Federation and abroad. This operating segment was created in 2015 as a result of the acquisition of malt production business by the Group.

There are varying levels of integration between reportable segments. In particular, integration includes transfers of raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

Information regarding the results of each reportable segment is set out below. Performance is measured based on segment revenue and cost of sales. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Information about reportable segments

	Agricultural production		**Malt production**		**Total**	
RUB mln	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External revenue	13,388	11,567	7,296	5,755	20,684	17,322
Inter-segment revenue	5,055	3,448	-	-	5,055	3,448
Segment revenue	**18,443**	**15,015**	**7,296**	**5,755**	**25,739**	**20,770**
Segment gross profit	**5,660**	**4,980**	**1,375**	**1,181**	**7,035**	**6,161**
Finance income	1,240	1,649	-	-	1,240	1,649
Finance costs	(3,045)	(2,063)	-	-	(3,045)	(2,063)
Depreciation	1,273	1,048	404	395	1,677	1,443
Segment assets	**46,931**	**44,349**	**5,741**	**5,199**	**52,659**	**49,548**
Property, plant and equipment	25,840	24,723	3,872	4,259	29,712	28,982

(ii) Revenue reconciliation of reportable segments

RUB mln	**2019**	**2018**
Revenue		
Total revenue for reportable segments	25,739	20,770
Elimination of inter-segment revenue	(5,055)	(3,448)
Consolidated revenue	**20,684**	**17,322**

(iii) Geographic information

During 2019 revenue from the sale of agricultural produce to ultimate customers in the Russian Federation and abroad amounted to RUB 13,217 million and RUB 7,467 million respectively (2018: RUB 10,064 million and RUB 7,258 million in the Russian Federation and abroad respectively).

At 31 December 2019 and 2018 all non-current assets of the Group were located in the Russian Federation.

(iv) Major customer

In 2019, revenue from one customer of the Group's *Agricultural production* segment represented approximately 16% (RUB 3,331 million) of the Group's total revenue (in 2018 - 19% (RUB 3,227 million).