Joint-Stock Company “Avangard-Agro”

Consolidated Interim Condensed Financial Statements for the six-months period ended 30 June 2019

Contents

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Independent Auditors’ Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of JSC “Avangard-Agro”

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of JSC “Avangard-Agro” (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial statements (the “consolidated interim condensed financial statements”). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2019 and for the six-month period then ended are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

N.S. Samoylova

JSC “KPMG”

Moscow, Russia

29 August 2019

million RUB	Note	30 June 2019	31 December 2018*
ASSETS			
Property, plant and equipment	4, 8	29,303	28,982
Biological assets	11	109	159
Other non-current assets		29	235
Deferred tax assets		22	35
Non-current assets		**29,463**	**29,411**
Inventories	10	3,523	11,147
Biological assets	11	11,625	2,767
Trade and other receivables	12	1,658	1,295
Financial assets	9	6,210	4,845
Cash and cash equivalents		152	83
Current assets		**23,168**	**20,137**
Total assets		**52,631**	**49,548**
EQUITY AND RESERVES			
Share capital	13	7	7
Property, plant and equipment revaluation surplus		8,999	9,031
Retained earnings		18,590	16,392
Equity attributable to owners of the Company		**27,596**	**25,430**
Total equity and reserves		**27,596**	**25,430**
LIABILITIES			
Loans and borrowings	14	8,130	8,023
Product supply liabilities under land leases		328	-
Non-current liabilities		**8,458**	**8,023**
Bonds	14	3,516	3,504
Loans and borrowings	14	11,616	11,871
Trade and other payables	15	1,103	674
Other current liabilities		342	46
Current liabilities		**16,577**	**16,095**
Total liabilities		**25,035**	**24,118**
Total equity and liabilities		**52,631**	**49,548**

* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized in retained earnings at the date of initial application. See Note 4.

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 24.

million RUB	Note	Six months ended 30 June 2019	Six months ended 30 June 2018*
Revenue	6	10,056	8,109
Cost of sales		(9,061)	(7,672)
Revaluation of biological assets	11	3,009	2,995
Gross profit		**4,004**	**3,432**
Distribution expenses		(95)	(115)
Administrative expenses		(422)	(412)
Other (expenses)/income, net		(75)	(82)
Results from operating activities		**3,412**	**2,823**
Finance income		604	506
Finance costs		(1,674)	(1,083)
Net finance costs		**(1,070)**	**(577)**
Profit before tax		**2,342**	**2,246**
Income tax (expenses)/benefit	7	(14)	52
Profit for the period		**2,328**	**2,298**
Disposal of property, plant and equipment revaluation		(32)	-
Total comprehensive income for the reporting period		**2,296**	**2,298**
Profit attributable to:			
Owners of the Company		2,328	2,298
Profit for the reporting period		**2,328**	**2,298**
Total comprehensive income attributable to:			
Owners of the Company		2,296	2,298
Total comprehensive income for the reporting period		**2,296**	**2,298**

* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized in retained earnings at the date of initial application. See Note 4.

These consolidated interim condensed financial statements were approved by management on 29 August 2019 and were signed on its behalf by:

General Director of JSC “Avangard-Agro”

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A.N. Kirkin

Financial Director of JSC “Avangard-Agro”

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T.A. Korolyova

The consolidated interim condensed 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 interim condensed financial statements set out on pages 10 to 24.

million RUB	Note	Share capital	Property, plant and equipment revaluation surplus	Retained earnings	Total equity and reserves
Balance as at 1 January 2018		**8**	**6,170**	**15,200**	**21,378**
Profit for the period		-	-	2,298	2,298
Total comprehensive income for the reporting period		**-**	**-**	**2,298**	**2,298**
Balance as at 30 June 2018		**8**	**6,170**	**17,498**	**23,676**
Balance as at 1 January 2019*		**7**	**9,031**	**16,392**	**25,430**
Profit for the period		-	-	2,328	2,328
Decrease in value upon disposal of assets		-	(32)	-	(32)
Total comprehensive income for the reporting period		**-**	**(32)**	**2,328**	**2,296**
Transactions with shareholders of the Company					
Distribution to shareholders	13	-	-	(130)	**(130)**
Total transactions with shareholders of the Company		-	**-**	(130)	**(130)**
Balance as at 30 June 2019		**7**	**8,999**	**18,590**	**27,596**

* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized in retained earnings at the date of initial application. See Note 4.

million RUB	Note	Six months ended 30 June 2019	Six months ended 30 June 2018*
Cash flows from operating activities			
Profit for the reporting period		2,328	2,298
Adjustments for:			
Depreciation	8	845	740
Government grants		(441)	(444)
Exchange differences		(66)	(3)
Interest expenses/(income) on loans and borrowings and forward contracts		506	(197)
Impairment allowance for financial assets	9	(65)	-
Interest expense on loans and borrowings and forward contracts		920	1,083
Change in fair value of agricultural products and biological assets	11	(1,305)	(1,038)
Use of allowance for the write-down of inventories net realizable value		(110)	(880)
Write-off of accounts receivable		37	47
Loss of crop, product deterioration, shortages identified during stock-takes		5	(7)
Loss from disposal of other assets		3	12
Other non-cash transactions		31	(4)
Income tax expenses/(benefit)	7	14	(52)
Cash flows from operating activities before changes in working capital		**2,702**	**1,555**
Changes in inventories		6,115	4,773
Changes in biological assets		(5,741)	(3,895)
Changes in trade and other receivables		(337)	72
Changes in trade and other payables		323	(26)
Cash flows from operations before income tax		**3,062**	**2,479**
Income tax paid		-	-
Net cash flows from operating activities		**3,062**	**2,479**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 24.

million RUB	Note	Six months ended 30 June 2019	Six months ended 30 June 2018*
Cash flows from investing activities			
Acquisition of property, plant and equipment		(608)	(249)
Payments under currency forward contracts		(171)	83
Promissory notes (received)/ redeemed		(1,334)	(3,563)
Proceeds from sale of property, plant and equipment		3	-
Net cash used in investing activities		**(2,110)**	**(3,729)**
Cash flows from financing activities			
Government grants compensating interest expense		291	309
Interest paid		(905)	(996)
Issue/ (reacquisition) of bonds		11	892
Proceeds from borrowings		10,848	10,359
Repayment of borrowings		(10,898)	(9,298)
Reacquisition of shares		-	-
Finance lease payments		(100)	(14)
Distributions to shareholders		(130)	-
Net cash from/(used in) financing activities		**(883)**	**1,252**
Net increase in cash and cash equivalents		**69**	**2**
Cash and cash equivalents at the beginning of the reporting period		83	7
Cash and cash equivalents at the end of the reporting period		**152**	**9**

* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized in retained earnings at the date of initial application. See Note 4.

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 24.

1 Reporting entity

(a) Organisation and operations

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

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

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

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

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 key subsidiaries of the Group are:

		Ownership and voting rights	
Subsidiary	**Country of registration**	**30 June 2019**	**31 December 2018**
LLC “Avangard-Agro-Voronezh”	Russia	100%	100%
LLC “Avangard-Agro-Orel”	Russia	100%	100%
LLC “Avangard-Agro-Kursk”	Russia	100%	100%
LLC “Avangard-Agro-Belgorod”	Russia	100%	100%
LLC “Avangard-Agro-Lipetsk”	Russia	100%	100%
LLC “Avangard-Agro-Trade”	Russia	100%	100%
LLC “Avangard-Agro-Tula”	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 characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed 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 preparation

These consolidated interim condensed financial statements reflect seasonal effect of the biological transformation factor (see Note 11) and have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2018. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Use of estimates and judgements

In assessing the fair value of an asset or liability, the Group uses observable market data to the extent possible. Fair value measurements relate to different levels of the fair value hierarchy, depending on the inputs used in the relevant valuation methods:

Level 1: quoted (unadjusted) prices of identical assets and liabilities in active markets.

Level 2: inputs other than quoted prices used for Level 1 estimates that are observable either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices).

Level 3: inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

If the inputs used to estimate the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy, the fair value measurement as a whole is related to the level of the hierarchy to which the lowest level inputs are relevant for the entire valuation.

The group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information on the assumptions made in the fair value measurement is provided in Notes 8(a) and 11.

4 Changes in significant accounting policies

Except as described below, the accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

IFRS 16

The Group has initially adopted IFRS 16 Leases from 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised 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 has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised 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 the changes in accounting policies are disclosed below.

(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, or contains, a lease if the contract conveys a right to control the use of an identified asset for a 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) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

(i) Significant accounting policies

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, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost and subsequently measured at fair value in accordance with the Group's accounting policies.

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 lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

In accordance with IFRS 16, variable payments which do not depend on an index or rate, i.e. do not reflect changes in market rental rates, should not be included in calculation of lease liability. In respect of municipal (or federal) land leases where the lease payments are based on cadastral value of the land plot and do not change until the next potential revision of that value or payments (or both) by the authorities, the Group determined that these lease payments are not considered as either variable (that depend on an index or rate or reflect changes in market rental rates) 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. Meanwhile, the buyer makes advance payments for future supplies of grain through transfer of an asset representing the Right to Use a land plot to the Group.

The volume of contractual liabilities is determined as at the lease commencement date using the expected value method in the amount of fair value of future grain supplies. As a rule, a contract with a buyer contains a significant component of financing. The historical cost of the Right of Use Asset is in general equal to corresponding liability under the contract with the buyer.

The Group’s lease agreements also contain the following services or payments that are not considered in the context of revenue from a contract with buyers, and are not included in lease payments when calculating lease liabilities: services for plowing and cultivating lessor’s land plots, transportation services, funeral services, personal income tax payments as a tax agent, lessor’s land tax compensation and others. These payments are not fixed or variable payments that depend on an index or rate.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee, based on the period for 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 concept of “penalty”, as interpreted by the Group, includes, in addition to “penalty stipulated by the contract”, 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 lease liabilities and right-of-use assets recognised. The maximum extension period used by the Group is 1 year, and is determined by the positive effect of plowing, fertilization and means of plant protection.

(c) Impacts on financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

million RUB	**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 using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8.5%.

million RUB	**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 lease of low-value assets	(3)
– Future minimum lease payments on contracts in which payments do not depend on an index or rate	(100)
+ Revaluation of fair value of non-cash contracts settled with agricultural products	226
Lease liabilities recognised at 1 January 2019	407

(ii) Impacts for the period

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised RUB 40 million of depreciation charges and RUB 17 million of interest costs from these leases.

5 Significant accounting policies

In preparing these consolidated interim condensed financial statements, the Group applied the same accounting policies as for the preparation of the consolidated financial statements for the year ended 31 December 2018, except for changes related to the application of IFRS 16 Leases, which entered into force on 1 January 2019.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. Under thus model, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

6 Revenue

	Russia		**Export**		**Total**	
million RUB	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Agricultural products	**3,476**	**2,440**	**3,120**	**2,668**	**6,596**	**5,108**
Wheat	798	246	2,759	2,423	3,557	2,669
Sunflower	1,980	1,641	-	-	1,980	1,641
Corn	462	5	361	245	823	250
Barley	154	301	-	-	154	301
Lupine	4	56	-	-	4	56
Sugar beet	-	37	-	-	-	37
Other	78	154	-	-	78	154
Processed agricultural products	**3,197**	**2,703**	**263**	**298**	**3,460**	**3,001**
Malt	3,006	2,615	263	298	3,269	2,913
Sugar	118	12	-	-	118	12
Milk	72	76	-	-	72	76
Total	**6,673**	**5,143**	**3,383**	**2,966**	**10,056**	**8,109**

The group identifies two operating segments:

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

Malting production. Includes production and sale of barley and wheat malt in the Russian Federation and abroad. Detailed information is provided in note 19.

7 Income taxes

The applicable tax rate for the Group is 0%, which is the income tax rate of Russian agricultural producers. Other companies of the Group are subject to income tax at the rate of 20%.

8 Property, plant and equipment

(a) Land

In the end of 2015, the Group changed its accounting policy relating to land plots to start accounting for them at fair value on the basis of regular revaluation conducted by external independent appraisers. As a result, the management periodically engages an independent appraiser for fair value measurement of land. The last revaluation took place as at 31 December 2018. The fair value of land plots was determined as RUB 16,780 million and reflected the market prices of recent similar transactions adjusted for bargaining and location discounts. The fair value measurement of land is related to Level 3 of the fair value hierarchy: inputs to assets and liabilities that are not based on observable market data (unobservable inputs).

The management of the Group, having analyzed the current economic situation, concluded that the value of land plots as at 30 June 2019 did not significantly differ from their fair value. As at 30 June 2019, the fair value of land plots amounted to RUB 16,803 million and was based on assumptions used as at 31 December 2018.

During the 6 months ended 30 June 2019, the Group acquired lands plots amounting to RUB 58 million (during the 6 months ended 30 June 2018: RUB 22 million).

(b) Acquisition of property, plant and equipment

During 6 months ended 30 June 2019, the Group acquired property, plant and equipment amounting to RUB 564 million (during the 6 months ended 30 June 2018: RUB 275 million).

(c) Depreciation

During 6 months ended 30 June 2019, depreciation expense included into the cost of sales, amounted to RUB 770 million (during the 6 months ended 30 June 2018: RUB 716 million) as well as in administrative expenses in the amount of RUB 35 million (during the 6 months ended 30 June 2018: RUB 24 million).

(d) Security

As at 30 June 2019, property, plant and equipment with the carrying amount of RUB 9,449 million (31 December 2018 – RUB 7,670 million), see Note 14.

9 Financial assets

million RUB	30 June 2019	31 December 2018
Current		
Promissory notes acquired from related parties	6,167	4,450
Currency forward contracts	43	395
	6,210	**4,845**

As at 30 June 2019, investments with the carrying amount of RUB 170 million were pledged to secure bank loans (31 December 2018: there were no financial investments serving as collateral for bank loans) (see note 14). The yield on promissory notes is 0-9.5%.

The provision for impairment losses on promissory notes received as at 30 June 2019 amounted to RUB 111 million (as at 31 December 2018 – RUB 176 million).

10 Inventories

million RUB	30 June 2019	31 December 2018
Agricultural produce	731	8,154
Processed agricultural produce	1,078	811
Fallow land and spring crop costs	201	1,531
Raw materials and consumables	1,513	651
	3,523	**11,147**

Inventories with the carrying amount of RUB 638 million as at 30 June 2019 (31 December 2018: RUB 5,040 million) were pledged to secure bank loans (see Note 14).

As at 30 June 2019, fallow land plots amounted to 74,282 hectares (31 December 2018: 74,282 hectares).

At the reporting dates the agricultural products consist of the following:

	30 June 2019		**31 December 2018**	
	million RUB	**tons**	**million RUB**	**tons**
Wheat	57	6,612	3,121	266,430
Barley	322	27,792	2,237	193,111
Sunflower	253	13,463	2,059	113,045
Corn	3	256	639	78,711
Buckwheat	95	7,365	95	7,571
Other	1	945	3	1,636
	731	**56,433**	**8,154**	**660,504**

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

	30 June 2019		31 December 2018	
	million RUB	**tons**	**million RUB**	**tons**
Malt	786	41,446	407	25,413
Sugar	292	10,124	404	14,029
	1,078	**51,570**	**811**	**39,442**

11 Biological assets

As at 30 June 2019, biological assets classified as non-current assets comprised oxen and milk cows in the amount of 3,165 heads and have a fair value of RUB 109 million (31 December 2018: 3,085 heads, fair value of RUB 159 million).

As at 30 June 2019, biological assets classified as current assets comprised winter wheat, spring barley, sunflower, beet, corn, buckwheat, lupine and have a fair value of RUB 11,625 million; the planting acreage was 315,973 ha (31 December 2018, only winter wheat: RUB 2,767 million and 129,511 ha respectively).

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

	Heads	Fair value, million RUB
Fair value less costs of sale as at 1 January 2018	**3,180**	**239**
Natural increase	834	39
Decrease due to disposal of assets	(673)	(28)
Decrease due to distemper	(209)	(3)
Fair value less costs of sale as at 30 June 2018	**3,132**	**247**
Fair value less costs of sale as at 1 January 2019	**3,085**	**159**
Natural increase	826	34
Decrease due to disposal of assets	(591)	(24)
Decrease due to distemper	(155)	(2)
Net change in fair value	-	(58)
Fair value less costs of sale as at 30 June 2019	**3,165**	**109**

(b) Movements in biological assets classified as current assets

The following represents the movements in current value of biological assets classified as current assets during the periods ended 30 June 2019 and 30 June 2018:

million RUB	**30 June 2019**	**30 June 2018**
Opening balance	**2,767**	**3,028**
Increase due to expenditures	5,791	3,888
Net change in fair value less estimated costs of sale	3,067	2,995
Closing balance	**11,625**	**9,911**

As at 30 June 2019, unrealised portion of revaluation of biological assets and finished goods amounted to RUB 4,407 million (31 December 2018: RUB 3,102 million).

(c) Fair value

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 they occur. Discount rate as at 30 June 2019 was 7.5%. The rate was calculated on the ground of the market-based valuation of risks inherent in the activity of the Group at that date.

Biological assets classified as current assets

The fair value of biological assets as at 30 June 2019 and 31 December 2018 was determined using a DCF model.

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

- revenue is forecasted based on the estimated crops' yield, which is determined based on factors such as location of farmland, natural environment and climate conditions, as well as price growth rates on the valuation date. Average crop yield in gross weight for the areas was determined as following:

q/ha	**30 June 2019**	**31 December 2018**
Winter wheat	50	46
Barley	43	n/a
Sunflower	20	n/a
Corn	69	n/a
Sugar beet	644	n/a

- data on grain harvest prices are obtained from the state statistical reporting or other public sources as at the end of the reporting period or from existing sale-and-purchase agreements as of the dates of their execution (if applicable). Planned selling price per ton of crop was determined as following:

RUB thousand/tons	**30 June 2019**	**31 December 2018**
Winter wheat	10.0	13.0
Barley	11.6	n/a
Sunflower	17.0	n/a
Corn	8.7	n/a
Sugar beet	1.9	n/a

- cost of production and cost to sell were forecasted based on actual operating expenditures;
- to determine the fair value of biological assets at the reporting date a discount rate of 7.5% was applied. The above rate was calculated based on the market rate which reflects the current market assessment of risks inherent in the activities of the Group;
- risks related to a biological transformation subsequent to the end of the reporting period were taken into account.

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

(d) Risk management in agribusiness

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

Raw materials price risk

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

Soil and climatic risks

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

12 Trade and other receivables

million RUB	**30 June 2019**	**31 December 2018**
Trade receivables	938	645
Other receivables	26	124
VAT receivables	234	298
Advances given	446	212
Prepayment for other taxes and duties	14	16
	1,658	**1,295**

(a) Overdue trade and other receivables

As at 30 June 2019, allowance for expected credit losses of receivables was accrued in the amount of RUB 31 million (as at 31 December 2018: RUB 0 million). The write-off of the receivables for 6 months ended 30 June 2019 amounted to RUB 6 million (for 6 months ended 30 June 2018: RUB 47 million).

13 Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	**30 June 2019**	**31 December 2018**
Authorised shares	7,290	8,100
Par value	1,000 RUB	1,000 RUB
Outstanding at the beginning of the period	7,290	8,100
Redemption of shares	-	(810)
Outstanding at the end of the period, 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) Redemption of shares

In the 4th quarter of 2018 the Group redeemed 810 shares from shareholders. As a result of the transaction total quantity of outstanding shares decreased to 7,290. During 6 months ended 30 June 2019 the Group did not redeem shares from shareholders.

(c) Dividends and other distribution to shareholders

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

The shareholders of the Company decided not to pay dividends for the 6 months of 2019 and for 2018. During the 6 months of 2019, other payments in the amount of RUB 130 million were made.

The shareholders of the Company decided not to pay dividends for the 6 months of 2018 and for 2017, during 6 months of 2018 no payments to shareholders were made.

14 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.

million RUB	**30 June 2019**	**31 December 2018**
Long-term		
Long-term borrowings from third parties	94	94
Long-term bank loans from related parties	6,795	3,789
Long-term borrowings from non-banking companies	1,241	4,091
Finance lease liabilities	-	49
	8,130	**8,023**
Short-term		
Short-term bank loans from related parties	3,561	3,306
Short-term bank loans from third parties	5,549	6,015
Bonds	3,516	3,504
Short-term promissory notes issued to third parties	313	384
Short-term borrowings from non-banking companies	2,193	2,110
Finance lease liabilities	-	56
	15,132	**15,375**
	23,262	**23,398**

Financing of the Group, among other things, is provided by loans issued by a bank, which is a related party and has a B2 rating according to Moody's Rating Agency.

During 6 months of 2019, the Group signed assignment agreements on long-term borrowings from a non-banking related party in favor of a bank, another related party. The total amount of assigned rights is RUB 2,850 million.

The terms of the issue do not provide for the possibility of early redemption of bonds. However, since at the time of issue the Group announced the rates only for the first four coupons, the bondholders have the right to claim the bonds for redemption within 5 working days of the last coupon on the bonds the amount of which was determined by the Group. In this regard, as at 30 June 2019 the Group classified the debt on the bonds as short-term.

(a) Securities

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying amount of RUB 9,449 million (31 December 2018: RUB 7,670 million) – see Note 8;
- inventories with the carrying amount of RUB 638 million (31 December 2018: RUB 5,040 million) – see Note 10;
- investments with the carrying amount of RUB 170 million (31 December 2018: RUB 0 million) – see Note 9. Above investments can be settled by offsetting against claim on bank loan if it is due or is payable on demand.

15 Trade and other payables

million RUB	**Note**	**30 June 2019**	**31 December 2018**
Trade payables		612	286
Short-term product supply liabilities under land leases	4(c)(i)	81	-
Other payables		124	165
Other tax payables		71	74
Advances received		215	149
		1,103	**674**

As at 30 June 2019, trade and other payables from related parties amounted to RUB 26 million (31 December 2018: RUB 45 million) – see Note 18.

16 Capital commitments

As at 30 June 2019, the Group entered into contracts to purchase agricultural equipment for RUB 35 million (31 December 2018: RUB 153 million).

17 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

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

18 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 reporting period, which is included in personnel costs:

million RUB	Six months ended 30 June 2019	Six months ended 30 June 2018
Salaries and bonuses	7	6
Contributions to the RF State Pension Fund	1	1
	8	**7**

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) Balance of settlements with related parties

million RUB	30 June 2019	31 December 2018
Promissory notes	6,167	4,450
Other financial assets	43	395
Settlement accounts balances	149	81
Trade and other receivables	2	1
Trade and other payables	(26)	(45)
Other short-term liabilities	(342)	(46)
Loans obtained	(11,608)	(11,218)
	(5,615)	**(6,382)**

During the period ended 30 June 2019, insurance compensation from a related party were obtained in the amount of RUB 10 million (during the period ended 30 June 2018: RUB 78 million), loans were obtained and repaid in the amount of RUB 6,594 million and RUB 6,108 million, respectively (during the period ended 30 June 2018: RUB 4,413 million and RUB 2,898 million, respectively), interests on loans were accrued and paid in the amount of RUB 338 million and RUB 431 million, respectively (during the period ended 30 June 2018: RUB 393 million and RUB 393 million respectively). During the period ended 30 June 2019, the Group acquired promissory notes of related parties by issuing its own promissory notes in the amount of RUB 5 million (during the period ended 30 June 2018: the Group repaid its own promissory notes granted to the third parties by promissory notes of related parties in the amount of RUB 208 million). During the period ended 30 June 2019, promissory notes were acquired for cash in the amount of RUB 1,426 million (during the period ended 30 June 2018: RUB 3,283 million) and purchases from related parties were made in the amount of RUB 212 million (during the period ended 30 June 2018: RUB 704 million). As at 30 June 2019, investments with a carrying amount of RUB 526 million served as collateral for bank loans granted to related parties (as at 31 December 2018: there were no investments served as collateral for bank loans granted to the third parties).

19 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 on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

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. Allocation of the operating segment takes place in the second half of 2015 in connection with the acquisition of the malt business by the Group.

There are varying levels of integration between reportable segments. 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	
million RUB	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
External revenue	6,787	5,196	3,269	2,913	10,056	8,109
Inter-segment revenue	2,149	1,648	-	-	2,149	1,648
Segment revenue	**8,936**	**6,844**	**3,269**	**2,913**	**12,205**	**9,757**
Segment gross profit	**3,357**	**2,828**	**647**	**680**	**4,004**	**3,508**
Finance income	604	506	-	-	604	506
Finance costs	(1,674)	(1,083)	-	-	(1,674)	(1,083)
Depreciation	611	550	234	190	845	740
Segment assets	**46,830**	**41,608**	**5,786**	**5,305**	**52,616**	**46,913**
Property, plant and equipment	25,274	20,171	4,029	4,450	29,303	24,621

(ii) Revenue reconciliation of reportable segments

million RUB	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Revenue		
Total revenue of reportable segments	12,205	9,757
Elimination of inter-segment revenue	(2,149)	(1,648)
Consolidated revenue	**10,056**	**8,109**

20 Events after the reporting date

In July-August 2019, promissory notes received were partially repaid in the amount of RUB 421 million. Also, Group companies repaid loans issued by a bank that is a third party in the amount of RUB 1,500 million, as well as concluded new loan agreements with that bank in the amount of RUB 2,500 million. Also, the Group repaid loans issued by a bank that is a related party in the amount of RUB 264 million, as well as concluded new loan agreements with that bank in the amount of RUB 322 million, performance guarantees under loan agreements for the amount of RUB 66 million were granted.