OJSC Avangard-Agro

Consolidated Financial Statements
for the year ended 31 December 2013
and Auditors' Report

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors of OJSC Avangard-Agro

We have audited the accompanying consolidated financial statements of OJSC Avangard-Agro (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013, 31 December 2012 and 1 January 2012, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years ended 31 December 2013 and 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express a qualified opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC Avangard-Agro

Entered in the United State Register of Legal Entities on 30 January 2004 by the Orlovskaya oblast Inter-Regional Tax Inspectorate No. 6 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1045736000089. Certificate series 57 No. 000456023.

Address: 303320, pgt. Zmievka, Orlovskaya oblast, 8 Marta str., b. 18.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

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

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUB 3,142,682 thousand as at 31 December 2012 and RUB 2,167,532 thousand as at 1 January 2012 due to the fact that we were engaged as the Group auditors after these dates. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of inventories as at 31 December 2012 and 1 January 2012 and in respect of the elements making up the statements of profit and loss and other comprehensive income, statements of changes in equity and statements of cash flows for 2012 and 2013.

Opinion

In our opinion, except for the possible effect of circumstances described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 31 December 2012 and 1 January 2012, and its financial performance and its cash flows for 2013 and 2012 in accordance with International Financial Reporting Standards.

Sheremet V.G.

Director, (power of attorney dated 24 September 2011 No. 31/11)

ZAO KPMG

2 September 2014

Moscow, Russian Federation

'000 RUB	Note	31 December 2013	31 December 2012	1 January 2012
ASSETS				
Property, plant and equipment	13	13,083,605	11,551,844	10,068,687
Financial assets	14	36,065	792,301	793,275
Biological assets	17	184,234	-	-
Other non-current assets	15	322,483	296,489	215,234
Non-current assets		**13,626,387**	**12,640,634**	**11,077,196**
Inventories	16	4,978,491	3,142,682	2,167,532
Biological assets	17	936,934	584,393	442,619
Trade and other receivables	18	1,453,980	1,659,962	1,736,682
Financial assets	14	617,201	3,300,544	2,883,585
Cash and cash equivalents	19	51,523	176,162	21,429
Current assets		**8,038,129**	**8,863,743**	**7,251,847**
Total assets		**21,664,516**	**21,504,377**	**18,329,043**
Equity				
Share capital	20	10,000	10,000	10,000
Retained earnings		6,906,306	6,120,127	5,512,278
Equity attributable to owners of the Company		**6,916,306**	**6,130,127**	**5,522,278**
Non-controlling interests		-	681,973	581,588
Total equity	20	**6,916,306**	**6,812,100**	**6,103,866**
Liabilities				
Loans and borrowings	22	7,573,900	6,191,076	4,103,898
Non-current liabilities		**7,573,900**	**6,191,076**	**4,103,898**
Loans and borrowings	22	5,993,053	7,734,919	6,959,156
Trade and other payables	23	1,181,257	766,282	1,162,123
Current liabilities		**7,174,310**	**8,501,201**	**8,121,279**
Total liabilities		**14,748,210**	**14,692,277**	**12,225,177**
Total equity and liabilities		**21,664,516**	**21,504,377**	**18,329,043**

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 9 to 45.

'000 RUB	Note	2013	2012
Revenue	6	4,582,329	5,394,111
Cost of sales		(4,070,657)	(3,926,424)
Revaluation of biological assets	17	1,480,749	796,686
Gross profit		**1,992,421**	**2,264,373**
Selling expenses	7	(51,723)	(52,399)
Administrative expenses	8	(435,499)	(428,296)
Net other income	9	(140,501)	(1,931)
Results from operating activities		**1,364,698**	**1,781,747**
Finance income	10	673,927	383,334
Finance costs	10	(986,461)	(696,331)
Net finance costs		**(312,534)**	**(312,997)**
Profit before income tax		**1,052,164**	**1,468,750**
Income tax expense	12	(2,333)	(4,621)
Profit for the year		**1,049,831**	**1,464,129**
Total comprehensive income for the year		**1,049,831**	**1,464,129**
Profit attributable to:			
Owners of the Company		1,049,831	1,334,575
Non-controlling interests		-	129,554
Profit for the year		**1,049,831**	**1,464,129**
Total comprehensive income attributable to:			
Owners of the Company		1,049,831	1,334,575
Non-controlling interests		-	129,554
Total comprehensive income for the year		**1,049,831**	**1,464,129**

These consolidated financial statements were approved by management on 2 September 2014 and were signed on its behalf by:

CEO of
OJSC Avangard-Agro

Kirkin A.N.

Financial Director of
OJSC Avangard-Agro

Koroleva T.A.

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ИНН 5722033117 "АВАНГАРД-АГРО" ОГРН 1045736000089 РФ, Орловская область, Свердловский район, п. Змиевка

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 9 to 45.

'000 RUB

		Attributable to equity holders of the Company				
	Note	Share capital	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012		**10,000**	**5,512,278**	**5,522,278**	**581,588**	**6,103,866**
Profit for the year		-	1,334,575	**1,334,575**	129,554	**1,464,129**
Total comprehensive income for the year		-	**1,334,575**	**1,334,575**	**129,554**	**1,464,129**
Transactions with owners recorded directly in equity						
Distributions to shareholders	20	-	(726,726)	**(726,726)**	(29,169)	**(755,895)**
Total transactions with owners recorded directly in equity		-	**(726,726)**	**(726,726)**	**(29,169)**	**(755,895)**
Balance at 31 December 2012		**10,000**	**6,120,127**	**6,130,127**	**681,973**	**6,812,100**
Profit for the year		-	1,049,831	**1,049,831**	-	**1,049,831**
Total comprehensive income for the year		-	**1,049,831**	**1,049,831**	-	**1,049,831**
Transactions with owners recorded directly in equity						
Contributions and distributions						
Distributions to shareholders	20	-	(743,090)	**(743,090)**	(62,653)	**(805,743)**
Total contributions and distributions		-	**(743,090)**	**(743,090)**	**(62,653)**	**(805,743)**
Changes in ownership interests						
Acquisition of non-controlling interests without a change in control	26	-	479,438	**479,438**	(619,320)	**(139,882)**
Total changes in ownership interests		-	**479,438**	**479,438**	**(619,320)**	**(139,882)**
Total transactions with owners recorded directly in equity		-	**(263,652)**	**(263,652)**	**(681,973)**	**(945,624)**
Balance at 31 December 2013		**10,000**	**6,906,306**	**6,916,306**	-	**6,916,306**

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 9 to 45.

'000 RUB	Note	2013	2012
Cash flow from operating activities			
Profit for the year		1,049,831	1,464,129
Adjustments			
Depreciation and amortization		826,348	557,008
State subsidies		(759,733)	(472,660)
Other finance income		(25,931)	(25,423)
Finance costs		986,461	695,120
Changes in the fair value of biological assets		(773,671)	(14,067)
Accounts receivable write-off		33,681	-
Produce spoilage and shortages revealed by stock take		33,214	11,913
Crop losses		35,254	-
Other non-cash operations		1,271	9,790
Income tax expense		2,333	4,621
Cash flows from operating activities before changes in working capital		**1,409,058**	**2,230,431**
Changes in inventories		(1,112,292)	(1,106,546)
Changes in biological assets		(439,826)	3,689
Changes in trade and other receivables		172,301	178,023
Changes in trade and other payables		32,258	(314,869)
Cash flows from operations before income taxes and interest paid		**61,499**	**990,728**
Income tax paid		(569)	(4,789)
Net cash flows from operating activities		**60,930**	**985,939**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,973,959)	(2,105,055)
Promissory notes received, net		-	(391,536)
Acquisition of land rent rights		(47,585)	(103,310)
Proceeds from sale of property, plant and equipment		13,598	-
Acquisition of financial investments		(6,869)	-
Net cash used in investing activities		**(2,014,815)**	**(2,599,901)**
Cash flows from financing activities			
State subsidies		644,470	357,911
Interest paid		(1,037,458)	(689,107)
Borrowed funds		9,325,167	14,163,158
Repayment of borrowings		(6,297,190)	(11,307,372)
Payments to shareholders		(805,743)	(755,895)
Net cash from financing activities		**1,829,246**	**1,768,695**
Net (decrease)/increase in cash and cash equivalents		**(124,639)**	**154,733**
Cash and cash equivalents at 1 January	19	**176,162**	**21,429**
Cash and cash equivalents at 31 December	19	**51,523**	**176,162**
Non-cash transactions:			
Offsetting of promissory notes issued and promissory notes received from related parties		2,709,274	3,811,160
Promissory notes received from related parties as a result of sale of investment in equity instruments of related parties		766,000	-
Payment for the acquisition of non-controlling interest by promissory notes received from related parties		139,882	-

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45.

1 Reporting entity

(a) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

OJSC 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's registered office is at 303320, Russian Federation, pgt. Zmievka, Orlovskaya oblast, 8 Marta str., b. 18.

The Group's ultimate beneficiary is Minovalov K.V.

The Group's principal activity is production and selling of agricultural produce. The Group's principal activity is carried out in Voronezh, Kursk, Orel, Belgorod and Lipetsk. The Group's products are sold in the Russian Federation and abroad.

The majority of the Group's funding is from, and credit exposures are to, related party (the bank) and promissory notes of the Group bought-out by related party. Related party transactions are disclosed in note 30.

2 First-time adoption of IFRS

These consolidated financial statements for the year ended 31 December 2013 were prepared according to the International Financial Reporting Standards ("IFRS") within the Group's transition to the International Financial Reporting Standards according to IFRS 1 "First-time adoption of International Financial Reporting Standards".

Since the Group did not report consolidated financial statements previously according to any other accounting principles, in these consolidated financial statements the Group did not provide a reconciliation of financial statements prepared in accordance with these accounting principles, with the financial statements prepared in accordance with IFRS at the time of transition to IFRS.

The Group seized the IFRS exception available to the companies with first-time adoption of IFRS, in relation of valuation of the deemed cost of property, plant and equipment on its fair value. Information regarding deemed cost of property, plant and equipment is presented in note 13.

3 Basis of accounting

(a) Statement of compliance to IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") complying with IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" in the matter of first-time adoption as it was mentioned in note 2.

(b) The Group restructurings

Until 2012 the shares in subsidiaries, included in the preliminary consolidated financial statements, were owned by related parties. Ultimate controlling party of the parent company and related parties was the shareholder of the parent company.

During 2012 the Group was restructured in the following way: control over subsidiaries was transferred to the parent company or its subsidiaries. Restructuring was the reorganization of the companies under common control and was accounted for at its carrying amount. The companies transferred were included in the preliminary consolidated financial statements since 1 January 2012.

4 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

5 Use of estimates and judgements

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 recognised in the period in which the estimates are revised and in any future periods affected.

The most significant judgement, formed by management applying accounting policy and which had the most significant effect on figures, is recognition of state subsidies in accounts not by accrual method but by cash-basis method. This position is formed on common practice of irregular subsidy payments by state authorities.

Information about critical judgments in applying accounting policies is included in the following notes:

- Note 33(g)(iii) – useful lives of property, plant and equipment;
- Note 13(a) – – critical judgments in discounting of forecast cash-flows;
- Note 16 – agricultural produce revaluation;
- Note 17 – biological assets revaluation.

Measurement of fair values

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

(a) Biological assets

Fair value of biological assets is determined on the basis of market value of expected harvest volumes less expected costs to be incurred before cropping and harvest expenses and also taking into account reasonable rate of return, calculated based on necessary expenditure for cultivation of crops and cropping.

(b) Equity and debt securities

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

(c) Trade and other receivables

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

(d) Non-derivative financial liabilities

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

6 Revenue

'000 RUB	2013	2012
Sales of agricultural produce	4,571,651	5,376,228
Rendering of services	10,678	12,545
Other sales	-	5,338
	4,582,329	**5,394,111**

7 Selling expenses

'000 RUB	2013	2012
Transport expenses	24,700	26,688
Other commercial expenses	27,023	25,711
	51,723	**52,399**

8 Administrative expenses

'000 RUB	2013	2012
Wages and salaries	304,226	260,911
Software	18,201	15,446
Repair and maintenance of property, plant and equipment	14,889	24,651
Other taxes and levies	13,727	16,480
Depreciation	13,719	2,015
Legal, consulting and audit services	12,750	19,784
Bank services	6,223	17,462
Travel expenses	5,677	21,358
Materials	2,801	1,578
Other administrative expenses	43,286	48,611
	435,499	**428,296**

9 Other income and expenses

'000 RUB	2013	2012
Income from property rental	8,436	-
Income in the form of contract fines	2,538	14,694
Other income	31,483	21,949
Total other income	**42,457**	**36,643**
Crop losses	(35,254)	-
Accounts receivable write-off	(33,681)	-
Produce spoilage and shortages revealed by stock take	(33,214)	(11,913)
Financial aid	(21,969)	(11,847)
Net loss on disposal of other assets	(4,798)	(3,556)
Other expenses	(54,042)	(11,258)
Total other expenses	**(182,958)**	**(38,574)**
Total net other expenses	**(140,501)**	**(1,931)**

10 Finance income and costs

'000 RUB	2013	2012
State subsidies	644,470	357,911
Sales of securities	22,106	14,087
Interest income	3,824	10,806
Other finance income	-	530
Net foreign exchange gain	3,527	-
Finance income	**673,927**	**383,334**
Interest expense	(986,461)	(695,120)
Net foreign exchange loss	-	(1,211)
Finance costs	**(986,461)**	**(696,331)**
Net finance costs	**(312,534)**	**(312,997)**

State subsidies represent compensation of interest expense on bank loans by state authorities.

11 Employee benefits

'000 RUB	2013	2012
Cost of sales	719,727	633,141
Administrative expenses	304,226	260,911
	1,023,953	**894,052**

12 Income tax

The Group is qualified for the status of agricultural producers and is taxed at 0% which represents income tax rate for Russian agricultural companies.

Reconciliation of effective tax rate:

	2013 '000 RUB	2012 '000 RUB
Profit before income tax	1,052,164	1,468,750
Income tax of agricultural companies taxed at 0%	-	-
Profit of companies subject to other income tax rate in Russian Federation and abroad	2,139	5,748
Other differences	194	(1,127)
	2,333	**4,621**

13 Property, plant and equipment

'000 RUB	Land	Buildings	Machinery, equipment and transport vehicles	Other	Under construction	Total
Cost						
Balance at 1 January 2012	**4,082,518**	**2,091,879**	**3,248,800**	**25,393**	**1,567,601**	**11,016,191**
Additions	699,833	4,297	1,016,542	11,522	292,189	**2,024,383**
Disposals	-	-	(2,131)	(641)	-	**(2,772)**
Transfers	-	16,601	-	1,168	(17,769)	**-**
Balance at 31 December 2012	**4,782,351**	**2,112,777**	**4,263,211**	**37,442**	**1,842,021**	**13,037,802**
Additions	333,316	-	968,688	-	1,053,851	**2,355,855**
Disposals	(8,651)	(267)	(10,322)	(1,834)	(4,685)	**(25,759)**
Transfers	98,687	1,186,626	685,955	-	(1,971,268)	**-**
Balance at 31 December 2013	**5,205,703**	**3,299,136**	**5,907,532**	**35,608**	**919,919**	**15,367,898**
Depreciation						
Balance at 1 January 2012	-	(516)	(943,723)	(3,265)	-	**(947,504)**
Depreciation for the year	-	(65,002)	(475,354)	(738)	-	**(541,094)**
Disposals	-	-	2,106	534	-	**2,640**
Balance at 31 December 2012	**-**	**(65,518)**	**(1,416,971)**	**(3,469)**	**-**	**(1,485,958)**
Depreciation for the year	-	(94,156)	(710,827)	(715)	-	**(805,698)**
Disposals	-	10	7,336	17	-	**7,363**
Balance at 31 December 2013	**-**	**(159,664)**	**(2,120,462)**	**(4,167)**	**-**	**(2,284,293)**
Carrying amount						
Balance at 1 January 2012	**4,082,518**	**2,091,363**	**2,305,077**	**22,128**	**1,567,601**	**10,068,687**
Balance at 31 December 2012	**4,782,351**	**2,047,259**	**2,846,240**	**33,973**	**1,842,021**	**11,551,844**
Balance at 31 December 2013	**5,205,703**	**3,139,472**	**3,787,070**	**31,441**	**919,919**	**13,083,605**

Depreciation expense of has been charged to cost of goods produced.

As at 31 December 2013 property, plant and equipment under construction included unfinished operations with land in amount of RUB 70,178 thousand (as at 31 December 2012: RUB 161,518 thousand, as at 1 January 2012: RUB 163,562 thousand).

(a) Deemed cost of property, plant and equipment

Deemed cost of the Group's property, plant and equipment was determined based on their fair value as at 1 January 2012 (date of IFRS first-time adoption) which was calculated by independent expert.

1 January 2012 **'000 RUB**	**Residual value according to former accounting policy**	**Adjustments**	**Deemed cost**
Land	666,684	3,415,834	**4,082,518**
Buildings	881,289	1,210,074	**2,091,363**
Machinery, equipment and transport vehicles	2,305,077	-	**2,305,077**
Other	22,128	-	**22,128**
Under construction	1,567,601	-	**1,567,601**
	5,442,779	**4,625,908**	**10,068,687**

As at 1 January 2012 in addition to the determination of the depreciated replacement cost, cash flows testing was performed in order to assess the reasonableness of the estimated values, and the testing revealed no reduction in the estimated depreciated replacement cost amount.

The following key assumptions were applied in the cash flow testing:

- Cash flows were projected based on past experience, actual operating results and the Group's five-year business plan.
- Total production at the plants was projected at about 1,374,085 tonnes in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was 3.5% per annum for the years 2013 to 2016. Management plans that the production volume for the fifth year included in the business plan will be not less than in the first year.
- Taking into account the current economic conditions, sales prices are not projected to increase in 2012, and will grow by 10.7% in 2013 and by 5.2-5.5% per annum in 2014-2016.
- Unit production costs are expected to increase by 10.7 % in 2013 and by 5.2-5.5% per annum thereafter. Other costs are projected to increase in line with inflation.
- Cash flows for a further ten years period were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- A post-tax discount rate of 15.1% was applied in for discounting purposes. The discount rate was estimated based on an industry weighted average cost of capital, which was based on a possible range of debt leverage of 22.8% at a market interest rate of 10.7%.
- A terminal value was derived at the end of a 15-year interim period. A terminal rate of 3.5% was considered in estimating the terminal value for the plants.

The estimated recoverable amount of the property, plant and equipment exceeds its carrying amount by approximately RUB 4.1 billion. Management considers discounting model insensitive to reasonable change in figures.

(b) Security

As at 31 December 2013 machinery and equipment with a carrying amount of RUB 2,920,677 thousand (as at 31 December 2012: RUB 3,427,690 thousand, as at 1 January 2012: RUB 2,982,213 thousand), and long term lease rights for land plots of 109,619 ha (as at 31 December 2012: 49,024 ha, as at 1 January 2012: 49,024 ha) were pledged as securities for loans received from banks (see note 22).

(c) Leased property, plant and equipment

The Group leases land plots under a number of lease agreements. Certain leases provide the Group with the first option to purchase the plot of land at a market price. These agreements are accounted for as leases based on their terms and conditions. The leased land plots secure lease obligations.

(d) Property, plant and equipment under construction

During the year ended 31 December 2012, the Group incurred costs relating to the construction of a malting plant in Korenevo in the total amount of RUB 89,371 thousand. Total amount of expenditures for construction including equipment incurred as at the reporting date was RUB 1,308,595 thousand. During the year ended 31 December 2013 new malting plant in Korenevo was put into operation.

14 Other financial assets

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Non-current			
Investments in equity instruments of related parties	36,065	792,301	793,275
	36,065	**792,301**	**793,275**
Current			
Promissory notes received from related parties	617,201	3,298,704	2,847,759
Promissory notes received from third parties	-	1,840	35,826
	617,201	**3,300,544**	**2,883,585**

Investments in equity instruments of related parties as at both reporting periods are evaluated at fair value based on expected cost of subsequent sale.

Promissory notes payment period does not exceed 1 year, interest rates are in the range 0% - 8.25%.

As at 31 December 2013 financial investments with a carrying amount of RUB 585,231 thousand (as at 31 December 2012: RUB 3,293,430 thousand, as at 1 January 2012: RUB 2,413,982 thousand), were pledged as securities for loans received from banks (see note 22).

Information regarding non-cash operations with Group's financial investments is disclosed in consolidated statement of cash flows.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 24.

15 Other non-current assets

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Land lease rights	197,686	150,101	46,791
Other non-current assets	124,797	146,388	168,443
	322,483	**296,489**	**215,234**

16 Inventory

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Agricultural produce	2,898,629	1,530,239	1,240,729
Expenses for fallow land and spring crops	992,608	811,198	557,524
Processed agricultural produce	609,185	386,620	150,305
Raw materials	478,069	414,625	218,974
	4,978,491	**3,142,682**	**2,167,532**

In 2013 raw materials, consumables, and changes in finished goods and work in progress recognized as cost of sales amounted to RUB 2,297,536 thousand (2012: RUB 2,131,145 thousand).

In 2013 the write-down of inventories to net realisable value recognized as cost of sales amounted to RUB 27,963 thousand (2012: RUB 37,707 thousand).

Inventories with carrying value of RUB 1,832,153 thousand (as at 31 December 2012: RUB 612,864 thousand, as at 1 January 2012: RUB 159,434 thousand), were pledged as securities for loans received from banks (see note 22).

As at 31 December 2013 fallow land and spring crops had the square of 243,172 ha (as at 31 December 2012: 220,865 ha, as at 01 January 2012: 191,817 ha).

As at both reporting dates agricultural production comprised of:

	31 December 2013		31 December 2012		1 January 2012	
	'000 RUB	tonnes	'000 RUB	tonnes	'000 RUB	tonnes
Wheat	1,489,050	220,710	673,542	107,082	861,871	192,812
Sunflower	482,283	51,742	328,055	25,594	208,917	24,054
Barley	595,498	104,690	293,672	55,108	43,648	10,678
Buckwheat	138,460	18,198	111,892	15,058	64,171	6,551
Sugar beet	15,740	11,055	68,378	48,210	25,864	19,164
Pea	-	-	21,060	3,009	9,657	1,258
Corn	95,500	18,479	3,991	5,010	5,858	8,883
Other	82,098	-	29,647	-	20,743	-
	2,898,629	**427,874**	**1,530,237**	**259,071**	**1,240,729**	**263,400**

17 Biological assets

Non-current biological assets are represented by dairy cows, bulls, pigs and horses.

	31 December 2013	
	Quantity, Agricultural animals	Fair value, '000 RUB
Dairy cows and bulls	3,127	184,094
Other	402	140
	3,529	**184,234**

As at 31 December 2013 current biological assets are represented by winter wheat, amounted to RUB 936,934 thousand and occupied area of 87,247 ha (as at 31 December 2012: winter wheat, amounted to RUB 584,393 thousand and occupied area of 73,848 ha; as at 1 January 2012: winter wheat, amounted to RUB 442,619 thousand and occupied area of 44,475 ha).

(a) Movements in non-current biological assets

'000 RUB	Dairy cows and bulls	Other	Total
Fair value less costs to sell as at 1 January 2013	-	-	-
Increase due to acquisition of assets	168,893	140	**169,033**
Natural increase	19,323	-	**19,323**
Decrease due to loss of livestock	(1,378)	-	**(1,378)**
Decrease due to sale of assets	(2,744)	-	**(2,744)**
Fair value less costs to sell as at 31 December 2013	**184,094**	**140**	**184,234**

Livestock	Dairy cows and bulls	Other	Total
Physical quantity as at 1 January 2013	-	-	-
Increase due to acquisition of assets	2,604	402	**3,006**
Natural increase	671	-	**671**
Decrease due to loss of cattle	(52)	-	**(52)**
Decrease due to sale of assets	(96)	-	**(96)**
Physical quantity as at 31 December 2013	**3,127**	**402**	**3,529**

(b) Movements in current biological assets

The following represents the changes in carrying value of current biological assets during the year ended 31 December 2013 and 31 December 2012:

	2013	2012
As at 1 January 2013	**584,393**	**442,619**
Increases due to purchases	3,751,904	3,555,097
Net change in fair value less estimated cost to sell	1,480,749	796,686
Decreases due to harvest	(4,880,112)	(4,210,009)
As at 31 December 2013	**936,934**	**584,393**

(c) Fair value measurement

Non-current biological assets

Fair value of agricultural animals as at 31 December 2013 has been determined based on the active market data. The Russian market for these types of farm animals can be considered as active therefore the Group had sufficient data on purchase and sale transactions of similar assets for market-based approaches to the determination of their fair value. In determining the market value the Group's management used publicly available information about the purchase and sale of the livestock species in the same geographic regions.

Current biological assets

The fair value of biological assets as at 31 December 2013, 31 December 2012 and 1 January 2012 has been determined using discounted cash flows technique.

The following key assumptions were used in determining the fair value:

- revenue is projected based on the estimated crops' yields, which are determined based on several factors including location of farmland, environmental conditions and other restrictions, and prices' growth rates at the time of measurement;
- prices for crops are obtained from state statistical reports or other publicly available sources as at the end of the reporting period or from actually concluded sales agreements as at the dates of their fulfilment (if applicable);

- production costs and costs to sell are projected based on actual operating costs;
- a discount rate of 12.3% is applied in determining the fair value of biological assets for both reporting dates. The discount rate is based on the market related rate that reflects the current market assessment of risks specific to the Group;
- risk attributable to biological transformation subsequent to the end of the reporting period.

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

Based on management's assessment, reasonably possible changes in key assumptions used to estimate the fair values of biological assets would have the following effect on biological assets of the Group:

	31 December 2013	31 December 2012	1 January 2012
1% increase in discount rate (in absolute terms)	(5,571)	(4,088)	(1,999)
1% decrease in discount rate (in absolute terms)	5,655	4,143	2,019
10% increase in price for crops	77,432	63,087	43,911
10% decrease in price for crops	(77,432)	(63,087)	(43,911)

(d) Physical quantities (in tons)

Physical quantities of output of agricultural produce harvested during the year ended 31 December 2012 are as follows:

	2013	2012
Sugar beet	598,427	514,133
Wheat	325,970	170,798
Barley	272,648	281,217
Sunflower	56,655	5,206
Corn	21,568	-
Buckwheat	3,373	16,147
Rye	3,125	-
Soya bean	2,696	-
Pea	1,829	3,587
	1,286,291	**991,088**

(e) Risk management in the agricultural business

The Group is exposed to a number of risks related to its biological assets and agricultural produce:

Raw materials price risks

The Group's operating results are highly sensitive to the price fluctuations for core raw materials such as seeds, fertilizers and agrochemicals. In order to address this risk, the Group takes actions on optimization of fertilizer and agrochemicals consumption and has implemented tender procedure to secure the best price bid thereon.

Climate and soil risks

Biological assets are exposed to the risk of damage from climate changes and changes in the soil fertility of the areas, on which the Group conducts its operating activities. The Group holds regular monitoring of its exposure to those risks, including the diversification of the land areas in the regions with various soil and climate characteristics, harvesting spring and winter crops as a means of the crop rotation chain, harvesting crops with various agronomic demands.

18 Trade and other receivables

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Trade receivables	279,389	499,560	288,894
Advances given	179,632	374,395	597,612
VAT receivable	219,155	188,190	229,441
Following year's crop insurance	35,025	9,941	12,714
Prepayment for VAT	663,787	419,208	331,321
Prepayment for other taxes and fees	16,528	13,565	3,062
Other receivables	60,464	155,103	273,638
	1,453,980	**1,659,962**	**1,736,682**

(a) Overdue trade and other receivables

Ageing of accounts receivable was the following:

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Not overdue	301,121	640,941	505,770
Overdue 0-30 days	-	11	2,627
Overdue 31-180 days	32,717	2,630	23,639
Overdue 181-360 days	-	10,512	5,836
Overdue more than 360 days	6,015	569	24,660
	339,853	**654,663**	**562,532**

The Group did not create the allowance for doubtful accounts receivable as at 31 December 2013, 31 December 2012 and 1 January 2012.

The Group's exposure to credit and currency risks is disclosed in note 24.

19 Cash and cash equivalents

'000 RUB	Currency	31 December 2013	31 December 2012	1 January 2012
Petty cash		371	41	61
Cash in banks	RUB	12,166	89,193	21,067
Cash in banks	USD	38,037	2,212	282
Cash in banks	EUR	949	84,716	19
		51,523	**176,162**	**21,429**

As at 31 December 2013 cash in bank accounts of related parties amounted to RUB 49,635 thousand (as at 31 December 2012: RUB 176,073 thousand, as at 1 January 2012: RUB 21,311 thousand) – see note 30.

The Group's exposure to interest rate risks and sensitivity analysis related to financial assets and liabilities is disclosed in note 24.

20 Capital and reserves

(a) Share and additional paid-in capital

Number of shares unless otherwise stated	2013	2012
Authorized shares	10,000	10,000
Par value	RUB 1 000	RUB 1 000
In circulation at the beginning of the period	10,000	10,000
In circulation at end of period, fully paid	**10,000**	**10,000**

Ordinary shares

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

(b) Non-controlling interest and operations with non-controlling interest

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

As at 1 January 2012 the share of non-controlling interests amounted to:

'000 RUB	LLC "Avangard-Agro Voronezh"	LLC "Avangard-Agro Orel"
NCI share	**9.82%**	**19.55%**
Non-current assets	3,963,770	2,284,939
Current assets	3,097,542	895,971
Non-current liabilities	(2,329,640)	(778,801)
Current liabilities	(1,389,099)	(1,106,217)
Net assets	**3,342,573**	**1,295,892**
Carrying amount of NCI	328,241	253,347

As at 31 December 2012 and for the year then ended non-controlling interest amounted to:

'000 RUB	LLC "Avangard-Agro Voronezh"	LLC "Avangard-Agro Orel"
NCI share	**9.82%**	**19.55%**
Non-current assets	4,417,462	2,973,251
Current assets	3,172,851	1,296,722
Non-current liabilities	(3,802,535)	(1,278,428)
Current liabilities	(317,450)	(1,246,346)
Net assets	**3,470,328**	**1,745,199**
Carrying amount of NCI	340,787	341,186
Revenue	2,431,128	1,156,796
Profit for the year	403,855	459,825
Total comprehensive income for the year	**403,855**	**459,825**
Profit allocated to NCI	39,658	89,896
Cash flows from investing activities	(1,130,558)	(17,273)
Cash flows from/used in financing activities	126	(533,705)
Net increase in cash and cash equivalents	**1,149,135**	**563,557**

As at 10 June 2013 and for the period from 1 January 2013 till 10 June 2013 non-controlling interest amounted to:

'000 RUB	**LLC "Avangard-Agro Voronezh"**	**LLC "Avangard-Agro Orel"**
NCI share	**9.82%**	**19.55%**
Non-current assets	4,652,131	3,163,963
Current assets	3,946,093	1,623,104
Non-current liabilities	(2,075,279)	(1,472,836)
Current liabilities	(3,605,357)	(1,611,865)
Net assets	**2,917,588**	**1,702,366**
Carrying amount of NCI	286,507	332,813
Revenue	614,219	150,454
Profit for the period	7,256	1,167
Total comprehensive income for the period	**7,256**	**1,167**
Profit attributable to NCI	713	228

On 10 June 2013 the Group bought-out the shares in LLC "Avangard-Agro Voronezh" and LLC "Avangard-Agro Orel" (see note 26).

(c) Dividends and other distributions to shareholders

In accordance with Russian legislation the Company's distributable reserves are limited by the amount of unappropriated retained earnings calculated based on the Company's statutory financial statements prepared in accordance with the Russian Accounting Principles.

The Company shareholders decided not to pay dividends for 2012 year. However other distributions to shareholders for 2012 were made in amount of RUB 755,894 thousand.

The Company shareholders decided not to pay dividends for 2013 year. However other distributions to shareholders for 2013 were made in amount of RUB 805,743 thousand.

21 Capital management

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

22 Loans and borrowings

This note provides information about the contractual terms and conditions of the Group's bank loans and borrowings from related parties valued at amortized cost. Information on the Group's exposure to interest rate, foreign currency and liquidity risks is disclosed in note 24.

'000 RUB	**31 December 2013**	**31 December 2012**	**1 January 2012**
Long-term			
Long-term bank loans	504,671	-	-
Long-term loans from related parties	7,069,229	6,191,076	4,103,898
	7,573,900	**6,191,076**	**4,103,898**
Short-term			
Short-term loans from related parties	4,200,250	1,668,580	1,315,227
Short-term promissory notes given to related parties	792,803	5,706,917	4,842,349
Short-term promissory notes given to third parties	-	-	494,646
Short-term bank loans	1,000,000	290,667	31,356
Short-term borrowings from other companies	-	-	130,000
Short-term borrowings from related parties	-	68,755	145,578
	5,993,053	**7,734,919**	**6,959,156**
	13,566,953	**13,925,995**	**11,063,054**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

			31 December 2012		
'000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Nominal value**	**Carrying amount**
Secured bank loans from related parties	RUB	7.75-13%	2013-2017	7,730,248	7,730,460
Unsecured bank loans from related parties	RUB	7.75-13%	2013-2017	129,196	129,196
Unsecured bank loans	USD	LIBOR+3%	2013	290,667	290,667
Promissory notes given to related parties	RUB	0-12%		5,703,415	5,706,917
Borrowings from related parties	EUR	4%	2013	49,446	68,755
Total liabilities				**13,902,972**	**13,925,995**

'000 RUB	Currency	1 January 2012 Nominal interest rate	Year of maturity	Nominal value	Carrying amount
Secured bank loans from related parties	RUB	7.75-13%	2012-2017	5,347,526	5,347,560
Unsecured bank loans from related parties	RUB	7.75-13%	2012-2017	16,960	16,960
Unsecured bank loans from related parties	USD	4%	2012	54,605	54,605
Unsecured borrowings from other companies	RUB	8.5%	2012	130,000	130,000
Unsecured bank loans	EUR	LIBOR+3%	2012	31,356	31,356
Promissory notes given to related parties	RUB	0-12%	2012	4,828,785	4,828,785
Promissory notes given to related parties	EUR	0%	2012	9,668	9,668
Promissory notes given to related parties	USD	0%	2012	3,896	3,896
Promissory notes given to third parties	RUB	0%	2012	382,675	382,675
Promissory notes given to third parties	EUR	0%	2012	111,971	111,971
Borrowings from related parties	RUB	4%	2012	124,549	145,578
Total liabilities				**11,041,991**	**11,063,054**

Bank loans are secured with the following assets:

- machinery and equipment with a carrying amount of RUB 2,920,677 thousand (as at 31 December 2012: RUB 3,427,690 thousand, as at 1 January 2012: RUB 2,982,213 thousand) – see note 13;
- long-term land rent rights for plots of 109,619 ha (as at 31 December 2012: 49,024 ha, as at 1 January 2012: 49,024 ha) – see note 13;
- inventory with a carrying amount of RUB 1,832,153 thousand (as at 31 December 2012: 612,864 thousand, as at 1 January 2012: 159,434 thousand) – see note 16;
- financial investments with a carrying amount of RUB 585,231 thousand (as at 31 December 2012: RUB 3,293,430 thousand, as at 1 January 2012: RUB 2,413,982 thousand) – see note 14.

(b) Breach of loans covenants

As at 31 December 2013, 31 December 2012 and 1 January 2012 the Group did not have any loan covenants.

23 Trade and other payables

'000 RUB	31 December 2013	31 December 2012	1 January 2012
Trade payables	1,002,101	654,922	761,393
Advances received	33,756	80,182	177,218
Other taxes payable	13,661	7,117	11,491
Other payables	131,739	24,061	212,021
	1,181,257	**766,282**	**1,162,123**

As at 31 December 2013 trade and other payables due to related parties amounted to RUB 37,653 thousand (as at 31 December 2012: RUB 77,738 thousand, as at 1 January 2012: RUB 188,176 thousand) – see note 30.

Information on the Group's accounts payable exposure to foreign currency and liquidity risks is disclosed in note 24.

24 Financial instruments and 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, 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 Group's Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and respective controls, and to monitor risks and adherence to risks 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 structured and effective 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 as a result of customer's or counterparty's to a financial instrument failure to meet its contractual obligations, and arises mainly from the Group's receivables due from customers and investments in securities.

(i) Exposure to credit risk

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

'000 RUB	**31 December 2013**	**31 December 2012**	**1 January 2012**
Trade and other receivables	339,853	654,663	562,532
Promissory notes	617,201	3,300,544	2,883,585
Cash and cash equivalents	51,523	176,162	21,429
	1,008,577	**4,131,369**	**3,467,546**

As at 31 December 2013 promissory notes in amount of RUB 585,231 thousand and cash in amount of RUB 49,635 thousand were at the bank which is a related party and is rated B2 by the Moody's rating agency (as at 31 December 2012: RUB 3,293,430 thousand и RUB 176,073 thousand respectively; as at 1 January 2012: RUB 2,413,982 thousand and RUB 21,311 thousand respectively).

(ii) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer/client. However, management also considers the factors that may influence the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Approximately 18% of the Group's revenue in 2013 is attributable to sales transactions with a single customer (2012: 33%). However, geographically there is no concentration of credit risk.

Generally, sales are performed:

- to customers in Russian Federation – on a prepaid basis.

- to foreign customers – on CAD basis (Cash against documents) or against letters of credit.

Board of Directors approves deferred payment to certain customers. Sale limits are established for each such customer and represent maximum open amount without requiring approval. These limits are reviewed quarterly.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, aging profile, contractual payment maturity and the track of financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list, and sales are made to them on a prepayment basis with approval of the Board of Directors.

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

The Group did not create the allowance for doubtful accounts receivable as at 31 December 2013, 31 December 2012 and 1 January 2012.

(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 risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities on time considering both normal and stressed conditions, without incurring unacceptable losses or risking to damage the Group's reputation.

The Group has capital commitments for acquisition of property, plant and equipment (see note 28).

The following are the remaining contractual cash flows to settle financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of offset agreements.

'000 RUB	Carrying amount	Contractual cash-flows	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years
31 December 2013							
Loans and borrowings	13,566,953	17,442,324	1,480,764	734,149	4,803,169	5,480,670	4,943,572
Trade and other payables	1,133,840	1,133,840	257,553	69,352	800,369	6,566	-
Balance at 31 December 2013	**14,700,793**	**18,576,164**	**1,738,317**	**803,501**	**5,603,538**	**5,487,236**	**4,943,572**
31 December 2012							
Loans and borrowings	13,925,995	17,068,518	5,775,972	856,689	1,781,694	4,829,833	3,824,330
Trade and other payables	678,983	678,983	571,640	71,720	35,623	-	-
Balance at 31 December 2012	**14,604,978**	**17,747,501**	**6,347,612**	**928,409**	**1,817,317**	**4,829,833**	**3,824,330**
1 January 2012							
Loans and borrowings	11,063,054	13,294,379	2,959,985	1,188,131	3,279,154	3,632,020	2,235,089
Trade and other payables	973,414	973,414	733,496	83,832	156,086	-	-
Balance at 1 January 2012	**12,036,468**	**14,267,793**	**3,693,481**	**1,271,963**	**3,435,240**	**3,632,020**	**2,235,089**

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 prices for securities will adversely affect the Group's profit or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on investments.

(i) Currency risk

The Group generates revenue denominated in foreign currency from selling the agricultural produce in European markets that compensates to some extent the currency risk to which Group's loans and borrowings are exposed. Net foreign exchange gain for 2013 year is RUB 3,527 thousand (net foreign exchange loss for 2012 – RUB (1,211) thousand (see note 10).

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

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

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

	31 December 2012	
'000 RUB	**USD-denominated**	**EUR-denominated**
Trade and other receivables	11,021	-
Cash and cash equivalents	2,212	84,716
Loans and borrowings	(290,667)	(68,755)
Trade and other payables	(4)	(3,138)
	(277,438)	**12,823**

	1 January 2012	
'000 RUB	**USD-denominated**	**EUR-denominated**
Trade and other receivables	59,453	32,642
Cash and cash equivalents	282	16
Loans and borrowings	(58,501)	(152,995)
Trade and other payables	(4)	(7,225)
	1,230	**(127,562)**

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

RUB.	Average rate			Reporting date spot rate		
	2013	2012	2011	2013	2012	2011
USD 1	31.85	31.09	29.39	32.73	30.37	32.20
EUR 1	42.31	39.95	40.89	44.97	40.23	41.67

Sensitivity analysis

A reasonably possible strengthening (weakening) of the RUB, as indicated below, against all other currencies at 31 December would have increase/(decrease) the equity and profit/(loss) before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered reasonably possible at the end of each reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis at 1 January 2012, though foreign currency exchange rate variances considered reasonable was different as indicated below.

'000 RUB	Strengthening of RUB		Weakening of RUB	
	Equity	Profit or (loss)	Equity	Profit or (loss)
31 December 2013				
Change in RUB against USD exchange rate (10% movement)	3,731	3,731	(3,731)	(3,731)
Change in RUB against EUR exchange rate (10% movement)	3,461	3,461	(3,461)	(3,461)
31 December 2012				
Change in RUB against USD exchange rate (10% movement)	27,744	27,744	(27,744)	(27,744)
Change in RUB against EUR exchange rate (10% movement)	(1,282)	(1,282)	1,282	1,282
1 January 2012				
Change in RUB against USD exchange rate (10% movement)	(123)	(123)	123	123
Change in RUB against EUR exchange rate (10% movement)	12,756	12,756	(12,756)	(12,756)

(ii) Interest rate risk

Changes in interest rates primarily impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be divided between 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:

'000 RUB	Carrying amount		
	31 December 2013	31 December 2012	1 January 2012
Fixed rate instruments			
Financial assets	617,201	3,300,544	2,883,585
Financial liabilities	(13,525,468)	(13,635,328)	(11,031,698)
	(12,908,267)	**(10,334,784)**	**(8,148,113)**
Variable rate instruments			
Financial liabilities	(41,485)	(290,667)	(31,356)
	(41,485)	**(290,667)**	**(31,356)**

Fair value sensitivity analysis for fixed rate instruments:

	Profit or loss		Equity	
'000 RUB	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2013				
Variable rate instruments	(4,149)	4,149	(4,149)	4,149
Cash flow sensitivity (net)	**(4,149)**	**4,149**	**(4,149)**	**4,149**
2012				
Variable rate instruments	(2,907)	2,907	(2,907)	2,907
Cash flow sensitivity (net)	**(2,907)**	**2,907**	**(2,907)**	**2,907**

(iii) Other market price risk

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

(e) Fair value hierarchy

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

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

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

At both reporting dates fair value hierarchy of the Group's assets is as follows:

	31 December 2013		
Long-term financial assets held for resale	**Level 1**	**Level 2**	**Level 3**
Equity instruments in related parties	-	-	36,065
Other assets presented at fair value			
Biological assets	-	-	936,934

	31 December 2012		
Long-term financial assets held for resale	**Level 1**	**Level 2**	**Level 3**
Equity instruments in related parties	-	-	792,301
Other assets presented at fair value			
Biological assets	-	-	584,393

	1 January 2012		
Long-term financial assets held for resale	**Level 1**	**Level 2**	**Level 3**
Equity instruments in related parties	-	-	793,275
Other assets presented at fair value			
Biological assets	-	-	442,619

To determine the fair value of equity instruments the Group's management used cost of expected subsequent sale.

25 Significant subsidiaries

		Ownership/voting		
Subsidiary	**Country of incorporation**	**31 December 2013**	**31 December 2012**	**1 January 2012**
LLC "Avangard-Agro-Voronezh"	Russia	100%	90%	90%
LLC "Avangard-Agro-Orel"	Russia	100%	80%	80%
LLC "Avangard-Agro-Kursk"	Russia	100%	100%	100%
LLC "Avangard-Agro-Belgorod"	Russia	100%	100%	100%
LLC "Avangard-Agro-Lipetsk"	Russia	100%	0%	0%
LLC "Avangard-Agro-Trade"	Russia	100%	100%	100%
Avangard Agro Trade AG	Switzerland	100%	0%	0%

Despite the fact that the Group did not own a share in Avangard Agro Trade AG as at 31 December 2012, it obtained all benefits from entity's operations and net assets following the agreement with OJSC Avangard-Agro shareholders, and had the ability to direct those business activities that effected entity's profits the most. Therefore the Group consolidated the entity.

In December 2013 the Group bought out 100% share in Avangard Agro Trade AG for the consideration amounted to 109,000 Swiss francs.

In December 2013 the Group concluded the agreement to sell its investments in associate Avangard Shipyard DD, Pula, Croatia to its related party for total consideration of EUR 627 thousand. The Group terminated its possession rights for this entity in 2014 year. Despite holding the ownership of controlling interest in this entity as at 31 December 2013, 31 December 2012 and 1 January 2012, the management of the Group considered that they were unable to control the entity. Therefore the investment was presented under its fair value in Investments in equity instruments of related parties within financial assets caption as at 31 December 2013, 31 December 2012 and 1 January 2012.

26 Acquisition of non-controlling interest

In July 2013 the Group acquired non-controlling interests as follows: in subsidiary LLC "Avangard-Agro-Orel" for the total consideration of RUB 21,594 thousand, in subsidiary LLC "Avangard-Agro-Orel" for the total consideration equal the par value of share of RUB 117,928 thousand. The acquisitions were performed from the entity under common control. After the acquisition Group's share in both subsidiaries became 100%. The group paid the acquisition of non-controlling interest by the promissory notes obtained earlier from the related party.

Carrying amount of LLC "Avangard-Agro-Orel" and LLC "Avangard-Agro-Voronezh" net assets recognized in consolidated financial statements was equal to RUB 332,813 thousand and RUB 286,507 thousand respectively at the date of acquisition. The Group recognized the decrease of non-controlling interest in the amount of RUB 619,320 thousand and the increase of retained earnings in the amount of RUB 479,438 thousand.

The impact of change of Group's interest in subsidiaries LLC "Avangard-Agro-Orel" and LLC "Avangard-Agro-Voronezh" for the equity of the Group is summarized below:

	'000 RUB
Group's share at 1 January 2013	**4,533,554**
Increase of Group's share	619,320
Group's share in the total comprehensive income	(49,279)
Group's share at 31 December 2013	**5,103,595**

27 Operating lease

Lease payments under non-cancellable operating leases are payable as follows:

'000 RUB	2013	2012
Less than one year	37,844	82,890
Between one and five years	134,895	158,712
More than five years	621,724	348,650
	794,463	**590,252**

Lease payments are usually increased annually to reflect market rentals. Some lease agreements provide for additional rent payments that are based on changes in a local price index.

For the year ended 31 December 2013 operating lease expenses of RUB 69,176 thousand were included in profit or loss (for the year ended 31 December 2012 – RUB 76,128 thousand).

28 Capital commitments

As at 31 December 2013 the Group entered into a contract to purchase machinery and equipment for RUB 743,649 thousand (as at 31 December 2012 – RUB 538,054 thousand).

29 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents with 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 participating in litigations (as plaintiff and as defendant) which were initiated in its ordinary course of business. Management does not believe that there are any actions that will have adverse material effect on the financial condition or results of operations, financial position or cash-flows of the Group other than in these consolidated financial statements and notes thereto.

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised 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 remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

30 Related party transactions

(a) Ultimate controlling party

The Group's ultimate beneficiary is Minovalov K.V.

(b) Transactions with key management

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 11):

'000 RUB	**2013**	**2012**
Wages, salaries and bonuses	5,000	5,000
Contributions to State Pension Fund	1,000	1,000
	6,000	**6,000**

A number of key management personnel hold certain positions in other entities classified as related parties, and therefore partly receive their remuneration from these entities.

(c) Other related parties transaction

Information about the Group's transactions with related parties is presented below:

	Transaction amount		Outstanding balance		
'000 RUB	**2013**	**2012**	**31 December 2013**	**31 December 2012**	**1 January 2012**
Revenue from agricultural produce sales and relevant receivables	50,160	1,823,244	40,324	414,868	248,395
Purchases and relevant payables	361,675	97,380	(37,653)	(77,738)	(188,176)
Loans and borrowings received, promissory notes given, and relevant liabilities	9,279,696	10,884,489	(12,062,282)	(13,635,328)	(10,407,052)
Loans and borrowing given, promissory notes received, and relevant assets	-	391,536	617,201	3,300,544	2,883,585
Outstanding balance of the current accounts	-	-	49,635	176,073	21,311

31 Subsequent events

In the year 2013 the Group purchased 27.000 ha land and accompanying real estate in Kamenskiy and Podgorenskiy districts of Voronezh region from Black Earth Farming group of companies. The land was purchased for RUB 449,774 thousand, the building and construction – for RUB 283,078 thousand and RUB 11,847 thousand respectively.

32 Valuation basis

These consolidated financial statements are prepared on the basis of historical cost, except for financial assets at fair value through profit or loss, biological assets, agricultural produce, and fixed assets, which were revaluated by the independent expert as at 1 January 2012 (date of IFRS first-time adoption) to determine their deemed cost (see note 13).

33 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these preliminary consolidated financial statements for the purposes of the transition to IFRSs. The accounting policies have been applied consistently by Group entities.

(a) Changes in presentation of government grants in comparative period

Government grants in the amount of 114,749 thousand rubles (received for the purpose of insuring the harvest) are presented as part of cost of sales in the consolidated statement of financial performance. Such presentation was required for the purposes of comparable presentation of income and expenses for 2012. In the preliminary consolidated financial statements for the year ended 31 December 2012 the government grants were presented as part of other income. The Group considers the net presentation of the insurance government grants within cost of sales as providing more reliable view of the substance of the transaction in the financial statements.

(b) Changes in presentation of VAT receivable as at comparative reporting dates

VAT receivable in the amount of 207,514 rubles (as at 31 December 2012 and 1 January 2012) and 135,073 (as at 1 January 2012) is presented as part of trade and other receivables in the consolidated statement of financial position. Such presentation was required for the purposes of comparable presentation of financial statements. In the preliminary consolidated financial statements for the year ended 31 December 2012 VAT receivable was presented as part of other non-current assets. The Group considers the presentation of VAT receivable as part of trade and other receivables as providing more reliable view on the substance of this amount in the financial statements.

(c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

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

(iv) ***Acquisitions from entities under common control***

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

(v) ***Loss of control***

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

(vi) ***Transactions eliminated on consolidation***

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

(d) Foreign currency

(i) ***Foreign currency transactions***

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

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

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

(e) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 18, given loans and borrowings, acquired promissory notes as presented in note 14 and cash and cash equivalents as presented in note 19.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less since date of acquisition and which are not exposed to risk of fair value change.

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

(f) 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.

(g) 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 accumulated impairment losses. Cost of some property, plant and equipment as at 1 January 2012 (date of transition to IFRS) was determined on the basis of its fair value. Information about the fair value of property, plant and equipment is presented in note 13.

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

When 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are 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.

Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, 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 for the current and comparative periods are as follows:

- buildings and facilities 7-60 years;
- machinery 3-10 years;
- other PPE 2-10 years.

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

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes costs relating to the acquisition of the inventories, production or conversion costs and other costs incurred in bringing them to their present location and condition. For self-produced inventories and work in progress, the cost includes an apportioned 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 harvested from the Group's biological assets is measured at its fair value less estimated cost to sell at the point of harvest which becomes its cost. Where applicable, cost to sell includes commissions to brokers and dealers, levies by regulatory authorities, commodity exchanges and transfer taxes and duties. Cost to sell exclude transport and other costs necessary to bring the assets to the market. After the harvest, agricultural produce is accounted as inventories and measured at the lower of cost and net realisable value.

(ii) Investments into future harvest of agricultural crops

Investments in future crops represent agricultural preparation of fields before seeding and include primarily the costs of fertilisers and land cultivation. Once the seeding is completed, the carrying amount of investments in future crops is reclassified to cost of biological assets.

(i) Biological assets

Biological assets are represented primarily by unharvested crops, which both at initial recognition and at each subsequent reporting date, are measured at fair value less costs to sell. Cost approximates fair value when little biological transformation has taken place since the costs were originally incurred or the impact of biological transformation on price is not expected to be material.

The difference between fair value less estimated costs to sell and total production costs to date is allocated to biological assets held in stock as at each reporting date as a fair value adjustment. Gains and losses that arise on change in such fair value adjustment of biological assets from one period to another and measuring agricultural produce at the point of harvest at fair value less costs to sell are recognized in the combined statement of comprehensive income in the period in which they arise in the line item "Net gain/ (loss) on initial recognition of agricultural produce and change in fair value of biological assets". This line item also includes write-off of biological assets recognised as the result of harvest loss in the current period.

The Group classifies biological assets as current based on the average useful life of biological assets.

Since market-determined prices or values are not readily available for unharvested crops in their present condition, the fair value of such unharvested crops is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined rate.

(j) Impairment

(i) Non-derivative financial assets

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

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

Loans and receivables and held-to-maturity investment securities

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit 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 cash-generating unit. 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 groups of assets (the "cash-generating unit"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of cash generating units that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

(k) Revenue

(i) Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of wheat, transfer usually occurs when the product is received by customer at the 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, transfer occurs when the product is received by customer at the supplier's warehouse or at the customer's warehouse depending on the agreement. Generally for such products the buyer has right of return of the produce the quality of which does not comply with agreement. Acceptance and qualitative and quantitative inspection terms are established in the agreement.

(ii) Services

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

(iii) Government grants

Government grants compensated for losses of the Group are recognized on a net basis in profit for the period as cost of sales in period of actual receipt.

Government grants compensated for interest expenses for bank loans of the Group are recognized on a gross basis in profit for the period as finance income.

(l) Other expenses

(i) Lease payments

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

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

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

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

(m) 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 financial assets, fair value gains on financial assets at fair value 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, fair value losses on financial instruments 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.

(n) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised 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 accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised 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 utilised. 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 realised.

34 New Standards and Interpretations not yet adopted

Standards and interpretations adopted in the reporting period

In reporting period the Group adopted all new international financial reporting standards and interpretations approved by IFRS Interpretation Committee ("IFRIC") which are mandatory for adoption in financial reporting for periods beginning 1 January 2013.

Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements.

Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments*. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.
- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are

permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Group plans to adopt these standards and interpretations in consolidated financial statements for relevant reporting periods. Impact of these standards and interpretations on consolidated financial statements in future periods are analysed by management at the moment.