

**Joint-Stock Company “Avangard-Agro”**

**Consolidated Financial Statements  
for 2015  
and Auditors’ Report**

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## Auditors' Report

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

We have audited the accompanying consolidated financial statements of JSC "Avangard-Agro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Audited Entity Management's Responsibility for the Consolidated Financial Statements*

Management of the audited entity 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 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 audit 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 an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Joint-Stock Company "Avangard-Agro"

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

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

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

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

V.G. Sheremet

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

JSC KPMG

4 March 2016

Moscow, Russian Federation



*Joint-Stock Company “Avangard-Agro”*  
*Consolidated Statement of Financial Position as at 31 December 2015*

million RUB	Note	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>ASSETS</b>			
Property, plant and equipment	10	23,676	15,250
Biological assets	14	216	198
Other non-current assets	12	273	333
<b>Non-current assets</b>		<b><u>24,165</u></b>	<b><u>15,781</u></b>
Inventories	13	10,328	6,661
Biological assets	14	1,807	1,775
Trade and other receivables	15	1,002	2,168
Financial assets	11	3,341	271
Cash and cash equivalents	16	21	48
<b>Current assets</b>		<b><u>16,499</u></b>	<b><u>10,923</u></b>
<b>Total assets</b>		<b><u>40,664</u></b>	<b><u>26,704</u></b>
<b>EQUITY AND RESERVES</b>			
Share capital	17	10	10
Property, plant and equipment revaluation surplus		6,170	-
Retained earnings		16,624	9,216
<b>Equity attributable to owners of the Company</b>		<b><u>22,804</u></b>	<b><u>9,226</u></b>
<b>Total equity and reserves</b>		<b><u>22,804</u></b>	<b><u>9,226</u></b>
<b>LIABILITIES</b>			
Loans and borrowings	19	6,810	7,563
<b>Non-current liabilities</b>		<b><u>6,810</u></b>	<b><u>7,563</u></b>
Bonds	19	3,091	2,228
Loans and borrowings	19	7,208	6,643
Trade and other payables	20	751	1,044
<b>Current liabilities</b>		<b><u>11,050</u></b>	<b><u>9,915</u></b>
<b>Total liabilities</b>		<b><u>17,860</u></b>	<b><u>17,478</u></b>
<b>Total equity and liabilities</b>		<b><u>40,664</u></b>	<b><u>26,704</u></b>

**Joint-Stock Company "Avangard-Agro"**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2015*

million RUB	Note	2015	2014
Revenue	4	11,504	8,372
Cost of sales		(9,152)	(7,394)
Revaluation of biological assets	14	3,795	2,738
<b>Gross profit</b>		<b>6,147</b>	<b>3,716</b>
Distribution expenses		(199)	(109)
Administrative expenses	5	(469)	(486)
Other expenses, net	6	(39)	(152)
<b>Results from operating activities</b>		<b>5,440</b>	<b>2,969</b>
Finance income	7	2,068	1,015
Finance costs	7	(2,086)	(1,443)
<b>Net finance costs</b>		<b>(18)</b>	<b>(428)</b>
Gain on disposal of subsidiaries	3	-	1
<b>Profit before income tax</b>		<b>5,422</b>	<b>2,542</b>
Income tax expense	9	(3)	(3)
<b>Profit for the year</b>		<b>5,419</b>	<b>2,539</b>
 <b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Property, plant and equipment revaluation surplus		6,170	-
<b>Other comprehensive income for the year</b>		<b>6,170</b>	-
 <b>Total comprehensive income for the year</b>		<b>11,589</b>	<b>2,539</b>
 <b>Profit attributable to:</b>			
owners of the Company		5,419	2,539
<b>Profit for the year</b>		<b>5,419</b>	<b>2,539</b>
 <b>Total comprehensive income attributable to:</b>			
owners of the Company		11,589	2,539
<b>Total comprehensive income for the year</b>		<b>11,589</b>	<b>2,539</b>

These consolidated financial statements were approved by management on 4 March 2016 and were signed on its behalf by:

General Director of JSC "Avangard-Agro"

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A.N. Kirkin

Financial Director of JSC "Avangard-Agro"

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T.A. Korolyova



*Joint-Stock Company “Avangard-Agro”  
Consolidated Statement of Changes in Equity for 2015*

million RUB	Note	Share capital	Retained earnings	Property, plant and equipment revaluation surplus	Total equity and reserves
<b>Balance at 1 January 2014</b>		<b>10</b>	<b>6,906</b>	-	<b>6,916</b>
Profit for the year		-	2,539	-	2,539
<b>Total comprehensive income for the year</b>		-	<b>2,539</b>	-	<b>2,539</b>
<b>Transactions with shareholders of the Company</b>					
Distributions to shareholders	17	-	(229)	-	(229)
<b>Total transactions with shareholders of the Company</b>		-	<b>(229)</b>	-	<b>(229)</b>
<b>Balance at 31 December 2014</b>		<b>10</b>	<b>9,216</b>	-	<b>9,226</b>
<b>Balance at 1 January 2015</b>		<b>10</b>	<b>9,216</b>	-	<b>9,226</b>
Profit for the year		-	5,419	-	5,419
<b>Other comprehensive income</b>					
Revaluation of property, plant and equipment		-	-	6,170	6,170
<b>Total other comprehensive income</b>		-	-	<b>6,170</b>	<b>6,170</b>
<b>Total comprehensive income for the year</b>		-	<b>5,419</b>	<b>6,170</b>	<b>11,589</b>
<b>Transactions with shareholders of the Company</b>					
Acquisition of business under common control	3	-	2,096	-	2,096
Distributions to shareholders	17	-	(107)	-	(107)
<b>Total transactions with shareholders of the Company</b>		-	<b>1,989</b>	-	<b>1,989</b>
<b>Balance at 31 December 2015</b>		<b>10</b>	<b>16,624</b>	<b>6,170</b>	<b>22,804</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 44.

*Joint-Stock Company "Avangard-Agro"*  
*Consolidated Statement of Cash Flows for 2015*

<b>million RUB</b>	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Profit for the year		5,419	2,539
<i>Adjustments for:</i>			
Depreciation	10	1,334	1,098
Government grants		(1,540)	(984)
Exchange differences	7	(798)	(220)
Other finance (income)/ costs	7	(38)	1
Interest expense	7	2,086	1,440
Gain on disposal of subsidiaries	3	-	(1)
Unrealised portion of revaluation of biological assets	14	(1,461)	(438)
(Reversal of write-off)/write-off of accounts receivable	6	(36)	38
Write-off of input VAT	6	30	29
Loss of crop, product deterioration, shortfalls identified during the stocktake	6	85	32
Other non-cash transactions		48	(35)
Income tax expense	9	3	3
<b>Cash flows from operating activities before changes in working capital</b>		<b>5,132</b>	<b>3,502</b>
Changes in inventories		(2,070)	(1,655)
Changes in biological assets		47	(304)
Changes in trade and other receivables		1,388	(681)
Changes in trade and other payables		(256)	63
<b>Cash flows from operations before income taxes and interest paid</b>		<b>4,241</b>	<b>925</b>
Income tax paid		(1)	(5)
<b>Net cash from operating activities</b>		<b>4,240</b>	<b>920</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(909)	(3,354)
Acquisition of land lease rights		(41)	(64)
Proceeds from sale of property, plant and equipment		80	32
Disposal of investments in related party entities		-	31
Promissory notes received		(3,146)	-
Acquisition of business under common control	3	(471)	-
<b>Net cash used in investing activities</b>		<b>(4,487)</b>	<b>(3,355)</b>
<b>Cash flows from financing activities</b>			
Government grants compensating interest expense	7	1,232	793
Interest paid		(2,041)	(1,412)
Bond issue		-	3,000
Proceeds from borrowings		11,731	8,725
Repayment of borrowings		(10,596)	(8,446)
Distributions to shareholders		(107)	(229)
<b>Net cash from financing activities</b>		<b>219</b>	<b>2,431</b>

*Joint-Stock Company "Avangard-Agro"*  
*Consolidated Statement of Cash Flows for 2015*

<b>million RUB</b>	<b>Note</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
<b>Net decrease in cash and cash equivalents</b>		<b>(28)</b>	<b>(4)</b>
Effect of movements in exchange rates on cash and cash equivalents		1	1
Cash and cash equivalents at the beginning of the year	16	<u><b>48</b></u>	<u><b>51</b></u>
<b>Cash and cash equivalents at the end of the year</b>	<b>16</b>	<u><b>21</b></u>	<u><b>48</b></u>
<b>Non-cash transactions:</b>			
Offsetting of own promissory notes issued and promissory notes acquired from related parties		551	438
Settlement of acquisition of business under common control by promissory notes received from related parties		187	-

## 1 Reporting entity

### (a) Organisation and operations

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

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

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

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

The majority of the Group’s funding is from loans provided by a related party bank with a B2 credit rating by Moody’s. Further information about related party transactions is disclosed in note 25.

Joint-Stock Company “Avangard-Agro” has been rated A+ by rating agency RAEX based on the results of 2014.

The subsidiaries of the Group are:

Subsidiary	Country of registration	Ownership and voting rights	
		31 December 2015	31 December 2014
LLC “Avangard-Agro-Voronezh”	Russia	100%	100%
LLC “Avangard-Agro-Orel”	Russia	100%	100%
LLC “Avangard-Agro-Kursk”	Russia	100%	100%
LLC “Avangard-Agro-Belgorod”	Russia	100%	100%
LLC “Avangard-Agro-Lipetsk”	Russia	100%	100%
LLC “Avangard-Agro-Trade”	Russia	100%	100%
LLC “Avangard-Agro-Tula”	Russia	100%	100%
Avangard Agro Trade AG	Switzerland	100%	100%

### (b) Business environment

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

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

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

## **2 Basis of accounting**

### **(a) Statement of compliance**

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

### **(b) Functional and presentation currency**

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

### **(c) Use of estimates and judgments**

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

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

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

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

- Note 29(e)(iv)– useful life of property, plant and equipment;
- Note 10(a) – revaluation of land;
- Note 13 – revaluation of agricultural produce;
- Note 14 – revaluation of biological assets.

### **(d) Measurement of fair values**

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

#### **(i) Land**

In 2015 the Group changed land accounting from cost model to revaluation model. This change was applied prospectively from the date of change in accounting policy.

Presented below are major assumptions used by independent appraiser for determining the fair value of land:

- Public sources analogues were selected for each group of land based on following criteria: permitted use of land, location, size.
- Selected analogues were adjusted for measurement purposes taking into account a discount for bargaining (5%) and location (from -31% to 45%).

**(ii) Biological assets**

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

**(iii) Equity and debt securities**

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

**(iv) Trade and other receivables**

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

**(v) Non-derivative financial liabilities**

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

### **3 Acquisition of business and disposal of subsidiary**

In July 2015 the Group acquired assets and operations comprising business for malt production from entity under common control for RUB 658 million. Gain on acquisition was recognized in equity as shareholder contribution according to the accounting policies (note 29). Fair value of the assets acquired was assessed by independent appraiser.

The impact of this transaction on the consolidated financial statements is presented below:

<b>million RUB</b>	<b>Note</b>	<b>million RUB</b>
Land	10	9
Buildings and constructions	10	2,021
Machinery and equipment	10	724
Total identifiable assets		2,754
Consideration paid to a related party		(658)
<b>The difference between fair value of identifiable assets and paid consideration measured as shareholder contribution</b>		<b>2,096</b>

On 30 September 2014 the Group sold its investments in LLC "Korenevsky Malt Plant" to a related party. Profit generated by this subsidiary and included in the net profit for the year amounted to RUB 1 million, including proceeds from its disposal in the amount of RUB 1 million.

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

<b>million RUB</b>	<b>Note</b>	<b>Carrying amount at date of disposal</b>
<b>Non-current assets</b>		<b>46</b>
Property, plant and equipment	10	46
<b>Current assets</b>		<b>24</b>
Trade and other receivables	15	24
Cash and cash equivalents	16	-
<b>Current liabilities</b>		<b>70</b>
Trade and other payables	20	70
<b>Net liabilities</b>		<b>-</b>
Consideration received, satisfied in cash		-
Cash and cash equivalents disposed of		-
<b>Net cash outflow</b>		<b>-</b>

#### 4 Revenue

<b>million RUB</b>	<b>2015</b>	<b>2014</b>
Revenue from sale of agricultural produce	11,489	8,362
Revenue from services rendered	15	10
	<b>11,504</b>	<b>8,372</b>

#### 5 Administrative expenses

<b>million RUB</b>	<b>2015</b>	<b>2014</b>
Wages and salaries	238	324
Other taxes and duties	40	19
Legal, advisory and audit services	30	13
Software	29	23
Depreciation of property, plant and equipment	28	17
Other administrative expenses	104	90
	<b>469</b>	<b>486</b>

## 6 Other income and expenses

million RUB	<u>2015</u>	<u>2014</u>
Insurance compensation from related parties	115	-
Reversal of write-off of accounts receivable	36	-
Reversal of obsolescence provision	9	-
Reversal of provision for PPE impairment	-	74
Other income	16	14
<b>Total other income</b>	<b><u>176</u></b>	<b><u>88</u></b>
Loss of crop, product deterioration, shortfalls identified during the stocktake	(85)	(32)
Financial aid	(62)	(70)
Write-off of VAT	(30)	(29)
Net loss on disposal of other assets	(20)	(10)
Write-off of accounts receivable	-	(38)
Allowance for impairment of goods and materials	-	(22)
Other costs	(18)	(39)
<b>Total other costs</b>	<b><u>(215)</u></b>	<b><u>(240)</u></b>
<b>Total other costs, net</b>	<b><u>(39)</u></b>	<b><u>(152)</u></b>

Insurance compensations received by the Group under insurance contracts were accounted in other income with regard to land where reinoculation after loss of crop was impossible. Insurance compensations on land where it's possible to seed other cultures after loss of crop were recognized as decrease of cost of sales. These compensations amounted to RUB 545 million (2014: RUB 191 million).

## 7 Finance income and finance costs

million RUB	<u>2015</u>	<u>2014</u>
Government grants	1,232	793
Foreign exchange gain	798	220
Interest income	38	2
<b>Finance income</b>	<b><u>2,068</u></b>	<b><u>1,015</u></b>
Interest expense	(2,086)	(1,440)
Other finance costs	-	(3)
<b>Finance costs</b>	<b><u>(2,086)</u></b>	<b><u>(1,443)</u></b>
<b>Net finance costs</b>	<b><u>(18)</u></b>	<b><u>(428)</u></b>

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

Also in 2015 the Group received government grants totalling RUB 308 million (2014: RUB 191 million) to partially compensate for insurance premiums paid under agricultural insurance contracts and the provision of arm's-length support to crop farmers. Such government grants were recognised in the cost of sales.

## 8 Employee benefit expenses

million RUB	<u>2015</u>	<u>2014</u>
Production personnel wages and salaries including mandatory contributions to state pension fund	1,017	848
Administrative personnel wages and salaries including mandatory contributions to state pension fund	238	324
Distribution personnel wages and salaries including mandatory contributions to state pension fund	32	18
	<u><b>1,287</b></u>	<u><b>1,190</b></u>

The Group's average number of employees during 2015 and 2014 was 4,154 employees and 4,127 employees, respectively.

## 9 Income taxes

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

## 10 Property, plant and equipment

million RUB	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment, vehicles</u>	<u>Other fixed assets</u>	<u>Under construction</u>	<u>Total</u>
<i>Historical cost</i>						
<b>Balance at 1 January 2014</b>	<b>5,206</b>	<b>3,299</b>	<b>5,908</b>	<b>35</b>	<b>920</b>	<b>15,368</b>
Additions	876	62	1,893	1	499	3,331
Disposals	(7)	(1)	(10)	-	(5)	(23)
Disposal of a subsidiary	-	(46)	-	-	-	(46)
Transfers	11	858	-	-	(869)	-
<b>Balance at 31 December 2014</b>	<b>6,086</b>	<b>4,172</b>	<b>7,791</b>	<b>36</b>	<b>545</b>	<b>18,630</b>
Additions	190	-	607	-	75	872
Disposals	(76)	(6)	(29)	(16)	(3)	(130)
Transfer from investing property	-	-	116	-	-	116
Acquisition of business	9	2,021	724	-	-	2,754
Revaluation	6,170	-	-	-	-	6,170
Transfers	33	461	-	-	(494)	-
<b>Balance at 31 December 2015</b>	<b>12,412</b>	<b>6,648</b>	<b>9,209</b>	<b>20</b>	<b>123</b>	<b>28,412</b>
<i>Depreciation</i>						
<b>Balance at 1 January 2014</b>	<b>-</b>	<b>(160)</b>	<b>(2,120)</b>	<b>(4)</b>	<b>-</b>	<b>(2,284)</b>
Depreciation for the year	-	(137)	(960)	(1)	-	(1,098)
Disposals	-	-	2	-	-	2
<b>Balance at 31 December 2014</b>	<b>-</b>	<b>(297)</b>	<b>(3,078)</b>	<b>(5)</b>	<b>-</b>	<b>(3,380)</b>
Depreciation for the year	-	(208)	(1,113)	(13)	-	(1,334)
Disposals	-	3	27	-	-	30

Transfer from investing property	-	-	(52)	-	-	(52)
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>(502)</b>	<b>(4,216)</b>	<b>(18)</b>	<b>-</b>	<b>(4,736)</b>
<i>Carrying amount</i>						
At 1 January 2014	<u>5,206</u>	<u>3,139</u>	<u>3,788</u>	<u>31</u>	<u>920</u>	<u>13,084</u>
At 31 December 2014	<u>6,086</u>	<u>3,875</u>	<u>4,713</u>	<u>31</u>	<u>545</u>	<u>15,250</u>
At 31 December 2015	<u>12,412</u>	<u>6,146</u>	<u>4,993</u>	<u>2</u>	<u>123</u>	<u>23,676</u>

In 2015 depreciation charge of RUB 1,306 million was included in the cost of sales (2014: RUB 1,064 million).

At 31 December 2015 outstanding transactions on land acquisitions were included in property, plant and equipment under construction in the amount of RUB 37 million. (31 December 2014: RUB 70 million.)

**(a) Changes in the accounting policy and revaluation of land**

In 2015 the Group changed the accounting policy relating to land and took decision to account land at fair value on the basis of periodic valuation by external independent appraisers. As a result the management engaged the independent appraiser for fair value measurement of land as at 31 December 2015. The fair value of land was determined in the amount of RUB 12,412 million and represented market prices of recent transactions with analogues adjusted for discount for bargaining and location.

**(b) Acquisition of land**

In 2014 the Group acquired ownership of 27,434 ha of land and related real estate objects in Kamensky and Podgorensky districts of Voronezh Oblast from a Black Earth Farming group of companies. Consideration paid for the land acquired amounted to RUB 453 million, for buildings and constructions – RUB 295 million (including VAT in the amount of RUB 45 million).

In 2015 the Group acquired ownership of 2,633 ha of land in Buturlinovskiy district of Voronezh Oblast from LLC Dolgorukovo-Agro. Consideration paid for the land acquired amounted to RUB 53 million.

**(c) Acquisition of business**

In July 2015 the Group acquired assets and operations comprising business for malt production from entity under common control. Fair value of the assets acquired was assessed by independent appraiser.

**(d) Security**

At 31 December 2015 items of property, plant and equipment with the carrying value of RUB 5,039 million (31 December 2014: RUB 4,844 million) and long-term lease rights for land plots of 116 thousand ha (31 December 2014: 116 thousand ha) were pledged to secure bank loans received by the Group (see note 19).

**(e) Leased property, plant and equipment**

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

## 11 Financial assets

million RUB	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Current</i>		
Promissory notes acquired from related parties	3,341	271
	<u><b>3,341</b></u>	<u><b>271</b></u>

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

As at 31 December 2015 investments with the carrying value of RUB 3,341 million (31 December 2014: RUB 266 million) were pledged to secure bank loans (see note 19). Promissory notes profitability is 1-3%.

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

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 21.

## 12 Other non-current assets

million RUB	<u>31 December 2015</u>	<u>31 December 2014</u>
Land lease rights	256	254
Other non-current assets	17	79
	<u><b>273</b></u>	<u><b>333</b></u>

## 13 Inventories

million RUB	<u>31 December 2015</u>	<u>31 December 2014</u>
Agricultural produce	6,088	3,598
Processed agricultural produce	2,424	1,665
Fallow land and spring crop costs	1,103	799
Raw materials and consumables	713	599
	<u><b>10,328</b></u>	<u><b>6,661</b></u>

In 2015 raw materials, consumables and movements in finished goods and work-in-progress which were recognised within the cost of production amounted to RUB 3,945 million (2014: RUB 2,487 million).

In 2015 the reversal of the allowance for the write-down of inventories to net realisable value resulted in a decrease in the cost of sales and amounted to RUB 41 million (2014: RUB 379 million).

Inventories with the carrying value of RUB 4,189 million at 31 December 2015 (31 December 2014: RUB 3,376 million) were pledged to secure bank loans (see note 19).

As at 31 December 2015 fallow land and spring crop land plots amounted to 259,494 ha (31 December 2014: 214,026 ha).

At the reporting dates the agricultural produce comprised the following:

	31 December 2015		31 December 2014	
	million RUB	Tonnes	million RUB	Tonnes
Wheat	3,381	370,733	1,717	234,518
Sunflower	1,369	65,747	525	38,011
Barley	964	131,516	985	169,003
Corn	309	41,232	235	36,862
Other	50	6,665	29	-
Buckwheat	15	727	74	9,348
Pea	-	-	33	1,728
	<b>6,088</b>	<b>616,620</b>	<b>3,598</b>	<b>489,470</b>

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

	31 December 2015		31 December 2014	
	million RUB	tonnes	million RUB	tonnes
Malt	1,406	136,800	957	99,159
Sugar	1,015	28,030	708	26,229
Other	3	292	-	-
	<b>2,424</b>	<b>165,122</b>	<b>1,665</b>	<b>125,388</b>

## 14 Biological assets

At 31 December 2015 biological assets classified as non-current assets comprised oxen and milk cows (3,444 live animals) and had a fair value of RUB 216 million (31 December 2014: 3,113 live animals, fair value of RUB 198 million).

At 31 December 2015 biological assets classified as current assets comprised winter wheat and had a fair value of RUB 1,807 million; the planting acreage was 106,503 ha (31 December 2014: RUB 1,775 million and 140,610 ha respectively).

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

million RUB	Livestock inventory	Fair value million RUB
<b>Fair value less costs to sell at 1 January 2014</b>	<b>3,529</b>	<b>184</b>
Natural increase	1,192	64
Growth due to asset acquisition	139	3
Decrease due to distemper	(334)	(15)
Decrease due to disposal of assets	(1,413)	(38)
<b>Fair value less costs to sell at 31 December 2014</b>	<b>3,113</b>	<b>198</b>
Natural increase	1,207	86
Growth due to asset acquisition	103	3
Decrease due to disposal of assets	(650)	(57)
Decrease due to distemper	(329)	(14)
<b>Fair value less costs to sell at 31 December 2015</b>	<b>3,444</b>	<b>216</b>

### (b) Movements in biological assets classified as current assets

Presented in the table below are movements in the current value of biological assets classified as current assets during 2015 and 2014:

	<b>2015</b>	<b>2014</b>
<b>Opening balance</b>	<b>1,775</b>	<b>937</b>
Increase due to purchases	5,423	4,830
Net change in fair value less estimated costs to sell	3,795	2,738
Decrease due to harvest	(9,186)	(6,730)
<b>Closing balance</b>	<b>1,807</b>	<b>1,775</b>

At 31 December 2015 an unrealised portion of revalued biological assets amounted to RUB 3,290 million (31 December 2014: RUB 1,829 million).

**(c) Fair value**

*Biological assets classified as non-current assets*

Fair value of oxen and milk cows was calculated on the basis of simplified DCF model. Calculation of expected milk yield, milk and meat prices was based on actual data of companies for 2015. Calculated income and costs were discounted to the date of determining fair value depending on the period that they are originated. Discount rate as at 31 December 2015 was 15%. The rate was calculated on the ground of the market-based valuation of risks inherent in the activity of the Group at that date.

*Biological assets classified as current assets*

The fair value of biological assets as at 31 December 2015 and 2014 was determined using a DCF method.

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

- revenue is forecasted based on the estimated crops' yield, which is determined based on such factors as location of farmland, natural environment and climate conditions, as well as price growth rates on the valuation date. Average crop yield for the areas was determined as 40 q/ha.
- data on grain harvest prices are obtained from the state statistical reporting or other public sources as at the end of the reporting period or from existing sale-and-purchase agreements as of the dates of their execution (if applicable). Planned selling price per ton of crop was determined in the range of RUB 12-14 thousand.
- cost of production and sales costs were forecast based on actual operating expenses;
- for the purpose of determining the fair value of biological assets at the reporting date a discount rate of 15% was applied (31 December 2014: 20%). The above rate was calculated based on the market rate which reflects the current market assessment of risks inherent in the activities of the Group;
- risks related to a biological transformation subsequent to the end of the reporting period.

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

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
1% increase in discount rate (in absolute terms)	(14)	(10)
1% decrease in discount rate by (in absolute terms)	14	10
10% increase in grain harvest prices	168	194
10% decrease in grain harvest prices	(168)	(194)

**(d) Harvest quantity (in tonnes)**

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

	<u>2015</u>	<u>2014</u>
Sugar beet	450,076	466,006
Wheat	427,847	423,553
Barley	223,562	323,386
Sunflower	96,134	39,223
Corn	64,756	42,688
Buckwheat	11,449	4,074
Soya	3,986	1,301
Pea	-	1,751
	<u><b>1,277,810</b></u>	<u><b>1,301,982</b></u>

**(e) Risk management in agribusiness**

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

*Raw materials price risk*

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

*Soil and climatic risks*

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

## 15 Trade and other receivables

<b>million RUB</b>	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade receivables	295	1,007
Other receivables	276	49
VAT receivable	219	799
Advances given	195	291
Prepayment of other taxes and duties	17	10
Insurance of future crop	-	12
	<u><b>1,002</b></u>	<u><b>2,168</b></u>

**(a) Overdue trade and other receivables**

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

<b>million RUB</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Not overdue	545	1,055
Past due not more than 30 days	22	-
From 30 to 180 days	1	-
From 180 to 360 days	1	1
Over 360 days	2	-
	<b>571</b>	<b>1,056</b>

No provision for the impairment of receivables was accrued at 31 December 2015 and 2014. In 2015 reversal of receivables written off amounted to RUB 36 million (write off in 2014: RUB 38 million).

The Group’s exposure to credit and currency risks is disclosed in note 21.

## 16 Cash and cash equivalents

<b>million RUB</b>	<b>Currency</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Bank balances	RUB	8	27
Bank balances	USD	7	2
Bank balances	EUR	5	18
Petty cash		1	1
		<b>21</b>	<b>48</b>

As at 31 December 2015 cash balances at a related party bank with a B2 credit rating by Moody’s amounted to RUB 19 million (31 December 2014: RUB 42 million) – see note 25.

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

## 17 Equity and reserves

**(a) Share capital and additional paid-in capital**

<b>Number of shares unless otherwise stated</b>	<b>2015</b>	<b>2014</b>
Authorised shares	10,000	10,000
Par value	RUB 1,000	RUB 1,000
Outstanding at the beginning of the year	10,000	10,000
<b>Outstanding at the end of the year, fully paid</b>	<b>10,000</b>	<b>10,000</b>

**Ordinary shares**

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

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

In July 2015 the Group acquired assets and operations comprising business for malt production from entity under common control for RUB 658 million. Gain on acquisition of RUB 2,096 million was recognized in equity as shareholder contribution according to the accounting policies (note 29).

**(c) Revaluation of land**

In 2015 the Group changed the accounting policy relating to land and took decision to account land at fair value on the basis of periodic valuation by external independent appraisers. As a result of revaluation the value of land increased by RUB 6,170 million. This amount was recognized as revaluation surplus in other comprehensive income.

**(d) Dividends and other distributions to shareholders**

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

The Company's shareholders decided not to pay dividends for 2015. However, in 2015 the shareholders received other distributions in the amount of RUB 107 million (2014: RUB 229 million).

## 18 Capital management

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

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

	<u>Year ended</u> <u>31 December 2015</u>	<u>Year ended</u> <u>31 December 2014</u>
Profit for the year	5,419	2,539
Income tax expense	3	3
Net finance costs	18	428
Depreciation of property, plant and equipment	1,334	1,064
<b>EBITDA</b>	<b><u>6,774</u></b>	<b><u>4,034</u></b>
Total borrowed funds	17,860	17,478
<b>Total borrowed funds/EBITDA</b>	<b>2.64</b>	<b>4.33</b>

## 19 Loans and borrowings

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

<b>million RUB</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<i>Long-term</i>		
Long-term bank loans from related parties	6,810	7,563
	<b>6,810</b>	<b>7,563</b>
<i>Short-term</i>		
Short-term bank loans from related parties	7,207	4,735
Bonds	3,091	2,228
Short-term promissory notes issued to related parties	-	369
Short-term promissory notes issued to other parties	-	4
Short-term bank loans	-	1,508
Short-term borrowings from related parties	-	18
Short-term borrowings from other parties	1	9
	<b>10,299</b>	<b>8,871</b>
	<b>17,109</b>	<b>16,434</b>

In October 2014 in the course of a public subscription the Group placed 3,000,000 non-convertible bonds with the par value of RUB 1,000 each and the total nominal value of RUB 3,000 million maturing in 1,092 days after the placement date (October 2017). The bonds have 6 coupon periods of 182 days. The 3rd coupon rate is 14.0% per annum (1th and 2nd coupon rates are 12.0% per annum).

Terms of issue do not provide for an early redemption. Given, however, that at the date of issue the Group declared rates only for the first 2 coupons, bond holders are entitled to bring these bonds for redemption within 5 working days of the last in series bond coupon, amount of which was determined by the Group. As a result, at 31 December 2015 and 2014 the Group has classified bond payables as short-term debt liability.

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

During 2015 bonds bought back were placed on the stock exchange again.

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<b>million RUB</b>	<b>31 December 2015</b>				
	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>
Secured bank loans from related parties	RUB	7.75-17%	2016-2030	13,862	13,862
Unsecured bank loans from related parties	RUB	8-17%	2016-2030	156	156

Bonds	RUB	12-14%	2017 (2016: an offer)	3,000	3,091
<b>Total liabilities</b>				<u>17,018</u>	<u>17,109</u>

<b>31 December</b>					
<b>2014</b>					
<b>million RUB</b>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>
Secured bank loans from related parties	RUB	6%–13%	2014–2029	10,235	10,235
Unsecured bank loans from related parties	RUB	6%–13%	2014–2029	2,063	2,063
Bonds	RUB	12%	2017 (2015 – an offer)	2,173	2,229
Unsecured bank loans	RUB	11%	2015	1,500	1,508
Unsecured borrowings from other entities	EUR	4%	2015	18	18
Unsecured borrowings from other entities	RUB	-	2015	9	9
Promissory notes issued to related parties	RUB	0%	2015	369	369
Promissory notes issued to other parties	RUB	-	2015	3	3
<b>Total liabilities</b>				<u>16,370</u>	<u>16,434</u>

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying value of RUB 5,039 million (31 December 2014: RUB 4,844 million) – see note 10;
- long-term land lease rights for plots of 116 thousand ha (31 December 2014: 116 thousand ha) – see note 10;
- inventories with the carrying value of RUB 4,189 million (31 December 2014: RUB 3,376 million) – see note 13;
- investments with the carrying value of RUB 3,341 million (31 December 2014: RUB 266 million) – see note 11. The above investments can be settled by offsetting against claim on bank loan if it is due or is payable on demand.

**(b) Breach of loan covenant**

As at 31 December 2015 and 2014 no additional terms (covenants) under loan agreements were applicable to the Group.

## 20 Trade and other payables

<b>million RUB</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade payables	581	675
Other payables	95	100
Other taxes payable	43	43
Advances received	32	226
	<u>751</u>	<u>1,044</u>

As at 31 December 2015 trade and other payables to related parties amounted to RUB 237 million (31 December 2014: RUB 382 million) – see note 25.

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

## 21 Financial risk management

### (a) Overview

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

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

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

#### **Risk management framework**

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

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

### (b) Credit risk

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

#### (i) *Exposure to credit risk*

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

<b>million RUB</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Promissory notes	3,341	271
Trade and other receivables	571	1,056
Cash and cash equivalents	21	48
	<b>3,933</b>	<b>1,375</b>

At 31 December 2015 cash in the amount of RUB 19 million and promissory notes amounting to RUB 3,341 million were placed with a related party bank with a B2 credit rating by Moody's (31 December 2014: RUB 42 million and RUB 265 million respectively).

**(ii) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic environment. 11% of the Group's revenue for 2015 is attributable to sales transactions with one customer (2014: 19%). However, geographically there is no concentration of credit risk.

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

- to customers in the RF – on a prepayment basis;
- to customers outside the RF – on a CAD basis (cash against documents) or based on a letter of credit.

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

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

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

No provision for the impairment of receivables was created at 31 December 2015 and 2014.

**(c) Liquidity risk**

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

The Group has contractual commitments for the purchase of property, plant and equipment (see note 23).

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

million RUB	Carrying amount	Contractual cash flows	On demand	Less than 3 months	3–12 months	1–5 years	More than 5 years
<b>31 December 2015</b>							
Loans and borrowings	14,018	22,659	-	1,630	9,899	2,914	8,216
Bonds	3,091	3,432	-	-	3,432	-	-
Trade and other payables	676	676	411	71	194	-	-
<b>Balance at 31 December 2015</b>	<b>17,785</b>	<b>26,767</b>	<b>411</b>	<b>1,701</b>	<b>13,525</b>	<b>2,914</b>	<b>8,216</b>
<b>31 December 2014</b>							
Loans and borrowings	14,206	21,021	399	1,465	5,048	6,119	7,990
Bonds	2,228	2,228	-	-	2,228	-	-
Trade and other payables	775	775	295	449	31	-	-
<b>Balance at 31 December 2014</b>	<b>17,209</b>	<b>24,024</b>	<b>694</b>	<b>1,914</b>	<b>7,307</b>	<b>6,119</b>	<b>7,990</b>

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

**(d) Market risk**

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

**(i) Currency risk**

The Group generates foreign currency revenues from sales of agricultural produce at European markets. Net exchange gain for 2015 amounted to RUB 798 million (2014: RUB 220 million) (see note 7).

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

**Exposure to currency risk**

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

<b>million RUB</b>	<b>31 December 2015</b>	
	<b>USD- denominated</b>	<b>EUR- denominated</b>
Promissory notes received	1,313	2,028
Trade and other receivables	155	7
Cash and cash equivalents	7	5
Trade and other payables	-	(1)
	<b>1,475</b>	<b>2,039</b>

  

<b>million RUB</b>	<b>31 December 2014</b>	
	<b>USD- denominated</b>	<b>EUR- denominated</b>
Trade and other receivables	197	325
Cash and cash equivalents	2	18
Loans and borrowings	-	(18)
Trade and other payables	(3)	(3)
	<b>196</b>	<b>322</b>

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

<b>RUB</b>	<b>Average exchange rate</b>		<b>Reporting date spot rate</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
USD 1	60.96	38.60	72.88	56.26
EUR 1	67.78	50.99	79.70	68.34

**Sensitivity analysis**

A reasonably possible strengthening (weakening) of the RUB, as indicated below, against all other currencies at 31 December 2015 would have increased (decreased) equity and profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The

analysis assumes that all other variables, in particular interest rates, remain constant. Sensitivity analysis for 2014 was performed using the same principles although reasonably possible changes to foreign currency exchange rates were different (see below):

million RUB	Strengthening		Weakening	
	Equity	Profit or (loss)	Equity	Profit or (loss)
<b>31 December 2015</b>				
USD (10% movement)	(147)	(147)	147	147
EUR (10% movement)	(204)	(204)	204	204
Other (10% movement)	(10)	(10)	(10)	(10)
<b>31 December 2014</b>				
USD (10% movement)	(20)	(20)	20	20
EUR (10% movement)	(32)	(32)	3	32

**(ii) Interest rate risk**

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

**Exposure to interest rate risk**

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

million RUB	Carrying amount	
	31 December 2015	31 December 2014
<b>Fixed rate instruments</b>		
Financial assets	3,341	271
Financial liabilities	(17,109)	(16,434)
	<b>(13,768)</b>	<b>(16,163)</b>

**(iii) Other market price risk**

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

**(e) Fair value of financial instruments**

Management of the Group believes that the carrying amounts of cash (see note 16), short-term receivables (see note 15) and payables (see note 20), short-term promissory notes acquired (see note 11) and long-term investments in equity instruments of related parties (see note 11), cost of which was determined based on the expected cost of subsequent sale, approximate their fair values.

As at 31 December 2015 and 2014 fair values of current bank loans and short-term borrowings, promissory notes issued and bonds determined on the basis of the current value of future cash flows

using discount rates which present the best management assessment does not differ significantly from their carrying amounts.

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

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term bank loans from related parties	6,810	6,708	7,563	5,872
	<b>6,810</b>	<b>6,708</b>	<b>7,563</b>	<b>5,872</b>

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

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

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

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

	31 December 2015		
	Level 1	Level 2	Level 3
<i>Other assets measured at fair value</i>			
Land	-	-	12,409
Biological assets	-	-	2,023
<i>Long-term financial liabilities measured at fair value</i>			
Loans	-	6,708	-
	-	6,708	-
	31 December 2014		
	Level 1	Level 2	Level 3
<i>Other assets measured at fair value</i>			
Biological assets	-	-	1,973
<i>Long-term financial liabilities measured at fair value</i>			
Loans	-	5,872	-
	-	5,872	-

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

## 22 Operating leases

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

<b>million RUB</b>	<b>2015</b>	<b>2014</b>
Less than 1 year	38	36
From 1 to 5 years	115	141
More than 5 years	423	418
	<b>576</b>	<b>595</b>

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

In 2015 operating lease expenses in the amount of RUB 145 million (2014: RUB 290 million) were recognised in profit or loss.

## **23 Capital commitments**

As at 31 December 2015 the Group had contracts for the acquisition of agricultural equipment worth RUB 6 million (31 December 2014: RUB 187 million).

## **24 Contingencies**

### **(a) Insurance**

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

### **(b) Litigation**

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

### **(c) Taxation contingencies**

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

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements

and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 25 Related party transactions

### (a) Beneficiaries of the Group

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

### (b) Transactions with key management personnel

#### (i) Key management remuneration

Key management personnel received the following remuneration during the year, which is included in personnel costs (see note 8):

million RUB	2015	2014
Salaries and bonuses	7	6
Contributions to the RF State Pension Fund	1	1
	8	7

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

### (c) Other related party transactions

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

million RUB	Transaction value		Outstanding balance	
	2015	2014	31 December 2015	31 December 2014
Revenue from sale of agricultural produce and related receivables	8	101	210	16
Purchases and related payables	894	732	(237)	(382)
Insurance compensations recognized as decrease of cost of sales	545	191	-	-
Insurance compensations recognised in other income	115	-	-	-
Loans received, promissory notes issued and related liability	10,301	23,282	(14,018)	(12,685)
Loans issued, promissory notes acquired and related liability	9,833	39,359	3,341	271
Balances at settlement accounts	-	-	19	42

During 2015 the Group received related party promissory notes, without cash consideration paid, for RUB 6,687 million (2014: RUB 39,237 million).

During 2014 the Group repaid and extended liability on promissory notes issued to related parties, with no cash received, for the total amount of RUB 14,557 million.

## **26 Subsequent events**

In January 2016 promissory notes received in foreign currency in the amount of RUB 3,341 million as at 31 December 2015 (USD 18 million or EURO 26 million) were repaid for USD 18 million and EURO 24 million respectively.

In January 2016 the Group bought back 810 own ordinary shares from one of the shareholders for RUB 2,430 million. Before the end of the first quarter of 2016 the Group intends to buy back 190 own ordinary shares from another shareholder.

In February 2016 the Group registered additional issue of bonds in amount not over 20,000,000 bonds with the par value of RUB 1,000 each and the total nominal value of RUB 20,000.

## **27 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for financial assets measured at fair value through profit or loss, biological assets, agricultural produce at the harvest point, and property, plant and equipment, which were independently appraised as at 1 January 2012 to determine their deemed cost as part of the adoption of IFRSs and also land from 2015.

## **28 Changes in accounting policies**

The accounting policies set out in note 29 have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as changes set out below.

The Group adopted the following amendments to the accounting policies from the date of initial application as at 1 January 2012:

In 2015 the Group changed the accounting policy relating to land and took decision to account land at fair value on the basis of periodic valuation by external independent appraisers. This change was applied prospectively from the date of change in accounting policy.

## **29 Significant accounting policies**

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

### **(a) Basis of consolidation**

#### **(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see note 29(a)(ii)).

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 acquiree; less

- the net recognised amount (generally fair value) of the identifiable assets acquired less liabilities assumed.

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

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

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

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

**(ii) *Subsidiaries***

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

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

Business combinations arising from acquisition of assets and liabilities of business under common control are accounted for using the acquisition method, which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date according to IFRS 3. If negative goodwill is arose during the process of recognition of such transaction using acquisition method, it is recognized in equity as shareholder contribution.

**(iv) *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.

**(v) *Transactions eliminated on consolidation***

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

**(b) Foreign currency**

**(i) Foreign currency transactions**

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

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

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

**(c) Financial instruments**

**(i) Non-derivative financial assets**

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

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

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

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

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

***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 29(h)(i)).

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 15, loans issued and promissory notes acquired as presented in note 11, and cash and cash equivalents as presented in note 16.

***Cash and cash equivalents***

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

**(ii) *Non-derivative financial liabilities***

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

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

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

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

**(d) *Share capital***

***Ordinary shares***

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

**(e) *Property, plant and equipment***

**(i) *Recognition and measurement***

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2012, the Group's date of transition to IFRSs, was determined by reference to its fair value at that date. Information about fair values of property, plant and equipment is disclosed in note 10.

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

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

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

**(ii) *Subsequent expenditure***

The cost of replacing a major component of an item of property, plant and equipment increases the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the

replaced component is written off. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Revaluation of land**

Land is measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on land is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on land is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

**(iv) Depreciation**

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

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

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

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

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

**(f) Inventories**

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

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

**(i) Agricultural produce**

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

**(ii) *Investments in future crop***

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

**(g) *Biological assets***

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

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

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

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

**(h) *Impairment***

**(i) *Non-derivative financial assets***

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

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

*Loans and receivables and held-to-maturity investment securities*

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

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

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

**(ii) Non-financial assets**

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

**(i) Revenue**

**(i) *Sale of finished products and goods***

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

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

**(ii) *Services***

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

**(iii) *Government grants***

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

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

**(j) Other costs**

**(i) *Lease payments***

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

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

**(ii) *Determining whether an arrangement contains a lease***

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

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

**(k) Finance income and costs**

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

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

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

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

**(l) Income tax**

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

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

Deferred tax is not recognized for:

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

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

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

assessment relies on estimates and assumptions and may involve a series of judgments about future events.

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

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

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

## **30 New standards and interpretations not yet adopted**

### **Standards and interpretations applied in the reporting period**

In the reporting year the Group applied all new standards and interpretations approved by the International Financial Reporting Interpretations Committee (IFRIC), which are mandatory for the preparation of annual reporting for periods beginning on 1 January 2015.

### **Standards and interpretations issued but not yet applicable**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, 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, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet

accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

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

- IFRS 14 *Regulatory Deferral Accounts*.
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*.
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.
- *Disclosure Initiative (Amendments to IAS 1)*.

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

## 31 Operating segments

Operating segments are determined based on the internal component reports which are reviewed by the Board of Directors on a regular basis. For each of the strategic business units, internal management reports are reviewed on at least a monthly basis. The following summary describes the operations in each of the Group’s reportable segments:

- *Agricultural production*. Comprises production and sale of agricultural produce in the Russian Federation and abroad.
- *Malt production*: Comprises production and sale of barley and wheat malt in the Russian Federation and abroad. This operating segment occurs in 2015 arising from acquisition of malt production business (see note 3).

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

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

### (i) *Information about reportable segments*

million RUB	Agricultural production		Malt production		Total	
	2015	2014	2015	2014	2015	2014
External revenues	8,836	8,372	2,668	-	11,504	8,372
Inter-segment revenue	1,330	-	-	-	1,330	-
<b>Segment revenue</b>	<b>10,166</b>	<b>8,372</b>	<b>2,668</b>	<b>-</b>	<b>12,834</b>	<b>8,372</b>
<b>Segment gross profit</b>	<b>5,269</b>	<b>3,878</b>	<b>1,088</b>	<b>-</b>	<b>6,357</b>	<b>3,878</b>

million RUB	Agricultural production		Malt production		Total	
	2015	2014	2015	2014	2015	2014
Finance income	2,068	1,015	-	-	2,068	1,015
Finance expense	(2,086)	(1,443)	-	-	(2,086)	(1,443)
Depreciation	1,188	1,098	146	-	1,334	1,098
<b>Segment assets</b>	<b>34,559</b>	<b>26,704</b>	<b>6,105</b>	<b>-</b>	<b>40,664</b>	<b>26,704</b>
Property, plant and equipment	19,320	15,249	4,356	-	23,676	15,249

(ii) *Revenue reconciliation of reportable segments*

million RUB	2015	2014
<b>Revenue</b>		
Total revenue of reportable segments	12,834	8,372
Elimination of inter-segment revenue	(1,330)	-
<b>Consolidated revenue</b>	<b>11,504</b>	<b>8,372</b>

(iii) *Geographic information*

During 2015 revenue from the sale of agricultural produce to end customers in Russia and abroad amounted to RUB 7,309 million and RUB 4,195 million respectively (2014: RUB 5,250 million and RUB 3,122 million respectively).

At 31 December 2015 and 2014 all non-current assets of the Group were located in the Russian Federation.

(iv) *Major customer*

In 2015, revenue from one customer of the Group’s “*Agricultural production*” represented approximately 11% (RUB 1,209 million) of the Group’s total revenue (2014: 19% (RUB 1,619 million)).