

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

**Consolidated Financial Statements  
for 2017  
and Independent Auditors’ Report**

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## Independent Auditors' Report

To the Shareholders and Board of directors

### **Opinion**

We have audited the consolidated financial statements of JSC "Avangard-Agro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

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

### **Key Audit Matters**

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

Audited entity: JSC "Avangard-Agro"  
Registration No. in the Unified State Register of Legal Entities № 1045736000089  
Urban-Type Settlement of Znievka, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entity in the Register of Auditors and Audit Organisations: No. 11603053203.



See note 13 to the consolidated financial statements	
<b>Key audit matter</b>	<b>Audit procedures regarding the key audit matter</b>
<p>As at 31 December 2017 the Group had current biological assets amounting to RUB 2,085 million which were measured at fair. The fair value is measured based on the discounted cash flow model and can vary significantly depending on changes in the assumptions used. Therefore, it is considered as a key audit matter</p>	<p>Our audit procedures in this area included testing of input data which is used as basis for calculation of fair value, as well as principles of preparation and accuracy of data used by the Group at preparation of the discounted cash flow model.</p> <p>We have compared the assumptions used by the Group in the model of discounted cash flows with the available external data, as well as with our assessment of key input data, such as forecasted prices, exchange rates and expense growth rate.</p> <p>We have also analysed calculation of discount rate considering risks inherent to these biological assets.</p> <p>We have also compared crop acres used in the model of fair value measurement of biological assets with the crop plan approved by the Management.</p> <p>Moreover, we have evaluated reasonableness of the Group's disclosures in this area, as well as by performing sensitivity analysis of assumptions used in the model.</p>
<b>Measurement of fair value of land plots</b>	
See note 9 to the consolidated financial statements.	
<b>Key audit matter</b>	<b>Audit procedures regarding the key audit matter</b>
<p>Since 2015 the Group has accounted land plots at revalued amount. In 2015 revalued amount was determined by an independent external expert on the basis of market prices for similar recent transactions adjusted for negotiation and location discounts.</p> <p>Based on analysis of current economic environment the Group's management came to a conclusion that the carrying</p>	<p>Our audit procedures included the analysis of the prices of recent transactions, taking into account the purpose of use, condition and location of land presented in public sources, as well as transactions conducted by the Group in 2017 to acquire land ownership. Based on the data collected, we compared the carrying value of land plots as at 31 December 2017 to market</p>



<p>value of land plots as at 31 December 2017 is not significantly differ from their fair value.</p> <p>Taking into account the significance of the value of land plots and significant judgment area, there is a risk that the revalued amount of land plots differs from their fair value. Therefore it is considered as a key audit matter.</p>	<p>prices taking into account a bargaining discount.</p> <p>Moreover, our audit procedures included testing of completeness and accuracy of data on their area and location used for the analysis.</p>
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### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on



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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Sheremet V.G.  
JSC «KPMG»  
Moscow, Russia  
19 April 2018

*Joint-Stock Company “Avangard-Agro”  
Consolidated Statement of Financial Position as at 31 December 2017*

million RUB	Note	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>ASSETS</b>			
Property, plant and equipment	9	25,067	24,061
Biological assets	13	239	231
Other non-current assets	11	224	251
<b>Non-current assets</b>		<u><b>25,530</b></u>	<u><b>24,543</b></u>
Inventories	12	9,210	9,845
Biological assets	13	3,028	1,818
Trade and other receivables	14	1,042	779
Financial assets	10	4,125	5,633
Cash and cash equivalents	15	7	22
<b>Current assets</b>		<u><b>17,412</b></u>	<u><b>18,097</b></u>
<b>Total assets</b>		<u><u><b>42,942</b></u></u>	<u><u><b>42,640</b></u></u>
<b>EQUITY AND RESERVES</b>			
Share capital	16	8	9
Property, plant and equipment revaluation surplus		6,170	6,170
Retained earnings		15,200	18,192
<b>Equity attributable to owners of the Company</b>		<u><b>21,378</b></u>	<u><b>24,371</b></u>
<b>Total equity</b>		<u><u><b>21,378</b></u></u>	<u><u><b>24,371</b></u></u>
<b>LIABILITIES</b>			
Loans and borrowings	18	7,139	6,584
<b>Non-current liabilities</b>		<u><b>7,139</b></u>	<u><b>6,584</b></u>
Bonds	18	3,710	2,966
Loans and borrowings	18	9,309	6,763
Trade and other payables	19	1,187	1,511
Other current liabilities	6(b)	219	445
<b>Current liabilities</b>		<u><b>14,425</b></u>	<u><b>11,685</b></u>
<b>Total liabilities</b>		<u><b>21,564</b></u>	<u><b>18,269</b></u>
<b>Total equity and liabilities</b>		<u><u><b>42,942</b></u></u>	<u><u><b>42,640</b></u></u>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 49.

**Joint-Stock Company "Avangard-Agro"**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2017*

million RUB	Note	2017	2016
Revenue	3	12,719	17,996
Cost of sales		(14,047)	(15,999)
Revaluation of biological assets	13	3,801	4,965
<b>Gross profit</b>		<b>2,473</b>	<b>6,962</b>
Distribution expenses		(171)	(211)
Administrative expenses	4	(581)	(563)
Other income/(expenses), net	5	8	(40)
<b>Results from operating activities</b>		<b>1,729</b>	<b>6,148</b>
Finance income	6	1,232	907
Finance costs	6	(2,493)	(2,306)
<b>Net finance costs</b>		<b>(1,261)</b>	<b>(1,399)</b>
<b>Profit before income tax</b>		<b>468</b>	<b>4,749</b>
Income tax expense	8	(2)	(12)
<b>Profit for the year</b>		<b>466</b>	<b>4,737</b>
<b>Total comprehensive income for the year</b>		<b>466</b>	<b>4,737</b>
<b>Profit attributable to:</b>			
owners of the Company		466	4,737
<b>Profit for the year</b>		<b>466</b>	<b>4,737</b>
<b>Total comprehensive income attributable to:</b>			
owners of the Company		466	4,737
<b>Total comprehensive income for the year</b>		<b>466</b>	<b>4,737</b>

These consolidated financial statements were approved by management on 19 April 2018 and were signed on its behalf by:

General Director of JSC "Avangard-Agro"

Financial Director of JSC "Avangard-Agro"

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A.N. Kirkin

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T.A. Korolyova



*Joint-Stock Company “Avangard-Agro”  
Consolidated Statement of Changes in Equity for 2017*

million RUB	Note	Share capital	Retained earnings	Property, plant and equipment revaluation surplus	Total equity
<b>Balance at 1 January 2016</b>		<b>10</b>	<b>16,624</b>	<b>6,170</b>	<b>22,804</b>
Profit for the year		-	4,737	-	4,737
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>4,737</b>	<b>-</b>	<b>4,737</b>
<b>Transactions with shareholders of the Company</b>					
Reacquisition of shares	16(b)	(1)	(2,999)	-	(3,000)
Distributions to shareholders	16(d)	-	(170)	-	(170)
<b>Total transactions with shareholders of the Company</b>		<b>(1)</b>	<b>(3,169)</b>	<b>-</b>	<b>(3,170)</b>
<b>Balance at 31 December 2016</b>		<b>9</b>	<b>18,192</b>	<b>6,170</b>	<b>24,371</b>
<b>Balance at 1 January 2017</b>		<b>9</b>	<b>18,192</b>	<b>6,170</b>	<b>24,371</b>
Profit for the year		-	466	-	466
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>466</b>	<b>-</b>	<b>466</b>
<b>Transactions with shareholders of the Company</b>					
Reacquisition of shares	16(b)	(1)	(3,284)	-	(3,285)
Distributions to shareholders	16(d)	-	(174)	-	(174)
<b>Total transactions with shareholders of the Company</b>		<b>(1)</b>	<b>(3,458)</b>	<b>-</b>	<b>(3,459)</b>
<b>Balance at 31 December 2017</b>		<b>8</b>	<b>15,200</b>	<b>6,170</b>	<b>21,378</b>

million RUB	Note	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>			
Profit for the year		466	4,737
<b>Adjustments for:</b>			
Depreciation	4, 9	1,489	1,489
Government grants		(913)	(1,171)
Exchange differences	6	15	(61)
Other finance (income)/ costs, net	6	(156)	381
Interest expense	6	2,073	1,836
Unrealised portion of revaluation of biological assets	13	567	(92)
Accrual of allowance for impairment of goods to net realizable value	12	154	742
Accrual/(reversal) of write-off of accounts receivable	5	10	(114)
Write-off of input VAT	5	-	5
Loss of crop, product deterioration, shortfalls identified during the stocktake	5	23	31
Loss/(gain) on disposal of property, plant and equipment	5	55	(19)
Loss on disposal of other assets	5	7	27
Other non-cash transactions		27	29
Income tax expense	8	2	12
<b>Cash flows from operating activities before changes in working capital</b>		<u><b>3,819</b></u>	<u><b>7,832</b></u>
Changes in inventories		178	526
Changes in biological assets		(1,272)	(371)
Changes in trade and other receivables		(248)	322
Changes in trade and other payables		(206)	792
<b>Cash flows from operations before income taxes and interest paid</b>		<u><b>2,271</b></u>	<u><b>9,101</b></u>
Income tax paid		-	(12)
<b>Net cash from operating activities</b>		<u><b>2,271</b></u>	<u><b>9,089</b></u>

million RUB	Note	<u>2017</u>	<u>2016</u>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(2,611)	(1,988)
Promissory notes redeemed/(received)		1,925	(2,358)
Proceeds from sale of property, plant and equipment		36	115
Cash payments for foreign currency forward contracts		(632)	-
<b>Net cash used in investing activities</b>		<b><u>(1,282)</u></b>	<b><u>(4,231)</u></b>
<b>Cash flows from financing activities</b>			
Government grants compensating interest expense	6	671	758
Interest paid	18(c)	(2,030)	(1,775)
Proceeds from borrowings	18(c)	22,669	10,838
Bonds issue/reacquisition	18(c)	743	-
Repayment of borrowings	18(c)	(19,587)	(11,508)
Reacquisition of shares	16(b)	(3,285)	(3,000)
Finance lease payments	18(c)	(11)	-
Distributions to shareholders	16(b)	(174)	(170)
<b>Net cash from financing activities</b>		<b><u>(1,004)</u></b>	<b><u>(4,857)</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b><u>(15)</u></b>	<b><u>1</u></b>
Cash and cash equivalents at the beginning of the year	15	<u>22</u>	<u>21</u>
<b>Cash and cash equivalents at the end of the year</b>	15	<b><u>7</u></b>	<b><u>22</u></b>
<b>Non-cash transactions:</b>			
Offsetting of own promissory notes issued and promissory notes acquired from related parties		5,115	-

## 1 Reporting entity

### (a) Organisation and operations

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

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

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

The Group’s principal activities are production and sale of agricultural produce. The Group carries out its activities in Voronezh, Kursk, Orel, Belgorod, Lipetsk and Tula regions. 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 BBB-(RU) by the Analytical Credit Rating Agency (ACRA (JSC)) based on the results of 2016.

The subsidiaries of the Group are:

Subsidiary	Country of registration	Ownership and voting rights	
		31 December 2017	31 December 2016
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 9(a) – revaluation of land;
- Note 12 – revaluation of agricultural produce;
- Note 13 – 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 the end of 2015, the Group changed its accounting policy relating to land plots to start accounting for them at fair value on the basis of regular revaluation conducted by external independent appraisers. 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%).

Management of the Group annually reviews current economic situation and determines the change in the fair value of land. A decision to employ an external appraiser is made based on the materiality of the change.

**(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 Revenue**

<b>million RUB</b>	<b>2017</b>	<b>2016</b>
Revenue from domestic sales	9,653	11,570
Revenue from export sales	3,066	6,426
	<b>12,719</b>	<b>17,996</b>

#### 4 Administrative expenses

million RUB	<u>2017</u>	<u>2016</u>
Wages and salaries	335	297
Other taxes and duties	51	41
Depreciation of property, plant and equipment	40	36
Legal, advisory and audit services	25	24
Software	23	63
Other administrative expenses	107	102
	<u><b>581</b></u>	<u><b>563</b></u>

#### 5 Other income and expenses

million RUB	<u>2017</u>	<u>2016</u>
Insurance compensation from related parties	135	-
Reversal of allowance for impairment of goods and materials	36	-
Reversal of previous write-down of accounts receivable	-	114
Other income	9	23
<b>Total other income</b>	<u><b>180</b></u>	<u><b>137</b></u>
Financial aid	(40)	(88)
Allowance for impairment of goods and materials	-	(36)
Loss of crop, product deterioration, shortfalls identified during the stocktake	(23)	(31)
Net loss on disposal of property, plant and equipment and other assets	(62)	(8)
Accrual of write-off of accounts receivable	(10)	-
Write-off of VAT	-	(5)
Other expenses	(37)	(9)
<b>Total other expenses</b>	<u><b>(172)</b></u>	<u><b>(177)</b></u>
<b>Total other income/(expenses), net</b>	<u><b>8</b></u>	<u><b>(40)</b></u>

Insurance compensations received by the Group under crop insurance contracts were recognized in other income with regard to land plots where reseeded after loss of crops was impossible. Insurance compensations on land plots where it was possible to seed other cultures after loss of crops or it was impossible to gather crops due to unfavorable weather conditions were recognized as decrease in the cost of sales. The compensations amounted to RUB 644 million (2016: RUB 911 million).

## 6 Finance income and finance costs

<b>million RUB</b>	<b>2017</b>	<b>2016</b>
Government grants (6(a))	671	758
Interest income	561	79
Foreign exchange gain	-	61
Other finance income	-	9
<b>Finance income</b>	<b>1,232</b>	<b>907</b>
Interest expense	(2,073)	(1,836)
Net change in fair value of foreign currency forward contracts measured at fair value through profit or loss (6(b))	(405)	(445)
Foreign exchange loss	(15)	-
Other finance costs	-	(25)
<b>Finance costs</b>	<b>(2,493)</b>	<b>(2,306)</b>
<b>Net finance costs</b>	<b>(1,261)</b>	<b>(1,399)</b>

### (a) Government grants

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

Also in 2017 the Group received government grants totalling RUB 242 million (2016: RUB 413 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.

### (b) Foreign exchange forward contracts

During 2017, the Group entered into several foreign exchange forward contracts. The fair value of foreign exchange forward contracts was recognized in other current liabilities totaling RUB 219 million (2016: RUB 445 million).

## 7 Employee benefit expenses

<b>million RUB</b>	<b>2017</b>	<b>2016</b>
Production personnel wages and salaries including mandatory contributions to state funds	1,616	1,161
Administrative personnel wages and salaries including mandatory contributions to state funds	335	297
Distribution personnel wages and salaries including mandatory contributions to state funds	40	36
	<b>1,991</b>	<b>1,494</b>

The Group's average number of employees during 2017 and 2016 was 4,527 employees and 4,141 employees, respectively.

## 8 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.

## 9 Property, plant and equipment

million RUB	Land	Buildings and constructions	Machinery and equipment, vehicles	Other fixed assets	Under construction	Total
<i>Historical cost</i>						
<b>Balance at 1 January 2016</b>	<b>12,412</b>	<b>6,648</b>	<b>9,209</b>	<b>20</b>	<b>123</b>	<b>28,412</b>
Additions	950	9	620	21	370	<b>1,970</b>
Disposals	(73)	-	(38)	(4)	(4)	<b>(119)</b>
Transfers	-	228	-	-	(228)	-
<b>Balance at 31 December 2016</b>	<b>13,289</b>	<b>6,885</b>	<b>9,791</b>	<b>37</b>	<b>261</b>	<b>30,263</b>
Acquisition of assets (9(e))	2	820	37	-	-	<b>859</b>
Additions	546	-	977	-	204	<b>1,727</b>
Disposals	(48)	-	(75)	4	(20)	<b>(139)</b>
Transfers	5	239	15	-	(259)	-
<b>Balance at 31 December 2017</b>	<b>13,794</b>	<b>7,944</b>	<b>10,745</b>	<b>41</b>	<b>186</b>	<b>32,710</b>
<i>Depreciation</i>						
<b>Balance at 1 January 2016</b>	-	<b>(502)</b>	<b>(4,216)</b>	<b>(18)</b>	-	<b>(4,736)</b>
Depreciation for the year	-	(285)	(1,196)	(8)	-	<b>(1,489)</b>
Disposals	-	-	23	-	-	<b>23</b>
<b>Balance at 31 December 2016</b>	-	<b>(787)</b>	<b>(5,389)</b>	<b>(26)</b>	-	<b>(6,202)</b>
Depreciation for the year	-	(278)	(1,203)	(8)	-	<b>(1,489)</b>
Disposals	-	-	48	-	-	<b>48</b>
<b>Balance at 31 December 2017</b>	-	<b>(1,065)</b>	<b>(6,543)</b>	<b>(34)</b>	-	<b>(7,643)</b>
<i>Carrying amount</i>						
<b>At 1 January 2016</b>	<b>12,412</b>	<b>6,146</b>	<b>4,993</b>	<b>2</b>	<b>123</b>	<b>23,676</b>
<b>At 31 December 2016</b>	<b>13,289</b>	<b>6,098</b>	<b>4,402</b>	<b>11</b>	<b>261</b>	<b>24,061</b>
<b>At 31 December 2017</b>	<b>13,794</b>	<b>6,879</b>	<b>4,201</b>	<b>7</b>	<b>186</b>	<b>25,067</b>

In 2017 depreciation charge of RUB 1,446 million was included in the cost of sales (2016: RUB 1,453 million)

At 31 December 2017 outstanding transactions on land acquisitions were included in property, plant and equipment under construction in the amount of RUB 29 million. (31 December 2016: RUB 33 million).

### (a) Land

In late 2015, the Group changed its accounting policy relating to land plots to start accounting for them at fair value on the basis of periodic evaluation conducted by external independent appraisers.

As a result, the management engaged an independent appraiser for the fair value measurement of land as at 31 December 2015. The fair value of land plots was determined to equal RUB 12,412 million representing the market prices of recent similar transactions adjusted for bargaining and location discounts. The fair value measurement for land plots refers to Level 3 of the fair value hierarchy: inputs for assets and liabilities which are not based on observable market data (unobservable inputs).

Based on analysis of current economic environment the Group's management concluded that the value of land plots as at 31 December 2017 is not significantly differ from their fair value. The fair value measurement with the involvement of an expert was not conducted.

**(b) Acquisition of land**

In 2016 the Group acquired 24,181 ha of land in Tula region from Sakho-Agro LLC. The value of acquired land was RUB 772 million (excluding VAT). There were no significant acquisitions of land plots in 2017.

**(c) Security**

At 31 December 2017 items of property, plant and equipment with the carrying value of RUB 6,361 million (31 December 2016: RUB 5,095 million) and long-term lease rights for land plots of 4 thousand ha (31 December 2016: 4 thousand ha) were pledged to secure bank loans received by the Group (see note 18).

**(d) 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.

During 2017, the Group entered into financial lease agreements for agricultural machinery. As at 31 December 2017, the book value of leased assets is RUB 112 million (as at 31 December 2016 there were no financial lease agreements).

**(e) Acquisition of malt assets**

During 2017, the Group acquired assets for the malt production in the amount of RUB 859 million. There was no significant difference between the transaction value and the fair value of assets.

**10 Financial assets**

<b>million RUB</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Current</i>		
Promissory notes acquired from related parties	4,020	5,622
Other current financial assets	105	11
	<b>4,125</b>	<b>5,633</b>

As at 31 December 2017 there was no investments that were pledged to secure bank loans (see note 18) (31 December 2016: RUB 2,776 million). Profitability of promissory notes is 8-11%.

Information about the Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 20.

## 11 Other non-current assets

million RUB	31 December 2017	31 December 2016
Land lease rights	219	233
Other non-current assets	5	18
	<b>224</b>	<b>251</b>

## 12 Inventories

million RUB	31 December 2017	31 December 2016
Agricultural produce	6,181	6,094
Processed agricultural produce	1,270	1,773
Fallow land and spring crop costs	1,116	1,387
Raw materials and consumables	643	591
	<b>9,210</b>	<b>9,845</b>

In 2017 raw materials and movements in finished goods and work-in-progress which were recognised within the cost of sales amounted to RUB 4,119 million (2016: RUB 4,462 million).

In 2017 the accrual of the allowance for impairment of goods to net realisable value resulted in increase the cost of sales and amounted to RUB 154 million. In 2016 the allowance of inventories to net realisable value resulted in an increase in the cost of sales and amounted to RUB 742 million.

Inventories with the carrying value of RUB 4,322 million at 31 December 2017 (31 December 2016: RUB 5,770 million) were pledged to secure bank loans (see note 18).

As at 31 December 2017 fallow land and spring crop land plots amounted to 274,080 ha (31 December 2016: 277,671 ha).

At the reporting dates the agricultural produce comprised the following:

	31 December 2017		31 December 2016	
	million RUB	Tonnes	million RUB	Tonnes
Wheat	2,404	358,199	2,541	291,161
Barley	2,167	182,690	2,114	220,438
Sunflower	1,360	84,043	942	51,753
Corn	125	21,664	412	54,953
Buckwheat	24	2,877	19	688
Other	101	40,759	66	13,984
	<b>6,181</b>	<b>690,232</b>	<b>6,094</b>	<b>632,977</b>

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

	31 December 2017		31 December 2016	
	million RUB	Tonnes	million RUB	Tonnes
Sugar	415	14,684	1,047	30,608
Malt	854	46,263	722	50,172
Other	1	-	4	-
	<b>1,270</b>	<b>60,947</b>	<b>1,773</b>	<b>80,780</b>

## 13 Biological assets

At 31 December 2017 biological assets classified as non-current assets comprised oxen and milk cows (3,180 heads) and had a fair value of RUB 239 million (31 December 2016: 3,339 heads, fair value of RUB 231 million).

At 31 December 2017 biological assets classified as current assets comprised winter wheat and had a fair value of RUB 3,028 million; the planting acreage was 146,796 ha (31 December 2016: RUB 1,818 million and 107,760 ha).

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

million RUB	Heads	Fair value, million RUB
<b>Fair value less costs to sell as at 1 January 2016</b>	<b>3,444</b>	<b>216</b>
Natural increase	1,270	81
Growth due to asset acquisition	17	1
Decrease due to disposal of assets	(172)	(4)
Decrease due to distemper	(1,220)	(63)
<b>Fair value less costs to sell as at 31 December 2016</b>	<b>3,339</b>	<b>231</b>
Natural increase	1,278	73
Decrease due to disposal of assets	(219)	(4)
Decrease due to distemper	(1,218)	(61)
<b>Fair value less costs to sell as at 31 December 2017</b>	<b>3,180</b>	<b>239</b>

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

The following represents the changes in during the years, ended 31 December 2017 and 2016, in the carrying amounts of crops:

million RUB	2017	2016
<b>Opening balance</b>	<b>1,818</b>	<b>1,807</b>
Increase due to purchases	7,764	6,819
Net change in fair value less estimated costs to sell	3,801	4,965
Decrease due to harvest	(10,355)	(11,773)
<b>Closing balance</b>	<b>3,028</b>	<b>1,818</b>

The amount of write-off of the non-assembled harvest in 2017, and its write-down to net realizable value amounted to RUB 575 million (as at 31 December 2016: RUB 229 million).

As at 31 December 2017 an unrealised part of revaluation of biological assets amounted to RUB 2,815 million (31 December 2016: RUB 3,382 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 2017. 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 2017 was 7.5%. The specified rate represents a risk-free rate of the Central Bank of the Russian Federation.

*Biological assets classified as current assets*

The fair value of biological assets as at 31 December 2017 and 2016 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 factors such 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 44 q/ha (2016: 45 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 9.9 thousand (2016: RUB 9.6 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 7.5% was applied. The specified rate represents a risk-free rate of the Central Bank of the Russian Federation;
- 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:

<b>million RUB</b>	<b>2017</b>	<b>2016</b>
1% increase in discount rate (in absolute terms)	(9)	(8)
1% decrease in discount rate by (in absolute terms)	9	8
10% increase in grain harvest prices	210	172
10% decrease in grain harvest prices	(210)	(172)

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

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

	<b>2017</b>	<b>2016</b>
Sugar beet	532,083	566,791
Wheat	483,434	409,111
Barley	312,053	320,299
Sunflower	90,265	82,104
Corn	28,843	73,117
Buckwheat	2,977	7,521
Soya	-	36
	<b>1,449,655</b>	<b>1,458,979</b>

(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.

## 14 Trade and other receivables

<b>million RUB</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Trade receivables	503	386
Other receivables	198	127
VAT receivable	222	127
Advances given	103	102
Prepayment of other taxes and duties	16	37
	<b>1,042</b>	<b>779</b>

(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 2017</b>	<b>31 December 2016</b>
Not overdue	688	377
Past due not more than 30 days	4	116
From 30 to 180 days	1	10
From 180 to 360 days	1	2
Over 360 days	7	8
	<b>701</b>	<b>513</b>

No provision for the impairment of receivables was accrued at 31 December 2017 and 2016. The write-off of accounts receivable for 2017 amounted to RUB 10 million (in 2016 reversal of previous write-down of accounts receivable - RUB 114 million).

The Group's exposure to credit and currency risks is disclosed in note 20.

## 15 Cash and cash equivalents

million RUB	Currency	31 December 2017	31 December 2016
Bank balances	RUB	6	16
Bank balances	USD	-	1
Bank balances	EUR	-	3
Petty cash		1	2
		<u>7</u>	<u>22</u>

As at 31 December 2017 cash balances at a related party bank with a B2 credit rating by Moody's amounted to RUB 4 million (31 December 2016: RUB 19 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 20.

## 16 Equity

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

Number of shares unless otherwise stated	31 December 2017	31 December 2016
Authorised shares	9,000	10,000
Par value	RUB 1,000	RUB 1,000
Outstanding at the beginning of the year	9,000	10,000
Redemption of shares	(900)	(1,000)
<b>Outstanding at the end of the year, fully paid</b>	<b><u>8,100</u></b>	<b><u>9,000</u></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) Redemption of shares

In the 1<sup>st</sup> quarter of 2017 the Group redeemed 900 shares from shareholders for RUB 3,284 million. As the result of the transaction total quantity of outstanding shares decreased to 8,100 shares.

### (c) Revaluation of land

In 2015, the Group changed its accounting policy relating to land plots to start accounting for them at fair value on the basis of periodic evaluation conducted by external independent appraisers.. As a result of the revaluation, the value of land plots increased by RUB 6,170 million. This amount was recognized as the revaluation surplus in other comprehensive income.

Based on analysis of current economic environment the Group's management concluded that the value of land plots as at 31 December 2017 is not significantly differ from their fair value. The fair value measurement with the involvement of an expert was not conducted.

**(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 2017. However, in 2017 the shareholders received dividends for 2016 in the amount RUB 100 million and other payments in the amount of RUB 74 million (2016: RUB 170 million).

**17 Capital management**

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

Management of the Group regularly monitors 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.

	<b>2017</b>	<b>2016</b>
<b>million RUB</b>		
Profit for the year	466	4,737
Income tax expense	2	12
Net finance costs	1,261	1,399
Depreciation of property, plant and equipment	1,489	1,489
<b>EBITDA</b>	<b>3,218</b>	<b>7,637</b>
Total borrowed funds	21,564	18,269
<b>Total borrowed funds/EBITDA</b>	<b>6,70</b>	<b>2,39</b>

**18 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 20.

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>million RUB</b>		
<i>Long-term</i>		
Long-term bank loans from related parties	4,040	389
Long-term borrowings from non-bank parties	3,035	6,195
Finance lease liabilities	64	-
	<b>7,139</b>	<b>6,584</b>

<b>million RUB</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Short-term</i>		
Short-term bank loans from related parties	831	5,504
Short-term bank loans from other parties	7,512	-
Bonds	3,710	2,966
Short-term promissory notes issued to other parties	885	166
Short-term borrowings from non-bank parties	46	1,093
Finance lease liabilities	35	-
	<b>13,019</b>	<b>9,729</b>
	<b>20,158</b>	<b>16,313</b>

In October and November 2017 in the course of a public subscription the Group placed 2 tranches for 3,000,000 non-convertible bonds with the par value of RUB 1,000 each and the total nominal value of RUB 6,000 million maturing in 3,640 days after the placement date (September and November 2027 respectively). The bonds have 40 coupon periods of 91 days. The 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> coupon rate is 9.5% per annum for 1<sup>st</sup> tranche and 9.25% per annum for 2<sup>nd</sup> tranche respectively.

Terms of issue do not provide for an early redemption. Given, however, that at the date of issue the Group declared rates only for the first 4 coupons, bond holders are entitled to bring these bonds for redemption within 5 working days of the last in series bond coupon, amount of which was determined by the Group. As a result, at 31 December 2017 the Group has classified bond payables as short-term debt liability.

In 2017, 2,365,234 bonds were bought back by the Group's companies. The total transaction value amounted to RUB 2,381 million, including an accumulated coupon yield of RUB 13 million.

In October 2017, the Group redeemed non-convertible bonds placed in 2014 during open subscription in the amount of 3,000,000 shares with a total value of 3,344 million rubles, including accumulated coupon yield of RUB 344 million.

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

<b>million RUB</b>	<b>31 December 2017</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	7.75-14%	2018-2031	4,871	4,871
Secured bank loans from other parties	RUB	2.6-10.2%	2018	7,500	7,512
Unsecured bank loans from related parties	RUB	8.25-14%	2018-2030	3,082	3,081
Bonds	RUB	9.25-9.50%	2018	3,635	3,710
Promissory notes issued to other parties	RUB	8.25-10%	2018	862	885
Finance lease liabilities	RUB	14%	2018-2020	115	99
<b>Total liabilities</b>				<b>20,065</b>	<b>20,158</b>

<b>31 December</b>					
<b>2016</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	2-17%	2017-2031	5,893	5,893
Unsecured bank loans from related parties	RUB	7.75-17%	2017-2030	7,288	7,288
Bonds	RUB	11.5-14%	2017	2,892	2,966
Promissory notes issued to other companies	RUB	10-13%	2017	166	166
<b>Total liabilities</b>				<b>16,239</b>	<b>16,313</b>

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying value of RUB 6,361 million (31 December 2016: RUB 5,095 million) – see note 9;
- long-term land lease rights for plots of 4 thousand ha (31 December 2016: 4 thousand ha) – see note 9;
- inventories with the carrying value of RUB 4,322 million (31 December 2016: RUB 5,770 million) – see note 12;
- investments with the carrying value of RUB 0 million (31 December 2016 – RUB 2,776 million) – see note 10.

**(b) Breach of loan covenant**

As at 31 December 2017, the Group has breached the loan covenant to maintain the level of the "Financial debt / EBITDA" indicator, which exceeded the established level according to the RAP accounting information of "Avangard-Agro Orel". Under the terms of loan agreements with PJSC Sberbank, this indicator should be at the level of no more than 5. The amount of debt under these agreements is RUB 3 billion, the maturity date in 2018. These amounts are presented in short-term loans and borrowings in these consolidated financial statements. The group is in the process of agreeing with the PJSC Sberbank of new loan covenants, taking into account the decline in profitability and deterioration in the ratio of "Financial debt / EBITDA". Management of the Group does not see any significant risks in the possible change in cash flows and believes that negotiations with the bank will successfully conclude with the agreement on new terms. At the time of the issuance of the consolidated financial statements, the Group received confirmation from the bank that no penalties would be imposed due to breach of loan covenant.

**(c) Reconciliation of movements of liabilities to cash flows arising from financing activities**

<b>million RUB</b>	<b>Liabilities</b>		
	<b>Loans and borrowings</b>	<b>Bonds</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>13,347</b>	<b>2,966</b>	<b>16,313</b>
<b>Changes from financing cash flows</b>			
Interest paid on loans and borrowings	(1,717)	(313)	<b>(2,030)</b>
Payment of finance lease liabilities	(11)	-	<b>(11)</b>
Borrowings	22,669	-	<b>22,669</b>
Payments on borrowings	(19,587)	-	<b>(19,587)</b>

Bonds issued/(redeemed), net	-	743	<b>743</b>
<b>Total changes from financing cash flows</b>	<b>1,354</b>	<b>430</b>	<b>1,784</b>
<b>Other changes</b>			
Interest expense on loans and borrowings	1,754	314	<b>2,068</b>
Interest expense on finance lease contracts	5	-	<b>5</b>
Recognition of finance lease liabilities	99	-	<b>99</b>
Other	(144)	-	<b>(144)</b>
<b>Total other changes</b>	<b>1,714</b>	<b>314</b>	<b>2,028</b>
Effect of movements in exchange rates	<b>33</b>	-	<b>33</b>
<b>Balance at 31 December 2017</b>	<b>16,448</b>	<b>3,710</b>	<b>20,158</b>

## 19 Trade and other payables

million RUB	31 December 2017	31 December 2016
Trade payables	281	555
Other payables	683	788
Other tax payables	55	43
Advances received	168	125
	<b>1,187</b>	<b>1,511</b>

As at 31 December 2017 trade and other payables to related parties amounted to RUB 370 million (31 December 2016: RUB 115 million) – see note 25.

The Group’s exposure to currency and liquidity risks related to trade and other payables is disclosed in note 20.

## 20 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 2017</b>	<b>31 December 2016</b>
Promissory notes	4,020	5,622
Trade and other receivables	701	513
Cash and cash equivalents	6	20
Other financial assets	105	11
	<b>4,832</b>	<b>6,166</b>

At 31 December 2017 cash in the amount of RUB 4 million were placed with a related party bank with a B2 credit rating by Moody's (31 December 2016: cash in the amount RUB 19 million and promissory notes amounting to RUB 2,951 million).

#### **(ii) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the indicators 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. 14% of the Group's revenue for 2017 is represented by revenue from one customer (2016: 21%). However, geographically there is no concentration of credit risk.

The Group's products are sold:

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are individuals 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 classified as "high risk" are placed on a restricted customer list, subject to certain restrictions, and future sales are made on a prepayment basis with approval of the Board of Directors.

The Group does not claim collateral in respect of trade and other receivables.

No provision for the impairment of receivables was created at 31 December 2017 and 2016.

**(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 2017</b>							
Loans and borrowings	16,349	20,931	3,000	2,037	5,219	5,382	5,293
Bonds	3,710	4,054		86	3,968	-	-
Finance lease liabilities	99	115	-	8	37	70	-
Trade and other payables	964	964	850	57	57	-	-
Foreign exchange forward contracts used for hedging (see note 6(b))	219	281	-	65	216	-	-
<i>Outflow</i>	-	5,435	-	1,318	4,117	-	-
<i>Inflow</i>	-	(5,154)	-	(1,253)	(3,901)	-	-
<b>Balance at 31 December 2017</b>	<b>21,341</b>	<b>26,345</b>	<b>3,850</b>	<b>2,253</b>	<b>9,497</b>	<b>5,452</b>	<b>5,293</b>
<b>31 December 2016</b>							
Loans and borrowings	13,347	18,125	118	1,174	6,367	2,652	7,814
Bonds	2,966	3,242		-	3,242	-	-
Finance lease liabilities	-	-	-	-	-	-	-
Trade and other payables	1,343	1,343	478	128	737	-	-
Foreign exchange forward contracts used for hedging (see note 6(b))	445	636	-	223	413	-	-
<i>Outflow</i>	-	5,105	-	1,089	4,016	-	-
<i>Inflow</i>	-	(4,469)	-	(866)	(3,603)	-	-
<b>Balance at 31 December 2016</b>	<b>18,101</b>	<b>23,346</b>	<b>596</b>	<b>1,525</b>	<b>10,759</b>	<b>2,652</b>	<b>7,814</b>

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

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

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will negatively 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 loss for 2017 amounted to RUB 15 million (2016: net exchange gain RUB 61 million) (see note 6).

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>31 December 2017</b>	
<b>million RUB</b>	<b>USD- denominated</b>	<b>EUR- denominated</b>
Trade and other receivables	-	29
Trade and other payables	-	(1)
Foreign exchange forward contract used for hedging	(236)	(45)
	<b>(236)</b>	<b>(17)</b>

	<b>31 December 2016</b>	
<b>million RUB</b>	<b>USD- denominated</b>	<b>EUR- denominated</b>
Trade and other receivables	22	44
Cash and cash equivalents	1	3
Trade and other payables	-	(2)
Foreign exchange forward contract used for hedging	(350)	(286)
	<b>(327)</b>	<b>(241)</b>

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

RUB	Average exchange rate		Reporting date spot rate	
	2017	2016	2017	2016
USD 1	58.21	67.03	57.60	60.66
EUR 1	66.21	74.23	68.87	63.81

### Sensitivity analysis

A reasonably possible strengthening (weakening) of the RUB, as indicated below, against all other currencies at 31 December 2017 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. Indicators for 31 December 2016 were analysed on the basis of the same principles although reasonably possible changes to foreign currency exchange rates were different (see below):

million RUB	Weakening		Strengthening	
	Equity	Profit or (loss)	Equity	Profit or (loss)
<b>31 December 2017</b>				
USD (10% movement)	(24)	(24)	24	24
EUR (10% movement)	(2)	(2)	2	2
Other (10% movement)	(8)	(8)	8	8
<b>31 December 2016</b>				
USD (10% movement)	(15)	(15)	15	15
EUR (10% movement)	(23)	(23)	23	23
Other (10% movement)	(1)	(1)	1	1

(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 2017	31 December 2016
<b>Fixed rate instruments</b>		
Financial assets	4,125	5,633
Financial liabilities	(20,158)	(16,313)
	<b>(16,033)</b>	<b>(10,680)</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 15), short-term receivables (see note 14), payables (see note 19) and short-term promissory notes acquired (see note 10), cost of which was determined based on the expected cost of subsequent sale, approximate their fair values.

As at 31 December 2017 and 2016 fair values of current bank loans, loans and 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 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans and borrowings	7,075	7,814	6,584	6,747
	<b>7,075</b>	<b>7,814</b>	<b>6,584</b>	<b>6,747</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 2017		
	Level 1	Level 2	Level 3
<b>Other assets measured at fair value</b>			
Land	-	-	13,794
Biological assets	-	-	2,324
<b>Short-term financial liabilities measured at fair value</b>			
Other short-term liabilities	-	219	-

*Long-term financial liabilities measured at fair value*

Loans	-	7,814	-
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**31 December 2016**

	Level 1	Level 2	Level 3
<i>Other assets measured at fair value</i>			
Land	-	-	13,289
Biological assets	-	-	2,049
<i>Short-term financial liabilities measured at fair value</i>			
Other short-term liabilities			
<i>Long-term financial liabilities measured at fair value</i>			
Loans	-	445	-
<i>Other assets measured at fair value</i>	-	6,747	-

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.

## 21 Operating leases

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

million RUB	2017	2016
Less than 1 year	85	38
From 1 to 5 years	215	96
More than 5 years	519	353
	<b>819</b>	<b>487</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 2017 operating lease expenses in the amount of RUB 88 million (2016: RUB 114 million) were recognised in profit or loss.

## 22 Finance lease liabilities

During 2017, the Group entered into contracts for the financial lease for agricultural machinery. The smallest interest rate on borrowed capital and interest rates under the lease contract were used for capitalization of leased assets.

Obligations under finance leases are payable as follows:

million RUB	2017			2016		
	Minimum future lease payments	Interest	Present value of future lease payments	Minimum future lease payments	Interest	Present value of future lease payments
Less than 1 year	45	10	35	-	-	-
From 1 to 5 years	70	6	64	-	-	-
	115	16	99	-	-	-

## 23 Capital commitments

As at 31 December 2017 the Group had contracts for the acquisition of agricultural equipment worth RUB 53 million (31 December 2016: RUB 80 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 7):

million RUB	2017	2016
Salaries and bonuses	9	8
Contributions to the RF State Pension Fund	2	1
	11	9

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	
	2017	2016	31 December 2017	31 December 2016
Revenue from sale of agricultural produce and related receivables	-	1	162	98
Purchases and related payables	(1,379)	(1,208)	(370)	(115)
Insurance compensations	644	911	-	-
Loans received, promissory notes issued and related liability	(8,767)	(10,215)	(7,976)	(13,181)
Promissory notes acquired and related liability	52,392	31,916	4,020	5,622
Other short-term liabilities	-	-	(219)	(445)
Balances at settlement accounts	-	-	6	19

During 2017 the Group received related party promissory notes, without cash consideration paid, for RUB 41,963 million (2016: RUB 17,996 million).

During 2017 the Group and the related party offset the issued and received promissory notes for RUB 5,115 million (during 2016 there was no such transactions).

## **26 Subsequent events**

In January-March 2018 promissory notes received were partially paid for RUB 1,972 million.

## **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 transition to IFRS 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 14), loans issued and promissory notes acquired as presented in note 10) and cash and cash equivalents as presented in note 15).

***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.

**(iii) *Derivatives***

The Group has foreign exchange forward derivatives for the purposes of hedging currency risks. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in the profit or loss.

**(d) *Share capital***

***Ordinary shares***

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

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

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

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and 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 9.

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 evaluation conducted by external independent appraisers. A revaluation increase on land is recognised directly in the revaluation surplus line 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 item.

**(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 weighted average 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.

**(m) Lease**

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

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

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

### **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 2017.

### **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 2017, 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 concluded that there will be no significant 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:

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- *Transfers of Investment Property (Amendments to IAS 40)*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23 Uncertainty over Income Tax Treatments*

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 was created in 2015 as a result of the acquisition of malt production business

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	
	2017	2016	2017	2016	2017	2016
External revenue	7,704	12,149	5,015	5,847	12,719	17,996
Inter-segment revenue	2,074	1,917	-	-	2,074	1,917
<b>Segment revenue</b>	<b>9,778</b>	<b>14,066</b>	<b>5,015</b>	<b>5,847</b>	<b>14,793</b>	<b>19,913</b>
<b>Segment gross profit</b>	<b>1,852</b>	<b>5,072</b>	<b>621</b>	<b>1,890</b>	<b>2,473</b>	<b>6,962</b>
Finance income	1,232	907	-	-	1,232	907
Finance expense	(2,493)	(2,306)	-	-	(2,493)	(2,306)
Depreciation	1,179	1,185	310	304	1,489	1,489
<b>Segment assets</b>	<b>36,510</b>	<b>37,682</b>	<b>6,432</b>	<b>4,958</b>	<b>42,942</b>	<b>42,640</b>
Property, plant and equipment	20,431	19,998	4,636	4,063	25,067	24,061

(ii) *Revenue reconciliation of reportable segments*

million RUB	2017	2016
<b>Revenue</b>		
Total revenue of reportable segments	14,793	19,913
Elimination of inter-segment revenue	(2,074)	(1,917)
<b>Consolidated revenue</b>	<b>12,719</b>	<b>17,996</b>

(iii) *Geographic information*

During 2017 revenue from the sale of agricultural produce to customers in Russia and abroad amounted to RUB 9,653 million and RUB 3,066 million respectively (2016: RUB 11,570 million and RUB 6,426 million respectively).

At 31 December 2017 and 2016 all non-current assets of the Group were located in the Russian Federation.

(iv) *Major customer*

In 2017, revenue from one customer of the Group’s “Agricultural production” segment represented approximately 14% (RUB 1,768 million) of the Group’s total revenue (2016: 21% (RUB 3,742 million)).