Joint-Stock Company “Avangard-Agro”

Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2018 and Independent Auditors’ Report on Review of Consolidated Interim Condensed Financial Statements

Contents

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

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

Introduction

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

Scope of Review

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

Conclusion

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

Sheremet V.G.

JSC "KPMG"

Moscow, Russia

29 August 2018

million RUB	Note	30 June 2018	31 December 2017
ASSETS			
Property, plant and equipment	7	24,621	25,067
Biological assets	10	247	239
Other non-current assets		228	224
Deferred tax assets		52	-
Non-current assets		**25,148**	**25,530**
Inventories	9	3,490	9,210
Biological assets	10	9,911	3,028
Trade and other receivables	11	927	1,042
Financial assets	8	7,428	4,125
Cash and cash equivalents		9	7
Current assets		**21,765**	**17,412**
Total assets		**46,913**	**42,942**
EQUITY AND RESERVES			
Share capital	12	8	8
Property, plant and equipment revaluation surplus		6,170	6,170
Retained earnings		17,498	15,200
Equity attributable to owners of the Company		**23,676**	**21,378**
Total equity and reserves		**23,676**	**21,378**
LIABILITIES			
Loans and borrowings	13	7,110	7,139
Non-current liabilities		**7,110**	**7,139**
Bonds	13	4,606	3,710
Loans and borrowings	13	10,224	9,309
Trade and other payables	14	1,205	1,187
Other current liabilities		92	219
Current liabilities		**16,127**	**14,425**
Total liabilities		**23,237**	**21,564**
Total equity and liabilities		**46,913**	**42,942**

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

million RUB	**Note**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Revenue	5	8,109	6,095
Cost of sales		(7,596)	(6,060)
Revaluation of biological assets	10	2,995	3,006
Gross profit		**3,508**	**3,041**
Distribution expenses		(115)	(74)
Administrative expenses		(381)	(259)
Other (income)/ expenses, net		(189)	87
Results from operating activities		**2,823**	**2,795**
Finance income		506	400
Finance costs		(1,083)	(1,166)
Net finance costs		**(577)**	**(766)**
Profit before income tax		**2,246**	**2,029**
Income tax benefit	6	52	1
Profit for the period		**2,298**	**2,030**
Total comprehensive income for the reporting period		**2,298**	**2,030**
Profit attributable to:			
Owners of the Company		2,298	2,030
Profit for the reporting period		**2,298**	**2,030**
Total comprehensive income attributable to:			
Owners of the Company		2,298	2,030
Total comprehensive income for the reporting period		**2,298**	**2,030**

These consolidated interim condensed financial statements were approved by management on 29 August 2018 and were signed on its behalf by:

General Director of JSC “Avangard-Agro”

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A.N. Kirkin

Financial Director of JSC “Avangard-Agro”

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T.A. Korolyova

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

million RUB	Note	Share capital	Property, plant and equipment revaluation surplus	Retained earnings	Total equity and reserves
Balance at 1 January 2017		**9**	**6,170**	**18,192**	**24,371**
Profit for the period		-	-	2,030	2,030
Total comprehensive income for the reporting period		**-**	**-**	**2,030**	**2,030**
Transactions with shareholders of the Company					
Reacquisition of shares		(1)	-	(3,284)	**(3,285)**
Distributions to shareholders	12	-	-	(113)	**(113)**
Total transactions with shareholders of the Company		**(1)**	**-**	**(3,397)**	**(3,398)**
Balance at 30 June 2017		**8**	**6,170**	**16,825**	**23,003**
Balance at 1 January 2018		**8**	**6,170**	**15,200**	**21,378**
Profit for the period		-	-	2,298	2,298
Total comprehensive income for the reporting period		**-**	**-**	**2,298**	**2,298**
Balance at 30 June 2018		**8**	**6,170**	**17,498**	**23,676**

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

million RUB	Note	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash flows from operating activities			
Profit for the reporting period		2,298	2,030
Adjustments for:			
Depreciation	7	740	753
Government grants		(444)	(277)
Exchange differences		(3)	6
Other finance income		(197)	(246)
Interest expense on loans and borrowings and forward contracts		1,083	1,160
Realised portion of revaluation of agricultural products and biological assets	10	(1,038)	(976)
Use of allowance for the write-down of agricultural produce to net realisable value	9	(880)	(514)
Write-off of accounts receivable		47	7
(Gain)/ loss of crop, product deterioration, shortfalls identified during the stock-take		(7)	1
Loss of disposal of other assets		12	22
Other non-cash transactions		(4)	18
Income tax benefit	6	(52)	(1)
Cash flows from operating activities before changes in working capital		**1,555**	**1,983**
Changes in inventories		4,773	4,403
Changes in biological assets		(3,895)	(5,352)
Changes in trade and other receivables		72	(83)
Changes in trade and other payables		(26)	543
Cash flows from operations before income taxes and interest paid		**2,479**	**1,494**
Income tax paid		-	(3)
Net cash from operating activities		**2,479**	**1,491**

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

million RUB	Note	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash flows from investing activities			
Acquisition of property, plant and equipment		(249)	(904)
Payments under forward contracts		83	(468)
Promissory notes (received)/ redeemed		(3,563)	242
Proceeds from sale of property, plant and equipment		-	11
Net cash used in investing activities		**(3,729)**	**(1,119)**
Cash flows from financing activities			
Government grants compensating interest expense		309	153
Interest paid		(996)	(893)
Issue/ (reacquisition) of bonds		892	(615)
Proceeds from borrowings		10,359	13,009
Repayment of borrowings		(9,298)	(8,482)
Reacquisition of shares		-	(3,285)
Finance lease payments		(14)	-
Distributions to shareholders		-	(13)
Net cash from/(used in) financing activities		**1,252**	**(126)**
Net increase in cash and cash equivalents		**2**	**245**
Cash and cash equivalents at the beginning of the reporting period		7	22
Cash and cash equivalents at the end of the reporting period		**9**	**267**
Non-cash transactions:			
Issue of own promissory notes to related parties and third parties		187	4,014
Redemption of own promissory notes previously issued to related parties and third parties		352	3,034

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

1 Reporting entity

(a) Organisation and operations

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

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

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

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

Joint-Stock Company "Avangard-Agro" has been rated BBB-(RU) by the Analytical Credit Rating Agency (ACRA (JSC)) based on the results of 2017.

The subsidiaries of the Group are:

		Ownership and voting rights	
Subsidiary	**Country of registration**	**30 June 2018**	**31 December 2017**
LLC "Avangard-Agro-Voronezh"	Russia	100%	100%
LLC "Avangard-Agro-Orel"	Russia	100%	100%
LLC "Avangard-Agro-Kursk"	Russia	100%	100%
LLC "Avangard-Agro-Belgorod"	Russia	100%	100%
LLC "Avangard-Agro-Lipetsk"	Russia	100%	100%
LLC "Avangard-Agro-Trade"	Russia	100%	100%
LLC "Avangard-Agro-Tula"	Russia	100%	100%
Avangard Agro Trade AG	Switzerland	100%	100%

(b) Business environment

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

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

2 Basis of preparation

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Use of estimates and judgements

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

- Level 1: quoted (unadjusted) prices of identical assets and liabilities in active markets.
- Level 2: inputs other than quoted prices used for Level 1 estimates that are observable either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices).
- Level 3: inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

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

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

Further information on the assumptions made in the fair value measurement is provided in Notes 7(a) and 10.

4 Significant accounting policies

In preparing these consolidated interim condensed financial statements, the Group applied the same accounting policies as for the preparation of the consolidated financial statements for the year ended 31 December 2017, except for changes related to the application of IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments, which entered into force on 1 January 2018.

IFRS 15 sets out the fundamental principles for determining whether revenue should be recognized, in what amount and when. The standard replaces existing guidance on revenue recognition, including IAS 11 "Construction contracts", IAS 18 "Revenue" and an explanation of the IFRIC 13 "Customer Loyalty Programs".

Revenue is recognized in the total sales and delivery of the goods as these services are not distinguishable and are subject to consolidation in accordance with the standard.

Revenue is recognized at the time of transfer of control of agricultural products to the buyer, namely at the time of shipment.

This standard did not have a material impact on the group's consolidated interim condensed financial statements.

IFRS 9 sets out requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts to buy or sale non-financial items. This standard replaces IAS 39 "Financial instruments: recognition and measurement".

Classification and measurement of financial assets and liabilities

IFRS 9 introduces a new approach to the classification and measurement of financial assets, reflecting the business model used to manage these assets and the characteristics of their associated cash flows.

IFRS 9 defines three main categories of financial assets: those that are measured at amortized cost, those that are measured at fair value through other comprehensive income, and those that are measured at fair value through profit or loss. The standard thus replaces the currently established categories of financial assets in IAS 39: held-to-maturity, loans and receivables and available-for-sale.

In accordance with IFRS 9, derivatives embedded in contracts in which the underlying contract is a financial asset within the scope of IFRS 9 are never separated from the underlying contract. Instead, the classification requirements of the standard apply to the entire hybrid financial instrument.

Impairment of financial assets

IFRS 9 replaced the "Incurred losses" model with the "Expected credit losses" ("ECL") model in line with the forward-looking approach to impairment. The new impairment model also applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The group's assets carried at amortized cost consist of trade and other receivables, promissory notes received, cash and cash equivalents.

According to IFRS 9, the loss will be determined based on the results:

- 12-month-ECL. These are expected credit losses resulting from defaults occurring within 12 months after the reporting date; and
- ECL for the whole period. These are expected credit losses arising from all possible defaults over the expected life of the financial instrument.

The group has chosen as its accounting policy for trade receivables and promissory notes received the approach of estimating expected credit losses over the entire period.

In determining the credit risk of financial assets at the time of initial recognition and at the next reporting date, the Group relies on relevant information that can be obtained with reasonable effort. Relevant information includes quantitative and qualitative data, their analysis, including expert forecast of the credit risk dynamics Group.

The group makes the assumption that credit risk has increased significantly for accounts that are more than 90 days overdue.

For the purposes of assessing the ECL, the group identifies the following signs of potential default:

- the lender is likely to be unable to fully meet its obligations to the Group, excluding the option to sell the collateral, if any, to the Group;
- the account is more than 90 days overdue and there is no agreement on the terms of debt settlement.

As part of the ECL assessment, the maximum payment period is defined as the maximum period determined by the contract during which the Group is exposed to credit risk.
The ECL is a weighted average estimate of the probability of credit losses. Credit losses are defined as the present value of all underpayments (i.e., the difference between contractual cash flows and cash flows expected to be received by the Group). An effective interest rate is applied to long-term financial assets.
At each reporting date, the Group conducts review of financial assets for non-recoverable items. A financial asset is non-refundable if one or more events has created insurmountable obstacles to the receipt of cash payments due to the Group.

Provisions for impairment are deducted from the carrying amount of financial assets carried at amortized cost. Impairment losses in respect of trade and other receivables are presented as part of net operating expenses, impairment losses on promissory notes received are presented as part of financial expenses.
For assets within the scope of the impairment assessment model IFRS 9, it is generally expected that impairment losses will increase and become more volatile. The group has determined that the application of the impairment requirements of IFRS 9 as at 1 January 2018 results in a non-material accrual of additional allowance for impairment losses, and therefore this effect is not carried out in a comparable period. The estimated provision for impairment losses on promissory notes received as at 30 June 2018 amounted to RUB 260 million. The tax effect of accrual of the reserve amounted to 52 million rubles.
The estimated provision for impairment losses on receivables as at 30 June 2018 and 31 December 2017 was not created due to non-material nature.

5 Revenue

	Russia		**Export**		**Total**	
million RUB	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Agricultural products	**2,440**	**1,910**	**2,668**	**818**	**5,108**	**2,728**
Wheat	246	644	2,423	564	2 669	1 208
Sunflower	1,641	793	-	-	1 641	793
Corn	5	42	245	254	250	296
Barley	301	174	-	-	301	174
Lupine	56	51	-	-	56	51
Sugar beet	37	96	-	-	37	96
Other	154	110	-	-	154	110
Processed agricultural products	**2,703**	**3,340**	**298**	**27**	**3,001**	**3,367**
Malt	2,615	2,534	298	27	2,913	2,561
Sugar	12	716	-	-	12	716
Milk	76	90	-	-	76	90
Total	**5,143**	**5,250**	**2,966**	**845**	**8,109**	**6,095**

The group identifies two operating segments:

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

Malting production. Includes production and sale of barley and wheat malt in the Russian Federation and abroad. Detailed information is provided in note 18.

6 Income taxes

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

7 Property, plant and equipment

(a) Land

In the end of 2015, the Group changed its accounting policy relating to land plots to start accounting for them at fair value on the basis of regular revaluation conducted by external independent appraisers. As a result, the management engaged an independent appraiser for the fair value measurement of land as at 31 December 2015. The fair value of land plots was determined as RUB 12,412 million and reflected the market prices of recent similar transactions adjusted for bargaining and location discounts. The fair value measurement of land is related to level 3 of the fair value hierarchy: inputs to assets and liabilities that are not based on observable market data (unobservable inputs).

The management of the Group, having analyzed the current economic situation, concluded that the value of land plots as at 30 June 2018 did not significantly differ from their fair value. As at 30 June 2018 the fair value of land plots amounted to RUB 13,814 million and was based on assumptions used as at 31 December 2017.

During the 6 months ended 30 June 2018 the Group has acquired lands plots amounted to RUB 22 million (during the 6 months ended 30 June 2017: RUB 115 million).

(b) Other property, plant and equipment

During the 6 months ended 30 June 2018 the Group has acquired Property, plant and equipment amounted to RUB 275 million (during the 6 months ended 30 June 2017: RUB 691 million).

(c) Depreciation

During the 6 months ended 30 June 2018 depreciation expense, included into the cost of sales and administrative expenses, amounted to RUB 716 million (during the 6 months ended 30 June 2017: RUB 730 million) as well as in administrative expenses in the amount of RUB 24 million (during 6 months ended 30 June 2017: RUB 23 million).

(d) Security

As at 30 June 2018 items of property, plant and equipment with the carrying amount of RUB 6,215 million (31 December 2017: RUB 6,361million) and long-term lease rights for land plots of 4 thousand ha (31 December 2017: 4 thousand ha) were pledged to secure bank loans received by the Group (see note 13).

8 Financial assets

million RUB	**30 June 2018**	**31 December 2017**
Current		
Promissory notes acquired from related parties	7,179	4,020
Other current financial assets	249	105
	7,428	**4,125**

As at 30 June 2018 investments with the carrying amount of RUB 287 million were pledged to secure bank loans (31 December 2017: there were no financial investments serving as collateral for bank loans) (see note 13). The yield on promissory notes is 0-12%. As at June 30 2018 investments are not overdue.

The estimated provision for impairment losses on promissory notes received as at 30 June 2018 amounted to RUB 260 million (as at 31 December 2017 the provision was not accrued due to immateriality).

9 Inventories

million RUB	**30 June 2018**	**31 December 2017**
Agricultural produce	1,635	6,181
Processed agricultural produce	873	1,270
Fallow land and spring crop costs	171	1,116
Raw materials and consumables	811	643
	3,490	**9,210**

Inventories with the carrying amount of RUB 1,096 million as at 30 June 2018 (31 December 2017: RUB 4,322 million) were pledged to secure bank loans (see note 13).

As at 30 June 2018 fallow land plots amounted to 84,923 hectares (31 December 2017: 84,923 hectares).

The allowance for the write-down of agricultural produce to net realisable value as at 30 June 2018 amounted to RUB 15 million (as at 31 December 2017: RUB 895 million). During the 6 months ended 30 June 2018 the allowance decreased as the result agricultural produce realisation, for the impairment of which the allowance had been accrued in 2017 in the amount of RUB 880 million.

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

	30 June 2018		**31 December 2017**	
	million RUB	**Tonnes**	**million RUB**	**Tonnes**
Wheat	1,022	109,469	2,404	358,199
Barley	269	24,414	2,167	182,690
Sunflower	257	15,321	1,360	84,043
Corn	69	11,740	125	21,664
Buckwheat	15	2,168	24	2,877
Other	3	1,616	101	40,759
	1,635	**164,728**	**6,181**	**690,232**

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

	30 June 2018		31 December 2017	
	million RUB	**Tonnes**	**million RUB**	**Tonnes**
Malt	506	32,944	854	46,263
Sugar	367	14,656	415	14,684
Other	-	-	1	-
	873	**47,600**	**1,270**	**60,947**

10 Biological assets

As at 30 June 2018 biological assets classified as non-current assets comprised oxen and milk cows (3,132 heads) and have a fair value of RUB 247 million (31 December 2017: 3,180 heads, fair value of RUB 239 million).

As at 30 June 2018 biological assets classified as current assets comprised winter wheat, spring barley, sunflower, beet, corn, buckwheat, lupine and have a fair value of RUB 9,911 million; the planting acreage was 308,073 ha (31 December 2017 only winter wheat: RUB 3,028 million and 146,796 ha respectively).

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

	Heads	**Fair value, million RUB**
Fair value less costs to sell as at 1 January 2017	**3,339**	**231**
Natural increase	742	10
Decrease due to distemper	(162)	(3)
Decrease due to disposal of assets	(781)	(32)
Fair value less costs to sell as at 30 June 2017	**3,138**	**206**
Fair value less costs to sell as at 1 January 2018	**3,180**	**239**
Natural increase	834	39
Decrease due to distemper	(673)	(28)
Decrease due to disposal of assets	(209)	(3)
Fair value less costs to sell as at 30 June 2018	**3,132**	**247**

(b) Movements in biological assets classified as current assets

The following represents the changes during the six months, ended 30 June 2018 and 30 June 2017, in the carrying amounts of crops:

million	**30 June 2018**	**30 July 2017**
Opening balance	**3,028**	**1,818**
Increase due to expenditures	3,888	5,377
Net change in fair value less estimated costs to sell	2,995	3,006
Closing balance	**9,911**	**10,201**

As at 30 June 2018 unrealised portion of revaluation of biological assets amounted to RUB 3,853 million (31 December 2017: RUB 2,815 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 2018. Calculated income and costs were discounted to the date of determining fair value depending on the period they occur. Discount rate as at 30 June 2018 was 7,25%. The rate was calculated on the ground of the market-based valuation of risks inherent in the activity of the Group at that date.

Biological assets classified as current assets

The fair value of biological assets as at 30 June 2018 and 31 December 2017 was determined using a DCF model.

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

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

q/ha	**30 June 2018**	**31 December 2017**
Winter wheat	44	44
Barley	29	n/a
Sunflower	22	n/a
Corn	52	n/a
Sugar beet	380	n/a

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

RUB thousand/tonnes	**30 June 2018**	**31 December 2017**
Winter wheat	11.2	9.9
Barley	10	n/a
Sunflower	20.9	n/a
Corn	10.9	n/a
Sugar beet	2.5	n/a

– cost of production and cost to sell were forecasted based on actual operating expenditures;

– to determine the fair value of biological assets at the reporting date a discount rate of 7,25% was applied. The above rate was calculated based on the market rate which reflects the current market assessment of risks inherent in the activities of the Group;

– risks related to a biological transformation subsequent to the end of the reporting period were taken into account.

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

(d) Risk management in agribusiness

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

Raw materials price risk

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

Soil and climatic risks

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

11 Trade and other receivables

million RUB	**30 June 2018**	**31 December 2017**
Trade receivables	610	503
Other receivables	69	198
VAT receivable	125	222
Advances given	116	103
Prepayments for other taxes and duties	7	16
	927	**1,042**

(a) Overdue trade and other receivables

No provision for the impairment of receivables was accrued at 30 June 2018 and 31 December 2017. The write-off of the receivables for the 6 months ended 30 June 2018 amounted to RUB 47 million (for the 6 months ended 30 June 2017: RUB 7 million). There is no outstanding debt as at 30 June 2018 and 31 December 2017.

12 Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	**30 June 2018**	**31 December 2017**
Authorised shares	8,100	9,000
Par value	1,000 RUB	1,000 RUB
Outstanding at the beginning of the period	8,100	9,000
Redemption of shares	-	(900)
Outstanding at the end of the period, fully paid	**8,100**	**8,100**

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 1st quarter of 2017 the Group redeemed 900 shares from shareholders for RUB 3,285 million. As the result of the transaction total quantity of outstanding shares decreased to 8,100 shares. During the 6 months ended 30 June 2018 the Group did not redeem shares from shareholders.

(c) Dividends and other distribution to shareholders

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

As a result of 6 months of 2018 the shareholders of the Company decided not to pay dividends. During 6 months of 2018 no payments to shareholders were made. During 6 months of 2017, following the results of 2016, the shareholders decided to pay dividends in the amount of RUB 100 million, as well as other payments to shareholders were made in the amount of RUB 13 million.

13 Loans and borrowings

This note provides information about the contractual terms of the Group’s interest-bearing loans and borrowings, which are measured at amortized cost.

million RUB	30 June 2018	31 December 2017
Long-term		
Long-term bank loans from related parties	4,041	4,040
Long-term borrowings from other organisations	3,013	3,035
Finance lease liabilities	56	64
	7,110	**7,139**
Short-term		
Short-term bank loans from related parties	2,345	831
Short-term bank loans from third parties	6,108	7,512
Bonds	4,606	3,710
Short-term promissory notes issued to third parties	284	885
Short-term borrowings from other organisations	1,401	46
Finance lease liabilities	86	35
	14,830	**13,019**
	21,940	**20,158**

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

In October and November 2017 during the open subscription the Group placed 2 tranches of non-convertible bonds in the amount of 3,000,000 units with a nominal value of 1,000 rubles each with a total nominal value of RUB 6,000 million with a maturity of 3,640 days from the date of placement

(September and November 2027 respectively). The bonds have 40 coupons, each lasting 91 days. The rate of the first, second, third and fourth coupons is 9.5% per annum for the first bond issue and 9.25% per annum for the second bond issue respectively. In 2017 2,365,234 bonds were purchased by the Group's companies. The total amount of the transaction amounted to RUB 2,381 million, including the accumulated coupon yield in the amount of RUB 13 million.

During the 6 months ended 30 June 2018, the bonds were returned to circulation at a value of RUB 835 million. So the bonds purchased by the Group's companies at the end of the period amounted to RUB 1,473 million in the quantity of 1,468,518 units.

The terms of the issue do not provide the possibility of early redemption of bonds. However, since at the time of issue the Group announced the rates only for the first two coupons, the bondholders have the right to present these bonds for redemption within 5 working days of the last coupon on the bonds, the amount of which was determined by the Group. In this regard, as at 30 June 2018 the Group classified the debt on the bonds as short-term.

(a) Securities

Bank loans are secured by the following assets:

- property, plant and equipment with the carrying amount of RUB 6,215 million (31 December 2017: RUB 6,361 million) - see note 7;
- rights to long-term lease of land plots with an area of 4 thousand ha (31 December 2017: 4 thousand ha) - see note 7
- inventories with the carrying amount of RUB 1,096 million (31 December 2017: RUB 4,322 million) - see note 9;
- investments with the carrying amount of RUB 287 million (31 December 2017: nill) - see note 8. The above investments can be settled by offsetting of the claim on bank loans, the term of which has come, or is not specified or determined by the moment of demand. The above investments can be settled by offsetting against claim on bank loan if it is due or is payable on demand.

(b) Breach of loan covenant

As at 30 June 2018 the Group breached covenants to maintain the level of the indicator "Financial debt/EBITDA", which has exceeded the specified level for the company "Avangard-Agro Orel" based on Russian accounting principles. Under the terms of loan agreements with PJSC Sberbank this indicator should be not more than 5. The amount of the debt under these agreements amounted to RUB 1,094 million as at 30 June 2018. In these consolidated interim condensed financial statements these amounts are presented in short-term loans and borrowings. At the time of issue of the consolidated financial statements under one of the contracts (with the amount of debt of RUB 94 million) the Group agreed with PJSC Sberbank new covenants, taking into account the decrease in profitability and deterioration of the indicator "Financial debt/EBITDA". Another agreement (with the amount of debt of RUB 1 billion) on the moment of reporting of financial statements was repaid without penalties from the bank.

14 Trade and other payables

million RUB	30 June 2018	31 December 2017
Trade payables	596	281
Other payables	416	683
Other tax payables	120	55
Advances received	73	168
	1,205	**1,187**

As at 30 June 2018 trade and other payables from related parties amounted to RUB 219 million (31 December 2017: RUB 370 million) – see note 17.

15 Capital commitments

As at 30 June 2018 the Group entered into contracts to purchase agricultural equipment for RUB 75 million (31 December 2017: RUB 53 million).

16 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 is involved into litigations which could have a material adverse impact on its operating results, financial condition of cash flows and which are not recognized in these consolidated interim condensed financial statements or in notes thereto.

(c) Taxation contingencies

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

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

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

17 Related party transactions

(a) Beneficiaries of the Group

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

(b) Transactions with key management personnel

(i) Key management remuneration

Key management personnel received the following remuneration during the reporting period, which is included in personnel costs:

million RUB	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Salaries and bonuses	6	5
Contributions to the RF State Pension Fund	1	1
	7	**6**

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**	
	Six months ended 30 June 2018	**Six months ended 30 June 2017**	**30 June 2018**	**31 December 2017**
Revenue from sale of agricultural produce and related receivables	1	1	44	162
Purchases and related payables (except prepayments)	(704)	(648)	(39)	(370)
Other liabilities	(1,165)	(1,266)	(180)	-
Insurance compensations	78	136	-	-
Loans received, promissory notes issued and related balances	(4,413)	4,181	-	(7,976)
Loans given, promissory notes acquired and related balances	29,262	23,979	7,179	4,020
Derivative financial instruments	-	-	248	-
Other short-term liabilities	-	-	(219)	(219)
Bank current accounts	-	-	6	6

During the 6 months ended 30 June 2018 the Group acquired related party promissory notes without consideration paid in the amount of RUB 21,470 million (during the 6 months ended 30 June 2017: RUB 19,514 million).

During the 6 months ended 30 June 2018 the Group did not repay or renew related party promissory notes with no cash consideration received (during the 6 months ended 30 June 2017: RUB 1,843 million).

18 Operating segments

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

- *Agricultural production*. Comprises production and sale of agricultural produce in the Russian Federation and abroad.
- *Malt production:* Comprises production and sale of barley and wheat malt in the Russian Federation and abroad. Allocation of the operating segment takes place in the second half of 2015 in connection with the acquisition of the malt business by the Group.

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

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

(i) Information about reportable segments

	Agricultural production		**Malt production**		**Total**	
million RUB	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
External revenue	5,196	3,535	2,913	2,560	8,109	6,095
Inter-segment revenue	1,648	1,015	-	-	1,648	1,015
Segment revenue	**6,844**	**4,550**	**2,913**	**2,560**	**9,757**	**7,110**
Segment gross profit	**2,828**	**2,590**	**680**	**451**	**3,508**	**3,041**
Finance income	506	400	-	-	506	400
Finance costs	(1,083)	(1,166)	-	-	(1,083)	(1,166)
Depreciation	550	592	190	161	740	753
Segment assets	**41,608**	**41,646**	**5,305**	**4,911**	**46,913**	**46,557**
Property, plant and equipment	20,171	20,173	4,450	3,908	24,621	24,081

(ii) Revenue reconciliation of reportable segments

million RUB	Six months ended 30 June 2018	Six months ended 30 June 2017
Revenue		
Total revenue of reportable segments	9,757	7,110
Elimination of inter-segment revenue	(1,648)	(1,015)
Consolidated revenue	**8,109**	**6,095**

19 Events after the reporting date

In July-August 2018 the promissory notes received were partially repaid in the amount of RUB 1,221 million. Also, Group companies repaid loans issued by a bank that is a third party in the amount of RUB 1,541 million, as well as concluded new loan agreements with that bank in the amount of RUB 1,555 million.