ROS AGRO PLC

International Financial Reporting Standards
Consolidated Financial Statements
for the year ended 31 December 2017
and Independent Auditor's Report

Contents

Board of Directors

Mr. Vadim Moshkovich
Chairman of the Board of Directors
President of LLC Rusagro Group of Companies

Mr. Anastassios Televantides
Chairman of the Audit Committee
Independent Director

Mr. Richard Andrew Smyth
Member of the Audit Committee
Independent Director

Mrs. Ganna Khomenko
Member of the Audit Committee
Managing Director

Mr. Maxim Basov
Executive Director
Chief Executive Officer of OJSC Rusagro Group and LLC Rusagro Group of Companies

Board Support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

Company Secretary

Fiduciana Secretaries Limited
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Cyprus

Registered office

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Cyprus

The Board of Directors presents its report together with the audited consolidated financial statements of ROS AGRO PLC (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017. The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) and the requirements of the Cyprus Companies Law, Cap. 113.

Principal activities

The principal activities of the Group are the agricultural production (cultivation of sugar beet, grain and other agricultural crops), cultivation of pigs, processing of raw sugar and production of sugar from sugar beet, vegetable oil production and processing.

Review of development, position and performance of the Group’s business

In 2017 revenue decreased by RR 5,198,725 thousand or 6%. All segments except for the Meat segment demonstrated a decrease in revenue. The major contributors to the sales decrease were the Agricultural and the Sugar segments where sales decreased by RR 2,386,533 thousand or 11% and RR 6,853,768 thousand or 18%, respectively, comparing to the previous year. The decrease in sales in the Sugar segment is a result of a decrease in sales prices of sugar, which was partially offset by higher volumes of sugar sold. Lower sales in the Agricultural segment were resulted by a decrease in sales price of all crops, which was partially compensated by higher volumes of sugar beet, wheat, sunflower and corn sold. Sales turnover in the Meat segment increased by RR 2,660,890 thousand or 15% thanks to higher sales volume of processed pork and an increase in the sales price of livestock pigs.

In 2016 revenue increased by RR 11,817,421 thousand or 16%. All segments except for the Meat segment demonstrated increase in revenue. The major contributors to the sales growth were the Agricultural and the Sugar segments where sales increased by RR 6,944,029 thousand or 49% and RR 4,386,284 thousand or 13%, respectively comparing to the previous year. Growth in sales for both segments was a result of higher sales volumes of sugar beet, wheat, soy and barley in the Agricultural division and an increase in sales volume by 11% in the Sugar division. Sales growth in the Oil and Fat segment by RR 2,611,814 thousand or 15% was driven by an increase in sales volumes of mayonnaise and sunflower oil and an increase in sales prices of all main products of the segment, which was partly compensated by a decrease in volumes of margarine and sunflower meal sold. Sales turnover in the Meat segment decreased by RR 266,010 thousand or 1% mainly due to a decrease in sales volumes, which is linked to a change in the product mix. In the middle of 2015 the Group launched the slaughter house that led to the shift from sales of livestock pigs to sales of processed pork with related decrease in volumes due to wastage.

In 2017 Adjusted EBITDA decreased by RR 4,249,682 thousand or 23% with negative dynamics in the Sugar and Agricultural segments. The sugar segment demonstrated a decrease by RR 4,090,838 thousand or 43%. Adjusted EBITDA in the Meat segment increased by RR 2,256,089 thousand or 56%. The increase in the Oil and Fat segment amounted to RR 1,105,846 thousand mainly as a result of limitation of advertising and marketing expenses supporting sales of Mechta Khozyaiki brand. The agriculture segment demonstrated a decrease by RR 6,115,746 thousand or 99% mainly due to a drop in the sales price of all crops.

In 2016 Adjusted EBITDA decreased by RR 6,218,350 thousand or 25% with negative dynamics in all four segments. Sugar segment demonstrated a decrease by RR 1,489,011 thousand or 13%. Adjusted EBITDA in the Meat segment decreased by RR 3,658,733 thousand or 48% mainly as a result of higher cost of sales compared to the prior year due to a decrease in sale prices and growth in feed cost. The drop in the Oil and Fat segment amounted to RR 2,082,353 thousand or 125% due to higher cost of sales (as cost of raw oil, sunflower seeds and soy beans increased and exceeded the growth of finished goods sale prices) and higher distribution and selling expenses. Agriculture segment showed a decrease by RR 437,596 thousand or 7%.

In 2017 the Group investments in property, plant and equipment and inventories intended for construction amounted to RR 17,533,857 thousand on a cash basis. Investments of RR 6,283,104 thousand were made in the Meat segment and were related mainly to the new construction project in Tambov region. The Sugar segment invested RR 3,386,854 thousand in modernization of the sugar plants. The Agriculture segment invested RR 6,219,125 thousand in acquisition of new agricultural machinery and equipment. Investments in the Oil and Fat division amounted to RR 1,570,399 thousand.

In 2016 the Group investments in property, plant and equipment and inventories intended for construction amounted to RR 16,712,503 thousand on a cash basis. Investments of RR 8,066,143 thousand were made in the Meat segment and related mainly to the new construction project in Tambov region. The Sugar segment invested RR 2,503,980 thousand in modernization of the sugar plants. The Agriculture segment invested RR 5,145,197 thousand in acquisition of new agricultural machinery and equipment. Investments in the Oil and Fat division amounted to RR 950,951 thousand.

Changes in the Group's structure

During 2017 the Group acquired 17.11% additional shares in OJSC Hercules, a buckwheat processing plant located in Voronezh region, thereby increasing its shares in the share capital of OJSC Hercules at 100% (2016: 82.89%).

In 2017 CJSC Kshenskiy Sugar Plant and CJSC Otradinskiy Sugar Plant were renamed to OJSC Kshenskiy Sugar Plant and OJSC Otradinskiy Sugar Plant, respectively.

On 21 March 2017 the Group acquired 100.00% of ownership LLC Regionstroy, located in Primorie.

On 30 March 2017 LLC Alekseevka-Agroinvest was merged with LLC Rusagro-Invest.

On 31 March 2017 OJSC Valuikisakhar was reorganized into a new legal entity, LLC Rusagro Belgorod.

On 19 October 2017 the Group bought 0.93% additional shares in OJSC Pugachevskiy elevator, thereby increasing its shares in the share capital of OJSC Pugachevskiy elevator at 67.8% (2016: 66.87%).

During 2017 the Group acquired 7.47% additional shares in OJSC By General Vatutin, thereby increasing its shares in the share capital of OJSC By General Vatutin at 66.47% (2016: 59%).

For more details regarding the Group structure refer to Notes 1 and 25 of the consolidated financial statements.

Principal risks and uncertainties

The Group's critical estimates and judgments and financial risk management are disclosed in Notes 2 and 30 to the consolidated financial statements. The Group's operating environment is disclosed in Note 1 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 31 to the consolidated financial statements.

Future developments

In 2018 and beyond, the Group plans to continue modernization and expansion of its production and storage facilities in all business segments. The Group plans to make further expansion in the Far Eastern region where it develops agricultural and meat business.

Results

The Group's results for the year are set out on page 2 of the consolidated financial statements.

Human resources management and environmental protection

The Group offers its employees opportunities to realize their professional potential, improve their knowledge and skills, work on interesting innovation projects and be part of a cohesive team. Group management believes that one of the keys to a successful business is maintaining a balance between the high quality and efficient work of all employees who share common values and principles on one hand, and the Company's commitment to providing opportunities for career growth on the other. Group business divisions annually prepare and implement employee training and development plans based on the business's strategic and current objectives, as well as needs identified by comprehensive assessment. Based on the results of a comprehensive assessment, every employee draws up an individual development plan for a period of one to two years that lists all training and development activities that are intended to advance the employee's skills or pass on the knowledge they have gained.

The Group is committed to protecting the environment and minimizing the environmental impact of its operations in regions where it has a presence. All of the Group's divisions constantly monitor wastewater runoff and air quality, and are equipped with treatment facilities that meet all the standards of applicable environmental legislation. The Group has implemented guidelines for maximum allowable emissions and guidelines for waste generation and established sanitary buffer zones for warehouses storing crop protection agents. The Group also returns packaging from crop protection agents and fertilizer to counterparties and performs soil deacidification efforts on farmland.

The composition and diversity information of the Board of Directors of the Group

The authority and responsibilities of the Board of Directors are described in the Internal Rules of the Board of Directors.

On behalf of all shareholders and on the proposal or advice of the Management Board, the Board of Directors lays down the strategy and general policy of the Group. It also sets the Group's standards and monitors the implementation of that strategy.

It controls and gives direction to the management of the company and the Group and provides monitoring of risks.

It also ensures that the principles of good governance are respected.

The Board's acts are guided solely by a concern for the interests of the Company in relation to its shareholders, its customers and staff.

The Board of Directors is the decision-making body of our Group. Its role is to define the Group's strategic vision, assisted by a specialized committee (the Audit Committee). It is composed of 5 Directors, including 2 independent Directors and 1 managing Director. The Board offers a diverse and synergistic range of experience, nationalities and cultures and enables us to consider the interests of all our shareholders.

The Board has determined that, as a whole, it has the appropriate skills and experience necessary to discharge its functions. Executive and independent Directors have the experience required to contribute meaningfully to the Board's deliberations and resolutions. Independent Directors assist the Board by constructively challenging and helping develop strategy proposals.

Dividends

Pursuant to its Articles of Association the Company may pay dividends out of its profits. In August 2013 the Board of Directors has approved a new dividend policy with payout ratio of at least 25% of the Group's profit for the year applicable starting from the year ended 31 December 2013. To the extent that the Company declares and pays dividends, owners of Global Depositary Receipts (hereafter also referred as "GDRs") on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with the relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company`s subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the Russian law.

In 2017 the Company distributed RR 4,619,353 thousand of dividends for the second half of 2016 and RR 1,861,815 thousand of interim dividends for the first half of 2017. The dividends for the second half of 2016 amounted to RR 171.73 per share and interim dividends for 2017 amounted to RR 69.20 per share.

In 2016 the Company distributed RR 5,336,758 thousand of dividends for the second half of 2015 and RR 2,004,336 thousand of interim dividends for the first half of 2016. The dividends for the second half of 2015 amounted to RR 198.45 per share and interim dividends for 2016 amounted to RR 74.55 per share.

Subsequent to the year ended 31 December 2017, the Board of Directors recommends the payment of additional dividends out of the profits for the year 2017 and prior years' undistributed reserves to the amount of RR 2,224,024 thousand. Given that the Company has already paid interim dividends for the first half of 2017 to the amount of RR 1,861,815 thousand, the total dividend out of the profits for 2017 and prior years' undistributed reserves amounts to RR 4,085,839 thousand. The dividend per share will be fixed at the dividend record date set on 13 April 2018.

The proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These financial statements do not reflect the dividends that have not been approved on the reporting date.

Share capital

There were no changes in the share capital of the Company during 2017.

On 5 May 2016 the Company successfully completed a secondary public offering (hereinafter "SPO") of global depositary receipts (hereinafter "GDRs"). The SPO included an offering by the Company of 16,666,665 of GDRs with every five GDRs representing an interest in one ordinary share of the Company. The offering price was USD 15 per GDR (the equivalent of USD 75 per ordinary share).

Share capital (continued)

As a result of the SPO, the Company issued 3,333,333 ordinary shares of par value EUR 0.01 each at the price of USD 75 per share. These shares were fully paid in the amount of USD 250 million resulting in an increase of share capital and share premium by RR 2,535 thousand and RR 16,406,906 thousand net of an amount of RR 133,507 thousand out of the total expenses directly attributable to the new shares issued.

The share capital of the Company is disclosed in Note 14.

The role of the Board of Directors

The Company is governed by its Board of Directors (hereafter also referred as “the Board”) which is collectively responsible to the shareholders for the successful performance of the Group.

The Board sets corporate strategic objectives, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and reviewing management performance. The Board of Directors sets the Group’s values and standards and ensures all obligations to shareholders are understood and met. The Board believes it maintains a sound system of internal control to safeguard the Group’s assets and shareholders’ investments in the Group.

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held by the Company, please refer to Note 1 of the consolidated financial statements

Members of the Board of Directors

The members of the Board of Directors at 31 December 2017 and at the date of this report are shown in the beginning of these consolidated financial statements. All of them were members of the Board throughout the year ended 31 December 2017.

In accordance with the Company’s Articles of Association, one third of the Directors shall retire by rotation and seek re-election at each Annual General Meeting.

The Company’s Directors’ remuneration is disclosed in Note 27. There were no any significant changes to the Directors’ remuneration during the year ended 31 December 2017.

Directors’ Interests

The Directors Mr Vadim Moshkovich, Mr. Maxim Basov, Mr. Richard Smyth and Mr. Anastassios Televantides held interest in the Company as at 31 December 2017 and 31 December 2016.

Mr Vadim Moshkovich has no direct interest in the Company as at 31 December 2017. The number of shares held indirectly through a company controlled by him as at 31 December 2017 is 19,327,829 (31 December 2016: 19,327,829).

The number of shares held directly by Mr. Maxim Basov as at 31 December 2017 is 1,935,914 (31 December 2016: 1,895,514).

The number of shares directly held by Mr. Richard Andrew Smyth as at 31 December 2017 and 31 December 2016 is 6,225.

The number of shares directly held by Mr. Anastassios Televantides as at 31 December 2017 and 31 December 2016 is 2,000.

Audit Committee

The Board of Directors has established an Audit Committee. The Audit Committee is primarily responsible for (i) ensuring the integrity of our financial statements, (ii) ensuring our compliance with legal and regulatory requirements, (iii) evaluating our internal control and risk management procedures, (iv) assuring the qualification and independence of our independent auditors and overseeing the audit process and (v) resolving matters arising during the course of audits and coordinating internal audit functions. The Audit Committee consists of three members appointed by the Board of Directors. The current members are Mr. Anastassios Televantides (Chairman), Mr. Richard Andrew Smyth and Mrs. Ganna Khomenko.

Internal control and risk management systems in relation to the financial reporting process

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations. The Audit Committee of the Board of directors of the Company reviews high-risk areas at least once a quarter. Reporting from various Group entities to the central office is supervised on an ongoing basis and procedures have been established for control and checking of such reporting. With each acquisition the Group seeks to adapt and incorporate the financial reporting system of the acquired operations quickly and efficiently.

Corporate Governance

Since 2011, the Company adopted the following codes: Code of Conduct on insider information and Code of Business Conduct and Ethics. In addition, since May 2014 the Company together with its subsidiaries and affiliates adopted a new edition of the Codes for mandatory compliance by all employees. In 2017 the Company adopted a new Code of Conduct and Business Ethics.

Non-Financial and Diversity Information

The Group will be publishing its first Non-Financial Information and Diversity Statement on the company's website, www.rusagrogroup.ru, within six months after the balance sheet date.

Events after the balance sheet date

The material events after the consolidated balance sheet date are disclosed in Note 33 to the consolidated financial statements.

Branches

The Company did not operate through any branches during the year.

Treasury shares

On 25 August 2011 the Board unanimously resolved that it is in the best interest of the Company to buy back GDRs from the market for the total amount of up to USD 10 million increased to up to USD 30 million via subsequent Board's decision on 17 July 2012.

At 31 December 2017 the Company held 2,172,368 of its own GDRs (approximately 434,474 shares) that is equivalent to RR 491,978 thousand, representing 1.6% of its issued share capital. At 31 December 2016, the Company held 2,205,982 of its own GDRs (approximately 441,196 shares) that is equivalent to RR 499,590 thousand, representing 1.6% of its issued share capital.The GDRs are held as 'treasury shares'.

During 2017 and 2016 the Company did not buy back any of its own GDRs from the market.

In 2017 the Company transfer 33,614 of its own GDRs (approximately 6,723 shares) from those held as treasury shares to employees of the Group (Note 27) that is equivalent to RR 7,612 thousand representing 0.02% of the issued share capital. Further the Company received a cash consideration amounting to RR 6,664 thousand for 8,678 GDRs.

In 2016 the Company sold 6,666 of its own GDRs (approximately 1,333 shares) from those held as treasury shares that is equivalent to RR 6,290 thousand representing 0.005% of the issued share capital.

Research and development activities

The Group is not engaged in research and development activities.

Going Concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2018, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Independent Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. The appointment of the auditors will be approved at the Annual General Meeting.

By Order of the Board

Vadim Moshkovich
Chairman of the Board of Directors
Limassol
16 March 2018

The Company's Board of Directors is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Each of the Directors confirms to the best of his or her knowledge that these consolidated financial statements (which are presented on pages 1 to 61) have been prepared in accordance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

By Order of the Board

Vadim Moshkovich
Chairman of the Board of Directors

Limassol
16 March 2018

Independent Auditor's Report

To the Members of ROS AGRO PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of ROS AGRO PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 1 to 61 and comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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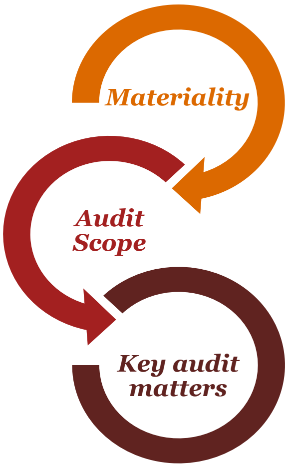
Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



Materiality

Overall Group materiality: Russian Roubles ("RR") 731 million, which represents 4,8% of average profit before tax for the past 3 years.

Audit scope

We conducted audit work covering the significant components and the consolidation process.

Analytical review procedures were performed for the remaining non-significant components.

Key Audit Matters

We have identified the impairment assessment of goodwill as a key audit matter.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RR 731 million
How we determined it	4,8% of average profit before tax for the past 3 financial years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, because in our view, it is the measure against which the performance of the Group is most commonly assessed. The 4,8% benchmark is within the range of acceptable quantitative materiality thresholds for profit-oriented companies in this sector. Averaging was applied as the benchmark amount was significantly volatile over the last several years that is not reflective of expectations of operating results for the current period or the foreseeable future.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 73 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our Group audit scope

ROS AGRO PLC is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of ROS AGRO PLC.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

Our audit included full scope audit of four significant components and the consolidation process with analytical review procedures performed for two non-significant components.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter	How our audit addressed the Key audit matter
Impairment assessment of goodwill	
Refer to Note 25 – Goodwill. Based on the requirements of IAS 36 "Impairment of Assets" and in line with the Group's accounting policy for impairment of goodwill as documented in Note 2 to the consolidated financial statements goodwill is reviewed for impairment annually and whenever there are indicators that goodwill may be impaired We focused on this area given the relative size of goodwill, and given that, the assessment of the recoverable amount is complex and involves significant judgement. In particular, we focused our audit effort on management's assessment of impairment of the Oil Primorie Cash Generating Unit ("CGU") due to the fact that in prior year an impairment charge in amount of RR 589 million was recognised and the recoverable amount of this CGU remained sensitive to changes in key assumptions. Based on the results of the impairment tests carried out by management an impairment charge of RR 399 million for the Oil Primorie CGU was recognised resulting in the carrying amount of the CGU being written down to its recoverable amount.	For all CGUs with allocated goodwill, we obtained management's impairment models prepared as of 31 December 2017, and evaluated the valuation inputs and assumptions, methodologies and calculations applied by management as approved by the Group's Board of Directors. We involved PwC valuation experts that have knowledge of the industry and Russian market conditions to assist us in evaluating the methodology, models and key assumptions used. We challenged management's key assumptions underlying the cash flow forecasts, such as the projected prices growth rates, volumes growth rates, and compared these to management's internal forecasts and long term strategic plans that were approved by the Group's Board of Directors. We also considered publicly available information, in particular in relation to consensus estimates for macroeconomic assumptions. We also performed a look-back analysis to compare previous forecasts to actual results. We assessed management's sensitivity analysis and modelled potential alternative outcomes to assess the potential impact on the overall conclusion in the event of different outcomes, focusing in those assumptions that created the most variability on the overall model results. We also evaluated the adequacy of the disclosure made in Note 25 of the consolidated financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions. Based on the evidence obtained, we found that the methodologies, assumptions, data used within the models and disclosures are appropriate.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report (which includes the Corporate Governance Statement) and Directors' Responsibility Statement, which we obtained prior to the date of this auditor's report, and the Company's Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors 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.

Auditor’s 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 auditor’s 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 judgement 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Directors’ 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 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 auditor’s 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 auditor’s 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 a true and fair view.
- 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 to 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company on 2010 by a shareholder resolution for the audit of the financial statements for the year ended 31 December 2010. Our appointment has been renewed annually, since then, by shareholder resolution. In 2011 the Company was listed in the Main Market of the London Stock Exchange and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2012. Since then, the total period of uninterrupted engagement appointment was 6 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 14 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors' Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Stelios Constantinou.

Stelios Constantinou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

16 March 2018

ROS AGRO PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

	Notes	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	3	4,860,335	6,751,712
Restricted cash		42	39
Short-term investments	4	18,457,778	17,230,012
Trade and other receivables	5	3,196,315	4,607,634
Prepayments	6	1,201,479	746,886
Current income tax receivable		212,026	97,461
Other taxes receivable	7	3,352,606	3,663,194
Inventories	8	25,665,886	29,538,204
Short-term biological assets	9	4,009,965	4,696,957
Total current assets		**60,956,432**	**67,332,099**
Non-current assets			
Property, plant and equipment	12	56,390,084	45,791,288
Inventories intended for construction	12	795,314	38,963
Goodwill	25	1,826,258	2,225,304
Advances paid for property, plant and equipment	6	13,841,743	14,172,240
Long-term biological assets	9	1,719,784	1,745,467
Long-term investments	10	17,594,030	17,751,740
Investments in associates	11	7,320	110,504
Deferred income tax assets	26	1,992,839	1,935,298
Other intangible assets	13	2,286,181	2,139,171
Total non-current assets		**96,453,553**	**85,909,975**
Total assets		**157,409,985**	**153,242,074**
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	8,863,525	11,704,276
Trade and other payables	16	6,773,069	6,988,905
Current income tax payable		63,729	99,450
Other taxes payable	17	4,072,364	3,814,278
Total current liabilities		**19,772,687**	**22,606,909**
Non-current liabilities			
Long-term borrowings	15	37,787,777	32,798,240
Government grants	18	6,377,469	3,712,593
Deferred income tax liability	26	744,113	535,514
Total non-current liabilities		**44,909,359**	**37,046,347**
Total liabilities		**64,682,046**	**59,653,256**
Equity			
Share capital	14	12,269	12,269
Treasury shares	14	(491,978)	(499,590)
Share premium	14	26,964,479	26,964,479
Share-based payment reserve	27	1,308,188	1,181,437
Retained earnings		64,758,965	65,690,082
Equity attributable to owners of ROS AGRO PLC		**92,551,923**	**93,348,677**
Non-controlling interest		176,016	240,141
Total equity		**92,727,939**	**93,588,818**
Total liabilities and equity		**157,409,985**	**153,242,074**

Approved for issue and signed on behalf of the Board of Directors on 16 March 2018.

Maxim Basov
Director of ROS AGRO PLC

Vadim Moshkovich
Chairman of the Board of Directors

The accompanying notes on pages 5 to 61 form an integral part of these consolidated financial statements.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Sales	19	79,057,860	84,256,585
Net (loss)/gain on revaluation of biological assets and agricultural produce	9	(2,976,169)	48,176
Cost of sales	20	(58,115,770)	(58,915,613)
Net (loss)/gain from trading derivatives	29	(11,115)	335,997
Gross profit		**17,954,806**	**25,725,145**
Distribution and selling expenses	21	(8,360,964)	(7,993,094)
General and administrative expenses	22	(4,878,534)	(5,356,057)
Other operating (expenses) / income, net	23	(665,918)	2,099,192
Operating profit		**4,049,390**	**14,475,186**
Interest expense	24	(2,259,804)	(3,614,107)
Interest income		4,189,550	4,465,667
Net gain/(loss) from bonds held for trading		29,783	(422)
Other financial (expenses)/income, net	24	(38,968)	(1,134,849)
Share of results of associates	11	11,060	20,831
Profit before income tax		**5,981,011**	**14,212,306**
Income tax expense	26	(417,848)	(267,790)
Profit for the year		**5,563,163**	**13,944,516**
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Change in value of available-for-sale financial assets	15	(154,082)	(107,782)
Fair value loss of available-for-sale financial assets transferred to profit or loss	15	301,335	-
Income tax relating to change in value of available-for-sale financial assets	15	30,816	21,556
Income tax relating to fair value loss of available-for-sale financial assets transferred to profit or loss	15	(60,267)	-
Total comprehensive income for the period		**5,680,965**	**13,858,290**
Profit is attributable to:			
Owners of ROS AGRO PLC		5,630,671	13,953,296
Non-controlling interest		(67,508)	(8,780)
Profit for the period		**5,563,163**	**13,944,516**
Total comprehensive income is attributable to:			
Owners of ROS AGRO PLC		5,748,473	13,867,070
Non-controlling interest		(67,508)	(8,780)
Total comprehensive income for the period		**5,680,965**	**13,858,290**
Earnings per ordinary share for profit attributable to the owners of ROS AGRO PLC, basic and diluted (in RR per share)	28	209.33	542.01

The accompanying notes on pages 5 to 61 form an integral part of these consolidated financial statements.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before income tax		**5,981,011**	**14,212,306**
Adjustments for:			
Depreciation and amortization	20, 21, 22	7,155,334	5,819,850
Interest expense	24	3,512,362	4,810,145
Government grants	23, 24	(1,733,537)	(1,943,206)
Interest income		(4,189,550)	(4,465,667)
Loss/ (gain) on disposal of property, plant and equipment	23	78,849	31,217
Net (gain)/ loss on revaluation of biological assets and agricultural produce	9	2,976,169	(48,176)
Change in provision for net realizable value of inventory		2,222	92,961
Share of results of associates		(11,060)	(20,831)
Change in provision for impairment of receivables and prepayments		181,757	(28,388)
Foreign exchange (gain) / loss, net	23, 24	(15,949)	1,074,439
Share based remuneration	27	19,761	4,026
Settlement of loans and accounts receivable previously written-off	23	(141,339)	(937,545)
Lost / (reversal of) harvest write-off	23	82,119	(63,450)
Net (gain) / loss from bonds held for trading		(29,783)	14,864
Change in provision for impairment of other taxes receivables		-	(197,409)
Change in provision for impairment of advances paid for property, plant and equipment		6,220	(7,405)
Impairment of goodwill	23	399,046	589,416
Excess of the Group's share of identifiable net assets acquired over consideration paid	23	-	(905,140)
Other provisions		-	(15,454)
Loss on sale of associates, net		58,833	-
Loss on other investments		401,453	7,820
Other non-cash and non-operating expenses, net		109,201	41,511
Operating cash flow before working capital changes		**14,843,119**	**18,065,884**
Change in trade and other receivables and prepayments		855,801	371,138
Change in other taxes receivable		999,150	(1,440,920)
Change in inventories		1,438,041	(6,093,853)
Change in biological assets		304,866	842,463
Change in trade and other payables		(568,000)	1,354,325
Change in other taxes payable		223,637	(173,631)
Cash generated from operations		**18,096,614**	**12,925,406**
Income tax paid		(423,213)	(1,116,502)
Net cash from operating activities		**17,673,401**	**11,808,904**
Cash flows from investing activities			
Purchases of property, plant and equipment		(16,684,987)	(16,642,716)
Purchases of other intangible assets		(514,318)	(275,416)
Proceeds from sales of property, plant and equipment		29,891	71,637
Purchases of inventories intended for construction		(848,870)	(69,787)
Proceeds from cash withdrawals from deposits		34,227,159	22,469,547
Deposits placed with banks		(35,976,815)	(23,934,790)
Purchases of associates	11	(9,168)	-
Proceeds from sale of associates		42,116	-
Investments in subsidiaries, net of cash acquired	25	79,426	(7,506,408)
Purchases of bonds with maturity over three months		-	(2,566,211)
Proceeds from sales of bonds with maturity over three months		-	3,433,426
Proceeds from sales of rights of claim		-	124,405
Loans given		(7)	(1,217,297)
Loans repaid		428,559	11,261,011
Movement in restricted cash		(846)	64,117
Interest received		4,336,595	4,585,875
Dividends received		19,558	12,198
Net cash used in investing activities		**(14,871,707)**	**(10,190,409)**
Cash flows from financing activities			
Proceeds from borrowings		18,819,053	26,104,909
Repayment of borrowings		(16,860,947)	(33,949,009)
Interest paid		(2,865,059)	(3,823,363)
Purchases of non-controlling interest	14	(81,218)	(142,850)
Proceeds from issue of own shares, net of transaction cost	14	-	16,328,269
Dividends paid to owners Ros Agro PLC		(6,146,486)	(7,124,250)
Proceeds from government grants		2,674,618	3,487,866
Lease payments		(14,919)	-
Proceeds from sales of treasury shares	14	-	6,373
Other financial activities		(4,625)	(4,135)
Net cash (used in)/from financing activities		**(4,479,583)**	**883,810**
Net effect of exchange rate changes on cash and cash equivalents		(213,488)	(152,296)
Net (decrease)/increase in cash and cash equivalents		**(1,891,377)**	**2,350,009**
Cash and cash equivalents at the beginning of the year	3	6,751,712	4,401,703
Cash and cash equivalents at the end of the year	3	**4,860,335**	**6,751,712**

The accompanying notes on pages 5 to 61 form an integral part of these consolidated financial statements.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

		Attributable to owners of ROS AGRO PLC								
	Notes	**Share capital**	**Treasury shares**	**Share premium**	**Share-based payment reserve**	**Fair value reserve for available-for-sale investments**	**Retained earnings***	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016		**9,734**	**(505,880)**	**10,557,573**	**1,295,213**	**(31,576)**	**59,219,626**	**70,544,690**	**27,276**	**70,571,966**
Total comprehensive income for the year		-	-	-	-	(86,226)	13,953,296	13,867,070	(8,780)	**13,858,290**
Share issue	14	2,535	-	16,406,906	-	-	-	16,409,441	-	**16,409,441**
Sale of treasury shares			6,290					6,290		**6,290**
Share based remuneration	27	-	-	-	4,026	-	-	4,026	-	**4,026**
Dividends	14	-	-	-	-	-	(7,341,094)	(7,341,094)	-	**(7,341,094)**
Recognition of non-controlling interests on acquisition of subsidiaries	25	-	-	-	-	-	-	-	185,135	**185,135**
Acquisition of non-controlling interest	14	-	-	-	-	-	(159,272)	(159,272)	16,423	**(142,849)**
Disposal of ownership interests in subsidiaries without loss of control	14	-	-	-	-	-	17,526	17,526	20,087	**37,613**
Balance at 31 December 2016		**12,269**	**(499,590)**	**26,964,479**	**1,299,239**	**(117,802)**	**65,690,082**	**93,348,677**	**240,141**	**93,588,818**
Balance at 1 January 2017		**12,269**	**(499,590)**	**26,964,479**	**1,299,239**	**(117,802)**	**65,690,082**	**93,348,677**	**240,141**	**93,588,818**
Total comprehensive income for the year		-	-	-	-	117,802	5,630,671	5,748,473	(67,508)	**5,680,965**
Sale of treasury shares	27		7,612					7,612		**7,612**
Share based remuneration	27	-	-	-	8,949	-	3,200	12,149	-	**12,149**
Dividends	14	-	-	-	-	-	(6,481,169)	(6,481,169)	-	**(6,481,169)**
Recognition of non-controlling interests on acquisition of subsidiaries		-	-	-	-	-	(4,625)	(4,625)	-	**(4,625)**
Acquisition of non-controlling interest	14	-	-	-	-	-	(79,194)	(79,194)	3,383	**(75,811)**
Balance at 31 December 2017		**12,269**	**(491,978)**	**26,964,479**	**1,308,188**	**-**	**64,758,965**	**92,551,923**	**176,016**	**92,727,939**

* Retained earnings in the separate financial statements of the Company is the only reserve that is available for distribution in the form of dividends.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

1. Background

Description of the business

These consolidated financial statements were prepared for ROS AGRO PLC (hereinafter the "Company") and its subsidiaries (hereinafter collectively with the Company, the "Group"). The Group is ultimately controlled by Mr. Vadim Moshkovich (hereinafter the "Owner"), who controls 70.7% of issued shares in ROS AGRO PLC as at 31 December 2017 (31 December 2016: 70.7%).

The principal activities of the Group are:

- agricultural production (cultivation of sugar-beet, grain and other agricultural crops);
- cultivation of pigs;
- processing of raw sugar and production of sugar from sugar-beet;
- vegetable oil extraction and processing.

The registered office of ROS AGRO PLC is at 8 Mykinon, CY-1065, Nicosia, Cyprus.

The Group operates in the Russian Federation except for financial derivatives trading activity (Note 30).

Principal subsidiaries of the Group included into these consolidated financial statements are listed below. The Group's ownership share is the same as voting share.

Entity	Principal activity	Group's share in the share capital, % 31 December 2017	31 December 2016
OJSC Rusagro Group	Investment holding, financing	100	100
LLC Group of Companies Rusagro	Investment holding, financing	100	100
	Sugar segment		
LLC Rusagro-Sakhar	Sugar division trading company, sales operations	100	100
LLC Rusagro-Belgorod (OJSC Valuikisakhar)	Beet and raw sugar processing	100*	100*
LLC Rusagro-Tambov	Beet and raw sugar processing	100	100
OJSC Krivets-Sakhar	Beet and raw sugar processing	100	98.8
OJSC Kshenskiy Sugar Plant	Beet and raw sugar processing	100	100
OJSC Otradinskiy Sugar Plant	Beet and raw sugar processing	100	100
OJSC Hercules	Buckwheat processing plant	100	82.9
Limeniko Trade and Invest Limited	Trading operations with goods and derivatives	100	100
	Oil and Fat segment		
OJSC Fats and Oil Integrated Works	Oil processing	100	100
CJSC Samaraagroprompererabotka	Oil extraction	100	100
OJSC Pugachevskiy elevator	Elevator	67.8	66.87
LLC Primorskaya Soya	Oil extraction and processing	75.0	75.0
LLC Kolyshleyskiy Elevator	Elevator	100	100
	Meat segment		
LLC Tambovsky Bacon	Cultivation of pigs	100	100
LLC Rusagro-Primorie	Cultivation of pigs	100	100
LLC Regionstroy	Construction for cultivation of pigs	100	-**
	Agriculture segment		
LLC Rusagro-Invest	Agriculture	100	100
LLL Rusagro-Moloko	Agriculture	100	100
LLC Agrotehnology	Agriculture	100	100
CJSC Primagro	Agriculture	100	100
OJSC By General Vatutin	Agriculture	66.47	59
LLC Kshenagro	Agriculture	100	100
LLC Otradaagroinvest	Agriculture	100	100
LLC Alekseevka-Agroinvest	Agriculture	-***	100

*In 2017 the Group undertook legal reorganization in its Sugar segment. As part of this reorganization process OJSC Valuikisakhar was renamed into LLC Rusagro-Belgorod.

**In 2017 the Group undertook legal reorganization in its Meat segment. As part of this reorganization process a new legal entity LLC Regionstoy was acquired (Note 25).

***In 2017 the Group undertook legal reorganization in its Agricultural segment. As part of this reorganization process LLC Alekseevka-Agroinvest was merged with LLC Rusagro-Invest.

1. Background (continued)

Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 31). The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. Summary of significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized as at fair value through profit or loss, revaluation of available-for-sale financial assets, biological assets that are presented at fair value less point-of-sale costs and agricultural produce which is measured at fair value less point-of-sale costs at the point of harvest. The Group entities registered in Russia keep their accounting records in Russian Roubles in accordance with Russian accounting regulations (RAR). These consolidated financial statements significantly differ from the financial statements prepared for statutory purposes under RAR in that they reflect certain adjustments, which are necessary to present the Group's consolidated financial position, results of operations, and cash flows in accordance with IFRS as adopted by the EU.

As of the date of the authorisation of these consolidated financial statements all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS 14 "Regulatory Deferral Accounts first time adopters".

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

In 2017 the Group finalised the valuation of assets and liabilities of LLC Alekseevka-Agroinvest (in 2016 the acquisition of LLC Alekseevka-Agroinvest was accounted for using the provisional amounts of assets and liabilities of the investees) and adjusted the comparatives figures for 2016 in these consolidated financial statements accordingly. The differences between provisional amounts and the fair values of identifiable assets and liabilities assumed and the resulting impact on the excess of the Group's share of identifiable net assets acquired over consideration paid. As a result Profit for the year, Total comprehensive income for the period and Earnings per ordinary share were changed,

2.2. Critical accounting estimates and judgements in applying accounting policies

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

2. Summary of significant accounting policies (continued)

2.2. Critical accounting estimates and judgements in applying accounting policies (continued)

Fair value of livestock and agricultural produce

The fair value less estimated point-of-sale costs of livestock at the end of each reporting period is determined using the physiological characteristics of the animals, management expectations concerning the potential productivity and market prices of animals with similar characteristics.

The fair value of the Group's bearer livestock is determined by using valuation techniques, as there were no observable market prices near the reporting date for pigs and cows of the same physical conditions, such as weight and age. The fair value of the bearer livestock was determined based on the expected quantity of remaining farrows and calves for pigs and cows, respectively, and the market prices of the young animals. The fair value of mature animals is determined based on the expected cash flow from the sale of the animals at the end of the production usage. The cash flow was calculated based on the actual prices of sales of culled animals from the Group's entities to independent processing enterprises taking place near the reporting date, and the expected weight of the animals. Future cash flows were discounted to the reporting date at a current market-determined pre-tax rate. In the fair value calculation of the immature animals of bearer livestock management considered the expected culling rate.

Key inputs used in the fair value measurement of bearer livestock of the Group were as follows:

	31 December 2017		31 December 2016	
	Cows	**Pigs (sows)**	**Cows**	**Pigs (sows)**
Length of production usage in calves / farrows	5	5	5	5
Market prices for comparable bearer livestock in the same region (in Russian Roubles/kg, excl. VAT)	178	318	166	311

Should the key assumptions used in determination of fair value of bearer livestock have been 10% higher/lower with all other variables held constant, the fair value of the bearer livestock as at the reporting dates would be higher or lower by the following amounts:

	31 December 2017		31 December 2016	
	10% increase	**10% decrease**	**10% increase**	**10% decrease**
Cows				
Length of production usage in calves	2,409	(2,847)	1,281	(1,534)
Market prices for comparable bearer livestock in the same region	8,502	(8,502)	8,383	(8,383)
Pigs				
Length of production usage in farrows	31,353	(15,944)	32,057	(12,845)
Market prices for comparable bearer livestock in the same region	104,376	(104,376)	100,223	(100,223)

The fair value of consumable livestock (pigs) is determined based on the market prices multiplied by the livestock weight at the end of each reporting period, adjusted for the expected culling rates. The market price of consumable pigs being the key input used in the fair value measurement was 90.5 Russian Roubles per kilogram, excluding VAT, as at 31 December 2017 (31 December 2016: 104 Russian Roubles per kilogram, excluding VAT).

Should the market prices used in determination of fair value of consumable livestock have been 10% higher/lower with all other variables held constant, the fair value of the consumable livestock as at 31 December 2017 would be higher/lower by RR 303,256 (31 December 2016: RR 381,369).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

2. Summary of significant accounting policies (continued)

2.2. Critical accounting estimates and judgements in applying accounting policies (continued)

Fair value of livestock and agricultural produce (continued)

The fair value less estimated point-of-sale costs for agricultural produce at the time of harvesting was calculated based on quantities of crops harvested and the prices on deals that took place in the region of location on or about the moment of harvesting and was adjusted for estimated point-of-sale costs at the time of harvesting. The average market prices (Russian Roubles/tonne, excluding VAT) used for fair value measurement of harvested crops were as follows:

	2017	2016
Sugar beet	1,786	2,497
Wheat	6,209	7,137
Barley	6,075	6,294
Sunflower	16,517	20,167
Corn	8,020	7,687
Soya bean	20,323	21,455

Should the market prices used in determination of fair value of harvested crops have been 10% higher/lower with all other variables held constant, the fair value of the crops harvested in 2017 would be higher/lower by RR 1,520,443 (2016: RR 2,381,147).

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units ("CGUs") have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 25.

Impairment test of property, plant and equipment and other intangible assets

As at 31 December 2017 management determined that there were no indicators that would necessitate performing an impairment test of property, plant and equipment and other intangible assets at all CGUs except for Oil Primorie CGU which demonstrated significant underperformance in production and sales volumes. Details of the impairment assessment performed are disclosed in Note 25. As at 31 December 2016 management determined that there were no indicators that would necessitate performing an impairment test of property, plant and equipment and other intangible assets at any of the CGUs.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable and in relation to losses carried forward it is also based on management judgement about deductibility of expenses included in the related profit tax base. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The key assumptions in the business plan are EBITDA margin and pre-tax discount rate (Notes 25, 26).

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 31).

2.3. Foreign currency and translation methodology

Functional and presentation currency

The functional currency of the Group's consolidated entities is the Russian Rouble (RR), which is the currency of the primary economic environment in which the Group operates. The Russian Rouble has been chosen as the presentation currency for these consolidated financial statements.

2. Summary of significant accounting policies (continued)

2.3. Foreign currency and translation methodology (continued)

Translation of foreign currency items into functional currency

Transactions in foreign currencies are translated to Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation (CBRF) at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate ruling at that date.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities at year-end exchange rates are recognised in profit or loss.

2.4. Group accounting

Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the fair value of net assets of the acquiree from the aggregate of the fair value of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement. The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

2. Summary of significant accounting policies (continued)

2.4. Group accounting (continued)

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of changes in net asset of investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The cost of an associate acquired in stages is measured as the sum of the consideration paid for each purchase plus a share of investee's profits and other equity movements. Any acquisition-related costs are treated as part of the investment in the associate.

Purchases of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. The difference, if any, between the carrying amount of a non-controlling interest acquired and the purchase consideration is recorded as capital transaction in the statement of changes in equity.

Purchases of subsidiaries from parties under common control

Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted for using the predecessor basis of accounting. Under this method the consolidated financial statements of the acquiree are included in the consolidated financial statements from the beginning of the earliest period presented or, if later, the date when common control was established. The assets and liabilities of the subsidiary transferred under common control are accounted for at the predecessor entity's IFRS carrying amounts using uniform accounting policies on the assumption that the Group was in existence from the date when common control was established. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity.

Disposals of subsidiaries and associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. Summary of significant accounting policies (continued)

2.5. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Assets under construction are accounted for at purchase cost less provision for impairment, if required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing a major part or component of property, plant and equipment items is capitalized and the replaced part is retired.

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the financial statements. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit or loss for the year within other operating income and expenses.

2.6. Depreciation

Depreciation on property, plant and equipment other than land and assets under construction is calculated using the straight-line method to allocate their cost to the residual values over their estimated useful lives:

Asset category	Useful life, years
Buildings	15-50
Constructions	5-50
Machinery, vehicles and equipment	3-20
Other	4-6

Assets are depreciated on a straight-line basis from the month following the date they are ready for use.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.7. Biological assets and agricultural produce

Biological assets of the Group consist of unharvested crops (grain crops, sugar beets and other plant crops) and livestock (pigs and cows).

Livestock is measured at their fair value less estimated point-of-sale costs. Fair value at initial recognition is assumed to be approximated by the purchase price incurred. Point-of-sale costs include all costs that would be necessary to sell the assets. All the gains or losses arising from initial recognition of biological assets and from changes in fair-value-less-cost-to-sell of biological assets less the amounts of these gains or losses related to the realised biological assets are included in a separate line "Net gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

At the year-end unharvested crops are carried at the accumulated costs incurred, which approximate the fair value since little biological transformation has taken place since initial cost incurrence due to the seasonal nature of the crops. Unharvested crop-growing costs represent costs incurred to plant and maintain seed crops which will be harvested during the subsequent reporting period. Subsequent to the year-end unharvested crops are measured at fair value less estimated point-of-sale costs. A gain or loss from the changes in the fair value less estimated point-of-sale costs of unharvested crops less the amount of such gain or loss related to the realisation of agricultural products is included as a separate line "Net gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

Upon harvest, grain crops, sugar beets and other plant crops are included into inventory for further processing or for sale and are initially measured at their fair value less estimated point-of-sale costs at the time of harvesting. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs of unharvested crops less the amount of such gain or loss related to the realisation of agricultural products is recognised in profit or loss in the period in which it arises.

Bearer livestock is classified as non-current assets; consumable livestock and unharvested crops are classified as current assets in the consolidated statement of financial position.

2. Summary of significant accounting policies (continued)

2.8. Goodwill

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash-generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.9. Intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired land lease rights, capitalised computer software, patents, trademarks and licences. Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

Asset category	Useful life, years
Trademarks	5-12
Software licences	1-3
Capitalised internal software development costs	3-5
Other licences	1-3

Acquired land lease rights are amortised over the duration of the related land lease agreements (over 2 – 50 years).

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2.10. Impairment of non-current assets

The Group's non-current assets except for deferred tax, biological assets and financial assets are tested for impairment in accordance with the provisions of IAS 36, Impairment of Assets. The Group makes an assessment whether there is any indication that an asset may be impaired at each reporting date, except for goodwill which is tested at least annually regardless of whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount of the asset is made. IAS 36 requires an impairment loss to be recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life.

2.11. Financial instruments

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

2. Summary of significant accounting policies (continued)

2.11. Financial instruments (continued)

Financial instruments – key measurement terms (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial instruments

The Group classified its financial instruments into the following measurement categories: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

Initial recognition and measurement of financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. The Group's financial assets and liabilities are initially recorded at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Subsequently to initial recognition financial instruments are measured as described below.

2. Summary of significant accounting policies (continued)

2.11. Financial instruments (continued)

Derecognition of financial instruments

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Trading investments are securities or other financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading investments also include financial derivatives. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

*Other financial assets at fair value through profit or lo*ss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables comprise accounts receivable, cash and cash equivalents, restricted cash, bank deposits, unquoted promissory notes and loans issued. Loans and receivables are initially recognised at their fair value plus transaction costs and subsequently carried at amortised cost using effective interest method.

Available-for-sale financial assets

Available-for-sale investments are carried at fair value. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months of the reporting date.

Financial liabilities

All the Group's financial liabilities fall into the following measurement categories: (a) held for trading which are represented by financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year in the period in which they arise. Other financial liabilities are carried at amortised cost.

2. Summary of significant accounting policies (continued)

2.11. Financial instruments (continued)

Presentation of results from sugar trading derivatives

The Group engages in raw sugar derivative trading transactions through an agent on ICE Futures US primarily in order to manage the raw sugar purchase price risk (Note 30). As such transactions are directly related to the core activity of the Group, their results are presented above gross profit as 'Net gain from trading derivatives' in the consolidated statement of profit or loss and other comprehensive income. Management believes that the presentation above gross profit line appropriately reflects the nature of derivative operations of the Group.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss for the year.

2.12. Cash and cash equivalents, investments

Cash and cash equivalents comprise cash in hand, cash held on demand with banks, bank deposits with original maturity of less than three months, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in non-current assets.

Bank deposits with original maturities of more than three months and less than twelve months are classified as short-term investments and are carried at amortised cost using the effective interest method. Bank deposits with original maturity of more than twelve months are classified as long-term and are carried at amortised cost.

2. Summary of significant accounting policies (continued)

2.13. Prepayments

Prepayments classified as current assets represent advance payments to suppliers for goods and services. Prepayments for construction or acquisition of property, plant and equipment and prepayments for intangible assets are classified as non-current assets. Prepayments are carried at cost less provisions for impairment, if any. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

2.14. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Raw materials intended for the operating activities of the Group, finished goods and work in progress are classified as current assets. Materials intended for construction are classified as non-current assets as “Inventories intended for construction”.

2.15. Borrowings

Borrowings are recognised initially at their fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.16. Trade and other payables

Trade and other payables are recognised when the counterparty has performed its obligations under the contract, and are carried at amortised cost using the effective interest method.

2.17. Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to purchases where all the specified conditions for recovery have not been met yet is recognised in the statement of financial position and disclosed separately within other taxes receivable, while input VAT that has been claimed is netted off with the output VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.18. Other taxes payable

Other taxes payable comprise liabilities for taxes other than on income outstanding at the reporting date, accrued in accordance with legislation enacted or substantively enacted by the end of the reporting period.

2. Summary of significant accounting policies (continued)

2.19. Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year.

Current tax

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax

Deferred income tax is provided in full, using the balance sheet liability method, on tax losses carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax balance is determined using tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

2.20. Employee benefits

Payroll costs and related contributions

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Group.

Pension costs

The Group contributes to the Russian Federation state pension fund on behalf of its employees and has no obligation beyond the payments made. The contribution was approximately 20.8% (2016: 18.6%) of the employees’ gross pay and is expensed in the same period as the related salaries and wages.

The Group does not have any other legal or constructive obligation to make pension or other similar benefit payments to its employees.

Share-based payment transactions

The Group accounts for share-based compensation in accordance with IFRS 2, Share-based Payment. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date. For share-based compensation made to employees by shareholders, an increase to share-based payment reserve in equity is recorded equal to the associated compensation expense each period.

2. Summary of significant accounting policies (continued)

2.21. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised where the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.22. Revenue recognition

Revenues and related cost of sales are recognised when goods are shipped and the title and significant risks and rewards of ownership pass to the customer in accordance with the contractual sales terms. Sales are measured at the fair value of consideration received or receivable for the goods sold and services rendered, net of discounts and value added taxes, and after eliminating sales between the Group companies.

The amount of revenue arising from exchanges of goods or services is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. Non-cash transactions are excluded from the cash flow statement.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

2.23. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.24. Government grants

Government grants comprise compensation of interest expense under bank loans and government grants relating to costs and property, plant and equipment.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss as other operating income over the period necessary to match them with the costs that they are intended to compensate.

Compensation of interest expense under bank loans is credited to profit or loss over the periods of the related interest expense unless this interest was capitalised into the carrying value of assets in which case it is included in non-current liabilities as government grants and credited to profit or loss on a straight-line basis over the expected lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognised and measured in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received.

Bank loans at a below-market rate of interest under the programme of government support are recognized at the nominal value if there isn't reasonable assurance that the grants will be received. The differences between nominal and market interest rate is recognized as interest expenses and government grants in a statement of comprehensive income or in a statement of financial position.

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants cash inflows are presented in financing activities section of the consolidated statement of cash flows.

2. Summary of significant accounting policies (continued)

2.25. Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved, appropriately authorised and are no longer at the discretion of the Group. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

2.26. Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option (Note 32).

2.27. Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration receivable over the par value of shares issued is recorded as share premium in equity. Share premium can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

2.28. Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such equity instruments are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

2.29. Amendments of the consolidated financial statements after issue

Any changes to these consolidated financial statements after issue require approval of the Group's management and the Board of Directors who authorised these consolidated financial statements for issue.

2.30. Adoption of new or revised standards and interpretations

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). This adoption did not have a material effect on the Group.

Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). This adoption did not have a material effect on the Group.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).As a result of this amendment, the Group has disclosed a reconciliation of movements in liabilities arising from financing activities. Refer to Note 15.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

2. Summary of significant accounting policies (continued)

2.30. Adoption of new or revised standards and interpretations (continued)

Adopted by the European Union

New standards

IFRS 15 “Revenue from Contracts with Customers” (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018; EU effective date 1 January 2018).

IFRS 9 “Financial Instruments: Classification and Measurement” (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

The Group’s assessment of the impact of the above standards that were not early adopted by the Group is set out below:

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group will undertake a detailed assessment of the classification and measurement of financial assets.

The financial assets held by the Group include equity instruments currently classified as AFS for which a FVOCI election is available and debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Management performed an analysis of Group financial assets and financial liabilities as at 31 December 2017 and based on factors and circumstances that existed on this date and also using forward-looking information and concluded that application of the new standard since 1 January 2018 will not significantly impact on classification of assets and liabilities in the consolidated financial statements of the Group and also that amount of expected credit loss as at 1 January 2018 does not materially differ from amount of recognized provisions and allowances in the consolidated financial statements as at 31 December 2017.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15. The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

2. Summary of significant accounting policies (continued)

2.30. Adoption of new or revised standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date in view of simplified transition method application, the management of the Group is not expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019; EU effective date 1 January 2019).

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 (EU effective date 1 January 2018) for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018; EU effective date 1 January 2018).

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2019 for amendments to IFRS 1 and IAS 28).

The Group doesn't expect this standard to have a significant impact on its consolidated financial statements.

Not yet adopted and not yet endorsed by the European Union

New standards

IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

The Group's Board of Directors assesses the impact of new standards and interpretations at the point when these are endorsed by the European Union. As a result the impact of the above new standards and interpretations that have not been endorsed by the European Union has not been assessed.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

3. Cash and cash equivalents

	31 December 2017	31 December 2016
Bank deposits with original maturity of less than three months	3,615,400	480,000
Bank balances receivable on demand	1,180,325	6,233,951
Interest receivable on bank deposits within cash equivalents	43,288	5,401
Brokerage accounts	20,293	32,168
Cash in transit	583	-
Cash in hand	446	192
Total	**4,860,335**	**6,751,712**

The Group had the following currency positions:

	31 December 2017	31 December 2016
Russian Roubles	4,802,061	6,221,563
US Dollars	56,816	370,545
Euro	1,200	159,555
Other	258	49
Total	**4,860,335**	**6,751,712**

The weighted average interest rate on cash at bank balances presented within cash and cash equivalents was 7.81% at 31 December 2017 (31 December 2016: 8.44%).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

4. Short-term investments

	31 December 2017	31 December 2016
Bank deposits with original maturity over three months	17,771,426	16,260,200
Interest receivable on bank deposits within short-term investments	369,871	561,964
Current portion of long-term bank deposits	269,568	32,200
Interest receivable on bonds	46,313	60,094
Interest receivable on loans issued to third parties	428	7,830
Loans issued to related parties (Note 27)	172	268,620
Loans issued to third parties	-	39,018
Interest receivable on loans issued to related parties (Note 27)	-	86
Total	**18,457,778**	**17,230,012**

The bank deposits within short-term investments are denominated in the following currencies:

	31 December 2017	31 December 2016
Russian Roubles	17,769,568	16,292,400
US dollars	271,426	-
Total	**18,040,994**	**16,292,400**

As at 31 December 2017 the interest rates on bank deposit denominated in Russian Roubles within short-term investments vary between 2.0% and 10.5% (31 December 2016: 9.70% and 10.5%). As at 31 December 2017 the weighted average interest rate on the bank deposits equals 7.15% (31 December 2016: 10.11%). As at 31 December 2017 the interest rates on bank deposit denominated in US dollars within short-term investments equals 1.15%.

As at 31 December 2017 a VEB deposit amounting to RR 2,000,000 was accounted for as Bank deposits with original maturity over three months. The VEB deposit contained funds received within the loan contract with the Far East Development Fund acting as a government agency to fund investment projects (Note 15).

As at 31 December 2016 bank deposits amounting to RR 442,200 were pledged as collateral for the Group’s borrowings (Note 15).

5. Trade and other receivables

	31 December 2017	31 December 2016
Trade receivables	2,866,621	3,702,734
Other	166,485	208,840
Less: provision for impairment (Note 30)	(280,975)	(124,164)
Total financial assets within trade and other receivables	**2,752,131**	**3,787,410**
Deferred charges	444,184	820,224
Total trade and other receivables	**3,196,315**	**4,607,634**

The above financial assets within trade and other receivables are denominated in the following currencies:

	31 December 2017	31 December 2016
Russian Roubles	2,116,650	2,813,395
US dollars	556,809	575,126
Euro	77,795	396,667
Other	877	2,222
Total	**2,752,131**	**3,787,410**

Reconciliation of movements in the trade and other receivables impairment provision:

	Trade receivables	Other receivables
As at 1 January 2016	**72,924**	**101,082**
(Reversed)/ Accrued	18,814	(7,414)
Utilised	(32,622)	(5,770)
Reclassification to prepayments (Note 6)	-	(22,850)
As at 31 December 2016 (Note 30)	**59,116**	**65,048**
Accrued/(Reversed)	147,661	20,052
Utilised	(2,447)	(8,455)
As at 31 December 2017 (Note 30)	**204,330**	**76,645**

The majority of the Group’s trade debtors are proven counterparties with whom the Group has long-lasting sustainable relationships.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

6. Prepayments

Prepayments classified as current assets represent the following advance payments:

	31 December 2017	31 December 2016
Prepayments for other materials	445,227	55,168
Prepayments for transportation services	211,980	135,536
Prepayments for fuel and energy	179,742	100,747
Prepayments under insurance contracts	92,445	159,885
Prepayments for raw material	89,725	60,531
Prepayments for rent	84,944	72,620
Prepayments to customs	8,929	225
Prepayments for advertising expenses	4,130	9,816
Other prepayments	119,681	188,310
Less: provision for impairment	(35,324)	(35,952)
Total	**1,201,479**	**746,886**

Reconciliation of movements in the prepayments impairment provision:

	2017	2016
As at 1 January	35,952	61,430
Accrued/(Reversed)	10,462	(37,262)
Acquisition of subsidiaries	-	(11,922)
Utilised	(11,090)	856
Reclassification from Other receivables (Note 5)	-	22,850
As at 31 December	**35,324**	**35,952**

As at 31 December 2017 prepayments classified as non-current assets and included in “Advances paid for property, plant and equipment” line in the statement of financial position in the amount of RR 13,841,743 (31 December 2016: RR 14,172,240) represent advance payments for construction works and purchases of production equipment.

7. Other taxes receivable

	31 December 2017	31 December 2016
Value added tax receivable	3,211,136	3,482,308
Other taxes receivable	141,470	180,886
Total	**3,352,606**	**3,663,194**

8. Inventories

	31 December 2017	31 December 2016
Finished goods	13,821,563	16,323,457
Raw materials	9,052,826	10,503,270
Work in progress	3,137,423	3,071,719
Less: provision for write-down to net realisable value	(345,926)	(360,242)
Total	**25,665,886**	**29,538,204**

9. Biological assets

The fair value of biological assets belongs to level 3 measurements in the fair value hierarchy. Pricing model is used as a valuation technique for biological assets fair value measurement. There were no changes in the valuation technique during the years ended 31 December 2017 and 2016. The reconciliation of changes in biological assets between the beginning and the end of the year can be presented as follows:

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

9. Biological assets (continued)

Short-term biological assets

	Consumable livestock, pigs	Unharvested crops	Total
As at 1 January 2016	**3,304,194**	**312,203**	**3,616,397**
Increase due to purchases and gain arising from cost inputs	14,390,534	12,435,253	26,825,787
Acquisitions through business combinations	-	1,526,784	1,526,784
Gain on initial recognition of agricultural produce	-	7,076,223	7,076,223
Reversal of harvest previously written-off (Note 23)	-	63,450	63,450
Decrease due to harvest and sales of the assets	(15,723,877)	(20,609,565)	(36,333,442)
Gain arising from changes in fair value less estimated point-of-sale costs	1,921,758	-	1,921,758
As at 31 December 2016	**3,892,609**	**804,348**	**4,696,957**
Increase due to purchases and gain arising from cost inputs	14,661,497	13,546,784	28,208,281
Gain on initial recognition of agricultural produce	-	1,743,907	1,743,907
Lost harvest written-off (Note 23)	-	(82,119)	(82,119)
Decrease due to harvest and sales of the assets	(16,545,692)	(15,122,308)	(31,668,000)
Gain arising from changes in fair value less estimated point-of-sale costs	1,110,939	-	1,110,939
As at 31 December 2017	**3,119,353**	**890,612**	**4,009,965**

Long-term biological assets

	Bearer livestock		
	Pigs	**Cows**	**Total**
As at 1 January 2016	**1,794,566**	**118,658**	**1,913,224**
Increases due to purchases and breeding costs of growing livestock	769,865	195,099	964,964
Acquisitions through business combinations	-	71,853	71,853
Decreases due to sales	(991,678)	(179,814)	(1,171,492)
Loss arising from changes in fair value less estimated point-of-sale costs	(746)	(32,336)	(33,082)
As at 31 December 2016	**1,572,007**	**173,460**	**1,745,467**
Increases due to purchases and breeding costs of growing livestock	724,651	110,794	835,445
Decreases due to sales	(994,007)	(105,604)	(1,099,611)
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	249,049	(10,566)	238,483
As at 31 December 2017	**1,551,700**	**168,084**	**1,719,784**

In 2017 the aggregate gain on initial recognition of agricultural produce and from the change in fair value less estimated point-of-sale costs of biological assets amounted to RR 3,093,329 (2016: RR 8,964,899).

Included in the above amounts there are gains related to realised biological assets and agricultural produce amounting to RR 6,069,498 (2016: RR 8,916,723).

Livestock population were as follows:

	31 December 2017	31 December 2016
Cows (heads)	2,163	2,431
Pigs within bearer livestock (heads)	81,000	82,125
Pigs within consumable livestock (tonnes)	37,500	40,187

Cows are bred for the purpose of production of milk. In 2017 the milk produced amounted to 5,790 tonnes (2016: 3,648 tonnes).

In 2017 total area of cultivated land amounted to 567 thousand ha (2016: 551 thousand ha).

9. Biological asset (continued)

The main crops of the Group's agricultural production and output were as follows (in thousands of tonnes):

	2017	2016
Sugar beet	3,509	4,309
Wheat	722	459
Barley	296	319
Sunflower	39	73
Corn	126	140
Soya bean	178	170

Key inputs in the fair value measurement of the livestock and the agricultural crops harvested together with sensitivity to reasonably possible changes in those inputs are disclosed in Note 2.2.

The Group is exposed to financial risks arising from changes in milk, meat and crops prices. The Group does not anticipate that milk or crops prices will decline significantly in the foreseeable future except some seasonal fluctuations and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in respective prices. The Group reviews its outlook for milk, meat and crops prices regularly in considering the need for active financial risk management.

10. Long-term investments

	31 December 2017	31 December 2016
Bank deposits with original maturity over twelve months	14,596,500	14,596,500
Bonds held for trading	2,549,698	2,519,915
Interest receivable on bank deposits within long-term investments	376,150	311,570
Available-for-sale financial assets (Note 15)	19,149	272,284
Loans issued to third parties	15,400	15,400
Other long-term investments	37,133	36,071
Total	**17,594,030**	**17,751,740**

The above long-term investments are denominated in Russian Roubles.

As at 31 December 2017 bank deposits in the amount of RR 14,596,500 (31 December 2016: RR 14,596,500) were pledged as collateral for the Group's borrowings (Note 15).

Bank deposits include restricted deposit in Vnesheconombank in amount of RR 13,900,000 which could not be withdrawn till 27 November 2028 (Note 15).

Bonds held for trading were denominated in Russian Roubles and mature in the period from 2019 till 2025. Nominal interest rates on bonds vary between 10.12% and 12.15%. Bonds held for trading were acquired with the intention of generating a profit from short-term price fluctuations and for the purpose of these consolidated financial statements were classified as trading investments with measurement at fair value through profit and loss.

11. Investments in associates

On 26 May 2017 LLC Soyuzsemsvekla was incorporated with the share of LLC Rusagro Group of Companies of 50%. Contribution transferred for 50% amounted RR 9,168.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

11. Investments in associates (continued)

The Group's interests in its principal associates were as follows:

		Group's share in the share capital	
Name of entity	**Principal activity**	**31 December 2017**	**31 December 2016**
LLC Soyuzsemsvekla	Holding company	50.00%	-
LLC Rusprotein	Holding company	-	25.00%
CJSC Status	Registrar	-	25.00%

The country of incorporation of the Group's associates, as well as their principal place of business, is the Russian Federation. The associate incorporated as CJSC has share capital consisting solely of ordinary shares. Ownership interests in LLC Soyuzsemsvekla is held directly by the Group.

All Group's associates are private companies and there are no quoted market prices available for their shares.

The table below summarizes the movements in the carrying amount of the Group's investment in associates:

	2017	2016
Carrying amount at 1 January	**110,504**	**431,404**
Contribution	9,168	-
Share of profit/ (loss) of associates	11,060	20,831
Dividends distributed	(63,717)	(14,021)
Impairment loss	-	(7,821)
Write-off of investments of associates	(59,695)	-
De-recognition of investments in associates as a result of business combination (Note 25)	-	(319,889)
Carrying amount at 31 December	**7,320**	**110,504**

In 2016 the Group has initiated liquidation procedure for LLC Rusprotein and its subsidiaries. This liquidation was finalised in 2017.

In 2017 the Group has sold its equity stake in CJSC Status for RR 42,116. The remaining carrying amount of investments of this associate of RR 59,695 was written-off.

As at 31 December 2016 the Group's management estimated the recoverable amount of the investments in LLC Rusprotein to be equal nil. Consequently in 2016 the Group wrote off the carrying amount of the investment in LLC Rusprotein to nil. The related impairment loss in the amount RR 7,821 was included in "Other operating income/ (expenses), net" line item in the statement of profit or loss and other comprehensive income.

Summarized financial information of the Group's associate is as follows at 31 December 2017:

	LLC Soyuzsemsvekla	Total
Current assets	125,605	125,605
Non-current assets	8,087	8,087
Current liabilities	(130,930)	(130,930)
Non-current liabilities	(301)	(301)
Net assets/ (liabilities)	**2,461**	**2,461**
Revenue	-	-
Profit or loss/ Total comprehensive income or loss	(147)	(147)

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

11. Investments in associates (continued)

Summarized financial information of the Group's associate is as follows at 31 December 2016:

	LLC Rusprotein (consolidated)	CJSC Status	Total
Current assets	591,079	674,400	1,265,479
Non-current assets	561,664	38,866	600,530
Current liabilities	(1,394,158)	(271,377)	(1,665,535)
Non-current liabilities	(17,080)	-	(17,080)
Net assets/ (liabilities)	**(258,495)**	**441,889**	**183,394**
Revenue	15,868	794,087	809,955
Profit or loss/ Total comprehensive income or loss	(316,194)	89,749	(226,445)

Summarized financial information is reconciled to the carrying amount of investments in associates as follows:

	2017	2016
Net assets/ (liabilities) of associate acquired	**2,461**	**183,394**
Group's share in the net assets/ (liabilities) of associate acquired	9,168	74,283
Goodwill arising on acquisitions	-	6,457
Other	(4 236)	8,933
Share of profit/ (loss) of associates	(73)	20,831
Carrying amount at 31 December	**7,320**	**110,504**

There are no contingent liabilities relating to the Group's interest in the associates.

12. Property, plant and equipment

	Land	Machinery, vehicles and equipment	Buildings and constructions	Assets under construction	Other	Total
Cost (Note 2.5)						
As at 1 January 2016	3,988,080	27,632,233	21,600,481	3,407,975	234,673	56,863,442
Additions	2,003,874	4,111,264	62,064	5,189,127	22,373	11,388,702
Acquisitions through business combinations	1,186,591	2,781,268	1,216,949	71,750	42,110	5,298,668
Transfers	39,646	2,368,713	845,941	(3,313,358)	59,058	-
Disposals	(2,605)	(717,829)	(149,017)	(23,823)	(10,704)	(903,978)
As at 31 December 2016	**7,215,586**	**36,175,649**	**23,576,418**	**5,331,671**	**347,510**	**72,646,834**
Accumulated depreciation (Note 2.6)						
As at 1 January 2016	-	(15,502,493)	(6,081,676)	-	(152,087)	(21,736,256)
Charge for the year	-	(4,251,472)	(1,453,586)	-	(55,765)	(5,760,823)
Disposals	-	613,597	18,025	-	9,911	641,533
As at 31 December 2016	**-**	**(19,140,368)**	**(7,517,237)**	**-**	**(197,941)**	**(26,855,546)**
Net book value as at 31 December 2016	**7,215,586**	**17,035,281**	**16,059,181**	**5,331,671**	**149,569**	**45,791,288**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

12. Property, plant and equipment (continued)

	Land	Machinery, vehicles and equipment	Buildings and constructions	Assets under construction	Other	Total
Cost (Note 2.5)						
As at 1 January 2017	7,215,586	36,175,649	23,576,418	5,331,671	347,510	72,646,834
Additions	462,493	5,723,881	62,517	11,426,124	3,794	17,678,809
Acquisitions through business combinations (Note 25)	-	245	-	-	-	245
Transfers	3,008	2,671,712	2,628,397	(5,258,809)	(44,308)	-
Disposals	(42,106)	(503,401)	(22,179)	(34,572)	(26,037)	(628,295)
As at 31 December 2017	**7,638,981**	**44,068,086**	**26,245,153**	**11,464,414**	**280,959**	**89,697,593**
Accumulated depreciation (Note 2.6)						
As at 1 January 2017	-	(19,140,368)	(7,517,237)	-	(197,941)	(26,855,546)
Charge for the year	-	(5,243,265)	(1,604,218)	-	(26,883)	(6,874,366)
Transfers	-	(33,648)			33,648	-
Disposals	-	414,658	-	-	7,745	422,403
As at 31 December 2017	**-**	**(24,002,623)**	**(9,121,455)**	-	**(183,431)**	**(33,307,509)**
Net book value as at 31 December 2017	**7,638,981**	**20,065,463**	**17,123,698**	**11,464,414**	**97,528**	**56,390,084**

As at 31 December 2017 property, plant and equipment with a net book value of RR 10,235,031 (31 December 2016: RR 9,907,536) was pledged as collateral for the Group’s borrowings (Note 15).

As at 31 December 2017 the assets under construction related mainly to the pig farm construction in the Tambov region and Primorsky Krai.

As at 31 December 2016 the assets under construction related mainly to the modernization programme on the Group’s sugar plants.

During the reporting period, the Group capitalised interest expenses within assets under construction in the amount of RR 1,446,761 (2016: RR 444,534). The average capitalisation rate in 2017 was 10.62% (2016: 11.15%).

As at 31 December 2017 inventories intended for construction related mainly to the inventories which will be used for the pig farm construction in the Primorsky Krai.

13. Other intangible assets

	Acquired land lease rights	Trademarks	Software licenses	Internally developed software	Other	Total
Cost (Note 2.9)						
As at 1 January 2016	350,537	304,705	226,223	43,141	161,664	1,086,270
Additions	396,870	20,442	254,934	12,275	48,697	733,218
Acquisitions through business combinations	901,619	-	6	-	-	901,625
Disposals	-	-	(26,875)	(405)	(39,783)	(67,063)
As at 31 December 2016	**1,649,026**	**325,147**	**454,288**	**55,011**	**170,578**	**2,654,050**
Accumulated depreciation (Note 2.9)						
As at 1 January 2016	(13,170)	(121,766)	(63,229)	(27,233)	(98,961)	(324,359)
Charge for the year	(47,088)	(28,802)	(78,965)	(4,973)	(30,692)	(190,520)
As at 31 December 2016	**(60,258)**	**(150,568)**	**(142,194)**	**(32,206)**	**(129,653)**	**(514,879)**
Net book value as at 31 December 2016	**1,588,768**	**174,579**	**312,094**	**22,805**	**40,925**	**2,139,171**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

13. Other intangible assets (continued)

	Acquired land lease rights	Trademarks	Software licenses	Internally developed software	Other	Total
Cost (Note 2.9)						
As at 1 January 2017	1,649,026	325,147	454,288	55,011	170,578	2,654,050
Additions	106,590	3,193	354,177	1,001	56,549	521,510
Transfers	-	-	-	3,079	(3,079)	-
Acquisitions through business combinations	-	-	40	-	12,640	12,680
Disposals	(13)	-	(65,245)	1,062	(2,283)	(66,479)
As at 31 December 2017	**1,755,603**	**328,340**	**743,260**	**60,153**	**234,405**	**3,121,761**
Accumulated depreciation (Note 2.6)						
As at 1 January 2017	(60,258)	(150,568)	(142,194)	(32,206)	(129,653)	(514,879)
Charge for the year	(132,859)	(30,606)	(187,209)	(19,236)	(10,078)	(379,988)
Disposals	13,666	1	44,688	932	-	59,287
As at 31 December 2017	**(179,451)**	**(181,173)**	**(284,715)**	**(50,510)**	**(139,731)**	**(835,580)**
Net book value as at 31 December 2017	**1,576,152**	**147,167**	**458,545**	**9,643**	**94,674**	**2,286,181**

14. Share capital, share premium and transactions with non-controlling interests

Share capital and share premium

At 31 December 2017 the issued and paid share capital consisted of 27,333,333 ordinary shares (31 December 2016: 27,333,333 ordinary shares) with par value of EUR 0.01 each.

At 31 December 2017 and 2016, the authorised share capital consisted of 60,000,000 ordinary shares with par value of EUR 0.01 each.

On 5 May 2016 the Company successfully completed a secondary public offering (hereinafter “SPO”) of global depositary receipts (hereinafter “GDRs”). The SPO included an offering by the Company of 16,666,665 of GDRs with every five GDRs representing an interest in one ordinary share of the Company. The offering price was USD 15 per GDR (the equivalent of USD 75 per ordinary share).

As a result of the SPO, the Company issued 3,333,333 ordinary shares of par value EUR 0.01 each at the price of USD 75 per share. These shares were fully paid in the amount of USD 250 million resulting in an increase of share capital by RR 2,535 and share premium by RR 16,406,906 net of the expenses directly attributable to the new shares issued of RR 133,507.

Treasury shares

At 31 December 2017 the Group held 2,172,368 of its own GDRs (31 December 2016: 2,205,982 own GDRs) that is equivalent of approximately 434,474 shares (31 December 2016: 441,196 shares). The GDRs are held as ‘treasury shares’. In 2016 and 2017 there were no acquisitions of treasury shares. In 2017 the Group transferred 33,614 of its own GDRs to the employees under the share option incentive scheme initiated by the Group in 2014 amounting to RR 7,612 (Note 27).

In 2016 the Group sold 6,666 of its own GDRs from those held as treasury shares.

Dividends

In 2017 the Company distributed RR 4,619,353 of dividends for the second half of 2016 and RR 1,861,815 of interim dividends for the first half of 2017. The dividends for the second half of 2016 amounted to RR 171.75 per share and interim dividends for 2017 amounted to RR 69.20 per share.

In 2016 the Company distributed RR 5,336,758 of dividends for the second half of 2015 and RR 2,004,336 of interim dividends for the first half of 2016. The dividends for the second half of 2015 amounted to RR 198.45 per share and interim dividends for 2016 amounted to RR 74.55 per share.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

14. Share capital, share premium and transactions with non-controlling interests (continued)

Purchases of non-controlling interests

2017

In 2017 the Group increased its share in OJSC Pugachevskiy elevator, in OJSC Hercules and in OJSC By General Vatutin. The total excess of consideration paid over the Group's share of identifiable net assets acquired in the amount of RR 79,194 was recorded as a capital transaction in the statement of changes in equity.

2016

In December 2016 the Group increased its share in OJSC Krivets-Sakhar up to 98.82%. The consideration paid amounted to RR 141,256. The excess of consideration paid over the Group's share of identifiable net assets acquired in the amount of RR 161,879 was recorded as a capital transaction in the statement of changes in equity.

In 2016 the Group increased its share in OJSC Valuikisakhar to 100.0%. The consideration paid was RR 1,594. The excess of the carrying amount of the non-controlling interest acquired over the purchase consideration in the amount of RR 2,607 was recorded as a capital transaction in the statement of changes in equity.

Disposal of interest in subsidiaries without loss of control

2016

In 2016 the Group disposed of 10% of ownership interests in OJSC Hercules for a consideration in the amount of RR 37,613. The excess of the consideration received over the carrying amount of the non-controlling interest disposed in the amount of RR 17,526 was recorded as a capital transaction in the statement of changes in equity.

15. Borrowings

Short-term borrowings

	31 December 2017		31 December 2016	
	Interest rate	**Carrying amount**	**Interest rate**	**Carrying amount**
Bank loans	1%-13%	3,763,123	4.0-12.5%	6,079,514
Loans received from third parties	6.0%	293,506	6.0%	691,497
Finance leases		11,850		-
Interest accrued on borrowings from third parties		99,249		75,511
Current portion of long-term borrowings		4,695,797		4,857,754
Total		**8,863,525**		**11,704,276**

All short-term borrowings are at fixed interest rate. The above borrowings are denominated in the following currencies:

	31 December 2017	31 December 2016
Russian Roubles	8,481,006	11,353,699
US Dollars	-	13,047
Euro	382,519	337,530
Total	**8,863,525**	**11,704,276**

Long-term borrowings

	31 December 2017		31 December 2016	
	Interest rate	**Carrying amount**	**Interest rate**	**Carrying amount**
Bank loans	1.0-13.0%	42,380,111	1.0-13.0%	37,655,994
Finance leases		103,463		-
Less current portion of long-term borrowings from:				
Bank loans	1.0-13.0%	(4,695,797)	1.0-13.0%	(4,857,754)
Total		**37,787,777**		**32,798,240**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

15. Borrowings (continued)

The above borrowings are denominated in the following currencies:

	31 December 2017	31 December 2016
Russian Roubles	37,720,381	32,798,240
US Dollars	-	-
Euro	67,396	-
Total	**37,787,777**	**32,798,240**

In 2017 the Group raised a ten-year loan of RR 5,000,000 from the Far East Development Fund. The loan was provided to finance the construction of pig breeding farms and slaughter houses in the Far East. Once received the loan was placed in the Vnesheconombank (hereinafter – "VEB") deposit account for further disbursement for the investment project. The VEB deposit bears interest of 2% on withdrawal amount and 7.8% on fixed amount and this interest rate is effectively also applied to the portion of the loan that was not disbursed from the deposit account. In accordance with the loan agreement a fixed interest rate of 5% is applied to the portion of the loan disbursed from the deposit account. The VEB deposit is accounted for as a short-term bank deposit and included in Short-term investments (Note 4).

The fair value of this loan at inception date was RR 3,712,263 determined using the effective interest rate of 11%. The loan is measured at amortized cost with an effective interest rate of 11%.The benefit of the lower interest rate of 5% is treated as a government grant and amounted to RR 1,287,737 (Note 18).

In November 2015 the Group entered into a transaction with VEB for the acquisition of debt (loans and bonds) and equity (19.97% shares in PJSC Group Razguliay) of PJSC Group Razguliay and its subsidiaries (hereinafter – "Razguliay Group"). The total consideration for this acquisition amounted to RR 33,914,546 and was paid by the Group in cash.

For the purpose of financing of this transaction, the Group raised a thirteen-year loan from VEB in the amount of RR 33,914,546 at 1% per annum. The fair value of this loan at inception date was RR 13,900,000 determined using the effective interest rate of 13.23%. The loan is measured at amortized costs with an effective interest rate of 13.23%. The loan is secured by a thirteen-year deposit placed by the Group with VEB in the amount of RR 13,900,000 at the interest rate of 12.84% per annum.

The cost of the Group of financial assets acquired in this transaction representing fair value of the loan obtained from VEB was allocated to the individual identifiable financial assets based on their relative fair values at the date of acquisition.
The acquired ownership interest in Razguliay Group (19.97% of shares) was accounted for as on available-for-sale investment and included in Long-term investments (Note 10). As at 31 December 2016 the fair value of the acquired ownership interest amounted to RR 253,136. In 2017 Razguliay Group was declared bankrupt. Till this moment the decrease in fair value of available-for-sale investment in Razguliay reflected in other comprehensive income in 2017 in the amount of RR 154,082 together with the related income tax of RR 30,816. At the time Razguliay Group was declared bankrupt respective available-for-sale investment of RR 99,054 was written off together with recycling of related accumulated fair value reserve for available-for-sale financial assets in other comprehensive income in the amount of RR 301,335 to profit or loss and included in the Other operating income/ (expenses) line item within the statement of profit or loss and other comprehensive income (Note 23). The related accumulated income tax in amount of RR 60,267 was also recycled to profit or loss and included in Income tax expense line item within the statement of profit or loss and other comprehensive income.

Maturity of long-term borrowings:

Fixed interest rate borrowings:	31 December 2017	31 December 2016
2 years	5,081,773	3,448,130
3-5 years	23,633,309	16,584,152
More than 5 years	8,655,833	10,681,649
Total	**37,370,915**	**30,713,931**

Floating interest rate borrowings:	31 December 2017	31 December 2016
2 years	416,862	1,667,448
3-5 years	-	416,861
Total	**416,862**	**2,084,309**

For details of property, plant and equipment and biological assets pledged as collateral for the above borrowings see Note 12. For details of bank deposits pledged as collateral for the above borrowings refer to Notes 4 and 10.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

15. Borrowings (continued)

Shares of several companies of the Group are pledged as collateral for the bank borrowings, as follows:

	Pledged shares, %	
	31 December 2017	**31 December 2016**
LLC Tambovsky Bacon	100.0	100.0
LLC Rusagro-Primorie	100.0	100.0
LLC Rusagro-Belgorod (former OJSC Valuikisakhar)	51.0	51.0
LLC Rusagro-Tambov	51.0	51.0

Net Debt*

As part of liquidity risk management, the Group Treasury analyses its net debt position. The Group management determines the Net Debt of the Group as outstanding long-term borrowings and short-term borrowings less cash and cash equivalents, all bank deposits, bonds held for trading and banks' promissory notes. The Group management compares net debt figure with Adjusted EBITDA (Note 29) and considers the normal level of Net Debt/Adjusted EBITDA ratio to be not more than 3.

As at 31 December 2017 and 2016 the net debt of the Group was as follows:

	31 December 2017	**31 December 2016**
Long-term borrowings	37,787,777	32,798,240
Short-term borrowings	8,863,525	11,704,276
Cash and cash equivalents	(4,860,335)	(6,751,712)
Bank deposits within short-term investments (Note 4)	(18,040,994)	(16,292,400)
Bank deposits within long-term investments (Note 10)	(14,596,500)	(14,596,500)
Bonds held for trading (Note 10)	(2,549,698)	(2,519,915)
Net debt*	**6,603,775**	**4,341,989**
including long-term Net debt	20,641,579	15,681,825
including short-term Net debt	(14,037,804)	(11,339,836)
Adjusted EBITDA* (Note 29)	**13,955,369**	**18,205,051**
Net debt/ Adjusted EBITDA*	**0.47**	**0.24**

* not an IFRS measure.

For the purpose of conformity with the methodology of the Group's Net Debt calculation, cash flows from investing and financing activities in the Group management accounts are presented as follows:

	Year ended 31 December 2017		
	According to IFRS	**Reclassifications**	**Management accounts**
Cash flows from investing activities			
Purchases of property, plant and equipment	(16,684,987)	-	(16,684,987)
Purchases of inventories intended for construction	(848,870)	-	(848,870)
Proceeds from cash withdrawals from deposits	34,227,159	(34,227,159)	-
Deposits placed with banks	(35,976,815)	35,976,815	-
Purchases of associates	(9,168)	-	(9,168)
Proceeds from sale of associates	42,116	-	42,116
Loans given	(7)	7	-
Loans repaid	428,559	(428,559)	-
Interest received	4,336,595	(4,336,595)	-
Other cash flows in investing activities*	(386,289)	-	(386,289)
Net cash used in investing activities	**(14,871,707)**	**(3,015,491)**	**(17,887,198)**
Cash flows from financing activities			
Proceeds from borrowings	18,819,053	-	18,819,053
Repayment of borrowings	(16,860,947)	-	(16,860,947)
Proceeds from cash withdrawals from deposits*	-	34,227,159	34,227,159
Deposits placed with banks*	-	(35,976,815)	(35,976,815)
Loans given*	-	(7)	(7)
Loans repaid*	-	428,559	428,559
Interest paid	(2,865,059)	-	(2,865,059)
Interest received*	-	4,336,595	4,336,595
Proceeds from government grants	2,674,618	-	2,674,618
Lease payments	(14,919)	-	(14,919)
Other cash flows in financing activities*	(6,232,329)	-	(6,232,329)
Net cash used in financing activities	**(4,479,583)**	**3,015,491**	**(1,464,092)**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

15. Borrowings (continued)

	Year ended 31 December 2016		
	According to IFRS	**Reclassifications**	**Management accounts**
Cash flows from investing activities			
Purchases of property, plant and equipment	(16,642,716)	-	(16,642,716)
Purchases of inventories intended for construction	(69,787)	-	(69,787)
Proceeds from cash withdrawals from deposits	22,469,547	(22,469,547)	-
Deposits placed with banks	(23,934,790)	23,934,790	-
Purchases of bonds	(2,566,211)	2,566,211	-
Proceeds from sales of bonds held for trading	3,433,426	(3,433,426)	-
Loans given	(1,217,297)	1,217,297	-
Purchases of loans issued	11,261,011	(11,261,011)	-
Loans repaid	4,585,875	(4,585,875)	-
Interest received	124,405	(124,405)	-
Other cash flows in investing activities*	(7,633,872)	-	(7,633,872)
Net cash used in investing activities	**(10,190,409)**	**(14,155,966)**	**(24,346,375)**
Cash flows from financing activities			
Proceeds from borrowings	26,104,909	-	26,104,909
Repayment of borrowings	(33,949,009)	-	(33,949,009)
Proceeds from cash withdrawals from deposits*	-	22,469,547	22,469,547
Deposits placed with banks*	-	(23,934,790)	(23,934,790)
Purchases of bonds*	-	(2,566,211)	(2,566,211)
Proceeds from sales of bonds*	-	3,433,426	3,433,426
Loans given*	-	(1,217,297)	(1,217,297)
Loans repaid*	-	11,261,011	11,261,011
Interest paid	(3,823,363)	-	(3,823,363)
Interest received*	-	4,585,875	4,585,875
Proceeds from government grants	3,487,866	-	3,487,866
Proceeds from issue of own shares, net of transaction cost	16,328,269	-	16,328,269
Proceeds from sales of treasury shares	6,373	-	6,373
Proceeds from sales of rights of claim*	-	124,405	124,405
Other cash flows in financing activities*	(7,271,235)	-	(7,271,235)
Net cash from financing activities	**883,810**	**14,155,966**	**15,039,776**

*See details in the consolidated statement of cash flows.

Liabilities from financing activities

	Borrowings	**Finance leases**	**Total liabilities from financing activities**
As at 1 January 2016	**50,323,341**	**-**	**50,323,341**
Cash flows	(11,667,463)	-	(11,667,463)
Business combinations	755,684	-	755,684
Foreign exchange adjustments	(131,389)	-	(131,389)
Other non-cash movements	5,222,343	-	5,222,343
As at 31 December 2016	**44,502,516**	**-**	**44,502,516**
As at 1 January 2017	**44,502,516**	**-**	**44,502,516**
Cash flows	(906 953)	(14,919)	(921,872)
Foreign exchange adjustments	103,220	(778)	102,442
Other non-cash movements	2,837,206	131,010	2,968,216
As at 31 December 2017	**46,535,989**	**115,313**	**46,651,302**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

16. Trade and other payables

	31 December 2017	31 December 2016
Trade accounts payable	2,654,568	3,440,952
Payables for property, plant and equipment	742,167	453,350
Other payables	3,150	4,528
Total financial liabilities within trade and other payables	**3,399,885**	**3,898,830**
Payables to employees	1,478,158	1,425,581
Advances received	1,895,026	1,664,494
Total trade and other payables	**6,773,069**	**6,988,905**

Financial liabilities within trade and other payables of RR 54,894 (31 December 2016: RR 308,201) are denominated in US Dollars, financial liabilities within trade and other payables of RR 200,566 (31 December 2016: RR 161,300) are denominated in Euros. All other financial liabilities within trade and other payables are denominated in Russian Roubles.

17. Other taxes payable

	31 December 2017	31 December 2016
Value added tax	3,761,666	3,664,836
Property tax	111,254	81,214
Social contributions	106,357	7,005
Personal income tax	52,239	33,385
Transport tax	3,923	3,464
Other	36,925	24,374
Total	**4,072,364**	**3,814,278**

18. Government grants

During 2016-2017 the Group received government grants from the Tambov and Belgorod regional governments and the Federal government in partial compensation of the investments into acquisition of equipment for agricultural business and sugar processing and the investments into reconstruction and modernisation of the pig-breeding farms and the slaughter house. The receipts of these grants in 2017 amounted
to RR 708,734 (2016: RR 1,665,675). These grants are deferred and amortised on a straight-line basis over the expected lives of the related assets.

In 2017 the Group received a loan with a low interest rate from the Far East Development Fund to fund a construction of pig-breeding farms and the slaughter house in the Far East region (Note 15). The benefit of the lower interest in amount of RR 1,287,737 is treated as a government grant.

In 2016-2017 the Group obtained government grants for reimbursement of interest expenses on bank loans received for construction of the pig-breeding farms in the Far East and Tambov. The government grants related to interest expenses capitalised into the carrying value of assets, were similarly deferred and amortised on a straight-line basis over the expected lives of the related assets. The deferred government grants, related to capitalised interest expense, amounted to RR 1,045,164 (2016: RR 305,238).

The movements in deferred government grants in the statement of financial position were as follows:

	2017	2016
As at 1 January	3,712,593	2,043,667
Government grants received	3,041,634	1,970,913
Amortization of deferred income to match related depreciation (Note 23)	(376,758)	(301,987)
As at 31 December	**6,377,469**	**3,712,593**

Other bank loan interests, which had been refunded by the state, were credited to the consolidated statement of profit or loss and other comprehensive income and netted with the interest expense (Note 24).

Other government grants received are included in Note 23.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

19. Sales

	2017	2016
Sales of goods	78,539,058	83,777,898
Sales of services	518,802	478,687
Total	**79,057,860**	**84,256,585**

Sales in 2017 include revenue arising from exchange of goods amounting to RR 189,790 (2016: RR 226,410) and exchange of services amounting to RR 72,095 (2016: RR 100,656).

20. Cost of sales

	2017	2016
Raw materials and consumables used	36,345,547	42,196,264
Depreciation	6,436,603	5,378,038
Payroll	6,022,898	4,684,144
Services	4,563,455	4,805,443
Other	1,919,564	2,226,803
Purchases of goods for resale	1,278,135	7,149,203
Purchase of biological assets	564,944	285,515
Provision/ (reversal of provision) for net realisable value	(30,885)	82,545
Change in work in progress, finished goods and goods for resale, biological assets	1,015,509	(7,892,342)
Total	**58,115,770**	**58,915,613**

“Changes in inventories and biological assets” line above includes changes in balances of goods produced and goods purchased for resale, changes in work in progress and changes in biological assets excluding the effect of revaluation adjustments. This line also includes change in depreciation as included in work in progress, finished goods and biological assets in the amount of RR (995,662) (2016: RR (387,799)).

Payroll costs include salaries of RR 4,632,777 (2016: RR 3,592,679) and statutory pension contributions of RR 1,025,930 (2016: RR 844,374).

The average number of employees employed by the Group during the year ended 31 December 2017 was 14,153 (12,399 for the year ended 31 December 2016).

21. Distribution and selling expenses

	2017	2016
Transportation and loading services	4,469,006	4,208,526
Payroll	1,296,358	1,008,708
Other services	831,178	635,395
Advertising	533,633	1,407,548
Depreciation and amortization	370,854	265,026
Fuel and energy	180,327	136,878
Materials	171,306	260,746
Provision for impairment of receivables	142,611	(47,981)
Other	429,041	583,689
Change in selling and distribution expenses attributable to goods not sold	(63,350)	(465,441)
Total	**8,360,964**	**7,993,094**

Payroll costs include salaries of RR 1,023,875 (2016: RR 800,001) and statutory pension contributions of RR 272,483 (2016: RR 208,708).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

22. General and administrative expenses

	2017	2016
Payroll	2,540,718	3,027,768
Taxes, excluding income tax	447,835	518,006
Services of professional organisations	396,820	454,693
Depreciation	347,877	176,786
Rent	194,462	216,723
Security	142,293	114,656
Bank services	93,097	133,806
Materials	82,115	61,022
Travelling expenses	71,625	77,232
Repair and maintenance	49,082	124,917
Fuel and energy	44,876	61,364
Insurance	42,148	36,445
Communication	26,951	27,480
Statutory audit fees	1,864	1,714
Other	396,771	323,445
Total	**4,878,534**	**5,356,057**

Payroll costs above include salaries of RR 2,077,647 (2016: RR 2,546,037) and statutory pension contributions of RR 463,071 (2016: RR 481,731).

The total fees charged by the Company's statutory auditor for the statutory audit of the annual financial statements of the Company for the year ended 31 December 2017 amounted to RR 1,864 (2016: RR 1,714). The total fees charged by the Company's statutory auditor for the year ended 31 December 2017 for tax advisory services amounted to RR 1,385 (2016: RR 993). There were no other non-assurance services in 2017 (2016: RR 1,949).

23. Other operating income/ (expenses), net

	2017	2016
Reimbursement of operating expenses (government grants)	104,221	445,181
Operating foreign exchange gains and losses, net	41,768	32,808
Amortization of deferred income to match related depreciation (Note 18)	376,758	301,987
Loss on disposal of property, plant and equipment	(78,849)	(31,217)
Provision for impairment of advances paid for property, plant and equipment	(44)	724
Settlement of loans and accounts receivable previously written-off	141,339	937,545
Charitable donations and social costs	(154,239)	(127,150)
Loss on other investments (Note 15)	(401,453)	(7,820)
Lost harvest write-off / (Reversal of harvest previously written-off) (Note 9)	(82,119)	63,450
Loss on sale of associates, net	(58,833)	-
Impairment of goodwill (Note 25)	(399,046)	(589,416)
Excess of the Group's share of identifiable net assets acquired over consideration paid (Note 25)	-	905,140
Share-based remuneration	(19,761)	(4,026)
Other	(135,660)	171,986
Total	**(665,918)**	**2,099,192**

Lost harvest write-off relates to damage of crops due to unfavourable weather conditions.

The amount of income from the excess of the Group's share of identifiable net assets acquired over the consideration paid in 2016 changed from RR 636,036 to RR 905,140 as a result of the finalisation of the valuation of LLC Alekseevka-Agroinvest (Note 25).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

24. Interest expense and other financial income/ (expenses), net

Interest expense comprised of the following:

	2017	2016
Interest expense	3,512,362	4,810,145
Reimbursement of interest expense (government grants)	(1,252,558)	(1,196,038)
Interest expense, net	**2,259,804**	**3,614,107**

Other financial income/ (expenses), net comprised of the following items:

	2017	2016
Financial foreign exchange differences gain/(loss), net	10,896	(1,107,247)
Other financial expenses, net	(49,864)	(27,602)
Other financial income/ (expenses), net	**(38,968)**	**(1,134,849)**

25. Goodwill

	2017	2016
Carrying amount at 1 January	2,225,304	2,405,791
Acquisitions of subsidiaries	-	408,929
Impairment	(399,046)	(589,416)
Carrying amount at 31 December	**1,826,258**	**2,225,304**

The carrying amount of goodwill is allocated to the following CGUs:

	31 December 2017	31 December 2016
Oil Primorie CGU	-	399,046
Oil Samara CGU	899,401	899,401
Agriculture Center CGU	199,276	199,276
Sugar CGU	502,083	502,083
Agriculture Primorie CGU	225,498	225,498
Total	**1,826,258**	**2,225,304**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

2017

In 2017 the Group acquired 100% of ownership interest in the share capital of LLC Regionstroy, a construction company located in the Far East. The difference between the cash consideration transferred in amount of RR 10 and total fair value of net identifiable liabilities in amount of RR 108,382 was immediately impaired and recognized in other operating expenses.

The following table summarises the consideration paid, the fair value of liabilities acquired at the acquisition date:

	LLC Regionstroy
Consideration transferred	10
Total consideration	**10**
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	79,426
Trade and other receivables	130
Prepayments	1,407
Current income tax receivable	15
Other taxes receivable	722,640
Inventories	34,281
Property, plant and equipment	121
Advances paid for non-current assets	3,739,049
Deferred income tax assets	27,369
Other intangible assets	12,680
Trade and other payables	(4,724,927)
Current income tax payable	(12)
Other taxes payable	(551)
Deferred income tax liability	(9)
Total identifiable net liabilities	**(108,382)**
Loss arising from the acquisition	**108,392**
Total purchase consideration and previously held interest in the acquire	10
Less: Cash and cash equivalents of subsidiary acquired	(79,426)
Outflow/ (inflow) of cash and cash equivalents on acquisition	**(79,416)**

2016

On 4 March 2016 the Group acquired 100.00% of ownership interest in the share capital of LLC Kolyshleyskiy Elevator, a grain silo located in the Penza region, for cash consideration in the amount of RR 180,000. The goodwill arising on acquisition was allocated to to Agriculture Center CGU. Its close location to the other agricultural companies of the Group will enable the greater efficiencies and competitive advantage.

On 12 May 2016 the Group increased its share in the share capital of OJSC Pugachevskiy elevator up to 66.87%. The cash consideration transferred amounted to RR 9,178. The equity interest in OJSC Pugachevskiy elevator held before the business combination amounted to 29.00%. The grain elevator is situated in the close proximity to the Group’s oil extraction plant CJSC Samaraagroprompererabotka. The goodwill arising on acquisition allocated to Oil Samara CGU will allow to develop synergies and achieve cost savings on the combination of the businesses.

In May 2016 the Group acquired 92.89% shares in the share capital of OJSC Hercules, a buckwheat processing plant located in Voronezh region. The total consideration transferred amounted to RR 347,559. The goodwill arising on acquisition is attributable to the acquired customer base and the expected profitability of the acquired business and allocated to Sugar CGU.

On 17 October 2016 the Group acquired 100.00% of ownership interest in the share capital of LLC Alekseevka-Agroinvest, an agricultural entity located in the Belgorod region, for cash consideration of RR 216,102.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and non-controlling interest at the acquisition date:

	OJSC Hercules	LLC Kolyshleyskiy Elevator	OJSC Pugachevskiy elevator	LLC Alekseevka-Agroinvest
Consideration transferred	347,559	180,000	9,178	216,102
Fair value of equity interest in subsidiary held before the business combination	-	-	319,889	-
Total consideration	**347,559**	**180,000**	**329,067**	**216,102**
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Cash and cash equivalents	415	69,785	39,580	13
Short-term investments	-	435	-	6,217
Trade and other receivables	4,376	3,431	3,122	69,112
Prepayments	394	175	732	830
Current income tax receivable	-	-	981	-
Other taxes receivable	5,903	120	117	4,353
Inventories	17,532	12,671	3,050	72,599
Short-term biological assets	-	-	-	97,877
Property, plant and equipment	139,959	94,248	128,290	20,322
Long-term investments	10,240	-	-	-
Deferred income tax assets	33,739	-	-	106
Borrowings	-	-	(3,199)	-
Trade and other payables	(7,201)	(1,764)	(4,152)	(49,644)
Current income tax payable	-	(795)	-	(574)
Other taxes payable	(826)	(5,825)	(1,625)	(1,009)
Deferred income tax liability	-	(11,762)	(21,851)	-
Total identifiable net assets	**204,531**	**160,719**	**145,045**	**220,202**
Non-controlling interest	(14,548)	-	(48,051)	-
Goodwill arising from the acquisition	**157,576**	**19,281**	**232,073**	**-**
Excess of the Group's share of identifiable net assets acquired over consideration paid	**-**	**-**	**-**	**(4,100)**
Total purchase consideration and previously held interest in the acquire	347,559	180,000	329,067	216,102
Less: Non-cash consideration	-	-	(319,889)	-
Less: Cash and cash equivalents of subsidiary acquired	(415)	(69,785)	(39,580)	(13)
Outflow/ (inflow) of cash and cash equivalents on acquisition	**347,144**	**110,215**	**(30,402)**	**216,089**

The fair values of identifiable assets and liabilities of the above mentioned acquisitions, except for LLC Alekseevka-Agroinvest, were determined using discounted cash flow models. The valuation of property, plant and equipment was performed by an independent professional appraiser. The acquisition of LLC Alekseevka-Agroinvest was accounted for using the provisional amounts of assets and liabilities of the investees as the Group had not finalized the fair value determination of these assets and liabilities at the moment of preparation of the consolidated financial statements for 2016.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

In 2017 the Group finalised the valuation of assets and liabilities of LLC Alekseevka-Agroinvest and adjusted the comparatives figures for 2016 in these consolidated financial statements accordingly. The differences between provisional amounts and the fair values of identifiable assets and liabilities assumed and the resulting impact on the excess of the Group's share of identifiable net assets acquired over consideration paid are summarised in the following table:

	LLC Alekseevka-Agroinvest: fair values	LLC Alekseevka-Agroinvest: provisional amounts	Differences
Consideration transferred	216,102	216,102	-
Total consideration	**216,102**	**216,102**	**-**
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	13	13	-
Short-term investments	6,217	6,217	-
Trade and other receivables	69,112	69,112	-
Prepayments	830	830	-
Other taxes receivable	4,353	4,353	-
Inventories	72,599	72,599	-
Short-term biological assets	97,877	97,877	-
Property, plant and equipment	149,464	20,322	129,142
Other intangible assets	139,962	-	139,962
Deferred income tax assets	106	106	-
Trade and other payables	(49,644)	(49,644)	-
Current income tax payable	(574)	(574)	-
Other taxes payable	(1,009)	(1,009)	-
Total identifiable net assets	**489,306**	**220,202**	**269,104**
Excess of the Group's share of identifiable net assets acquired over consideration paid	**(273,204)**	**(4,100)**	**(269,104)**

The amount resulting from the excess of the Group's share of identifiable net assets acquired over consideration paid was recognized as a bargain purchase gain (Note 23). The Group purchased LLC Alekseevka-Agroinvest with the purpose of expansion of its business within the Belgorod region by merger with the existing successfully operating entity LLC Rusagro-Invest. The merger procedure was completed on 30 March 2017.

In May 2016 the Group acquired through one deal a controlling stake in three sugar plants: 100.00% share capital of CJSC Kshenskiy Sugar Plant and 86.75% share capital of OJSC Krivets-Sakhar, both situated in Kursk region, and 100.00% share capital of CJSC Otradinskiy Sugar Plant, located in Orel region. Within the same deal, the Group acquired 59.00% of the share capital of OJSC By General Vatutin, agricultural entity located in Belgorod region. At the time of the purchase transaction, CJSC Kshenskiy Sugar Plant and CJSC Otradinskiy Sugar Plant together controlled 100.00% ownership interest in LLC Kshenagro, located in Kursk region, and LLC Otradaagroinvest, located in Orel region, both are agricultural entities. The total consideration transferred under the deal amounted to RR 5,322,620.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and non-controlling interest at the acquisition date:

	OJSC Krivets-Sakhar	CJSC Kshenskiy Sugar Plant	CJSC Otradinskiy Sugar Plant	OJSC By General Vatutin	LLC Kshenagro	LLC Otrada-agroinvest	Total
Consideration transferred							5,322,620
Recognized amounts of identifiable assets acquired and liabilities assumed:							
Cash and cash equivalents	137	13	9	1,251	174	480	2,064
Short-term investments	-	386,085	5,676	69,650	1,494,332	25,619	1,981,362
Trade and other receivables	4,152	3,120	9,102	10,594	243,804	7,465	278,237
Prepayments	105,766	1,400	782,564	1,739	2,157	5,688	899,314
Current income tax receivable	-	18,238	57,170	639	666	181	76,894
Other taxes receivable	17,859	394	625	19,341	94,763	188,437	321,419
Inventories	101,406	120,910	137,730	95,539	82,837	288,380	826,802
Short-term biological assets	-	-	-	161,999	533,471	733,437	1,428,907
Property, plant and equipment	391,917	915,557	1,125,475	121,384	948,227	1,284,147	4,786,707
Inventories intended for construction	4,880	3,175	4,209	58	50	105	12,477
Long-term biological assets	-	-	-	71,853	-	-	71,853
Deferred income tax assets	41,691	-	-	529	-	-	42,220
Other intangible assets	-	4,690	6,171	289,660	163,276	297,866	761,663
Borrowings	(585,951)	(352,041)	(854,756)	(386,085)	(280,798)	(904,989)	(3,364,620
Trade and other payables	(190,391)	(125,274)	(48,430)	(182,091)	(179,872)	(971,578)	(1,697,636
Current income tax payable	-	-	-	(45)	(33)	-	(78)
Other taxes payable	(3,190)	(19,804)	(69,059)	(1,823)	(4,284)	(3,874)	(102,034)
Deferred income tax liability	-	(131,314)	(141,473)	-	(805)	-	(273,592)
Total identifiable net assets	**(111,724)**	**825,149**	**1,015,013**	**274,193**	**3,097,965**	**951,364**	**6,051,960**
Non-controlling interest	15,029	-	-	(112,433)	-	-	(97,404)
Excess of the Group's share of identifiable net assets acquired over consideration							**(631,936)**
Total purchase consideration							5,322,620
Less: Cash and cash equivalents of subsidiary acquired							(2,064)
Outflow of cash and cash equivalents on acquisition							**5,320,556**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

The fair values of identifiable assets and liabilities of the above mentioned acquisitions were determined using discounted cash flow models. The valuation of property, plant and equipment and the rights under land rent agreements was performed by an independent professional appraiser.

In 2016 the Group also acquired 100.00% ownership interest in JSC Turga, JSC Sergeevskoie, JSC Pogranichnoie, LLC Armada-Land, LLC GeoRitm and LLC Landlord, all located in Primorie region. The total cash consideration amounted to RR 1,538,484. These entities were acquired with the purpose of obtaining control over the agricultural land bank, owned by the acquired entities through ownership rights and rent agreements. There were no production processes on the acquired entities at the moment of acquisition. All other assets except for the land were immaterial. These deals were accounted for as assets acquisitions.

The total purchase consideration for these acquisitions was RR 6,395,348. Management determined that the fair value of the net identifiable assets acquired was RR 6,782,457.

The acquisitions which occurred during 2016 resulted in the following:

- An excess of the Group's share of identifiable net assets acquired over consideration paid which was recognised directly in the consolidated statement of profit and loss and other comprehensive income amounting to RR 636,036.
- Goodwill which was recognised in the consolidated statement of financial position amounting to RR 408,929.

Goodwill Impairment Test

The carrying amount of goodwill as at 31 December 2017 and 2016 was tested for impairment. The recoverable amount of the Group's cash-generating units has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Group management covering a five-year period and the expected market prices for the Group's key products for the same period according to leading industry publications. Cash flows beyond the five-year period are projected with a long-term growth rate of 3.5% per annum (31 December 2016: 3.5% per annum).

The assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	EBITDA margin*		**Pre-tax discount rate**	
	2017	**2016**	**2017**	**2016**
Oil Primorie CGU	6.2-8.8%	6.5-7.8%	16.0%	15.9%
Oil Samara CGU	5.5-11.0%	5.0-15.2%	13.1%	14.9%
Agriculture Center CGU	20.6-30.9%	16.7-29.8%	12.4%	13.0%
Sugar CGU	20.0-25.2%	25.7-29.7%	14.7%	15.8%
Agriculture Primorie CGU	14.5--31.3%	(3.9)-37.9%	12.4%	13.1%

* EBITDA margin is calculated as the sum of operating cash flows before income tax and changes in working capital divided by the amount of cash flow received from trade customers.

2017

As a result of the testing, impairment losses were recognised for the goodwill allocated to Oil Primorie CGU. The loss amounted to RR 399,046 and was included in "Other operating income/ (expenses), net" line item in the statement of profit and loss and other comprehensive income. The impairment in the Oil Primorie CGU arose as a result of the plants continuing underperformance in terms of production and sales volumes. No class of assets other than goodwill were impaired. As at 31 December 2017 the recoverable amount of Oil Primorie CGU amounted to RR 1,320,546.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

25. Goodwill (continued)

If the revised estimated EBITDA margin used in impairment test for the Oil Primorie CGU had been 2.0 % lower than management's estimates, with all other assumptions held constant, the Group would need to reduce the carrying value of property, plant and equipment by RR 423,388. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the Oil Primorie CGU had been 2.0 % higher than management's estimates, with all other assumptions held constant, the Group would need to reduce the carrying value of property, plant and equipment by RR 189,957. The CGUs' carrying amount would be equal to the value in use at a discount rate of 13.4%.

A reasonably possible shift in key assumptions underlying the value-in-use calculations for other CGUs would not lead to impairment of goodwill as at 31 December 2017.

2016

As a result of the testing, impairment losses were recognised for the goodwill allocated to Oil Primorie CGU. The loss amounted to RR 589,416 and was included in "Other operating income/ (expenses), net" line item in the consolidated statement of profit or loss and other comprehensive income. The impairment in the Oil Primorie CGU arose as a result of the plants continuing underperformance in terms of production and sales volumes. No class of assets other than goodwill were impaired. As at 31 December 2016 the recoverable amount of Oil Primorie CGU amounted to RR 2,247,197.

If the revised estimated EBITDA margin used in impairment test for the Oil Primorie CGU had been 2.0 % lower than management's estimates, with all other assumptions held constant, the Group would need to recognise additional impairment of goodwill in the amount of RR 399,046 and to reduce the carrying value of property, plant and equipment by RR 483,763. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the Oil Primorie CGU had been 2.0 % higher than management's estimates, with all other assumptions held constant, the Group would need to recognise additional impairment of goodwill in the amount of RR 327,194. The CGUs' carrying amount would be equal to the value in use at a discount rate of 13.4%.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of the Agriculture Primorie CGU had been 2.0 % higher than management's estimates, with all other assumptions held constant, the Group would need to reduce the carrying value of goodwill by RR 225,498 and property, plant and equipment by RR 477,974. Had this impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. A reasonably possible shift in EBITDA margin used in the impairment test for the Agriculture Primorie CGU would not lead to impairment of goodwill as at 31 December 2016. The recoverable amount of the Agriculture Primorie CGU exceeds its carrying amount by RR 1,054,190. The CGUs' carrying amount would be equal to the value in use at a discount rate of 14.2% p.a.

A reasonably possible shift in key assumptions underlying the value-in-use calculations of other CGUs would not lead to impairment of goodwill as at 31 December 2016.

26. Income tax

	2017	**2016**
Current income tax charge	268,876	881,708
Deferred tax (credit)/ charge	148,972	(613,918)
Income tax expense	**417,848**	**267,790**

The Group companies domiciled in Russia were subject to an income tax rate of 20% (2016: 20%) of taxable profits, except for profit on sales of agricultural produce taxable at 0% (2016: 0%) and profit obtained from the Group's oil extraction activity in Samara region subject to a reduced rate of 15.5% in 2012-2016.

Group entities operating in other tax jurisdictions were taxed at 0% and 12.5% (2016: 0% and 12.5%).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

26. Income tax (continued)

The current income tax charge represents a tax accrual based on statutory taxable profits. A reconciliation between the expected and the actual taxation charge is as follows:

	2017	2016
Profit before tax:	5,981,011	14,212,306
- taxable at 0%	2,970,595	11,123,246
- taxable at 12.5%	2,351,566	1,370,655
- taxable at 15.5%	0	(295,207)
- taxable at 20%	658,850	2,013,612
Theoretical tax charge calculated at the applicable tax rate of 20%, 15.5% and 12.5% (2015: 20%, 15.5% and 12.5%)	425,716	528,297
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-taxable income	(358,770)	(454,303)
- non-deductible expenses	300,506	410,694
- share based remuneration	3,952	805
Utilisation of previously unrecognised tax losses	-	6,298
Withholding income tax on dividends distributed	2,917	-
Deferred tax charge/ (credit) in respect of withholding income tax on dividends to be distributed	-	(222,900)
Adjustments of income tax in respect of prior years and tax penalties	11,485	(1,124)
Tax losses for which no deferred tax assets were recognised	(18,505)	2,301
Other	50,547	(2,278)
Income tax expense	**417,848**	**267,790**

Differences between IFRS as adopted by the EU and local statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred taxes are attributable to the following:

	1 January 2017	Deferred tax assets/ (liabilities) acquisition/ disposal	Deferred tax credited/ (charged) to other comprehensive income	Deferred tax credited/ (charged) to profit or loss	31 December 2017
Tax effects of deductible/ (taxable) temporary differences:					
Property, plant and equipment	(671,709)	-	-	(112,940)	(784,649)
Impairment of receivables	288,093	350	-	(89,795)	198,648
Payables	(194,877)	-	-	(1,034)	(195,911)
Financial assets	3,873,746	-	(29,450)	(3,248,808)	595,488
Inventory and biological assets	671,193	-	-	(606,417)	64,776
Borrowings	(3,685,281)	-	-	61,760	(3,623,521)
Loss carried forward	1,024,789	27,019	-	3,647,142	4,698,950
Withholding income tax on dividends to be distributed	-	-	-	-	-
Other	93,830	-	-	201,115	294,945
Net deferred tax (liability) / asset	**1,399,784**	**27,369**	**(29,450)**	**(148,977)**	**1,248,726**
Recognised deferred tax asset	1,935,298				1,992,839
Recognised deferred tax liability	(535,514)				(744,113)

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

26. Income tax (continued)

	1 January 2016	Deferred tax assets/ (liabilities) acquisition/ disposal	Deferred tax credited/ (charged) to other comprehensive income	Deferred tax credited/ (charged) to profit or loss	31 December 2016
Tax effects of deductible/ (taxable) temporary differences:					
Property, plant and equipment	(400,636)	(344,963)	-	73,890	(671,709)
Impairment of receivables	145,648	175	-	142,270	288,093
Payables	33,666	-	-	(228,543)	(194,877)
Financial assets	4,057,160	-	21,566	(204,980)	3,873,746
Inventory and biological assets	905,271	(5,142)	-	(228,936)	671,193
Borrowings	(4,002,909)	-	-	317,628	(3,685,281)
Loss carried forward	449,272	119,227	-	456,290	1,024,789
Withholding income tax on dividends to be distributed	(222,900)	-	-	222,900	-
Other	29,850	581	-	63,399	93,830
Net deferred tax (liability) / asset	**994,422**	**(230,122)**	**21,566**	**613,918**	**1,399,784**
Recognised deferred tax asset	1,490,657				1,935,298
Recognised deferred tax liability	(496,235)				(535,514)

Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The 10-year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2017 to 2020. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit.

In the context of the Group's current structure tax losses and current tax assets of different companies may not be set off against taxable profits and current tax liabilities of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

	31 December 2017	31 December 2016
Deferred tax assets:		
-Deferred tax asset to be recovered after more than 12 months	1,125,341	788,782
-Deferred tax asset to be recovered within 12 months	867,498	1,146,516
	1,992,839	**1,935,298**
Deferred tax liabilities:		
-Deferred tax liability to be settled after more than 12 months	-	(358,793)
-Deferred tax liability to be settled within 12 months	(744,113)	(176,721)
	(744,113)	**(535,514)**
Total net deferred tax asset	**1,248,726**	**1,399,784**

The Group has not recognised a deferred tax liability of RR 3,515,472 (2016: RR 3,296,606) in respect of temporary differences associated with undistributed earnings of subsidiaries and associates as the Group is able to control the timing of reversal of those temporary differences and it is probable that they will not reverse in the foreseeable future.

In August 2013 the Board of Directors approved a new dividend policy with payout ratio of at least 25% of net income. As the dividends will be distributed from net income of the reporting periods they will be subject to current withholding income tax at the applicable rate.

Refer to Note 31 "Contingencies" for description of tax risks and uncertainties.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

27. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All of the Group's related party transactions during the year ended 31 December 2017 and 2016 consist of transactions with members of the Board of Directors and other key management personnel and transactions with the entities controlled by the Owner.

Key management personnel

Share option incentive scheme

In 2014 the Group initiated a new share option incentive scheme for its top-management. Under the scheme the employees will be granted GDRs of the Company provided the remain in their position up to a specific date in the future. The amount of GDRs granted will be dependent on the average market prices of GDRs for the period preceding this date.

In 2017 33,614 GDRs of the Company amounting to RR 7, 612 were transferred to the employees under the share option incentive scheme initiated by the Group in 2014. Expenses recognized under this scheme for the year ended 31 December 2016 amounted to RR 4,026.

In 2017 the Group initiated a new share option incentive scheme for its top-management. Under the scheme the employees will be granted GDRs of the Company provided they remain in their position up to a specific date in the future. The amount of GDRs granted will be dependent on the average market prices of GDRs for the period preceding this date. Expenses recognized under this agreement for the year ended 31 December 2017 amounted to RR 19,761 are included in "Other operating income/ (expenses)" line in the consolidated statement of profit or loss or other comprehensive income.

As at 31 December 2017, the share-based payment reserve accumulated in equity as a result of the share-based payment transactions amounted to RR 1,308,188 (31 December 2016: RR 1,299,239).

Other remuneration to key management personnel

Remuneration to 12 (2016: 15) representatives of key management personnel, included in payroll costs, comprised short-term remuneration such as salaries, discretionary bonuses and other short-term benefits totalling RR 1,107,390 including RR 96,849 payable to the State Pension Fund (2016: RR 1,088,490 and RR 88,236 respectively).

The Company Directors' remuneration

Included in the share-based compensation and other remuneration to key management personnel disclosed above, are the Company directors' fees, salaries and other short-term benefits totalling RR 806,167 in respect of the year ended 31 December 2017 (2016: RR 860,023).

Dividends paid to Key management personnel

During the year ended 31 December 2017 the dividends paid to key management personnel amounted to RR 228,504 (2016: RR 264,933).

Loan agreements with the Key management personnel

Balances and transactions under loan agreements with Key management personnel consist of the following:

Transactions	**31 December 2017**	**31 December 2016**
Operating foreign exchange differences gain/ (loss), net	(7)	(1,034)
Short-term loans repayments received	-	17,515
Interest accrued on loans provided	-	722
Interest received	-	2,251

Balances	**31 December 2017**	**31 December 2016**
Other receivables from related parties, gross	6	150
Short-term loans issued to related parties	-	-
Interest receivable on short-term loans issued to related parties	-	-
Trade accounts payable to related parties	(121)	(65)
Other payables to related parties	1,624	(1,548)

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

27. Related party transactions (continued)

Loans issued to Key management personnel were denominated in Russian Roubles with an interest rate of 8.25%.

Entities controlled by the Owner

Dividends paid to entities controlled by the Owner

During the year ended 31 December 2017 the dividends paid to entities controlled by the Owner amounted RR 4,113,065 (2016: RR 4,768,786).

Balances and transactions with entities controlled by the Owner are presented in the table below:

Transactions	**31 December 2017**	**31 December 2016**
Sales of goods and services	131	56
Purchases of goods	-	21
Purchases of services	118,872	180,043
Purchases of property, plant and equipment and inventories intended for construction	-	300
Acquisition receivables under cession of rights	-	-

Balances	**31 December 2017**	**31 December 2016**
Trade receivables from related parties, gross	24	67
Other receivables from related parties, gross	257	33
Prepayments to related parties, gross	80,887	63,856
Advances received from related parties	(2)	(2)

Associates

Balances and transactions with associates are presented in the table below:

Transactions	**31 December 2017**	**31 December 2016**
Short-term loans repayments received	364,996	2,867
Purchases of shares in subsidiaries	9,168	-
Provision for impairment of receivables	6,228	(28)
Purchases of services	1,707	5,806
Interest received	86	110
Interest accrued on loans provided	1	165

Balances	**31 December 2017**	**31 December 2016**
Other receivables from related parties, gross	14,294	13,566
Provision for impairment of other receivables from related parties	(6,228)	-
Short-term loans issued	172	268,620
Trade receivables from related parties, gross	49	49
Provision for impairment of trade receivables from related parties	(49)	(49)
Trade and other payables	(32)	(41,166)
Prepayments to related parties, gross	-	2
Interest receivable on short-term loans issued to related parties	-	86
Advances paid to related parties for property, plant and equipment and inventories intended for construction	-	324,386
Short-term loans received from related parties	-	(425,338)

28. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding the effect of GDRs purchased by the Company and held as treasury shares.

	2017	**2016**
Profit for the year attributable to the Company's equity holders	5,630,671	13,953,296
Weighted average number of ordinary shares in issue	26,898,319	25,743,485
Basic earnings per share (RR per share)	**209.33**	**542.01**

29. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a group of persons who allocates resources and assesses the performance of the Group. The functions of CODM are performed by the Board of Directors of ROS AGRO PLC.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Sugar – represents production and trading operation with white sugar;
- Meat – represents cultivation of pigs and selling of consumable livestock to third parties;
- Agriculture – represents cultivation of plant crops (sugar beet, grain crops and other plant crops) and dairy cattle livestock;
- Oil and Fat – represents vegetable oil extraction, production and sales of mayonnaise, consumer margarine, and bottled vegetable oil.

Certain of the Group's businesses are not included within the reportable operating segments, as they are not included in the reports provided to the CODM. The results of these operations are included in "Other" caption. The Company, OJSC Rusagro Group and LLC Group of Companies Rusagro that represent the Group's head office and investment holding functions and earn revenue considered incidental to the Group's activities are included in "Other" caption.

Factors that management used to identify the reportable segments

The Group’s segments are strategic business units that focus on different customers. They are managed separately because of the differences in the production processes, the nature of products produced and required marketing strategies.

Segment financial information reviewed by the CODM includes:

- Quarterly reports containing information about income and expenses by business units (segments) based on IFRS numbers, that may be adjusted to present the segments results as if the segments operated as independent business units and not as the division within the Group;
- Quarterly reports with a breakdown of separate material lines of IFRS consolidated statement of financial positions and IFRS consolidated statement of cash flows by segment;
- In addition to the main financial indicators, operating data (such as yield, production volumes, cost per unit, staff costs) and revenue data (volumes per type of product, market share) are also reviewed by the CODM on a quarterly basis.

Measurement of operating segment profit or loss, assets and liabilities

The CODM assesses the performance of the operating segments based on the Adjusted EBITDA figure for the period. Adjusted EBITDA figure is not an IFRS measure. Adjusted EBITDA is reconciled to IFRS operating profit in this Note.

Adjusted EBITDA is defined as operating profit before taking into account:

- depreciation and amortisation;
- other operating income/expenses, net (other than reimbursement of operating costs (government grants));
- the difference between the gain on revaluation of biological assets and agriculture produce recognised in the year and the gain on initial recognition of agricultural produce attributable to realised agricultural produce for the year and revaluation of biological assets attributable to realised biological assets and included in cost of sales;

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

29. Segment information (continued)

Measurement of operating segment profit or loss, assets and liabilities (continued)

- share-based remuneration;
- provision/(reversal of provision) for net realisable value of agricultural products in stocks.

Transactions between operating segments are accounted for based on financial information of individual segments that represent separate legal entities.

Analysis of revenues by products and services

Each business segment except for the "Agriculture" segment is engaged in the production and sales of similar or related products (see above in this note). The "Agriculture" segment in addition to its main activity of growing and harvesting agricultural crops, is engaged in the cultivation of dairy cattle livestock. Related revenue from sales of milk and other livestock products was RR 183,864 (2016: RR 116,427).

For the amount of revenue from services, which comprise mainly processing of sugar beet for third party agricultural enterprises, see Note 19.

Geographical areas of operations

All the Group's assets are located in the Russian Federation. Distribution of the Group's sales between countries on the basis of the customers' country of domicile was as follows:

	2017	**2016**
Russian Federation	66,168,045	71,378,381
Foreign countries	12,889,815	12,878,204
Total	**79,057,860**	**84,256,585**

Major customers

The Group has no customer or group of customers under common control who would account for more than 10% of the Group's consolidated revenue.

Information about reportable segment adjusted EBITDA, assets and liabilities

Segment information for the reportable segments' assets and liabilities as at 31 December 2017 and 2016 is set out below:

2017	**Sugar**	**Meat**	**Agriculture**	**Oil and Fat**	**Other**	**Eliminations**	**Total**
Assets	37,085,727	48,161,678	36,724,421	12,343,592	106,472,363	(83,377,796)	157,409,985
Liabilities	22,411,867	32,582,072	25,678,761	10,468,130	22,537,092	(48,995,878)	64,682,044
Additions to non-current assets*	3,688,520	7,950,017	6,613,147	1,232,915	111,880	(168,896)	19,427,583

2016	**Sugar**	**Meat**	**Agriculture**	**Oil and Fat**	**Other**	**Eliminations**	**Total**
Assets	37,371,595	40,092,460	35,430,152	13,593,174	97,353,322	(70,598,626)	153,242,076
Liabilities	24,943,950	22,196,454	18,943,182	11,890,072	20,116,342	(38,436,744)	59,653,256
Additions to non-current assets*	5,129,985	10,893,317	10,752,194	1,230,362	128,215	(14,916)	28,119,157

*Additions to non-current assets exclude additions to financial instruments and deferred tax assets, goodwill and restricted cash.

Segment information for the reportable segments' adjusted EBITDA for the years ended 31 December 2017 and 2016 is set out below:

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

29. Segment information (continued)

2017	**Sugar**	**Meat**	**Agriculture**	**Oil and Fat**	**Other**	**Eliminations**	**Total**
Sales (Note 19)	30,385,814	20,512,135	18,768,283	19,430,347	117,753	(10,156,472)	79,057,860
Net gain/ (loss) on revaluation of biological assets and agricultural produce (Note 9)	-	(319,136)	(862,189)	-	-	(1,794,844)	(2,976,169)
Cost of sales (Note 20)	(22,284,480)	(15,133,016)	(15,315,051)	(15,879,149)	-	10,495,926	(58,115,770)
incl. Depreciation and amortisation	(1,629,200)	(1,905,872)	(1,465,383)	(355,939)	-	(84,547)	(5,440,941)
Net gain/ (loss) from trading derivatives	(11,115)	-	-	-	-	-	(11,115)
Gross profit	**8,090,219**	**5,059,983**	**2,591,043**	**3,551,198**	**117,753**	**(1,455,390)**	**17,954,806**
Distribution and Selling, General and administrative expenses (Notes 21, 22)	(4,371,691)	(1,100,094)	(5,336,802)	(3,348,896)	(1,098,874)	2,016,859	(13,239,498)
incl. Depreciation and amortisation	(140,264)	(42,077)	(432,567)	(127,221)	(58,516)	81,914	(718,731)
Other operating income/(expenses), net (Note 23)	(8,082)	235,884	27,608	128,206	7,003,732	(8,053,266)	(665,918)
incl. Reimbursement of operating costs (government grants)	-	42,255	61,966	-	-	-	104,221
Operating profit	**3,710,446**	**4,195,773**	**(2,718,151)**	**330,508**	**6,022,611**	**(7,491,797)**	**4,049,390**
Adjustments:							
Depreciation included in Operating Profit	1,769,464	1,947,948	1,897,950	483,160	58,516	2,633	6,159,671
Other operating (income) /expenses, net	8,082	(235,884)	(27,608)	(128,206)	(7,003,732)	8,053,266	665,918
Reimbursement of operating costs (government grants)	-	42,255	61,966	-	-	-	104,221
Net gain/ (loss) on revaluation of biological assets and agricultural produce	-	319,136	862,189	-	-	1,794,844	2,976,169
Adjusted EBITDA*	**5,487,992**	**6,269,228**	**76,346**	**685,462**	**(922,605)**	**2,358,946**	**13,955,369**

* Non-IFRS measure

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

29. Segment information (continued)

2016	**Sugar**	**Meat**	**Agriculture**	**Oil and Fat**	**Other**	**Eliminations**	**Total**
Sales (Note 19)	37,239,582	17,851,245	21,154,816	19,863,843	94,920	(11,947,821)	84,256,585
Net gain/ (loss) on revaluation of biological assets and agricultural produce (Note 9)	-	145,878	68,934	-	-	(166,636)	48,176
Cost of sales (Note 20)	(25,626,600)	(14,822,058)	(13,375,993)	(16,493,978)	-	11,403,016	(58,915,613)
incl. Depreciation and amortisation	*(1,239,315)*	*(1,827,178)*	*(1,496,884)*	*(356,307)*	-	*(70,555)*	*(4,990,239)*
Net gain/ (loss) from trading derivatives	335,277	-	720	-	-	-	335,997
Gross profit	**11,948,259**	**3,175,065**	**7,848,477**	**3,369,865**	**94,920**	**(711,441)**	**25,725,145**
Distribution and Selling, General and administrative expenses (Notes 21, 22)	(3,722,493)	(993,890)	(3,625,504)	(4,274,300)	(1,945,389)	1,212,425	(13,349,151)
incl. Depreciation and amortisation	*(113,749)*	*(42,811)*	*(203,840)*	*(127,743)*	*(22,231)*	*68,561*	*(441,813)*
Other operating income/(expenses), net (Note 23)	59,966	331,569	274,594	126,562	18,124,997	(16,818,496)	2,099,192
incl. Reimbursement of operating costs (government grants)	-	*107,853*	*337,328*	-	-	-	*445,181*
Operating profit	**8,285,732**	**2,512,744**	**4,497,567**	**(777,873)**	**16,274,528**	**(16,317,512)**	**14,475,186**
Adjustments:							
Depreciation included in Operating Profit	1,353,064	1,869,989	1,700,725	484,051	22,231	1,992	5,432,052
Other operating (income) /expenses, net	(59,966)	(331,569)	(274,594)	(126,562)	(18,124,997)	16,818,496	(2,099,192)
Reimbursement of operating costs (government grants)	-	107,853	337,328	-	-	-	445,181
Net gain/ (loss) on revaluation of biological assets and agricultural produce	-	(145,878)	(68,934)	-	-	166,636	(48,176)
Adjusted EBITDA*	**9,578,830**	**4,013,139**	**6,192,092**	**(420,384)**	**(1,828,238)**	**669,612**	**18,205,051**

* Non-IFRS measure

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

30. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risk, foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge its risk exposures except for raw sugar commodity price risk management as described below.

Operating risk management is carried out on the level of the finance function of the Group's business segments with overall monitoring and control by management of the Group. The management is implementing principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of non-derivative financial instruments, and investing excess liquidity.

Credit risk

The credit risk represents the risk of losses for the Group owing to default of counterparties on obligations to transfer to the Group cash and cash equivalents and other financial assets.

Activities of the Group that give rise to credit risk include granting loans, making sales to customers on credit terms, placing deposits with banks and performing other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2017	31 December 2016
Long-term financial assets		
Bank deposits (Note 10)	14,596,500	14,596,500
Bonds held for trading (Note 10)	2,549,698	2,519,915
Interest receivable (Note 10)	376,150	311,570
Loans issued (Note 10)	15,400	15,400
Other long-term investments (Note 10)	37,133	36,071
Total long-term financial assets	**17,574,881**	**17,479,456**
Short-term financial assets		
Bank deposits (Note 4)	18,040,994	16,292,400
Cash and cash equivalents (Note 3)	4,860,335	6,751,712
Financial assets within trade and other receivables (Note 5)	2,752,131	3,787,409
Interest receivable (Note 4)	416,612	629,974
Loans issued (Note 4)	172	307,638
Short-term restricted cash	42	39
Total short-term financial assets	**26,070,286**	**27,769,172**
Total	**43,645,167**	**45,248,628**

As at 31 December 2017 the Group has collateral against RR 1,398,916 of its trade receivables (31 December 2016: RR 1,357,702). The Group has geographical concentration of credit risk in the Russian market since the majority of the Group's customers conduct their business in Russian Federation.

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30. Financial risk management (continued)

Credit risk (continued)

For minimisation of credit risk related to cash in bank, bank deposits and restricted cash the Group places cash in financial institutions which at the moment of transaction have the minimum risk of a default. The table below shows the rating and balances with major banks at the reporting dates:

		31 December 2017		31 December 2016	
	Rating agency	**Rating**	**Balance**	**Rating**	**Balance**
Vnesheconombank	Fitch Ratings	bbb-	16,123,343	bbb-	14,070,707
Alfa Bank	Fitch Ratings	bb+	10,534,742	bb+	11,505,904
Rosbank	Fitch Ratings	bbb-	5,085,731		-
VTB Bank	Moody's	Ba1	2,543,362	Ba2	1,805,423
Rosselkhozbank	Fitch Ratings	bb+	2,122,677	b-	73,749
Gazprombank	Fitch Ratings	bb+	-	bb-	10,013,847
Bank NCC	Fitch Ratings	bbb-	1,000,539		-
Credit Suisse	Fitch Ratings	a-	297,846	a	78,513
Locko Bank	Fitch Ratings	b+	272,011	b+	458,597
Sberbank	Fitch Ratings	bbb-	239,323	bbb-	422,113
Bank of Cyprus	Fitch Ratings	b-	-	b-	150
Other	-		23,830		84,951
Total cash at bank, bank deposits and restricted cash (Note 3, 4, 10)			**38,243,404**		**38,513,954**

As at 31 December 2017, the Group have bonds held for trading. The table below shows the rating and balances of bonds held for trading at 31 December 2017:

		31 December 2017		31 December 2016	
	Rating agency	**Rating**	**Balance**	**Rating**	**Balance**
Rosselkhozbank	Fitch Ratings	bb+	2,191,065	bb-	2,161,610
JSC EuroChem	Fitch Ratings	bb	196,916	bb	194,009
VimpelCom Ltd	Fitch Ratings	bb+	138,671	bb+	140,882
LLC Lenta	Fitch Ratings	bb	23,046	bb	23,414
Total bonds (Note 10)			**2,549,698**		**2,519,915**

Financial assets that are neither past due nor impaired and not renegotiated as at the reporting date

	31 December 2017	31 December 2016
Long-term financial assets		
Bank deposits (Note 10)	14,596,500	14,596,500
Bonds held for trading (Note 10)	2,549,698	2,519,915
Interest receivable (Note 10)	376,150	311,570
Available-for-sale investments (Note 10)	19,149	272,284
Loans issued (Note 10)	15,400	15,400
Restricted cash (Note 3)	-	-
Other long-term investments (Note 10)	37,133	36,071
Total long-term financial assets	**17,594,030**	**17,751,740**
Short-term financial assets		
Bank deposits (Note 4)	18,040,994	16,292,400
Cash and cash equivalents (Note 3)	4,860,335	6,751,712
Trade receivables	2,577,782	3,635,598
Interest receivable (Note 4)	416,612	629,974
Other short-term receivables	89,840	90,383
Loans issued to third parties (Note 4)	-	39,018
Loans issued to related parties (Note 4)	172	4,531
Restricted cash	42	39
Total short-term financial assets	**25,985,777**	**27,443,655**
Total	**43,579,807**	**45,195,395**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

30. Financial risk management (continued)

Neither past due nor impaired trade receivables relate to the customers who have a long-standing relationship with the Group and a sound trading history. Concentrations of trade receivables by type of customer are as follows:

	31 December 2017	31 December 2016
Distribution and retail outlets	1,415,643	1,996,210
Manufacturers (candy, juice and other)	1,097,405	1,339,733
Other not categorised	64,735	299,655
Total trade receivables	**2,577,783**	**3,635,598**

The majority of the customers do not have independent ratings. To minimize the risk of default on payment of amounts due by counterparties for supplied goods or rendered services the Group regularly revises the maximum amount of credit and grace periods for each significant customer.

Financial assets that are past due but not impaired as at the reporting date

	31 December 2017	31 December 2016
Overdue short-term loans issued		
- 3 months and less	-	-
- over 3 months	-	264,089
Total	**-**	**264,089**

Financial assets that are impaired as at the reporting date

The table below shows the analysis of impaired financial assets:

	31 December 2017		31 December 2016	
	Nominal value	Impairment	Nominal Value	Impairment
Impaired receivables (Note 5):				
- trade receivables	288,839	(204,330)	67,136	(59,116)
- other receivables	76,645	(76,645)	118,456	(65,048)
Impaired loans issued	-	-	82,315	(82,315)
Total	**365,484**	**(280,975)**	**267,907**	**(206,479)**

Financial assets are impaired when there is evidence that the Group will not receive the full amount due or receive the full amount later than contracted. Factors to consider include whether the receivable is past due, the age of the receivable and past experience with the counterparty.

Financial assets that would otherwise be impaired whose terms have been renegotiated

The Group has no financial assets at 31 December 2017 and 2016 that would otherwise be impaired whose terms have been renegotiated.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. The Group Treasury analyses the net debt position as disclosed in Note 15.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

At 31 December 2017	Carrying value	Contractual undiscounted cash flows: Total	2018	2019	2020-2022	After 2022
Borrowings and loans (Note 15)						
- principal amount	46,435,278	64,510,229	8,699,698	5,498,635	23,633,309	26,678,587
- interest	216,024	11,085,435	2,990,497	2,495,679	4,029,013	1,570,246
Financial liabilities within trade and other payables (Note 16)	3,399,884	3,399,884	3,399,884	-	-	-
Total	**50,051,186**	**78,995,548**	**15,090,079**	**7,994,314**	**27,662,322**	**28,248,833**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

30. Financial risk management (continued)

Liquidity risk (continued)

		Contractual undiscounted cash flows				
At 31 December 2016	**Carrying value**	**Total**	**2017**	**2018**	**2019-2021**	**After 2021**
Borrowings and loans (Note 15)						
- principal amount	44,340,311	62,762,742	11,385,221	5,115,577	17,001,014	29,260,930
- interest	162,205	11,906,821	3,083,987	2,427,478	4,654,742	1,740,614
Financial liabilities within trade and other payables (Note 16)	3,898,830	3,898,830	3,898,830	-	-	-
Total	**48,401,346**	**78,568,393**	**18,368,038**	**7,543,055**	**21,665,756**	**31,001,544**

Interest payments for government loans were calculated using the rate of CBRF actual on the date of loan transfer (2016: 10%).

The exchange rates used for calculating payments for bank borrowings denominated in currencies other than Russian Roubles:

	31 December 2017	**31 December 2016**
US Dollar	57.6002	60.6569
Euro	68.8668	63.8111

In addition the Group has commitments as disclosed in Note 32.

Market risk

Market risk, associated with financial instruments, is the risk of change of fair value of financial instruments or the future cash flows expected on a financial instrument, owing to change in interest rates, exchange rates, prices for the commodities or other market indicators. From the risks listed above the Group is essentially exposed to the risks associated with changes in interest rates, exchange rates and commodity prices.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain most of its borrowings in fixed rate instruments. The Group does not have formal policies and procedures in place for management of fair value interest rate risk.

Interest rates under most of the Group's borrowings are fixed. However, the terms of the contracts stipulate the right of the creditor for a unilateral change of the interest rate (both increase and decrease), which can be based, among other triggers, on a decision of the CBRF to change the refinancing rate.

Bank deposits and loans issued bear fixed interest rate and therefore are not exposed to cash flow interest rate risk.

The Group analyses its interest rate exposure on a continuous basis. Various scenarios are considered taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each scenario, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

During the year ended 31 December 2017, had interest rate for borrowings with other than fixed rate been increased/decreased by 600 basis points the profit before taxation would have been RR 125,059 (2016: RR 224,835) lower/higher.

Foreign exchange risk

As at 31 December 2017 and 2016, foreign exchange risk arises on cash in banks, short-term investments, long-term investments, trade and other receivables, borrowings and trade and other payables denominated in foreign currency (Notes 3, 4, 5, 10, 15 and 16).

30. Financial risk management (continued)

Market risk (continued)

At 31 December 2017, if the Russian Rouble had weakened/strengthened by 30% (31 December 2016: 30%) against the US dollar with all other variables held constant, the Group's profit before taxation would have been RR 240,875 (2016: RR 186,978) lower/higher.

At 31 December 2017 if the Russian Rouble had weakened/strengthened by 30% (31 December 2016: 30%) against the Euro with all other variables held constant, the Group's profit before taxation would have been RR 171,431 (2016: RR 18,091) lower/higher.

Purchase price risk

The Group purchased raw sugar only in 2016 and managed its exposure to this commodity price risk through financial derivatives. In 2016, the Group's total purchases of raw sugar were RR 908,860. The Group trades derivatives on ICE Futures US through an agent. Through derivatives, management aims to offset its long position in inventory in order to minimise effects of price fluctuations on the results of the Group. The gains less losses on trading derivatives of RR 11,115 (2016: RR 335,997) are presented as a separate line within the consolidated statement of profit or loss and other comprehensive income. The Group does not manage the exposure of purchases to their commodity price risk through financial derivatives in 2017.

The Group is exposed to equity securities price risk arising on investments held by the Group and classified in the consolidated statement of financial position either as available for sale or at fair value through profit or loss (Note 11). The Group does not manage its price risk arising from investments in equity securities.

Sales price risk

Changes in white sugar prices from January until August are closely related to changes in world raw sugar prices that is implicitly managed through the raw sugar derivatives (see above). The storage facilities of own sugar plants permit to build up stocks of white sugar to defer sales to more favourable price periods.

The Group is exposed to financial risks arising from changes in milk, meat and crops prices (Note 9).

Fair value estimation

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

30. Financial risk management (continued)

Financial instruments by measurement categories and fair values as at 31 December 2017

	Loans and receivables	**Other at amortised cost**	**Available for sale**	**At fair value through profit or loss**	**Total carrying amount**	**Fair value**
Financial assets						
Cash and cash equivalents	4,860,335	-	-	-	4,860,335	4,860,335
Short-term restricted cash	42	-	-	-	42	42
Bank deposits (Note 4)	18,040,994	-	-	-	18,040,994	18,040,944
Short-term loans issued (Note 4)	172	-	-	-	172	172
Short-term interest receivable (Note 4)	416,612	-	-	-	416,612	416,612
Financial assets within trade and other receivables (Note 5)	2,752,131	-	-	-	2,752,131	2,752,131
Total short-term financial assets	**26,070,286**	-	-	-	**26,070,286**	**26,070,286**
Bonds held for trading	-	-	-	2,549,698	2,549,698	2,549,698
Loans issued (Note 10)	15,400	-	-	-	15,400	15,400
Bank deposits (Note 10)	14,596,500	-	-	-	14,596,500	14,596,500
Interest receivable (Note 10)	376,150	-	-	-	376,150	376,150
Equity securities held as available-for-sale investments	-	-	19,149	-	19,149	19,149
Other long-term investments (Note 10)	37,133	-	-	-	37,133	37,133
Total long-term financial assets	**15,025,183**	**-**	**19,149**	**2,549,698**	**17,594,030**	**17,594,030**
Total financial assets	**41,095,469**	**-**	**19,149**	**2,549,698**	**43,664,316**	**43,664,316**
Financial liabilities						
Short-term borrowings	-	8,863,525	-	-	8,863,525	8,863,525
Financial liabilities within trade and other payables (Note 16)	-	3,399,885			3,399,885	3,399,885
Total short-term financial liabilities	**-**	**12,263,410**			**12,263,410**	**12,263,410**
Long-term borrowings	-	37,787,777	-	-	37,787,777	37,787,777
Total long-term financial liabilities	**-**	**37,787,777**	**-**	**-**	**37,787,777**	**37,787,777**
Total financial liabilities	**-**	**50,051,187**			**50,051,185**	**50,051,187**

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

30. Financial risk management (continued)

Financial instruments by measurement categories and fair values as at 31 December 2016

	Loans and receivables	Other at amortised cost	Available for sale	At fair value through profit or loss	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	6,751,712	-	-	-	6,751,712	6,751,712
Short-term restricted cash	39	-	-	-	39	39
Bank deposits (Note 4)	16,292,400	-	-	-	16,292,400	16,292,400
Short-term loans issued (Note 4)	307,638	-	-	-	307,638	307,638
Short-term interest receivable (Note 4)	629,974	-	-	-	629,974	629,974
Financial assets within trade and other receivables (Note 5)	3,787,410	-	-	-	3,787,410	3,787,410
Total short-term financial assets	**27,769,173**	-	-	-	**27,769,173**	**27,769,173**
Bonds held for trading	-	-	-	2,519,915	2,519,915	2,519,915
Loans issued (Note 10)	15,400	-	-	-	15,400	15,400
Bank deposits (Note 10)	14,596,500	-	-	-	14,596,500	14,596,500
Interest receivable (Note 10)	311,570	-	-	-	311,570	311,570
Equity securities held as available-for-sale investments	-	-	272,284	-	272,284	272,284
Other long-term investments (Note 10)	36,071	-	-	-	36,071	36,071
Total long-term financial assets	**14,959,541**	**-**	**272,284**	**2,519,915**	**17,751,740**	**17,751,740**
Total financial assets	**42,728,714**	**-**	**272,284**	**2,519,915**	**45,520,913**	**45,520,913**
Financial liabilities						
Short-term borrowings (Note 15)	-	11,704,276	-	-	11,704,276	11,704,276
Financial liabilities within trade and other payables (Note 16)	-	3,898,830			3,898,830	3,898,830
Total short-term financial liabilities	**-**	**15,603,106**			**15,603,106**	**15,603,106**
Long-term borrowings (Note 15)	-	32,798,240	-	-	32,798,240	32,798,240
Total long-term financial liabilities	**-**	**32,798,240**	**-**	**-**	**32,798,240**	**32,798,240**
Total financial liabilities	**-**	**48,401,346**			**48,401,346**	**48,401,346**

The Group management uses discounted cash flow valuation technique in the financial instruments fair value measurement for level 3 measurements. The fair value is based on discounting of cash flows using 11.3-12.9% (2016: 12.84-13.23%) discount rate.

Fair value of bonds held-for trading is derived from open active markets and is within level 1 of the fair value hierarchy.

Sensitivity of fair value to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not be significant. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2017.

Capital management

The primary objective of the Group's capital management is to maximize participants' return while sustaining a reasonable level of financial risks. The Group does not have a quantified target level of participants' return or capital ratios. To fulfil capital management objectives while providing for external financing of regular business operations and investment projects, the Group management compares expected return of these operations and projects with the costs of debt and maintains prudent financial risk management as described above.

The Group companies complied with all externally imposed capital requirements throughout 2017 and 2016.

31. Contingencies

Tax legislation

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. Transfer pricing legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis. Management has implemented internal controls to be in compliance with current transfer pricing legislation.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

Starting from 2015 new rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entity's worldwide income will be taxed in Russia.

The tax liabilities of the Group were determined on the assumption that the foreign companies of the Group were not subject to applicable Russian taxes, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. However, the Russian tax authorities may challenge this interpretation of relevant legislation in regard to the foreign companies of the Group. The impact of any such challenge cannot be reliably estimated currently; however, it may affect the financial position and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, at 31 December 2017 no provision for potential tax liabilities had been recorded (2016: no provision). Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Social obligations

Some production companies of the Group have collective agreements signed with the employees. Based on these contracts the companies make social payments to the employees. The amounts payable are determined in each case separately and depend primarily on performance of the company. These payments do not satisfy the liability recognition criteria listed in IAS 19, "Employee Benefits". Therefore, no liability for social obligations was recognised in these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims.

There are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

Operating environment of the Group

The uncertainties related to the operating environment of the Group are described in Note 1.

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32. Commitments

Contractual capital expenditure commitments

As at 31 December 2017 the Group had outstanding contractual commitments in respect of purchases or construction of property, plant and equipment in the amount of RR 10,009,959.

As at 31 December 2016 the Group had outstanding contractual commitments in respect of purchases or construction of property, plant and equipment in the amount of RR 4,404,089.

Operating lease commitments

As at 31 December 2017, the Group had 906 land lease agreements (31 December 2016: 2,452) of these in 522 land lease agreements (31 December 2016: 1,350) fixed rent payments are defined and denominated in Russian Roubles. For these land lease agreements the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	82,284	72,190
Later than 1 year and not later than 5 years	205,134	230,601
Later than 5 years	1,482,810	1,686,662
Total	**1,770,228**	**1,989,453**

In addition, in 384 land lease agreements (31 December 2016: 1,102) the rent is established as a non-monetary measure based on a certain share of agricultural produce harvested or a fixed volume of harvested crops. For 2017 related rent expenses were RR 348,243 (2016: RR 246,167).

33. Subsequent events

Subsequent to the year ended 31 December 2017, the Board of Directors recommends the payment of additional dividends out of the profits for the year 2017 and prior years' undistributed reserves to the amount of RR 2,224,024. Given that the Company has already paid interim dividends for the first half of 2017 to the amount of RR 1,861,815, the total dividend out of the profits for 2017 and prior years' undistributed reserves amounts to RR 4,085,839. The dividend per share will be fixed at the dividend record date set on 13 April 2018. The proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect the dividends that have not been approved on the reporting date.