Independent auditor's report
on the financial statements of
FES-Agro LLC
for the year ended 31 December 2018

August 2019

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To the Sole Participant and Board of Directors of
FES-Agro LLC

Opinion

We have audited the financial statements of FES-Agro LLC (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of cash flows and the statement of changes in net assets attributable to the participant for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibility for the audit of the financial statements* section of our report. We are independent of the Company 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 financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibility for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the matter
Allowance for expected credit losses on receivables from third parties	
Due to the significant amount of the Company's receivables from third parties and due to the complexity of judgments required to estimate the allowance for expected credit losses on receivables in accordance with IFRS 9 *Financial Instruments*, this matter is a key audit matter. Expected credit losses are calculated using the provision matrix on the basis of the credit loss experience for the previous reporting periods, projected factors specific to debtors and general economic conditions. Information on receivables from third parties is disclosed in Notes 2.2 and 6 to the financial statements.	During the audit, we obtained an understanding of the process of calculating the allowance for expected credit losses on trade receivables and reviewed the respective provisions of the Company's accounting policies. We compared the information used to calculate the allowance with the Company's historical data on repayment of receivables and credit loss experience. We also considered the aging analysis of trade receivables, information on the existence of collateral provided by debtors and information on the litigations to collect receivables and their current status. We also compared historical and projected general economic indicators used to estimate the allowance with the available data and analyzed the impact of these indicators on the expected credit losses estimates. We reviewed the disclosures of trade receivables made by the Company and analyzed the effect of transition to IFRS 9.
Impairment of inventories	
As the amount of the Company's inventories is significant and due to the application of expert judgments by the Company's specialists with regard to the realizability of inventories, inventories measurement is a key audit matter. Inventories are measured at the lower of cost and expected net realizable value calculated using the age structure of inventories, sale period, information on inventory write-offs in prior reporting periods and inventories sales forecasts prepared by the Company's specialists. Information on inventories is disclosed in Notes 2.2 and 5 to the financial statements.	During the audit, we reviewed the respective provisions of the Company's accounting policies in relation to measurement of inventories. We compared the information used to measure expected net realizable value of inventories with the historical data on inventory write-offs and sale of inventories below cost. We also reviewed the information on the age structure of inventories and inventories sales forecasts prepared by the Company's specialists. We reviewed the disclosures of inventories made by the Company.

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Key audit matter	How our audit addressed the matter
Recognition of revenue from contracts with customers	
The Company sells goods to a large number of customers, including individuals. In view of the industry specifics and historical data on the recoverability of receivables, it is possible that goods will be sold to non-bona fide customers. From 1 January 2018, the Company's accounting policies on revenue recognition are aligned with the new effective IFRS 15 *Revenue from Contracts with Customers*. Therefore, revenue recognition is a key audit matter. Information on revenue is disclosed in Notes 2.2 and 14 to the financial statements.	During the audit, we obtained an understanding of the revenue recognition process and reviewed the respective provisions of the Company's accounting policies on recognition of revenue from contracts with customers. We tested the Company's internal controls over the recognition of revenue from contracts with customers. We tested external confirmations of balances of receivables. We assessed the risks associated with key debtors using the open sources. We reviewed the disclosures of trade receivables made by the Company and analyzed the effect of transition to IFRS 15.

Other information included in the 2018 annual report of FES-Agro LLC

Other information consists of the information included in the 2018 annual report of FES-Agro LLC, other than the financial statements and our auditor's report thereon. Management is responsible for other information.

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

In connection with our audit of the financial statements, our responsibility is to read other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We are not aware of any such facts.

Responsibility of management and the Board of Directors for the financial statements

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users that are taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 financial statements or, if such disclosures are inappropriate, 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 Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other things, 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 the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicated 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 the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.A. Mankov.

A.A. MANKOV
Partner
Ernst & Young LLC

15 August 2019

Details of the audited entity

Name: FES-Agro LLC
Record made in the State Register of Legal Entities on 16 October 2012; State Registration Number 1122651030006.
Address: Russia 355003, Stavropol Territory, Stavropol, Dzerzhinskogo str., 162.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya nab., 77, bld. 1.
Ernst & Young LLC is a member of the Self-regulated Organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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FES-Agro LLC

Statement of financial position

as at 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2018	31 December 2017 restated Note 2.2
Assets			
Non-current assets			
Property, plant and equipment	4	43,606	46,740
Intangible assets		1,442	1,098
Loans issued	8	47,310	67,295
Other long-term prepayments	3	141,747	-
Other long-term receivables	7	122,188	146,908
		356,293	262,041
Current assets			
Inventories	5	1,022,421	1,011,715
Trade and other receivables	6	1,410,535	1,438,314
Prepayments		200,751	224,598
Taxes receivable		103,552	157,693
Loans issued	8	16,837	21,269
Cash and cash equivalents	9	677,717	66,899
		3,431,813	2,920,488
Total assets		3,788,106	3,182,529
Non-current liabilities			
Loans and borrowings	11	-	115,200
Finance leases		7,204	6,856
Deferred tax liabilities	18	82,270	97,900
Other non-current liabilities	3	-	36,654
		89,474	256,610
Current liabilities, excluding net assets attributable to the participant			
Loans and borrowings	11	886,018	701,335
Finance leases		9,782	9,789
Trade and other payables	12	1,477,885	1,204,035
Contract liabilities	13	483,681	310,076
Income tax payable		92,753	30,744
Tax liabilities other than income tax		55,845	50,304
Total non-current liabilities, excluding net assets attributable to the participant		3,005,964	2,306,283
Net assets attributable to the participant	2.2	692,668	619,636
Total current liabilities		3,698,632	2,925,919
Total liabilities		3,788,106	3,182,529

Signed and authorized for release by the Board of Directors of FES-Agro LLC on 15 August 2019.

Mikhail Victorovich Kucherov
Director

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FES-Agro LLC

Statement of comprehensive income

for the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	2018	2017 restated Note 2.2
Revenue from contracts with customers	14	4,769,459	4,979,589
Cost of sales		(4,051,952)	(4,126,877)
Gross profit		717,507	852,712
Selling, general and administrative expenses	15	(417,253)	(343,681)
Expected credit losses on trade and other receivables / impairment of trade and other receivables	6	(28,056)	(24,612)
Expected credit losses on loans issued / impairment of loans issued	8	(39,638)	(1,371)
Operating profit		232,560	483,048
Finance income	16	25,240	14,181
Finance expense	17	(51,108)	(42,991)
Foreign exchange loss, net		(13,215)	(3,930)
Profit before tax		193,477	450,308
Income tax	18	(82,462)	(92,151)
Profit for the year		111,015	358,157
Total comprehensive income for the year, net of tax		111,015	358,157

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FES-Agro LLC

Statement of cash flows

for the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	2018	2017 restated Note 2.2
Profit before tax		**193,477**	**450,308**
Adjustments for:			
Depreciation of property, plant and equipment	4	23,565	22,151
Amortization of intangible assets		532	517
Expected credit losses on trade and other receivables / impairment of trade and other receivables	6, 7	28,056	24,612
Expected credit losses on loans issued / impairment of loans issued	8	39,638	1,371
Changes in provision for dubious tax positions on other taxes		46,129	-
Result of disposal of property, plant and equipment		(927)	(5,545)
Finance income		(25,240)	(14,181)
Finance expense		51,108	42,991
Foreign exchange gain, net, from financial transactions		(1,171)	(3,298)
Cash flows from operating activities before working capital changes		**355,167**	**518,926**
Change in trade and other receivables		238,153	(1,123,008)
Change in inventories		(10,706)	(62,396)
Change in taxes receivable		54,141	21,673
Change in prepayments		(403,816)	175,907
Change in trade and other payables		264,624	239,911
Change in tax liabilities other than income tax		(40,588)	(15,897)
Change in contract liabilities		173,605	(57,330)
Cash from / (used in) operating activities		**630,580**	**(302,214)**
Income taxes paid		(26,585)	(10,806)
Interest paid		(32,241)	(33,189)
Net cash from / (used in) operating activities		**571,754**	**(346,209)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,945)	(6,119)
Purchase of intangible assets		(878)	(933)
Proceeds from sale of property, plant and equipment		927	11,777
Repayment of loans issued		25,580	3,500
Provision of loans		(43,467)	(37,252)
Interest received		9,518	18,584
Net cash used in investing activities		**(11,265)**	**(10,443)**
Cash flows from financing activities			
Proceeds from loans and borrowings	11	1,272,146	1,494,808
Repayment of loans and borrowings	11	(1,201,693)	(1,119,088)
Payments under finance leases		(20,123)	(18,202)
Net cash from financing activities		**50,330**	**357,518**
Net increase in cash and cash equivalents		**610,819**	**866**
Cash and cash equivalents, beginning	9	66,899	66,033
Cash and cash equivalents, ending	9	**677,717**	**66,899**

The accompanying notes are an integral part of these financial statements.

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Statement of changes in net assets attributable to the participant

for the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Contribution of the participant (Note 10)	Net assets attributable to the participant, except for contributions	Total
At 1 January 2017	**70,000**	**191,479**	**261,479**
Profit for the year	-	358,157	**358,157**
Total comprehensive income for the year ended 31 December 2016, net of tax	**-**	**358,157**	**358,157**
At 31 December 2017	**70,000**	**549,636**	**619,636**
At 1 January 2018	**70,000**	**549,636**	**619,636**
Effect of changes in accounting policies due to adoption of IFRS 9 (Note 2.2)	-	(34,110)	**(34,110)**
At 1 January 2018 (restated)	**70,000**	**515,526**	**585,526**
Profit for the year	-	111,015	**111,015**
Total comprehensive income for the year ended 31 December 2018, net of tax	**-**	**111,015**	**111,015**
Result of offsetting receivables from and payables to the entity controlled by the owner (Note 3)	-	(3,873)	**(3,873)**
At 31 December 2018	**70,000**	**622,668**	**692,668**

1. General information

These financial statements of FES-Agro LLC (the "Company") have been prepared for the year ended 31 December 2018.

FES-Agro LLC was incorporated in October 2012 as a limited liability company. The Company's registered address is Stavropol Territory, 355003, Stavropol, Dzerzhinskogo str., 162.

The Company is primarily engaged in wholesale of seeds, fertilizers and agrochemical products. As at 31 December 2018 and 31 December 2017, the Company's ultimate participant is Chezer Investment Ltd., a private limited liability company. As at 31 December 2018 and 31 December 2017, the Company's controlling shareholder is Alexander Mikhaylov.

These financial statements were authorized for issue by the Company's Board of Directors on 15 August 2019.

2.1 Basis of preparation

Statement of compliance

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

Basis of accounting

The Company maintains its accounting records in Russian rubles ("RUB") and prepares its financial statements in accordance with Russian accounting and reporting legislation. The statutory financial statements have been adjusted to present these financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis, except as additionally disclosed in certain paragraphs of the Company's summary of significant accounting policies (Note 2.2).

The functional and presentation currency of the Company is the Russian ruble.

2.2 Summary of significant accounting policies

Current versus non-current classification of assets and liabilities

The Company presents assets and liabilities in the statement of financial position based on the current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Fair value measurement

Fair values of financial instruments measured at amortized cost are disclosed in Note 20. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.2 Summary of significant accounting policies (continued)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing classification (based on the lowest level inputs that are significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment

The Company's property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Company estimates the recoverable amount which is determined as the higher of the asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in profit or loss. An impairment loss recognized for an asset in previous reporting periods is reversed if there is any indication that the impairment loss may no longer exist or may have decreased.

After initial recognition, property, plant and equipment is measured at purchase or construction cost, excluding costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets:

	Useful lives (years)
Transport	3-5
Other	3-7

2.2 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The residual value of an asset is the estimated amount that the Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted, as appropriate, at each reporting date.

Costs of minor repairs and maintenance are expensed when incurred. Costs to replace major parts or components of property, plant and equipment items are capitalized, and the replaced parts are derecognized.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the asset is derecognized.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. Accordingly, it should be determined at the inception date whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance expense.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense on a straight-line basis over the lease term.

2.2 Summary of significant accounting policies (continued)

Segment reporting

The Company operates in the Russian Federation and is primarily engaged in wholesale of seeds, fertilizers and agrochemical products. The Company considers that it has only one reporting segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss recorded in the IFRS financial statements.

Income tax

Income taxes have been recognized in the financial statements in accordance with Russian tax legislation enacted at the reporting date. The income tax comprises current tax and deferred tax and is recognized in profit or loss unless it relates to transactions that are recognized in other comprehensive income or directly in equity in the same or another period.

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. A liability is also recorded for any taxes that are payable but not declared in the tax accounts of the Company. This liability is released to profit or loss after three years. A provision for taxes is set up and recorded within selling, general and administrative expenses.

Deferred income tax is provided using the balance sheet method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on the first-in first-out (FIFO) basis.

Costs to purchase inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable from the taxation authorities), as well as transport, handling and other costs directly attributable to the acquisition of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less costs to prepare and sell the asset.

2.2 Summary of significant accounting policies (continued)

Contract liabilities

A contract liability is an obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers a good or service to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Financial assets

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value including transaction costs, except in the case of financial assets recorded at FVPL.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI (fair value through other comprehensive income);
- FVPL (fair value through profit or loss).

Before 1 January 2018, the Company classified its financial assets as loans and receivables (at amortized cost).

Loans issued and receivables

Before 1 January 2018, trade and other receivables and loans with determinable and fixed payments not quoted in an active market are classified as loans issued and receivables and are measured at amortized cost using the effective interest rate method.

From 1 January 2018, the Company measures loans issued and receivables at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales, which are are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

As a second step of its classification process, the Company assesses the contractual terms of a financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within an arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Before 1 January 2018, the Company assessed at each reporting date whether there was any objective evidence that a financial asset was impaired. An impairment loss was recognized when there was objective evidence of a decrease in the estimated future cash flows of the asset as a result of one or more events that had occurred after the initial recognition of the financial asset. For financial assets carried at amortized cost, the amount of the impairment was determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset was reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount was reduced through the use of an allowance account. When receivables were uncollectible, they were written off against the respective allowance. Subsequent recoveries of amounts previously written off were credited against the impairment allowance. Changes in the carrying amount of the impairment allowance were recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed through profit or loss, to the extent that the carrying amount of the asset did not exceed its amortized cost at the reversal date, except for equity instruments available for sale.

The adoption of IFRS 9 has fundamentally changed the Company's accounting for all types of debt instruments not measured at fair value through profit or loss. Since 1 January 2018, the Company has been recording the allowance for expected credit losses (ECL).

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate or its approximation. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL are recognized in two stages. For financial instruments for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is created for credit losses that can result from default events that are possible within the next 12 months (12-month ECL). For financial instruments for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the financial instrument, irrespective of the timing of the default (lifetime ECL).

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether there has been a significant increase in a financial instrument's credit risk since initial recognition, by considering changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans in the following stages:

Stage 1	When loans are first recognized, the Company recognizes an allowance based on 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the lifetime ECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired. The Group records an allowance for the lifetime ECL.
POCI assets	Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. An allowance for ECL is only recognized or released to the extent that there is a subsequent change in the lifetime ECL.

For trade and other receivables and contract assets, the Company applies a simplified approach to calculate ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date.

The Company used a provision matrix that is based on its historical credit loss experience adjusted for forward-looking factors specific to the debtors and the economic environment.

The credit risk on the Company's cash and cash equivalents was assessed as low based on external credit ratings of credit institutions and major banks.

Derecognition of financial assets

A financial asset is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

Financial liabilities of the Company that include loans and borrowings, trade and other payables are initially measured at fair value, net of transaction costs, and subsequently recognized at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity or any of its counterparties.

Value-added tax

The Russian tax legislation permits settlement of value-added tax ("VAT") on a net basis. VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable upon collection of documents required for tax deduction. Where allowance for impairment of receivables has been made, an impairment loss is recorded for the gross amount of doubtful debt, including VAT.

2.2 Summary of significant accounting policies (continued)

Provisions for liabilities and charges

Provisions for liabilities and charges are recognized when the Company has a present legal or constructive obligation as a result of past events, and 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. If the effect of the time value of money is material, provisions are calculated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Foreign currency translation

The financial statements are presented in Russian rubles ("RUB"), which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date.

All resulting differences are taken to profit or loss. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction.

Net assets attributable to the participant

The participants' share in net assets of the Company established in the form of a limited liability company does not meet the criteria for recognition of an equity instrument, since, according to the Company's Charter, the participants are entitled to withdraw from the Company by selling their share to the Company. Thus, the participants' share in net assets of the Company is recorded in liabilities in the financial statements. In case the Company has negative net assets, the participants' share is recorded in equity.

Revenue from contracts with customers

Revenue from contracts with customers is mostly represented by wholesale revenue.

Revenue from contracts with customers is recognized when control over goods or services is transferred to the customer (generally on transfer of goods to the customer) in the amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Some contracts with customers provide a right of return and trade discounts.

Employee benefits

Employee benefits for the services provided during a reporting period are recognized as an expense in that reporting period or capitalized in the carrying amount of other assets if these expenses meet capitalization criteria. All employee benefit plans represent defined contribution plans.

2.2 Summary of significant accounting policies (continued)

State pension plan

The Company makes contributions to the State Pension Fund and medical and social insurance funds on behalf of its employees. Any related expenses are recognized in profit or loss as incurred.

Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017, except for the effect of adoption of new standards effective as at 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company is a first-time adopter of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*, which require a restatement of the previously issued financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company applies IFRS 15 using a full retrospective approach. The application of IFRS 15 to contracts with customers, in which sales of goods are assumed to be the only performance obligation, has not had any impact on the Company's revenue and profit or loss. The Company recognizes revenue at a point in time when control of the asset is transferred to a customer, generally on transfer of goods to the customer.

Some contracts with customers provide a right of return and trade discounts. The Company recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of expected returns and discounts.

In accordance with the definitions in IFRS 15, the Company renamed "Advances received" into "Contract liabilities" in the statement of financial position and "Change in advances from customers" into "Change in contract liabilities" in the statement of cash flows.

2.2 Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

In accordance with IFRS 15, penalties and interest on late payments under contracts with customers maturing in less than 12 months are accounted for as the portion of variable consideration and are included in revenue from contracts with customers. As a result of this change, the Company's finance income for 2017 recorded in the statement of comprehensive income decreased by 9,828 and revenue from contracts with customers increased by the same amount.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Company adopted the new standard on the effective date and does not restate comparative information. Based on currently available information, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. The adoption of the new standard had a significant effect on the assessment of impairment of financial assets.

The Company assesses the effect of adopting IFRS 9 on its financial statements as described below:

(a) Classification and measurement

According to the new requirements, the Company classifies and measures its debt financial assets as follows:

- Debt instruments measured at amortized cost – for financial assets under a business model aimed at collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company includes cash and cash equivalents, trade and other receivables and loans issued in this category. This category corresponds to "Loans and receivables" under the classification in accordance with IAS 39.
- Debt instruments measured at fair value through profit or loss – for financial assets under a business model aimed at both collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, and selling financial assets. The Company had no such financial assets in the reporting period. This category corresponds to "Financial assets at fair value through profit or loss" in accordance with IAS 39.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its loans issued and receivables either on a 12-month or lifetime basis. For trade receivables, the Company applies a simplified approach and records lifetime expected credit losses. For other financial instruments, the Company uses the 12-month basis. Expected credit losses are the estimated credit risk exposure of an asset.

2.2 Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

As at 1 January 2018, the adoption of the new standard resulted in an increase in the allowance for expected credit losses as compared to the allowance for impairment of trade and other receivables and loans issued by 36,745 and 5,893, respectively. The increase in the allowance for expected credit losses as compared to the allowance for impairment of financial assets in the amount of 42,638 less the effect on income tax in the amount of 8,528 was recorded through the change in the Company's equity as at 1 January 2018.

Cash and cash equivalents of the Company are either exposed to low credit risk, according to independent credit ratings assigned by banks and financial institutions, or have short maturity terms. Therefore, according to the Company's estimates, additional impairment allowances as at 1 January 2018 due to the application of the new impairment model under IFRS 9 are insignificant. In these financial statements, the Company uses the categories of financial instruments in accordance with IFRS 9 taking into account the above reconciliation with the categories in accordance with IAS 39.

In accordance with IFRS 9, expenses related to an increase in the allowances for expected credit losses/impairment of trade and other receivables and loans issued are recorded in separate lines of the statement of comprehensive income.

The Company also applied other amendments and clarifications specified below for the first time in 2018; however, they did not have any effect on its financial statements:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – deletion of short-term exemptions for first-time adopters.

2.3 Standards and interpretations issued but not yet effective

The Company intends to adopt standards and interpretations issued but not yet effective, if applicable, when they become effective. These new standards and interpretations are not expected to have any significant impact on the Company's financial statements, except for the following:

IFRS 16 Leases

IFRS 16 was issued in January 2016 to replace IAS 17 *Leases,* IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

At the commencement date of a lease, the Company will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Company will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will coincide with the term of the contracts concluded, unless the Company is reasonably assured that the lease extension option will be exercised.

The Company will adopt IFRS 16 using the full retrospective approach. In accordance with this approach, data for each affected equity component at the beginning of the earliest of the presented prior periods and any other comparative data disclosed for each of the presented prior periods should be retrospectively adjusted as if the standard has always been applied. Lease liabilities and right-of-use assets are recognized at the inception of the lease.

The Company decided to apply the following practical expedients provided by the standard:

- For all types of underlying assets, each lease component and all the respective non-lease components will be accounted for as a single lease component;
- Lease payments under contracts expiring in less than 12 months related to all types of underlying assets will be accounted for as expenses in the statement of profit or loss based on a straight-line method over the lease term, same as before.

As all of the Company's operating leases mature in less than 12 months, the Company does not expect this standard to have any significant impact on its financial statements.

2.3 Standards and interpretations issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. In particular, the Interpretation addresses the following issues:

- Whether the entity considers uncertain tax treatments separately;
- The assumptions that the entity makes with regard to the review of tax treatments by tax authorities;
- How the entity determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- How the entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual periods beginning on or after 1 January 2019 but certain transition reliefs are available. The Company will apply the Interpretation when it becomes effective and does not expect it to have a significant impact on the Company's financial statements.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that may affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in material adjustments to the carrying amounts of assets or liabilities in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for expected credit losses on trade and other receivables

The Company uses a provision matrix to calculate ECL on trade and other receivables. The provision rates depend on the Company's assessment of the credit risk of its counterparties which is based on days past due for groupings of various customer segments that have similar loss patterns and on the existence of the collateral.

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

The provision matrix is initially based on the Company's historical observable default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the agricultural sector, the historical default rates are adjusted. At every reporting date, the historical observable default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observable default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Company's trade and other receivables is disclosed in Note 6.

Allowance for expected credit losses on loans issued and other long-term receivables

The measurement of impairment losses under IFRS 9 on loans issued and other long-term receivables requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis, and the qualitative assessment;
- The segmentation of financial assets when their ECL are assessed on a collective basis;
- Development of ECL models, including various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The information on ECL on other long-term receivables and loans issued is disclosed in Notes 7 and 8, respectively.

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Allowance for impairment of inventories

The Company determines the allowance for obsolete or slow-moving items of inventories based on their expected future value in use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of sale or distribution. Selling prices and costs of sale are subject to change as new information becomes available. Revisions of the estimates may significantly affect future operating results.

Legal claims

Management of the Company exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim against the Company will succeed, or a liability will arise, and in quantifying the possible amount of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or lawyers. Revisions of the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company may be assessed additional taxes, penalties and fines, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. See Note 19.

3. Balances with related parties

Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Management considers that the Company has appropriate procedures in place to identify, account for and properly disclose transactions with related parties.

The nature of relationships with related parties with whom the Company entered into significant transactions in 2018 and 2017 or had significant balances outstanding as at 31 December 2018 and 31 December 2017 is detailed below.

3. Balances with related parties (continued)

As at 31 December 2018 and 31 December 2017, the outstanding balances with related parties were as follows:

	Nature of relationship	31 December 2018	31 December 2017
Trade and other receivables	A	104,430	40,388
Prepayments	A	62,210	39,725
Prepayments	B	–	25,832
Loans issued	A	12,985	12,053
Loans issued	B	43,140	43,941
Trade and other payables	A	(6,684)	(100,677)
Trade and other payables	B	(1,158)	–
Advances from customers	A	–	(2,493)
Loans received	A	–	(116,046)
Other long-term prepayments	B	110,796	–
Other long-term receivables	A	122,188	–
Other non-current liabilities	A	–	(36,654)

A – Companies under common control or significant influence of the controlling owner.

B – Management of the Company.

Balances with related parties at the end of the year are unsecured. No interest is accrued on such balances, except for loans issued and loans received that are disclosed in Note 8 and Note 11, respectively. The settlements are made in cash. No guarantees were provided or received for any related party receivables or payables. Trade and other payables to related parties are settled during a period from 30 to 365 days.

As at 31 December 2017, no impairment allowance was required for trade and other receivables, prepayments and loans issued under transactions with related parties. As at 31 December 2018, the allowance for expected credit losses on trade and other receivables from related parties and on loans issued amounted to 1,837 and 3,831, respectively.

Prepayments to related parties comprise advances issued for future supply of goods and services by related parties.

The Company undertakes impairment assessment each financial year though examining the financial position of a related party and the market in which it operates.

3. Balances with related parties (continued)

The main types of transactions with related parties in 2018 and 2017 were as follows:

	Nature of relationship	2018	2017
Sale of finished products, goods and materials	A	15,319	1,264
Income from operating leases	A	980	986
Other income	A	7,723	657
Purchase of information and consulting services	A	30,044	21,286
Operating lease expenses	B	23,499	23,499
Operating lease expenses	A	9,181	11,384
Purchase of other services	B	6,075	118
Purchase of other services	A	31	166
Finance income	B	7,779	1,317
Finance income	A	2,628	2,628
Finance expense	A	937	1,250
Purchase of inventories	A	5,276	1,601
Purchase of property, plant and equipment	A	1,106	254
Loans issued	A	2,005	1,101
Loans received	A	–	146,999
Repayment of loans received	A	114,002	29,406
Repayment of loans issued	A	2,005	-
Unwinding of discount on other non-current liability	A	1,746	3,129
Assignment of other long-term receivables	A	322,179	-

A – Companies under common control or significant influence of the controlling owner.

B – Management of the Company.

Directors' compensation

The compensation accrued for six and three employees for 2018 and 2017 for management services and recognized in selling, general and administrative expenses amounted to 21,131 and 2,044, respectively. This compensation represents short-term employee benefits as defined in IAS 19 *Employee Benefits*. Besides, the purchase of information and consulting services for 2018 and 2017 in the amount of 30,044 and 21,286, respectively, also partially includes the services of managing the Company.

Guarantees

As at 31 December 2018 and 31 December 2017, the controlling owner, certain entities under control of the controlling owner and the Company's Director acted as guarantors for loans received from banks.

3. Balances with related parties (continued)

Other non-current liabilities

As at 31 December 2018, the Company had RUB-denominated interest-free long-term payables to a company controlled by the controlling owner in the amount of 36,654. These payables matured on 31 December 2020 and were carried at amortized cost with effective interest rate of 8% p.a. In 2018, the Company and the controlling owner decided to partially offset receivables from the company controlled by the controlling owner with the carrying amount of 43,241 against other long-term payables to this company with the carrying amount of 38,400 (see below).

Assignment of other long-term receivables and prepayments

In 2018, the Company assigned to companies under control of the controlling owner other receivables with the carrying amount of 322,179 for the consideration with the fair value of 322,179 (nominal value of the consideration at the date of assignment is 355,000).
The consideration for the assigned assets will be paid in cash by the end of 2020.

In 2018, the Company and the controlling owner decided to partially offset receivables from a company controlled by the controlling owner with the carrying amount of 43,241 against other long-term payables to this company with the carrying amount of 38,400. The result of the debt forgiveness of 3,873 (less tax effect of 968) was recorded within the Company's equity.

As at 31 December 2018, other long-term receivables of 122,188 comprised outstanding balances under this transaction not settled by companies under control of the controlling owner and maturing in 2020. Other (current) receivables also included receivables from companies under control of the controlling owner in the amount of 93,413 related to this transaction and maturing in 2019.

Other long-term prepayments

As at 31 December 2018, other non-current prepayments primarily comprised advances for the office and warehouse leases from the director, which are expected to be used in 2019 for the purchase of leased assets.

4. Property, plant and equipment

	Vehicles	Other	Total
Cost			
At 31 December 2017	**81,292**	**26,486**	**107,778**
Additions	17,929	2,502	**20,431**
Disposals	(12,012)	–	**(12,012)**
At 31 December 2018	**87,209**	**28,988**	**116,197**
Accumulated depreciation			
At 31 December 2017	**(48,404)**	**(12,634)**	**(61,038)**
Deprecation charge	(17,905)	(5,660)	**(23,565)**
Disposals	12,012	–	**12,012**
At 31 December 2018	**(54,297)**	**(18,294)**	**(72,591)**
Carrying amount			
At 31 December 2018	**32,912**	**10,694**	**43,606**
At 31 December 2017	**32,888**	**13,852**	**46,740**

	Vehicles	Other	Total
Cost			
At 31 December 2016	**76,991**	**20,915**	**97,906**
Additions	20,790	5,670	**26,460**
Disposals	(16,489)	(99)	**(16,588)**
At 31 December 2017	**81,292**	**26,486**	**107,778**
Accumulated depreciation			
At 31 December 2016	**(41,011)**	**(8,232)**	**(49,243)**
Deprecation charge	(17,728)	(4,423)	**(22,151)**
Disposals	10,335	21	**10,356**
At 31 December 2017	**(48,404)**	**(12,634)**	**(61,038)**
Carrying amount			
At 31 December 2017	**32,888**	**13,852**	**46,740**
At 31 December 2016	**35,980**	**12,683**	**48,663**

As at 31 December 2018 and 31 December 2017, the carrying amounts of vehicles held under finance leases was 27,850 and 24,956, respectively. The amount of additions to vehicles held under finance leases in 2018 and 2017 was 17,486 and 20,340, respectively. Leased assets are pledged as collateral for the related finance lease liabilities.

5. Inventories

	At 31 December 2018	At 31 December 2017
Goods for resale (at cost and net realizable value)	1,021,750	1,010,883
Materials and fittings (at cost)	671	832
	1,022,421	**1,011,715**

5. Inventories (continued)

As at 31 December 2018 and 31 December 2017, the Company wrote down goods for resale to net realizable value for the amount of 24,136 and 25,290, respectively.

As at 31 December 2017, inventories pledged as collateral for loans and borrowings (see Note 11) amounted to 593,194. No inventories were pledged as collateral as at 31 December 2018.

6. Trade and other receivables

	At 31 December 2018	At 31 December 2017	At 1 December 2017
Trade receivables	1,047,957	1,098,907	297,791
Other receivables	362,578	339,407	99,562
Total trade and other receivables	**1,410,535**	**1,438,314**	**397,353**

As at 31 December 2018 and 31 December 2017, trade and other receivables were denominated in Russian rubles, excluding trade receivables in the amount of 8,264 and 9,364, respectively, denominated in US dollars, and trade receivables in the amount of nil and 1,799, respectively, denominated in euro. Trade receivables had different payment terms ranging from 5 to 365 days.

The Company uses a provision matrix to calculate ECL on trade and other receivables.
The provision rates depend on the days past due for groupings of various customer segments that have similar loss patterns (i.e. by geographic region, product type, and the customers' type and rating).

The provision matrix is initially based on the Company's historical observable default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the food production sector, the historical default rates are adjusted. At every reporting date, the historical observable default rates are updated and changes in the forward-looking estimates are analyzed.

ECL calculation shows the probability-weighted result, time value of money and reasonable information about past events, current circumstances and forecast economic conditions that is available at the reporting date.

The table below provides information on the expected credit losses on trade and other receivables of the Company as at 31 December 2018.

			Past due but not impaired				
	Carrying amount	Neither past due nor impaired	Less than 45 days	46 to 120 days	121 to 300 days	301 to 420 days	More than 420 days
At 31 December 2018							
ECL rate		4%	4%	4-12%	4-12%	46-100%	46-100%
Carrying amount prior to ECL measurement	**1,537,700**	779,340	125,047	123,280	406,113	8	103,912
ECL	**(127,165)**	(20,629)	(4,921)	(14,426)	(15,376)	(2)	(71,811)

6. Trade and other receivables (continued)

As at 31 December 2018, past due receivables in the amount of 415,624 were secured by pledges of land, buildings and equipment.

As at 31 December 2017, the aging analysis of unimpaired trade and other receivables was as follows:

	Carrying amount	Neither past due nor impaired	Past due but not impaired: Less than 45 days	46 to 120 days	121 to 300 days	301 to 420 days	More than 420 days
At 31 December 2017	**1,438,314**	596,731	464,440	359,060	2,253	3,287	12,543

As at 31 December 2017, trade and other receivables not past due their current maturity, amounting to 54,504, would have been past due their initial maturity for more than 420 days. As at 31 December 2018 and 2017, trade and other receivables not past due their current maturities, amounting to 6,091 and 11,246, respectively, would have been past due their initial maturities for 301 to 420 days.

Movements in the allowance for expected credit losses for 2018 were as follows:

At 1 January 2018	**133,943***
Increase	35,620
Utilization	(42,398)
At 31 December 2018	**127,165**

* Difference between the allowance for impairment of trade and other receivables as at 31 December 2017 and the allowance for expected credit losses as at 1 January 2018 represents the effect of adopting IFRS 9 taken to retained earnings as at 1 January 2018 due to the use of the modified retrospective approach.

Movements in the allowance for impairment of trade and other receivables for 2017 were as follows:

At 31 December 2016	**100,138**
Accruals	5,461
At 31 December 2017	**105,599**

7. Other long-term receivables

Other long-term receivables are denominated in Russian rubles and mature in 2020. As at 31 December 2018 and 31 December 2017, other long-term receivables were not past due their current maturities.

As at 31 December 2017, other long-term receivables in the amount of 50,437 were past due their initial maturities for more than 300 days. In 2018, other long-term receivables were assigned to a related party (Note 5) for cash consideration, a part of which is payable in 2020. As at 31 December 2018, other long-term receivables comprise the outstanding portion of the cash consideration.

7. Other long-term receivables (continued)

Movements in the allowance for expected credit losses for 2018 were as follows:

	12-month ECL (Stage 1)	Lifetime ECL, credit-impaired (Stage 3)	Total
At 1 January 2018*	**-**	**74,342**	**74,342**
Net remeasurement of loss allowance	837	(8,401)	**(7,564)**
Disposal associated with the assignment	-	(65,941)	**(65,941)**
At 31 December 2018	**837**	**-**	**837**

* Difference between the allowance for impairment of other long-term receivables as at 31 December 2017 and the allowance for expected credit losses as at 1 January 2018 represents the effect of adopting IFRS 9 taken to retained earnings as at 1 January 2018 due to the use of the modified retrospective approach.

Movements in the allowance for impairment of trade and other receivables for 2017 were as follows:

At 31 December 2016	**46,790**
Accruals	19,151
At 31 December 2017	**65,941**

8. Loans issued

Terms and conditions in respect of loans issued are detailed below:

	Currency	Expected maturity	Interest rate	At 31 December 2018	At 31 December 2017
Loans issued related parties (Note 3)	RUB	2020	8%	43,140	43,941
Loans issued to related parties (Note 3)	RUB	2019	2-14%	12,985	12,053
Loans issued to third parties	RUB	2020	10%	4,170	-
Loans issued to third parties	RUB	2019	10%	3,852	-
Loans issued to third parties	RUB	2019	2%	-	11,301
Loans issued to third parties	RUB	2018	18%	-	21,269
				64,147	**88,564**

As at 31 December 2018 and 31 December 2017, loans issued were unsecured.

8. Loans issued (continued)

Movements in the allowance for expected credit losses for 2018 were as follows:

	12-month ECL (Stage 1)	Lifetime ECL, not credit-impaired (Stage 2)	Lifetime ECL, credit-impaired (Stage 3)	Total
At 1 January 2018*	2,414	4,851	-	7,265
Net remeasurement of loss allowance	(599)	(700)	40,937	39,638
Transfer to lifetime ECL, not credit-impaired	(933)	933	-	-
At 31 December 2018	882	5,084	40,937	46,903

* Difference between the allowance for impairment of other long-term receivables as at 31 December 2017 and the allowance for expected credit losses as at 1 January 2018 represents the effect of adopting IFRS 9 taken to retained earnings as at 1 January 2018 due to the use of the modified retrospective approach.

As at 31 December 2017, a loan issued to a third party in the amount of 1,371 was impaired (31 December 2016: nil). At 31 December 2017, one loan issued to a third party in the amount of 11,249 was past due for 3 days and one loan issued to a related party in the amount of 10,948 was past due for less than 1 year. As at 31 December 2018, there were no loans past due their current maturities.

As at 31 December 2018 and 31 December 2017, a loan issued to a related party in the amount of 43,140 and 43,941, respectively, was more than 365 days past due its initial maturity (and not past due its current maturity). As at 31 December 2018, a loan issued to a third party in the amount of 11,301 was 182 days past due its initial maturity (and not past due its current maturity).

9. Cash and cash equivalents

	At 31 December 2018	At 31 December 2017
Cash on hand	3,107	2,838
Cash in banks (RUB)	21,345	63,669
Cash in banks (foreign currency)	265	392
Cash on deposit accounts (RUB)	653,000	–
	677,717	66,899

9. Cash and cash equivalents (continued)

None of the balances maintained on bank accounts or deposits have become overdue or impaired. The analysis of credit quality of cash on bank accounts and deposits is presented below:

	Rating as at 31 December 2018	Agency	At 31 December 2018	At 31 December 2017
Sberbank of Russia PJSC	Ba1	Moody's	653,000	–
Sberbank of Russia PJSC	Baa3	Moody's	21,398	48,792
Promsvyazbank PJSC	B2	Moody's	211	15,269
MTS-Bank PJSC	BB-	Fitch	1	–
			674,610	64,061

Expected credit losses on cash and cash equivalents are insignificant due to the high credit ratings of the banks and short terms of cash placements.

10. Share capital

Share capital consists of the ownership interests of participants determined on a percentage basis. As at 31 December 2018 and 31 December 2017, the share capital amounted to 70,000. The ownership interest of the Company's participant is the ratio of the nominal value of the participant's interest and the Company's share capital. The nominal value of the ownership interests of the Company's participants is denominated in rubles.

11. Loans and borrowings

Terms and conditions in respect of loans and borrowings are detailed below:

	Currency	At 31 December 2018	At 31 December 2017
Bank loans	RUB	886,018	700,489
Loans issued by related parties (Note 3)	USD	–	116,046
		886,018	816,535

The maturities of long-term loans and borrowings are as follows:

	31 December 2018	31 December 2017
Within one year	886,018	701,335
1 to 5 years	–	115,200
	886,018	816,535

11. Loans and borrowings (continued)

In 2018 and 2017, the weighted average interest rate on bank loans was 4% and 5.9%, respectively.

In accordance with the terms and conditions of loan agreements, the Company is required to comply with certain ratios, such as the maximum ratio of financial debt to earnings before interest, income tax, depreciation and amortization (EBITDA), the maximum level of loans and borrowings and the minimum level of profitability. As at 31 December 2018, the Company complied with the terms and conditions of the loan agreements.

As at 31 December 2017, bank loans were collateralized by inventories in the amount of 593,194 (Note 5), as well as guarantees of the controlling owner, related parties and the Company's Director. As at 31 December 2018, bank loans were secured by guarantees of the controlling owner, related parties and the Company's Director.

Changes in loans and borrowings in 2018 were due to repayment of loans and borrowings amounting to 1,201,693, receipt of loans and borrowings amounting to 1,272,146, accrual of interest expense amounting to 32,442, settlement of obligations related to accrued interest amounting to 32,241 and foreign exchange gains amounting to 1,171.

Changes in loans and borrowings in 2017 were due to repayment of loans and borrowings amounting to 1,119,088, receipt of loans and borrowings amounting to 1,494,808, accrual of interest expense amounting to 36,889, settlement of obligations related to accrued interest amounting to 33,189 and foreign exchange gains amounting to 3,298.

12. Trade and other payables

	At 31 December 2018	At 31 December 2017
Trade payables	1,183,440	1,118,384
Other	294,445	85,651
	1,477,885	1,204,035

As at 31 December 2018 and 31 December 2017, trade and other payables were denominated in Russian rubles, excluding trade payables in the amount of 10 and 1,790, respectively, denominated in US dollars. Payables have different payment terms ranging from 5 to 365 days.

13. Contract liabilities

Contract liabilities comprised advance payments from customers. As at 1 January 2017, contract liabilities amounted to 367,406, out of which 329,734 was recognized in 2017 as revenue. As at 31 December 2017, contract liabilities amounted to 310,076, out of which 273,652 was recognized in 2018 as revenue. Movements in contract liabilities in 2017 and 2018 comprised advance payments and revenue recognition.

Advance payments are provided by customers for a period from 1 to 90 days before the expected shipment.

14. Revenue from contracts with customers

	Timing of revenue recognition	2018	2017
Sale of goods	Goods transferred at a certain point in time	4,766,891	4,975,434
Other revenue	Services rendered during a period	2,568	4,155
		4,769,459	4,979,589

15. Selling, general and administrative expenses

	2018	2017
Salary, employee benefits	94,228	66,135
Leases	49,793	57,600
Logistic and transportation expenses	48,283	45,024
Information and consulting services	43,543	45,362
Changes in provision for dubious tax positions on other taxes	46,129	-
Advertising and marketing	18,358	34,287
Bank charges	19,363	20,157
Depreciation of property, plant and equipment	23,565	22,151
Payroll taxes	25,063	19,559
Repair and maintenance of property, plant and equipment	10,522	9,081
Insurance	9,518	4,944
Materials	746	1,475
Other	28,142	17,906
	417,253	343,681

16. Finance income

	2018	2017
Interest income on bank deposits	9,401	8,921
Interest income on loans issued	8,060	5,260
Other	7,779	-
	25,240	14,181

17. Finance expense

	2018	2017
Interest income on bank deposits	32,442	36,889
Interest expense on finance leases	2,978	2,973
Other	15,688	3,129
	51,108	42,991

18. Income tax

The income tax expense comprises:

	2018	2017
Current income tax	88,595	13,688
Deferred income tax relating to the origination and reversal of temporary differences	(6,133)	78,463
	82,462	92,151

Profit before tax reported in the financial statements is reconciled to income tax expense as follows:

	2018	2017
Profit before tax	**193,477**	**450,308**
Theoretical income tax expense calculated at the statutory rate of 20%	**38,695**	**90,062**
Tax effect of non-deductible expenses and non-taxable income		
Changes in provision for dubious income tax positions	23,594	1,320
Changes in provision for dubious tax positions on other taxes	9,226	–
Expected credit losses on loans issued / impairment of loans issued	7,928	274
Other non-deductible expenses	3,019	495
Income tax expense	**82,462**	**92,151**

The applicable income tax rate is 20%. Deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 are calculated for all temporary differences under the balance sheet method using the statutory tax rate of 20%. The deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 were attributable to the following:

	At 31 December 2018	Reversed/ (charged) to profit or loss	Taken to equity (Note 3)	Changes in accounting policies due to adoption of IFRS 9	At 31 December 2017
Supplier bonuses	(7,152)	20,967	–	–	(28,119)
Receivables	(13,215)	(13,215)	–	–	–
Allowance for expected credit losses / impairment of loans and receivables	(61,113)	(4,723)	–	8,529	(64,919)
Payables	(3,197)	2,757	968	–	(6,922)
Write-down of inventories to net realizable value	4,827	(231)	–	–	5,058
Other	(2,420)	578	–	–	(2,998)
Net deferred tax asset	**(82,270)**	**6,133**	**968**	**8,529**	**(97,900)**

18. Income tax (continued)

	At 31 December 2017	Reversed/ (charged) to profit or loss	At 1 January 2017
Supplier bonuses	(28,119)	(38,034)	9,915
Allowance for expected credit losses / impairment of loans and receivables	(64,919)	(36,276)	(28,643)
Payables	(6,922)	(4,625)	(2,297)
Write-down of inventories to net realizable value	5,058	537	4,521
Other	(2,998)	(65)	(2,933)
Net deferred tax asset	**(97,900)**	**(78,463)**	**(19,437)**

Temporary differences on supplier bonuses relate to temporary differences that arose at recognition of these bonuses in financial and tax records. Temporary differences on the allowance for expected credit losses/impairment of trade and other receivables relate to differences in the methodology for calculation of this allowance for tax accounting and financial reporting purposes.

19. Contingencies, commitments and operating risks

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2018, the Russian economy was still negatively impacted by a decline in crude oil prices, a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. The ruble interest rates remain high as the CBR keeps the key interest rate at 7.75% as at 31 December 2018. The combination of the above resulted in reduced access to capital, higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Obligations under operating leases

The Company entered into a number of cancellable short-term lease agreements and intends to extend them. Expected annual lease payments under these agreements amount to around 44,132 (2017: 57,600).

Legal proceedings

From time to time in the ordinary course of business, the Company is subject to legal claims. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of such claims.

19. Contingencies, commitments and operating risks (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Interpretation by the Company's management of the legislation in place when applicable to the Company's transactions and activities may be challenged by the appropriate regional or federal authorities. Recently, the tax authorities have been taking a more assertive position in their interpretation of the legislation and assessments. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and fines may be assessed. It is not practical to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavorable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2018 and 31 December 2017, the provision for dubious income tax positions amounted to 40,394 and 16,800, respectively. The change in the provision for dubious income tax positions was solely due to the change in its assessment and was recorded within income tax in the statement of comprehensive income. As at 31 December 2018 and 31 December 2017, the provision for dubious tax positions on other taxes amounted to 52,405 and 6,276, respectively. The change in the provision for dubious tax positions on other taxes was solely due to the change in its assessment and was recorded within selling, general and administrative expenses.

Management estimates that the amount of possible risks related to income tax and other taxes (e.g., accrual of additional VAT liabilities) for which no liability is required to be recognized under IFRS, can be multiples of liabilities accrued and provisions recognized in the statement of financial position as at that date. This estimate is disclosed due to the IFRS requirement to disclose any possible taxes and should not be considered an estimate of the Company's future tax liability.

20. Financial risk management

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. Financial assets, which potentially subject the Company to credit risk, consist principally of loans issued, trade and other receivables and cash and cash equivalents. The Company has policies in place to ensure that sales of goods and services are made only to customers with an appropriate credit history.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets disclosed in this statement of financial position.

20. Financial risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to two types of market risk – currency risk and interest rate risk. Financial instruments exposed to market risk include trade and other receivables, trade and other payables, as well as loans and borrowings.

The sensitivity analysis in the sections below relates to the positions as at 31 December 2018 and 31 December 2017. The sensitivity analysis was prepared based on the assumption that the amount of net debt, the ratio of fixed to floating interest rates of the debt, and the share of financial instruments in foreign currencies are constant as at 31 December 2018 and 31 December 2017.

Currency risk

Assets and liabilities denominated in foreign currency (Notes 6, 11, 12) give rise to currency risk exposure. The Company has no formal policy for managing currency risk. The table below demonstrates the sensitivity to reasonably possible changes in US dollar exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of the Company's profit to changes in other currencies is insignificant.

	Increase (+)/ decrease (–) in exchange rate	Effect on profit before tax
31 December 2018		
RUB/USD	10.00%	852
RUB/USD	-10.00%	(852)
31 December 2017		
RUB/USD	11.00%	(11,889)
RUB/USD	-11.00%	11,889

Since the Company does not hold any financial instruments revalued through equity, the effect of changes in exchange rates on equity will be the same as on profit before tax.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows related to a financial instrument will fluctuate because of changes in market interest rates. The Company has no formal policy for managing interest rate risk.

The Company's profit and operating cash flows are substantially independent of changes in market interest rates because the Company does not have debt obligations with floating interest rates.

20. Financial risk management (continued)

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Management monitors rolling forecasts of the Company's cash flows on a monthly basis. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and credit lines.

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments (including future interest payments under loans and borrowings):

	On demand or less than 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2018				
Loans and borrowings	921,459	–	–	**921,459**
Finance leases	11,893	8,278	–	**20,171**
Trade and other payables	1,477,885	–	–	**1,477,885**
	2,411,237	**8,278**	**-**	**2,419,515**

	On demand or less than 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2017				
Loans and borrowings	739,339	354,817	–	**1,094,156**
Finance leases	11,604	8,769	–	**20,373**
Trade and other payables	1,204,035	–	–	**1,204,035**
	1,954,978	**363,586**	**-**	**2,318,564**

Capital management

The Company's policy is to keep the net debt/EBITDA ratio below 3. The Company's net debt includes interest-bearing loans and borrowings, and finance leases less cash and cash equivalents. EBITDA is calculated as operating profit for the year less depreciation of property, plant and equipment. EBITDA margin is calculated as the ratio of EBITDA to revenue from contracts with customers.

	2018	2017
Loans and borrowings	886,018	816,535
Finance leases	16,986	16,645
Less cash and cash equivalents	(677,717)	(66,899)
Net debt	**225,287**	**766,281**
Operating profit for the year	232,560	483,048
Changes in provision for dubious tax positions on other taxes	46,129	–
Expected credit losses on loans issued / impairment of loans issued	39,638	1,371
Depreciation of property, plant and equipment	23,565	22,151
Amortization of intangible assets	532	517
EBITDA	**342,424**	**507,087**
Net debt / EBITDA	**0.7**	**1.5**
EBITDA margin	**7.2%**	**10.2%**

20. Financial risk management (continued)

Fair value of financial instruments

As at 31 December 2018 and 31 December 2017, the fair values of cash and cash equivalents, trade and other (short-term) receivables, and trade and other (short-term) payables approximated their carrying amounts due to short maturities of these instruments.

The fair values of loans issued, other long-term receivables, other long-term payables, as well as loans and borrowings received are determined using the discounted cash flow method with the discount rate reflecting the borrowing rate of interest of the issuer as at the end of the reporting period (level 3 of the fair value hierarchy – significant unobservable market inputs). As at 31 December 2018 and 31 December 2017, the fair values of loans issued as well as loans and borrowings approximated their market values.

21. Events after the reporting date

In April 2019, FES-Agro LLC issued one million (1,000,000) stock exchange bonds FES-AgroB1 with the nominal value of one thousand (1,000) rubles each, maturing on 15 April 2021 and bearing an interest rate of 14%.