

UGC Group

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2016

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Independent Auditor's report

CONSOLIDATED Financial statements

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Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company "United grain company":

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Joint Stock Company "United grain company" and its subsidiaries (together – the "Group") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

AO PricewaterhouseCoopers Audit

14 April 2017

Moscow, Russian Federation

A.A. Okishev, certified auditor (licence no. 01-000170), AO PricewaterhouseCoopers Audit

Audited entity:
Joint Stock Company "United grain company"
Certificate of inclusion in the Unified State Register of Legal Entities
issued on 21 March 2007 under registration № 5077746345540
Russian Federation, 107139, Moscow, Orlikov per., h. 3, building 1

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow
Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities
issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of
auditors» (Association)


ORNZ 11603050547 in the register of auditors and audit
organizations

UGC GROUP

Consolidated Statement of Financial Position for the year ended 31 December 2016

| <i>In thousands of Russian Roubles</i> | Note | 31 December 2016 | 31 December 2015 |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 6,912,591 | 3,261,067 |
| Advances paid for property, plant and equipment | 8 | 286,183 | 193,184 |
| Intangible assets | 9 | 286,956 | - |
| Long-term investments | | - | 38,000 |
| Investments in associates | 10 | 608,095 | 644,473 |
| Deferred income tax asset | 24 | 422,462 | 401,844 |
| Other non-current assets | | 41,960 | 2,835 |
| Total non-current assets | | 8,558,247 | 4,541,403 |
| Current assets | | | |
| Inventories | 11 | 1,149,598 | 1,090,094 |
| Trade and other receivables | 12 | 1,343,053 | 1,945,140 |
| Prepayments | 13 | 963,310 | 805,692 |
| Current income tax receivable | | 104,024 | 10,642 |
| Short-term investments | 14 | 36,866 | 6,528,532 |
| Cash and cash equivalents | 15 | 9,773,718 | 3,564,198 |
| Other current assets | | 33,135 | 13,845 |
| | | 13,403,704 | 13,958,143 |
| Non-current assets held for sale (or disposal groups) | | - | 278,840 |
| Total current assets | | 13,403,704 | 14,236,983 |
| TOTAL ASSETS | | 21,961,951 | 18,778,386 |
| EQUITY | | | |
| Share capital | 16 | 7,029,879 | 7,029,879 |
| Share premium | 16 | 4,464,394 | 4,464,394 |
| Accumulated profit | | 1,654,189 | 937,483 |
| Equity attributable to the Company's owners | | 13,148,462 | 12,431,756 |
| Non-controlling interest | | 1,894,882 | 1,606,597 |
| TOTAL EQUITY | | 15,043,344 | 14,038,353 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liability | 24 | 82,521 | 97,046 |
| Long-term borrowings | 17 | 57,811 | - |
| Employee defined benefit liabilities | | 61,746 | 61,628 |
| Total non-current liabilities | | 202,078 | 158,674 |
| Current liabilities | | | |
| Short-term borrowings | 17 | 5,973,814 | 2,504,662 |
| Trade and other payables | 18 | 625,652 | 1,579,379 |
| Current income tax payable | | 36,984 | 65,226 |
| Other taxes payable | 19 | 80,079 | 365,206 |
| | | 6,716,529 | 4,514,473 |
| Liabilities of disposal group classified as held for sale | | - | 66,886 |
| Total current liabilities | | 6,716,529 | 4,581,359 |
| TOTAL LIABILITIES | | 6,918,607 | 4,740,033 |
| TOTAL LIABILITIES AND EQUITY | | 21,961,951 | 18,778,386 |

Approved for issue and signed on 14 April 2017.


 Kiyko M.U.
 Acting General Director

UGC GROUP

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

| <i>In thousands of Russian Roubles</i> | Note | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|-------------|--|--|
| Revenue | 20 | 12,113,257 | 17,319,324 |
| Cost of sales | 21 | (8,714,536) | (12,363,245) |
| Losses from trading derivatives, net | | - | (28,307) |
| Gross profit | | 3,398,721 | 4,927,772 |
| Distribution costs | 21 | (406,137) | (994,234) |
| Administrative expenses | 21 | (1,061,933) | (1,000,492) |
| Other operating expenses | 21 | (673,420) | (627,738) |
| Other operating income | 22 | 1,306,125 | 592,786 |
| Operating profit | | 2,563,356 | 2,898,094 |
| Interest income | | 502,763 | 1,030,858 |
| Finance expense | 23 | (340,752) | (457,188) |
| Share of results of associates | | (36,378) | 139,074 |
| Profit before taxation | | 2,688,989 | 3,610,838 |
| Income tax charge | 24 | (450,606) | (1,061,376) |
| Profit for the year | | 2,238,383 | 2,549,462 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Expenses on remeasurement of/(recognition) of post-employment benefit obligations | | 4,154 | (61,628) |
| Income tax on remeasurement of/(recognition) of pension liabilities | | (831) | 12,326 |
| Other comprehensive income/(loss) for the year | | 3,323 | (49,302) |
| Total comprehensive income for the year | | 2,241,706 | 2,500,160 |
| Profit attributable to: | | | |
| - Owners of the Company | | 1,551,948 | 1,673,874 |
| - Non-controlling interest | 27 | 686,435 | 875,588 |
| Profit for the year | | 2,238,383 | 2,549,462 |
| Total comprehensive income attributable to: | | | |
| - Owners of the Company | | 1,553,643 | 1,648,730 |
| - Non-controlling interest | 27 | 688,063 | 851,430 |
| Total comprehensive income for the year | | 2,241,706 | 2,500,160 |
| Earnings per ordinary share for profit from operations attributable to the owners of the Company, basic and diluted (in RR per share) | 25 | 0.22 | 0.24 |

UGC GROUP
Consolidated Statement of Changes in Equity for the year ended 31 December 2016

| <i>In thousands of Russian Roubles</i> | Attributable to owners of the Company | | | | | Non-controlling interest | Total equity |
|---|---------------------------------------|------------------|------------------------------|-------------------|------------------|--------------------------|--------------|
| | Share capital | Share premium | Accumulated profit/(deficit) | Total | | | |
| Balance at 31 December 2014 | 7,029,879 | 4,464,394 | (450,652) | 11,043,621 | 1,417,183 | 12,460,804 | |
| Profit for the year | - | - | 1,673,874 | 1,673,874 | 875,588 | 2,549,462 | |
| Other comprehensive loss for the year | - | - | (25,144) | (25,144) | (24,158) | (49,302) | |
| Total comprehensive income for the year | - | - | 1,648,730 | 1,648,730 | 851,430 | 2,500,160 | |
| Dividends declared to non-controlling interest | - | - | - | - | (662,016) | (662,016) | |
| Dividends declared to owners | - | - | (260,595) | (260,595) | - | (260,595) | |
| Balance at 31 December 2015 | 7,029,879 | 4,464,394 | 937,483 | 12,431,756 | 1,606,597 | 14,038,353 | |
| Profit for the year | - | - | 1,551,948 | 1,551,948 | 686,435 | 2,238,383 | |
| Other comprehensive income for the year | - | - | 1,695 | 1,695 | 1,628 | 3,323 | |
| Total comprehensive income for the year | - | - | 1,553,643 | 1,553,643 | 688,063 | 2,241,706 | |
| Dividends declared to non-controlling interest | - | - | - | - | (399,778) | (399,778) | |
| Dividends declared to the owners of the Company | - | - | (836,937) | (836,937) | - | (836,937) | |
| Balance at 31 December 2016 | 7,029,879 | 4,464,394 | 1,654,189 | 13,148,462 | 1,894,882 | 15,043,344 | |

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

UGC GROUP
Consolidated Statement of Cash Flows for the year ended 31 December 2016

| <i>In thousands of Russian Roubles</i> | Note | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|-------------|--|--|
| Cash flows from operating activities | | | |
| Profit before income tax | | 2,688,989 | 3,610,838 |
| <i>Adjustments for:</i> | | | |
| Depreciation of property, plant and equipment | 8, 21 | 267,277 | 227,591 |
| Amortization of intangible assets | 9, 21 | 10,323 | - |
| Share in loss of associates | 10 | 97,643 | 10,722 |
| Change in provision for impairment of receivables and prepayments and write-off of trade and other receivables | 21 | 59,564 | 246,961 |
| (Gain)/Loss on disposal of property, plant and equipment | 21 | (45,678) | 26,698 |
| Change in provision for impairment for short-term investments | 21 | - | 374,913 |
| Interest income | | (502,763) | (1,030,858) |
| Interest expense | | 340,752 | 457,188 |
| Change in provision for net realizable value of inventory | 21 | 1,254 | 5,096 |
| Change in provision for legal claims and similar items | | 76,881 | 21,747 |
| Unrealised foreign exchange loss/(gain) | | 491,561 | (347,954) |
| Gain on sale of disposal group | 22 | (968,046) | - |
| Change in unused vacation provision | 21 | 80,712 | 83,429 |
| Share in profit of associates | 10 | (61,265) | (143,284) |
| Net (gain)/loss from foreign currency purchases | 21,22 | (14,420) | 1,055 |
| Operating cash flows before working capital changes | | 2,522,784 | 3,544,142 |
| Change in trade and other receivables | | 327,135 | (800,565) |
| Change in inventories | | (60,758) | 843,661 |
| Change in trade and other payables | | (1,255,020) | 654,237 |
| Change in other current assets and liabilities | | (19,290) | (19,362) |
| Cash generated from operating activities before income taxes | | 1,514,851 | 4,222,113 |
| Income tax paid | | (607,737) | (797,283) |
| Net cash from operating activities | | 907,114 | 3,424,830 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (3,820,122) | (1,066,954) |
| Purchases of intangible assets | | (297,279) | - |
| Purchases of financial assets | | - | (116,000) |
| Purchases of subsidiaries net of cash acquired | | (660) | - |
| Return of financial assets | | 38,000 | 108,745 |
| Proceeds from sale of disposal group | | 1,180,000 | - |
| Proceeds from cash withdrawals from deposits | | 6,495,843 | 7,406,393 |
| Deposits placed with banks | | (39,000) | (6,861,456) |
| Interest received | | 529,845 | 1,268,366 |
| Net cash from investing activities | | 4,086,627 | 739,094 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 11,706,642 | 2,501,171 |
| Repayment of borrowings | | (8,219,679) | (4,741,418) |
| Interest paid | | (432,640) | (456,384) |
| Dividends paid | 16 | (1,377,777) | (845,656) |
| Net cash from/(used in) financing activities | | 1,676,546 | (3,542,287) |
| Net increase in cash and cash equivalents | | 6,670,287 | 621,637 |
| Effect of exchange rates changes on cash and cash equivalents | | (460,767) | 254,023 |
| Cash and cash equivalents at the beginning of the period | 15 | 3,564,198 | 2,688,538 |
| Cash and cash equivalents at the end of the period | 15 | 9,773,718 | 3,564,198 |

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

1 UGC Group and its Operations

Description of the business. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Joint Stock Company United Grain Company (the “Company”) and its subsidiaries (the “Group” or “UGC Group”).

The Company was incorporated by the Federal Agency for Administration of State Property of the Russian Federation (Rosimushestvo) as an open joint stock company on 21 March 2007 under the name Agency for Regulation of Food Market. On 8 May 2009 the Company was renamed to OJSC United Grain Company in accordance with presidential decree no. 290 dated 20 March 2009. On 5 November 2015 the Company was renamed to Joint Stock Company «United grain company» (JSC “UGC”) in accordance with decision of annual general shareholders meeting.

The Government of the Russian Federation through Rosimushestvo is the ultimate controlling party of the Group. As at 31 December 2016 and 31 December 2015 it owns 50% plus 1 share of issued shares in the Company. Another 50% minus 1 share of the Company is controlled by LLC Investor (related entity of Summa Group, ultimately controlled by Mr. Z. Magomedov) (Note 16).

Principal subsidiaries of the Company included into these consolidated financial statements are listed below:

| Entity | Principal activity by segment | Group's share in the share capital | |
|---------------------------------|-------------------------------|------------------------------------|------------------|
| | | 31 December 2016 | 31 December 2015 |
| | Port transshipment | | |
| PJSC NKHP | Port transshipment | 51% | 51% |
| LLC DVZT * | Port transshipment | 100% | - |
| | Trading | | |
| LLC Torgovyi Dom UGC | Trading | 100% | 100% |
| LLC UGC Center | Trading | 100% | 100% |
| LLC UGC Sibir | Trading | 100% | 100% |
| LLC UGC South | Trading | 100% | 100% |
| GRAINEXPORT SA ** | Trading | 100% | - |
| | Production | | |
| OJSC Buturlinovskiy Melcombinat | Flour production | 51% | 51% |
| | Other | | |
| OJSC Ardatovskoe HPP | Grain storage | 100%-1 share | 100%-1 share |
| OJSC Atyashevskoe HPP | Grain storage | 100%-1 share | 100%-1 share |
| OJSC Elevatorspecmontaj | Grain storage | 100%-1 share | 100%-1 share |
| OJSC Obrochinskoe HPP | Grain storage | 100%-1 share | 100%-1 share |
| OJSC Reservhleb | Grain storage | 100%-1 share | 100%-1 share |
| OJSC Tumanovskoe HPP *** | Grain storage | - | 100%-1 share |
| OJSC Orskiy elevator | Grain storage | 99.58% | 99.58% |
| LLC Agrostandart | Agriculture | 51% | 51% |
| JSC Elevator | Grain storage | 51% | 51% |
| OJSC Grachevskiy elevator | Grain storage | 51% | 51% |
| OJSC Khakashleboprodukt | Grain storage | 51% | 51% |
| OJSC Pallasovskiy elevator | Grain storage | 51% | 51% |
| OJSC Portovyi elevator | Grain storage | 51% | 51% |
| OJSC Surovinskyy elevator | Grain storage | 51% | 51% |
| OJSC Zarayskhleboprodukt **** | Grain storage | - | 51% |

* In November 2016 the Company registered a new subsidiary LLC DVZT.

** In November 2016 the Company completed acquisition of 100% of share capital of GRAINEXPORT SA, a company registered and acting under the laws of Switzerland.

*** OJSC Tumanovskoe HPP was liquidated in November 2016.

**** In April 2016 the Company sold through an open auction 51% of share capital of OJSC Zarayskhleboprodukt.

1 UGC Group and its Operations (Continued)

Principal activity. Principal activities of the Group involve grain trading, port transshipment, flour production, grain storage and acting as an agent in state interventions in the grain market (Note 31). The Group's manufacturing and logistic facilities are based in Russia. In 2016 the Group acquired a subsidiary grain trading company registered under the laws of Switzerland.

Registered address and place of business. The Company's registered address and place of business is Orlikov pereulok, 3 bld.1, Moscow, Russian Federation, 107139.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 26). During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies, all of which contributed to delay in recovery of the country's economic growth, characterized by an insignificant decline by 0.2% in gross domestic product relative to prior year. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results. Financial risk disclosures in Note 28, sensitivity and significant judgments disclosures in Note 4 have been updated to reflect current volatility in financial markets.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by initial recognition of financial instruments based on fair value, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee.

In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

3 Summary of Significant Accounting Policies (Continued)

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity.

The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Disposals of subsidiaries or associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Rolling stock repair and maintenance costs. The cost of each periodic capital and depot repair of rolling stock is recognised in the carrying amount of the relevant item of rolling stock repaired and separately depreciated over the expected period until the next periodic capital repair or until the end of the useful economic life of the item of rolling stock, if earlier. Simultaneously with the capitalisation of the new periodic major capital repair costs, the carrying amount of the repaired rolling stock that is attributable to the previous period capital repair is derecognized and included in cost of sales.

Other types of repairs of rolling stock, such as current repairs, continue to be accounted by the Group as current period expenses as and when incurred.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

| | Useful lives in years |
|-------------------------------------|------------------------------|
| Buildings, structures and utilities | 6 to 68 |
| Machinery and equipment | 3 to 29 |
| Rolling stock * | 8 to 32 |
| Other | 2 to 23 |

* 8 year depreciation period is attributed to depo and capital repairs of rolling stock, 32 year depreciation is attributed to rolling stock.

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

3 Summary of Significant Accounting Policies (Continued)

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment reduce carrying amounts of respective assets and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Intangible assets other than goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include leasehold rights of plots of land.

Leasehold rights are recognized on the basis of the costs incurred to acquire them. All other costs associated with leasehold rights, such as administrative costs, are expensed when incurred.

Leasehold rights are amortized using the straight line basis over the term of the respective lease contracts ranging from 6 to 23 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

3 Summary of Significant Accounting Policies (Continued)

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

3 Summary of Significant Accounting Policies (Continued)

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) financial assets at fair value through profit or loss; (c) available-for-sale financial assets; and (d) financial assets held to maturity.

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

Financial assets of the Group are represented by loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. The Group's loans and receivables comprise of 'trade and other receivables', bank deposits with maturities over three months which are included in 'short-term investments', 'long-term investments' and 'cash and cash equivalents' in the consolidated statement of financial position.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise of 'trade and other payables' and 'short-term borrowings' in the consolidated statement of financial position.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 Summary of Significant Accounting Policies (Continued)

Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Presentation of results from trading derivatives. The Group engages in grain derivatives trading transactions. As such transactions are directly related to the core activities of the Group, their results are presented above gross profit as 'Gains/ (losses) from trading derivatives, net' in the consolidated statement of profit or loss and other comprehensive income.

Management believes that the presentation above gross profit line appropriately reflects the nature of derivative operations of the Group.

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

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

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

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards 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 balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

3 Summary of Significant Accounting Policies (Continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

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

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of

financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on the normal operating capacity) but excludes borrowing costs.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting period note.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

3 Summary of Significant Accounting Policies (Continued)

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and all of its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble ("RR").

The consolidated financial statements are presented in Russian Roubles ("RR"), which is the Group's presentation currency

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as other operating income or expense. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within other operating income and expenses. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

The principal rates of exchange used for translating foreign currency balances were:

| | <u>31 December 2016</u> | <u>31 December 2015</u> |
|--------|-------------------------|-------------------------|
| RR/USD | 60.6569 | 72.8827 |
| RR/EUR | 63.8111 | 79.6972 |
| RR/CHF | 59.4151 | 73.5298 |

Foreign currency transactions were translated into the functional currency using the official exchange rates established by Central Bank of Russian Federation at the dates of the transactions.

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services rendered, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Sales of goods (grain, flour, bran). Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services (port-transshipment, storage and transportation). Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commodity loans. The Group provides and obtains commodity loans from other grain traders at the point of transshipment by entering into sales and purchase agreements. Commodity loans are usually returned within several months by reverse transactions between the same parties on identical terms. These transactions are in substance commodity loans, rather than sale and purchase transactions. Therefore, revenue and cost of sales attributable to these transactions are eliminated from the consolidated statement of profit or loss and other comprehensive income.

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

3 Summary of Significant Accounting Policies (Continued)

State grain intervention fund. The state agricultural policy of the Russian Federation includes as one of its instruments the state interventions on the market of agricultural produce. In accordance with government statement no. 580, dated 3 August 2001 and renewable contract with the Ministry of Agriculture the Company is acting as an agent of the State for the state purchase and trade interventions of grain, storage of the grain intervention fund and organisation of its quantitative and qualitative characteristics.

State purchase interventions are purchases of agricultural products from Russian agricultural producers in order to form an intervention fund of agricultural products. State trade interventions are sales of these products from the intervention fund.

The Ministry of Agriculture of the Russian Federation organises and runs the State purchase and trade interventions. The Company purchases and sells the grain as an agent of the State. The timing and volume of such purchase and sales transactions are controlled by the Ministry of Agriculture of the Russian Federation.

All purchases are paid in cash from borrowings obtained from Rosselhozbank (the state agriculture bank). All grain for the intervention fund is stored and insured by companies selected by the Ministry of Agriculture of the Russian Federation under direct agreements with the Company.

The beneficiary of the insurance agreements is Rosselhozbank. In accordance with these agreements, the grain for the state intervention fund is pledged to Rosselhozbank.

All grain is traded on the commodity exchange under the control of the Ministry of Agriculture of the Russian Federation. Sales transactions are made with the direction of the Ministry of Agriculture of the Russian Federation. Cash receipts from trade interventions less loan and interest repayments, other directly attributable expenses and tax payments are transferred to the Ministry of Agriculture of the Russian Federation. Any losses resulting from trade interventions are reimbursed by the State. The Company earns a commission fee for undertaking these transactions.

Balances and transactions of the Company related to the state grain intervention fund except for the commission fee are offset and presented net in the consolidated statement of financial position and consolidated statement of profit or loss and comprehensive income due to the existing legally enforceable right for set off and intention of the Company to settle on a net basis. The results of operations with the State grain intervention fund are summarised in Note 31.

Commission fees are included in revenue as sales of services in the consolidated statement of profit or loss and other comprehensive income.

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

Pension liabilities. The Group also makes one-time payments in cases of employees' death, at their retirement and also provides material assistance to former employees after their retirement. Such programs are considered as defined benefit plans. No pension funds were engaged for realization of such plans.

Amount of such payments generally depends on one or more factors such as employment period and wage rate.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded.

The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of the net defined benefit liability comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions. Remeasurements are recognised immediately in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

A past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment. Past service cost is recognised immediately in the profit or loss as soon as the pension plan conditions are changed.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. (Note 26).

Deferred income tax asset recognition. The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Where the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be to increase it by RR 16,902 thousand or decrease by RR 21,572 thousand (2015: increase by RR 12,097 thousand or decrease by RR 21,059 thousand).

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

5 Adoption of New or Revised Standards and Interpretations (Continued)

- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted. The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).

6 Segment Information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available.

The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors of the Group.

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

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

- Agent in state grain interventions (SGI);
- Port transshipment;
- Trading and transportation;
- Production.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies, separate expenses structure aimed at maintenance of efficient activity.

Segment financial information reviewed by the CODM includes performance indicators of operating segments such as revenue, major cost items and net profit of the Group's subsidiaries but not financial position indicators. For this purpose the CODM obtains financial statements of the Group's subsidiaries.

Such financial information overlaps with the segment analysis provided internally to the CODM. Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the overlapping financial information sets should form the basis of operating segments.

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

The CODM reviews segment information compiled from reporting forms, prepared in accordance with IFRS. The CODM assesses the performance of the operating segments based on "EBITDA", this figures is not IFRS measure and is reconciled to IFRS operating profit in this note.

EBITDA is defined as operating profit before taking into account:

- Depreciation of property, plant and equipment and amortization of intangible assets;
- Share of results of associates.

The CODM assesses the performance of the Group as state agent separately from other segments due to the particular importance and specific risks related to this activity. Therefore, SGI activity is presented as a separate business segment.

The CODM does not review the information related to the operating segment's assets and liabilities in order to make decisions about resource allocation and evaluate results of operations.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

6 Segment Information (Continued)

(d) Information about reportable segment profit or loss

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

| <i>In thousands of Russian Roubles</i> | Agent in state grain interventions | Port transshipment | Trading & Transportation | Production | Other | Eliminations | Total |
|---|---|---------------------------|-------------------------------------|-------------------|-----------------|---------------------|-------------------|
| External revenue | 474,300 | 2,684,373 | 6,147,535 | 2,222,406 | 584,643 | - | 12,113,257 |
| Inter-segment revenue | - | 225,539 | 671,540 | - | 19,316 | (916,395) | - |
| Total revenue | 474,300 | 2,909,912 | 6,819,075 | 2,222,406 | 603,959 | (916,395) | 12,113,257 |
| Cost of sales | (75,882) | (650,402) | (6,185,016) | (2,083,381) | (391,321) | 671,466 | (8,714,536) |
| Gross profit | 398,418 | 2,259,510 | 634,059 | 139,025 | 212,638 | (244,929) | 3,398,721 |
| Distribution costs | (113,708) | (18,018) | (363,840) | (121,006) | (34,494) | 244,929 | (406,137) |
| Administrative expenses | (280,576) | (399,286) | (269,896) | (43,550) | (68,625) | - | (1,061,933) |
| Other operating expenses | - | (126,519) | (472,808) | (38,635) | (35,458) | - | (673,420) |
| Other operating income | - | - | 1,306,125 | - | 0 | - | 1,306,125 |
| Operating profit/(loss) | 4,134 | 1,715,687 | 833,640 | (64,166) | 74,061 | - | 2,563,356 |
| Interest income | - | 26,413 | 468,770 | - | 7,580 | - | 502,763 |
| Finance expense | - | - | (335,762) | - | (4,990) | - | (340,752) |
| Share of results of associates | - | - | (36,378) | - | - | - | (36,378) |
| Profit/(loss) before income tax | 4,134 | 1,742,100 | 930,270 | (64,166) | 76,651 | - | 2,688,989 |
| Income tax (expense)/benefit | - | (375,164) | (63,780) | 665 | (12,327) | - | (450,606) |
| Profit/(loss) for the year | 4,134 | 1,366,936 | 866,490 | (63,501) | 64,324 | - | 2,238,383 |
| Adjustments to Operating profit/(loss) | | | | | | | |
| <i>Depreciation and amortization</i> | 31,537 | 122,280 | 46,715 | 49,631 | 27,437 | - | 277,600 |
| <i>Share of results of associates</i> | - | - | (36,378) | - | - | - | (36,378) |
| EBITDA | 35,671 | 1,837,967 | 843,977 | (14,535) | 101,498 | - | 2,804,578 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

6 Segment Information (Continued)

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

| <i>In thousands of Russian Roubles</i> | Agent in state grain interventions | Port transshipment | Trading & Transportation | Production | Other | Eliminations | Total |
|---|---|---------------------------|-------------------------------------|-------------------|----------------|---------------------|-------------------|
| External revenue | 372,189 | 3,099,634 | 11,075,846 | 2,382,613 | 389,042 | - | 17,319,324 |
| Inter-segment revenue | - | 337,176 | - | - | 65,121 | (402,297) | - |
| Total revenue | 372,189 | 3,436,810 | 11,075,846 | 2,382,613 | 454,163 | (402,297) | 17,319,324 |
| Cost of sales | (42,280) | (592,535) | (9,340,262) | (2,178,756) | (273,909) | 64,497 | (12,363,245) |
| Losses from trading derivatives, net | - | - | (28,307) | - | - | - | (28,307) |
| Gross profit | 329,909 | 2,844,275 | 1,707,277 | 203,857 | 180,254 | (337,800) | 4,927,772 |
| Distribution costs | (65,170) | (71,074) | (1,116,432) | (57,277) | (22,081) | 337,800 | (994,234) |
| Administrative expenses | (276,515) | (368,832) | (232,115) | (38,207) | (84,823) | - | (1,000,492) |
| Other operating expenses | (10,269) | (497,084) | (66,239) | (24,151) | (29,995) | - | (627,738) |
| Other operating income | - | 33,880 | 558,338 | 522 | 46 | - | 592,786 |
| Operating (loss)/profit | (22,045) | 1,941,165 | 850,829 | 84,744 | 43,401 | - | 2,898,094 |
| Interest income | - | 103,514 | 923,417 | - | 3,927 | - | 1,030,858 |
| Finance expense | - | - | (452,574) | - | (4,614) | - | (457,188) |
| Share of results of associates | - | - | 139,074 | - | - | - | 139,074 |
| (Loss)/profit before income tax | (22,045) | 2,044,679 | 1,460,746 | 84,744 | 42,714 | - | 3,610,838 |
| Income tax expense | - | (436,024) | (605,208) | (11,292) | (8,852) | - | (1,061,376) |
| (Loss)/profit for the year | (22,045) | 1,608,655 | 855,538 | 73,452 | 33,862 | - | 2,549,462 |
| Adjustments to Operating (loss)/profit | | | | | | | |
| Depreciation and amortization | 26,738 | 110,000 | 18,412 | 41,876 | 30,565 | - | 227,591 |
| Share of results of associates | - | - | 139,074 | - | - | - | 139,074 |
| EBITDA | 4,693 | 2,051,165 | 1,008,315 | 126,620 | 73,966 | - | 3,264,759 |

6 Segment Information (Continued)

Information on significant expenses by segments for the year ended 31 December 2016 is presented below:

| <i>In thousands of Russian Roubles</i> | Agent in state grain interventions | Port transshipment | Trading & Transportation | Production | Other | Total |
|--|---|---------------------------|-------------------------------------|-------------------|--------------|------------------|
| Staff costs | 296,405 | 627,263 | 306,535 | 160,514 | 220,353 | 1,611,070 |
| Purchase price of grain sold | 407 | - | 5,644,880 | 568 | 1,837 | 5,647,692 |
| Materials | - | 16,061 | 7,504 | 1,514,238 | 89,451 | 1,627,254 |
| Transportation expenses | - | 17,866 | 233,478 | 26,967 | 15,669 | 293,980 |

Information on significant expenses by segments for the year ended 31 December 2015 is presented below:

| <i>In thousands of Russian Roubles</i> | Agent in state grain interventions | Port transshipment | Trading & Transportation | Production | Other | Total |
|--|---|---------------------------|-------------------------------------|-------------------|--------------|------------------|
| Staff costs | 276,625 | 643,673 | 172,427 | 94,339 | 207,530 | 1,394,594 |
| Purchase price of grain sold | - | - | 8,035,668 | 870 | 8,266 | 8,044,804 |
| Materials | - | 8,154 | 35,321 | 2,008,540 | 35,954 | 2,087,969 |
| Transportation expenses | - | 6,689 | 1,213,436 | 39,882 | 9,219 | 1,269,226 |

e) Geographical information

Group revenue by customers' geographical locations:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|------------------------------------|------------------------------------|
| Russia | 6,823,496 | 11,534,113 |
| Switzerland | 3,328,436 | 2,207,587 |
| France | 708,619 | - |
| Egypt | 683,409 | 1,820,023 |
| UAE | 223,450 | - |
| British Virgin Islands | 118,118 | - |
| Singapore | 61,954 | - |
| Netherlands | 61,075 | - |
| Finland | 43,358 | 28,565 |
| Estonia | 35,885 | - |
| Panama | 15,672 | - |
| Israel | 7,052 | 3,911 |
| Italy | 2,733 | 6,277 |
| Nicaragua | - | 1,012,488 |
| United Kingdom | - | 584,929 |
| Korea | - | 110,874 |
| Armenia | - | 10,557 |
| Total consolidated revenues | 12,113,257 | 17,319,324 |

6 Segment Information (Continued)

(f) Major customers

The Group's revenues from customers which represent 10% or more of the total revenues are as follows:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--------------------------------|--------------------------------|
| Customer 1 | 1,554,461 | 1,141,754 |
| Customer 2 | 1,502,551 | 3,942,873 |
| Total revenues from major customers | 3,057,012 | 5,084,627 |

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2016 and 31 December 2015 the Government of the Russian Federation was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended 31 December 2016 and 31 December 2015, and had significant outstanding balances as at 31 December 2016 and 31 December 2015 are detailed below.

LLC Investor and its affiliates

Transactions with entities under common control with LLC Investor were as follows:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--------------------------------|--------------------------------|
| Purchases | 204,111 | 91,375 |

Balances with entities under common control with LLC Investor at the end of the period were as follows:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Trade and other receivables | - | 1,076 |

In 2016 the Group accrued and paid dividends to LLC Investor in the amount of RR 418,468 thousand (2015: RR 130,297 thousand)

Associates

Transactions with associates were as follows:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--------------------------------|--------------------------------|
| Purchases | 25 | 2,733 |

Balances with associates at the end of the period as at 31 December 2016 and 31 December 2015 are nil.

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under the Government control. Taxes are charged and paid under the Russian tax law.

7 Balances and Transactions with Related Parties (Continued)

The Group had the following transactions with State-controlled entities:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Sales | 7,885 | 124,468 |
| Interest income | 219,463 | 666,790 |
| Purchases | 499,801 | 235,560 |
| Interest expense | 146,120 | 106,958 |

In 2016 the Group capitalized borrowing costs in amount of RR 146,120 thousand (2015: RR 0 thousand) (Note 8).

The Group had the following balances with State-controlled entities:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Trade and other receivables | 23,092 | 37,727 |
| Short-term deposits | 21,500 | 4,628,405 |
| Cash and cash equivalents | 7,055,015 | 2,289,042 |
| Borrowings | 1,491,220 | - |
| Trade and other payables | 5,312 | 2,810 |

Some of the transactions are conducted through agency agreements with Ministry of Agriculture of the Russian Federation.

The Group had the following transactions with Ministry of Agriculture of the Russian Federation (Note 31):

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Sales | 571,432 | 372,189 |

The Group had the following balances with Ministry of Agriculture of the Russian Federation:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Trade and other receivables | 23,815 | 37,622 |

In 2016 the Group accrued and paid dividends to Rosimushestvo in the amount of RR 418,469 thousand. (2015: RR 130,297 thousand).

Key management personnel

Key management personnel comprises members of the Management Board and the Board of Directors of the Company. The total remuneration paid to the key management personnel amounted to:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Salaries | 146,349 | 151,776 |
| Social tax contributions | 17,097 | 22,873 |

The Group had no balances with key management personnel as at 31 December 2016 and 31 December 2015.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

8 Property, Plant and Equipment

Movements in property, plant and equipment were as follows:

| <i>In thousands of Russian Roubles</i> | Land | Buildings, structures and utilities | Machinery, transport and equipment | Rolling stock | Other | Construction in progress | Total |
|--|----------------|-------------------------------------|------------------------------------|------------------|-----------------|--------------------------|--------------------|
| Cost | | | | | | | |
| As at 31 December 2014 | 304,689 | 1,948,868 | 946,696 | - | 69,650 | 158,582 | 3,428,485 |
| Additions | 159 | 14,845 | 15,282 | - | (11,236) | 1,080,082 | 1,099,132 |
| Transfers | 360,738 | 119,769 | 106,222 | - | 4,664 | (591,393) | - |
| Disposals | (42,173) | (7,064) | (27,602) | - | (962) | - | (77,801) |
| As at 31 December 2015 | 623,413 | 2,076,418 | 1,040,598 | - | 62,116 | 647,271 | 4,449,816 |
| Additions | - | 62,468 | 68,168 | 1,834,649 | 4,228 | 1,828,188 | 3,797,701 |
| Transfers | 6,829 | 65,739 | 436,595 | - | 3,944 | (513,107) | - |
| Capitalized borrowing costs | - | - | - | - | - | 146,120 | 146,120 |
| Disposals | - | (3,284) | (29,944) | - | (13,211) | - | (46,439) |
| As at 31 December 2016 | 630,242 | 2,201,341 | 1,515,417 | 1,834,649 | 57,077 | 2,108,472 | 8,347,198 |
| Accumulated depreciation | | | | | | | |
| As at 31 December 2014 | - | (547,522) | (388,950) | - | (41,812) | - | (978,284) |
| Charge for the year | - | (116,882) | (101,516) | - | (9,193) | - | (227,591) |
| Disposals | - | 5,227 | 11,363 | - | 536 | - | 17,126 |
| As at 31 December 2015 | - | (659,177) | (479,103) | - | (50,469) | - | (1,188,749) |
| Charge for the year | - | (133,201) | (112,207) | (13,659) | (7,949) | (261) | (267,277) |
| Disposals | - | 2,308 | 12,035 | - | 7,041 | 35 | 21,419 |
| As at 31 December 2016 | - | (790,070) | (579,275) | (13,659) | (51,377) | (226) | (1,434,607) |
| Net book value | | | | | | | |
| As at 31 December 2015 | 623,413 | 1,417,241 | 561,495 | - | 11,647 | 647,271 | 3,261,067 |
| As at 31 December 2016 | 630,242 | 1,411,271 | 936,142 | 1,820,990 | 5,700 | 2,108,246 | 6,912,591 |

8 Property, Plant and Equipment (Continued)

At 31 December 2016 and 31 December 2015 no property, plant and equipment has been pledged as collateral for borrowings.

In 2016 for the purpose of expanding its trading activity and provision of transportation services to third parties the Group acquired rolling stock, consisting of hopper wagons for transportation of grain. The Group was granted government grants for acquisition of rolling stock amounting to RR 241,500 thousand. These grants were accounted as a reduction of carrying value of rolling stock and are depreciated over useful life of each item of rolling stock respectively.

Increase in construction in progress is represented by the ongoing modernization of transshipment capacity of Group's subsidiary and construction of new objects in line with the program of modernization of terminal.

In addition, construction in progress includes capitalized borrowing costs from specific-purpose loans from VTB bank in amount of RR 146,120 thousand (2015: nil). Capitalization rate is 100% (Note 17).

Prepayments for property, plant and equipment

Prepayments for property, plant and equipment as at 31 December 2016 and 31 December 2015 were represented by the following counterparties:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| AVG | 273,859 | 182,532 |
| Tay-2 | 4,631 | - |
| Liftgruzmash | 2,062 | 2,062 |
| Glavgosexpertiza | 1,867 | - |
| Promzernoproekt | 1,396 | - |
| Service System Bezopasnotsi | 1,154 | - |
| ElevatorStroyProekt | - | 4,605 |
| Clean Trade | - | 1,475 |
| Other individually less than 1 mln. RR | 1,214 | 2,510 |
| Итого | 286,183 | 193,184 |

Group is the lessor under the rolling stock lease agreements. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| <i>In thousands of Russian Roubles</i> | 2016 | 2015 |
|--|----------------|-------------|
| Not later than 1 year | 278,607 | - |
| Later than 1 year and not later than 5 years | 452,664 | - |
| Later than 5 years | - | - |
| Total operating lease payments receivable | 731,271 | - |

9 Intangible assets

In 2016 the Group obtained leasehold rights with respect of plots of land located near port Zarubino. These rights expire in the period from 2022 to 2039. Leasehold rights were recognized at acquisition cost in amount of RR 297,279 thousand. Depreciation charge for 2016 amounted to RR 10,323 thousand. This land will be used for construction of Far-Eastern grain terminal.

10 Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|--|--|
| Carrying amount at 1 January | 644,473 | 739,584 |
| Share of profit of associates | 61,265 | 143,284 |
| Share of loss of associates | (97,643) | (4,210) |
| Reclass to non-current assets for sale (or disposal groups) | - | (227,673) |
| Other | - | (6,512) |
| Carrying amount at 31 December | 608,095 | 644,473 |

All of the Group's associates are domiciled in the Russian Federation.

In 2015 Group's associate Eisky protovy elevator was reclassified to Non-current assets held for sale (or disposal group).

10 Investments in Associates (Continued)

At 31 December 2016 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss for 2016, were as follows:

| <i>In thousands of Russian Roubles</i> | Non current assets | Current assets | Long-term liabilities | Short-term liabilities | Revenue | Profit/ (loss) | Interest held, % | Net assets |
|--|-----------------------|-------------------|--------------------------|---------------------------|------------------|-------------------|---------------------|------------------|
| OJSC Balashovskiy KHP | 64,203 | 78,953 | 1 | 25,834 | 524,127 | 42,189 | 25.5% | 117,321 |
| OJSC BKZ | 17,708 | 13,359 | 46,984 | 25,203 | 21,763 | 294 | 25.5% | (41,120) |
| OJSC Elanskiy elevator | 48,833 | 42,225 | - | 27,081 | 85,543 | 1,058 | 25.5% | 63,977 |
| OJSC Elevator Rudny klad | 57,559 | 160,563 | 75 | 3,008 | 22,505 | (25,284) | 25.5% | 215,039 |
| OJSC Gerkules | 639,626 | 172,779 | 98 | 222,405 | 596,025 | 59,976 | 25.5% | 589,902 |
| OJSC Ipatovskiy Elevator | 30,889 | 34,524 | 76 | 5,767 | 55,224 | 15,064 | 49% | 59,570 |
| OJSC Khlebnaya baza #3 | 42,115 | 218,804 | 149 | 6,281 | 88,693 | 23,884 | 25.5% | 254,489 |
| OJSC Penzenskiy KHP | 435,272 | 853,793 | 130,491 | 1,257,565 | 4,948,246 | 417 | 31% | (98,991) |
| OJSC Permskiy mukomol'ny zavod | 753,697 | 686,327 | 6,966 | 571,030 | 2,454,547 | 29,437 | 25.5% | 862,028 |
| OJSC Pugachevskiy elevator | 18,355 | 79,816 | 358 | 7,257 | 103,515 | 29,261 | 25.5% | 90,556 |
| OJSC Rybinskiy mukomol'ny zavod | 13,348 | 434,145 | 777 | 186,379 | 672,779 | 24,705 | 25.5% | 260,337 |
| OJSC Zelenokumskiy Elevator | 79,058 | 14,290 | 27 | 5,365 | 30,829 | (186,114) | 49% | 87,956 |
| Total | 2,200,663 | 2,789,578 | 186,002 | 2,343,175 | 9,603,796 | 14,887 | | 2,461,064 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

10 Investments in Associates (Continued)

At 31 December 2015 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss for 2015, were as follows:

| <i>In thousands of Russian Roubles</i> | Non current assets | Current assets | Long-term liabilities | Short-term liabilities | Revenue | Profit/ (loss) | Interest held, % | Net assets |
|--|---------------------------|-----------------------|------------------------------|-------------------------------|-------------------|-----------------------|-------------------------|-------------------|
| OJSC Balashovskiy KHP | 63,131 | 67,519 | 1 | 55,517 | 248,110 | 10,056 | 25.5% | 75,132 |
| OJSC BKZ | 18,304 | 13,110 | - | 72,516 | 16,188 | (1,547) | 25.5% | (41,102) |
| OJSC Elanskiy elevator | 49,666 | 59,196 | - | 45,976 | 82,742 | 357 | 25.5% | 62,886 |
| OJSC Elevator Rudny klad | 48,726 | 230,624 | 265 | 38,762 | 12,907 | (15,141) | 25.5% | 240,323 |
| OJSC Gerkuless | 630,491 | 669,308 | - | 769,873 | 2,692,375 | 114,955 | 25.5% | 529,926 |
| OJSC Ipatovskiy Elevator | 35,560 | 15,308 | 195 | 6,167 | 30,641 | 167 | 49% | 44,506 |
| OJSC Khlebnaya baza #3 | 45,691 | 202,730 | 164 | 10,206 | 81,549 | 14,912 | 25.5% | 238,051 |
| OJSC Penzenskiy KHP | 477,778 | 1,349,618 | 395,137 | 1,531,667 | 5,059,470 | 177,746 | 31% | (99,408) |
| OJSC Permskiy mukomol'ny zavod | 749,767 | 765,460 | 5,020 | 665,982 | 2,452,743 | 131,347 | 25.5% | 844,225 |
| OJSC Pugachevskiy elevator | 20,556 | 48,443 | 3,253 | 4,342 | 68,184 | 5,308 | 25.5% | 61,404 |
| OJSC Rybinskiy mukomol'ny zavod | 11,305 | 366,227 | 641 | 140,607 | 599,728 | 48,924 | 25.5% | 236,284 |
| OJSC Zelenokumskiy Elevator | 36,074 | 242,526 | 36 | 4,494 | 44,830 | 10,218 | 49% | 274,070 |
| Total | 2,187,049 | 4,030,069 | 404,712 | 3,346,109 | 11,389,467 | 497,302 | - | 2,466,297 |

Management could not reliably estimate the fair value of the Group's investment in shares of associates. Shares of associates are not quoted and recent trade prices are not publicly accessible.

11 Inventories

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Goods for resale | 640,197 | 585,169 |
| Raw materials | 407,248 | 420,476 |
| Finished products | 97,781 | 82,215 |
| Work in progress | 4,372 | 2,234 |
| Total inventories | 1,149,598 | 1,090,094 |

12 Trade and Other Receivables

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Trade receivables | 1,603,184 | 2,351,292 |
| Other financial receivables | 1,239,582 | 970,585 |
| Less: impairment loss provision | (1,499,713) | (1,376,737) |
| Total financial part of trade and other receivables | 1,343,053 | 1,945,140 |
| Total Trade and Other Receivables | 1,343,053 | 1,945,140 |

Other financial receivables include an impairment provision in the amount of RR 377,806 thousand in respect of short-term deposit in Vneshprombank (Note 14).

As at 31 December 2016 trade and other receivables in the amount of RR 944,292 thousand (31 December 2015: RR 1,259,505 thousand) net of impairment loss provisions are denominated in USD.

Reconciliation of movements in trade and other receivables impairment provision:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|---|-------------------------|-------------------------|
| Provision for impairment at 1 January | (1,376,737) | (1,424,404) |
| Accrued provision for impairment during the period | (101,412) | (183,424) |
| Reversal of provision for impairment during the period | 58,749 | 24,731 |
| Utilized provision for impairment during the period | 297,493 | 206,360 |
| Reclass from other lines from statement of financial position | (377,806) | - |
| Provision for impairment at 31 December | (1,499,713) | (1,376,737) |

Below is the analysis of past due, but not impaired, trade and other financial receivables:

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| - delay of less than 30 days | 57,577 | 243,573 |
| - delay from 30 to 90 days | 7,816 | 31,687 |
| - delay from 91 to 180 days | 44 | 25,306 |
| - delay from 181 to 360 days | 147 | 2,179 |
| - delay more than 1 year | 1 | 49,911 |
| Total | 65,585 | 352,656 |

Analysis by credit quality of neither passed due and nor impaired trade other financial receivables is as follows:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Large foreign companies | 878,288 | 1,259,500 |
| Large Russian corporations | 234,040 | 242,213 |
| Medium companies | 117,305 | 20,992 |
| Government and municipal entities | 24,395 | 38,174 |
| Small companies | 20,542 | 31,107 |
| Individuals | 2,898 | 498 |
| Total | 1,277,468 | 1,592,484 |

12 Trade and Other Receivables (Continued)

The individually impaired receivables are as follows:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Trade receivables | 406,995 | 582,122 |
| Other financial receivables | 1,092,718 | 794,615 |
| Total | 1,499,713 | 1,376,737 |

The individually impaired receivables mainly relate to grain sales contracts with customers experiencing financial difficulties and impairment provision related to deposit in Vneshprombank, which had its banking license withdrawn in January 2016.

13 Prepayments

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Prepayments to suppliers | 1,206,820 | 1,258,714 |
| Prepayments for value added tax | 853,843 | 660,926 |
| Other tax prepayments | 2,491 | 4,842 |
| Less: impairment loss provision | (1,099,844) | (1,118,790) |
| Total | 963,310 | 805,692 |

Reconciliation of movements in prepayments impairment provision:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Provision for impairment at 1 January | (1,118,790) | (1,372,462) |
| Accrued provision for impairment during the period | (16,342) | (20,686) |
| Reversal of provision for impairment during the period | 12,970 | 4,962 |
| Utilized provision for impairment during the period | 22,318 | 269,396 |
| Provision for impairment at 31 December | (1,099,844) | (1,118,790) |

14 Short-term Investments

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|---|-------------------------|-------------------------|
| Bank deposits with maturity over three months | 28,500 | 6,899,945 |
| Other investments | 8,366 | 3,825 |
| Less: impairment loss provision | - | (375,238) |
| Total | 36,866 | 6,528,532 |

In January 2016 Vneshprombank's banking license was withdrawn by the Central Bank of the Russian Federation. As a result as at 31 December 2015 the Group recognized an impairment reserve on Vneshprombank's short-term deposit and accrued interest in the total amount of RR 374,913 thousand. As at 31 December 2016 the total amount of short-term deposit and impairment provision was reclassified to trade and other financial receivables financial statement line.

14 Short-term Investments (Continued)

Bank deposits with original maturity over three months are presented below:

| <i>In thousands of Russian Roubles</i> | | | 31 December 2016 | | 31 December 2015 | |
|--|---------------|--------|------------------|--------|------------------|--|
| Name | Rating agency | Rating | Balance | Rating | Balance | |
| Rosselhozbank | Fitch Ratings | BB+ | 13,000 | BB+ | 1,527,019 | |
| Sberbank | Moody's | Ba1 | 8,500 | Ba1 | 1,696,474 | |
| Bank St.Petersburg | Fitch Ratings | BB- | 3,000 | BB- | 1,157,940 | |
| Rossiysky Capital | Fitch Ratings | BB- | - | BB- | 895,850 | |
| Zenit bank | Fitch Ratings | BB- | - | BB- | 727,648 | |
| Bank VTB | Moody's | Ba2 | - | Ba1 | 509,062 | |
| Other | - | - | 4,000 | - | 10,714 | |
| | | | 28,500 | | 6,524,707 | |

Bank deposits within short-term investments are denominated in Russian roubles.

15 Cash and Cash Equivalents

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Bank deposits with original maturity of less than three months | 7,117,836 | 1,638,721 |
| Bank balances payable on demand | 2,654,771 | 1,903,697 |
| Cash on hand | 609 | 389 |
| Other cash equivalents | 502 | 21,391 |
| Total | 9,773,718 | 3,564,198 |

The table below shows the long-term rating and balances of cash and cash equivalents at major financial institutions at the reporting dates:

| <i>In thousands of Russian Roubles</i> | | | 31 December 2016 | | 31 December 2015 | |
|--|---------------|--------|------------------|--------|------------------|--|
| Name | Rating agency | Rating | Balance | Rating | Balance | |
| Rosselhozbank | Fitch Ratings | BB+ | 2,371,458 | BB+ | 1,210,707 | |
| Rosbank | Moody's | Ba1 | 1,908,841 | Ba1 | - | |
| Bank VTB | Moody's | Ba1 | 1,845,698 | Ba1 | 136,253 | |
| Gazprombank | Moody's | Ba2 | 1,477,742 | Ba2 | - | |
| Federal Treasury | - | - | 1,243,456 | - | - | |
| Raiffeisen | Moody's | Ba2 | 678,580 | Ba2 | - | |
| Zenit bank | Fitch Ratings | - | - | BB- | 724,033 | |
| Bank of Moscow | Moody's | - | - | Ba2 | 507,986 | |
| Bank St.Petersburg | Fitch Ratings | - | - | BB- | 486,750 | |
| Sberbank | Moody's | - | - | Ba1 | 433,557 | |
| Other | - | - | 247,334 | | 64,523 | |
| Total | | | 9,773,109 | | 3,563,809 | |

Cash in amount of RR 1,243,456 thousand deposited with Federal treasury of Russian Federation in Moscow as at 31 December 2016 presents funds intended for investment activities (Note 8). Federal Treasury of Russian Federation does not have a credit rating.

15 Cash and Cash Equivalents (Continued)

The Group had the following currency positions:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| RR | 4,482,911 | 3,494,609 |
| USD | 5,284,468 | 63,647 |
| EUR | 4,751 | 5,942 |
| CHF | 1,588 | - |
| Total | 9,773,718 | 3,564,198 |

16 Share Capital and Share Premium

| <i>In thousands of Russian Roubles</i> | Number of shares issued | Share capital | Share premium | Total |
|--|--------------------------------|----------------------|----------------------|-------------------|
| As at 31 December 2014 | 7,029,879 | 7,029,879 | 4,464,394 | 11,494,273 |
| As at 31 December 2015 | 7,029,879 | 7,029,879 | 4,464,394 | 11,494,273 |
| As at 31 December 2016 | 7,029,879 | 7,029,879 | 4,464,394 | 11,494,273 |

The total authorised number of ordinary shares as at 31 December 2016 is 7,029,879 shares (31 December 2015: 7,029,879 shares) with par value of RR 1 thousand per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Dividends paid to owners of the Company

The Company declared and paid dividends to its owners in 2016 in the amount of RR 836,937 thousand (2015: 260,595).

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|--|--|
| Dividends payable at 1 January | 259,180 | 182,225 |
| Dividends declared during the period | 1,236,715 | 922,611 |
| Dividends paid during the period | (1,377,777) | (845,656) |
| Write-off of unclaimed dividends payable | (1,201) | - |
| Dividends payable at 31 December | 116,917 | 259,180 |
| Dividends per share declared during the period | 0.18 | 0.13 |

Dividends paid to non-controlling interest

Dividends declared to non-controlling interest by subsidiaries of the parent company of the Group during 2016 amounted to RR 399,778 thousand (2015: RR 662,016 thousand). Dividends paid to non-controlling interest by subsidiaries of the parent company of the Group during 2016 amounted to RR 540,840 thousand (2015: RR 585,061 thousand).

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory financial statements of the Company are the basis for profit distribution and other appropriations.

Russian legislation identifies the basis of distribution as the net profit. For 2016, the current year statutory net loss of the Company as reported in the published annual statutory financial statements was RR 6,178,927 thousand (2015: net profit of RR 16,245,003 thousand) and the closing balance of the accumulated profit including the current year statutory net loss totalled RR 6,707,204 thousand (2015: accumulated profit of RR 14,044,784 thousand).

However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for distributable reserves in these consolidated financial statements.

17 Borrowings**Long-term borrowings and loans**

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | |
|--|------------------|-----------------|
| | Interest rate | Carrying amount |
| Credit line with JSC VTB | 10.8% | 58,203 |
| Total long-term borrowings and loans, including current portion | | 58,203 |
| <i>less current portion</i> | | |
| Credit line with JSC VTB | | (392) |
| Total long-term borrowings and loans | | 57,811 |

Credit lines were opened for the purpose of modernization of transshipment services of Group's subsidiary.

As at 31 December 2015 the Group had no long-term borrowings and loans.

Short-term borrowings and loans

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | | 31 December 2015 | |
|---|------------------|------------------|------------------|------------------|
| | Interest rate | Carrying amount | Interest rate | Carrying amount |
| Bank loans | 11.5%-14.15% | 5,971,620 | 14.75%-17% | 2,503,491 |
| Current portion of credit lines with VTB bank | | 392 | | - |
| Loans received from 3rd parties | 8% | 1,802 | 8% | 1,171 |
| Total short-term borrowings and loans | | 5,973,814 | | 2,504,662 |

As at 31 December 2016 and 31 December 2015 the fair value of long-term and short-term borrowings was equal to their carrying value.

Credit facilities

The following credit facilities were available to the Group:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Expiring within one year | 9,600,000 | 5,000,000 |
| Expiring beyond one year | 5,000,000 | 2,500,000 |
| Less amount withdrawn | (5,998,216) | (2,503,491) |
| Total | 8,601,784 | 4,996,509 |

All short-term loans and other borrowings are at fixed interest rates and denominated in Russian rubles. The repayment dates of loans and borrowings are provided in Note 28.

In 2016 the Group capitalised borrowing costs arising on financing directly attributable to the expansion of port transshipment capacity in the total amount of RR 146,120 thousand. In 2015 the Group had not capitalized borrowing costs (Note 8).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

Compliance with debt covenants is disclosed in Note 26.

18 Trade and Other Payables

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|---|-------------------------|-------------------------|
| Trade payables | 125,807 | 561,629 |
| Dividends payable | 116,917 | 259,180 |
| Other payables | 35,644 | 102,207 |
| Total financial part of trade and other payables | 278,368 | 923,016 |
| Advances received | 144,109 | 365,000 |
| Payables to employees | 95,139 | 57,678 |
| Accrued custom duties | - | 208,283 |
| Other reserves | 108,036 | 25,402 |
| Total trade and other payables | 625,652 | 1,579,379 |

As at 31 December 2016 financial payables within trade and other payables of RR 8,472 thousand (31 December 2015: RR 9,984 thousand) are denominated in USD.

Other reserves as at 31 December 2016 include expenses for legal case with the insurance company related to previously received insurance claim in amount of RR 92,551 thousand (31 December 2015: nil).

19 Other Taxes Payable

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Value-added tax | 23,918 | 324,951 |
| Social insurance contribution | 37,655 | 22,301 |
| Personal income tax | 9,105 | 4,149 |
| Property tax | 7,858 | 8,302 |
| Other taxes | 1,543 | 5,503 |
| Total | 80,079 | 365,206 |

20 Analysis of Revenue by Category

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Sales of goods | 8,100,518 | 12,089,620 |
| Port transshipment | 2,684,373 | 3,099,634 |
| Sales of transportation services | 269,423 | 1,367,814 |
| Sales of other services, including <i>Agency fee for services related to operations with State Grain Interventions Fund (Note 31)</i> | 1,058,943 | 762,256 |
| | 474,300 | 372,189 |
| Total | 12,113,257 | 17,319,324 |

In 2016 and 2015 the Company provided logistics services for transportation of grain from Federal Inventarization Fund, provided by Ministry of Agriculture in line with government decrees to support flour producers in Moscow and Moscow region.

Decline in revenue from sales of goods is due to lack of stability in grain prices on internal market as a result of decline in global prices and volatility of national currency. Decrease in sales of transportation services is due to expiration of contract with Russian government.

21 Expenses by Nature

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Purchase price of grain sold | 5,647,692 | 8,044,804 |
| Materials | 1,627,254 | 2,087,969 |
| Staff costs | 1,611,070 | 1,394,594 |
| Net foreign exchange loss | 501,561 | - |
| Transportation expenses | 293,980 | 1,269,226 |
| Depreciation of property, plant and equipment | 267,277 | 227,591 |
| Electricity and utilities | 131,916 | 129,636 |
| Consulting services | 98,859 | 135,949 |
| Taxes other than on income | 91,480 | 348,353 |
| Repair and maintenance | 84,960 | 74,200 |
| Unused vacation provision | 80,712 | 83,429 |
| Legal claims, breach of contract fees and other reserves | 76,881 | 21,747 |
| (Profit)/Loss on disposal of property, plant and equipment | (45,678) | 26,698 |
| Provision for impairment of receivables and advances | 43,558 | 174,417 |
| Rent | 35,269 | 13,507 |
| Surveyor services | 32,883 | 50,755 |
| Bank services | 31,862 | 30,177 |
| Commission fees | 22,773 | 11,252 |
| Fire safety | 17,677 | 22,180 |
| Advertising | 16,303 | 27,026 |
| Write-off of trade and other receivables | 16,006 | 72,544 |
| Technological losses | 14,319 | 22,574 |
| Amortization of intangible assets | 10,323 | - |
| Write-off of inventory | 1,254 | 5,096 |
| Provision for impairment of short-term investments | - | 374,913 |
| Freight | - | 77,400 |
| Net loss from foreign currency purchases | - | 1,055 |
| Other | 145,835 | 258,617 |
| Total | 10,856,026 | 14,985,709 |

Staff costs include statutory pension contributions of RR 269,434 thousand (2015: RR 254,886 thousand).

Taxes other than income include custom duties which in 2016 amounted nil (2015: RR 287,268 thousand).

Transportation expenses decreased due to decrease of transportation services provided (Note 20).

In 2016 net foreign exchange loss in amount of RR 501,561 thousand is a result of foreign exchange gain in amount of RR 920,341 thousand and foreign exchange loss in amount of RR 1,421,902 thousand.

22 Other Operating Income

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Gain from disposal of assets held for sale | 968,046 | - |
| Recovery of funds from Ministry of Agriculture | 280,825 | - |
| Fines for breach of contract | 38,956 | - |
| Net gain from sales of foreign currency | 14,420 | - |
| Dispatch (remuneration for delivery ahead of schedule) | 3,878 | 26,702 |
| Net foreign exchange gain on financial activities | - | 566,084 |
| Total | 1,306,125 | 592,786 |

22 Other Operating Income (Continued)

Gain from disposal of assets held for sale resulted from sale of Group's subsidiary company OJSC Zarayskhleboprodukt and associate OJSC Eisky portovy elevator, which were classified as assets held for sale in 2015.

In 2016 the Company recognized income from previously written-off deferred tax asset due to recognition of related liability by the government and receipt of compensation by the Company in the total amount of RR 280,825 thousand.

In 2015 net foreign exchange gain in amount of RR 566,084 thousand resulted from foreign exchange gain in amount of RR 1,421,258 thousand and foreign exchange loss in amount of RR 855,174 thousand.

23 Finance expense

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Interest on borrowings | 334,836 | 457,188 |
| Interest on actuarial liabilities | 5,916 | - |
| Total | 340,752 | 457,188 |

24 Income Tax**(a) Components of income tax charge/(credit)**

Income tax charge recorded in profit or loss comprises the following:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Current income tax charge | 486,580 | 865,057 |
| Deferred income tax charge | (35,974) | 196,319 |
| Income tax charge for the year | 450,606 | 1,061,376 |

(b) Reconciliation between the tax charge and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2016 and 2015 income is 20%. The income tax rate applicable to the majority of income of subsidiaries is 20% (2015: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|--|--|
| Profit before tax | 2,688,989 | 3,610,838 |
| Theoretical tax charge at the rate of 20%: | 537,798 | 722,168 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | 25,589 | 14,201 |
| - Unrecognized accounting income | (101,233) | - |
| - Unrecognised deferred tax asset | 4,000 | 26,021 |
| - Write-off of deferred tax assets related to losses carried forward | - | 279,403 |
| - Difference between tax rate in Switzerland and Russia | (661) | - |
| - Other effects | (14,887) | 19,583 |
| Income tax charge for the year | 450,606 | 1,061,376 |

(c) Deferred taxes in respect of subsidiaries and associates

The Group has not recognised deferred tax asset of RR 1,482,010 thousand as at 31 December 2016 (31 December 2015: deferred tax asset of RR 2,874,783 thousand) in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of reversal of those temporary differences and it is probable that they will not reverse in the foreseeable future.

UGC GROUP
Notes to the Consolidated Financial Statements for the year ended 31 December 2016

24 Income Tax (Continued)

Management has performed an analysis of the dividend policies at the Group's associates with regards to the Group's potential deferred taxes. For all associates of the Group, management expects that the carrying value of the investments would be recovered primarily through a sale and partially through dividends. Therefore, deferred taxes have been recognised in respect of the investments in all of the Group's associates.

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below at 20% tax rate:

| In thousands of Russian Roubles | 31 December 2016 | Deferred tax credited/ (charged) to profit or loss | Deferred tax credited/ (charged) to other comprehensive income | 31 December 2015 | Deferred tax credited/ (charged) to profit or loss | Deferred tax credited/ (charged) to other comprehensive income | 31 December 2014 |
|--|------------------|--|---|------------------|--|---|------------------|
| Property, plant and equipment | (220,765) | (2,392) | - | (218,373) | (48) | - | (218,325) |
| Investments in associates | 17,121 | 27,384 | - | (10,263) | (26,514) | - | 16,251 |
| Investments | - | (74,983) | - | 74,983 | 74,983 | - | - |
| Inventory | (633) | (4,038) | - | 3,405 | (5,533) | - | 8,938 |
| Receivables | 451,554 | 53,122 | - | 398,432 | (1,344) | - | 399,776 |
| Reserves | 26,347 | (23,424) | - | 49,771 | 47,023 | - | 2,748 |
| Post-employment defined benefit program obligations | 12,349 | 854 | (831) | 12,326 | - | 12,326 | - |
| Loss carried forward | 49,236 | 49,236 | - | - | (279,403) | - | 279,403 |
| Payables | 4,732 | 10,215 | - | (5,483) | (5,483) | - | - |
| Recognised deferred tax asset | 422,462 | - | - | 401,844 | - | - | 673,648 |
| Recognised deferred tax liability | (82,521) | - | - | (97,046) | - | - | (184,857) |
| Deferred tax asset/(liability), net | 339,941 | 35,974 | (831) | 304,798 | (196,319) | 12,326 | 488,791 |

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

Management estimates that deferred tax assets of RR 422,462 thousand (31 December 2015: RR 401,844 thousand) and deferred tax liabilities of RR 82,521 thousand (31 December 2015: RR 97,046 thousand) may be recoverable/payable after more than twelve months after the end of the reporting period.

25 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share from continuing operations are calculated as follows:

| <i>In thousands of Russian Roubles</i> | Note | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|------|--------------------------------|--------------------------------|
| Profit for the year attributable to shareholders | | 1,551,948 | 1,673,874 |
| Profit for the year | | 1,551,948 | 1,673,874 |
| Weighted average number of shares in issue | 16 | 7,029,879 | 7,029,879 |
| Basic and diluted earnings per share (expressed in RR per share) | | 0.22 | 0.24 |

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

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

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital expenditure commitments. At 31 December 2016 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 3,766,292 thousand (31 December 2015: RR 173,229 thousand). Capital commitments arise from ongoing modernization project of Group's subsidiary PJSC NKHP, construction of a new grain terminal by Group's subsidiary – LLC DVZT, and also due to commitments related to acquisition of rolling stock by JSC "UGC".

26 Contingencies and Commitments (Continued)

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. No property, plant and equipment in relation to borrowings has been pledged as collateral (Note 8).

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. As at 31 December 2016 the Group was in compliance with covenants except the covenant stipulated in loan agreement with Bank VTB and related to the preliminary receipt of the written bank approval for raising debt in the amount exceeding RR 500,000 thousand. As at 31 December 2016 the loan under this agreement amounted to RR 1,433,017 thousand. The Group presented this loan within short-term borrowings line of the consolidated statement of financial position.

In 2015 the Group was in compliance with covenants.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

27 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

| <i>Period ended 31 December 2016</i> | Place of business (and country of incorporation if different) | Proportion of non-controlling interest | Proportion of non- controlling interest's voting rights held | Profit/(loss) attributable to non- controlling interest | Accumulated non- controlling interest in the subsidiary | Dividends paid to non- controlling interest during the period |
|--------------------------------------|--|---|---|--|--|--|
| | Russia | 49% | 49% | 690,316 | (1,569,627) | 491,941 |
| | Russia | 49% | 49% | (36,450) | (184,512) | 46,524 |
| | Russia | 49% | 49% | (4) | (4,472) | - |
| | Russia | 1 share | 1 share | - | - | - |
| | Russia | 1 share | 1 share | - | - | - |
| | Russia | 49% | 49% | 1,884 | (24,880) | 2,375 |
| | Russia | 49% | 49% | 7,465 | (34,517) | - |
| | Russia | 1 share | 1 share | - | - | - |
| | Russia | 1% | 1% | (52) | 453 | - |
| | Russia | 49% | 49% | 341 | (22,404) | - |
| | Russia | 49% | 49% | 7,967 | (31,008) | - |
| | Russia | 1 share | 1 share | - | - | - |
| | Russia | 49% | 49% | 14,968 | (23,915) | - |
| Total | | | | 686,435 | (1,894,882) | 540,840 |

27 Non-Controlling Interest (Continued)

| Period ended 31 December 2015 | Place of business (and country of incorporation if different) | Proportion of non-controlling interest | Proportion of non- controlling interest's voting rights held | Profit/(loss) attributable to non- controlling interest | Accumulated non- controlling interest in the subsidiary | Dividends paid to non- controlling interest during the period |
|---|--|--|--|---|---|---|
| PJSC NKHP | Russia | 49% | 49% | 829,344 | (1,251,593) | 584,100 |
| OJSC Buturlinovskiy Melcombinat LLC Agrostandart | Russia | 49% | 49% | 25,853 | (222,233) | - |
| OJSC Ardatovskoe HPP | Russia | 49% | 49% | 5,319 | (17,117) | - |
| OJSC Atyashevskoe HPP | Russia | 1 share | 1 share | - | - | - |
| JSC Elevator | Russia | 1 share | 1 share | - | - | - |
| OJSC Grachevskiy elevator | Russia | 49% | 49% | (1,294) | (21,840) | 35 |
| OJSC Obrochinskoe HPP | Russia | 49% | 49% | 4,919 | (27,053) | - |
| OJSC Orskiy elevator | Russia | 1 share | 1 share | - | - | - |
| OJSC Pallasovskiy elevator | Russia | 1% | 1% | (116) | 404 | - |
| OJSC Portovyi elevator | Russia | 49% | 49% | 258 | (22,213) | 347 |
| OJSC Reservhleb | Russia | 49% | 49% | 13,446 | (36,006) | 579 |
| OJSC Surovinskiy elevator | Russia | 1 share | 1 share | - | - | - |
| | Russia | 49% | 49% | (2,141) | (8,946) | - |
| Total | | | | 875,588 | (1,606,597) | 585,061 |

27 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows:

| Period ended 31 December 2016 | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit/(loss) | Total comprehensive income/(loss) |
|--|------------------|--------------------|---------------------|-------------------------|------------------|------------------|-----------------------------------|
| PJSC NKHP | 1,291,983 | 3,883,707 | (449,061) | (1,519,557) | 4,724,536 | 1,408,808 | 1,408,808 |
| OJSC Buturlinovskiy Melcombinat LLC Agrostandart | 393,308 | 348,243 | (330,922) | (34,075) | 1,820,694 | (74,388) | (74,388) |
| OJSC Ardatovskoe HPP | 20,339 | 12,473 | (23,686) | - | 30,319 | (8) | (8) |
| OJSC Atyashevskoe HPP | 10,750 | 7,830 | (1,127) | (731) | 21,654 | 2,184 | 2,184 |
| JSC Elevator | 9,277 | 8,358 | (441) | (964) | 7,203 | 2,703 | 2,703 |
| OJSC Grachevskiy elevator | 41,072 | 40,908 | (17,896) | (13,309) | 97,210 | 3,843 | 3,843 |
| OJSC Obrochinskoe HPP | 50,210 | 37,695 | (13,129) | (4,333) | 87,739 | 15,235 | 15,235 |
| OJSC Orskiy elevator | 21,492 | 11,742 | (733) | (265) | 8,383 | 2,064 | 2,064 |
| OJSC Pallasovskiy elevator | 2,047 | 8,351 | (9,200) | (46,535) | 16,221 | (5,200) | (5,200) |
| OJSC Portovyi elevator | 25,528 | 26,716 | (6,498) | - | 52,167 | 696 | 696 |
| OJSC Reserhleb | 52,750 | 14,066 | (3,532) | (2) | 56,005 | 16,259 | 16,259 |
| OJSC Surovinskiy elevator | 6,412 | 227,926 | (6,604) | (36,125) | 54,793 | (8,080) | (8,080) |
| Total | 1,953,049 | 4,676,343 | (890,211) | (1,655,896) | 7,083,758 | 1,394,663 | 1,394,663 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2016

27 Non-Controlling Interest (Continued)

| <i>Period ended 31 December 2015</i> | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit/(loss) | Total comprehensive income/(loss) |
|--|-----------------------|---------------------------|----------------------------|--------------------------------|------------------|----------------------|--|
| PJSC NKHP | 1,463,614 | 1,976,956 | (764,817) | (61,628) | 6,618,034 | 1,656,063 | 1,656,063 |
| OJSC Buturlinovskiy Melcombinat LLC Agrostandart | 466,461 | 330,548 | (308,734) | (34,740) | 1,930,353 | 52,761 | 52,761 |
| OJSC Ardatovskoe HPP | 27,527 | 14,801 | (24,056) | (3,567) | 23,070 | 10,856 | 10,856 |
| OJSC Atyashevskoe HPP | 9,334 | 7,626 | (1,607) | (815) | 20,473 | 2,523 | 2,523 |
| JSC Elevator | 8,924 | 9,243 | (3,413) | (1,072) | 7,203 | 3,154 | 3,154 |
| OJSC Grachevskiy elevator | 42,900 | 43,086 | (30,481) | (10,935) | 90,802 | (2,641) | (2,641) |
| OJSC Obrochinskoe HPP | 30,782 | 42,239 | (12,924) | (4,887) | 71,912 | 10,039 | 10,039 |
| OJSC Orskiy elevator | 20,213 | 11,705 | (856) | (391) | 10,324 | 667 | 667 |
| OJSC Pallasovskiy elevator | 870 | 8,242 | (49,347) | (123) | 9,616 | (11,590) | (11,590) |
| OJSC Portovyi elevator | 21,522 | 25,676 | (1,841) | - | 34,552 | 526 | 526 |
| OJSC Reservhleb | 63,079 | 14,632 | (4,225) | (4) | 70,619 | 27,441 | 27,441 |
| OJSC Surovinskiy elevator | 10,321 | 233,533 | (6,967) | (37,198) | 55,422 | (3,864) | (3,864) |
| | 22,643 | 38,484 | (41,629) | (1,219) | 58,699 | (4,370) | (4,370) |
| Total | 2,188,190 | 2,756,771 | (1,250,897) | (156,579) | 9,001,079 | 1,741,565 | 1,741,565 |

28 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Group has no collateral held as a security for its financial assets.

The majority of the customers do not have independent ratings. To minimize the risk of default on payment of amounts due by counterparties for supplied goods or rendered services the Group regularly revises the maximum amount of credit and grace periods for each significant customer. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group management regularly reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

For minimisation of credit risk related to cash in bank and bank deposits the Group places cash in financial institutions which at the moment of transaction have the minimum risk of a default.

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

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Sales price risk. The Group's revenue includes revenue from export grain sales which exposes the Group to this commodity price risk. The Group manages this risk through financial derivatives. With derivatives, management aims to minimize effects of export price fluctuations on the results of the Group.

The losses less gains from trading derivatives of RR 0 thousand (2015: RR 28,307 thousand) are presented as a separate line within consolidated statement of profit or loss and other comprehensive income for the year. In 2016 the Group did not trade derivatives.

Purchase price risk. The Group purchases grain at Russian domestic market. Market prices of grain are subject to volatility. The Group does not manage its price risk arising from purchases of grain.

28 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency risk at the end of the reporting period:

| <i>In thousands of Russian Roubles</i> | Monetary financial assets | Monetary financial liabilities | Net balance sheet position |
|--|--------------------------------------|---|---------------------------------------|
| 31 December 2016 | | | |
| Russian Roubles | 4,928,837 | (6,299,021) | (1,370,184) |
| US Dollars | 6,218,112 | (8,472) | 6,209,640 |
| Euros | 4,750 | - | 4,750 |
| CHF | 1,938 | (2,500) | (562) |
| Total | 11,153,637 | (6,309,993) | 4, 843,644 |
| 31 December 2015 | | | |
| Russian Roubles | 10,708,777 | (3,417,694) | 7,291,083 |
| US Dollars | 1,323,152 | (9,984) | 1,313,168 |
| Euros | 5,941 | - | 5,941 |
| Total | 12,037,870 | (3,427,678) | 8,610,192 |

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|--|--|
| | Impact on profit or loss of exchange rate changing by 20% | Impact on profit or loss of exchange rate changing by 20% |
| US Dollar strengthening | 1,241,928 | 262,634 |
| US Dollar weakening | (1,241,928) | (262,634) |
| Euros strengthening | 950 | 1,188 |
| Euros weakening | (950) | (1,188) |
| CHF strengthening | (112) | - |
| CHF weakening | 112 | - |

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency.

Interest rate risk. The Group's income and operating cash flows are exposed to changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. The Group's policy is to maintain most of its borrowings in fixed rate instruments.

Income and operating results of the Group do not depend on changes in market interest rates due to the fact that all external borrowings of the Group bear fixed interest rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by Management of the Group. Management monitors monthly rolling forecasts of the Group's cash flows.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables.

The Group invests the funds in fixed assets and construction in progress, while maintaining sufficient investments in cash and cash equivalents, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 15).

The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

28 Financial Risk Management (Continued)

The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows.

Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

Financial assets are presented in Notes 12, 14 and 15. All financial assets have maturity of not more than 12 months from the reporting date.

Financial liabilities are presented in Notes 17 and 18. All financial liabilities have maturities of not more than 12 months from the reporting date.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The table below shows liabilities by their remaining contractual maturity.

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

| <i>In thousands of Russian Roubles</i> | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 12 months to 5 years | Over 5 years | Total |
|--|---|-------------------------------|--------------------------------|--|-------------------------|------------------|
| Liabilities | | | | | | |
| Bank loans (Note 17) | 64,451 | 1,300,143 | 3,592,542 | 1,848,457 | - | 6,805,593 |
| Trade payables (Note 18) | 125,807 | - | - | - | - | 125,807 |
| Dividend payables (Note 18) | 116,917 | - | - | - | - | 116,917 |
| Other financial payables (Note 18) | 35,641 | 3 | - | - | - | 35,644 |
| Total future payments, including future principal and interest payments | 342,816 | 1,300,146 | 3,592,542 | 1,848,457 | - | 7,083,961 |

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

| <i>In thousands of Russian Roubles</i> | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 12 months to 5 years | Over 5 years | Total |
|--|---|-------------------------------|--------------------------------|--|-------------------------|------------------|
| Liabilities | | | | | | |
| Bank loans (Note 17) | 28,863 | 1,050,384 | 1,539,401 | - | - | 2,618,648 |
| Trade payables (Note 18) | 527,932 | 33,697 | - | - | - | 561,629 |
| Dividend payables (Note 18) | 259,180 | - | - | - | - | 259,180 |
| Other financial payables (Note 18) | 80,644 | 2,270 | 10,215 | 9,078 | - | 102,207 |
| Total future payments, including future principal and interest payments | 896,619 | 1,086,351 | 1,549,616 | 9,078 | - | 3,541,664 |

29 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as of 31 December 2016 was RR 13,148,462 thousand (31 December 2015: RR 12,431,756 thousand). Capital consists of share capital, share premium and retained earnings.

The Group complied with all externally imposed capital requirements throughout 2016 and 2015.

30 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Management uses judgement in assigning financial instruments to a particular level.

If a fair value measurement uses visible inputs that require significant adjustment, this measurement relates to Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement* the Group allocates its financial assets to accounting category "loans and receivables". They include accounts receivable – Level 3 (Note 12), other investments – Level 3 (Note 14), deposits – Level 2 (Note 14), cash – Level 2 (Note 15).

Financial liabilities fall into the category of "Other financial liabilities" and are recorded at amortized cost. They include trade and other payables – Level 3 (Note 18), borrowings – Level 2 (Note 17).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty. The carrying amounts of financial assets carried at amortised cost are approximately equal to their fair value.

Financial liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amounts of financial liabilities carried at amortised cost are approximately equal to their fair value.

The Group has no assets and liabilities with floating interest rates.

31 State Grain Interventions

The balances and results of operations of the Group with the State Grain Intervention Fund (Note 3) are summarised as follows:

| <i>In thousands of Russian Roubles</i> | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Trade and other receivables | 6,099 | 414,329 |
| Receivables from Ministry of Agriculture of the Russian Federation | 192,203 | - |
| Other taxes receivable | 1,054,570 | 707,287 |
| Inventories | 35,496,484 | 20,970,844 |
| Cash and cash equivalents | 626 | 35,248 |
| Total assets | 36,749,982 | 22,127,708 |
| Trade and other payables | (2,827,976) | (5,724,765) |
| Payables to Ministry of Agriculture of the Russian Federation | - | (381,526) |
| Borrowings | (33,922,006) | (16,021,417) |
| Total liabilities | (36,749,982) | (22,127,708) |

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|--|--|--|
| Sales | 341,519 | 3,342,058 |
| Cost of sales | (334,773) | (3,256,776) |
| Other (expense)/income | (5,136) | 4,145 |
| Income tax charge | (1,349) | (17,056) |
| Results of operations attributable to Ministry of Agriculture of the Russian Federation | 261 | 72,371 |
| Agency fee for services related to operations with State Grain Interventions Fund (Note 20) | (474,300) | (372,189) |

| <i>In thousands of Russian Roubles</i> | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|--|--|
| (Payables)/receivables from Ministry of Agriculture of the Russian Federation, as at 1 January | (381,526) | 48,202 |
| Storage of trade interventions of grain | 2,744,931 | 1,535,067 |
| Interest expenses on loans for trade interventions of grain | 3,905,772 | 1,471,795 |
| Insurance of grain for trade interventions | 202,142 | 97,836 |
| Reimbursement of storage expenses on grain for trade interventions | (2,264,172) | (1,951,028) |
| Reimbursement of interest expenses on loans for trade interventions of grain | (3,840,316) | (1,462,831) |
| Reimbursement of insurance expenses on grain for trade interventions | (174,628) | (120,567) |
| Receivables/(payables) from Ministry of Agriculture of the Russian Federation, as at 31 December | 192,203 | (381,526) |

32 Events After the Reporting Period

In January-April 2017 the subsidiary company PJSC NKHP borrowed RR 614,168 thousand within credit line from VTB bank.

In March 2017 the Company increased its share in subsidiary company JSC "Elevator" from 51% to 80.86% by purchasing 10,259 shares from third parties for RR 32,000 thousand.