



4, Yakimanskaya emb,  
Bldg. 1, Moscow,  
Russia, 119180  
Tel.: +7 495 510-26-95  
Fax: +7 495 510-26-97  
e-mail: [info@belugagroup.ru](mailto:info@belugagroup.ru)

BELUGA GROUP PAO

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2018**

**MOSCOW 2019**

## CONTENTS

Independent auditor's report	3
Consolidated Statement of profit or loss and other Comprehensive Income	9
Consolidated Statement of Financial Position	10
Consolidated Statement of Changes in Equity	11
Consolidated Cash Flow Statement	12
1. Reporting entity	13
2. Basis of preparation	14
3. Summary of significant accounting policies	14
4. Critical accounting estimates and judgments in applying accounting policies	21
5. Adoption of new or revised standards and interpretations	22
6. Fair value of financial instruments	23
7. Property, plant and equipment	24
8. Other long-term assets	24
9. Intangible assets	25
10. Goodwill	26
11. Inventories	26
12. Biological assets	26
13. Trade and other receivables	27
14. Assets held for sale	27
15. Cash and cash equivalents	27
16. Equity and reserves	28
17. Loans and bonds	29
18. Trade and other payables	30
19. Revenue	30
20. Cost of sales	30
21. General and administration expenses	31
22. Distribution expenses	31
23. Other income / (expenses)	31
24. Net finance costs	32
25. Income tax	32
26. Deferred tax	32
27. Earnings per share	33
28. Business combinations	33
29. Investments in associates	35
30. Segment reporting	35
31. Financial risk management	36
32. Related party transactions	38
33. Contingencies and commitments	38
34. Events after the balance sheet date	39

## Independent auditor's report

*To the Shareholders and the Board of Directors of Public Joint-Stock Company «Beluga Group»*

### Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company «Beluga Group» and its subsidiaries (hereinafter referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

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

### 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 are independent of the Group in accordance with the Rules of Auditors' Independence and Code of Professional Ethics for Auditors that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other responsibilities in accordance with these requirements of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

We draw attention to Note 27 to the consolidated financial statements, which describes that assets and liabilities acquired in a transaction to purchase 80-percent interest in Villa Romanov Limited Liability Company (renamed to Golubitskoe Estate Limited Liability Company), 80-percent interest in Liman Limited Liability Company and 100-percent interest in Kurchanskaya Limited Liability Company, have been presented in a provisional values in the consolidated financial statements. Our opinion is not modified in respect of this matter.

### Key Audit Matters

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

<b>Impairment of intangible assets with indefinite useful life</b>	
Refer to the Note 9 to the consolidated financial statements	
<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>We believe that this matter was one of the key matters for our audit as the carrying amount of intangible assets was material for the consolidated financial statements and the assumptions used in the course of the impairment analysis were highly subjective.</p> <p>The carrying amount of intangible assets with indefinite useful life amounted to RUB 9,587 million or 37% of the total non-current assets of the Group.</p> <p>The significant assumptions used in the course of impairment testing of intangible assets with indefinite useful life comprised the estimations of sales volumes and profit margins by each brand, which were made based on the Group budget data for 2019, as well as estimation of discount rates, growth rates of cash flow indicators, and expected growth rates during the terminal period.</p>	<p>In the course of our audit, we have obtained written representations from the management concerning the impairment testing of intangible assets with indefinite useful life, which was carried out by them.</p> <p>We have also engaged a valuation expert to perform an analysis of the impairment testing and calculation of the assets' recoverable value, which were carried out by the Group management. The discount rates and the long-term growth forecast were compared to the general market indicators and other available data; the impairment calculation method and accuracy of impairment models were reviewed; sensitivity analysis was carried out; and the consistency of using models (formulas and calculations) was compared against the prior periods.</p>
<b>Acquisition of Winelab Joint-Stock Company and its subsidiaries</b>	
Refer to the Note 28 to the consolidated financial statements	
<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>During 2018 the Group increased its interest held in Winelab Joint-Stock Company from 49 percent to 100 percent.</p> <p>Management classified the control obtained as a transaction carried out between entities under common control. The transaction was accounted for by applying the acquisition method as provided by IFRS 3 "Business Combinations", which complies with the Group accounting policy. In accordance with IFRS 3, the Group measured the acquisition-date fair value of identifiable assets and liabilities of Winelab Joint-Stock Company and its subsidiaries.</p> <p>We believe that this matter was one of the key matters for our audit as the acquired identifiable assets and liabilities were material for the consolidated financial statements and the assumptions used in the course of measuring the fair value of previously available interest were highly subjective.</p>	<p>We have analysed management's judgment according to which the acquisition was accounted for as a business combination in accordance with IFRS 3.</p> <p>We have performed audit procedures to assess whether the acquired assets and liabilities were identified appropriately as at the acquisition date.</p> <p>We have engaged a valuation expert to perform an analysis of the acquisition cost, including measurement of the fair value of the acquired assets and liabilities, as well as an assessment of the assumptions and methods that were used by the Group management to measure the acquired assets and liabilities at fair value.</p> <p>We have verified the completeness of disclosure provided in Note 28 in accordance with IFRS 3.</p>

<b>Impairment of goodwill</b>	
Refer to the Note 10 to the consolidated financial statements	
<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>When performing an impairment analysis of goodwill, management uses significant assumptions to prepare cash flow forecasts and estimate appropriate growth and discount rates. The use of varying modelling methods and assumptions may entail materially differing results.</p> <p>We believe that this matter was one of the key matters for our audit as the carrying amount of goodwill was material for the consolidated financial statements, the assumptions used in the course of the impairment analysis were highly subjective, and management's judgments and estimates were material.</p>	<p>We have engaged a valuation expert to perform an analysis of the goodwill's impairment, including an analysis of assumptions used by the Group management. With the help of the valuation expert, we have analysed the forecasted cash flows, discount rates and long-term growth rates, by comparing them to the operating efficiency in prior periods, business plans, market indicators and other available data.</p> <p>In addition, the valuation expert performed an analysis of sensitivity of impairment testing results to the principal assumptions used to make the calculations.</p>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of Public Joint-Stock Company «Beluga Group» for 2018 apart from the consolidated financial statements and apart from our independent auditor's report thereon. The Annual Report is expected to be made available to us after the auditor's report date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, when we read the Annual Report of Beluga Group for 2018, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### 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 IFRSs, 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 consolidated 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 skepticism throughout the audit. We also:

- a) 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.
- b) 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.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) 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.
- e) 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.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report

***E.V. Gushchina***

*Power of Attorney No. 23-17/19-8  
dated 9 January 2019*



**22 April 2019**

## Information about the audited entity

**Name:** PJSC Beluga Group

**Address:** 40A Proletarskaya St., premises 112, Zvenigorod, Moscow Region 143180

**Basic state registration number:** 1047796969450

## Information about the auditor

**Name:** "Crowe Russaudit" LLC

**Address:** 5a Novodmitrovskaya Street, bld. 8, office VIII, Moscow 127015

**Telephone:** (495) 783-88-00

**Fax:** (495) 783-88-94

**Basic state registration number:** 1037700117949.

**Self-regulatory organization of auditors:** Self-regulatory organization of auditors Association "Sodruzhestvo"

**Principal Number of Registration Entry:** 11606048583.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenue	19	<b>43 411</b>	37 303
Cost of sales	20	(26 521)	(23 628)
<b>Gross profit</b>		<b>16 890</b>	<b>13 675</b>
General and administrative expenses	21	(3 102)	(2 951)
Distribution expenses	22	(10 269)	(7 719)
Other income/(expense)	23	(246)	(157)
<b>Operating profit</b>		<b>3 273</b>	<b>2 848</b>
Share of income of associates	29	-	9
Net finance costs	24	(2 059)	(1 931)
<b>Profit before tax</b>		<b>1 214</b>	<b>926</b>
Income tax	25	(276)	(271)
<b>Net income and total comprehensive income for the period</b>		<b>938</b>	<b>655</b>
Attributable to			
Equity holders of the Company		919	588
Non-controlling interest		19	67
<b>Basic earnings per share</b> (RUB per share)	27	<b>68.34</b>	<b>34.60</b>

*The Notes on pages 13 – 39 are an integral part of these Consolidated Financial Statements*

Mechetin A.A., Chairman of Management Board



22 April 2019

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	10 593	6 501
Goodwill	10	3 095	230
Investment in associates	29	-	1 095
Intangible assets	9	10 097	8 612
Other long-term assets	8	530	409
Deferred tax assets	26	1 399	1 014
<b>Total non-current assets</b>		<b>25 714</b>	<b>17 861</b>
<b>Current assets</b>			
Inventories	11	12 721	9 745
Biological assets	12	165	240
Trade and other receivables	13	8 059	11 806
Prepayments		595	470
Income tax prepayment		133	42
Assets held for sale	14	-	12
Cash and cash equivalents	15	1 083	819
<b>Total current assets</b>		<b>22 756</b>	<b>23 134</b>
<b>TOTAL ASSETS</b>		<b>48 470</b>	<b>40 995</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity and reserves</b>			
Share capital	16	1 940	2 495
Treasury shares	16	(545)	(862)
Share premium	16	3 760	4 957
Retained earnings		13 012	12 093
<b>Total equity attributable to shareholders of PAO Beluga Group</b>		<b>18 167</b>	<b>18 683</b>
Non-controlling interest		1 300	765
<b>Total equity and reserves</b>		<b>19 467</b>	<b>19 448</b>
<b>Non-current liabilities</b>			
Loans and bonds	17	12 419	10 112
Long-term accounts payable	28	1 083	-
Deferred tax liabilities	26	734	844
<b>Total non-current liabilities</b>		<b>14 236</b>	<b>10 956</b>
<b>Current liabilities</b>			
Loans and bonds	17	467	900
Trade and other payables	18	13 944	9 355
Income tax payable		356	336
<b>Total current liabilities</b>		<b>14 767</b>	<b>10 591</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>48 470</b>	<b>40 995</b>

*The Notes on pages 13 – 39 are an integral part of these Consolidated Financial Statements*

*Mechetin A.A., Chairman of Management Board*

22 April 2019



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Treasury shares	Share premium	Retained earnings	Total shareholders' equity	Non-controlling interest	Total
<b>Balance at 31 December 2016</b>	<b>2 495</b>	<b>(770)</b>	<b>5 532</b>	<b>11 505</b>	<b>18 762</b>	<b>691</b>	<b>19 453</b>
Other changes in non-controlling interest	-	-	-	-	-	15	15
Dividends accrued to non-controlling interest	-	-	-	-	-	(8)	(8)
Share based benefits (Note 16)	-	53	193	-	246	-	246
Repurchase of treasury shares	-	(145)	(768)	-	(913)	-	(913)
<b>Total transactions with shareholders</b>	<b>-</b>	<b>(92)</b>	<b>(575)</b>	<b>-</b>	<b>(667)</b>	<b>7</b>	<b>(660)</b>
Total comprehensive income for the period	-	-	-	588	588	67	655
<b>Balance at 31 December 2017</b>	<b>2 495</b>	<b>(862)</b>	<b>4 957</b>	<b>12 093</b>	<b>18 683</b>	<b>765</b>	<b>19 448</b>
Other changes in non-controlling interest	-	-	-	-	-	(73)	(73)
Acquisition of Golubitskoe estate (Note 28)	-	-	-	-	-	589	589
Cancellation of treasury shares	(555)	555	-	-	-	-	-
Repurchase and sale of treasury shares	-	(238)	(1 197)	-	(1 435)	-	(1 435)
<b>Total transactions with shareholders</b>	<b>(555)</b>	<b>317</b>	<b>(1 197)</b>	<b>-</b>	<b>(1 435)</b>	<b>516</b>	<b>(919)</b>
Total comprehensive income for the period	-	-	-	919	919	19	938
<b>Balance at 31 December 2018</b>	<b>1 940</b>	<b>(545)</b>	<b>3 760</b>	<b>13 012</b>	<b>18 167</b>	<b>1 300</b>	<b>19 467</b>

*The Notes on pages 13 – 39 are an integral part of these Consolidated Financial Statements*

*Mechetin A.A., Chairman of Management Board*

22 April 2019

**CONSOLIDATED CASH FLOW STATEMENT**

	<u>Note</u>	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>			
Profit before income tax and finance costs		3 273	2 848
<b>Adjustments:</b>			
Depreciation and amortisation		978	768
(Gain)/loss on disposal of property, plant and equipment		(55)	(265)
Share based benefits	16	-	246
Review of estimates, impairment and revaluation	23	(22)	34
Other non-cash transactions		105	185
<b>Changes in working capital:</b>			
(Increase) in inventories and biological assets		(1 576)	(1 035)
Decrease/(increase) in accounts receivable		566	(1 743)
Increase in accounts payable		1 476	918
<b>Cash flows from operating activities</b>		<b>4 745</b>	<b>1 956</b>
Interest and arrangements of borrowing paid		(1 927)	(1 849)
Income tax paid		(636)	(578)
<b>Net cash flow from operating activities</b>		<b>2 182</b>	<b>(471)</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries and associates	28, 29	(463)	(380)
Acquisition of property, plant and equipment and intangible assets		(1 756)	(918)
Disposal of property, plant and equipment and intangible assets		36	569
<b>Net cash flow from investing activities</b>		<b>(2 183)</b>	<b>(729)</b>
<b>Cash flows from financing activities</b>			
Repurchase of treasury shares	16	(1 281)	(913)
Loans received and bonds issued	17	38 804	40 885
Loans and bonds repaid	17	(37 258)	(38 963)
<b>Net cash flow from financing activities</b>		<b>265</b>	<b>1 009</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>264</b>	<b>(191)</b>
Cash and cash equivalents at beginning of the year	15	819	1 010
<b>Cash and cash equivalents at end of the year</b>	15	<b>1 083</b>	<b>819</b>

*The Notes on pages 13 – 39 are an integral part of these Consolidated Financial Statements*

Mechetin A.A., Chairman of Management Board



22 April 2019

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

“Beluga Group” PAO (hereinafter referred to as the “Company”) is domiciled in Russia as a Public Joint-Stock Company under the laws of the Russian Federation. The address of the Company’s office is 4, Yakimanskaya emb, bldg. 1, Moscow, Russia, 119180, legal address: 40A, Proletarskaya str., Zvenigorod, Russia, 143180.

The Company has changed its name from Public Joint-Stock Company “Synergy” to Public Joint-Stock Company “Beluga Group” in July 2017. New name does not change obligations of the Company.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group primarily is involved in the production of distilled alcohol and food products and operation of wholesale and retail business thereof. The Group’s production of distilled alcohol and food products are located wholly in the Russian Federation.

Information about the Group’s principal subsidiaries is provided below:

	31 December 2018		31 December 2017	
	Group's voting power, %	Group's effective ownership, %	Group's voting power, %	Group's effective ownership, %
<b>Alcohol production and distribution</b>				
Arkhangelsk distillery	74%	74%	74%	74%
Habarovskiy Distillery AO	73%	73%	73%	71%
Mariinsk Distillery	100%	100%	99%	99%
Bastion JSC	99%	99%	98%	98%
Ussuriysky Balsam OAO	89%	89%	89%	89%
Georgievsky LLC	100%	100%	100%	100%
Golubitskoe Estate	80%	80%	0%	0%
Beluga Brands	100%	100%	100%	100%
Beluga Market Arkhangelsk	100%	100%	100%	100%
Beluga Market Vostok	100%	95%	100%	95%
Beluga Market Far East	100%	95%	100%	95%
LLC "Synergy Import"	100%	100%	100%	100%
Beluga Market Khabarovsk	100%	95%	100%	95%
Beluga Market Region	100%	100%	100%	100%
Beluga Market Vladivostok	100%	97%	100%	97%
Beluga Market Perm	100%	100%	100%	100%
Beluga Market	100%	100%	100%	100%
Beluga Market West	100%	100%	100%	100%
Beluga Vodka International Limited	100%	100%	100%	100%
<b>Retail</b>				
Winelab	100%	100%	0%	0%
Winelab-West, LLC	100%	100%	0%	0%
Erofey OOO	100%	100%	0%	0%
Orient ZAO	100%	100%	0%	0%
Ussuriysky Balsam Trade Network OOO	100%	100%	0%	0%
<b>Food production and distribution</b>				
DAKGOMZ	99%	99%	97%	97%
Mikhailovskaya Poultry Plant AO	96%	96%	96%	96%
Ussuriysky Dairy Plant AO	95%	95%	92%	92%
Nahodkinsky meat-processing plant OAO	96%	96%	95%	92%
Rodimaya Storonka	100%	100%	100%	100%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

All companies listed in the table above are registered in the Russian Federation, except Beluga Vodka International Limited registered in the Republic of Cyprus.

### 2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and Federal Law of the Russian Federation dd. 27 July 2010 No. 208-FZ "About consolidated statements".

The consolidated financial statements have been prepared under the historical cost convention except for biological assets, which are measured at fair value less point-of-sale costs.

Group companies maintain their accounting records and prepare statutory financial statements in accordance with the Russian Accounting Standards ("RAS") and legal and statutory regulations effective in Russian Federation. As such, the accounting policies and reporting procedures adopted may differ from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for the consolidated financial statements to be presented in accordance with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### Going Concern

The management of the Group has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. Changes and additions in accounting policies

**IFRS 9, Financial Instruments.** The Group used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new measurement requirements, but rather recognise any differences in the retained earnings as at 1 January 2018. The standard requires the financial assets to be classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The initial application of the standard did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not adjusted. The standard also introduces expected credit losses impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

**Business combinations under common control.** The Group complements its accounting policy with the following provision: if there is an economic benefit for the Group from the transaction under common control the Group applies the acquisition method by IFRS 3 "Business Combinations", otherwise the pooling of interests method is applied.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Applying the acquisition method requires: identifying the acquirer; determining the acquisition date; recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire; and recognising and measuring goodwill or a gain from a bargain purchase.

#### IFRS 15, Revenue from Contracts with Customers.

The standard outlines the principles an entity must apply to measure and recognise revenue. As the majority of the Group's revenue is derived from arrangements in which the transfer of control coincides

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

with the transfer of risk and rewards, thus the changes in respect of the timing and amount of revenue recognised do not have a material impact on these consolidated financial statements.

Accounting policy of the Group in regards with revenue recognition is shown below in “Revenue” section.

### **3.2. Principles of consolidation**

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

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

### **3.3. Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The functional currency of the Company and Group's entities are Russian Rubles. The presentation currency of these consolidated financial statements is Russian Rubles rounded to the nearest million.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are revalued. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

### **3.4. Property, plant and equipment**

Land and buildings comprise mainly factories, warehouses and offices. Items of property, plant and equipment are carried at historic cost less depreciation and accumulated impairment losses.

Historic cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value 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. The carrying value of replaced parts is derecognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other assets is calculated using the straight-line method in order to allocate their cost over their estimated useful lives, as follows:

Group of property, plant and equipment	Useful life
Buildings and constructions	10 – 50 years
Machinery and equipment	2 – 15 years
Vehicles	3 – 10 years
Furniture and office equipment	2 – 15 years

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

Gains and losses on disposals are determined by company as the proceeds less the carrying amount and are recognised within other income/expenses in the statement of comprehensive income.

### 3.5. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost recognized at the date of acquisition less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired.

Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### 3.6. Brands and other intangible assets

#### *Intangible assets acquired separately*

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with the finite useful lives is charged on a straight-line basis over their estimated useful lives.

Group of intangible assets	Useful life
Software	2 – 10 years
Patents, licenses and other intangible assets, excluding brands	2 – 10 years

Useful lives of intangible assets are reviewed and adjusted, if required, at each balance sheet date.

#### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### Brands

Capitalised brands are regarded as having indefinite useful lives. These brands are protected by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful life of these brands.

Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the statement of financial position.

### *Internally-generated intangible assets – research and development expenditure*

Research expenditure in respect of drink and food products and package design is written off in the period in which it is incurred.

Any subsequent development expenditure in the period leading up to a product launch that meets the necessary recognition criteria set in the relevant standard is capitalised.

### 3.7. Impairment of non-financial assets

At each balance sheet date, the Group tests the carrying amount of tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications of such impairment, the recoverable amount of a respective asset is assessed. If the asset generates no cash flows independently of other assets, the Group measures the recoverable amount of the cash-generating unit, which includes such asset.

Intangible assets that have an indefinite useful life are annually tested for impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing value in use, projected future cash flows are adjusted to reflect present value by using an interest rate, which reflects current assessments of time value of money and risks associated with the asset for which future cash flows were not adjusted.

If carrying amount is in excess of the asset's recoverable amount, asset's carrying amount is decreased to its recoverable amount. Impairment losses are recognised as expenses in the period when impairment occurred.

If impairment loss is later reversed, asset's (cash generating unit's) carrying value is increased to the revised estimate of recoverable amount so that the increased carrying amount is less than the carrying amount at which the respective asset (cash generating unit) would have been recorded had no impairment loss been recognised.

Reversal of the impairment loss is immediately recognised as income.

### 3.8. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, if applicable, direct labour and other general costs borne to bring inventories to their current condition and location. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated expenses to complete the works and applicable selling expenses.

### 3.9. Biological assets

Biological assets, which include poultry and winter wheat, are measured at fair value less estimated point-of-sale costs. Fair value of chicken is measured based on market price of chicken with similar age, value and genetic merit. Market price is based on market prices applicable in the region.

### 3.10. Assets held for sale

The Group classifies long-term assets (of disposal group of assets or disposal subsidiaries) as held for sale in case agreement to sell the assets is concluded up to the date of issue of the consolidated financial statements or the Group officially announced by media or by own web-site to sell assets within 12 months after the reporting date and has a clear plan to execute the sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-current assets held for sale are classified as short-term assets in the Statement of Financial Position and measured at the lower of carrying amount and fair value less costs to sell.

### 3.11. Financial instruments

**Classification and subsequent measurement of financial assets.** From 1 January 2018, the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value (either through other comprehensive income or profit or loss), and those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For debt instruments, the recognition of gains and losses depends on the business model in which the investment is held:

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income.

Assets that do not meet the criteria for amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, when the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI, there is no subsequent reclassification of gains and losses to profit or loss. Dividends from such investments are recognised in profit or loss, when the Group's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income.

**Trade and other receivables.** Trade and other receivables are recognised initially at contract value and subsequently measured at amortised cost using the effective interest method, less expected credit losses allowance.

**Initial recognition of financial instruments.** Derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. The 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 the fair value and the 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 their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

**Financial assets impairment – credit loss allowance for expected credit losses.** The Group has changed the accounting policy for impairment losses of financial assets held at amortised cost by replacing incurred loss model with an expected credit losses model following the transition to IFRS 9. Effect of the change is disclosed in the Note 13.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month expected credit losses that result from default events that are possible within the 12 months after the reporting date; and lifetime expected credit losses that result from all possible default events over the expected life of a financial instrument.

As permitted by IFRS 9, the Group measures loss allowances for trade receivables applying a simplified approach at an amount equal to lifetime expected credit losses. In calculating the expected credit loss, the Group considers historical credit loss experience.

The Group recognises a loss allowance based on the difference between the contractual cash flows and all the cash flows that the Group expects to receive.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

### **3.12. Financial liabilities**

The Group's financial liabilities have the following measurement categories: (a) derivative liabilities (see Derivative financial instruments below) and (b) other financial liabilities.

The Group has no derivative liabilities.

Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise "trade and other payables" and "bank loans and bonds". The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **3.13. Loans and borrowings**

Borrowings are initially recognised at value of proceeds net of transaction costs.

Borrowings are subsequently stated at amortised cost using the effective interest method: any difference between fair value of the proceeds (net of transaction costs) and the redemption value is recognised as interest expenses within the borrowing period.

Borrowings are classified as short-term, unless the Group has a pre-emptive right to delay any liability repayment for the term not less than 12 months from the balance sheet date.

### **3.14. Trade accounts payable**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at contract value and subsequently measured at amortised cost using the effective interest method.

### **3.15. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### **3.16. Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares accounted at nominal value separately from share capital. Differences between purchase price and nominal value arising at acquisition or sale of treasury shares are accounted as changes in share premium in the shareholder's equity.

### **3.17. Income tax (current and deferred income tax)**

Income tax is stated in the financial statements in accordance with the effective legislation. Income tax expenses in the profit and loss statement for the period comprise current and deferred income tax. Current income tax is calculated on the basis of taxable profit for the period, using the tax rates in effect at the balance sheet date. Deferred income tax is calculated on the basis of the balance sheet method.

Deferred income tax assets are recognised with allowance for all temporary differences that decrease the tax base, and unused tax assets and liabilities are carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences that decrease the tax base, or unrealised tax assets and unsettled liabilities to be carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, if the deferred asset in respect of income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

The carrying amount of income tax deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Deferred income tax liabilities are recognised for all taxable temporary differences with the exception of the cases when the term of utilisation of temporary differences could be controlled, and, with high degree of probability, temporary differences would not be utilised in the foreseeable future.

Deferred tax is charged or credited in the Statement of Comprehensive Income, unless otherwise it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

### **3.18. Employee benefits**

Group companies operate defined contribution plans. The companies of the Group pay contributions to pension funds on the mandatory basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no other obligations in respect of employees' pensions or termination benefits.

Sale of treasury shares to staff members at a price below quoted price is recognized as employee benefit. The sale is recognized as increase in shareholder's equity in amount of transferred shares quoted price with simultaneous recognition of expense in the statement of comprehensive income in amount of difference between quoted price and consideration received from employees.

### **3.19. Provisions**

Provisions are recognised when a company has a legal or constructive obligation at the balance sheet date as a result of past events and when it is more likely than not that an outflow of resources, embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed on every balance sheet date and are adjusted to show the current, most sound estimates.

Where there are a number of similar obligations, the likelihood that an outflow of economic benefits will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be little.

### **3.20. Revenue recognition**

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the all of contracts are less than one year.

Under IFRS 15 such shipping revenue is required to be accounted for as a separate performance obligation and should be recognised over time as the service is rendered. The Group does not disclose revenue from rendering transportation services as it is not material.

Revenue is shown net of VAT and excise.

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

Accounting policy applied under IAS 18 "Revenue" till 31 December 2017:

Sales of goods were recognised when a Group company delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services were recognised in the accounting period when the respective services were rendered, upon completion of a respective transaction measured against a share of the respective service in the total volume of all services to be rendered.

### **3.21. Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3.22. Finance costs

Finance costs are charged to the statement of comprehensive income over the period during which those occurred. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Costs of arrangement of borrowings include bank commissions for arrangement of borrowings and costs of bank guarantees.

### 3.23. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments 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:

#### *Impairment of assets*

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products in different price segments and the future margin in sales of different brands.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

#### *Useful economic life of property, plant and equipment*

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives.

The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

#### *Tax legislation*

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently.

The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest.

The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances review may cover larger periods.

#### *Deferred income tax asset recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

### *Related party transactions*

In the normal course of business the Group enters into transactions with its related parties. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

## 5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

***The following amendments and improvements to standards became effective for the reporting periods beginning on or after 1 January 2018:***

- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property;
- IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15 (Note 3);
- IFRS 9, Financial Instruments (Note 3).

These amendments and improvements to standards did not have any impact or did not have a material impact on the Group's consolidated financial statements.

***A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and have not been early adopted:***

- IFRS 16, Leases. The standard provides a comprehensive model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Under the new standard, the Group is required to recognise the present value of the unavoidable lease payments as a lease liability in the statement of financial position (including those currently classified as operating leases) with a corresponding right of use asset. The unwinding of the financial charge on the lease liability and amortisation of the right-of-use asset are recognised in the statement of profit or loss based on the implied interest rate and contract term respectively. As of the date of signing of the current consolidated financial statements the Group has not finalised its review of the impact of IFRS 16 however, it is assumed that the effect of applying the new standard may be significant;
- IFRS 17, Insurance contracts;
- IFRIC 23, Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual improvements to IFRSs 2015-2017 cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement;
- Amendments to the Conceptual Framework for Financial Reporting;
- Amendments to IFRS 3, Definition of a business;
- Amendments to IAS 1 and IAS 8; Definition of materiality.

Unless otherwise described above the new standards, amendments to standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

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.

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).

Bonds are measured at amortised cost (Level 2 of the fair value measurement hierarchy) less amortised issue costs. Carrying value of bonds as of 31 December 2018 and 31 December 2017 approximates their fair values.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

#### ***Financial assets carried at amortised cost***

The carrying amounts of trade receivables approximate their fair values (Note 13). Their fair values are within level 3 of the fair value hierarchy.

#### ***Liabilities carried at amortised cost***

The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Carrying value of loans and issued bonds at 31 December 2018 and 31 December 2017 approximate their fair values.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**7. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
<b>Cost</b>						
<b>31 December 2016</b>	<b>6 356</b>	<b>3 127</b>	<b>244</b>	<b>441</b>	<b>422</b>	<b>10 590</b>
Additions	46	324	41	63	264	738
Transfers	166	67	1	1	(235)	–
Disposals	(474)	(89)	(12)	(40)	–	(615)
<b>31 December 2017</b>	<b>6 094</b>	<b>3 429</b>	<b>274</b>	<b>465</b>	<b>451</b>	<b>10 713</b>
Additions through business combinations (Note 28)	2 361	976	23	167	201	3 728
Additions	162	1 046	18	181	357	1 764
Impairment	(318)	–	–	–	–	(318)
Transfers	31	74	1	4	(110)	–
Disposals	(89)	(121)	(9)	(37)	–	(256)
<b>31 December 2018</b>	<b>8 241</b>	<b>5 404</b>	<b>307</b>	<b>780</b>	<b>899</b>	<b>15 631</b>
<b>Depreciation</b>						
<b>31 December 2016</b>	<b>1 483</b>	<b>2 037</b>	<b>162</b>	<b>329</b>	<b>–</b>	<b>4 011</b>
Charge for the period	175	301	25	60	–	561
Disposals	(256)	(68)	(12)	(24)	–	(360)
<b>31 December 2017</b>	<b>1 402</b>	<b>2 270</b>	<b>175</b>	<b>365</b>	<b>–</b>	<b>4 212</b>
Additions through business combinations (Note 28)	107	141	8	69	–	325
Charge for the period	160	464	31	95	–	750
Disposals	(87)	(108)	(10)	(44)	–	(249)
<b>31 December 2017</b>	<b>1 582</b>	<b>2 767</b>	<b>204</b>	<b>485</b>	<b>–</b>	<b>5 038</b>
<b>Carrying amount</b>						
<b>31 December 2016</b>	<b>4 873</b>	<b>1 090</b>	<b>82</b>	<b>112</b>	<b>422</b>	<b>6 579</b>
<b>31 December 2017</b>	<b>4 692</b>	<b>1 159</b>	<b>99</b>	<b>100</b>	<b>451</b>	<b>6 501</b>
<b>31 December 2018</b>	<b>6 659</b>	<b>2 637</b>	<b>103</b>	<b>295</b>	<b>899</b>	<b>10 593</b>

Carrying value of property, plant and equipment pledged as a security for bank loans is disclosed in Note 17.

Cost of property, plant and equipment with zero carrying value at 31 December 2018 amounted to ₽2,061 mln (31 December 2017 – ₽1,676 mln).

In 2018 the Group revised its approach to valuation of land plots remained from plant growing project Penta Agrogroupp and recognised impairment in amount of ₽318 mln (Note 23).

Property, plant and equipment acquired in the business combination with Golubitskoe Estate (Note 28) is recognised at provisional values. Valuation of property, plant and equipment will be finalised within 12 months period from the acquisition date.

**8. OTHER LONG-TERM ASSETS**

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount of ₽287 mln, other long-term accounts receivable in amount of ₽200 mln and long-term security prepayments under lease of property in amount of ₽43 mln (as of 31 December 2017 – prepayments given for acquisition of property, plant and equipment in amount of ₽335 mln and long-term other accounts receivable in amount of ₽74 mln).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**9. INTANGIBLE ASSETS**

	Software, patents, licenses, other	Brands	Total
<b>Cost</b>			
<b>31 December 2016</b>	<b>1 316</b>	<b>8 068</b>	<b>9 384</b>
Acquisition	39	121	160
Disposals	(10)	(13)	(23)
<b>31 December 2017</b>	<b>1 345</b>	<b>8 176</b>	<b>9 521</b>
Acquisition through business combinations (Note 28)	39	1 717	1 756
Acquisition	131	15	146
Impairment	-	(195)	(195)
Disposals	(186)	(65)	(251)
<b>31 December 2018</b>	<b>1 329</b>	<b>9 648</b>	<b>10 977</b>
<b>Amortisation and impairment</b>			
<b>31 December 2016</b>	<b>667</b>	<b>64</b>	<b>731</b>
Charge for the year	191	-	191
Disposals	(10)	(3)	(13)
<b>31 December 2017</b>	<b>848</b>	<b>61</b>	<b>909</b>
Acquisition through business combinations (Note 28)	1	1	2
Charge for the year	156	64	220
Disposals	(186)	(65)	(251)
<b>31 December 2018</b>	<b>819</b>	<b>61</b>	<b>880</b>
<b>Net book value</b>			
<b>31 December 2016</b>	<b>649</b>	<b>8 004</b>	<b>8 653</b>
<b>31 December 2017</b>	<b>497</b>	<b>8 115</b>	<b>8 612</b>
<b>31 December 2018</b>	<b>510</b>	<b>9 587</b>	<b>10 097</b>

Principal vodka brands are: Beluga, Myagkov, Belenkaya, Russian Ice, Tsar, Arkhangelskaya, White owl. Principal brandy brands are Zolotoy Rezerv and Bastion. Principal bitter brands are Doctor August, Captain's and Beluga Hunting.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the statement of financial position in accordance with the Group's accounting policy.

**Intangible assets impairment test**

Impairment test was performed for intangible assets with indefinite useful lives (brands). The recoverable amount of each tested brand was determined on value-in-use calculations. These calculations use cash flow projections. Cash flows beyond the planning period are extrapolated using the estimated growth rates stated below.

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

	2018	2017
Growth rate beyond five years	3.0%	3.0%
Discount rate	15.5%	17.7%

Management determined budgeted gross margin based on past performance and its market sales expectations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Based on the results of these calculations the Group concluded that there is no impairment in the years ended 31 December 2018 and 31 December 2017 except one brand that is impaired due to decision to cease its use (Note 23).

### 10. GOODWILL

	31 December 2018	31 December 2017
<b>At beginning of the year</b>	<b>230</b>	<b>230</b>
Business combinations (Note 28)	2 961	-
Impairment (Note 23)	(96)	-
<b>At end of the year</b>	<b>3 095</b>	<b>230</b>

#### Goodwill impairment test

Goodwill is allocated to cash generating units (CGU), which represent the lowest level within the group at which the goodwill is monitored by management and which is not larger than a segment for segment reporting. The recoverable amount of each CGU was determined through value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

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

	2018	2017
Growth rate beyond five years	3.0%	3.0%
Discount rate	15.5%	17.7%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

Based on the results of these calculations the Group concluded that there is no impairment in the years ended 31 December 2018 and 31 December 2017. However, in the reporting period the Group has changed its approach to several CGUs, which will result in changes in budgets during next reporting period and decrease in expected results of these CGUs. The Group decided to recognize goodwill impairment of these CGUs in the reporting period. Impairment in the amount of ₽96 mln is recognised in other expenses in the statement of profit or loss (Note 23).

### 11. INVENTORIES

	31 December 2018	31 December 2017
Finished goods	9 093	6 978
Raw materials	3 203	2 431
Work-in-progress	425	336
<b>Total inventories</b>	<b>12 721</b>	<b>9 745</b>

### 12. BIOLOGICAL ASSETS

	Total biological assets, ₽ mln
<b>31 December 2016</b>	<b>274</b>
Net purchases	-
Loss on change in fair value	(34)
<b>31 December 2017</b>	<b>240</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	<b>Total biological assets, ₽ mln</b>
Net purchases	9
Loss on change in fair value	(84)
<b>31 December 2018</b>	<b>165</b>

Loss on change in fair value of biological assets is recognised in other expenses (Note 23).

**13. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade accounts receivable	6 564	9 981
Provision for impairment of trade accounts receivable	(46)	(170)
<b>Total trade accounts receivable</b>	<b>6 518</b>	<b>9 811</b>
Other accounts receivable, including VAT and excises recoverable	1 541	2 067
Provision for impairment of other accounts receivable	-	(72)
<b>Total other accounts receivable</b>	<b>1 541</b>	<b>1 995</b>
<b>Total account receivable</b>	<b>8 059</b>	<b>11 806</b>

Five largest customers contributed 25% of consolidated revenue of the Group for the year ended 31 December 2018 and debt of five largest debtors amounted to 12% of accounts receivable as of 31 December 2018 (14% and 10% respectively in the year 2017).

The movements in the expected credit loss provision for impairment of accounts receivable are:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>As at 1 January</b>	<b>(242)</b>	<b>(190)</b>
Adjustment due to adoption of IFRS 9	(46)	-
Provision charged	(119)	(130)
Provision utilised	361	78
<b>Total provision for impairment of accounts receivable as at 31 December</b>	<b>(46)</b>	<b>(242)</b>

**14. ASSETS HELD FOR SALE**

As of 31 December 2017, assets held for sale include land and warehouse in Tobolsk city at ₽12 mln.

As of 31 December 2018, the Group has no long-term assets held for sale.

**15. CASH AND CASH EQUIVALENTS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash in banks, nominated in RUB	315	543
Cash in banks, nominated in USD	370	238
Cash in banks, nominated in EUR	15	27
Cash in transit, nominated in RUB	338	2
Cash on hand	45	9
<b>Total cash and cash equivalents</b>	<b>1 083</b>	<b>819</b>

As of 31 December 2018, the Group had no restricted cash (31 December 2017 – ₽14 mln).

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

### **16. EQUITY AND RESERVES**

#### **Share capital**

Share capital is the authorised capital of the Company.

As of 31 December 2017, Beluga Group PAO issued 24 954 thousand ordinary shares of ₽100 each at par. The Company's common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol "BELU".

During the six months ended 30 June 2018, the Company cancelled 5,554 thousand shares and the number of issued shares as of December 31, 2018 amounted to 19 400 thousand shares.

#### **Treasury shares**

As of 31 December 2016 quantity of treasury shares amounted to 7,696 thousand shares.

During 2017:

- 1,459 thousand shares were repurchased from the market at amount of ₽913 mln. Change in value of treasury shares in amount of ₽145 mln and change in share premium in amount of ₽768 mln were recognised in the statement of changes in equity.
- 533 thousand shares were given to staff members within option remuneration plan started in 2013 and finishing in the year 2017. Based on quoted prices as of the date of shares transfer, the Group recognised increase in equity in amount of ₽246 mln and employee benefit expense in amount of ₽246 mln recognised in general and administrative expenses in the statements of profit or loss and other comprehensive income.

As of 31 December 2017 quantity of treasury shares amounted to 8,622 thousand shares.

During 2018:

- 2,378 thousand shares were repurchased from the market at amount of ₽1,435 mln. Change in value of treasury shares in amount of ₽238 mln and change in share premium in amount of ₽1,197 mln were recognised in the statement of changes in equity.
- 5,554 thousand shares were cancelled.

As of 31 December 2018, quantity of treasury shares amounted to 5,446 thousand shares.

#### **Share premium**

Share premium reserve was recognised at IPO and SPOs. Share premium changes as a result of sale or purchase of treasury shares in amount of excess of transaction price over nominal value of share in amount of ₽100 per share.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**17. LOANS AND BONDS**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Unsecured non-current bank loans	6 335	3 979
Bonds	5 997	6 021
Secured non-current bank loans	87	112
<b>Total non-current loans and bonds</b>	<b>12 419</b>	<b>10 112</b>
Unsecured bank loans	30	458
Bonds	53	53
Secured bank loans	384	389
<b>Total current loans and bonds</b>	<b>467</b>	<b>900</b>
<b>Total loans and bonds</b>	<b>12 886</b>	<b>11 012</b>

For the end of the reporting period the corporate weighted average annual interest rate on bank loans and bonds was 9.03% (for the end of the year 2017 – 9.44%).

The maturity of loans and bonds is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
On demand or within one year	467	900
Between the first and second year	6 006	205
Between the second and fifth years	6 413	9 907
<b>Total loans and bonds</b>	<b>12 886</b>	<b>11 012</b>

Movements in the Group's bank loans and bonds were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Balance as at January 1</b>	<b>11 012</b>	<b>9 053</b>
Bank loans acquired in a business combination	269	-
Bank loans received and bonds issued	38 804	40 885
Bank loans and bonds repaid	(37 258)	(38 963)
Capitalisation and amortisation of transaction costs, net	59	37
<b>Balance as at December 31</b>	<b>12 886</b>	<b>11 012</b>

All loans and bonds are nominated, received and repaid in Russian Roubles.

As of 31 December 2018, three bond issues were placed:

- BO-04 issued in June 2015 at amount of ₽2,000 mln with 14.5% coupon rate, maturity date – 28 May 2020. In December 2016 the Group made repayment 50% of the bond issue. Coupon rate for outstanding ₽1,000 mln bonds was set in June 2017 at 9.75%.
- BO-05 issued in May 2016 at amount of ₽2,000 mln with 12.9% coupon rate. The bond issue was repaid in May 2018 (25% of the amount), following payments: May 2019 (25% of the amount) and April 2020 (50% of the amount). As at 31 December 2018 the Group owned bonds with nominal value of ₽1,342 mln. Nominal value of outstanding bonds is ₽158 mln.
- BO-P01 issued in June 2017 at amount of ₽5,000 with 9,5% coupon rate. The bond issue will be repaid in June 2020 (25% of the amount), June 2021 (25% of the amount) and June 2022 (50% of the amount).

Bonds in the statement of financial position are stated at initial amount less amortised costs of issue.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Bondholders have a right to demand early repayment of the bonds in the cases stipulated by the Federal Law 39-FZ "On securities market", as well as in the case of delisting of bonds, or excluding them from the quotation lists in accordance with the Resolution on bond issue.

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and crossdefault provisions. The Group was in compliance with covenants at 31 December 2018 and 31 December 2017.

As at 31 December 2018, the following banks had the highest weight in the Groups' credit portfolio: SberBank (BBB-), Sovcombank (BB) and SviazBank (BB-).

At 31 December 2018, bank bonds were secured by:

- Plant, property and equipment with a carrying value of ₽251 mln (at 31 December 2017 – 706 mln);
- Shares of subsidiary at amount of ₽412 mln (at 31 December 2017 – ₽837 mln).

Unutilised credit facilities as at 31 December 2018 amounted to ₽12,454 mln (at 31 December 2017 – ₽11,090 mln).

**18. TRADE AND OTHER PAYABLES**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Excises, VAT and other taxes payable	4 347	3 807
Trade payables	7 525	4 682
Other payables	2 009	765
Advances obtained	63	101
<b>Total trade and other payables</b>	<b><u>13 944</u></b>	<b><u>9 355</u></b>

**19. REVENUE**

	<u>2018</u>	<u>2017</u>
Sales net of VAT	66 310	61 003
Excise duties	(22 899)	(23 700)
<b>Revenue</b>	<b><u>43 411</u></b>	<b><u>37 303</u></b>

**20. COST OF SALES**

	<u>2018</u>	<u>2017</u>
Materials, supplies and goods	23 911	21 038
Wages and salaries	1 342	1 313
Depreciation and amortisation	392	431
Fuel and power	415	424
Repairs and maintenance	182	160
Rent	44	24
Other costs	235	238
<b>Total cost of sales</b>	<b><u>26 521</u></b>	<b><u>23 628</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**21. GENERAL AND ADMINISTRATION EXPENSES**

	<u>2018</u>	<u>2017</u>
Wages and salaries	1 905	1 848
Bank services, Information and consulting services, Insurance, Security	453	327
Rent	185	247
Sundry taxes	155	156
Depreciation and amortisation	133	103
Personnel training	27	45
Repairs and maintenance	47	51
Fuel and power	72	31
Other expenses	125	143
<b>Total general and administrative expenses</b>	<b><u>3 102</u></b>	<b><u>2 951</u></b>

**22. DISTRIBUTION EXPENSES**

	<u>2018</u>	<u>2017</u>
Advertising, promotion, transportation	3 624	3 890
Wages and salaries	4 396	2 653
Rent	908	306
Depreciation and amortisation	454	234
Materials and packaging	263	174
Repairs and maintenance	186	111
Fuel and power	118	57
Other expenses	320	294
<b>Total distribution expenses</b>	<b><u>10 269</u></b>	<b><u>7 719</u></b>

**23. OTHER INCOME / (EXPENSES)**

	<u>2018</u>	<u>2017</u>
Impairment of accounts receivable	(165)	(130)
Write-off of accounts payable	32	14
Income/(loss) on disposal of materials	(102)	(79)
Income/(loss) on disposal of property, plant and equipment and intangible assets	55	265
Review of estimates, impairment and revaluation	22	(34)
Other expense	(88)	(193)
<b>Total other income / (expenses)</b>	<b><u>(246)</u></b>	<b><u>(157)</u></b>

In connection with consolidation of retail chain of specialized alcohol shops and start of operation in the new business segment "Retail", the Group executed review of its approach to a set of assets with the following influence to the consolidated statements: goodwill impairment in the amount of ₹96 mln (Note 10); intangible asset impairment in the amount of ₹195 mln (Note 9) due to the decision to cease use of one of trademarks and related write-off in accounts receivable in amount of ₹37 mln; impairment of property, plant and equipment in the amount of ₹318 mln (Note 7) connected with land plots remained from plant growing project Penta Agrogroup; decrease in value of biological assets (chicken) in the amount of ₹84 mln (Note 12); income from revaluation of investments in Winlab owned by the Group before consolidation of Winelab Group at amount of ₹752 mln (Note 28). Net value of the estimates review is shown at amount of ₹22 mln in the table above. In 2017 – loss on change in fair value of biological assets in amount of ₹34 mln.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 24. NET FINANCE COSTS

	2018	2017
Net interest on bank loans and bonds	1 779	1 466
Costs of arrangement of borrowings, including cost of bank guarantees	194	366
Net currency exchange differences	86	99
<b>Total net finance costs</b>	<b>2 059</b>	<b>1 931</b>

### 25. INCOME TAX

	2018	2017
Current income tax, charge	(467)	(536)
Prior periods adjustments for income tax	(117)	(140)
<b>Total current income tax</b>	<b>(584)</b>	<b>(676)</b>
Deferred income tax	308	405
<b>Total income tax</b>	<b>(276)</b>	<b>(271)</b>

Income tax rates applicable in the year ended 31 December 2018 and 31 December 2017 were as follows: Russian Federation – 20%, Permsky Krai of the Russian Federation – 19.5%, Cyprus – 12.5%.

Companies engaged in the production of poultry are liable to profit tax at 0% rate.

The tax on the Group's Profit before tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the consolidated entities as follows:

	2018	2017
Profit before tax	1 214	926
<b>Tax calculated at 20%</b>	<b>(243)</b>	<b>(185)</b>
Effect of local tax rates other than 20%	77	88
Prior period tax adjustments	(117)	(140)
Effect of expenses not deductible for tax purposes	7	(34)
<b>Total income tax</b>	<b>(276)</b>	<b>(271)</b>

### 26. DEFERRED TAX

Stated below are main deferred tax assets and liabilities recognised by the Group and the respective changes over the reporting period.

	1 January 2018	Credited/ (charged) to profit/ loss	Business combinations	31 December 2018
Property, plant and equipment	153	(131)	5	27
Intangible assets	-	34	-	34
Inventories	291	64	132	487
Accounts receivable	92	112	36	240
Accounts payable	66	(14)	19	71
Other assets and liabilities	412	17	111	540
<b>Deferred tax assets</b>	<b>1 014</b>	<b>82</b>	<b>303</b>	<b>1 399</b>
Property, plant and equipment	(349)	(14)	(89)	(452)
Intangible assets	(120)	54	-	(66)
Inventories	(132)	102	(25)	(55)
Accounts receivable	(181)	38	-	(143)
Accounts payable	(39)	27	(2)	(14)
Other assets and liabilities	(23)	19	-	(4)
<b>Deferred tax liabilities</b>	<b>(844)</b>	<b>226</b>	<b>(116)</b>	<b>(734)</b>
<b>Net deferred tax asset / (liability)</b>	<b>170</b>	<b>308</b>	<b>187</b>	<b>665</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	1 January 2017	Credited/ (charged) to profit/ loss	Business combinations	31 December 2017
Property, plant and equipment	94	59	–	153
Intangible assets	–	–	–	–
Inventories	195	96	–	291
Accounts receivable	202	(110)	–	92
Accounts payable	45	21	–	66
Other assets and liabilities	74	338	–	412
<b>Deferred tax assets</b>	<b>610</b>	<b>404</b>	<b>–</b>	<b>1 014</b>
Property, plant and equipment	(361)	12	–	(349)
Intangible assets	(145)	25	–	(120)
Inventories	(45)	(87)	–	(132)
Accounts receivable	(266)	85	–	(181)
Accounts payable	(27)	(12)	–	(39)
Other assets and liabilities	(1)	(22)	–	(23)
<b>Deferred tax liabilities</b>	<b>(845)</b>	<b>1</b>	<b>–</b>	<b>(844)</b>
<b>Net deferred tax liability</b>	<b>(235)</b>	<b>405</b>	<b>–</b>	<b>170</b>

The recognition and reversals of temporary differences, as presented in the tables above, primarily relate to the revaluation of property, plant and equipment and intangible assets for the purposes of acquisitions of subsidiaries, impairment of receivables, and inventories write offs to net realisable value.

**27. EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during period.

	2018	2017
Profit attributable to equity holders	919	588
Weighted average number of ordinary shares in issue (thousand)	13 448	16 993
Basic earnings per share, P	<b>68.34</b>	<b>34.60</b>

All shares are ordinary shares and there are no dilutive potential ordinary shares. Thus, the Group does not compute diluted earnings per share.

	2018	2017
<b>Shares issued at 1 January, thousands</b>	<b>24 954</b>	<b>24 954</b>
Cancellation of shares	(5 554)	–
Effect of treasury shares held	(5 952)	(7 961)
<b>Weighted average number of outstanding shares (thousands )</b>	<b>13 448</b>	<b>16 993</b>

**28. BUSINESS COMBINATIONS**

**28.1. Acquisition of Golubitskoe Estate**

In August 2018, the Group acquired 80% in Villa Romanov OOO (renamed to Golubitskoe Estate) and control shares in two supplementary companies. The companies operate in wine production, wine and table grapes growing.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Provisional fair value of the assets and liabilities as of the acquisition date were as follows:

	<b>Provisional fair value</b>
Property, plant and equipment	2 655
Intangible assets	7
Net deferred tax assets	81
Inventories	291
Cash and cash equivalents	5
Accounts receivable / (payable), net	(19)
<b>Net assets acquired</b>	<b>3 020</b>
Purchase consideration	2 431
Non-controlling interest	589
<b>Result arising on acquisition, accounted as Goodwill</b>	<b>-</b>
Purchase consideration settled in cash	(757)
Cash balances as of the date of the business combination	5
<b>Cash outflow on acquisition</b>	<b>(752)</b>

The outstanding part of the purchase consideration is accounted in short-term accounts payable in amount of ₽591 mln and long-term accounts payable in amount of ₽1 083 mln as of 31 December 2018 and will be transferred to the sellers until the end of the year 2023.

The Group assigned provisional values to net assets acquired. Purchase allocation is not finished at the date of approval of these consolidated financial statements and will be finalised within 12 months period from the acquisition date.

### **28.2. Acquisition of Winlab**

In January 2018, the Group increased its ownership in Winelab from 49% to 100%. Winelab owns and operates the retail chain of specialized alcohol shops. List of significant subsidiaries of Winelab is disclosed in the Note 1 in "Retail" section. The transaction is performed under common control, the Group applied acquisition method in accordance with IFRS 3 "Business Combinations", and accounting treatment of the operation is disclosed in Note 3.

Financial results of the acquired companies from the date of acquisition to 31 December 2018: revenue ₽9 276 mln, operating result by the segment ₽598 mln (Note 30).

Fair value of the assets and liabilities as of the acquisition date were as follows:

	<b>Fair value</b>
Property, plant and equipment	748
Intangible assets	1 747
Net deferred tax assets	105
Inventories	1 220
Cash and cash equivalents	289
Accounts receivable / (payable), net	(4 316)
<b>Net assets acquired</b>	<b>(207)</b>
Fair value of the previously held equity interest	2 124
Purchase consideration	630
<b>Goodwill</b>	<b>2 961</b>
Purchase consideration settled in cash in the reporting period	-
Cash balances of Winelab and its subsidiaries as of the date of the business combination	289
<b>Cash inflow on acquisition</b>	<b>289</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 29. INVESTMENTS IN ASSOCIATES

As of 31 December 2017, the Group owned 49% in Winelab AO. Investments were accounted for in accordance with IAS 28 "Investments in associates" using equity method. Since Winelab was consolidated in the year 2018 (Note 28), the Group has no investments in the associates as of 31 December 2018.

For the year ended 31 December 2017 share of net income of the associate in amount of ₽9 mln is recognised in the consolidated statement of profit or loss.

### 30. SEGMENT REPORTING

The Group operates in three principal business segments, namely: Alcohol, Retail and Food production.

Financial results of the Group by operational segments for the year ended 31 December 2018:

	<u>Alco</u>	<u>Retail</u>	<u>Food</u>	<u>Intersegment</u>	<u>Consolidated</u>
Sales, including excise and VAT	64 276	12 782	7 166	(6 421)	77 803
Segment revenue	<u>31 326</u>	<u>9 276</u>	<u>6 483</u>	<u>(3 674)</u>	<u>43 411</u>
<b>Operating results by segments</b>	<b>2 785</b>	<b>598</b>	<b>136</b>	<b>-</b>	<b>3 519</b>
Other income/(expenses)					(246)
<b>Operating profit</b>					<b><u>3 273</u></b>
Depreciation	668	155	155	-	978
<b>EBITDA by segments</b>	<b>3 453</b>	<b>753</b>	<b>291</b>	<b>-</b>	<b>4 497</b>
Other expenses					(246)
<b>Consolidated EBITDA</b>					<b><u>4 251</u></b>
CAPEX for the period	1 131	491	134	-	1 756
Total assets at the end of the period	36 598	8 987	2 885	-	48 470

Financial results of the Group by operational segments for the year ended 31 December 2017:

	<u>Alco</u>	<u>Food</u>	<u>Intersegment</u>	<u>Consolidated</u>
Sales, including excise and VAT	63 881	7 505	(202)	71 184
Segment revenue	<u>30 705</u>	<u>6 800</u>	<u>(202)</u>	<u>37 303</u>
<b>Operating results by segments</b>	<b>2 877</b>	<b>75</b>	<b>53</b>	<b>3 005</b>
Other income/(expenses)				(157)
<b>Operating profit</b>				<b><u>2 848</u></b>
Depreciation	602	166	-	768
<b>EBITDA by segments</b>	<b>3 479</b>	<b>241</b>	<b>53</b>	<b>3 773</b>
Other expenses and share of income of associates				(148)
<b>Consolidated EBITDA</b>				<b><u>3 625</u></b>
CAPEX for the period	796	122	-	918
Total assets at the end of the period	37 627	3 368	-	40 995

Presentation of the segment reporting for the year ended 31 December 2017 was changed since new segment "Retail" was introduced in the year 2018. "Alco" segment now includes expenses of the management companies, which were previously included into separate segment "Management companies".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

#### 31.1. Market risk

##### i) Foreign currency risk

At 31 December 2018 the Group net exposure to currency risk was ₽793 mln (mainly nominated in EURO and US Dollars: accounts receivable in amount of ₽1 071 mln, cash in amount of ₽385 mln less accounts payable in amount of ₽2 249 mln).

At 31 December 2017 the Group net exposure to currency risk was ₽22 mln (mainly nominated in EURO and US Dollars: accounts receivable in amount of ₽668 mln, cash in amount of ₽265 mln less accounts payable in amount of ₽911 mln).

The effect of a 20% strengthening of US Dollars and EUR against Russian Rouble at the reporting date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year in amount of ₽90 mln (in 2017 – increase ₽36 mln). A 20% weakening in the exchange rate would, on the same basis, have resulted in opposite result in the same amount.

##### ii) Price risk

The Group is not exposed to equity securities price risk as it does not hold in assets any quoted equity securities. The Group is not exposed to commodity price risk because both its finished goods and products and purchased raw materials are not traded on a public market.

##### iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term bank loans and bonds.

##### Variable interest rate risk.

The Group has a low exposure to this risk, since it almost does not use lending instruments with a floating interest rate.

##### Fixed interest rate risk.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels.

Interest rate sensitivity on financial assets and liabilities is determined by analysis of the financial markets. Interest rates on principal financial items remain fixed throughout the term of the contract. The average term of a credit agreement is four years.

#### 31.2. Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's financial policy implies entering into transactions with creditworthy customers to mitigate any significant credit risk. The Group has procedures in place to control credit risk and the exposure to such risks is monitored on an ongoing basis. The Group has made provision for potential losses on receivables.

The Group enters into transactions only with well recognised, creditworthy and highly reputable third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Group exposure to bad debts is not significant. The Group accrued provision for expected credit losses.

Other financial assets of the Group with exposure to credit risk include cash and cash equivalents. Cash and cash equivalents are placed with reputable banks. Thus, management does not expect any of its counterparties to fail in meeting their obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets less impairment. The maximum exposure to credit risk at the reporting date was:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade accounts receivable	6 718	9 885
Cash and cash equivalents	1 083	819
<b>Total assets with exposure to credit risk</b>	<b><u>7 801</u></b>	<b><u>10 704</u></b>

At the end of the reporting period, there was no significant concentration of credit risk to the Group as none of the Group's debtors has the share more than 7% of the trade receivables.

**31.3. Liquidity risk**

Liquidity risk management is aimed at ensuring sufficient amounts of cash and cash equivalents and marketable securities and availability of credit fundraising for timely payment of obligations.

The Group's financial policy implies in maintenance of liquidity includes attracting long-term borrowings, decreasing share of short-term borrowings, issuing bonds, maintenance of sufficient unutilised credit facilities (amount is disclosed in Note 17) and regularly review the current and future liquidity requirements.

Contractual maturities of financial liabilities as at 31 December 2018 are as follows:

	<u>Carrying amount</u>	<u>Total future undiscounted payments</u>	<u>12 months or less</u>	<u>1 – 2 years</u>	<u>More than two years</u>
Loans and bonds, including future interest payments	12 886	15 459	1 625	6 914	6 920
Trade and other payables, including long- term accounts payable	15 027	15 027	13 944	278	805
<b>Total loans and bonds and payables</b>	<b><u>27 913</u></b>	<b><u>30 486</u></b>	<b><u>15 569</u></b>	<b><u>7 192</u></b>	<b><u>7 725</u></b>

Contractual maturities of financial liabilities as at 31 December 2017 are as follows:

	<u>Carrying amount</u>	<u>Total future undiscounted payments</u>	<u>12 months or less</u>	<u>1 – 2 years</u>	<u>More than two years</u>
Loans and bonds, including future interest payments	11 012	14 033	1 906	1 146	10 981
Trade and other payables	9 355	9 355	9 355	-	-
<b>Total loans and bonds and payables</b>	<b><u>20 367</u></b>	<b><u>23 388</u></b>	<b><u>11 261</u></b>	<b><u>1 146</u></b>	<b><u>10 981</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31.4. Capital risk management

The Group seeks to maintain an optimal capital structure. The Group monitors its capital structure on the basis of its gearing ratio, interest cover and the ratio of net debt to EBITDA.

	31 December 2018	31 December 2017
Loans and bonds	12 886	11 012
Less: cash and cash equivalents	(1 083)	(819)
<b>Net financial debt</b>	<b>11 803</b>	<b>10 193</b>
Total equity and reserves	19 467	19 448
<b>Gearing ratio</b>	<b>0.606</b>	<b>0.524</b>

### 32. RELATED PARTY TRANSACTIONS

The majority shareholder of the Group is A.A. Mechetin.

#### *Compensation to key management personnel*

Remuneration to key management personnel for the year 2018 was ₽297 mln. (₽425 mln reported in 2017).

The remuneration of directors and key executives is determined by labour contracts. Since the number of key management personnel, or their related parties, holds positions in other entities that results in them having control or significant influence over the financial or operating policies of these entities. A number of these entities held transactions with the Group in the reporting period.

The aggregate value of transactions and outstanding balances relating to related parties is as follows:

#### ***Sales of goods and services***

	2018	2017
Sales of goods	52	4 416
Sales of services	13	54
<b>Total sales of goods and services</b>	<b>65</b>	<b>4 470</b>

#### ***Purchases of goods and services***

	2018	2017
Purchases of goods and services	1	824

#### ***Receivables and payables arising from sales and purchases of goods and services***

	31 December 2018	31 December 2017
Trade and other receivables	384	3 762
Trade and other payables	24	104

### 33. CONTINGENCIES AND COMMITMENTS

#### 33.1. Legal proceeding

During the year the group was involved in a number of legal disputes (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

### **33.2. Contractual commitments**

As at 31 December 2018 the Group had no significant contractual commitments for the purchase or construction of Property, Plant and Equipment.

### **33.3. Leasing agreement**

As at 31 December 2018 the Group had contractual commitments for non-cancellable lease for ₽42 mln (at 31 December 2017 in amount of ₽48 mln).

### **33.4. Insurance policies**

Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

### **33.5. Tax legislation**

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group includes companies incorporated outside of Russian Federation. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. It is possible that with the evolution of the interpretations and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Transfer pricing is a complex issue of tax legislation, and the Group therefore pays considerable attention to monitoring compliance with transfer pricing legislation.

The Group estimates amount of contingent liabilities related to tax risks to be below ₽100 mln. If necessary, the Group is ready to defend its position in a court.

### **33.6. Operating environment**

The Group's operations are primarily located in the Russian Federation. Its economy displays characteristics of an emerging market and is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic turmoil witnessed in the region have had and may continue to have a negative impact on the Russian economy.

Management believes it is taking all necessary measures to support the sustainability of development of the Group's business in the current economic environment.

## **34. EVENTS AFTER THE BALANCE SHEET DATE**

Group management is not aware of any events after the balance sheet date that would require recognition in the consolidated financial statements or disclosure in the notes.