EKOSEM-AGRAR

Annual report 2019

GROUP FIGURES

RESULTS OF OPERATION	12/31/2019 EUR'000	12/31/2019 adjusted* EUR'000	12/31/2018 EUR'000	12/31/2018 adjusted* EUR'000
Total output	586,126	564,493	377,567	376,530
Sales revenues	402,664	-	244,909	-
Milk production	255,515	-	138,088	-
Milk processing	38,251	-	27,569	-
Crop farming	78,015	-	49,448	-
Other livestock products	18,585	-	18,288	-
Miscellaneous	12,298	-	11,516	-
Earnings before interest, taxes, depreciation and amortization (EBITDA)	188,659	167,026	117,130	116,093
Earnings before interest and taxes (EBIT)	114,114	92,481	75,244	74,207
Earnings before taxes (EBT)	36,807	15,174	24,537	23,500
Net income	**36,010**	**14,377**	**19,717**	**18,680**

* For further explanations on the adjustment, please refer to chapter 2.3. of the management report

ASSET POSITION	12/31/2019 EUR'000	12/31/2018 EUR'000
Equity	316,489	174,306
Liabilities	1,884,332	1,180,921
thereof financial liabilities**	1,189,228	808,030
Non-current assets	1,816,520	1,058,973
Current assets	384,301	296,254
Total assets	**2,200,821**	**1,355,227**

**without lease liabilities

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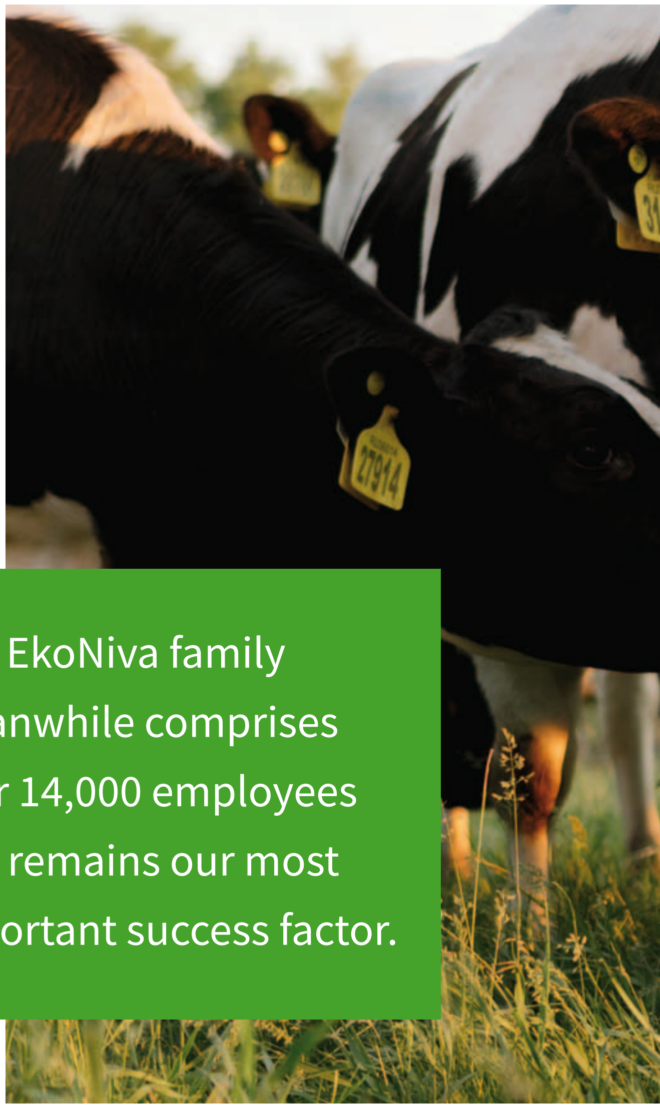
FOREWORD OF THE CHAIRMAN OF THE BOARD

Dear Friends, Colleagues, Business Partners and Bondholders

The Ekosem-Agrar Group developed dynamically in 2019. Our review of the year on pages 22 and 23 of this Annual Report gives impressive proof of the latest achievements of our great team. The EkoNiva family meanwhile comprises over 14,000 employees and remains the most important success factor of our company, whose 25th anniversary we celebrated last year. I would like to take this opportunity to thank our team for their commitment. On page 17, some of our employees give examples of how their careers began at EkoNiva and what they particularly like about their work.

On balance, we can be very satisfied with the development of our Group in the past year. In milk production, we have strongly expanded our leading position in the Russian market and are now among the world's top three producers of raw milk in terms of the number of dairy cows. As far as our crop farming operations are concerned, we have reached our feed supply targets thanks to a very good harvest season. In seed production, our work over the past years has literally borne fruit in early 2020 with the first government certification of our own winter wheat variety. While the capacity of our milk processing operations, our youngest business area, is still developing, we have made good progress in converting our existing dairies and building up new ones in 2019. We take particular pride in the success of our "EkoNiva" brand, which was named one of the ten most successful new Russian brands by renowned Forbes Magazine. Thanks to the growing presence of the products in the major retail chains, retail revenues in the first quarter of the current year more than quadrupled compared to the previous year.

Our key performance indicators once again picked up sharply in 2019. Sales revenues climbed to over EUR 400 million, up by more than 60% on 2018. Total output also rose by an impressive 50% to around EUR 565 million (previous year: EUR 376.5 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) improved by 44% to EUR 167 million (previous year: EUR 116.1 million). We thus kept our profit margin stable at a high level of around 30%. Our dairy cow herd increased from 63,000 animals at the end of 2018 to over 103,000 animals at the end of April 2020. At a good 600,000 ha, our agricultural land meanwhile has clearly more than twice the size of Luxembourg.



The EkoNiva family meanwhile comprises over 14,000 employees and remains our most important success factor.

As we grow in size and are spreading our production over large parts of Russia, the social responsibility of our Group is growing as well. As a systemically relevant agricultural company and important producer of food, we secure the supply of food to the population also during the current coronavirus pandemic and have taken all the necessary precautions to ensure the smooth operation of our dairy farms and dairies. But it is not only in this crisis situation that our exposed market position as one of the country's largest agricultural enterprises requires a corporate strategy that is even more strongly geared towards sustainability. While general awareness of sustainability has increased dramatically most recently, we at Ekosem-Agrar have long since regarded it as the natural basis for our entrepreneurial activity.

Important aspects such as animal welfare, environmental awareness, regenerative methods for maintaining soil fertility and the development of rural areas with the help of social projects and targeted training programs for the local people have served as our corporate governance guidelines since our early years. We were a pioneer in organic farming in Russia and are currently converting several more of the Group's

STEFAN DUERR Chairman of the Board

conventional farms to organic farming. In autumn 2019, we started to produce and sell organic milk in order to participate in the trends towards healthy nutrition and sustainable production as a pioneer.

Going forward, we want to provide even more relevant information about our many and varied activities in the field of sustainability and integrate the topic even more strongly into the company's overall strategy. For this purpose, a structured sustainability management system is being developed and specific goals and fields of action are being defined on which we will regularly report in the future.

As we all know, agriculture and milk production are controversially discussed in the climate protection debate. New development methods for milk-like drinks from the bioreactor are being tested and plant-based drinks made from oats and soy are becoming increasingly popular. While we are closely watching these developments, we are convinced that natural milk will continue to be appreciated by many people as a staple and component of many foods. Especially in the emerging markets, milk consumption continues to grow steadily. We try to promote the image of agriculture also by offering tours of our facilities and by placing a clear focus on valuable ingredients and best quality.

In spite of the economic crisis caused by the pandemic, we look to the future with great confidence and believe that the measures taken by the Russian government to stabilize the economy will be effective and help maintain the purchasing power of the population. By the end of 2020, our dairy cow herd is expected to increase to around 110,000 animals; over the course of the current year, it should generate a total output of roughly 1 million tons of raw milk based on the projects initiated and planned.

I would like to thank you for your trust and look forward to continuing the dialogue with you – hopefully in person again soon.

Sincerely Yours

Stefan Dürr

ABOUT THE EKOSEM-AGRAR GROUP

Ekosem-Agrar AG, headquartered in Walldorf, is the German holding company of the EkoNiva Group, one of the largest Russian agricultural companies. The Group has successfully operated in the Russian agricultural sector for more than 20 years; as of 30 April 2020 its dairy farming production area had a total herd of almost 190,000 animals, including 103,475 dairy cows, which produce some 2,500 tons of milk per day. This makes the Group the largest producer of raw milk in Russia. Measured by the number of dairy cows, the Group is now one of the top 3 largest producers of raw milk in the world.* As of the end of April 2020, Ekosem-Agrar controls an agricultural area of approximately 600,000 hectares, making it one of the largest landowners in Russia.

Employing approx. 14,000 people, the Group has a presence in nine regions in Russia – above all in the Chernozem region, one of the most fertile regions in the world.

* IFCN, company information

DAIRY FARMING

Dairy farming is the core business of the Group and makes the largest contribution to sales revenues. In the fiscal year 2019, the 97,640 dairy cows (as of 31 December 2019) at the Group's Russian locations produced around 759,000 tons of raw milk.

As the Group continues to expand its milk production operations by building new dairy cow facilities, both the dairy cow herd and the raw milk output again increased sharply in the past fiscal year. A total of seven dairy cow facilities for about 26,000 dairy cows were completed in 2019, with another eleven facilities for some 40,000 dairy cows still under construction.

The raw milk produced is primarily sold to dairies. A smaller but growing share is processed by the Group's milk processing production area into dairy products for own distribution. The dairy farming operations also comprise the sale of the Group's own breeding cattle to agricultural businesses and dealers, the sale of animals no longer used for milk production to slaughterhouses and the sale of male calves to specialist fattening facilities.

CROP FARMING

All of the Ekosem-Agrar Group's Russian locations engage in crop farming, with the main focus on producing feed for its own herd. The most important feed crops are lucerne and maize. These are ensiled for preservation after the harvest to ensure that fodder for the Group's own herd is available all year long. Maize and soy are grown for the supply of concentrated feed. In addition, sugar beets, peas, oilseeds such as sunflowers and rapeseed, and other food crops are cultivated for sale to third parties. The fact that the farms are spread over several climatic zones prevents the risk of major crop failures due to unfavorable weather conditions.

The yields per hectare were mostly satisfactory in the 2019 season. Summer wheat, maize, soy and sunflowers delivered particularly good yields. During the harvest season, prices for many crops came under pressure, though. This was mainly due to a good supply situation in the world markets, which met with only moderate demand. With 1.9 million tons of lucerne and maize silage and 540,000 tons of grain produced in the fiscal year 2019, the supply of the herd is secured beyond the coming harvest season.

MILK PROCESSING

The expansion of the milk processing operations is being pursued with the highest priority. Four dairies in the Voronezh, Kaluga and Novosibirsk regions process around 250 tons of the raw milk produced in the dairy farming production area into dairy products each day. A large dairy with a daily processing capacity of 1,150 tons in the Novosibirsk region is currently under construction, as is a smaller cheese dairy in the Voronezh region. Two existing plants in the Kaluga and Voronezh regions are being modernized and their capacity expanded.

The dairies produce a wide range of traditional dairy products, including fresh milk, (drinking) yoghurt, sour cream, curd, desserts, cheese, UHT milk and butter. In autumn 2019, organic milk was added to the range. The dairy products are marketed under the EkoNiva umbrella brand as well as private labels in meanwhile over 2,000 independent shops, retail chains and own sales outlets.

As the raw milk for Ekosem-Agrar's products is exclusively produced in-house, the Group benefits from a unique selling proposition in the market and can therefore stand out from all major competitors. By processing its own milk, the Group reduces its exposure to the fluctuating price of raw milk and strengthens its negotiating position vis-à-vis the buyers of raw milk. The company aims to process nearly its total raw milk output internally in the medium term.

SEED PRODUCTION AND BREEDING

Some 42,000 tons of seed from the 2019 harvest sold to external buyers make the Group one of the largest seed producers in Russia. Ekosem-Agrar acquires licenses for specific varieties for exclusive reproduction and distribution in Russia, mainly for grain, grain legumes, grasses, clover and lucerne.

For several years, the company has also been breeding its own seeds. The first major success was recorded here in January 2020, when “Cepheus”, the first winter wheat variety bred by EkoNiva, was entered in the state register of varieties approved for use in Russia; Cepheus has since been exclusively reproduced and sold by the Group. The “Argenta” soy variety has also been approved in the meantime. Other varieties are currently still in the approval process.

In the past fiscal year, the company also carried out the first large-scale tests of maize hybrids for silage maize under Siberian conditions. These tests serve to identify varieties best adapted to the Siberian climate conditions. Important requirements for this include early ripening and resistance to cold. This should also enable the Group’s Siberian farms to produce silage maize going forward.

SUCKLER COW FARMING

Cattle for meat production, primarily of the Angus race, are kept on extensive pastures in Voronezh, Orenburg and Novosibirsk.

As of 31 December 2019, the suckler cow herd comprised approx. 2,790 animals.

The suckler cow operations allow Ekosem-Agrar to use pastures that are not suitable for crop farming. In the medium term, conventional suckler cow farming is to be converted to organic farming in more and more regions.

ORGANIC FARMING

Since 2015, Ekosem-Agrar has produced organic beef and various food crops of organic quality on the “Savinskaja Niva” farm in the Kaluga region. The products meet the requirements of both EU directives and Russian GOST standards for organic farming and are certified accordingly. Since autumn 2019, the farm has also produced organic raw milk, which is processed into organic dairy products by the Group’s own dairies. In total, the farm manages more than 6,000 hectares; 650 suckler cows are kept on extensive pastures for organic meat production, while 170 dairy cows produce organic raw milk (as of 31 December 2019).

Three other conventional Ekosem farms in the oblasts of Orenburg, Novosibirsk and Moscow are currently being converted to organic farming. The aim is to expand the agricultural land for cultivation to organic standards from 6,000 hectares to around 27,000 hectares. In the medium term, it is planned to expand the herds for organic suckler cow farming and organic dairy farming to 10,000 cattle and 1,500 dairy cows, respectively.

As the consumption of organic products is gaining importance also in Russia, Ekosem-Agrar aims to expand the production of organic food in order to position itself as a pioneer in this market, which is characterized by high-quality products and, consequently, attractive margins.

WE ARE A FAMILY, WE ARE A TEAM!

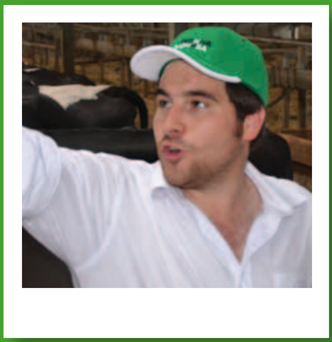
At the end of 2019, Ekosem-Agrar AG employed some 14,000 people in nine regions of Russia. We are convinced that our team is the most important success factor for the Group. That is why we pay special attention to our staff. In recent years, we have significantly increased our efforts to recruit and retain employees. By investing heavily in automation and workplace comfort, we promote the productivity and satisfaction of our employees. This way we want to live up to our aspiration of being one of the most modern agricultural companies in Russia.

The competition for motivated and qualified employees is high in Russia, as well. The Group has therefore launched a number of initiatives to win the best talents and to support their professional development. For instance, it has established its own popular scholarship and internship programs to seek the specialists of tomorrow. Some 1,500 students from various universities and colleges complete an internship at one of the Group's farms every year. In the context of a cooperation with local schools launched in 2018, special agricultural courses are offered to introduce the participating students to agricultural topics and give them the opportunity to gain practical experience on one of Ekosem-Agrar's farms.

A special focus is placed on the vocational and further training of the company's existing staff. The "EkoNiva Academy" further training program was launched back in 2010. In 2015, a training center was established in the Voronezh region, where experienced employees of the company pass on their knowledge to up-and-coming specialists and executives. Moreover, all departments regularly complete training courses with internal and external experts. At seminars and excursions to Western Europe, North and South America, specialists and executives can expand their competencies and identify the industry's latest best practice methods.

THIS IS WHAT OUR EMPLOYEES SAY:

RAMON SCHENK



Deputy Director General for Agricultural Production
I originally joined EkoNiva as a barn manager in February 2009, and until 2013, I helped to further develop the Sibirskaya Niva and build up the Borkovo dairy cow facility. Until 2018, I was Deputy Director General for Livestock Farming. In this role, I was instrumental in expanding the dairy cow herd from 15,000 to 100,000 animals, staffing new farms and increasing the output per cow from 20 to 30 kg per day. Since 2019, I have held responsibility for the entire production operations. It makes me proud to work with EkoNiva to revitalize Russia's RUBal areas by bringing jobs to these regions, providing a good income and thus improving the living standards of many local people.

RENATA SEREBRENNIKOVA

Head of the rearing facility for young cattle at the Kalushskaya Niva-South farm, Kaluga region
I started my career at EkoNiva as a veterinarian. Today, I am the manager of the rearing facility at the Kalushskaya Niva farm. During my training in the company, I was able to attend various courses in management, veterinary medicine and animal farming. I also participated in a training program for veterinarians in Germany. What fascinates me about EkoNiva is that the company is a pioneer in dairy farming, sets new industry standards and is thus a role model for many companies in Russia.

MARIA KANTEMIROVA

Head of the training center for animal farming at the holding company
In 2016, I took part in a trainee program with EkoNiva. Afterwards I was trained as a veterinarian and also held the position of senior veterinarian. Since March 2020, I have been responsible for managing the training center for animal farming in Kaluga. Working with animals is my vocation. But at EkoNiva, I have the chance to realize my potential not only as a veterinarian but also as a teacher. I have acquired numerous professional skills and extensive knowledge along the way, which I can now pass on to my colleagues. What I like most about working at EkoNiva is that we use very advanced technologies in animal breeding and that everything we do is done at a high professional level.

SERGEJ LYACHOV

Regional Director for the Siberian Region
I met Stefan Duerr in September 2006 after I had completed an APOLLO internship. After the internship, I received a scholarship from EkoNiva to participate in a trainee program in Germany. A year later I was employed at the first state-of-the-art dairy cow facility in the Voronezh region. I have been working in Siberia since 2010 and am currently the Regional Director there. Our company is in a phase of enormous growth. Thanks to the good vocational and further training of our employees and the fact that young, dynamic people constantly join our team, we are able to jointly master all challenges. For me personally, EkoNiva has long since been not only an employer, but also my second home.

Further employee comments under: https://www.ekosem-agrar.de/en/sustainability/employees/

HEALTHY ANIMALS FOR THE BEST MILK

Our cows are at the heart of everything we do. Their well-being therefore takes top priority for us. But animal welfare and high-quality feed are important also for a high milk output, as only healthy cows produce large quantities of milk and, most importantly, milk of high quality. And last but not least, animal welfare is one of the building blocks to promote the social acceptance of agriculture, which is very important to us.

All of Ekosem-Agrar's new dairy cow facilities feature large free-range sheds with daylight, natural ventilation and, most recently, also access to outdoor exercise areas.

Our well-trained employees, including around 300 veterinarians, constantly monitor the health status of the animals.

Ekosem-Agrar attaches great importance to feed quality and safety. That is why we grow all our feed ourselves.

Employees carry out analyses to ensure optimum feed quality in our own laboratories.

For many years Ekosem-Agrar has been organizing excursions to some of its dairy cow facilities at its sites in Voronezh, Kaluga and Novosibirsk so that everyone can see for themselves the well-being of our dairy cows.

As part of the project called "Academy of Dairy Science" to promote the image of agriculture, over 55,000 participants have already visited the Group's farms.

Every year, numerous international delegations, which include both farmers and business partners as well as high-ranking politicians, also visit the farms. The German Development Minister Gerd Müller, for example, visited a dairy farm of the Ekosem Group on a trip to Russia in April 2019.

EKOSEM-AGRAR ESTABLISHES A STRUCTURED SUSTAINABILITY MANAGEMENT SYSTEM

At Ekosem-Agrar, sustainability has been a natural basis for corporate action in many areas already in the past. Important aspects such as social responsibility and corporate citizenship, animal welfare, environmental awareness as well as diversity and equal opportunities in the training and qualification of employees serve as guidelines of corporate governance and have been on the company's agenda long before society started to become more and more aware of these issues.

Around 14,000 employees make us one of the largest employers in Russia's agricultural sector; being a major food producer, we are also one of the country's systemically important companies. At our nine regional locations, we support the establishment and development of infrastructure and various social facilities in many different ways, thereby creating new perspectives for people in RUBal and often less developed areas.

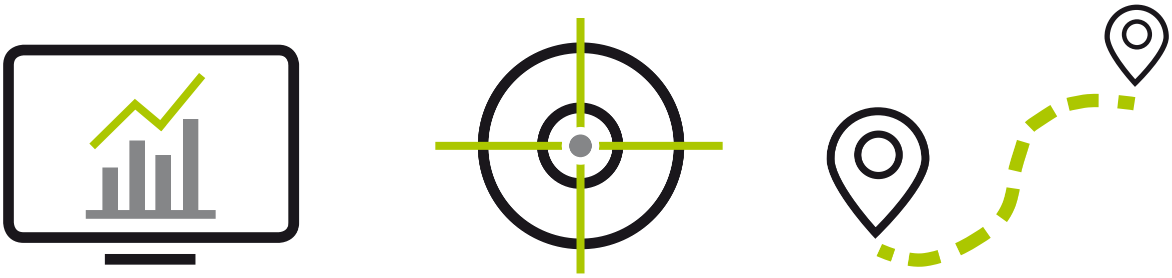
Ekosem-Agrar encourages the dialogue between east and west, both on a business and cultural level. Every year, several groups of visitors from abroad come to our farms. As part of our fully integrated business model, we use the most modern methods for crop cultivation, breed our own seeds and operate our core business areas of milk production and milk processing in accordance with the principles of sustainability and animal welfare. After all, animal welfare is a critical factor for the milk output and the consistent quality of our raw milk. Similarly, the cultivation of agricultural land is a sustainable task per se.

Moreover, Ekosem-Agrar is a pioneer in organic farming in Russia and was the first company ever to export organic products to Western Europe. Today, for instance, we supply German baby food manufacturer Hipp in Kaliningrad with organic beef. In addition to the organic farm Savinskaya Niva in the Kaluga region, which was certified to EU standards in 2015 and to Russian standards in 2019, three other conventional farms of the Group in the Orenburg, Novosibirsk and Moscow oblasts are currently being converted to organic farming, as the consumption of organic products is increasingly gaining importance also in Russia. By converting further farms to extensive suckler cow farming for organic meat production, this business segment is to be expanded, as is the production of organic milk. This will allow the company to participate in the trends towards healthy nutrition and sustainable production as a pioneer.

In line with the motto "Do good and talk about it", we want to provide even more information about our many and varied activities in the field of sustainability as of 2020 and integrate the topic even more strongly into the company's overall strategy. For this purpose, a structured sustainability management system will be developed and specific goals, fields of action and measurable criteria will be defined. In the future, we will report on our sustainable actions at regular intervals.

THE PROJECT SCHEDULE IS DIVIDED INTO THREE STEPS.

Analysis of relevant sustainability issues → Focusing & prioritization → Development of a sustainability roadmap



Development of a sustainability strategy for Ekosem-Agrar AG

For this purpose, a project was launched in the first quarter of 2020, in which first of all a status quo and benchmark analysis will be carried out with support from external sustainability experts; this will be followed by a materiality analysis to identify the most important issues for Ekosem-Agrar's business activities. Besides the internal view, the project team also focuses on the requirements of the company's stakeholders and the criteria of the German Sustainability Code (DNK). Further guidance is provided by the most widely used reporting standard, the Global Reporting Initiative (GRI), as well as the Sustainable Development Goals (SDG) of the United Nations as a generally respected target system.

The aim of the project is, as a first step, to define specific sustainability goals and measures, the implementation and progress of which will be regularly reported going forward. This process is also intended to consolidate the unmistakable brand image of EkoNiva, our corporate and product brand, as well as to further expand our good competitive position and address new investor groups with a focus on sustainability investments. Finally, we also want to make a contribution to developing standards for sustainable action in our core sector – agriculture – and to facilitate the corresponding assessment of agricultural enterprises.

Stefan Duerr, CEO of Ekosem-Agrar AG:

"As a major producer of food and one of the largest companies in the industry in Russia, Ekosem-Agrar has a responsibility to operate sustainably for the benefit of society, our employees, business partners, customers and investors. We want to live up to this responsibility and in future provide transparent and measurable information on the sustainability criteria that are relevant to our business."

A LOOK BACK AT 2019

JANUARY

The **EkoNiva** dairy brand is awarded the international **“Golden Cloverleaf”** award in the **“Best Milk”** category.

FEBRUARY

Stefan Duerr takes over as Chairman of the Russian National Association of Milk Producers.

MARCH

Stefan Duerr receives the Friedrich Joseph Haass Prize for German-Russian Understanding.

APRIL

Federal Development Minister **Gerd Müller** and his delegation visit the Voronezh region.

MAY

The **Ekosem-Agrar Group** presents its **EkoNiva dairy products** at the SIAL international food fair in Shanghai, China.

JUNE

“Elban”, Russia’s largest dairy cow facility for 6,000 dairy cows, is opened in Siberia.

JULY

Acquisition of a **3,200 ha** farm with the aim of developing the region around **St. Petersburg**.

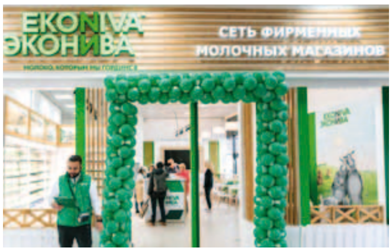
AUGUST

Ekosem-Agrar AG issues third **bond 2019/24** with a volume of EUR 40.6 million.

SEPTEMBER

The **EkoNiva range** is meanwhile available in over 2,000 sales outlets in Greater Moscow as well as the Kaluga and Voronezh regions.

OCTOBER



An **EkoNiva flagship store** is opened in Voronezh.

NOVEMBER

Internally produced **organic milk** with a fat content between 3.3% and 6% is added to the **EkoNiva range.**

DECEMBER

Forbes magazine puts **EkoNiva** on the list of the 10 best new brands of 2019 in Russia.

DECEMBER

The **EkoNiva Group** celebrates its **25th anniversary**.

Ekosem-Agrar AG, Walldorf
GROUP MANAGEMENT REPORT (IFRS) 2019

The Ekosem-Agrar company

The Ekosem-Agrar Group is one of the largest agricultural companies in the Russian Federation. As of 31 December 2019, the Group controlled an area of around 599,000 hectares. The herd in milk production comprised more than 182,210 animals, 97,640 of which were dairy cows.

GROUP MANAGEMENT REPORT

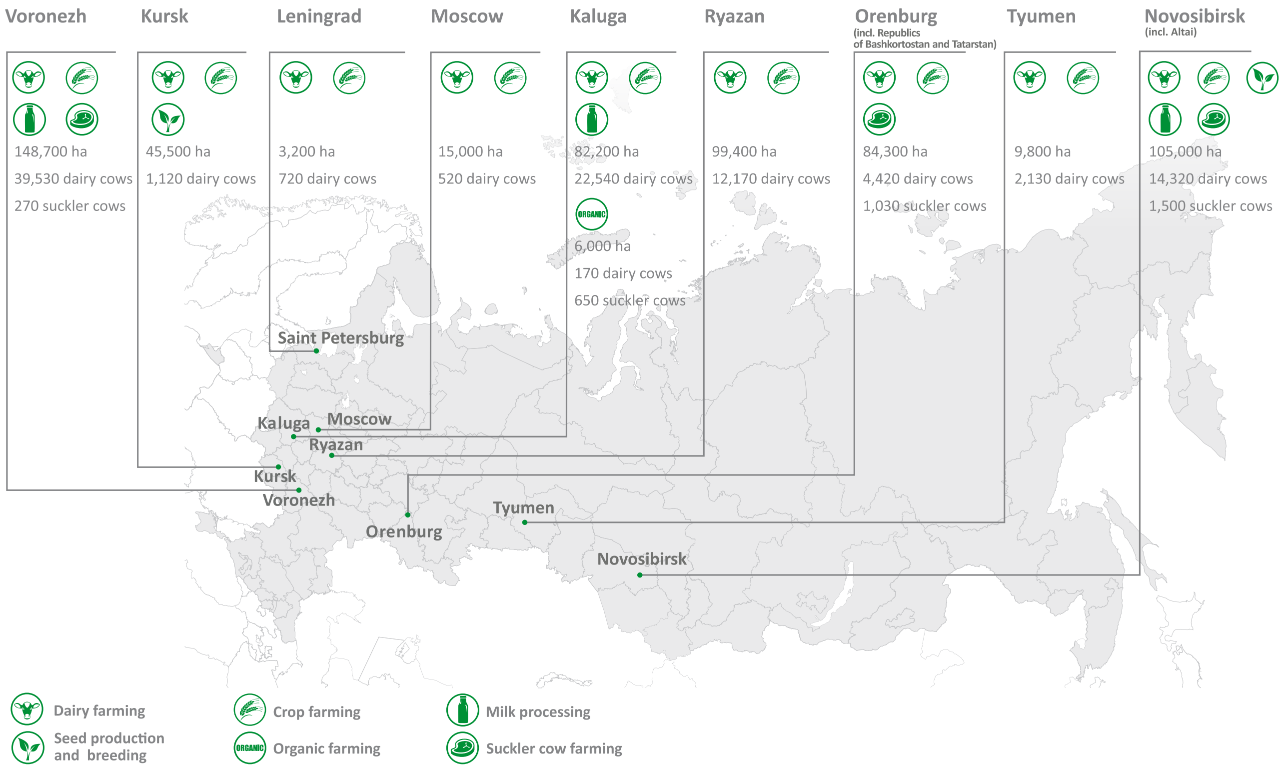
1. FUNDAMENTALS OF THE GROUP

1.1 Group structure and business model

The activities of the Ekosem-Agrar Group, hereinafter referred to as "Ekosem-Agrar" or "the Group", make it one of the largest agricultural companies in the Russian Federation (hereinafter also referred to as Russia).
As of the balance sheet date on 31 December 2019, the company had a herd of approx. 97,640 dairy cows – an increase of 55% on the previous year (2018: 63,100). Including the young cattle, the total cattle herd increased to approx. 182,210 animals (2018: approx. 133,060). As at the reporting date, the company controlled an agricultural area of approx. 599,000 hectares, which represents an increase of 19% on the previous year (2018: 504,000 hectares), of which approx. 53% (2018: 38%[1]) is owned by the Group.

Ekosem-Agrar AG is the parent and holding company of the Group. The company coordinates the activities of the subsidiaries and determines the strategic development. The Group's operations are exclusively based in the Russian Federation.

As at 31 December 2019, the Group had ten reportable operating segments. Agricultural production is divided into nine regional segments, which correspond to the nine regions of Voronezh, Kursk, Leningrad, Moscow, Kaluga, Ryazan, Orenburg, Tyumen and Novosibirsk. Nation-wide milk processing represents a separate segment. The following map shows the location of the nine regional business segments and the production areas represented in the respective regions.



(Land and animals as of 31 December 2019, production figures for the fiscal year 2019, figures rounded)

[1] Adjusted as of 31 Dec. 2019: 44%

Field work in the Voronezh region - By the end of 2019, Ekosem-Agrar controlled around 599,000 hectares of agricultural land.

The Group's business activity breaks down into six production areas, namely **dairy farming, crop farming, milk processing, seed production** and **breeding, suckler cow farming** and **organic farming**. This structure serves to better understand the activities of the Group. The production areas are not separately managed business units and no separate figures are recorded and posted for them for monitoring. An exact delimitation of the individual production areas is not possible, as there are flowing transitions between these areas. This does not affect the differentiation between segments (item 28 of the notes). The distribution of the production areas within the regional segments is shown in the overview map. Information referring to the production areas thus covers all business segments in which the respective production area is represented. The milk processing segment corresponds to the production area of milk processing.

The table below provides an overview of the Group's production areas:

Production area	Regions in Russia		Employees*		Foundation
Information as of 31 Dec.	2019	2018	2019	2018	
Dairy farming	9	7	5,048	3,702	2002
Crop farming	9	7	2,277	1,650	2002
Milk processing	3	3	929	676	2012
Seed production and breeding	2	2	114	88	2002
Suckler cow farming	3	3	79	56	2010
Organic farming	1	1	47	46	2012

* to the extent that employees can be clearly assigned to one of the production areas, i.e. excl. employees working in construction (31 December 2019: 2,149 employees; 31 December 2018: 1,712 employees) and in administrative functions (31 December 2019: 3,063 employees; 31 December 2018: 2,256 employees).

Dairy farming is the core activity of the Group. This area produces raw milk in nine regions of Russia and makes the biggest contribution to the Group's revenues. Around 90% of the dairy cows are kept in free range sheds (not tethered) with daylight. The dairy farming operations also comprise the sale of the Group's own breeding cattle to dairies, the sale of male calves to specialist fattening facilities and the sale of animals no longer used for milk production to slaughterhouses.

The **crop farming** production area primarily grows crops for the feed supply of the company's own herd. The most important feed crops are lucerne and maize. These are ensiled for preservation after the harvest to ensure that fodder for the Group's own herd is available all year long. Maize and soy are grown for the supply of concentrated feed. In addition, sugar beets, peas, oilseeds such as sunflowers and rapeseed, and other food crops are cultivated for sale to third parties. Ekosem-Agrar uses state-of-the-art technologies for crop farming.

Since autumn 2019, Ekosem-Agrar has also been producing own organic milk in under the umbrella brand „EkoNiva".

GPS-based precision farming applications are used to cultivate the individual fields in accordance with their specific requirements.

Milk processing is the production area whose development the Group is currently pursuing with the highest priority. Four dairies process part of the raw milk produced in the dairy farming area into dairy products. Moreover, several plants are under construction in order to successively expand the processing capacities for the Group's own dairy products in the future. The internally produced dairy products are sold under the nation-wide EkoNiva umbrella brand as well as own regional brands and private labels in the retail and hospitality sectors as well as the Group's own stores.

In the **seed production and breeding** area, the Group acquires variety licenses for exclusive reproduction and distribution in Russia. The company uses Russian, German and Canadian varieties and primarily produces seeds for grain, grain legumes, grass, clover and lucerne. The Group also works on the hybridization of maize and intends to further expand these activities. For several years, the company has also been breeding its own seeds.

Suckler cow farming comprises traditional pasture feeding for meat production at the company's locations in Voronezh, Orenburg and Novosibirsk. Most of the animals kept for meat production are of the Angus race. While the male calves are sold to fatteners at the age of six to nine months, the suckler cows and female calves are kept in the herd.

The company's **organic farming** operations in the dairy farming, milk processing and suckler cow farming areas produce organic beef and organic milk in the Kaluga region. In contrast to conventional farming, hardly any synthetically produced pesticides, mineral fertilizers and antibiotics are used. While the meat is sold to external customers, the Group processes the raw milk into its own organic products. In addition, various organic food crops are cultivated. The entire production is certified by independent testing institutes according to the EU Eco Regulation and the Russian GOST guidelines.

Organic farming: In the Kaluga region, 650 suckler cows were kept in extensive pastures for organic meat production in 2019.

1.2 Objectives and strategies

The performance of the Group is largely dependent on the performance of the individual production areas in the business segments. The Group defines strategic objectives for its segments in its plans and budgets. Strategies are determined for the achievement of these objectives. The Group pursues consistent strategies for the production areas within the segments. The planning is updated regularly, taking into account aspects such as current market developments, the competitive position of the Ekosem-Agrar Group and the political framework conditions. On the following pages, the objectives and strategies of the individual segments are aggregated for the production areas.

Dairy farming: The Ekosem-Agrar Group aims to defend and expand its leading position[2] in the Russian raw milk production sector. To achieve this goal, raw milk production is to be further expanded on the basis of continued government support. The company wants to increase not only the number of animals in the dairy cow herd, but also the average milk output per animal. Important factors here are genetics, feed quality, plant management and animal comfort. To secure the supply of the Group's own raw milk to both existing and future dairies, the Group pursues a strategy of having the necessary number of dairy cow facilities in all target regions.

Crop farming: Securing the feed supply for the company's own dairy cow herd is the primary objective of the crop farming operations. As the productivity of the dairy cow herd hinges on the quality of their feed, special attention is paid to continuously improving the cultivation methods and the selection of varieties for the fodder crops. In addition, the production of food crops makes a substantial contribution to sales revenues. The seed operations in Kursk and Novosibirsk give the Group direct access to varieties that are matched to the climatic conditions in Russia.

Milk processing: By establishing its own milk processing operations, Ekosem-Agrar aims to push ahead with the vertical integration of its business model. The internal milk processing facilities allow the Group to reduce its exposure to the price of raw milk and to further strengthen its negotiating position towards the buyers of raw milk. The company aims to process its total raw milk output internally in the medium term. For the market entry, the Group relies on cooperation

[2] *see source list*

with large retail chains. For example, the German Globus Group and the Russian X5 Group are among the customers of the milk processing area. Moreover, the Group cooperates with the restaurant sector and supplies its products to the restaurants of KFC and McDonalds, among others. The aim of the Ekosem-Agrar Group is to become the leading fully integrated supplier of dairy products in Russia.

Seed production and breeding: Apart from supplying its seeds to the Group member companies and selling them to third parties, this production area also focuses on the development of new varieties. The Group regards the in-house seed breeding activities – which are partly conducted in cooperation with foreign breeding companies – as a long-term investment that will secure Ekosem-Agrar's position in the Russian seeds market.

Suckler cow farming: The suckler cow farming operations use land that is not suitable for crop farming for the production of beef. The sufficient availability of suitable land makes the Orenburg and Novosibirsk regions particularly well suited for this form of extensive animal farming. Conventional suckler cow farming in the Orenburg and Novosibirsk regions is to be converted to organic farming within the next two years.

Organic farming: By producing and marketing organically produced food, the Group aims to participate in the social development in Russia towards a healthier lifestyle. Since 2019, the Group has also produced raw milk from organically kept dairy cows. These operations are to be further expanded.

1.3 Control system

Corporate planning and control is primarily based on the following financial performance indicators: *sales revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) as well as earnings before interest and taxes (EBIT; operating result). EBITDA are the result from operating activities plus depreciation and amortization.* In order to obtain adjusted EBITDA and adjusted EBIT, the lucky buy effects (2019: EUR 21.6 million; 2018: EUR 1.0 million) are deducted from these figures.[3]

In addition, the non-financial performance indicators *number of dairy cows, raw milk output and quantity of internally processed raw milk* are also considered essential for Group planning and control, as they have a significant impact on the Group's financial results.

The seed varieties for winter wheat ("Cepheus") and for soy ("Argenta") developed by the Group have been registered in the Russian state register of varieties and may thus be reproduced and marketed exclusively.

[3] For further explanations, please refer to chapter 2.3

1.4 Research and development

The seed varieties for winter wheat (“Cepheus”) and for soy (“Argenta”) developed by the Group have been registered in the Russian state register of varieties and may thus be reproduced and marketed exclusively by the Group going forward. The “Cepheus” winter wheat variety is characterized by its frost resistance and high yield potential (8 - 10 tons/ha) as well as by its distinct robustness and adaptability, which are important for the Russian market.[4] “Argenta” is an early-ripening, GMO-free soy variety with a high yield potential (4 tons/ha) and a protein content of up to 42%. In seed breeding, Ekosem-Agrar cooperates with Saatzucht Bauer GmbH & Co. KG, Obertraubling, from Bavaria, Germany. It is planned to intensify this cooperation going forward with a view to swiftly expanding the portfolio of own varieties.

In cooperation with Zürn Harvesting GmbH & Co. KG, Schöntal-Westernhausen, from Germany, precision farming applications have been tested in the Kursk region for the local variety trials. Seeding in the trial plots was carried out by means of GPS-based automatic vehicle control. The full automation of the seeding process is expected to yield more precise results and more economical processes in the future.

In the past fiscal year, the company carried out the first large-scale tests of maize hybrids for silage maize under Siberian conditions. These tests serve to identify varieties best adapted to the Siberian climate conditions. Important requirements for this include early ripening and resistance to cold. This should also enable the Group’s Siberian farms to produce silage maize going forward.

Various new products were developed and launched in the market in the past fiscal year under the “EkoNiva” brand, the Group’s umbrella brand for dairy products. These include “Snezhok”, a traditional sour milk drink that is very popular in Russia, an ice-cream that uses only natural ingredients as stabilizers, new flavors for the curd desserts and drinking yogurts of the fitness line, and a pasteurized whole milk that is certified as an organic product in accordance with both Russian and European standards.[5]

After successful modernization, the „Anna“ dairy in the Voronezh region will have a daily processing capacity of approx. 300 tons of raw milk.

[4-5] *see source list*

2. ECONOMIC REPORT

2.1 Economic environment

Overall economic trend

According to information published by the International Monetary Fund (IMF) in April 2020, the global economy grew by 2.9% in 2019. A growth rate of 1.7% was published for the industrialized economies. Growth continued to slow down last year both in Europe and in Germany. While the eurozone economy grew by 1.2%, the German economy expanded by only 0.6%. The emerging and developing countries increased their economic output by 3.7%. In Russia, the main market of the Ekosem-Agrar Group, the economy slowed down again after a stronger year 2018 (2.3%) and reached a growth rate of 1.3% in 2019.[6]

Inflation in Russia stood at 5.0% at the beginning of the past fiscal year, rising slightly to 5.3% by March, before declining steadily until the end of the year to 3.0% in December 2019. The average inflation rate in the reporting year was 4.5% (2018: 2.9%).[7]

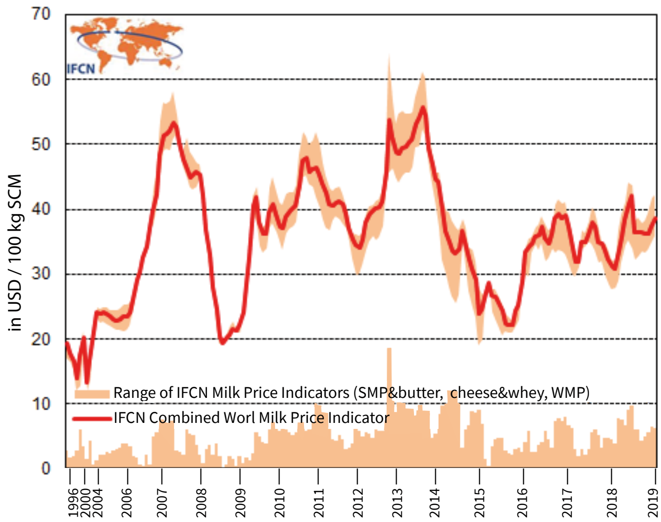
Developments in the global milk market

Global production of raw milk (all types of milk) in 2019 is estimated at 849 million tons, an increase by around 11 million tons compared to the previous year (2018: 838 million tons).[8] At 1.3%, growth in the past fiscal year was thus slightly lower than in the previous year (1.6%).

The milk output in the world's most important producer regions[9] reached 292.5 million tons in 2019, about 0.5% more than in the previous year (2018: 291 million tons). This means that output growth in these regions more than halved compared to the previous year (2018: 1.3%). With the exception of Australia, however, which suffered a 4.6% decline, all regions were able to increase their output at least slightly by between 0.1% (New Zealand) and 0.9% (Argentina).[10]

As the output in the world's leading producer regions was increased only to a limited extent, the combined world milk price was firmer in the first half of 2019 and quickly stabilized again after a temporary decline at the beginning of the second half of 2019.

World Milk Price Indicator[11]



Developments in the Russian milk market

The Russian milk market is still characterized by structural undersupply. This means that less milk is produced and processed in Russia than is consumed. This deficit is covered by the import of dairy products, especially cheese, butter, condensed milk and milk powder. In 2019, products with a raw milk equivalent of an estimated 7.0 million tons were imported into Russia, which represents an increase of 7% on the previous year (2018: 6.5 million tons). The total amount of marketable milk[12] produced in Russia reached a new record of 22.2 million tons (2018: 21.5 million tons). Average per capita milk consumption in Russia in 2019 was up by 3.3% on the previous year.[13] Due to the rise in imports, the degree of self-sufficiency fell slightly from 77% in 2018 to 76% in 2019. Belarus remains the largest importer of dairy products to Russia. At 73%, however, Belarus' share of milk imports in the first ten months of the past year was around 7% below the previous year's figure. The production of marketable milk by Russian agricultural enterprises, i.e. excluding milk from farms and households, in 2019 is estimated at 16.1 million tons. This figure exceeds the previous year's 15.4 million tons by roughly 5%. This means that the Ekosem-Agrar Group held a share of 4.7% of the market for marketable milk from Russian agricultural companies in 2019 (2018: 3.1%). The relatively low percentage shows that the raw milk production sector in Russia – similar to other countries – is highly fragmented.[14]

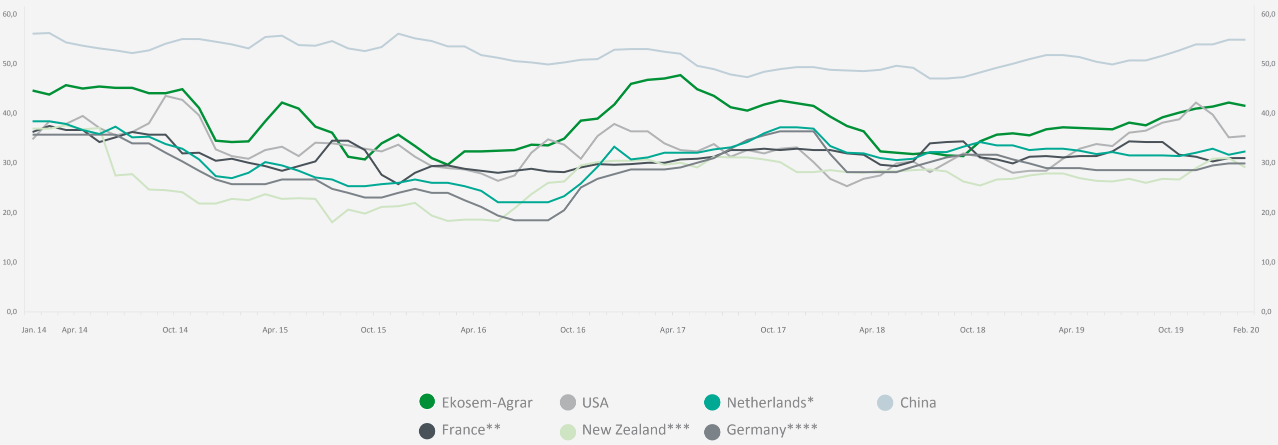
6-11 see source list

[12] Marketable milk from agricultural enterprises, RUBal farms and households
13+14 see source list

This undersupply of domestically produced milk is one of the reasons why raw milk prices in Russia have usually been higher than in other regions of the world, although they tended to move in the same direction as world market prices.

The problem of numerous milk-processing companies in Russia replacing milk fat in their production with cheaper palm fat has eased slightly in the past fiscal year. This is primarily due to the fact that government agencies have taken more aggressive action against such plagiarism.[15] Management believes that these measures have had a positive effect on the price of raw milk in Russia. In the past fiscal year, the price trend of raw milk in Russia was positive for the Group. While the milk price still averaged 35 euro cents (excluding VAT) in the fiscal year 2018, it rose to an average of just under 40 euro cents in the past fiscal year. In the current year, the milk price declined from over 41 euro cents at the beginning of 2020 to approx. 37 euro cents on 30 April 2020. This is due, on the one hand, to the weakness of the ruble caused by the low oil price, and, on the other hand, to the seasonally lower milk prices towards mid-year resulting from increasing milk deliveries.[16] As important milk products such as milk powder and butter are traded in dollars and euros in the world markets, the Russian milk price used to pick up in response to a weaker ruble in the past. This is why the Management Board expects ruble-denominated milk prices to increase if the weakness of the ruble persists.

Raw milk purchase prices[17]
(3.7% fat, 3.2% protein) in euro cents excluding VAT



* Friesland Campina
** Danone
*** Fonterra
**** DMK

15 *see source list*
16 The typically high number of calves born in the spring and the availability of pasture feed lead to an increase in milk production
17 *see source list*

In the fiscal year 2019, the dairy herd was expanded to 97,640 animals - an increase of 55% over 2018.

2.2 Business performance

General performance of the Ekosem-Agrar Group

The Ekosem-Agrar Group continued to grow in the reporting period. The Group generated noticeably higher earnings at the financial and operating level. At 97,640 animals, the forecast of over 100,000 dairy cows as of 31 December 2019 was missed only by a very narrow margin, which is attributable to the fact that the Group slowed down the implementation of construction projects for new dairy cow facilities. As a result, the mark of over 100,000 dairy cows was only reached in February 2020. Consequently, the Group's raw milk output of 759,000 tons was 5% below the target of over 800,000 tons. Sales revenues reached EUR 402.7 million (2018: EUR 244.9 million), adjusted[18] EBITDA amounted to EUR 167.0 million (2018: EUR 116.1 million) and adjusted[18] EBIT totaled EUR 92.5 million (2018: EUR 74.2 million).

Total output (revenue plus changes in the balances of fall-ploughed land and of agricultural produce and biological assets as well as other operating income) increased noticeably from EUR 377.6 million to EUR 586.1 million. Due to acquisitions made, total output includes income from valuation gains ("lucky buy"). These amounted to EUR 21.6 million in the year under review (2018: EUR 1.0 million). This results in an adjusted[18] total output of EUR 564.5 million for the fiscal year 2019 (2018: EUR 376.5 million).

As in the previous years, revenues were primarily driven by raw milk production, whose share in total revenues climbed to 63% (2018: 56%). At 19%, the share in revenues accounted for by grain and other agricultural products changed only slightly compared with the previous year (2018: 20%). Major progress was achieved in milk processing, the youngest business segment of the Group. Even though the percentage share in revenues decreased from 11% to 10% compared to the previous year, milk processing revenues increased noticeably in absolute figures. This effect is attributable to the strong expansion in raw milk production. By converting and expanding its own processing capacity, the Group implements its strategy to expand its depth of value creation in the milk production sector and to become the leading vertically integrated supplier of dairy products in Russia.

[18] For further explanations, please refer to chapter 2.3

Business performance in the production areas

On the following pages, the business performance of the Group is described by means of the six production areas, which, as described above, break down as follows over nine reportable regional segments as at the reporting date of 31 December 2019.

The company's **dairy farming** operations clearly increased their output compared to the previous year. A raw milk output of roughly 759,000 tons (2018: 484,000 tons) made the Group the largest raw milk producer in the Russian Federation and Europe in the fiscal year 2019.[19] This is primarily attributable to the expansion of the dairy cow herd in Voronezh, Kaluga, Ryazan, Orenburg and Novosibirsk. As at the balance sheet date, the company had 97,640 dairy cows at nine locations in Russia. The productivity of the animals was also increased, with the annual output[20] per dairy cow rising from an average of 9,030 kg in the previous year to 9,260 kg in 2019. Dairy farms which have already been operated for several years achieve annual average milk outputs of up to 10,900 kg per animal. In terms of the number of dairy cows, the Ekosem Group is already among the three largest private raw milk producers in the world.[21] In the past year, the largest part of the raw milk produced in the Group's facilities was sold to third parties; only a relatively small portion was internally processed into dairy products.

A total of seven dairy cow facilities with space for about 26,000 cows were completed in 2019. Due to the occupancy of new dairy cow facilities that had been completed before the past fiscal year, it was possible to increase the number of dairy cows beyond the number of new shed spaces. Another eleven facilities for some 40,000 dairy cows are currently under construction. Consequently, the dairy cow herd and the amount of raw milk produced will again increase sharply also in the current fiscal year.

Due to the expansion of the agricultural area, the **crop farming** operations were able to also expand the area for sowing. Consequently, some 1,926,000 tons of lucerne and maize silage were produced (2018: 1,437,420 tons) and a good 540,000 tons of grain (2018: 323,000 tons) were harvested in the reporting period. This secures the herd's feed supply until the next harvest period.

The Group's **milk processing** operations focused on further developing the market in the past fiscal year. The number of sales outlets was increased from 200 to over 2,000. Products of the proprietary "EkoNiva" umbrella brand are now available in Greater Moscow but also in the Kaluga, Voronezh and Saint Petersburg regions. As new supply contracts were signed, the Group was able to increase the availability of its

In autumn 2019 the first EkoNiva brand café was opened in Voronezh.

[19+21] see source list
[20] Calendar year

products in nation-wide retail chains and the restaurant sector. To increase awareness of and demand for the EkoNiva brand, the company placed commercials on TV and social platforms. The product portfolio meanwhile comprises over 50 articles, including fresh milk with different fat content as well as organic and long-life milk, drinking and organic yoghurt, desserts, kefir, sour cream, curd, butter and cheese. The volume of raw milk processed by the company itself increased slightly to 66,000 tons compared to the previous year (2018: 62,000 tons).

Selling some 42,000 tons of seeds to external customers, the **seed production and breeding** area exceeded the previous year's result (2018: approx. 29,930 tons). As in the previous year, the production area focused in particular on its research and development activities (see chapter 1.4).

In the **suckler cow farming** area, the number of conventionally kept breeding cows increased from 2,413 at the end of 2018 to 2,794 at the end of the past fiscal year. In total, the cattle herd for conventional suckler cow farming comprised 6,203 animals (2018: 4,847).

The **organic farming** operations were further expanded in the past fiscal year, with the Savinskaya Niva farm in the Kaluga region starting to produce raw milk. The milk is processed into EkoNiva branded organic products by the company's own dairy, which is located nearby. In the past, the farm produced only organic beef and organic food crops. Three other Group operations in the Moscow, Orenburg and Novosibirsk regions are currently in the process of converting from conventional to organic farming.

Business performance in the regions

By far the largest location of the Group lies in the Voronezh region. Some 39,530 dairy cows were kept here as at the reporting date (previous year: 30,800). They produced approx. 332,000 tons of raw milk (previous year: approx. 233,000 tons). External sales totaled EUR 150.3 million and the operating result amounted to EUR 40.0 million.

The farm in the Kursk region primarily specializes in the production of seeds. Its agricultural area was expanded from 36,000 to 45,500 hectares in the past fiscal year. The number of dairy cows doubled compared to the previous year, but is relatively low in absolute terms at 1,120 animals.

The takeover of an agricultural business allowed the Group to make inroads into the Leningrad region, which surrounds St. Petersburg, Russia's second largest city with a population of around 5 million. With some 3,200 hectares and 720 dairy cows, this operation is relatively small.

As at the end of the previous year, the farm in Moscow had 15,000 hectares. The first modern dairy cow facility for 3,550 animals is currently being built here.

The Kaluga region was characterized by strong growth, as in the previous year. The agricultural area was expanded noticeably from 58,000 to 82,200 hectares, while the number of dairy cows rose from 17,100 in the previous year to 22,540 animals. Accordingly, the milk output increased from about 131,000 tons to over 198,000 tons. External sales totaled EUR 65.6 million and the operating result amounted to EUR 14.5 million.

In the Ryazan region, additional land could be acquired. As a result, the total area increased from about 88,500 hectares in the previous year to 99,400 hectares at the end of 2019. As new dairy cow facilities were taken into operation, the herd of dairy cows more than tripled from 3,660 to 12,170 animals. The milk output was more than doubled from 32,000 to 69,000 tons. External sales totaled EUR 40.2 million and the operating result amounted to EUR 20.5 million.

In the Orenburg region (including the Republics of Bashkortostan and Tatarstan), the Group increased its area from 76,800 to 84,300 hectares in the fiscal year. As the company began to expand the location into a dairy farm in the previous year, the herd of dairy cows has grown from 380 to 4,420 animals.

In the Tyumen region, the agricultural area was increased from 5,300 to 9,800 hectares, while the number of dairy cows rose only slightly to 2,130 animals.

In the Novosibirsk region (including the Altay region), the area was again expanded noticeably as in the previous year, this time from 78,600 to 105,000 hectares. As a result of the increase in the number of dairy cows from 8,710 animals to 14,320 animals, milk production rose from 63,000 tons to 108,000 tons. External sales totaled EUR 43.9 million and the operating result amounted to EUR 21.6 million.

New dairy cow facility in the Kaluga region - In 2019 the Group completed a total of seven modern dairy cow facilities.

2.3 Results of operation, financial and net assets position

a) Results of operation

Significant increase in sales revenues due to expansion of milk production

In the fiscal year 2019, the Ekosem-Agrar Group increased its sales revenues by about 64% to EUR 402.7 million (2018: EUR 244.9 million), which is within the upper third of the planned range of EUR 380 million to EUR 410 million. Total output (revenue plus changes in the balances of fall-ploughed land and of agricultural produce and biological assets as well as other operating income) was up by around EUR 208.6 million to EUR 586.1 million; adjusted for the lucky buy effect (EUR 21.6 million), total output in the year under review amounted to EUR 564.5 million. This includes an increase of EUR 13.8 million in the value and inventory of agricultural products and biological assets due to the growth of the company as well as an increase of EUR 18.1 million in other operating income due to further subsidies and grants. In the fiscal year 2018, total output amounted to EUR 377.6 million or EUR 376.5 million adjusted for the lucky buy effect in the amount of EUR 1.0 million. Adjusted total output hence increased by approx. 50%.

The lucky buy effect, which already occurred in previous periods, is the result of the fair value measurement of newly acquired assets. If the value of the asset, as determined by an external appraiser, exceeds its acquisition cost, the difference must be recognized in the income statement. Due to the Group's acquisition activities, such measurement effects frequently occurred in the past.

In the period under review, the average raw milk price in Russia stood at close to 40 euro cents (excluding VAT), which was clearly above the previous year's 35 euro cents (for the reasons, see chapter 2.1). The average exchange rate for the fiscal year 2019 was RUB/EUR 72.5021, which was only slightly below the exchange rate of the previous year (2018 average: RUB/EUR 73.9546). This results in a positive effect of 2% on euro-denominated sales revenues compared to the exchange rate of the previous year. As of 31 December 2019, the closing rate stood at RUB/EUR 69.3406, compared to RUB/EUR 79.4605 on 31 December 2018. This means that an unchanged ruble value on both balance sheet dates would have increased the euro amount of the balance sheet items by close to 15%.

Group results

KPI	2019	2019, adjusted*	2018	2018, adjusted*	Change 2019/2018, adjusted
Sales revenues	EUR 402.7 million		EUR 244.9 million		64.4%
Total output	EUR 586.1 million	EUR 564.5 million	EUR 377.6 million	EUR 376.5 million	49.9%
EBITDA	EUR 188.7 million	EUR 167.0 million	EUR 117.1 million	EUR 116.1 million	43.8%
EBIT	EUR 114.1 million	EUR 92.5 million	EUR 75.2 million	EUR 74.2 million	24.7%
Net income for the year	EUR 36.0 million	EUR 14.4 million	EUR 19.7 million	EUR 18.7 million	-23.0%
Daily milk output per milked cow	28.4 kg		27.8 kg		2.2%

*adjusted for other income from valuation gains ("lucky buy")

As in the previous year, the sale of raw milk made the biggest contribution to the Group's revenues. It climbed from EUR 138.1 million in 2018 to EUR 255.5 million in 2019 (+85%). Revenues from milk processing increased by 39% to EUR 38.3 million in the reporting period (2018: EUR 27.6 million). The sale of grain and other agricultural plant products generated sales revenues of EUR 78.0 million in the period under review (2018: EUR 49.4 million). This strong increase was achieved primarily thanks to an increase in the area sown, growing seed production and good yields for individual crops. At EUR 18.6 million (2018: EUR 18.3 million), livestock and animal products made roughly the same contribution to sales revenues as in the previous year. The segments' revenues are shown under item 28 in the notes.

The **result from operating activities** (EBIT) improved from EUR 75.2 million (adjusted: EUR 74.2 million) to EUR 114.1 million (adjusted: EUR 92.5 million). At EUR 188.7 million or adjusted for the lucky buy effect at EUR 167.0 million, earnings before interest, taxes, depreciation and amortization (EBITDA) were clearly up on the previous year (EUR 117.1 million, adjusted: EUR 116.1 million). This is equivalent to an adjusted EBIT margin of 16% (2018, adjusted: 20%) or an adjusted EBITDA margin of 30% (2018, adjusted: 31%).

The **cost of materials** totaled EUR 211.9 million in the year under review (2018: EUR 141.1 million). This significant increase is mainly the result of higher expenses relating to the Group's operational growth and the related additional expenses for purchased fodder, wear-and-tear parts, pesticides and fertilizers as well as fuels and lubricants. Moreover, additional cost of materials is incurred in the fast growing milk processing area, e.g. by the purchase of fruit preparations and packaging.

At the end of 2019, Ekosem-Agrar AG employed around 14,000 people in nine regions in Russia.

Personnel expenses climbed from EUR 64.4 million to EUR 101.7 million in the reporting period, which is equivalent to an increase by approx. 58%. These additional expenses are primarily attributable to the increase in the number of employees resulting from acquisitions and operational growth. As of the reporting dates, the number of employees rose from 10,186 (2018) to 13,706 (2019); in terms of average headcount (full-time equivalents), the increase was even more pronounced, from 8,742 to 13,027 employees.

Depreciation/amortization rose from EUR 41.9 million to EUR 74.5 million. This was mainly due to the significant increase in property, plant and equipment.

Financial expenses increased by around 55% from EUR 55.6 million to EUR 85.7 million. Interest expenses, netted against government subsidies, climbed from EUR 48.98 million in the previous year to EUR 77.6 million in the reporting period. Translation-related exchange gains were worth EUR 0.8 million (previous year: exchange loss of EUR 1.0 million).

As a result of the above developments, the Group's earnings after taxes amounted to EUR 36.0 million or adjusted for the lucky buy effect to EUR 14.4 million. In the previous year, the comparable adjusted consolidated earnings amounted to EUR 18.7 million, unadjusted to EUR 19.7 million.

b) Financial position

The Group's centrally administered financial management ensures that the financing requirements of all companies in the Group are sufficiently covered at all times. This holds true for both current business activities and investment projects. The underlying financing plan encompasses all significant companies and is updated on a rolling basis. In addition, the Group prepares up-to-date cash projections.

Payment terms reflecting standard industry practice as well as bank guarantees are important instruments for its cooperation with suppliers. On the customer side, the Group has individualized agreements with customers in the milk processing segment.

Operating cash flows before changes in working capital amounted to EUR 51.8 million in the reporting period (2018: EUR 11.1 million). The change in working capital in the amount of EUR 45.6 million (2018: EUR 24.4 million) is essentially due to the rise in trade receivables (EUR 23.8 million) as well as other liabilities (EUR 8.9 million).

Interest payments of EUR 78.8 million (2018: EUR 59.3 million) and government interest subsidies received of EUR 9.3 million (2018: EUR 15.5 million) resulted in a net cash inflow from operating activities in the amount of EUR 23.3 million (2018: net cash outflow of EUR 16.7 million).

At the bottom line, the relatively low operating cash flow reflects the Group's continued growth and the associated increase in current assets. The company is keeping an eye on this development and manages it actively.

Net cash used for **investments** in property, plant and equipment amounted to EUR 295.2 million in the reporting period (2018: EUR 321.4 million). Subsidies received for the purchase of property, plant and equipment totaled EUR 37.2 million (2018: EUR 42.5 million). Net cash used for equity investments totaled EUR 28.6 million (2018: EUR 35.7 million). The main investments were made in the Voronezh, Kaluga and Novosibirsk segments.

Net cash provided by **financing activities** amounted to EUR 311.0 million (2018: EUR 406.2 million). The main items are proceeds from borrowings in the amount of EUR 746.5 million (2018: EUR 649.4 million) as well as repayments of borrowings of EUR 397.7 million (2018: EUR 219.0 million). This resulted in net borrowings of EUR 348.7 million (2018: EUR 430.4 million). The high incoming and outgoing payments are due to the short-term loans, which are regularly repaid to the Russian banks and then extended again by the latter. For further information, see point 2.3 c) Net assets position and 4.2 Risk report, liquidity risk.

c) Net assets position

To analyze the balance sheet, the influence of the change in exchange rates must also be taken into account. The ruble/euro exchange rate stood at RUB/EUR 69.3406 on 31 December 2019, up by approx. 13% on the RUB/EUR 79.4605 recorded on 31 December 2018. This results in a positive exchange rate effect on the valuation of the assets in euros. Compared to the previous year, total assets were up by approx. EUR 846 million. As of 31 December 2019, total assets stood at EUR 2.20 billion (31 December 2018: EUR 1.36 billion). Besides the exchange rate impact described above, the rise in total assets is primarily due to the increase in property, plant and equipment resulting from the investment program.

Non-current assets amounted to EUR 1.82 billion as at the reporting date, up 72% on the reference date (31 December 2018: EUR 1.06 billion); in exchange rate adjusted terms, they increased by approx. 50%. Property, plant and equipment, i.e. mainly buildings (incl. buildings under construction) and agricultural land amounted to EUR 1.17 billion as at the reporting date (31 December 2018: EUR 746.6 million). As of 31 December 2019, the Group cultivated some 599,000 hectares (31 December 2018: approx. 504,000 hectares). As at the balance sheet date, 53% of the total land area was owned by the Group (31 December 2018: 44%), while lease is paid for the remaining land area. Non-current biological assets, which include the dairy cows and pregnant heifers, climbed 77% from EUR 255.9 million in the previous year to EUR 453.2 million in the reporting year. This growth was mainly attributable to the expansion of the herd, with productivity increases and currency effects also playing a role. Non-current financial assets totaled EUR 47.1 million (31 December 2018: EUR 24.4 million), of which approx. EUR 26 million relates to a receivable from a related party. Cash and cash equivalents for the acquisition of non-current assets amounted to EUR 21.8 million (31 December 2018: EUR 8.4 million).

The internally produced dairy products are sold under the nation-wide EkoNiva umbrella brand as well as own regional brands and private labels in the retail and hospitality sectors as well as the Group’s own stores.

Current assets were worth EUR 384.3 million on 31 December 2019, up 30% on the previous year’s EUR 296.3 million. This was mainly due to an increase in inventories, tax receivables as well as other current assets. Current biological assets, i.e. field inventories and male cattle, amounted to EUR 9.8 million (31 December 2018: EUR 8.0 million).

The Group’s **equity capital** totaled EUR 316.5 million in the fiscal year, up by close to 82% on the previous year’s EUR 174.3 million. The increase is mainly attributable to the rise in revaluation and revenue reserves resulting from the complete revaluation of the Group’s land and buildings as of 30 September 2019. Such a revaluation regularly takes place every three years. The equity ratio stood at 14.4% (31 December 2018: 12.9%).

Total liabilities amounted to EUR 1.88 billion on the balance sheet date, which represents an increase of 59% (31 December 2018: EUR 1.18 billion). Non-current liabilities (EUR 1.21 billion; 31 December 2018: EUR 788.4 million) primarily comprise financial liabilities in the amount of approx. EUR 810.7 million (31 December 2018: EUR 591.3 million) and deferred income for subsidies received for future periods in the amount of EUR 326.3 million (31 December 2018: EUR 180.1 million). As of the reporting date, EUR 171.2 million of this amount related to the three euro corporate bonds (2018: EUR 129.3 million).

Current liabilities amounted to approx. EUR 671.0 million on the reporting date (31 December 2018: EUR 370.4 million) and consisted primarily of current financial liabilities in the amount of around EUR 378.5 million (31 December 2018: EUR 216.7 million) as well as current trade payables in the amount of EUR 138.4 million (31 December 2018: EUR 63.6 million). Current financial liabilities essentially comprise loans from Russian banks which the company refinances regularly. Using short-term loans (up to one year) for financing is current practice, as long-term loans are usually available only for infrastructure and project financing purposes. Experience has shown that the banks make the repaid loans available again in a timely manner.

In the reporting year, all liabilities due as well as interest on bank loans and corporate bonds were paid as planned.

As management sees further growth opportunities in the near future, various other financing options are currently being reviewed. This comprises both equity and debt capital and covers the full range from classic financing to making continued use of the capital markets.

In summary, management is very satisfied with the net assets, financial position and results of operation in the past year. Apart from the noticeable increase in the raw milk output, further steps could be taken in milk processing and in building up the brand. At the bottom line, the company operated profitably and generated a substantial net result – also excluding the influence of the lucky buy effect – in spite of the growth-related financial burdens.

2.4 Financial and non-financial performance indicators

a) Financial performance indicators

The Group's financial performance indicators are sales revenues, EBITDA and EBIT. They reflect the success of the Group's business activities. Sales revenues of the Group amounted to EUR 402.7 million in the fiscal year 2019 (2018: EUR 244.9 million). Adjusted[22] EBITDA came in at EUR 167.0 million (2018: EUR 116.1 million), while adjusted[22] EBIT totaled EUR 92.5 million (2018: EUR 74.2 million). As the Group is largely debt-financed, financing costs play an important role for its economic success. The Russian central bank's key interest rate is an important indicator for the cost of borrowed capital. This interest rate was gradually lowered from 7.75% to 6.25% in the reporting period. For more information on financial performance indicators, please refer to chapter 2.3 of the management report.

Modern dairy cow facilities in the Voronezh region - Around 90% of Ekosem dairy cows are kept in dairy farms with free-range barns (no tethering) and daylight.

[22] For further explanations, please refer to chapter 2.3

Marketing campaign in Russian Globus supermarkets for the launch of the second EkoNiva TV commercial.

b) Non-financial performance indicators

Dairy cow herd and milk output

The dairy cow herd is a main driver of the company's performance. Over the past eleven years up to the reporting date, it increased from approx. 4,700 animals to 97,640 animals, which corresponds to an annual growth rate of approx. 32%. Given that the Group currently still sells the larger part of its raw milk to third parties, the milk output has a direct impact on the Group's revenues. The volume of raw milk was increased from 484,000 tons in the fiscal year 2018 to 759,000 tons in the past fiscal year. On the one hand, this was achieved by expanding the dairy cow herd as described above. On the other hand, the productivity per milked cow was increased from 27.8 kg/day in 2018 to 28.4 kg/day in 2019. As of 31 December 2019, the daily milk output was 2,400 tons (31 December 2018: 1,650 tons). For more information about the future development of the milk output, please refer to chapter 3.

Volume of milk processed by the company itself

The Group is giving high priority to expanding its own milk processing operations. The introduction of the new umbrella brand in late 2018 and the expansion of the customer base in 2019 created an important precondition for this. At 66,000 tons, the amount of raw milk processed by the company itself was slightly higher than in the previous year (2018: 62,000 tons). The current conversion of two dairies and the construction of new dairies will lay the basis for adapting the product range and the production capacity to customer demand.

3. FORECAST

Forecast summary

In spite of the current uncertainties caused by the coronavirus pandemic and its negative consequences for the world economy, the company's management projects a favorable course of business for the fiscal year 2020 on balance. The Management Board assumes that the pandemic will have a limited impact on the Group's business model. Being a systemically relevant agricultural company and an important producer of food, Ekosem-Agrar benefits from exemptions from the preventive measures imposed in Russia to combat the spread of the coronavirus. To ensure the supply of food to the population, all our farms are currently allowed to continue their regular operations, albeit with the necessary precautions to prevent the spread of the virus. Based on the current state of knowledge, it is therefore sufficiently likely that the forecasts for the company provided below should be achieved at least in substantial parts.

The information on the future business performance presented in this chapter are management projections based on information such as market expectations, strategic decisions, regulatory framework conditions and exchange rate trends. A change in these and other parameters incorporated in the projections may result in adjustments or the non-occurrence of these projections. The assumptions and estimates upon which the above projections are based assume a considerable increase in the milk output resulting from the continued expansion of the production capacities.

Overall economic trend

The spread of the SARS-CoV-2 coronavirus has a particular impact on the world economy in 2020. In its April 2020 forecast, the IMF assumes that the world economy will contract by 3.0% in the current year. Assuming that the pandemic subsides in the second half of 2020 and containment efforts can be gradually reversed, the recovery is not expected until 2021 and global economic growth of up to 5.8% is forecast.

For the industrialized countries, the IMF experts project a 6.1% decline in economic output for 2020, with the eurozone (-7.5%) and Germany (-7.0%) also expected to undergo an exceptionally strong recession. A slight economic decline of -1.0% is forecast for the emerging and developing countries, while the IMF projects a strong 5.5% decline in the gross domestic product of Russia.

The International Monetary Fund has made it clear, however, that these forecasts are subject to considerable uncertainty and that poorer growth rates should be expected if the pandemic and containment measures last longer, if emerging and developing countries are affected even more severely, if the tight financial situation persists or if there are far-reaching effects due to company closures and prolonged unemployment.[23]

Developments in the global and Russian milk markets

For 2020, forecasts predict an increase in raw milk production by about 0.6% in the main producing regions, which would be equivalent to an additional 1.8 million tons.[24]

At the same time, global demand for dairy products is expected to grow more strongly over the same period, with the FAO projecting 1.5% for processed products. Global raw milk prices are therefore expected to remain at least stable in the first half of 2020, as the increase in production is relatively small.[25]

In the first four months of the current year, the Group's raw milk price showed a slightly better trend than in the same period of the previous year and averaged RUB 30.2 (four months 2019: RUB 28.6). Denominated in euro cents, the milk price during this period stood at a good 40.1 euro cents, which also exceeded the same period of the previous year (four months 2019: 38.4 euro cents). The Russian milk price should also benefit from the projected stable situation in the world markets and pick up in the coming months in response to the weakness of the ruble. This is expected as the price of raw milk usually responds to a change in the exchange rate with a delay of two to three months.

[23-25] see source list

Dairy carousel for 72 animals - The dairy cows go for milking three times a day.

Performance of the Group

Against the background of the current performance of the Group and the projects planned and initiated, the Management Board expects the dairy cow herd to grow to approx. 110,000 animals by the end of 2020. The volume of raw milk produced is expected to increase to approx. 1 million tons in the fiscal year 2020.

	31 Dec. 2020 (plan)	30 Apr. 2020 (YTD)	31 Dec. 2019
Dairy cows	approx. 110,000	103,475	97,640
Milk output, t	approx. 1 million	299,420	759,000
Raw milk processed, t	approx. 100,000	23,540	66,000

Based on the developments described above, the Management Board projects sales revenues of between EUR 525 million and EUR 545 million, EBITDA of between EUR 180 million and EUR 200 million and EBIT of between EUR 100 million and EUR 120 million for the fiscal year 2020.

The expansion of the raw milk production was implemented according to plan in the first four months of the current fiscal year. Three of the dairy cow facilities started in the fiscal year 2019 have already been commissioned. Their milk output will gradually increase and reach full capacity after about one year. In addition, work on the dairy cow facilities that are still under construction is progressing.

It is also planned to increase the processing capacity for raw milk in the current fiscal year. For this purpose, capacity for the production of cheese is to be added at the existing test facility in Voronezh towards mid year, so that an additional 60 tons of raw milk can be processed per day. In addition, conversion measures are currently continuing in the dairies acquired in the Kaluga and Voronezh regions at the end of 2017 in order to be able to manufacture a broader product range in the future. If the conversion work at the existing production facilities is completed as planned and after completion of the cheese dairy, the capacity for manufacturing own milk products is expected to exceed 700 tons per day by the end of the fiscal year (up from the current level of approx. 500 tons per day). Work on the large dairy currently under construction in the Novosibirsk region will continue. Production is scheduled to start in 2021. The actual amount of raw milk currently being processed by the company itself is approx. 250 tons per day and thus approx. 10% of the current daily raw milk output.

4. OPPORTUNITY AND RISK REPORT

Agriculture remains a very important economic sector in Russia and offers great economic potential for enterprises.[26] However, as in any business activity, there are certain opportunities and risks that should be considered. This also applies to the fact that the Ekosem-Agrar Group operates in only one country, albeit a large one.

Risks are possible future events that may have an adverse impact on the future business performance of the Group. Opportunities represent developments that may have a positive effect on the Group's results of operation, financial or net assets position. Management's primary task is to weigh opportunities and risks against each other time and again and make the best decisions for the Group on this basis. To accomplish this objective, all important decisions affecting the Group are analyzed on a regular basis and possible consequences for the Group are identified. The active management of risks is to minimize potential negative consequences for the company. Relevant opportunities are to be identified in good time and used as far as possible.

The risk management concept, structure and tasks have been defined and documented by the Management Board of Ekosem-Agrar AG. The company uses risk management not only to identify risks that could jeopardize its continued existence. It also identifies and monitors risks that are below the level of threat to the company's continued existence but that could have a significant negative impact on the Group's net assets, financial position and results of operation.

4.1 Opportunity report

Dairy farming: Milk remains an imported product in Russia, with an estimated 7.0 million tons of raw milk equivalent imported in 2019 (2018: 6.3 million tons).[27] This is one of the reasons why government subsidies for the Russian agricultural sector currently focus on dairy farming. The provision of low-interest loans and non-repayable subsidies for cow shed construction have created a very good environment for milk producing companies. The prices of raw milk – while moving in sync with world market prices – are much higher than in most other countries. The Management Board therefore believes that there are currently good opportunities for the continued growth of the Ekosem-Agrar Group.

Forage harvesting in the Chernozem region near Voronezh.

[26+27] *see source list*

We are convinced that our employees is the most important success factor for the Group.
That is why we pay special attention to our staff.

Crop farming: The Group sees opportunities for continued growth in crop farming. The soil in the Chernozem region is among the most fertile soils in the world.[28] At the same time, land can be acquired or leased at relatively low prices, even though prices have risen noticeably in recent years.[29] The Ekosem-Agrar Group aims to achieve earnings growth through improved cultivation methods, new technology and selective breeding. This allows the Group to supply its dairy cow herd with its own fodder and to exploit sales potential for food crops such as sunflowers and sugar beets.

Milk processing: Being Russia's largest raw milk producer[30], the Group has the opportunity to become a leading vertically integrated supplier of dairy products by successively expanding its own milk processing operations. The expansion of the Group's own processing capacities, the introduction of the new umbrella brand and the cooperation with numerous retailers has strengthened the Group's presence in the market and with consumers. As Ekosem-Agrar exclusively produces the milk for its products in-house, it is able to respond quickly to consumer trends. This is different for other large processors who exclusively buy in raw milk.

Seed production and breeding: The Management Board places a focus on the breeding and licensing of its own varieties. This way, it wants to increase the profitability of this business segment and defend its position in the Russian seeds market. As the company's first varieties have been registered in the Russian state register of varieties, an initial step in this direction has already been made.

Suckler cow farming: While many Russian consumers traditionally prefer pork, demand for premium beef has been growing for some time, especially in Moscow and other big cities. On its pastures, the Group primarily keeps Angus cattle. Ekosem-Agrar has thus laid the basis for participating in this trend of changing dietary habits.

Organic farming: Just like in Germany, a healthy and conscious diet is playing an increasingly important role also in Russia. When buying food, more and more consumers attach importance to organic production.[31] In the crop farming sector, this means the absence of chemical pesticides and artificial fertilizers. In the livestock farming segment, it requires animals to be kept in an environmentally and animal friendly manner.

[28-31] see source list

Production at the organic farm in the Kaluga region is based on these principles. This is to enable the milk processing area to also benefit from the growing demand for organic food in Russia going forward.

4.2 Risk report

Liquidity risk: The Group's ability to generate sufficient liquid funds from its business operations to settle its liabilities is a material uncertainty regarding the Group's ability to continue as a going concern. Going forward, the Group will continue to need large amounts of debt capital to finance its growth. This requires banks or other lenders to make available sufficient capital. The fact that Russia's key interest rates have been declining since the beginning of the past fiscal year had a positive effect on general financing conditions. Moreover, Russian banks are showing a great willingness to finance projects in the agricultural sector.

Based on the Group's current plans, management assumes, at the time of the preparation of the consolidated financial statements for 2019, that the Group will be able to raise sufficient funds in the foreseeable future to continue its activity. This also includes the refinancing of bank loans due for repayment in 2020. This is to be seen against the background of the fact that the Group's member companies use short-term loans granted by Russian banks. Most of these credit lines are regularly refinanced by the banks – notwithstanding the fact that the credit terms of certain short-term loans were not met in Russia in 2018. The Management Board assumes that these credit lines will continue to be regularly extended or renewed in the future.

The first bond (2012/2021) with an outstanding amount of EUR 36.563 million is due for repayment on 23 March 2021. At the time of preparation of these consolidated financial statements, the Company does not have secured refinancing for this amount. Management is currently working out various scenarios, which include financing from equity and debt capital as well as financing from cash flows from operating activities that the company is already generating.

As of 31 December 2019, there were open, unused credit lines of EUR 537 million (31 December 2018: EUR 582 million). Of this amount, EUR 498 million related exclusively to specific investment projects, especially in the dairy farming and milk processing areas, and EUR 39.4 million to net current assets.

Additional credit terms ("covenants") are a regular component of financing agreements with banks. These covenants may contain terms that limit the company's flexibility with regard to new financing and thus adversely affect the Group's further growth.

In recent years, there have been repeated breaches of such covenants; this was not the case in 2019. In none of these cases did the respective bank impose sanctions. The Group's current plans would lead to a breach of covenants as of 31 December 2020 for a large part of the non-current financial liabilities. The Group is therefore already working with the banks to adjust these covenants, which has regularly been done in recent years. The Management Board expects this to happen before 31 December 2020.

Should, contrary to management's expectations, the supply of funds from operations and external borrowings not be possible at all or only at much poorer conditions, this could result in the company's insolvency.

Currency risk: The Russian ruble appreciated slightly against the euro in the fiscal year 2019. While one euro was worth 73.9546 rubles on average in the fiscal year 2018, it cost only 72.5021 rubles on average in the fiscal year 2019. Given that commodities such as milk and grain are traded in the hard currencies USD or EUR in the world market, a depreciation of the ruble tends to have a positive effect on the Group's ruble-denominated selling prices, whereas an appreciation tends to have a negative effect. On the funding side, a depreciation of the ruble has a negative effect on the Group's euro liabilities, as interest and principal payments in rubles become more expensive. On balance, the Management Board considers a weaker ruble to be more positive for the development of the company than a strong one. In the current fiscal year 2020 up to the time of preparation of the annual report, the ruble depreciated against the euro. As of 30 April 2020, one euro was worth 80.0488 rubles. For more information, refer to item 29.4 in the notes.

The dairies produce a wide range of traditional dairy products, including fresh and organic milk, (drinking) yoghurt, sour cream, curd, desserts, cheese, UHT milk and butter.

Interest burden: Except for the euro-denominated bonds listed at the Stuttgart stock exchange, the Ekosem-Agrar Group is largely debt financed in Russia. The interest burden is reduced by the fact that the company uses government-subsidized, low-interest loans. There is a risk that the supply of cheap loans is cut by the government and/or that the amount of subsidized loans available to the company is reduced. Such a development would significantly reduce the Group's growth. Due to the stable economic environment and the political will to expand domestic milk production, the Management Board currently sees no signs of such a development.

Strategy: The initiated vertical integration entails not only opportunities but also risks. Milk processing is a relatively new business segment for the company. There is therefore a risk that the strategy that has been initiated cannot be implemented as planned. Risks that should be considered relate to the planned investments, the production process and the sale of the products.

Weather conditions: As an agricultural company, Ekosem-Agrar is naturally exposed to weather factors. Temperatures and precipitation have a great influence on the physical harvest and, hence, the Group's financial income. The regional diversification of the cultivation areas across large parts of Russia reduces the risk of crop failures.

Government programs: The Russian agricultural sector benefits from state support, e.g. for investments, interest payments and the production of certain goods. These agricultural subsidies depend not only on government policy but also on the local financial circumstances. Moreover, Russia's agricultural sector is being protected by various measures such as tariff barriers and similar regulations. Irrespective of this, the Group constantly strives to produce its products not only to high quality standards but also at competitive costs. Should subsidies for future investments no longer be available, this would bring the company's growth

Ekosem Group wheat field in autumn 2019 - The soil in the Chernozem region is among the most fertile soils in the world.

almost to a complete halt. The Management Board does not expect these framework conditions to change any time soon, though.

Government measures may also include changes in the areas of currency control, taxation, collection of customs duties and other relevant legal regulations. The corresponding regulations in Russia are subject to regular changes as well as changing interpretation. This could lead to financial or administrative burdens on the company.

Diseases and epidemics: Although high standards are applied for animal protection and hygiene in the Group and these are monitored continually, it cannot be precluded that locations may be affected by disease or epidemics. There is insurance to cover such cases and replace lost stock, but coverage does not extend to the loss of revenue.

Environmental regulations: The Group operates in a field that is subject to extensive environmental and animal welfare regulations. Although the Group always endeavors to at least meet the requirements in the individual areas, it cannot be ruled out that the Group may violate existing environmental regulations or be unable to meet higher standards in the future. This may have a material adverse effect on the Group's business activity, financial position, results of operation and prospects.

Actual use of land without legal agreement: Despite actual use, there are no contractual agreements for around 54,900 hectares (2018: 72,000 hectares) or approx. 9% of the area of the group of companies. The background to this is an extensive process of registration of agricultural land, which can take up to several months. This registration process is carried out by the respective Group companies.

Price variations: The prices of agricultural products and certain input factors are subject to comparatively large variations.[32] The Group attempts to mitigate negative price trends by means of diversification within and between the business segments, although revenues are clearly dominated by the dairy farming operations. Currently, the Group applies no active hedging strategies to protect against these variations.

[32] *see source list*

Coronavirus pandemic: The possible macroeconomic consequences of the coronavirus pandemic are addressed in chapter 3. The following risks exist with regard to the company‘s business activities: simultaneous illness of many employees and, consequently, negative effects on operational production processes; delivery problems for required input factors (fertilizers, seeds, pesticides, packaging, etc.); depreciation of the ruble as a result of Russia’s economic difficulties, which would make certain input factors and the interest payments for the Group‘s eurobonds more expensive; falling milk prices due to a decline in demand or reduction in government support. Wherever possible, the Group has taken precautions and made preparations to reduce the probability of the risks occurring and/or the negative economic consequences.

Overall, the Management Board believes that the Group is well positioned to continue its profitable growth. In the opinion of the Board, the opportunities outweigh the existing risks.

Walldorf,
13 May 2020

Stefan Duerr
Chairman of the
Management Board

Wolfgang Blaesi
Member of the
Management Board

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Ekosem-Agrar AG, Walldorf
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Ekosem-Agrar AG, Walldorf
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	(Note)	12/31/2019 EUR'000	12/31/2018 EUR'000
Non-current assets			
Property, plant and equipment	15	1,171,207	746,570
Right-of-use assets	15	91,591	-
Intangible assets	16	23,529	14,335
Non-current financial assets	17	47,123	24,404
Biological assets	19	453,153	255,909
Deferred tax assets	13	1,112	625
Other non-current assets	18	28,805	17,130
		1,816,520	**1,058,973**
Current assets			
Inventories	20	222,960	155,983
Biological assets	19	9,786	7,993
Advances paid		6,530	6,541
Trade receivables	21	17,515	20,587
Income taxes prepayments		3,198	1,323
VAT and other non-income taxes receivables		47,888	31,447
Current financial assets	17	59,618	51,105
Other current assets	18	13,165	8,231
Cash and cash equivalents	22	3,641	13,044
		384,301	**296,254**
		2,200,821	**1,355,227**

EQUITY AND LIABILITIES

	(Note)	12/31/2019 EUR'000	12/31/2018 EUR'000
Equity			
Share capital	23	10,045	10,045
Capital reserve	23	38,552	38,552
Revaluation reserve		214,021	152,652
Foreign currency translation reserve	23	(97,133)	(135,897)
Retained earnings		109,888	87,234
Consolidated net profit for the year		35,745	19,390
Equity attributable to parent company's shareholders		**311,118**	**171,976**
Non-controlling interests		5,371	2,330
		316,489	**174,306**
Non-current liabilities			
Non-current loans and borrowings	24	810,744	569,206
Long-term lease liabilities	29	37,933	23,508
Government grants	25	326,311	180,099
Long-term trade accounts payable		9,725	-
Other non-current liabilities		414	272
Deferred tax liabilities	13	28,235	15,321
		1,213,362	**788,406**
Current liabilities			
Government grants	25	38,199	22,617
Current loans and borrowings	24	378,484	216,699
Non-current loans reclassified to current liabilities	24	-	22,125
Short-term lease liabilities	29	20,668	13,254
Current trade and other accounts payable		138,355	63,601
Contract liabilities		18,127	13,310
Income tax payable		500	550
Other short-term financial liabilities	27	28,988	4,570
Other short-term non-financial liabilities	27	47,649	35,789
		670,970	**392,515**
		2,200,821	**1,355,227**

Ekosem-Agrar AG, Walldorf
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Note)	01/01/2019-12/31/2019 EUR'000	01/01/2018-12/31/2018 EUR'000
Revenue from contracts with customers	7	402,664	244,909
Change in balances of fall-ploughed land		12,786	14,545
Change in balances of agricultural produce and biological assets	19	106,560	92,709
Other operating income	8	42,483	24,367
Gain on bargain purchase	3	21,633	1,037
		586,126	**377,567**
Cost of materials	9	(211,861)	(141,108)
Personnel cost	10	(101,701)	(64,430)
Depreciation, amortization and impairment losses	15, 16	(74,545)	(41,886)
Other operating expenses	11	(83,905)	(54,899)
		(472,012)	**(302,323)**
Result from operating activities		**114,114**	**75,244**
Financial income	12	8,439	4,919
Financial expenses	12	(85,746)	(55,626)
Profit before tax		**36,807**	**24,537**
Income tax expense	13	(797)	(4,820)
Net profit for the year		**36,010**	**19,717**
Attributable to			
Parent company's shareholders		35,745	19,390
Non-controlling interests		265	327
Earnings per share (EPS, EUR):			
Basic, profit for the period attributable to ordinary equity holders of the parent	23.1	3.56	1.93
Diluted, profit for the period attributable to ordinary equity holders of the parent	23.1	3.56	1.93
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences in translating of foreign operations		39,948	(33,769)
Revaluation of land and buildings		71,103	25,799
Income tax relating to components of other comprehensive income		(5,854)	(1,878)
		105,197	**(9,848)**
Attributable to			
Parent company's shareholders		103,397	(9,724)
Non-controlling interests		1,800	(124)
Comprehensive income for the reporting period		**141,207**	**9,869**
Attributable to			
Parent company's shareholders		139,142	9,666
Non-controlling interests		2,065	203

Ekosem-Agrar AG, Walldorf
CONSOLIDATED CASH FLOW STATEMENT

	(Note)	01/01/2019-12/31/2019 EUR'000	01/01/2018-12/31/2018 EUR'000
Cash flows from operating activities			
Profit for the year		36,010	19,717
Depreciation, amortization and impairment losses	15, 16	74,545	41,886
Gain on bargain purchase	3	(21,633)	(1,037)
Net loss on disposal and revaluation of property, plant and equipment		4,076	2,220
Change in balances of fall-ploughed land as well as of agricultural produce and biological assets		(119,346)	(107,254)
Income taxes recognized in profit or loss	13	797	4,820
Financial income	12	(8,439)	(4,919)
Financial expenses	12	85,746	55,626
		51,756	**11,059**
Changes in working capital			
Change in inventories		(2,349)	(5,735)
Change in trade receivables		5,609	(7,968)
Change in advances paid		1,665	(3,130)
Change in other receivables and assets		8,030	(2,115)
Change in trade payables		23,754	19,395
Change in other liabilities		8,901	23,916
Cash inflow from operating activities		**97,366**	**35,422**
Income taxes paid		(2,038)	(5,996)
Interest paid		(78,793)	(59,282)
Bank commissions for operating activities paid	11	(2,555)	(1,346)
Governement grants for financing activities	12	9,273	15,481
Net cash inflow / (outflow) from operating activities		**23,253**	**(15,721)**
Cash flows from investment activities			
Proceeds from diposal of property, plant and equipment		1,908	213
Short-term financial investments		(40,686)	(39,886)
Loans repaid		33,286	25,666
Interest received		3,335	4,146
Acquisitions of subsidiaries, net of cash acquired	3	(28,564)	(35,701)
Payments to acquire property, plant and equipment		(295,210)	(321,405)
Governement grants for property, plant and equipment		37,192	42,458
Payments to acquire non-current biological assets		(54,888)	(67,175)
Net cash outflow from investment activities		**(343,627)**	**(391,684)**
Cash flows from financing activities			
Proceeds from borrowings	30.9	746,450	649,403
Repayment of borrowings	30.9	(397,732)	(218,968)
Bank commissions for financing activities paid	12	(8,165)	(5,851)
Payment of principal portion of lease liabilties / finance lease liabilities	30.9	(29,579)	(18,393)
Net cash inflow from financing activities		**310,974**	**406,191**
Net outflow of cash and cash equivalents		**(9,400)**	**(1,214)**
Cash and cash equivalents at start of the period		**13,044**	**14,251**
Effect of exchange rate changes on the balances of cash held in foreign currency		(3)	7
Cash and cash equivalents at end of the period		**3,641**	**13,044**

Ekosem-Agrar AG, Walldorf
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR'000	Share capital	Capital reserves	Revaluation reserve	Foreign currency translation reserve
As of 12/31/2017	**80**	**48,517**	**128,911**	**(102,252)**
Net profit	-	-	-	-
Other comprehensive income / (loss)	-	-	23,741	(33,645)
Total comprehensive income / (loss)	-	-	23,741	(33,645)
Increase of capital	9,965	(9,965)	-	-
Allocation of profit or loss	-	-	-	-
As of 12/31/2018	**10,045**	**38,552**	**152,652**	**(135,897)**
Net profit	-	-		-
Other comprehensive income/ (loss)	-	-	61,369	38,764
Total comprehensive income / (loss)	-	-	61,369	38,764
Non-controlling interest recognized as a part of business combination*	-	-	-	-
Allocation of profit or loss	-	-	-	-
As of 12/31/2018	**10,045**	**38,552**	**214,021**	**(97,133)**

* for more details please refer to Note 3

Retained earnings	Consolidated net profit for the year	Equity attributable to parent company's shareholders	Non-controlling interests	Total
50,415	**36,639**	**162,310**	**2,127**	**164,437**
-	19,390	19,390	327	**19,717**
180	-	(9,724)	(124)	**(9,848)**
180	19,390	9,666	203	**9,869**
-	-	-	-	**-**
36,639	(36,639)	-	-	-
87,234	**19,390**	**171,976**	**2,330**	**174,306**
-	35,745	35,745	265	**36,010**
3,264	-	103,397	1,800	**105,197**
3,264	35,745	139,142	2,065	**141,207**
-	-	-	976	**976**
19,390	(19,390)	-	-	-
109,888	**35,745**	**311,118**	**5,371**	**316,489**

Ekosem-Agrar AG, Walldorf
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2019

Ekosem-Agrar AG, Walldorf,
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Ekosem-Agrar AG (also referred to below as “the Company” or “Parent Company”) is obliged to issue consolidated financial statements. On the basis of regulations put forth by Sec. 315e para. 1 HGB [“Handelsgesetzbuch”: German Commercial Code], the Company voluntarily issues consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Parent Company and its subsidiaries are referred to as the “Group” below.

The Company and its subsidiaries are domiciled in the Federal Republic of Germany and the Russian Federation. The Parent Company has its main business offices at Johann-Jakob-Astor-Str. 49, 69190 Walldorf, Germany.

Ekosem-Agrar is a German stock corporation (Aktiengesellschaft). The company is entered in the commercial register of the Mannheim local court under HRB no. 731215. The company has been established as Ekosem-Agrar GmbH in 2001 and changed its legal form into a German stock corporation with a decision of the shareholders at 31 July 2018 which has been registered in the court of Mannheim (Amtsgericht Mannheim) at 14 August 2018.

The main activities of the Group include the production and processing of and trade in animal and plant agricultural products; furthermore, the consulting with regards to planning and implementation of projects in the agricultural sector.

The Russian companies of the Group issue their local financial statements in compliance with Russian Accounting Standards (RAS). The German entities of the Group issue their local financial statements in compliance with German GAAP (German Commercial Code/HGB). The financial statements of the individual companies were adjusted for the differences between local GAAP and International Financial Reporting Standards (IFRSs).

The consolidated financial statements are presented in euros (EUR), which is also the Parent Company’s functional currency. The functional currency of the Group entities is the currency of the primary economic environment in which the entities operate – Russian rubles (RUB) or euros (EUR).

2. SUBSIDIARIES

These consolidated financial statements contain the assets, liabilities and operating results of the Parent Company and its subsidiaries listed below:

	Name	Domicile	Type of company	Effective equity interest and voting rights as of 31 December 2019 (%)	Effective equity interest and voting rights as of 31 December 2018 (%)
1	Ekosem Agrarprojekte GmbH	Berlin, Germany	Consulting	100.0	100.0
2	Huck Finn GmbH	Walldorf, Germany	Other	100.0	-
3	OOO “EkoNiva-APK Holding”	Voronezh, Russia	Holding	99.0	99.0
4	OOO “EkoNiva-APK Chernozemye”	Voronezh, Russia	Holding	99.0	99.0
5	OOO “EkoNiva Producty Pitanija”	Voronezh, Russia	Holding	99.0	99.0
6	OOO “Agrofirma Mezhdurechye”	Tjumen, Russia	Agriculture	99.0	99.0
7	OOO “AgriAgri”	Kursk, Russia	Agriculture	99.0	99.0
8	OOO “Kaluzhskaya Niva”	Kaluga, Russia	Agriculture	99.0	99.0
9	OOO “Savinskaja Niva”	Kaluga, Russia	Agriculture	99.0	99.0
10	OOO “Severnaya Niva”	Orenburg, Russia	Agriculture	99.0	99.0
11	OOO “Sibirskaya Niva”	Novosibirsk, Russia	Agriculture	99.0	99.0
12	OOO “Zaschitnoe”	Kursk, Russia	Agriculture	99.0	99.0
13	OOO “EkoNivaAgro”	Voronezh, Russia	Agriculture	99.0	99.0
14	OOO “Oka Moloko”	Ryazan, Russia	Agriculture	99.0	99.0
15	OOO “APK Rusich”	Voronezh, Russia	Agriculture	99.0	99.0
16	OOO “Razdolnoe Angus”	Voronezh, Russia	Agriculture	99.0	99.0
17	OOO “Stupinskaya Niva”	Moscow, Russia	Agriculture	99.0	99.0
18	OOO “EkoNiva Altaj”	Altaj, Russia	Agriculture	99.0	99.0
19	OOO “EkoNiva Aromashevo”	Tjumen, Russia	Agriculture	99.0	99.0
20	OOO “Severnaya Niva Bashkiriya”	Bashkortostan, Russia	Agriculture	99.0	99.0
21	OOO “Severnaya Niva Tatarstan”	Tatarstan, Russia	Agriculture	99.0	99.0
22	OOO “Ryazanskaya Niva”	Ryazan, Russia	Agriculture	99.0	99.0
23	OOO “Ostashkino”	Voronezh, Russia	Agriculture	99.0	99.0
24	OOO “Redkinskoe”	Kaluga, Russia	Agriculture	99.0	99.0
25	OOO “Bobrov-Niva”	Voronezh, Russia	Agriculture	99.0	99.0
26	OOO “Megaferma Berezovka”	Voronezh, Russia	Agriculture	99.0	99.0
27	OOO “Agrofirma Shipova Dubrava”	Voronezh, Russia	Agriculture	99.0	99.0
28	OOO “Sibirskaya Akademia Molochnyh nauk”	Novosibirsk, Russia	Dairy processing	98.01	99.0
29	OOO “EkoNiva Moloko Voronezh”	Voronezh, Russia	Dairy processing	99.0	99.0
30	OAO “MosMedynagroprom”	Kaluga, Russia	Dairy processing	98.9	98.9

	Name	Domicile	Type of company	Effective equity interest and voting rights as of 31 December 2019 (%)	Effective equity interest and voting rights as of 31 December 2018 (%)
31	OOO "EkoNiva Moloko Sibir"	Novosibirsk, Russia	Dairy processing	99.0	99.0
32	OOO "EkoNiva-Semena"	Voronezh, Russia	Trading	99.0	99.0
33	OOO"TD EkoNiva Molochnye producty"	Voronezh, Russia	Trading	99.0	99.0
34	OOO "TD EkoNiva Molochnye producty Kaluga"	Kaluga, Russia	Trading	99.0	99.0
35	OOO "Zolotaja zemlya Sibiri"	Novosibirsk, Russia	Land owner	99.0	99.0
36	OOO "Zemlya Salaira"	Novosibirsk, Russia	Land owner	99.0	99.0
37	OOO "Donskaya Zemlya"	Voronezh, Russia	Land owner	99.0	99.0
38	OOO "NivaStroy"	Kaluga, Russia	Construction project management	99.0	99.0
39	OOO "AgroFinance"	Voronezh, Russia	Other	99.0	99.0
40	OOO "EkoNiva-Farm"	Tula, Russia	Other	99.0	99.0
41	OOO "OkaAgro"	Ryazan, Russia	Other	99.0	99.0
42	OOO "EkoNiva-Media"	Kursk, Russia	Other	99.0	99.0
43	OOO "Molochnaya Akademija"	Voronezh, Russia	Other	99.0	99.0
44	NAO "Zavety Lenina"	Moscow, Russia	Agriculture	95.01	-
45	OOO "Vitjaz"	Moscow, Russia	Other	99.0	-
46	OOO "Technostroj"	Moscow, Russia	Other	99.0	-
47	OAO "Trud"	S.-Petersburg, Russia	Agriculture	95.58	-
48	OOO "APK Troitsky"	Kaluga, Russia	Agriculture	99.0	-
49	OOO "Agrofirma Detchinskoe"	Kaluga, Russia	Agriculture	99.0	-
50	OOO "Zaschitnoe-Jug"	Kursk, Russia	Agriculture	99.0	-
51	OOO "Belsahar"	Kursk, Russia	Agriculture	99.0	-
52	OOO "Jasmin"	Kursk, Russia	Agriculture	99.0	-
53	OOO "Peterburgskaya Niva"	S.-Petersburg, Russia	Agriculture	99.0	-
54	OOO "Sibirskaya Niva Organik"	Novosibirsk, Russia	Agriculture	99.0	-
55	OOO "Severnaya Niva Organik"	Orenburg, Russia	Agriculture	99.0	-
56	OOO "Stupinskaya Niva Organik"	Moscow, Russia	Agriculture	99.0	-
57	OOO "EkoNiva Moloko Bobrov"	Voronezh, Russia	Dairy processing	99.0	-
58	OOO "EkoNiva Moloko Stupino"	Moscow, Russia	Dairy processing	99.0	-
59	OOO "EkoNiva Moloko Bashkiria"	Bashkortostan, Russia	Dairy processing	99.0	-
60	OOO "EkoNiva Moloko Logistik"	Voronezh, Russia	Other	99.0	-
61	OOO "ENPP Service"	Voronezh, Russia	Other	99.0	-
62	OOO "NivaProject"	Kursk, Russia	Other	75.0	75.0

In 2019 OOO EkoNiva-APK Holding established 4 new companies (lines 53-56). All of them operate in agricultural business:

- **22 October 2019,** OOO Severnaya Niva Organik located in Orenburg region
- **22 October 2019,** OOO Sibirskaya Niva Organik located in Novosibirsk region
- **22 October 2019,** OOO Stupinskay Niva Organik located in Moscow region
- **6 November 2019,** OOO Peterburgskaya Niva located in Leningrad (S.-Petersburg) region

In 2019 OOO Producty Pitanija established 5 new companies (lines 57-61):

- **21 February 2019,** OOO EkoNiva Moloko Bobrov: is located in Voronezh region and operates as dairy processing company
- **21 February 2019,** OOO ENPP Service: is located in Voronezh region and operates as service company
- **10 July 2019,** OOO EkoNiva Moloko Stupino: is located in Moscow region and operates as dairy processing company
- **10 July 2019,** OOO EkoNiva Moloko Logistic: is located in Voronezh region and operates as logistic company of processed dairy products
- **22 October 2019,** OOO EkoNiva Moloko Bashkiria: is located in Bashkortostan region and operates as dairy processing company

In 2019 OOO EkoNiva-APK Holding and OOO EkoNiva-APK Chernozemje acquired ownership interest in 9 entities (lines 44-52). For more information please refer to Note 3.

In 2019 OOO Ratnoe merged to Zaschitnoe. That was done due to business reasons.

In 2019 Ekosem-Agrar AG acquired 100% ownership interests in Huck Finn GmbH for EUR 62.5k.

3. BUSINESS COMBINATION

Acquisitions in 2019

29 January 2019, OOO EkoNiva-APK Chernozemje acquired 100% ownership interest in three legal entities: OOO Konek-Gorbunok, OOO Saharnyj Kombinat Konek-Gorbunok for the cash consideration of RUB 2,242.4 mln (EUR 29,821k).

In February 2019, OOO EkoNiva-APK Chernozemje has changed the names of two of these companies: OOO Konek-Gorbunok to OOO Zaschitnoe-Jug and OOO Saharnyj Kombinat Konek-Gorbunok to OOO Belsahar. The acquired entities are located in Kursk region and engaged in crop production and sugar beet processing.

12 April 2019, OOO EkoNiva-APK Holding acquired ownership interest in three legal entities in Moscow region: 100% of OOO Vitjaz, 0.0173% of OOO Technostroj (the majority 99.9827% is owned by OOO Vitjaz named before) which has 95.9698% of ownership interest in NAO Zavety Lenina. These deals should be considered as one deal. The remaining 4.0302% are in ownership of persons not related to the Group. Total cash consideration is RUB 510 mln (EUR 7,019k). The acquired group of entities is engaged in crop and milk production.

26 April 2019, OOO EkoNiva-APK Chernozemje acquired 100% ownership interest in a legal entity in Kursk region – OOO Jasmin – for the cash consideration of RUB 300 mln (EUR 4,158k). The acquired entity is engaged in crop production.

11 July 2019, OOO EkoNiva-APK Holding acquired 96.55% ownership interest in a legal entity in Leningrad region – OAO Trud – for the cash consideration of RUB 349 mln (approx. EUR 4,878k). The acquired entity is engaged in milk and crop production.

16 September 2019, OOO EkoNiva-APK Holding acquired 100% ownership interest in a legal entity in Kaluga region – OOO APK Troitsky – for the cash consideration of RUB 0.7 mln (approx. EUR 9.6k). The acquired entity is engaged in crop production.

18 October 2019, OOO EkoNiva-APK Holding acquired 100% ownership interest in a legal entity in Kaluga region – OOO Agrofirma Detchinskoe – for the cash consideration of RUB 304 mln (approx. EUR 4,290k). The acquired entity is engaged in crop production.

The fair values of the identifiable assets and liabilities of the entities as at the dates of their acquisition were as follows:

	Zaschitnoe-Jug +Belsahar	Jasmin	Tehnostroj +Vityaz +Zavety Lenina	Trud	APK Troitskij	Agrofirma Detchinskoe
	EUR'000	EUR '000	EUR'000	EUR '000	EUR '000	EUR '000
ASSETS						
Property, plant and equipment	20,547	1,681	10,086	8,489	3	10,942
Right-of-use assets	2,263	526	3,645	1,066	86	4,449
Non-current financial assets	-	3,083	-	-	-	-
Other non-current assets	190	-	16	117	-	5
Inventories	476	1	258	508	91	578
Biological assets	-	395	1,923	3,674	-	4,530
Trade receivables	226	337	2,698	704	121	67
thereof with companies of the Group	-	*136*	*2,456*	-	*71*	*5*
Current financial assets	3,528	20	-	-	-	19
thereof with companies of the Group	-	-	-	-	-	-
Other current assets	45	-	4	-	-	-
Cash and cash equivalents	3	1	8	149	2	1
	27,278	**6,044**	**18,638**	**14,707**	**303**	**20,591**

	Zaschitnoe-Jug +Belsahar	Jasmin	Tehnostroj +Vityaz +Zavety Lenina	Trud	APK Troitskij	Agrofirma Detchinskoe
	EUR'000	EUR'000	EUR'000	EUR '000	EUR '000	EUR '000
LIABILITIES						
Non-current loans and borrowings	-	-	994	-	-	-
thereof with companies of the Group	-	-	*994*	-	-	-
Current loans and borrowings	9,455	3,589	1,769	-	-	6,526
thereof with companies of the Group	*551*	*3,589*	*1,755*	-	-	*2,215*
Lease liabilities	126	-	53	454	-	27
Current trade and other accounts payable	686	950	127	1,766	157	933
thereof with companies of the Group	*680*	*4*	-	*256*	*105*	*781*
Deferred tax liabilities	2,296	-	1,162	484	-	141
Other current non-financial liabilities	248	1,364	486	113	3	238
	12,811	**5,903**	**4,591**	**2,817**	**160**	**7,865**
Total identifiable net assets at fair value	14,467	141	14,047	11,890	143	12,726
Non-controlling interest	-	-	566	410	-	-
Goodwill / (Bargain gain)	15,354	4,017	(6,462)	(6,602)	(133)	(8,436)
Purchase consideration transferred/ Cash paid	(29,821)	(4,158)	(7,019)	(4,878)	(10)	(4,290)
Net cash acquired with the subsidiary	3	1	8	149	2	1
Net cash outflow	**(29,818)**	**(4,157)**	**(7,011)**	**(4,729)**	**(8)**	**(4,289)**

Based on the fair values of the identifiable assets and liabilities of the acquisitions in Kursk region (Zaschitnoe-Jug, Belsahar and Jasmin) the goodwill was identified amounting of EUR 19,371k. From acquisition of all other entities bargain gain was identified amounting of EUR 21,633k.

The goodwill resulting from acquisition of Zaschitnoe-Jug, Belsahar and Jasmin amounted of EUR 19,371k and comprises the value of expected synergies arising from the acquisition of these entities.

The goodwill is allocated entirely to Kursk segment. The goodwill is not expected to be deductible for income tax purposes.

The bargain gain resulting from acquisition of Tehnostroj, Vityaz and Zavety Lenina amounted of EUR 6,462k.

The bargain gain resulted from better positions in negotiations of the acquirer as the Group is a large market player in the regions of operations of the related entities.

The Group expects a synergy effect from the acquisition of Tehnostroj, Vityaz and Zavety Lenina in Moscow region.

The bargain gain resulting from acquisition of Trud amounted of EUR 6,602k.

The bargain gain resulted from better positions in negotiations of the acquirer as the Group is a large market player in the regions of operations of the related entities.

The Group expects a synergy effect from the acquisition of Trud in S.-Petersburg region.

The bargain gain resulting from acquisition of APK Troitskij amounted of EUR 133k.

The bargain gain resulted from better positions in negotiations of the acquirer as the Group is a large market player in the regions of operations of the related entities. The Group expects a synergy effect from the acquisition of APK Troitskij in Kaluga region.

The bargain gain resulting from acquisition of Agrofirma Detchinskoe amounted of EUR 8,436k.

The bargain gain resulted from better positions in negotiations of the acquirer as the Group is a large market player in the regions of operations of the related entities. The Group expects a synergy effect from the acquisition of Agrofirma Detchinskoe in Kaluga region.

At the date of acquisition fair values of the trade receivables of Zaschitnoe-Jug / Belsahar, Jasmin, Tehnostroj / Vityaz / Zavety Lenina, Trud, APK Troitskij and Agrofirma Detchinskoe amounted to EUR 226k, EUR 337K, EUR 2,698k, EUR 704k, EUR 121k and EUR 67k, respectively, and were equal to the carrying amount of trade receivables.

Zaschitnoe-Jug / Belsahar, Jasmin, Tehnostroj / Vityaz / Zavety Lenina, Trud, APK Troitskij and Agrofirma Detchinskoe are included into consolidation for the reporting period since the date of acquisition and contributed EUR 8,558k, EUR 62k, EUR 1,049k, EUR 1,293k, EUR 0.2k and EUR 876k of revenue, respectively, and net profit/loss of EUR 3,538k, EUR (264)k, EUR 377k, EUR 818k, EUR 50k and EUR (924)k, respectively.

If the acquisitions had taken place as of 1 January 2019, Zaschitnoe-Jug / Belsahar, Jasmin, Tehnostroj / Vityaz / Zavety Lenina, Trud, APK Troitskij and Agrofirma Detchinskoe would have made a contribution to revenue of EUR 13,066k, EUR 418k, EUR 2,974k, EUR 2,682k, EUR 15k and EUR 4,325k and a contribution to profit / (loss) of EUR (460)k, EUR (335)k, EUR 450k, EUR 642k, EUR 1k and EUR 76k, respectively.

No external acquisition costs were incurred in conjunction with these transactions.

Acquisitions in 2018

On 20 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Bobrov-Niva. The consideration transferred amounted to RUB 157 mln (approx. EUR 2,088k) and was paid in cash in 2017. Additionally, on 20 April 2018 OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Megaferma Berezovka. The consideration transferred amounted to RUB 309 mln (approx. EUR 4,111k) and was paid in cash in 2017. The entities are located in Voronezh region and operate in agricultural business. The Group determined that these two business acquisitions represent a linked transaction as they were negotiated together.

On 27 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Agrofirma Shipova Dubrava. The consideration transferred amounted to RUB 429 mln (approx. EUR 5,705k) and was paid in cash in 2018.

On 7 December 2018, OOO EkoNiva-APK Holding acquired 100% ownership interes in OOO Redkinskoe. The consideration transferred amounted to RUB 56,965k (approx. EUR 753k) and was paid in cash in December 2018-February 2019. This entity is located in Kaluga region and operates in agricultural business.

On 24 December 2018, OOO EkoNiva-APK Chernozemje acquired 100% ownership interest in OOO Ostashkino. The consideration transferred amounted to RUB 79,913k (approx. EUR 1,006k) and was paid in cash in December 2018. This entity is located in Voronezh region and operates in agricultural business.

The fair values of the identifiable assets and liabilities of the entities as at the dates of their acquisition were as follows:

	Bobrov-Niva and Megaferma Berezovka EUR'000	Agrofirma Shipova Dubrava EUR'000	Redkinskoe EUR'000	Ostashkino EUR '000
ASSETS				
Property, plant and equipment	8,459	3,344	545	1,039
Intangible assets	1,076	1,377	797	730
Other non-current assets	1,333	-	-	-
Inventories	518	1,093	1	4
Biological assets	2,668	1,223	-	-
Trade receivables	191	129	74	2
thereof with companies of the Group	*27*	-	-	-
Current financial assets	-	10	-	-
Other current assets	-	7	-	-
Cash and cash equivalents	2	5	16	1
	14,247	**7,188**	**1,433**	**1,776**

LIABILITIES				
Current loans and borrowings	5,344	-	-	2
thereof with companies of the Group	*2,576*	-	-	*2*
Obligations under financial lease	354	-	-	-
Current trade and other accounts payable	2,449	173	205	-
thereof with companies of the Group	*2,332*	*160*	-	-
Deferred tax liabilities	737	268	41	-
Other current non-financial liabilities	125	1,042	129	36
	9,009	**1,483**	**375**	**38**

Total identifiable net assets at fair value	5,238	5,705	1,058	1,738
Goodwill / (Bargain gain)	961	-	(305)	(732)
Purchase consideration transferred/ Cash paid	(6,199)	(5,705)	(753)	(1,006)
Net cash acquired with the subsidiary	2	5	16	1
Net cash outflow	**(6,197)**	**(5,700)**	**(737)**	**(1,005)**

Based on the fair values of the identifiable assets and liabilities there is no goodwill or bargain gain identified from acquisition of OOO Agrofirma Shipova Dubrava.

The goodwill resulting from acquisition of OOO Bobrov-Niva and OOO Megaferma Berezovka amounted of EUR 961k and comprises the value of expected synergies arising from the acquisition of these entities.

The goodwill is allocated entirely to Voronezh segment. The goodwill is not expected to be deductible for income tax purposes.

The bargain gain resulting from acquisition of OOO Redkinsloe and OOO Ostashkino amounted of EUR 305k and EUR 732k respectively.

The bargain gain resulted from better positions in negotiations of the acquirer as the Group is a large market player in the regions of operations of the related entities.

The Group expects a synergy effect from the acquisition of OOO Redkinskoe in Kaluga region and OOO Ostashkino in Voronezh region.

At the date of acquisition fair values of the trade receivables of OOO Bobrov-Niva/ OOO Megaferma Berezovka, OOO Agrofirma Shipova Dubrava, OOO Redkinskoe and OOO Ostashkino amounted to EUR 191k, EUR 129k, EUR 74k and EUR 2k, respectively, and were equal to the carrying amount of trade receivables.

OOO Bobrov-Niva/ OOO Megaferma Berezovka and OOO Agrofirma Shipova Dubrava are included into consolidation for the reporting period since the date of acquisition and contributed EUR 2,392k and EUR 3,274k of revenue, respectively, and net loss of EUR (799)k and EUR (318)k, respectively.

OOO Redkinskoe and OOO Ostashkino are also included into consolidation for the reporting period since the date of acquisition but did not contribute any revenue as the acquisition took place at the end of the reporting period. Contributed net loss for OOO Redkiskoe is EUR (23)k and zero for OOO Ostashkino.

If the acquisitions had taken place as of 1 January 2018, OOO Bobrov-Niva/ OOO Megaferma Berezovka, OOO Agrofirma Shipova Dubrava, OOO Redkinskoe and OOO Ostashkino would have made a contribution to revenue for 2018 of EUR 3,950k, EUR 4,432k, EUR 656k and EUR 1,510 and a contribution to profit / (loss) for 2018 of EUR (3,304)k, EUR (2,163)k, EUR (683)k and EUR 261k respectively.

No external acquisition costs were incurred in conjunction with these transactions.

4. KEY ACCOUNTING POLICIES AND VALUATION METHODS

4.1. Declaration of compliance

The financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The IFRS comprise the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). The Group's financial reporting is based on the IFRS effective for fiscal year beginning on 1 January 2019.

These consolidated financial statements are prepared in accordance with Sec. 315a HGB. Together with Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of IFRSs, it forms the legal basis for group financial reporting in accordance with international standards in Germany.

4.2. Basis for preparation of consolidated financial statements

The consolidated financial statements have been prepared on the basis of historical costs, except for the measurement of land and buildings as well as biological assets which were measured at fair value and self-produced agricultural produce which were measured at net realizable value.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

In preparing the consolidated financial statements, the company assumes that business activities will continue.

4.3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of 31 December 2019, in which the Parent Company directly or indirectly holds the majority of the voting rights, or otherwise has power to exercise control over their operations.

The reporting date of the Parent Company and all entities included in the financial statements is 31 December 2019. The financial statements of the consolidated entities are prepared using consistent accounting policies specified by Ekosem-Agrar AG.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Groups voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

4.4. Summary of significant accounting policies

a) Business combination and goodwill

In the case of business combinations after 1 January 2010, consolidation is performed using the acquisition method in accordance with IFRS 3 (revised 2008). The cost of an acquisition is thus measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses. Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, Financial Instruments, is measured at fair value with changes in fair value recognized in profit or loss in accordance with IFRS 9. If the contingent consideration is not within the scope of IFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Current versus non-current classification

The Group presents its assets and liabilities in the statement of financial position based on a current/non-current classification. An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle, is held primarily for the purpose of trading, is expected to be realized within twelve months after the reporting period or when it relates to cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is expected to be settled in normal operating cycle, is held primarily for the purpose of trading, is due to be settled within 12 months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. This also applies in the event of a breach of the covenants during the year if prior to the reporting date the lender forgoes his/her right to demand repayment in the 12 months following the reporting date.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Fair value measurement

The Group measures biological assets at fair value at initial recognition and at each reporting date, self-produced feedstuffs and other agricultural produce at fair value at the date of harvest. Also, own buildings and land plots within property, plant and equipment are regularly evaluated at fair value. Lease buildings and land plots recognized as right-of-use assets and included in property, plant and equipment line in the consolidated statement of financial positions are not revalued and accounted at depreciated initial cost. Total revaluation of such groups takes place once every three years or more often if there is evidence that the carrying values of buildings and land plots do not approximate their fair values at the reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of buildings and land plots. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

d) Foreign currency translation

The Group's consolidated financial statements are presented in euros which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency that is prevailing in economic environment in which the company operates and items included in the financial statement of each entity are measured using that functional currency.

• Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions.

• Group companies

In these consolidated financial statements, assets and liabilities of foreign operations are translated into euros (EUR) at the exchange rate valid on the reporting date. Income and expenses are translated at the average rate of the reporting period. If exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. In this case income and expenses shall be translated at exchange rates at the dates of the transactions. The translation differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to the particular foreign operation is recognized in the profit and loss.

On the partial disposal of a subsidiary that includes a foreign operation, the entity shall reattribute the proportionate share of the cumulative amount of the translation differences recognized in other comprehensive income to the non-controlling interests in that foreign operations.

Where an exchange difference arises on an intragroup balance that, in substance, forms part of an entity's net investment in a foreign operation, then the exchange difference is not to be recognized in profit or loss in the consolidated financial statements but is recognized in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

The essential exchange rates for the presentation of the consolidated financial statements are as follows:

Currency RUB/EUR	Closing rate	Average rate
Year ended 31 December 2018	-	73.9546
Year ended 31 December 2019	-	72.5021
Three months ended 31 March 2018	-	69.8727
Three months ended 30 June 2018	-	73.7505
Three months ended 30 September 2018	-	76.1837
Three months ended 31 December 2018	-	75.9205
At 31 December 2018	79.4605	
Three months ended 31 March 2019	-	75.1715
Three months ended 30 June 2019	-	73.8389
Three months ended 30 September 2019	-	73.1629
Three months ended 31 December 2019	-	70.5414
At 31 December 2019	69.3406	

e) Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duty.

The Group has concluded that it is the principal in all of its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods (agricultural produce such as milk, meat, crop, etc., as well as consumer dairy products) is recognized when the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transfer of control for goods typically occurs at the moment of delivery of goods to customer's location. Payment of the transaction price is normally due 5-7 days after goods delivery. Often the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognizes a refund liability for the expected future rebates.

Rendering of services

Revenue from rendering of services recognized only when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;

- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue from services represents mainly revenue from consulting, transportation and other agriculture services and are recognized over time.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional.

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

f) Government grants
Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants related to an expense item shall be recognized as income on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to an asset shall be recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government grants related to biological assets that are recognized at fair value are recognized as income in the period when the Group receives the grants.

If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires the Group to engage in specified agricultural activity, the Group shall recognize the government grant in profit and loss when, and only when, the conditions attaching to the government grant are met.

The Group receives cash government grants as a compensation for its interest expenses and present them within financial expenses, where the related interest expenses are presented.

Starting from 2017, the Group receives loans from certain Russian banks at a below market rate of interest, where the Russian government provides grants to the banks to compensate for the difference between the market rates and the contract rates of interest. The Group recognizes and measures the loans that have a below-market rate of interest in accordance with IFRS 9 with the difference between the initial carrying value of the loan (its fair value) and the proceeds received are treated as a government grant. The Group concluded that these grants relate to interest. Therefore, the Group amortizes these grants over the related loan terms in order to match with the related interest expenses.

g) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries in which the Group operates and generates taxable income.

Taxable profit is distinguishable from consolidated net profit in the statement of comprehensive income for the Group as the consolidated net profit includes expenses and profits which are taxable or tax-deductible in later years or not at all.

For group entities primarily involved in agricultural production in Russia an income tax rate of 0% applies to the income of these companies, as this income is earned almost entirely through agricultural activities. The income of the Group not earned through agricultural activities is subject to income tax at the general rate of 20%. This includes income from the sale of agricultural land.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period and included in current income tax payable. Adjustments for uncertain income tax positions are recorded within the income tax charge. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the

foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting 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 deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In general, this would entail a tax rate of 0% for the agricultural activities, making the recognition of deferred taxes for the related activities unnecessary. However, due to the use of the revaluation method set out under IAS 16 for land and buildings, a sales scenario is assumed in the calculation of deferred taxes. As tax law provides for the normal tax rate of 20% for this scenario, deferred taxes are recognized for the temporary differences relating to land and buildings used in agricultural activities.

Deferred taxes relating to items recognized outside profit or loss are recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Expenses and assets are recognized net of the amount of value added tax (VAT), except:

- when VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case VAT is recognized as a part of the cost of acquisition of the asset or as a part of the expense item, as applicable

- when receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authorities is included as a part of receivables or payables in the statement of financial position.

h) Property, plant and equipment

Property, plant and equipment (except land and buildings) are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such part as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized after the date of revaluation if any. Valuations are performed frequently to ensure that the fair value of a revaluated asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case, the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

The Group applies straight-line method of depreciation of its property, plant and equipment. Depreciation on revalued buildings is recognized in profit or loss. Land is not depreciated.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

For determining the depreciation, the following useful life ranges are used:

Buildings	5 - 30 years
Agricultural machines	3 - 15 years
Transport	3 - 15 years
Machinery and equipment	3 - 15 years
Other property, plant and equipment	2 - 21 years
Bearer plants	4 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

i) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- **Right-of-use assets**

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Except for right-of-use assets related to buildings, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

Land	lease term as land in not depreciated
Agricultural machines	3 - 7 years
Transport	3 - 7 years
Machinery and equipment	3 - 15 years
Other property, plant and equipment	2 - 21 years

Right-of-use assets related to buildings are measured at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation if any. Valuations are performed frequently to ensure that the fair value of a revaluated asset does not differ materially from its carrying amount.

The Group has the contracts where payment is “in kind”: wheat, barley, sunflower oil. Those contracts are treated as variable payments depending on a rate or index. The Group also has contracts where payments are based on a “tax value” (cadastrial value of land in the respective region). Those contacts are considered as variable payments and hence not considered as right-of-use-assets.

Right-of-use assets are subject to impairment.

- **Lease liabilities**

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of land (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. In prior years the depreciation of the cropping rights was carried out using the contractually guaranteed useful life of the particular cultivated area under the related operating lease agreement. The amortization periods was between 10 and 50 years. From 1 January 2019 cropping rights were reclassified to right-of-use assets due to adoption of IFRS 16.

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income.

Gain or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

l) Financial instruments

• Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition on the basis of their nature and purpose.

The classification of financial assets ("debt instruments") at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them, which is to hold all instruments until their maturity.

Except for trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date.

The Group's financial assets include cash and short-term deposits, loans and receivables.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortized cost (debt instruments)

- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade receivables and loans.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

An impairment analysis is performed at each reporting date using the established provision matrix which is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The provision rates are based on days past due for each individual customer but grouped by customer type, region and coverage by letter of credit or other forms of insurance. The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group also considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows which usually happens after 3-year period (when the Group loses the right for enforcement activity). The Group does not hold collateral as a security. The Group also did not have letters of credit or other forms of credit insurance which could have potentially decreased ECLs. Please refer to Note 21 for the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix.

- **Financial liabilities**

Initial recognition and measurement
Financial liabilities are classified as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification.

The category *Loans and borrowings* is the most relevant to the Group.

After initial recognition interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. The EIR amortization is included in finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

• Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amount **and**

- there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously

• Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in active markets, the fair value is determined using appropriate valuation techniques.

m) Biological assets

Animals and plants that are controlled by the Group and bring economic benefits are recognized as biological assets in accordance with IAS 41, Agriculture. The Group classifies biological assets as productive and consumable assets:

a) productive (non-current):
- productive cattle (mainly the dairy cattle and young female cattle);

b) consumable (current):
- crops sown and under cultivation;
- livestock for breeding and meat (male cattle for sale)

Biological assets are measured at fair value less costs to sale. Productive biological assets are recognized as a separate item under non-current assets in the statement of financial position, as they generate economic benefits over more than just a single reporting period. Consumable biological assets are recognized in the current asset category of the statement of financial position.

As of 31 December 2019 and 31 December 2018 the Group applied the discounted cash flow method to identify the fair value of productive biological assets (cows and heifers). For more details, please, refer to Note 14.

Agricultural produce harvested from biological assets is recognized at fair value less costs to sell. Plantings of agricultural crops are recognized as biological assets at the time of sowing. Expenses for the cultivation of undeveloped land (fall-ploughed land and fallow land) are recognized as work in progress in the amount of the costs incurred.

For calculation of fair value of unfinished production in crop growing, planed data with a division on cost items per each crop are counted till the moment they are ready to be harvested: seeds, fertilizers, crop protecting agents, salary and other costs. Information about percentage of readiness, unharvested area per each crop, plan yield and expected selling prices is accumulated at the reporting date. Future costs, that are expected to be incurred till the harvest, are calculated at the reporting date (calculation is made based on both direct and indirect costs). Fair value is based on actual costs with margin taken into account adjusted on percentage of readiness.

Plants which do not bring any economic benefit to the Group are not recognized as biological assets.

n) Inventories

Inventories are valued at the lower of cost and net realizable value (all inventories except agricultural produce) or at net realizable value (agricultural produce including own produced feed staff).

The cost of inventories comprises all costs of purchase, production costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The costs of inventories are assigned by using the weighted average cost formula.

The costs of inventories may not be recoverable if those inventories are damaged, if they become wholly or partially obsolete, or if their selling prices have declined. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs.

The Group distinguishes inventories as follows:

- finished goods
- work in progress
- raw materials
- goods for resale

Finished goods are essentially self-produced agricultural products intended for sale (mainly crops on the stock); self-produced feedstuff is classified in the category of raw materials.

Work in progress primarily contains expenses arising during a reporting period in order to prepare farmland for sowing in later reporting periods or fall-ploughed land.

- own produced feedstuffs

These are valued at fair value at the date of harvest in accordance with IAS 41, Agriculture, and at net realizable value in accordance with IAS 2.3a, Inventories. Changes in value are recognized in profit or loss in the statement of comprehensive income.

Valuation is based on the specific protein content of haylage as well as on the specific starch content of corn silage based on laboratory tests carried out on a sample basis of the feedstuffs in stock. In the case of haylage, the protein content calculated is converted to the substitute soy meal, on which basis it is valued at the observed market price of soy meal at the reporting date. Corn silage is valued in the same way based on the determined starch content and the price for corn.

o) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after fifth year.

Impairment losses are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revaluated and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at the revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its' carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and highly liquid short-term deposits with an original maturity of three months or less at inception.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

q) Equity capital

Equity capital is recognized as the residual claim of shareholders to net assets remaining after the deduction of debts. Expenses involved in the increase of equity capital are not presented in the statement of comprehensive income but recognized directly as a reduction of equity capital.

r) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. The actual values may deviate from the estimations.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. The circumstances and assumptions regarding future developments may change due to market developments and conditions beyond the Group's control. Such changes do not affect the underlying assumptions until they occur.

Going concern

These consolidated financial statements have been prepared on a going concern basis that envisages the realization of assets and settlement of liabilities in the normal course of business. At 31 December 2019 (and 2018) the Group's current liabilities exceeded the current assets. For the year ended 31 December 2019 the Group for the first time had net inflows from operating activities in the amount of EUR 23,253k while in 2018 it was a net outflow of EUR 15.721k, at the time mainly driven by an increase in interest paid and VAT receivables relating to investments in property, plant and equipment. Further, for the year ended 31 December 2019 (and 2018) the Group's results were attributed to a significant extend to non-cash revaluations in balances of fall-ploughed land and increase in fair value of agricultural produce and biological assets. The Group's results of operations are significantly affected by the still significant growth of the Group's livestock and the related feedstuff at stock. The number of cows has increased and so has the volume of milk produced. Therefore, there is a growing demand for feedstuff as well as a growing value of the herd as well as the necessity to enlarge the related assets. This all leads to the use of cash, which results in cash-outflows from operations – a situation that the management of the Group is aware of and deals with.

Further, at 31 December 2019 the Group's current loans and borrowings of EUR 378 mln (prior year: EUR 217 mln) primarily represent Russian bank loans, which the Group plans to refinance. The Group is continuously talking to the financing banks to ensure a smooth process of refinancing of those short-term loans. From previous experience, it can be said that loans that have to be paid back to a bank can be re-drawn shortly after that. Apart from the on-going conversations with banks about the continuous refinancing of the short-term loans the finance management is in negotiations with one bank about partly refinancing the short-term loans with a mid- to long-term instrument in order to significantly reduce the short-term refinancing burden. At the time of preparation of these financial statements there was no final decision on this topic but advanced negotiations that should result in agreements still within the second quarter of 2020.

At 31 December 2019, the Group didn't breach any restrictive covenants related to its non-current loans (Note 24). So no of these loans were classified on demand. Based on the planning numbers for the year 2020 the Group would breach certain restrictive covenants as per 31 December 2020. This situation has been similar in prior years and is related to the significant growth of the operations. The company is in negotiations with the bank to adjust the covenants to avoid such breaches.

Bond no I (2012 / 2021) in the outstanding amount of EUR 36.563 mln is due for repayment at 23 March 2021. The company does at the date of issuing those financial statements not have a secured refinancing for this amount. As from today's perspective the management is working on different scenarios that include both equity and debt financing as well as the operational cash-flows that the company already generates. As those various options depend on the decisions of banks as well as other financing institutions and the respective discussions are on-going the company is not in a situation at the moment to report about them in detail. Nevertheless, the management is convinced that the repayment schedule will be in place in time when due.

If, contrary to management's expectations, the supply of cash and cash equivalents from operating activities and through external financing is not possible or only possible at significantly poorer conditions than before, this could possibly result in the insolvency of the company.

Operating environment

In Russia, the main market of the Ekosem-Agrar Group, economic development slowed down again after a stronger year 2018 (2.3%) and reached a growth rate of 1.3% for 2019. The average inflation rate in the year under review was 4.5% (2018: 2.9%).

The Russian milk market is still characterized by a structural undersupply. This deficit is covered by imports of dairy products. In 2019, products with a raw milk equivalent of an estimated 7.0 mln tons were imported. The degree of self-sufficiency fell slightly from 77% in 2018 to 76% in 2019. In terms of the market for marketable milk from Russian agricultural companies, the Ekosem-Agrar Group has a market share of 4.7% (2018: 3.1%).

The price of raw milk in Russia developed positively for the Group in the past financial year. While it averaged 35 euro cents (excluding VAT) in the 2018 financial year, it rose to an average of just under 40 euro cents in the past financial year. From over 41 euro cents at the beginning of the current year, the milk price had fallen to around 36 euro cents by 30 April 2020. This is mainly due to the weakness of the rouble caused by the low oil price and to a smaller extend due to the seasonally lower milk prices towards the middle of the year as a result of rising milk deliveries. In the past, the Russian rouble milk price has reacted to rouble weakness with a slight time lag by rising. This is due to the commodity character of dairy products such as milk powder and butter, which are traded worldwide in dollars and euros. For this reason, it can be assumed that the Russian rouble milk price will rise in the medium term if rouble weakness persists.

Biological assets and agricultural produce

The valuation of agricultural produce, which has already been harvested and has not yet been sold on the reporting date, is based on market prices for the respective type of product. Market prices are determined on the basis of data collected from the Russian market-monitoring institutes, offers from suppliers and the Group’s actual selling prices around the valuation date, which in the opinion of management reflects the market activity most accurately. This data also provides the basis for valuing unharvested crops. Valuation of animals is also based on data collected from the Russian market-monitoring institutes as well as the Group’s actual selling prices on meat around the valuation date.

The valuation of biological assets and agricultural produce including own produced feedstuffs also depends on judgments, estimates and assumptions, as explained in the accounting policies and measurement bases. These are mainly as follows:

- **Milk cows:**
  milk yields, milk price, number of newborn calves by 100 cows per year, cows’ expected lifetime.

- **Winter crops:**
  the expected harvest yield and the selling prices of future agricultural produce

- **Own produced feedstuffs:**
  the market price for the alternative feedstuffs, the protein and starch contents, and harvest yield

Below, the most important forward-looking assumptions, as well as other essential sources of valuation uncertainty at the end of a reporting period are mentioned, which can generate a considerable amount of risk that the assets and liabilities recognized may have to be significantly restated in the next business year.

The degree of completion for agricultural products, which have not yet been harvested on the reporting date, is estimated on the basis of ongoing observation and insights gained from experience. Their value is based upon such data and the market prices forecasted by management based on its expectation of future harvest yield, supply and demand as well as based on analysis performed by reputable Russian and foreign market-monitoring institutes and agencies. Changes in these market prices would result in changes in the value of unharvested crops. On the reporting date, the value of unfinished crop products in current assets was EUR 9,373k (prior year: EUR 7,407k).

The valuation of non-current as well as current animal assets also involves estimates of the continued healthy development of the livestock. Additional valuation parameters are regularly measurable criteria, which result in the carrying amount based on the market prices ascertained by third parties, which is primarily milk price. On 31 December 2019, the Group had non-current biological assets of EUR 453,153k (prior year: EUR 255,909k) and current biological assets of EUR 413k (prior year: EUR 586k) (livestock).

Revaluation of land and buildings
The Group measures land and buildings at revalued amounts with changes in fair value being recognized in OCI. The Group engages an independent valuation expert to assess the fair value of its land and buildings. The Group performed the full revaluation of its land and buildings as of 30 September 2019. Subsequent to this date, the Group performed revaluation of land and buildings for newly acquired/constructed land and buildings. Land was valued by reference to market data, using comparable prices adjusted for specific market factors such as nature, location, quality and condition of the property. Buildings were valued based on current replacement cost, which was supplemented by an impairment test. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 14 and 15.

As of 31 December 2019 the Group's management revisited the valuation of land and buildings made as of 30 September 2019 and concluded that the carrying amounts of the Group's land and buildings continued to represent their fair values and no full revaluation of land and buildings were required.

In accordance with Russian civil law, the Group owns portions of certain areas of land in which other owners, primarily individuals each owning relatively minor portion, also own portions ("jointly owned land"). The Group cultivates this land with the aim of acquiring additional portions of the land over time and obtaining the full ownership right. This type of ownership gives the Group the right to pro rata profits from the use of the land and obligation to cover the pro rata expenses for the maintenance of its share of the land. Management assumes that obtaining full ownership of jointly owned land can be achieved without any great effort or expense and will be equivalent to full ownership. For this reason, management did not differentiate between jointly owned land and land in full ownership in these consolidated financial statements. The Group's management as well as an independent expert appointed by the Group are of the opinion that the market prices for jointly owned land are comparable with those for land in full ownership. For this reason, no markdowns were recognized when calculating the fair values of the portions of land.

Lease term of contracts with extension options and termination options
In determining the lease term, the Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the Group's investment strategy, relevant investment decisions, the residual useful life of the related major constructions and leasehold improvements as well as costs relating to the termination of the lease.

Incremental borrowing rates for calculation of lease liability
Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Because there are normally no absolutely similar to lease agreements borrowings, which interest rates are observable in open market, the Group derives incremental borrowing rates from both internal and external data sources applying significant judgement in such calculations.

6. NEW AND AMENDED STANDARDS

New and amended standards and interpretations adopted

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2019. Standards, Interpretations and amendments other than those described below effective 1 January 2019 did not have a material impact on the financial position or performance of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16, Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has lease contracts for various items of property, plant and equipment: land plots, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16 and for subsequent accounting, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets below EUR 5k (this practical expedient was applied for all classes of right-of-use assets). The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group has adopted IFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019. Under this approach the Group has not restated comparatives for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules were therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16 the Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. The Group measured these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12.4%.

For leases previously classified as operating leases applying IAS 17 the Group at the date of transition to IFRS 16 measured right-of-use assets on a lease-by-lease basis an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of transition to IFRS 16.

The Group has elected to use the following practical expedients proposed by the standard:

- On initial application initial direct costs excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 was only applied to contracts that were previously classified as leases (IFRIC 4);
- For all classes of underlying assets each lease component and any associated non-lease components were accounted as a single lease component;
- Lease payments for contracts with a lease term of 12 months or less for the classes of underlying assets other than land and buildings continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term.

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	1 January 2019 EUR'000
Assets	
Property, plant and equipment	(34,063)
Intangible assets	(11,063)
Right-of use-assets	50,579
Other non-current assets	(5,118)
Other current assets	(2,022)
Total assets	**(1,687)**

Liabilities	
Lease liabilities	(1,687)
Total liabilities	**(1,687)**

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of EUR 34,063k were recognized and excluded from property, plant and equipment;
- Cropping rights in the amount of EUR 11,063k were reclassified from intangible assets to property, plant and equipment;
- VAT was excluded from finance lease liabilities in the amount of EUR 7,140k and related VAT receivables from finance leases was derecognized from other current assets of EUR 2,022k and other non-current assets of EUR 5,118k;
- Obligations under finance lease statement of position line was renamed to lease liabilities;
- Lease liabilities related to operating lease agreements of EUR 5,453k were recognized and included in lease liabilities line of statement of financial positions.
- Additional lease liabilities were recognized and included under 'Lease liabilities': long-term and short-term parts respectively.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	1 January 2019 EUR'000
Operating lease commitments as at 31 December 2018	17,701
Weighted average incremental borrowing rate as at 1 January 2019 (as used)	12.4%
Discounted operating lease commitments as at 1 January 2019	11,118
Less: Commitment relating to the contracts based on cadastrial values	(5,665)
Add: Commitments relating to leases previously classified as finance leases **(after correction of VAT previously recognized)**	29,622
Lease liabilities as at 1 January 2019	**35,075**

The following other new standards and amendments to IFRSs effective for the financial year beginning 1 January 2019 did not have a material impact on the Group and did not result in change of the Group's accounting policy:

- Amendments to IFRS 9 Prepayment Features with Negative Compensation;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement;
- Annual Improvements to IFRS Standards 2015-2017 cycle (IFRS 3 Business Combination, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs).

Standards issued but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendment to IFRS 3 *Business Combinations*	1 January 2020
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021*

* Subject to EU endorsement.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application.

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers comprises the following:

	2019 EUR'000	2018 EUR'000
Raw milk	255,515	138,088
Milk processing	38,251	27,569
Grain and other agricultural products	78,015	49,448
Livestock and animal products	18,585	18,288
Other	12,298	11,516
	402,664	**244,909**

All revenue from contracts with customers is determined as a revenue at one point of time.

In 2019, the Group had no customers with a share of revenue exceeding ten percent of the Group's revenue. Two biggest customers stand for 9.2% and 7.5% (in 2018 two biggest customers stood for 8% each). These customers are purchasing exclusively raw milk.

Total amount of raw milk sold to third parties in 2019 is 642,800 tons (449,300 tons in 2018). Average selling price in 2019 is 28.72 RUB excl. VAT (0.396 Euro) and in 2018 25.98 RUB excl. VAT (0.351 Euro). Total raw milk output in 2019 is 739,000 tons. An increasing part of produced raw milk is going to own processing.

8. OTHER OPERATING INCOME

Other operating income is composed of the following items:

	2019 EUR'000	2018 EUR'000
Government subsidies	27,395	16,230
Consulting services and agent fees	4,670	3,493
Gain from the sale of property, plant and equipment	1,936	-
Rent income	1,437	939
Currency translation difference	593	-
Other	6,452	3,705
	42,483	**24,367**

Government subsidies recognized in other operating income comprise the following:

	2019 EUR'000	2018 EUR'000
Ongoing crop and dairy production support	13,131	8,743
For the purchase of breeding animals	10,271	5,582
Subsidies relating to investments in property, plant and equipment	3,993	1,905
	27,395	**16,230**

For subsidies relating to investments in property, plant and equipment see also Note 25.

The government subsidies for the purchase of breeding animals that are recognized at fair value were recognized in profit or loss. Other various subsidies relating to operating expenses were also recognized in profit or loss in order to match the respective expenses.

Subsidies relating to investments in property, plant and equipment are recognized as a deferred income in the statement of financial position and released to profit and loss over the life of the related assets (Note 25).

Additionally, the Group receives interest subsidies from the government and presents them within the financial expenses, where the related interest expenses are presented (see Note 12).

9. COST OF MATERIALS

Cost of materials comprises the following:

	2019 EUR'000	2018 EUR'000
Feedstuffs	73,723	45,100
Consumables and spare parts	44,375	32,851
Fuel and lubricants	40,606	25,147
Fertilizers	23,795	18,229
Crop protection agents	12,331	7,962
Seed	9,940	7,194
Goods for resale	7,091	4,625
	211,861	**141,108**

Feedstuffs are mainly purchased soybean cake and rapeseed cake. However, the significant portion of the Group's feedstuff is produced by the Group based on its crops, which are included into profit or loss in the consolidated statement of comprehensive income in line ”Change in balances of agricultural produce and biological assets”.

10. PERSONNEL COSTS

Personnel costs were as follows:

	2019 EUR'000	2018 EUR'000
Wages and salaries	79,230	50,286
Pension contributions	15,991	10,197
Other social insurance contributions	6,480	3,947
	101,701	**64,430**

Average headcount (full-time equivalents) was 13,027 in fiscal year 2019 (prior year: 8,742). On 31 December 2019, the Ekosem Group had 13,706 employees (full-time equivalents) (prior year: 10,186).

The employees are shown by function below:

Full-time equivalents	2019	2018
Production	8,889	6,581
Sales	126	79
Administration	740	563
Other	3,951	2,963
	13,706	**10,186**

“Other” relates to employees, providing various services, areas such as construction workers, canteen and social facilities’ employees.

11. OTHER OPERATING EXPENSES

The other operating expenses comprise the following:

	2019 EUR'000	2018 EUR'000
Services	19,452	13,341
Transportation costs	14,489	7,578
Legal and consulting costs	8,560	7,537
Property tax and other tax expenses	7,683	5,425
Leasing expenses	4,736	3,799
Loss on disposal of property, plant and equipment	3,140	1,920
Loss from revaluation of property, plant and equipment	2,873	300
Travel expenses	2,727	1,937
Insurance expenses	2,589	1,520
Bank commissions	2,555	1,346
Change in expected credit loss allowance on accounts receivable / change in impairment allowance on accounts receivable	2,503	696
Claims and penalties from third parties	1,999	684
Postage, Internet, telephone	815	638
Foreign currency translation loss	-	981
Other	9,784	7,197
	83,905	**54,899**

Services primarily consists of utilities, advertising and marketing, expenses, agent commissions and other services related to the Group’s operating business activity.

12. FINANCIAL INCOME / FINANCIAL EXPENSES

Financial income is composed of the following items:

	2019 EUR'000	2018 EUR'000
Interest income	7,610	4,919
Foreign currency translation gain	829	-
Financial income	**8,439**	**4,919**

Financial expenses comprise the following:

	2019 EUR'000	2018 EUR'000
Interest expenses	112,635	70,000
Foreign currency translation loss	-	976
Government grants related to interest expenses	(35,051)	(21,090)
Bank commissions related to financial activities	8,165	5,851
Other	(3)	(111)
Financial expenses	**85,746**	**55,626**

The interest expense includes EUR 26,802k which are not effectively paid by the company. This refers to the Central Bank Interest rate in subsidized loans which is paid directly from the government to the financing banks. The same refers to an amount of EUR 26,802k included in government grants which the company does not effectively receive but which is paid from the government directly to the financing banks. For more information about interests paid and subsidies received by the Group please refer to Consolidated cash flow statement.

The government interest subsidies were received for loans which fall under the eligibility criteria of the Russian Federation and/or the respective region. Starting from 1 January 2017, there was a change in interest subsidies allocation mechanism. If a loan is taken for an activity eligible for subsidy, from 2017 the borrower submits an application to the bank. If all bank's requirements for a loan are met the bank receives the approval from Ministry of Agriculture of Russian Federation that the borrower can be included into subsidy program. If the approval is received the borrower gets the loan with lower than market interest rate; and the bank receives the compensation of the difference between the market interest rate and the contracted loan interest rate directly from the government. This lower than market interest rate is dependent on the key interest rate of the Russian Central Bank at the time the loan is granted and cannot be higher than 5%. Upon loan receipt, the Group recognizes the lower than market interest rate loans at fair value determined based on the market rates with the difference recognized as government grants related to interest expenses and amortized over the term of the loans.

For the loans received before 1 January 2017 the subsidizing procedure remains the same as in previous periods. That means the Group continues to pay the full amount of market interest rate to the bank and receives a compensation from the government.

13. INCOME TAXES

Income taxes recognized in the statement of comprehensive income

Income tax expense is composed of the following items:

	2019 EUR'000	2018 EUR'000
Current taxes Current year (tax expense)	625	5,487
Deferred taxes Recognition and reversal of temporary differences tax expense / (previous year tax income)	172	(667)
Grand total tax expense	**797**	**4,820**

Taxable profits of the Russian subsidiaries which are essentially achieved in primary agricultural production are subject to a tax rate of 0%. Taxable profits of the Russian holding companies as well as OOO EkoNiva-Semena, OOO NivaStroy, OOO EkoNiva-Farm, milk processing companies and a few smaller companies are subject to ordinary corporate income tax rate of 20%. These tax rates were applied in calculating the deferred tax assets and liabilities. A tax rate of 30% was applied for the German companies.

Tax reconciliation

	2019 EUR'000	2018 EUR'000
Profit before tax	36,807	24,537
Income tax at a tax rate of 30%	(11,042)	(7,361)
Effect of taxation at 0% in Russia	12,592	3,901
Effects of taxation at 20% in Russia	501	2,460
Utilization of deferred tax assets on loss carry-forwards not previously recognized	2	4
Non-recognition of deferred tax assets on loss carryforwards	(8,009)	(5,170)
Effect of tax-exempt income and non-deductible expenses	(1,331)	1,035
Effect of non-taxable gain on bargain purchase	6,490	311
	(797)	**(4,820)**

Income taxes recognized directly in equity

A calculation of deferred taxes takes place as part of the revaluation of land and buildings based on the revalued amounts which exceed the taxable carrying amounts. The revaluation reserve is recognized directly in other comprehensive income; the corresponding taxes are also recognized in other comprehensive income and not recognized in profit or loss.

Movement of deferred taxes

31 December 2019	Balance at 12/31/2018 EUR '000	Recognized in the statement of financial position due to business combination EUR '000	Recognized in the statement of comprehensive income EUR '000	Recognized directly in equity EUR '000	Currency translation differences EUR '000	Balance at 12/31/2019 EUR '000
Property, plant and equipment	(15,946)	(4,083)	46	(5,854)	(2,493)	(28,330)
Inventories	256	-	(3)	-	37	290
Trade receivables	36	-	(14)	-	5	27
Other current assets	243	-	87	-	40	370
Other	715	-	(288)	-	93	520
	(14,696)	**(4,083)**	**(172)**	**(5,854)**	**(2,318)**	**(27,123)**

31 December 2018	Balance at 12/31/2017 EUR '000	Recognized in the statement of financial position due to business combination EUR '000	Recognized in the statement of comprehensive income EUR '000	Recognized directly in equity EUR '000	Currency translation differences EUR '000	Balance at 12/31/2018 EUR '000
Property, plant and equipment	(14,782)	(1,046)	(219)	(1,877)	1,978	(15,946)
Inventories	5	-	270	-	(19)	256
Trade receivables	37	-	4	-	(5)	36
Other current assets	288	-	(7)	-	(38)	243
Other	162	-	619	-	(66)	715
	(14,290)	**(1,046)**	**667**	**(1,877)**	**1,850**	**(14,696)**

Significant portion of deferred tax liabilities results from the regular revaluation of land at fair value. IFRSs require the assumption that the land, which has indefinite life, will be sold at some point in future and that the difference between the values in the tax accounts and the IFRS financial reporting are reversed. As the sale of land is not deemed to be an agricultural activity, revenue from its sale is taxable at a rate of 20% in Russia even if the company generating the profit is an agricultural company exempt from tax on profits. This principle must be applied even if the company does not intend to sell the land.

The Group has total tax loss carryforwards amounting to EUR 52,892k (prior year EUR 42,247k). Of this amount EUR 31,630k (prior year EUR 31,600k) is attributable to the German Group entities with regard to corporate income tax (trade tax: EUR 13,075k (prior year EUR 14,200k)) for which taxable profits/losses are subject to a tax rate of 15.8% or 9.3%. The use of loss carryforwards in Germany is related to the limitation on the deductibility of interest expenses. As a result, deferred taxes were not recognized on loss carryforwards or interest carryforwards. The companies in Russia account for EUR 21,292k to companies in Russia (prior year EUR 10,647k). For these companies taxable profits/losses are subject to 20% income tax. For entire tax loss carryforwards no deferred tax assets have been recognized to date. There are no time restrictions on the carryforward of tax losses.

As of 31 December 2019, no deferred tax liabilities (as in the prior year) were recognized for taxes on profits not transferred by the Ekosem Group's subsidiaries to the parent. The Ekosem Group decided that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in the Group's subsidiaries, for which a deferred tax liability has not been recognized, aggregate to EUR 347,533k (prior year: EUR 230,554k).

Tax risks in the Russian Federation

The major part of the Group's business activities takes place in the Russian Federation. The current Russian tax legislation is subject to changing interpretations, selection and inconsistent application and changes which may occur regularly and at short notice and may also have retroactive effect. Assessment periods may be audited for the past three years. Under certain circumstances, the Russian tax authorities may also audit periods in the more distant past.

There are requirements on the control of transactions between related parties in the Russian tax legislation for income tax, including the requirements on related parties, the list of transactions with related parties, which are subject to control, pricing methods and requirements on the justification of pricing methods as well as regulations for the reporting of transactions with related parties to the tax authorities of the Russian Federation (RF FTS) and the related documentation requirements. In 2019, the Group calculated its tax liabilities for transactions with related parties on the basis of actual prices. The Group is constantly taking measures to meet the requirements of Russian tax laws with regard to such transactions.

There are requirements in the Russian tax legislation designed to limit the usage of low tax jurisdictions and aggressive tax planning, including internationally acceptable terms such as "taxation of controlled foreign companies", "company's tax residency" and "actual recipient (owner) of income". Furthermore, Russian tax authorities increased level of cooperation with tax authorities of foreign jurisdictions on data communication about various business transactions.

Executive management assumes that its interpretation of the tax laws and the industry practice is adequate and the tax items of the consolidated entities are correct. The Group's interpretation of the Russian tax laws could be disputed and the tax authorities could challenge the methods applied. This could lead to additional taxes, fines and sanctions against the Group. Tax items identified by the Group which could be subject to a different interpretation of the tax laws or other regulations. Management believes that at 31 December 2019 and 2018 the respective risk will not exceed 1% of total liabilities.

14. FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

31 December 2019	Date of valuation	Note	Fair value measured using quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservab-le inputs Level 3	Total
Assets measured at fair values						
Property, plant and equipment	31 December 2019	15	-	198,398	547,286	**745,684**
Right-of-use asserts	31 December 2019		-	-	1,409	**1,409**
Non-current biological assets	31 December 2019	19	-	-	453,153	**453,153**
Current biological assets	31 December 2019	19	-	413	9,373	**9,786**
Non-current financial assets	31 December 2019	30.8	276	-	-	**276**
Assets for which fair values are disclosed						
Non-current financial assets	31 December 2019	30.8	-	47,123	-	**47,123**
Trade receivables	31 December 2019	30.8	-	17,515	-	**17,515**
Current financial assets	31 December 2019	30.8	-	59,618	-	**59,618**
Other current assets	31 December 2019	30.8	-	61,053	-	**61,053**
Liabilities for which fair values are disclosed						
Loans and borrowings	31 December 2019	30.8	177,971	999,596	-	**1,177,567**
Lease liabilities	31 December 2019	30.8	-	58,601	-	**58,601**
Current trade accounts payable	31 December 2019	30.8	-	138,355	-	**138,355**
Other current financial liabilities	31 December 2019	30.8	-	28,988	-	**28,988**
Other current non-financial liabilities	31 December 2019	30.8	-	47,649	-	**47,649**

31 December 2018	Date of valuation	Note	Fair value measured using: quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets measured at fair values						
Property, plant and equipment	31 December 2018	15	-	112,549	324,176	**436,725**
Non-current biological assets	31 December 2018	19	-	-	255,909	**255,909**
Current biological assets	31 December 2018	19	-	586	7,407	**7,993**
Non-current financial assets	31 December 2018	30.8	223	-	-	**223**
Assets for which fair values are disclosed						
Non-current financial assets	31 December 2018	30.8	-	24,404	-	**24,404**
Trade receivables	31 December 2018	30.8	-	20,587	-	**20,587**
Current financial assets	31 December 2018	30.8	-	51,105	-	**51,105**
Other current assets	31 December 2018	30.8	-	39,678	-	**39,678**
Liabilities for which fair values are disclosed						
Loans and borrowings	31 December 2018	30.8	130,169	643,435	-	**773,604**
Lease liabilities	31 December 2018	30.8	-	36,762	-	**36,762**
Current trade accounts payable	31 December 2018	30.8	-	63,601	-	**63,601**
Other current financial liabilities	31 December 2018	30.8	-	4,570	-	**4,570**
Other current non-financial liabilities	31 December 2018	30.8	-	35,789	-	**35,789**

There were no transfers between Level 1, Level 2 and Level 3 during the reporting period.

The table below contains the main unobservable inputs used in the calculation.

Assets	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Property, plant and equipment - Buildings	Depreciated replacement cost	Estimated construction costs, unified replacement cost of construction per cubic meter, unified annual construction costs indexes	Increase (decrease) in these inputs would increase (decrease) the fair value
Biological assets - Livestock	DCF	Milk yields	Increase (decrease) in milk yields would increase (decrease) the fair value
		Milk price	Increase (decrease) in milk price would increase (decrease) the fair value
		Number of newborn calves by 100 cows per year	Increase (decrease) in number of calves would increase (decrease) the fair value
		Discount rate	Increase (decrease) in discount rate would decrease (increase) the fair value
Biological assets - Crop production	DCF	Expected selling price of crop at the date of harvest for winter crops	Increase (decrease) in expected selling price would increase (decrease) the fair value
		Harvest yield	Increase (decrease) in harvest yield would increase (decrease) the fair value
		Future expenses	Increase (decrease) in expenses would decrease (increase) the fair value

Important inputs for the valuation of livestock are milk yields and market price for milk.

As of 31 December 2019, an increase in the milk yields by 0.5 kilo/cow/day would lead to an increase in the fair value by EUR 28,580k (prior year: EUR 17,814k). A corresponding fall by the same amount would result in decrease in the fair value of the herd by EUR 28,580k (prior year: EUR 17,814k). An increase in the milk prices by 5% would lead to an increase in the fair value by EUR 75,363k (prior year: EUR 46,523k). A corresponding fall by the same amount would result in decrease in the fair value of the herd by EUR 75,363k (prior year: EUR 46,523k).

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise the following:

EUR '000	Land	Buil-dings	Assets under con-struction inclu-ding ad-vances	Agricul-tural machines	Trans-port	Other machines	Other property, plant and equip-ment	Bearer plants	Total
Acquisition costs / Revaluation									
As of 01/01/2018	**99,144**	**266,874**	**64,906**	**64,685**	**14,916**	**66,247**	**10,891**	**8,902**	**596,565**
Additions	10,275	112,054	106,909	56,875	12,043	31,959	13,812	6,247	**350,174**
Acquisition due to business comibinations	7,478	3,482	1,515	117	25	733	37	-	**13,387**
Assets put into operation and reclassification	644	13,883	(14,688)	284	27	488	965	-	**1,603**
Disposals	(17)	(150)	(1)	(629)	(404)	(506)	(52)	(4,718)	**(6,477)**
Revaluation	9,384	16,415	-	-	-	-	-	-	**25,799**
Modernization	-	-	-	-	-	-	-	-	**-**
Currency translation	(14,359)	(47,495)	(15,201)	(12,679)	(2,816)	(10,963)	(2,491)	(1,293)	**(107,297)**
As of 12/31/2018	**112,549**	**365,063**	**143,440**	**108,653**	**23,791**	**87,958**	**23,162**	**9,138**	**873,754**

As of 12/31/2018 IFRS 16 adoption effect (Note 6)	-	(1,745)	-	(20,724)	(12,163)	(9,507)	(169)	-	**(44,308)**
As of 01/01/2019	**112,549**	**363,318**	**143,440**	**87,929**	**11,628**	**78,451**	**22,993**	**9,138**	**829,446**
Additions	11,403	92,676	94,828	37,726	2,193	32,499	18,096	11,196	**300,617**
Acquisition due to business combinations	27,383	16,378	257	1,742	189	3,101	2,698	-	**51,748**
Assets put into operation and reclassification	575	44,054	(65,213)	-	74	4,215	1,773	-	**(14,522)**
Disposals	(1,159)	(3,349)	(180)	(615)	(515)	(1,085)	(451)	(4,056)	**(11,410)**
Revaluation	29,270	41,106	-	-	-	-	-	-	**70,376**
Modernization	-	-	-	-	-	-	-	-	**-**
Currency translation	18,377	57,210	22,410	14,742	1,815	13,127	4,366	1,659	**133,706**
As of 12/31/2019	**198,398**	**611,393**	**195,542**	**141,524**	**15,384**	**130,308**	**49,475**	**17,937**	**1,359,961**

EUR '000	Land	Buil-dings	Assets under con-struction inculding advances	Agricultural machines	Transport	Other machines	Other property, plant and equip-ment	Bearer plants	Total
Amortization, depreciation and impairment									
As of 01/01/2018	**-**	**(34,622)**	**-**	**(29,242)**	**(7,315)**	**(30,504)**	**(1,952)**	**(3,508)**	**(107,143)**
Disposals	-	54	-	253	323	435	20	3,551	**4,636**
Depreciation	-	(11,785)	-	(11,608)	(3,912)	(11,579)	(1,191)	(1,526)	**(41,601)**
Currency translation	-	5,466	-	4,802	1,225	4,759	344	328	**16,924**
As of 12/31/2018	**-**	**(40,887)**	**-**	**(35,795)**	**(9,679)**	**(36,889)**	**(2,779)**	**(1,155)**	**(127,184)**

As of 12/31/2018 IFRS 16 adoption effect (Note 6)	-	337	-	4,965	2,866	2,072	5	-	**10,245**
As of 01/01/2019	**-**	**(40,550)**	**-**	**(30,830)**	**(6,813)**	**(34,817)**	**(2,774)**	**(1,155)**	**(116,939)**
Disposals	-	1,788	-	283	470	484	124	1,907	**5,056**
Depreciation	-	(19,487)	-	(16,104)	(1,716)	(15,040)	(2,416)	(2,504)	**(57,267)**
Currency translation	-	(6,761)	-	(5,350)	(1,055)	(5,732)	(507)	(199)	**(19,604)**
As of 12/31/2019	**-**	**(65,010)**	**-**	**(52,001)**	**(9,114)**	**(55,105)**	**(5,573)**	**(1,951)**	**(188,754)**

EUR '000	Land	Buil-dings	Assets under con-struction inculding advances	Agricultural machines	Transport	Other machines	Other property, plant and equip-ment	Bearer plants	Total
Net carrying amount of property, plant and equipment (excluding leased assets)									
12/31/2018	112,549	324,176	143,440	72,858	14,112	51,069	20,383	7,983	**746,570**
12/31/2019	198,398	546,383	195,542	89,523	6,270	75,203	43,902	15,986	**1,171,207**

Carrying amount of property, plant and equipment leased out under lease agreements (right-of-use assets) as 31 December 2019 amounted to EUR 91,591k and comprise the following:

EUR '000	Land	Buildings	Agricultural machines	Transport	Other machines	Total
Acquisition costs / Revaluation						
As of 01/01/2019	**16,516**	**1,745**	**20,724**	**12,163**	**9,676**	**60,824**
Additions	3,398	-	10,572	10,719	8,699	**33,388**
Acquisition due to business combinations	11,602	-	433	-	-	**12,035**
Assets put into operation and reclassification	3,633	-	-	-	-	**3,633**
Disposals	-	-	-	(98)	-	**(98)**
Revaluation	-	728	-	-	-	**728**
Currency translation	2,970	288	3,542	2,259	1,809	**10,868**
As of 12/31/2019	**38,119**	**2,761**	**35,271**	**25,043**	**20,184**	**121,378**
Amortization, depreciation, and impairment						
As of 01/01/2019	**-**	**(337)**	**(4,965)**	**(2,866)**	**(2,076)**	**(10,244)**
Disposals	-	-	-	13	-	**13**
Depreciation	(2,505)	(60)	(5,652)	(5,937)	(3,124)	**(17,278)**
Currency translation	(114)	(52)	(983)	(689)	(440)	**(2,278)**
As of 12/31/2019	**(2,619)**	**(449)**	**(11,600)**	**(9,479)**	**(5,640)**	**(29,787)**
Net carrying amount of leased property, plant and equipment						
12/31/2019	35,500	2,312	23,671	15,564	14,544	**91,591**

The amount of borrowing costs capitalized on the construction of cow houses and other buildings during the year ended 31 December 2019 was EUR 2,940k (2018: EUR 3,355k). The rate used to determine the amount of borrowing costs eligible for capitalization was 10.22% (2018: 10.77%), which is the nominal interest rate for the respective loans. The effective interest rate including subsidies effect in 2019 is 1.8% (2018: 2.17%).

As of 31 December 2019, the Group had advances given for acquisition of property, plant and equipment totaling to EUR 75,899k (2018: EUR 64,512k). Those advances are included into the line 'Assets under construction including advances' with a total of EUR 195,542k (2018: EUR 143,440k) in the table above.

15.1 Assets pledged as security

Property, plant and equipment belonging to the Group have a total carrying amount of EUR 1,171,207k (prior year: EUR 746,570k), of which assets with carrying amount of EUR 751,667k are pledged to secure Group liabilities (prior year: EUR 372,368k). Additionally, as of 31 December 2019, the Group also had an obligation to pledge the new constructed buildings and acquired assets with the carrying amount of EUR 54,118k (prior year: EUR 66,746k). The Group does not have the right to sell these assets without settling the corresponding liabilities, thus canceling the pledge.

15.2 Revaluation of land and buildings (own)

Revaluation of own land and buildings was performed by an independent appraiser who determined their fair values. As of 30 September 2019, all assets of these asset classes were revalued. The assets put into operations after 30 September 2019 have been measured at fair value on a quarterly base.

If land and buildings were measured using the cost model, their amortized cost would be as follows:

	12/31/2019 EUR '000	12/31/2018 EUR '000
Buildings	504,825	266,073
Land	64,180	39,254
	569,005	**305,327**

15.3 Fair value reconciliation

Revaluation of buildings has an impact both on profit and loss and other comprehensive income. Loss from revaluation of land and buildings presented in other operating expenses in 2019 is EUR 2,873k (prior period: EUR 300k). See also Note 11.

15.4 Impairment testing

At each year end, the Group analyses impairment indicators and performs impairment testing, if there are impairment indicators, and as part of its revaluation of buildings based on depreciated replacement cost for each CGU. As of 31 December 2019, management concluded that there were no impairment indicators for regional units. As of 31 December 2018, management concluded that there were impairment indicators for Novosibirsk regional unit. As a result, management performed impairment testing of property, plant and equipment at the level of cash-generating units. For other regional units there were no any impairment indicators, but the impairment testing was performed due to revaluation of buildings based on depreciated replacement cost model.

As of 31 December 2019, for the purposes of impairment testing, the recoverable amount was determined based on a value in use calculation using cash flow projections as follows:

- cash flow projections were prepared based on actual results of cash-generating units for the reporting period and on the business plan for 2020 approved by the management;

- cash flows were measured at nominal terms;
- the average price for milk for 2020 was planned at RUB 34.5 per kilo (incl. VAT); from 2021 until 2024 the average price for milk is expected to increase with inflation rate and in 2024 is planned at RUB 40.3 per kilo (incl. VAT);
- the average milk yield per cow for Voronezh region, the largest unit, is budgeted at 28.0 kilos per day in 2020 with a growth to 30.3 kilos per day in 2024; the average milk yield per cow for other regions varies from 24.1 kilos per day to 27.3 kilos per day in 2020 with a growth to 25.4 kilos–29.2 kilos per day in 2024;
- costs of materials for Voronezh region are expected to increase by 21% in 2020 and from 3% to 5% annually in 2021-2024; costs of materials for others region are expected to increase by 9-45% in 2020 and by 1-16% annually in 2021-2024;
- payroll is expected to increase by 9-35% in 2020 and by 2-16% annually in 2021-2024;
- 10.7% pre-tax rate (WACC) was applied to discount 2020-2024 cash flows, 11.0% rate was applied to the cash flows after 2024;
- the Group plans to make annual capital investments in 2020-2024 to replace the existing property, plant and equipment, including RUB 2.202-2.616 mln annually in Voronezh region and RUB 631-435 mln annually in Siberian region, etc.;
- no capital expenditure for increase in production capacity, such as increase in cow herd or agricultural land, was included;
- cash flows beyond the five-year period equal to the cash flows in 2024 as adjusted for 4% inflation.

As of 31 December 2019, for the purposes of impairment testing of new identified goodwill, the recoverable amount was determined based on a value in use calculation using cash flow projections as follows (for the Kursk region):

- cash flow projections were prepared based on actual results of cash-generating units for the reporting period and on the business plan for 2020 approved by the management;
- cash flows were measured at nominal terms;
- no cash flows were planned from cattle breeding;
- costs of materials are expected to increase by 7% in 2020 and from 1% to 4% annually in 2021-2023;
- payroll is expected to increase by 4% in 2020-2023;
- 10.7% pre-tax rate (WACC) was applied to discount 2020-2023 cash flows, 11.0% rate was applied to the cash flows after 2023;
- the Group plans to make annual capital investments in 2020-2023 to replace the existing property, plant and equipment amounting RUB 56-63 mln annually;
- no capital expenditure for increase in production capacity, such as increase in cow herd or agricultural land, was included;
- cash flows beyond the five-year period equal to the cash flows in 2023 as adjusted for 4% inflation.

As a result of impairment testing no impairment was identified and recognized (Note 15).

As of 31 December 2018, for the purposes of impairment testing, the recoverable amount was determined based on a value in use calculation using cash flow projections as follows:

- cash flow projections were prepared based on actual results of cash-generating units for the reporting period and on the business plan for 2019 approved by the management;
- cash flows were measured at nominal terms;

- the average price for milk for 2019 was planned at RUB 32.5 per kilo (incl. VAT); from 2020 until 2023 the average price for milk is expected to increase with inflation rate and in 2023 is planned at RUB 38.1 per kilo (incl. VAT);

- the average milk yield per cow for Voronezh region, the largest unit, is budgeted at 27.6 kilos per day in 2019 with a growth to 29.7 kilos per day in 2023; the average milk yield per cow for other regions varies from 22.9 kilos per day to 27.3 kilos per day in 2019 with a growth to 24.6 kilos–29.0 kilos per day in 2023;

- costs of materials for Voronezh region are expected to increase by 19% in 2019 and from 4% to 10% annually in 2020-2023; costs of materials for others region are expected to increase by 2-48% in 2019 and by 28-3% annually in 2020-2023;

- payroll is expected to increase by 4-47% in 2019 and by 18-3% annually in 2020-2023;

- 12.4% pre-tax rate (WACC) was applied to discount 2019-2023 cash flows, 13.0% rate was applied to the cash flows after 2023;

- the Group plans to make annual capital investments in 2019-2023 to replace the existing property, plant and equipment, including RUB 1,230-2,028 mln annually in Voronezh region and RUB 401-495 mln annually in Siberian region, etc.;

- no capital expenditure for increase in production capacity, such as increase in cow herd or agricultural land, was included;

- cash flows beyond the five-year period equal to the cash flows in 2023 as adjusted for 4.0% inflation.

In calculating the value in use, the most significant were the assumptions made in respect of milk prices and milk yield. The basis to determine the milk price comprises expectations of management relying on its forecasts concerning development of dairy farming in the Russian Federation and continuing government support to the development of the industry. The basis to determine future milk yield comprises expectations of management based on the potential milk output of the Group's Holstein cow herd, management ability to fully implement herd improvement (breeding/insemination in time, etc.), feeding optimization, further increase in quality of on-farm-produced feedstuff, ensuring animal health and the substitution of existing low-productivity breed by high-productivity Holstein pedigree heifers. It is essential for the planning to reach the average milk yield per cow, because the result depends significantly on it.

As of 31 December 2019, as a result of impairment testing, the Group management concluded that the recoverable amount of all Group's cash-generating units exceeded their carrying amount with the total excess of EUR 307,963k, including an excess of EUR 50,156k relating to the largest Voronezh regional unit, and, therefore, no impairment was recognized. A decrease in the milk prices, a most critical assumption, by 5% would lead to excess of carrying amount of the assets over enterprise value of all Group's cash-generating units of EUR 121,114k resulting in an impairment loss. 1.7% decrease in milk price will lead to that the recoverable amount of Voronezh cash-generating unit equal to the carrying amount of its assets.

As of 31 December 2018, as a result of impairment testing, the Group management concluded that the recoverable amount of all Group's cash-generating units exceeded their carrying amount with the total excess of EUR 115,290k, including an excess of EUR 50,170k relating to the largest Voronezh regional unit, and therefore, no impairment was recognized.

16. INTANGIBLE ASSETS

The Group's intangible assets represent goodwill which were acquired in separate transactions.

	12/31/2019 EUR'000	12/31/2018 EUR'000
Cropping rights	-	11,063
Goodwill	23,529	3,272
	23,529	**14,335**

At 1 January 2019 cropping rights in an amount of EUR 11,063k were reclassified to right-of-use assets due to adoptions at 1 January 2019 of IFRS 16 using modified retrospective approach.

In 2018 the goodwill amounting of EUR 961k resulted from acquisition of Bobrov-Niva and Megaferma Berezovka. The goodwill amounting EUR 2,666k resulting from acquisition of APK Rusich and Razdolnoe Angus in 2017.

The goodwill as of 31 December 2018 is allocated entirely to Voronezh segment.

In 2019 the goodwill amounting of EUR 19,371k resulted from acquisition of the entities in Kursk region and totally allocated to this segment.

The split of the goodwill to the segments is the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Voronezh	4,158	3,272
Kursk	19,371	-
	23,529	**3,272**

Please also see Note 3.

The movements of intangible assets were as follows:

Costs	**2019 EUR'000**	**2018 EUR'000**
As of 31 December	**15,481**	**11,797**
IFRS 16 adoption effect (Note 6)	(11,063)	-
As of 1 January	4,418	11,797
Additions	19,371	4,941
Currency translation	(260)	(1,257)
As of 31 December	**23,529**	**15,481**

Amortization and impairment	**2019 EUR'000**	**2018 EUR'000**
As of 31 December	**(1,146)**	**(695)**
IFRS 16 adoption effect (Note 6)	1,146	-
As of 1 January	-	(695)
Amortization	-	(285)
Currency translation	-	(166)
As of 31 December	-	(1,146)
Balance as of 31 December	**23,529**	**14,335**

17. NON-CURRENT AND CURRENT FINANCIAL ASSETS

Non-current financial assets	12/31/2019 EUR'000	12/31/2018 EUR'000
Loans	46,847	24,181
Other securities	276	223
	47,123	**24,404**

Current financial assets	12/31/2019 EUR'000	12/31/2018 EUR'000
Loans	59,618	51,105
	59,618	**51,105**

Loans are issued to related parties (see Note 31) and third parties; the loans are unsecured and bear interests at 5-10% (prior year: 5-17.8%). There were no impaired and overdue loans.

Below is analysis of changes in expected credit loss allowance (ECL) for current and non-current financial assets:

	ECL for 12 months (Stage 1)	Total
At 1 January 2019	**613**	**613**
Change in estimates and assumptions used for ECL calculation	(14)	**(14)**
At 31 December 2019	**599**	**599**

Below is analysis of changes in expected credit loss allowance (ECL) for 2018:

	ECL for 12 months (Stage 1)	Total
At 1 January 2018	**612**	**612**
Change in estimates and assumptions used for ECL calculation	1	**1**
At 31 December 2018	**613**	**613**

18. OTHER NON-CURRENT AND CURRENT ASSETS

The other non-current assets comprise the following:

Other non-current assets	12/31/2019 EUR'000	12/31/2018 EUR'000
Cash reserved for acquisition of non-current assets	21,750	8,432
Long-term VAT from financial leases	-	5,118
Other	7,055	3,580
	28,805	**17,130**

Other current assets	12/31/2019 EUR'000	12/31/2018 EUR'000
Government grants	1,840	2,811
Short-term VAT from financial lease	-	2,022
Other	11,325	3,398
	13,165	**8,231**

Since 1 January 2019 due to IFRS 16 adoption the Group excluded VAT from lease liabilities and therefore respective amount of short term and long-term VAT receivables from finance leases were derecognized as well. Refer to Note 6.

19. NON-CURRENT AND CURRENT BIOLOGICAL ASSETS

The biological assets include dairy cows and heifers (non-current/breeding), and fattening bulls (current/breeding) as well as annual crops (crop production). These amounted to the following as of the respective reporting date:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Non-current		
Livestock - mature	257,653	125,839
Livestock - immature	195,500	130,070
	453,153	**255,909**
Current		
Livestock	413	586
Crop production	9,373	7,407
	9,786	**7,993**

At 31 December 2019 and 31 December 2018 almost all the Group’s mature livestock and immature livestock is pledged as a security for the Group’s bank loans (Note 24).

19.1 Non-current and current assets - main herd

	Number of animals on 01/01/2019	Purchased	Purchased within business combination	Own breeding	Disposal	Number of animals on 12/31/2019
Main herd	65,692	33	2,922	50,875	20,982	98,540
Value in 000'Euro	**125,839**					**257,653**

	Number of animals on 01/01/2018	Purchased	Purchased within business combination	Own breeding	Disposal	Number of animals on 12/31/2018
Main herd	45,094	972	1,965	36,122	18,461	65,692
Value in 000'Euro	**94,833**					**125,839**

Main herd (mature livestock) include dairy cows – 94,700 heads (prior year: 62,732 heads), meat cows (cow-calves) – 3,605 heads (prior year: 2,834 heads), horses and breeding bulls – 235 heads (prior year: 126 heads).

Main herd (mature livestock) include cows (fair value of EUR 257,116k as of 31 December 2019 and EUR 125,663k as of 31 December 2018). Besides cows non-current biological assets include horses and breeding bulls (total fair value of EUR 537k as of 31 December 2019 and EUR 176k as of 31 December 2018).

19.2 Non-current and current assets - young animals

	As of 12/31/2018		Acquisitions		Acquisitions within business combination		Born by the Group's heifers and cows		Weight gain	Transferred to main herds		Sales		As of 12/31/2019	
	H	W	H	W	H	W	H	W	W	H	W	H	W	H	W
Young animals	66,166	20,710	28,289	14,133	2,554	754	99,153	3,405	19,185	50,875	27,143	58,376	5,030	86,911	26,014
Value in EUR'000	**130,656**													**195,913**	

	As of 12/31/2017		Acquisitions		Acquisitions within business combination		Born by the Group's heifers and cows		Weight gain	Transferred to main herds		Sales		As of 12/31/2018	
	H	W	H	W	H	W	H	W	W	H	W	H	W	H	W
Young animals	51,022	15,695	26,868	13,792	1,494	359	68,112	2,106	14,309	36,122	19,207	45,208	6,344	66,166	20,710
Value in EUR'000	**92,743**													**130,656**	

H: heads
W: weight in tons

Young animals include open and pregnant heifers (fair value of EUR 195,500k as of 31 December 2019 and EUR 130,070k as of 31 December 2018), young bulls (fair value of EUR 321k as of 31 December 2019 and EUR 538k as of 31 December 2018) and young horses (fair value of EUR 92k as of 31 December 2019 and EUR 48k as of 31 December 2018).

Open and pregnant heifers of dairy project are 81,768 heads (prior year: 60,977 heads) and of meat project – 3,130 heads (prior year: 2,689 heads). Young bulls and young horses include 2,013 heads (prior year: 2,500 heads).

19.3 Non-current and current assets – crop production

During the reporting period from 1 January to 31 December 2019 the output of agricultural produce under crop production biological assets was as follows:

in tons	Year ended 12/31/2019	Year ended 12/31/2018
silage	993,904	819,491
haylage	932,068	617,931
sugar beat	570,212	360,646
wheat	278,368	197,228
corn	211,374	92,287
cornage	90,844	-
soybean	51,355	25,651
sunflower	46,731	23,103
hay	44,629	32,385
barley	36,556	21,183
peas	26,440	16,667
oats	10,799	7,637
rape	3,489	8,073
rye	2,883	4,516

At 31 December 2019, the Group’s biological assets of crop production included 47,752 hectares of winter wheat (prior year: 45,555 hectares). At 31 December 2019, the Group had 1,862 hectares of winter rye (prior year: 2,972 hectares).

19.4 Reconciliation of changes in biological assets

Movements of biological assets of livestock production were as follows:

	2019 EUR'000	2018 EUR'000
At 1 January	**256,495**	**187,576**
Acqusitions	62,707	60,669
Acquired in business combinations	10,555	3,891
Newborn	11,410	6,853
Expenses for the period	104,685	104,270
Revenue from selling	(18,585)	(18,288)
Mortality	(2,495)	(2,021)
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	10,773	(3,430)
Currency translation differences	18,021	(83,025)
At 31 December	**453,566**	**256,495**

Movements of short-term biological assets of crop growing were as follows:

	2019 EUR'000	2018 EUR'000
At 1 January	**7,407**	**3,221**
Expenses for the period	167,633	104,524
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	28,857	52,967
Harvested crops	(195,718)	(152,166)
Currency translation differences	1,194	(1,139)
At 31 December	**9,373**	**7,407**

The gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets represent changes in unrealized gains/(losses) in relation to the valuation of biological assets.

Reconciliation of the Change in fair value less costs to sell of biological assets and agricultural produce in the statement of comprehensive income and the tables above is the following:

	2019 EUR'000	2018 EUR'000
Livestock production:		
Newborn	11,410	6,853
Expenses for the period	104,685	104,270
Revenue from selling	(18,585)	(18,288)
Mortality	(2,495)	(2,021)
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	10,773	(3,430)
Crop production:		
Expenses for the period	167,633	104,524
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	28,857	52,967
Harvested crops	(195,718)	(152,166)
Change in fair value less costs to sell of biological assets and agricultural produce	**106,560**	**92,709**

20. INVENTORIES

The inventories comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Own produced feedstuffs	89,920	67,652
Finished products	51,717	34,104
Raw materials	39,422	27,125
Work in progress	40,018	26,261
Goods for resale	1,883	841
Carrying amount	**222,960**	**155,983**

During 2019 and 2018, no expense for inventories carried at net realizable value was required in the reporting period.

Finished products and own produced feedstuffs are evaluated at net realizable value. Raw materials, work in progress and goods for resale are stated at costs. For more details please refer to Note 4.4.n.

At 31 December 2019 no finished goods were pledged as a security for the Group's bank loans (prior year: EUR 2,593k) (Note 24).

21. TRADE RECEIVABLES

Trade receivables comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Trade receivables	19,348	21,095
Allowance for expected credit losses / allowance for impairment	(1,833)	(508)
	17,515	**20,587**

The allowance for expected credit losses changed in 2019 and 2018 as follows:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Opening balance	508	682
Utilization	(1,434)	(796)
Additions	2,503	696
Currency translation difference	256	(74)
Final balance	**1,833**	**508**

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Expected credit loss rate 12/31/2019 EUR'000	Gross carrying amount at default 12/31/2019 EUR'000	Expected credit loss 12/31/2019 EUR'000
Not overdue	2.9%	11,194	325
Less than 60 days	2.4%	4,366	103
60 to 150 days	4.3%	1,150	50
150 days to 330 days	5.4%	1,356	73
Over 330 days	100%	1,282	1,282
Total		**19,348**	**1,833**

	Expected credit loss rate 12/31/2018 EUR'000	Gross carrying amount at default 12/31/2018 EUR'000	Expected credit loss 12/31/2018 EUR'000
Not overdue	0.03%	15,372	5
Less than 60 days	0.25%	3,494	9
60 to 150 days	16%	405	64
150 days to 330 days	15%	1,316	191
Over 330 days	47%	508	239
Total		**21,095**	**508**

Trade receivables are due on a relatively short-term basis in each case.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Bank balances	3,592	13,012
Cash on hand	49	32
Cash and bank balances	**3,641**	**13,044**

The Group assessed credit quality of outstanding cash and cash equivalents balances as high and considered that there was no significant individual exposure.

23. SHARE CAPITAL AND RESERVES

Share capital comprised the following nominal shares:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Share capital		
Opening balance	10,045.1	80.4
Capital increase	-	9,964.7
Closing balance	**10,045.1**	**10,045.1**

All shares issued are fully paid up.

Capital reserves

On 17 August 2018 the extraordinary meeting of shareholders of the Ekosem-Agrar AG decided to increase the share capital from EUR 80,361 to EUR 10,045,125 by conversion of capital reserve amounting EUR 9,964,764 to the share capital. The increase in capital is made by issuing of 9,964,764 new bearer shares. New shares are provided to shareholders at a ratio of 1:124, so that 124 new bearer shares will be added to each old share.

Revaluation reserve

The revaluation reserve represents the results of the revaluation of land and buildings which was performed using the revaluation model.

Foreign currency translation reserve

The foreign currency translation reserve represents foreign currency translation differences related to net investments in Russian subsidiaries and translation from the functional currency of Russian subsidiaries into the reporting currency of the Group. Furthermore, various loans within the Group were designated as a net investment in the operation, as repayment of the loans is neither expected in the foreseeable future nor currently intended. Therefore, the exchange differences relating to these loans were recognized in other comprehensive income in 2019 in the amount of EUR 5,122k (prior year EUR -3,094k).

As revaluation reserve is denominated in rubles, thus, fluctuations of currency exchange rate have a certain impact on its part of change of foreign currency translation reserve. In 2019 respective sum is EUR 21,876k (prior year EUR -17,447k).

The foreign currency translation reserve is also influenced by exchange difference arising from translation of the financial statements of Russian subsidiaries denominated in rubles into euro which is used for presentation of consolidated financial statements. In 2019 respective sum is EUR 11,766k (prior year EUR -13,104k).

Retained earnings

Retained earnings include line includes “Other retained earnings” (presented separately till 31 December 2018) which represented effects of the disposal of Ekoniva Technika Group (related party for the purpose of these consolidated financial statements) in 2011 and the reclassification of the revaluation reserve for disposed fixed assets items that are under revaluation model. The Group considers these earnings as a part of Retained earnings and presents both sums in one line from 31 December 2019 onwards.

23.1 Earnings per share

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

Diluted earnings per share are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares in issue plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Earnings per share were calculated as follows:

	2019 EUR'000	2018 EUR'000
Profit attributable to ordinary equity holders of the parent	35,745	19,390
Weighted average number of ordinary shares in issue	10,045,125	10,045,125
Weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	10,045,125	10,045,125
Basic earnings per share (expressed in EUR per share)	3.56	1.93
Diluted earnings per share for profit (expressed in EUR per share)	**3.56**	**1.93**

24. LOANS AND BORROWINGS

Loans and borrowings as of the reporting date comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Secured bank loans	987,493	632,095
Corporate bonds	171,193	129,285
Non-bank loans	30,542	46,650
	1,189,228	**808,030**

Loans and borrowings are repayable after the reporting date as follows:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Less than one year		
Secured bank loans	347,469	190,861
Corporate bonds	4,648	3,849
Non-bank loans	26,367	44,114
Between one and five years		
Secured bank loans	256,812	255,711
Corporate bonds	166,545	125,436
Non-bank loans	4,175	2,536
Over five years		
Secured bank loans	383,212	185,523
	1,189,228	**808,030**

The average nominal annual interest rates were as follows at 31 December:

	Non-current borrowings		Current borrowings	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
RUB	9.78%	9.22%	11.68%	10.51%
EUR	8.22%	8.56%	-	-

The difference between effective and nominal annual interest rate (2-4.5% in 2019 and 1.8-4.3% in 2018) is recognized as government grants in the statement of financial position.

Bank loans

In accordance to the loan agreements, the Group's subsidiaries are required to comply with certain financial and non-financial covenants. The most significant and most important covenants are:

- not to sell, transfer, lease, divest or otherwise dispose of certain assets;
- to coordinate with the creditors in performing financial investments;
- to coordinate with the creditors in issuing guaranties and granting collateral;
- to coordinate with the creditors in cases of reorganization;
- to maintain ratios such as debt to earnings before interests, taxes, depreciation and amortization at specified levels;
- to maintain certain turnover on the Group's bank accounts;
- to maintain a certain level of net assets;
- to maintain a certain financial position.

In case of breach of these covenants penalties can be applied, interest rates can be changed or the schedule of repayment can be changed by the respective lender, up to immediate repayment.

At 31 December 2019 the Group was in compliance with bank covenants. So no loans were classified as on demand.

At 31 December 2018 the Group breached certain restrictive covenants related to its non-current loans. Therefore, at 31 December 2018 the Group didn't have an unconditional right to defer their settlement for at least twelve months after the reporting date. Under IAS 1, at 31 December 2018 the respective non-current loans amounted to EUR 22 mln and were presented within current liabilities. These loans were classified on demand.

In 2019, the Group received EUR 246,957k (prior year: EUR 283,520k) of the lower than market contract interest rate short-term and long-term bank loans subsidized by the government (see also Note 12) relating to financing of construction of livestock facilities, acquisition of heifers, feedstuff, veterinary drugs and working capital. The related loan contract interest rates were between 2% to 4.5% (prior year: 1.8%-4.3%). The Group recognized these loans at fair value with the difference between the payment amount of the loan and the fair value recognized in government grants of EUR 79,301k (prior year: EUR 72,560k) (Note 25). Under the loan agreements the banks have the right to increase the interest rates to the rates of 9.75%-12.21% (prior year: 9.1-11.6%), if the Group will breach the loan covenants. Additionally, the banks have the right to increase the contract interest rates by the key rate of the Central Bank of Russia, if the Russian government will stop paying subsidies to the banks. The Group expects that the Russian government will continue supporting milk production over the next 15 years that will allow the Group to continue benefiting from the interest rate subsidies.

Open, unused credit lines in the amount of EUR 537,203k (prior year: EUR 523,429k) existed as of 31 December 2019, including EUR 247,562k (prior year: EUR 273,522k) relating exclusively to construction of specific property, plant and equipment in livestock farming, EUR 250,241k to construction of specific property, plant and equipment in dairy processing (prior year: EUR 245,757k) and EUR 39,400k (prior year: EUR 4,150k) relating to working capital.

As of 31 December 2019 the Group pledged 100% of its shares in EkoNivaAgro, Zaschitnoe, Kaluzhskaya Niva, Sibirskaya Niva, Mezhdurechje, EkoNiva-APK Holding, NivaStroy, Savinskaya Niva, Severnaya Niva, EkoNiva-Semena, EkoNiva-Farm, Razdolnoe-Angus, APK Rusich, Ryazanskaya Niva, MosMedynAgroprom, OkaAgro, Oka Moloko, Severnaya Niva Bashkiriya, Agrofirma Detchinskoe, Sibirskaya academiya molochnyh nauk, EkoNiva Moloko Voronezh (2018: EkoNivaAgro, Zaschitnoe, Kaluzhskaya Niva, Sibirskaya Niva, Mezhdurechje, EkoNiva-APK Holding, NivaStroy, Savinskaya Niva, Severnaya Niva, EkoNiva-Semena, EkoNiva-Farm, Razdolnoe-Angus, APK Rusich, Ryazanskaya Niva, MosMedynAgroprom, OkaAgro, Oka Moloko, Bobrov-Niva).

At 31 December 2019 and 2018 the Group's loans were secured with its property, plant and equipment (Note 15), biological assets (Note 19) and finished goods (Note 20).

Finally, at 31 December 2019 and 2018 the Group's loans were secured with financial guarantees of its certain related parties provided to the banks (Note 32).

Corporate bonds

In fiscal year 2012, the Parent Company of the Group issued two corporate bonds on the Stuttgart Stock Exchange.

Bond I had an initial volume of EUR 50 mln, a term of five years and originally reached maturity at 23 March 2017 – except in the case of premature redemption through use of a call option. The interest rate for the entire term of the Bond has been set at 8.75% per annum. Interest is paid annually on an ex-post basis. Bondholder's meeting in March 2016 voted for prolongation of the Bond I by four years. That leads to new maturity date of 23 March 2021. The main conditions remained unchanged. With the issuance of Bond III in August 2019 the company offered an exchange of Bond I into Bond III. Bondholders accepted the offer in a volume of EUR 13,437k so that the volume outstanding for Bond I has been reduced to EUR 36,563k. The interest liabilities from Bond I in addition to the nominal value are EUR 2,480k as of 31 December 2019. The Bond will be redeemed in full on maturity.

Bond II originally amounted to EUR 60 mln. It had a term of six years and reached maturity at 7 December 2018 – except in the case of premature redemption through use of a call option. The interest rate for the entire term of the Bond has been set at 8.5% per annum. Interest is paid annually on an ex-post basis. On 5 November 2013, Bond II was increased by EUR 18 mln to EUR 78 mln. All conditions are the same as for the first part of Bond II issued in 2012. Bondholder's meeting in March 2016 voted for prolongation of the Bond II by four years. That leads to new maturity date of 7 December 2022. The main conditions remained unchanged. The interest liabilities from Bond II in addition to the nominal value are EUR 454k as of 31 December 2019. The Bond will be redeemed in full on maturity.

In August 2019, the Parent Company of the Group issued another corporate bond on the Stuttgart Stock Exchange. Bond III had an initial prospectus volume of EUR 100 mln including an exchange offer for holders of Bond I (2012/2021). The term of Bond III is five years and reaches maturity at 31 July 2024 – except in the case of premature redemption through use of a call option. The Bond will be redeemed in full on maturity. The interest rate for the entire term of the Bond has been set at 7.5% per annum. Interest is paid annually on an ex-post basis. At the initial trading day, 1 August 2019 the volume issued was EUR 40.696 mln, consisting of exchange of Bond I into Bond III (EUR 13.437 mln) and fresh money received (EUR 27.259 mln). Until the balance sheet date, the company issued further bonds in the nominal amount of EUR 13.826 mln; the total amount of Bond III outstanding as per 31 December 2019 is EUR 54.522 mln. The interest liabilities from Bond III in addition to the nominal value are EUR 1,714k as of 31 December 2019.

The original transaction costs of bonds I and II incurred of EUR 3,926k were deducted from the nominal amounts. The costs for prolongation and restructuring of the Bonds incurred of EUR 1,986k were deducted from the nominal amounts as well. The unamortized amount of the transaction costs was EUR 2,540k as of 31 December 2019 (prior year: EUR 2,564k). The change in 2019 results from the release of costs of bond I and II as well as additional costs for the issuance of bond III in the amount of EUR 749k.

Due to the listing of the first two corporate bonds, the Parent Company was obliged to publish annual and semi-annual consolidated financial statements for the Group. Since leaving the Bondm segment of Stuttgart Stock exchange it is no longer obliged to obtain an annual update of its rating from an external rating agency. The shareholders waived the right for distribution of dividends as long as the bonds are outstanding. In the event of a change of control by which a person or group of persons who have joined forces has become the legal or beneficial owner of more than 50% of the issuer's voting rights, bondholders are entitled to demand early redemption of the bonds.

The bonds are listed in the general open market from 28 June 2018 onwards (before the listing of bonds I and II was in the Bondm segment). The company nevertheless voluntarily fulfills the above-mentioned obligations with the exemption of the annual rating update.

25. GOVERNMENT GRANTS

The Group receives grants from the government of the Russian Federation. If these are related to investments in fixed assets valued at their historical cost (minus depreciation where applicable), they are considered as deferred income and the grants received are spread over the useful life of the respective asset.

This deferred income from government grants is classified as current or non-current and developed as shown below during the reporting period and the previous period:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Long-term government grants		
Grants relating to lower than market interest rate loans	216,856	112,478
Direct cash grants relating to acquisition of property, plant and equipment	109,455	67,621
	326,311	**180,099**

	12/31/2019 EUR'000	12/31/2018 EUR'000
Short-term government grants		
Grants relating to lower than market interest rate loans	32,697	19,831
Direct cash grants relating to acquisition of property, plant and equipment	5,502	2,786
	38,199	**22,617**

	Long-term EUR'000	Short-term, EUR'000
Balance on 01/01/2019	**180,099**	**22,617**
Direct cash grants relating to acquisition of property, plant and equipment	36,122	-
Grants relating to lower than market interest rate loans	84,126	10,188
Reclassified to short term	(5,550)	5,550
Released to the income statement	-	(3,993)
Currency translation differences	31,514	3,837
Balance on 12/31/2019	**326,311**	**38,199**
Balance on 01/01/2018	**69,104**	**6,166**
Direct cash grants relating to acquisition of property, plant and equipment	44,218	-
Grants relating to lower than interest rate loans	88,292	17,112
Reclassified to short term	(3,352)	3,352
Released to the income statement	-	(1,905)
Exchange rate differences	(18,163)	(2,108)
Balance on 12/31/2018	**180,099**	**22,617**

Besides direct cash government grants related to acquisition of property, plant and equipment and presented in this table there are government grants received for purchasing of breeding animals and as ongoing production support. These grants are presented in other operating income (Note 8).

Additionally, cash interest subsidies for the loans received before 1 January 2017 are offset with corresponding interest expenses (Note 12).

26. REMUNERATION FOR THE MANAGING DIRECTORS

The managing directors are:

Stefan Duerr, graduate geo-ecologist
Wolfgang Blaesi, graduate economist

The total remuneration for the managing directors of the Parent Company in the year ended 31 December 2019 was EUR 2,020k (the year ended 31 December 2018: EUR 1,834k). EUR 1,320k (the year ended 31 December 2018: EUR 696k) relates to fixed remuneration components, while EUR 700k (the year ended 31 December 2018: EUR 1,138k) relates to variable remuneration components.

27. OTHER CURRENT LIABILITIES

Other current financial liabilities comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Employees	6,733	4,570
Payables for acquisition of subsidiaries	8,499	-
Other	13,756	-
	28,988	**4,570**

The liabilities pertaining to staff concern ongoing wage and salary payments.

Other current non-financial liabilities comprise the following:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Non-income taxes	31,730	22,771
Other accruals to employees	5,761	3,384
Social insurance	4,722	2,867
Other	5,436	6,767
	47,649	**35,789**

Non-income taxes include mainly VAT payables. Other accruals to employees concern bonuses to staff, unused leave and social insurance relating to such payments

28. SEGMENT REPORT

The Group has two business segments: agricultural production and processing. Within agricultural production segment the Group has seven reportable segments based on regional split, which are the Group's strategic business units. The strategic business units engage in sales and other activities in different regions of the Russian Federation and are managed separately because they require different business strategies.

The following summary describes the operations in each of the Group's reportable segments:

Agricultural production segment includes:

- The Voronezh segment includes activities of subsidiaries in Voronezh region of the Russian Federation.
- The Novosibirsk segment includes activities of subsidiaries in Siberian region of the Russian Federation.
- The Kaluga segment includes activities of subsidiaries in Kaluga region of the Russian Federation.
- The Kursk segment includes activities of subsidiaries in Kursk region of the Russian Federation.
- The Orenburg segment includes activities of subsidiaries in Orenburg region of the Russian Federation.
- The Tyumen segment includes activities of subsidiaries in Tyumen region of the Russian Federation.
- The Ryazan segment includes activities of new subsidiaries in Ryazan region of the Russian Federation.

Processing segment includes milk processing in different regions of Russian Federation as well as sales of processed products.

Management reviews the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss before income tax (EBIT) and is measured consistently with profit or loss before income tax in the consolidated financial statements.

Transfers between operating segments primarily relate to selling of raw milk, seeds and rendering of services. Transfer prices between operating segments are based on costs of sales increased by the minimal margin which is dependent on different factors such as seasonality, terms of delivery and storage, terms and forms of financing, etc.

Information regarding the reportable segments is included in the tables below together with a reconciliation to figures included in the IFRS consolidated financial statements.

Year ended 31 December 2019	Agricultural production							Processing	Other companies	Total segments	Adjustments and eliminations	Consolidated
	Voronezh	Novosibirsk	Kaluga	Kursk	Tyumen	Orenburg	Ryazan					
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue (third parties)	150,283	43,940	65,641	12,115	6,625	8,689	40,231	38,604	36,536	402,664	-	402,664
Revenue (companies of the Group)	41,351	6,717	25,173	14,478	49	475	9,952	889	343,135	442,219	(442,219)	-
Government grants	8,222	2,624	3,383	348	1,247	2,593	5,365		3,613	27,395	-	27,395
Other income (third parties)	2,411	1,322	862	356	32	513	1,590	527	7,475	15,088	-	15,088
Other income (companies of the Group)	4,114	1,665	111	829	(7)	399	1,698	7,575	11,732	28,116	(28,116)	-
Other income (bargin gain)	-	-	-	-	-	-	-		-	-	21,633	21,633
Changes in balances of biological assets and agricultural produce	24,293	23,623	12,508	9,448	1,924	20,032	19,699	(1,388)	9,207	119,346	-	119,346
Costs of materials (third parties)	(18,771)	(5,201)	(11,259)	(1,007)	(2,739)	78	(4,350)	(4,813)	(365,835)	(413,897)	202,036	(211,861)
Costs of materials (companies of the Group)	(80,594)	(31,269)	(31,021)	(8,457)	(2,041)	(19,488)	(24,374)	(27,907)	(35,382)	(260,533)	260,533	-
Personnel expenses	(34,928)	(9,144)	(14,217)	(4,188)	(1,729)	(4,939)	(7,802)	(9,579)	(15,175)	(101,701)	-	(101,701)
Depreciation, amortization and impairment losses	(26,497)	(7,934)	(14,916)	(4,810)	(1,463)	(3,370)	(9,610)	(1,742)	(5,862)	(76,204)	1,659	(74,545)
Other operating expenses (third parties)	(22,810)	(4,012)	(10,927)	(3,637)	(406)	(2,926)	(12,030)	(8,889)	(17,700)	(83,337)	(568)	(83,905)
Other operating expenses (companies of the Group)	(7,084)	(696)	(10,804)	(1,472)	(201)	(3,000)	110	(3,733)	(9,153)	(36,033)	36,033	-
Segment operating result	**39,990**	**21,635**	**14,534**	**14,003**	**1,291**	**(944)**	**20,479**	**(10,456)**	**(37,409)**	**63,123**	**50,991**	**114,114**
Reconciliation to consolidated statement												
Financial income												8,439
Financial expenses												(85,746)
Income tax expenses												(797)
Net profit for the period												**36,010**

Year ended 31 December 2018	Agricultural production							Processing	Other companies	Total segments	Adjustments and eliminations	Consolidated
	Voronezh	Novosibirsk	Kaluga	Kursk	Tyumen	Orenburg	Ryazan					
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue (third parties)	107,053	24,610	42,451	6,397	6,126	1,278	17,261	28,688	11,045	244,909	-	244,909
Revenue (companies of the Group)	28,515	2,174	17,065	6,152	8	131	2,333	7,614	325,855	389,847	(389,847)	-
Government grants	4,950	2,611	1,683	289	694	2,830	3,064	109	-	16,230	-	16,230
Other income (third parties)	1,862	277	787	131	27	67	621	511	3,854	8,137	-	8,137
Other income (companies of the Group)	6,108	2,105	570	487	61	336	980	5,868	1,655	18,170	(18,170)	-
Other income (bargin gain)	-	-	-	-	-	-	-	-	-	-	1,037	1,037
Changes in balances of biological assets and agricultural produce	34,431	16,356	33,764	(1,025)	(646)	10,436	17,046	(3,489)	381	107,254	-	107,254
Costs of materials (third parties)	(17,195)	(5,925)	(6,776)	(1,010)	(2,116)	(595)	(2,375)	(5,335)	(272,831)	(314,158)	173,050	(141,108)
Costs of materials (companies of the Group)	(52,091)	(19,250)	(19,947)	(3,238)	(1,066)	(7,563)	(14,617)	(24,276)	(9,912)	(151,960)	151,960	-
Personnel expenses	(25,160)	(5,734)	(9,691)	(2,354)	(1,478)	(1,020)	(5,114)	(5,276)	(8,603)	(64,430)	-	(64,430)
Depreciation, amortization and impairment losses	(17,503)	(4,971)	(8,883)	(2,257)	(826)	(701)	(4,142)	(1,343)	(1,272)	(41,898)	12	(41,886)
Other operating expenses (third parties)	(18,144)	(3,051)	(7,695)	(1,478)	(404)	(1,795)	(4,334)	(4,977)	(12,996)	(54,874)	(25)	(54,899)
Other operating expenses (companies of the Group)	(34,164)	(9,140)	(3,893)	(812)	63	2,123	(10,182)	(3,773)	(6,033)	(65,811)	65,811	-
Segment operating result	**18,662**	**62**	**39,435**	**1,282**	**443**	**5,527**	**541**	**(5,679)**	**31,143**	**91,416**	**(16,172)**	**75,244**
Reconciliation to consolidated statement												
Financial income												4,919
Financial expenses												(55,626)
Income tax expenses												(4,820)
Net profit for the period												**19,717**

Assets and liabilities of the reporting segments comprise the following:

31 December 2019	Agricultural production EUR'000	Processing EUR'000	Total segments EUR'000	Adjustments and eliminations EUR'000	Consolidated EUR'000
Non-current assets	1,734,296	115,227	1,849,523	(33,003)	**1,816,520**
thereof property, plant and equipment	1,081,748	89,459	1,171,207	-	**1,171,207**
thereof long-term financial assets (Companies of the Group)	10,609	-	10,609	(10,609)	**-**
thereof investments to the subsidiaries (Companies of the Group)	22,394	-	22,394	(22,394)	**-**
Current assets	397,223	34,159	431,382	(47,081)	**384,301**
thereof short-term receivables (Companies of the Group)	25,174	21,907	47,081	(47,081)	**-**
Total assets	2,131,519	149,386	2,280,905	(80,084)	**2,200,821**
Non-current liabilities	1,143,801	80,170	1,223,971	(10,609)	**1,213,362**
thereof non-current liabilities (Companies of the Group)	-	10,609	10,609	(10,609)	**-**
Current liabilities	674,299	43,752	718,051	(47,081)	**670,970**
thereof current liabilities (Companies of the Group)	21,907	25,174	47,081	(47,081)	**-**
Total liabilities	1,818,100	123,922	1,942,022	(57,690)	**1,884,332**
Reconciliation to statement of financial position					
Equity	**313,419**	**25,464**	**338,883**	**(22,394)**	**316,489**

31 December 2018	Agricultural production EUR'000	Processing EUR'000	Total segments EUR'000	Adjustments and eliminations EUR'000	Consolidated EUR'000
Non-current assets	1,049,310	30,102	1,079,412	(20,439)	**1,058,973**
thereof property, plant and equipment	717,467	29,103	746,570	-	**746,570**
thereof long-term financial assets (Companies of the Group)	898	-	898	(898)	-
thereof investments to the subsidiaries (Companies of the Group)	19,541	-	19,541	(19,541)	-
Current assets	297,299	19,784	317,083	(20,829)	**296,254**
thereof short-term receivables (Companies of the Group)	9,375	11,454	20,829	(20,829)	-
Total assets	1,346,609	49,886	1,396,495	(41,268)	**1,355,227**
					-
Non-current liabilities	784,960	4,344	789,304	(898)	**788,406**
thereof non-current liabilities (Companies of the Group)	-	898	898	(898)	-
Current liabilities	396,526	16,818	413,344	(20,829)	**392,515**
thereof current liabilities (Companies of the Group)	11,454	9,375	20,829	(20,829)	-
Total liabilities	1,181,486	21,162	1,202,648	(21,727)	**1,180,921**
Reconciliation to statement of financial position					
Equity	**165,123**	**28,724**	**193,847**	**(19,541)**	**174,306**

29. LEASE LIABILITIES

29.1. Lease agreements

The Group has lease contracts for various items of land, buildings plant, machinery, vehicles and other equipment used in its operations.

Lease agreements exist primarily for the Group's land, vehicles, generally passenger cars, and agricultural machinery. The liabilities from lease agreements are secured routinely with title retention clauses for the lessor covering the leased items. Lease agreements do generally contain neither prolongation nor termination options.

The expense related to variable lease payments not included in the measurement of lease liabilities for the year ended 31 December 2019 amounted to EUR 4,736k. Variable lease payments are mainly linked to tax value of real estate objects, which changes may result in changes of variable lease payments.

29.2 Lease liabilities

	Lease liabilities for land and buildings EUR'000	Lease liabilities for other property, plant and equipment EUR'000	Total lease liabilities EUR'000
As of 1 January 2019	**6,862**	**28,213**	**35,075**
Additions	3,398	29,328	32,726
Additions due to business combination	-	660	660
Interest charge	1,013	5,595	6,608
Lease payments	(1,519)	(28,060)	(29,579)
Disposal			
Currency differency	**(531)**	13,642	13,111
As of 31 December 2019	**9,223**	**49,378**	**58,601**

The following are the amounts recognized in profit or loss:

	2019 EUR'000
Depreciation expense of right-of-use assets	(17,278)
Interest expense on lease liabilities	(6,608)
Variable lease payments (included in cost of sales)	(4,736)
Total amount recognised in profit or loss	**(28,622)**

As at 31 December 2019 the Group did not have any significant lease agreements to which the Group was committed but the lease did not commence.

30. FINANCIAL INSTRUMENTS

30.1 Financial risk management

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The Group has loan and other receivables, trade and other receivables, and cash that arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks.

A department within OOO EkoNiva-APK Holding handles all financial risk management for the Group centrally. This principally includes liquidity management alongside the management of exchange rate risk, interest rate risk and credit risk. In order to manage these risks, the Group currently employs no derivative instruments.

There are no financial risk management strategies specifically relating to agricultural activities. In particular, forward contracting is not practiced with products, and – correspondingly – no production materials or fuels are purchased this way. Binding supply quantities are not stipulated in supply contracts. For further information please refer to the management report.

30.2 Market risk

Market risk is the risk that fair value of future cash flows from financial instruments will fluctuate because of changes in market prices. Market risk comprises various types of risk: interest rate risk, currency risk and other price risk. Financial instruments affected by market risk include loans and borrowings.

The sensitivity analyses in the following sections relate to the position as at 31 December 2019 and 2018.

30.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not have any financial assets and liabilities with variable interest rates. Based on this, the Group assumes that there are no reasonably possible changes that might have impact on the statement of comprehensive income.

30.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency rates. The Group's exposure to the risk of changes in foreign exchange rates relates to loans and borrowing obtained in a foreign currency, recognized assets and liabilities in foreign operations.

The Group is mainly exposed to significant risk regarding changes in the exchange rate between the Russian ruble (RUB) and the euro (EUR).

The tables below summarize the Group's exposure to foreign currency risk. Included in the tables are the Group's financial assets and liabilities at carrying amounts, categorized by currency.

EUR'000	31 December 2019 RUB	USD	EUR	Total
Cash and cash equivalents	3,516	1	124	3,641
Non-current financial assets	20,583	-	26,540	47,123
Current financial assets	55,662	-	3,956	59,618
Trade receivables	15,899	-	1,616	17,515
Other current assets	13,135	-	30	13,165
Total monetary financial assets	**108,795**	**1**	**32,266**	**141,062**
Current loans and borrowings	373,432	-	5,052	378,484
Long-term loans due to covenants breach	-	-	-	-
Non-current loans and borrowings	639,866	-	170,878	810,744
Current trade and other accounts payable	123,060	1,287	14,008	138,355
Long-term lease liabilities	37,933	-	-	37,933
Short-term lease liabilities	20,460	-	208	20,668
Other short-term financial liabilities	28,988	-	-	28,988
Total monetary financial liabilities	**1,223,739**	**1,287**	**190,146**	**1,415,172**
Net balance sheet position	**(1,114,944)**	**(1,286)**	**(157,880)**	**(1,274,110)**

EUR'000	31 December 2018 RUB	USD	EUR	Total
Cash and cash equivalents	8,354	1	4,689	13,044
Non-current financial assets	650	-	23,754	24,404
Current financial assets	43,516	-	7,589	51,105
Trade receivables	19,804	-	783	20,587
Other current assets	8,066	62	103	8,231
Total monetary financial assets	**80,390**	**63**	**36,918**	**117,371**
Current loans and borrowings	209,752	-	6,947	216,699
Long-term loans due to covenants breach	22,125	-	-	22,125
Non-current loans and borrowings	440,929	-	128,277	569,206
Current trade and other accounts payable	59,761	1,374	2,466	63,601
Long-term lease liabilities	23,498	-	10	23,508
Short-term lease liabilities	13,015	-	239	13,254
Other short-term financial liabilities	4,570	-	-	4,570
Total monetary financial liabilities	**773,650**	**1,374**	**137,939**	**912,963**
Net balance sheet position	**(693,260)**	**(1,311)**	**(101,021)**	**(795,592)**

If the RUB had changed against EUR, with all other variables held constant profit or loss and equity would have been influenced as follows:

EUR/RUB	Possible changes, %	Profit or loss	Other comprehensive income
12/31/2019	+40%	64,036	(108,840)
	-40%	(64,036)	182,143
12/31/2018	+14%	14,339	(28,010)
	-14%	(14,339)	25,033

30.5 Price risk

The Group's exposure to price risk is caused by the volatility of prices for milk and crops, primarily corn, wheat, sunflower, sugar beet. Prices for milk and crops are subject to volatility caused by changes in global and domestic supply and demand, weather conditions, milk and crop yields in Russia and other countries, government regulation and other factors. The Group does not hedge its price risk exposure in connection with milk and crops' prices. However, the Group is engaged in dairy and different crop production in several regions, which allows mitigating certain price risk.

30.6 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored.

30.7 Liquidity risk

The capital-intense structure of the Group's field of business renders liquidity management extremely important. This function is performed centrally by a department in EkoNiva-APK Holding in Russia. There, all financing agreements and payment obligations converge and liquid resources are allocated accordingly. The Group's management is regularly informed of the situation regarding financing and payment obligations and makes key decisions outside of the daily business activities.

The tables below show the Group's financial liabilities into relative maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows including interest payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

12/31/2019	Carrying amount EUR'000	Contractual cash flows EUR'000	Less than 1 year EUR'000	Between 1 and 2 years EUR'000	Between 2 and 3 years EUR'000	Over 3 years EUR'000
Loans and borrowings	(1,189,228)	(1,721,252)	(450,258)	(146,333)	(145,065)	(979,596)
Trade and other payables	(148,080)	(148,080)	(140,382)	(1,951)	(1,951)	(3,796)
Non-current lease liabilities	(37,933)	(39,845)	-	(20,741)	(16,445)	(2,659)
Current lease liabilities	(20,668)	(26,713)	(26,713)	-	-	-
Other financial liabilities	(28,988)	(28,988)	(28,988)	-	-	-
	(1,424,897)	**(1,964,878)**	**(646,341)**	**(169,025)**	**(163,461)**	**(986,051)**

12/31/2018	Carrying amount EUR'000	Contractual cash flows EUR'000	To be paid on demand EUR'000	Less than 1 year EUR'000	Between 1 and 2 years EUR'000	Between 2 and 3 years EUR'000	Over 3 years EUR'000
Loans and borrowings	(808,030)	(1,124,098)	(25,231)	(244,279)	(165,846)	(97,115)	(591,627)
Current trade and other payables	(63,601)	(63,601)	-	(63,601)	-	-	-
Non-current lease liabilities	(23,508)	(23,508)	-		(13,797)	(8,721)	(990)
Current lease liabilities	(13,254)	(13,254)	-	(13,254)	-	-	-
Other financial liabilities	(4,570)	(4,570)	-	(4,570)	-	-	-
	(912,963)	**(1,229,031)**	**(25,231)**	**(325,704)**	**(179,643)**	**(105,836)**	**(592,617)**

30.8 Fair values

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade receivables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of loans and borrowings and long-term payables was evaluated based on discounting of future cash flows.

Below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

		Carrying amount		Fair value	
	Val. cat.	12/31/2019 EUR'000	12/31/2018 EUR'000	12/31/2019 EUR'000	12/31/2018 EUR'000
Assets					
Non-current financial assets	FAAC	47,123	24,404	44,424	24,404
Trade receivables	FAAC	17,515	20,587	17,515	20,587
Current financial assets	FAAC	59,618	51,105	59,618	51,105
Cash and cash equivalents	FAAC	3,641	13,044	3,641	13,044
Loans and receivables		**127,897**	**109,140**	**125,198**	**109,140**
Liabilities					
Loans and borrowings	FLAC	1,189,228	808,030	1,177,567	773,604
Lease liabilities	FLAC	58,601	36,762	58,601	36,762
Trade and other accounts payable	FLAC	148,080	63,601	148,080	63,601
Other current financial liabilities	FLAC	28,988	4,570	28,988	4,570
Financial liabilities at amortized cost		**1,424,897**	**912,963**	**1,413,236**	**878,537**

Val. cat.: Valuation category according to IFRS 9
FAAC: Financial assets measured at amortized cost
FLAC: Financial liabilities measured at amortized cost

The fair value measurement hierarchy of the Group's assets and liabilities is disclosed in Note 14.

30.9. Reconciliation of financial liabilities

The following table shows the reconciliation of non-current and current financial liabilities:

	Non-current loans and borrowings	Current loans and borrowings	Lease liabilities (current)	Lease liabilities (non-current)	Total financial liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance value at 31 December 2018	**569,206**	**238,824**	**13,254**	**23,508**	**844,792**
IFRS 16 adoption effect	-	-	**(608)**	**(1,079)**	**(1,687)**
At 1 January 2019	**569,206**	**238,824**	**12,646**	**22,429**	**843,105**
Cash flows					
Repayment	(134,949)	(262,783)	(14,526)	(15,053)	(427,311)
Proceeds	442,334	304,116	-	-	746,450
Interest payments	-	(78,793)	-	-	(78,793)
Total cash flows	**307,385**	**(37,460)**	**(14,526)**	**(15,053)**	**240,346**
Other changes					
Proceeds due to the new contracts	-	-	-	32,726	32,726
Proceeds due to acqusition of businesses	-	13,229	-	660	13,889
Interests accrued	-	106,027	6,608	-	112,635
Exchange differences	78,871	5,744	3,526	9,585	97,726
Transfer from long-term to short-term liabilities	(49,225)	49,225	12,414	(12,414)	-
Grants relating to lower than market interest rate loans	(96,353)	2,039	-	-	(94,314)
Other changes	860	856	-	-	1,716
Total non-cash flow	**(65,847)**	**177,120**	**22,548**	**30,557**	**164,378**
Balance value at 31 December 2019	**810,744**	**378,484**	**20,668**	**37,933**	**1,247,829**

	Non-current loans and borrowings EUR'000	Current loans and borrowings EUR'000	Lease liabilities (current) EUR'000	Lease liabilities (non-current) EUR'000	Total financial liabilities EUR'000
Balance value at 31 December 2017	**391,620**	**162,630**	**8,494**	**16,248**	**578,992**
Cash flows					
Repayment	(29,465)	(189,503)	(7,909)	(10,484)	(237,361)
Proceeds	396,775	252,628	-	-	649,403
Interest payments	-	(59,282)	-	-	(59,282)
Total cash flows	**367,310**	**3,843**	**(7,909)**	**(10,484)**	**352,760**
Other changes					
Proceeds due to the new contracts	-	-	-	13,048	13,048
Proceeds due to acqusition of businesses	-	5,346	-	-	5,346
Interests accrued	-	67,002	2,998	-	70,000
Exchange differences	(42,209)	(42,766)	(3,575)	17,942	(70,608)
Transfer from long term to short term liabilities	(45,293)	45,293	13,246	(13,246)	-
Grants relating to lower than market interest rate loans	(103,039)	(2,365)	-	-	(105,404)
Other changes	817	(159)	-	-	658
Total non-cash flow	**(189,724)**	**72,351**	**12,669**	**17,744**	**(86,960)**
Balance value at 31 December 2018	**569,206**	**238,824**	**13,254**	**23,508**	**844,792**

30.10 Management of capital

The Group manages its capital so as to ensure that all of the Group's companies are able to operate on a going concern basis and at the same time can service all liabilities in due time. The Group's overall strategy remains unchanged compared to the prior year.

The Group's capital structure comprises net debt (i.e. the borrowed capital given in Notes 24, 27 and 29, minus cash and bank balances) as well as the Group's equity (comprising paid nominal capital, capital reserves, other reserves, retained earnings and consolidated net profit or loss figures as well as the capital share of non-controlling shareholders as given in Note 23). The Group is not subject to externally imposed capital requirements.

Net debt-to-equity ratio

	12/31/2019 EUR'000	12/31/2018 EUR'000
Non-current loans and borrowings	810,744	569,206
Lease liabilities	58,601	36,762
Current loans and borrowings	378,484	238,824
Cash and cash equivalents	(3,641)	(13,044)
Net debt	**1,244,188**	**831,748**
Equity	**316,489**	**174,306**
Net debt-to-equity ratio	**393.1%**	**477.2%**

(i) Debts are defined as current and non-current financial liabilities such as those given in Notes 24, 27 and 29.
(ii) Equity comprises the Group's entire capital and reserves incl. the shares owned by non-controlling shareholders.

31. BUSINESS ACTIVITIES WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related parties if one party is able to control the other; if multiple parties are subject to the control of another; or if one party can exercise significant influence on the financial and business decisions of another. Considerations of all possible relationships between related companies are based on the actual substance of the relationship and not merely its legal form.

Ultimate controlling party is Mr. Stefan Duerr. He owns 42.84% of the shares (and corresponding voting rights) directly. Based on a contractual agreement about pooling of interest with other shareholders, he indirectly also controls additional 41.16% of the shares allowing him to control the entity. Please also see Note 35.

All companies controlled by Mr. Stefan Duerr are considered to be related parties.

The managing directors of Ekosem-Agrar AG are considered management members in key position.

31.1 Trading activities

In the course of the reporting period, group companies conducted the following transactions with related parties not belonging to the Group.

	2019 EUR'000	2018 EUR'000
Sale of goods and rendering of services		
Companies under common control of the ultimate controlling party	2,415	745
Companies under control of the member of Supervisory Board	40	17
Acquisition of goods and services received		
Companies under common control of the ultimate controlling party	53,134	62,149
Companies under control of the member of Supervisory Board	12,004	7,585
Companies under control of the member of Management Board	-	13

The following balances remained outstanding at the end of the reporting period:

	12/31/2019 EUR'000	12/31/2018 EUR'000
Receivables due from related parties		
Companies under common control of the ultimate controlling party	-	909
Companies under control of the member of Supervisory Board	62	61
Loans granted to related parties		
Companies under common control of the ultimate controlling party	25,747	26,621
Associates	304	89
Main shareholder and key management personnel of the Group	3,845	3,763
Loans received from related parties		
Companies under common control of the ultimate controlling party	11,818	12,481
Payables due to related parties		
Companies under common control of the ultimate controlling party	30,149	13,771
Companies under control of the member of Supervisory Board	5,182	2,250

The receivables relate to administrative and agency services.

31.2 Loans from and to related parties

The Group received loans from the companies under common control of the ultimate controlling party totaling EUR 11,818k (31 December 2018: EUR 12,481k). These loans in a sum of EUR 11,818k are short-term, not secured, with the interest rates of 8-12.5% (31 December 2018: EUR 9,945k and EUR 2,536k respectively with the interest rates 8-9%). The Group issued loans totaling EUR 25,747k to the companies under common control of the ultimate controlling party at the reporting date. The amount of expected credit losses for loans issued to related parties is EUR 599k (31 December 2018: EUR 613k). All these loans are long-term with a repayment in 2025, secured, with the interest rate of 5% and dominated in Euro.

The Group has receivables towards a legal entity in the Russian Federation which itself provided a loan to Ternata Holding GmbH, Germany (TH), for the purpose of debt service. TH was in March 2020 acquired by the majority shareholder, Stefan Duerr, and TH subsequently acquired Torentina Ltd., Cyprus, which holds 16% of the shares in Ekosem-Agrar AG. See note 35 for further details. The total amount of these receivables, which are denominated in rubles, as per the balance sheet date is EUR 13.3 mln. The interest rate is 10%; Ternata Holding GmbH has a liquidity commitment from Stefan Duerr, that covers this loan as well.

31.3 Financial guarantees received from related parties

At 31 December 2019 and 2018 the Group's bank loans were secured with financial guarantees of its ultimate controlling party and of the entities under common control amounted to EUR 1,154,511k (totally ultimate controlling party) and EUR 747,241k (thereof EUR 207k both ultimate controlling party and of the entities under common control of the Group's controlling sharehol-der and EUR 747,034k only ultimate controlling party), respectively. At the same time these loans were secured with the assets pledged (Note 15).

31.4 Terms and conditions of transactions with related parties

There have been no guarantees provided or received for any related party receivables or payables. As of 31 December 2019 expected credit loss provision for related party receivables was EUR 14k. At 31 December 2018 allowance for impairment of receivables from related parties was EUR 17k.

Mr. Stefan Duerr was granted a pension commitment by the Group parent as of 1 October 2009 (date of commitment). On this basis, Mr. Duerr will receive a monthly payment of EUR 4,500 from the age of 65 onwards. As of the balance sheet date, this results in an obligation according to IAS 19 of EUR 408k after deducting a cover asset of EUR 366k (gross commitment: EUR 774k).

32. CONTINGENT LIABILITIES

The Group has issued a guarantee in the ordinary course of business to secure delivery of or funding for certain items.

In January 2019 the Company issued a guarantee to Vaderstad – a producer of agricultural machinery for soil work and drilling – for delivery of machines in the amount of EUR 6.65 mln to the Group. As of 31 December 2019, the outstanding balance of the guarantee was EUR 962k.

33. ADVISORY AND SUPERVISORY BOARDS

On 31 July 2018 the shareholders of the company approved the changing of the legal form of the company from a limited liability company (GmbH) to a stock corporation (AG). Ekosem-Agrar AG was registered at the court of Mannheim on 14 August 2018 under the registration number HRB 731215. The shareholders elected members for the obligatory Supervisory Board. The members elected a chairman and deputy chairman of the Supervisory Board and also appointed the members of the Management Board. The Advisory Board has been cancelled.

The members of the Supervisory Board are:

Chairman: **Rolf Zuern**

Deputy Chairman: **Wolfgang Graf** (till 31 January 2019)
Elena Levina (from 1 February 2019)

Members: **Dr. jur. Franz-Georg von Busse**
Dr. Thomas Kirchberg
Vladislav Novoselov

The Management Board consists of two people:

Stefan Duerr, Chairman CEO
Wolfgang Blaesi, CFO

34. AUDITOR'S FEE

The following fee for the annual audit (complete remuneration plus expenses without VAT) is recorded as an expense in the year ended 31 December 2019:

	2019 EUR'000	2018 EUR'000
Audit services	373	273
	373	**273**

35. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

In connection with the recent rapid development of the coronavirus pandemic (COVID-19), many countries, including the Russian Federation, introduced quarantine measures, which had a significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimize its consequences can affect the activities of companies from various industries. The Group assesses the pandemic as a non-adjusting event after the reporting period, the quantitative effect of which can't be reasonably estimated at the moment.

Since March 2020, significant volatility has been observed in the stock, currency and commodity markets, including a drop in oil prices and a depreciation of the ruble against the US dollar and the euro. The management of the Group is currently analyzing the possible impact of changing micro and macro-economic conditions on the financial position and performance of the Group.

After the reporting date RUB has had significant fluctuations to Euro. While at 31 December 2019 RUB/EUR was 69.3406, as of 30 April 2020 RUB/EUR was 80.0488.

In March 2020 the Group acquired 100% ownership interest in legal entity in Ryazan region – OOO Kashirinskoe - for the cash consideration of RUB 633 mln (approx. EUR 7,380k). The acquired entity is engaged in crop production and cattle breeding.

Preliminary value of the acquired assets as stated in their statutory financial statement prepared based on Russian accounting standards is EUR 18,845k and acquired liabilities are EUR 10,729k. Based on this, preliminary value of the acquired net assets are EUR 8,116k. Revenue of the acquired entity for 2019 amounted to EUR 7,088k. Preliminary, the Group has identified bargain gain amounting of EUR 736k from acquisition. As the Group has acquired certain land plots and land lease rights, it's expected that fair value of acquired assets will be different from stated in the Russian statutory financial statements. Thus preliminary identified bargain gain might differ after finalization of purchasing price allocation.

The Group is in process of determination of final purchase price allocation relating to this acquisition. This process is expected to be finished within twelve months from the acquisition date.

Through various measures in the first quarter of 2020 fiscal year, Ekosem Group was able to refinance its loan liabilities to AlfaBank. This was done with the aim of reducing the Group's financing costs and simultaneously streamlining the shareholder structure.

In January 2020, OOO Ekoniva Farm terminated a short-term financial investment with AlfaBank. The inflowing funds in the amount of approximately EUR 43 mln were used to issue a loan to the Group's shareholder, Torentina Ltd. This liquidity was used to repay a loan to AlfaBank.

Under agreements dated March 2020, the Russian Agricultural Bank ("RSHB") took over all loans that AlfaBank had granted to Ekosem-Agrar Group. This took place against the background of improved loan conditions (mainly maturity and interest rate) being agreed with RSHB; discussions are still on-going. As part of this refinancing, a loan from AlfaBank to Ternata Holding GmbH was also taken over by RSHB. Ternata Holding GmbH is now wholly owned by Stefan Duerr. In a second step, OOO EkoNiva APK Holding took over this loan liability towards RSHB, and in turn acquired a receivable against Ternata Holding GmbH.

After the refinancing measures mentioned above, Ternata Holding GmbH acquired the shares in Torentina Ltd. and thus indirectly holds 16% of Ekosem-Agrar AG. Since then, AlfaBank no longer holds any shares in Ekosem Group. The shareholding structure as at 7 April 2020 is therefore as follows:

Stefan Duerr	(directly):	42.84%
	(via TH/Torentina):	16.00%
Other shareholders		
(supervisory board/employees):		41.16%

The two companies Ternata Holding GmbH and Torentina Ltd. have liabilities towards Ekosem-Agrar Group amounting to approximately EUR 85 mln as per the date of these financial statements. In addition to the shares in Ekosem-Agrar AG held by Torentina, both companies have a liquidity commitment from Mr. Stefan Duerr to secure the receivables of Ekosem Group, among other things.

36. DISTRIBUTION OF NET RESULT

The Management Board and the Supervisory Board of Ekosem-Agrar AG propose to the Annual General Meeting that they resolve to fully amount of the net profit for the year 2019 in the amount of EUR 35,745k to new account.

37. AUTHORIZATION FOR ISSUE

The consolidated financial statements of Ekosem-Agrar AG for the year ended 31 December 2019 were approved and authorized for issue by the Management Board on 13 May 2020.

Walldorf, 13 May 2020

Stefan Duerr
CEO

Wolfgang Blaesi
CFO

INDEPENDENT AUDITOR'S REPORT

To Ekosem-Agrar AG

Opinions

We have audited the consolidated financial statements of Ekosem-Agrar AG, Walldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of Ekosem-Agrar AG for the fiscal year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Material uncertainty about the Company's ability to continue as a going concern

We refer to the comments in section 5 in the notes to the consolidated financial statements and in section 4.2 "Risks" of the group management report and the background to the liquidity risk described there, according to which the continuation of the Ekosem-Agrar Group as a going concern hinges on the ability of the Group to generate sufficient funds to settle liabilities in future. This also includes funds to repay bank loans falling due where not refinanced or extended. At the date of preparing the consolidated financial statements for 2019, the management board expects that the Russian banks will regularly extend the Group's short-term financial liabilities as has been the case to date. Bond no. I (2012/2021) is due for repayment on 23 March 2021. The management board expects to be able to refinance the amount due for repayment. The management board believes that the current plan would lead to non-compliance with the terms for medium and long-term financing from the Russian banks as of 31 December 2020. Nevertheless, the management board expects the financing to continue and is negotiating an adjustment to the loan terms with the banks. This draws attention to the existence of a material uncertainty that may cast significant doubt on the Ekosem-Agrar Group's ability to continue as a going concern and that represents a going concern risk pursuant to Sec. 322 (2) Sentence 3 HGB.

Our opinion is not modified in respect of this matter.

Other information

The executive directors are responsible for the other information. The other information encompasses the remaining sections of the annual report that will likely be made available to us after this date with the exception of the audited consolidated financial statements and group management report as well as our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development.
In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

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 whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report 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 these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. 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 be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

Eschborn/Frankfurt am Main, 13 May 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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