PJSC Cherkizovo Group

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

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PJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC Cherkizovo Group (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

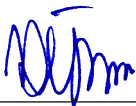
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by Management on 15 February 2018.

On behalf of the Management:



Sergei Mikhailov
Chief Executive Officer

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of PJSC Cherkizovo Group

Opinion

We have audited the consolidated financial statements of PJSC Cherkizovo Group (the "Company") and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for 2017 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Why the matter was determined a key audit matter	How the matter was addressed in the audit
Valuation of biological assets	
At 31 December 2017 the carrying values of current and non-current biological assets related to pork segment were RUB 6 100 813 thousand and RUB 2 259 409 thousand respectively (2016: RUB 5 504 933 thousand and RUB 1 902 652 thousand) and the carrying value of current biological assets related to poultry segment was RUB 3 897 572 thousand (2016: RUB 3 755 261 thousand). Biological assets are stated at fair value less estimated costs to sell. At 31 December 2017 the effect of fair value adjustment on the carrying value of biological assets was RUB 4 457 066 thousand (2016: RUB 3 877 070 thousand). Further details are provided in Notes 4 and 15 to the consolidated financial statements. We focused on this area as a key audit matter because the assessment of the fair value using valuation techniques involves complex and significant judgements about future poultry and pork prices as well as the projected costs, and because the valuation is particularly sensitive to these assumptions.	We performed audit procedures on all valuation models relating to material types of biological assets. Our audit procedures included verification of management's assumptions used in the models. The assumptions to which the models were most sensitive and most likely to lead to material mistakes in valuation were: • Future selling prices and • The projected cost per head/ kg. We challenged management's assumptions in the models with reference to historical data and, where applicable, external/ independent sources, noting that the assumptions used fell within an acceptable independently determined range. We compared the current performance up to the date of the audit report with the forecasts to ensure no significant changes in market conditions had occurred after the testing had been performed, which can affect the assumptions used in the models. We tested the accuracy of the models and management's sensitivity calculations. We tested the appropriateness of the related disclosures provided in the consolidated financial statements. In particular, we focused on the disclosure of key unobservable inputs and the related sensitivity analysis.
NAPKO acquisition: determination of fair value of the business acquired	
In April 2017 the Group completed an acquisition of 100% of NAPKO from entity under common control for cash consideration of RUB 4 872 000 thousand. Management of the Group concluded that the acquisition had been conducted on the arm-length basis. This conclusion was supported by the business valuation report prepared by an independent appraiser.	We performed the following audit procedures in respect of this key audit matter: • We verified that the transaction was approved by the Group's Board of Directors and that the respective approval policies were followed; • We tested the business valuation report with the assistance of our internal valuation specialists, including assessing the appropriateness of the selected valuation techniques, the methodology and key assumptions used by an independent appraiser;

Why the matter was determined a key audit matter	How the matter was addressed in the audit
The Group accounts for business combinations under common control using the acquisition method. Significant differences, if any, between consideration transferred and fair value of the business acquired is recognized as a contribution/ distribution of equity. Further details are provided in Notes 4 and 30 to the consolidated financial statements. We focused on this area as a key audit matter because the valuation of the business, and particularly a business under common control, involves complex and significant judgements about valuation techniques to be applied including considering the future performance of the business. In addition, transactions with related parties and their associated terms are an area of focus of the Audit Committee and various other stakeholders.	• We audited the arithmetic accuracy of the valuation models as well as the input data used by the appraiser; and • We checked that the consideration paid in accordance with the agreement did not significantly differ from the fair value of the business acquired as per the valuation report.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Rinat Khasanov,
Team leader

15 February 2018

The Entity: PJSC Cherkizovo Group

Primary State Registration Number: 1057748318473

Certificate of registration in the Unified State Register № 1057748318473 of 22.09.2005, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46.

Address: 5B, Lesnaya street, Moscow, Russian Federation, 125047

Audit Firm: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	2017	2016
Revenue	5	90 465 069	82 417 193
Net change in fair value of biological assets and agricultural produce	15	(148 118)	(340 063)
Cost of sales	6	(66 758 340)	(64 222 344)
Gross profit		**23 558 611**	**17 854 786**
Selling, general and administrative expenses	7	(13 936 562)	(13 008 713)
Other operating income, net		324 898	410 591
Share of loss of a joint venture	16	(221 325)	(200 191)
Operating profit		**9 725 622**	**5 056 473**
Interest income		277 148	343 737
Interest expense, net	8	(3 663 093)	(3 738 315)
Other (expenses) income, net	9	(384 002)	298 484
Profit before income tax		**5 955 675**	**1 960 379**
Income tax expense	10	(307 600)	(72 861)
Profit for the year and total comprehensive income		**5 648 075**	**1 887 518**
Profit and total comprehensive income attributable to:			
Cherkizovo Group		5 800 371	1 919 227
Non-controlling interests		(152 296)	(31 709)
Earnings per share			
Weighted average number of shares outstanding – basic and diluted:		42 760 328	43 855 590
Net income attributable to Cherkizovo Group per share – basic and diluted (in Russian rubles):		135.65	43.76

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	75 318 770	64 445 256
Investment property	12	589 411	443 676
Goodwill	13	1 254 572	557 191
Intangible assets	14	2 014 358	1 949 663
Non-current biological assets	15	2 288 524	1 926 714
Notes receivable, net		310 000	510 000
Investments in joint venture	16	2 185 147	2 061 472
Long-term deposits in banks	17	641 365	641 365
Restricted cash	11	740 848	-
Deferred tax assets	10	754 192	479 624
Other non-current assets	29	804 322	508 140
Total non-current assets		**86 901 509**	**73 523 101**
Current assets			
Biological assets	15	11 566 300	10 712 481
Inventories	18	9 971 811	10 602 118
Taxes recoverable and prepaid	19	2 264 482	1 904 786
Trade receivables, net	20	4 448 735	4 942 884
Advances paid, net		1 415 099	1 721 691
Other receivables, net	21	836 563	1 393 473
Cash and cash equivalents	22	704 676	1 002 203
Other current assets	23	535 087	534 838
Total current assets		**31 742 753**	**32 814 474**
TOTAL ASSETS		**118 644 262**	**106 337 575**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position continued

As at 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	24	440	440
Treasury shares	24	(3 724 561)	(78 033)
Additional paid-in capital	24	5 588 320	5 588 320
Retained earnings		49 849 812	47 503 411
Total shareholder's equity		**51 714 011**	**53 014 138**
Non-controlling interests	25	1 065 846	1 026 280
Total equity		**52 779 857**	**54 040 418**
Non-current liabilities			
Long-term borrowings	26	30 603 110	24 469 704
Provisions		58 131	58 131
Deferred tax liability	10	1 064 814	420 299
Other liabilities		3 272	14 379
Total non-current liabilities		**31 729 327**	**24 962 513**
Current liabilities			
Short-term borrowings	26	19 411 621	14 122 997
Trade payables		9 018 376	8 608 271
Advances received		616 371	562 584
Payables for non-current assets		1 912 620	1 061 629
Tax related liabilities	27	964 123	849 400
Payroll related liabilities		1 816 396	1 394 940
Other payables and accruals		395 571	734 823
Total current liabilities		**34 135 078**	**27 334 644**
Total liabilities		**65 864 405**	**52 297 157**
TOTAL EQUITY AND LIABILITIES		**118 644 262**	**106 337 575**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	Share capital		Treasury shares						
	Amount	Number of shares	Amount	Number of shares	Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
Balances at 1 January 2016	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**46 582 955**	**52 093 682**	**1 055 392**	**53 149 074**
Profit for the year and total comprehensive income	-	-	-	-	-	1 919 227	**1 919 227**	(31 709)	**1 887 518**
Additional non-controlling interests arising on set up of new subsidiaries	-	-	-	-	-	-	**-**	2 597	**2 597**
Dividends (Note 24)	-	-	-	-	-	(998 771)	**(998 771)**	-	**(998 771)**
Balances at 31 December 2016	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**47 503 411**	**53 014 138**	**1 026 280**	**54 040 418**
Profit for the year and total comprehensive income	-	-	-	-	-	5 800 371	**5 800 371**	(152 296)	**5 648 075**
Additional non-controlling interests recognized on acquisition of subsidiaries (Note 30)	-	-	-	-	-	-	**-**	191 862	**191 862**
Purchase of treasury shares (Note 24)	-	-	(3 646 528)	(2 808 576)	-	-	**(3 646 528)**		**(3 646 528)**
Dividends (Note 24)	-	-	-	-	-	(3 453 970)	**(3 453 970)**	-	**(3 453 970)**
Balances at 31 December 2017	**440**	**43 963 773**	**(3 724 561)**	**(2 916 759)**	**5 588 320**	**49 849 812**	**51 714 011**	**1 065 846**	**52 779 857**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**5 955 675**	**1 960 379**
Adjustments for:		
Depreciation and amortization	5 153 486	4 660 365
Bad debt expense	282 148	231 981
Foreign exchange loss (gain), net	390 426	(621 087)
Interest income	(277 148)	(343 737)
Interest expense, net	3 663 093	3 738 315
Net change in fair value of biological assets and agricultural produce	148 118	340 063
Loss (gain) on disposal of property, plant and equipment, net	106 321	(8 054)
Gain on disposal of non-current biological assets, net	(423 512)	(402 456)
Write-off of receivables from insurance company	-	347 975
Share of loss of a joint venture	221 325	200 191
Other adjustments, net	(14 392)	(28 059)
Operating cash flows before working capital and other changes	**15 205 540**	**10 075 876**
Decrease in inventories	1 259 252	770 364
Increase in biological assets	(489 539)	(202 031)
Decrease (increase) in trade receivables	384 564	(477 366)
(Increase) decrease in advances paid	(169 281)	796 090
(Increase) decrease in other receivables and other current assets	(333 616)	947 249
Increase in other non-current assets	(113 739)	(70 105)
Increase in trade payables	48 691	675 348
Increase in tax related liabilities (other than income tax)	50 889	41 155
Increase in other current payables	445 491	142 585
Operating cash flows before interest and income tax	**16 288 252**	**12 699 165**
Interest received	143 745	255 850
Interest paid	(3 444 545)	(4 895 763)
Government grants for compensation of interest expense received	541 187	1 433 471
Income tax paid	(512 430)	(124 186)
Net cash from operating activities	**13 016 209**	**9 368 537**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9 881 600)	(8 569 640)
Purchase of non-current biological assets	(1 017 577)	(1 110 778)
Purchase of intangible assets	(372 470)	(555 633)
Proceeds from sale of property, plant and equipment	30 880	34 013
Proceeds from disposal of non-current biological assets	1 028 836	755 422
Acquisitions of subsidiaries, net of cash acquired	(4 768 059)	-
Investments in joint venture	(345 000)	(960 000)
Placing of deposits and issuance of loans	(412 470)	-
Placing of notes receivable	(100 000)	(210 000)
Repayment of loans issued and redemption of deposits	150 050	6 273
Net cash used in investing activities	**(15 687 410)**	**(10 610 343)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	20 542 792	11 862 021
Repayment of long-term loans	(10 378 936)	(5 363 445)
Proceeds from short-term loans	11 555 329	21 834 999
Repayment of short-term loans	(12 246 483)	(30 652 746)
Purchase of treasury shares	(3 646 528)	-
Dividends paid	(3 453 970)	(998 771)
Disposal of non-controlling interests	1 470	1 127
Net cash generated from (used in) financing activities	**2 373 674**	**(3 316 815)**
Net decrease in cash and cash equivalents	**(297 527)**	**(4 558 621)**
Cash and cash equivalents at the beginning of the year	**1 002 203**	**5 560 824**
Cash and cash equivalents at the end of the year	**704 676**	**1 002 203**

Non-cash transactions: the Group obtained various letters of credit in a well-known Russian bank with respect to the Group’s commitments to certain suppliers of machinery and equipment. At the date of each letter the bank opened a credit line to the Group and transferred an equal and opposite amount to a special restricted deposit account as a guarantee of fulfilment of the Group's obligations under the letters of credit (see Note 11). The transfer represents a non-cash transaction, because the credit line and the restricted bank account were opened within the same bank and the transaction did not impact the Group's cash position.

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

1. Nature of the business

General information

PJSC Cherkizovo Group (the "Company") is a public joint stock company incorporated in Russia. The registered office of the Company is 5, Lesnaya st., building B, Moscow, 125047, Russia.

The Company's parent is MB Capital Europe Ltd., which is registered in Cyprus and owned approximately 82% of the Company's shares at 31 December 2017. The ultimate controlling party of PJSC Cherkizovo Group is Babaev / Mikhailov family who jointly control MB Capital Europe Ltd.

At 31 December 2017 and 2016 the Group included the following principal companies:

Name of company	Legal form	Nature of business	% 31.12.2017	% 31.12.2016
OJSC Cherkizovsky Meat Processing Plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	95%	95%
LLC PKO Otechestvennyi Product	Limited Liability Company	Meat processing plant	95%	95%
JSC Cherkizovo-Kashira	Joint Stock Company	Meat processing plant	95%	95%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry**	88%	88%
OJSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%
OJSC Kurinoe Tsarstvo	Open Joint Stock Company	Raising poultry	100%	100%
CJSC Kurinoe Tsarstvo Bryansk	Closed Joint Stock Company	Raising poultry	100%	100%
CJSC Mosselprom	Closed Joint Stock Company	Raising poultry	100%	100%
LLC Lisko Broiler	Limited Liability Company	Raising poultry	100%	100%
LLC TD Cherkizovo (former LLC Petelino Trade House)	Limited Liability Company	Trading company: distribution of poultry	88%	88%
LLC Cherkizovo-Pork	Limited Liability Company	Pig breeding	100%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%
LLC Cherkizovo-Grain Production	Limited Liability Company	Grain crops cultivation	100%	100%
LLC Agrarnaya Gruppa*	Limited Liability Company	Grain crops cultivation	100%	-
JSC Lipetskmyaso*	Joint Stock Company	Grain crops cultivation	100%	-

* In 2017 the Group acquired these individual companies through acquisition of the NAPKO Group (see Note 30).

** Hereinafter poultry includes only chicken.

The business of the Group

The Group's operations are spread over the full production cycle from grain and feed production and breeding to meat processing and distribution. The operational facilities of the Group include six meat processing plants, sixteen pig production complexes, eight poultry production complexes, eight combined fodder production plants and more than 287 000 hectares of agricultural land and a swine nucleus unit.

The Group's geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Kaliningrad, Penza, Lipetsk, Vologda, Ulyanovsk, Chelyabinsk, Tambov, Krasnodar, Ekaterinburg, Rostov-na-Donu, Briansk, Voronezh, Belgorod, Kursk, Orel and Kazan. The Group is represented in the European part of Russia through its own distribution network.

The Group owns locally recognised brands, which include Cherkizovo ("Черкизово"), Pyat Zvezd ("Пять Звезд"), Petelinka ("Петелинка"), Kurinoe Tsarstvo ("Куриное Царство") and Imperia Vkusa ("Империя вкуса") and has a diverse customer base.

At 31 December 2017 and 2016 the number of staff employed by the Group approximated 23 158 and 22 775, respectively.

1. Nature of the business continued

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic developments on future operations and financial position of the Group is difficult to determine at this stage.

2. Significant accounting policies

Statement of compliance

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

Change in accounting policy

The Group has changed its accounting policy in relation to the acquisitions of entities under common control. Pursuant to the Group's revised accounting policy, the Group now accounts for such business combinations using the acquisition method. Prior to this change, all acquisitions of entities under common control were accounted for on the basis of predecessor carrying values ('pooling of interest' method). The Group has retrospectively applied the new accounting policy, however, in prior periods, starting from the date of transition to IFRSs, the Group had no acquisitions of entities under common control and, therefore, the change had no impact on the comparative information.

Basis of preparation

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's statutory basis accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets measured at fair value less estimated point-of-sale costs; and assets and liabilities of subsidiaries acquired and recorded in accordance with IFRS 3 "Business combinations" ("IFRS 3").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. Significant accounting policies continued

Functional and presentation currency

The functional currency of the Company, and each of its subsidiaries, is the Russian rouble. These consolidated financial statements are also presented in Russian roubles which is the presentation currency used by the Group.

Foreign currency transactions

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

The Group continues to monitor its existing liquidity needs on an on-going basis. Management believes that the Group will have sufficient operating cash flows and borrowing capacity to continue as a going concern in the foreseeable future.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. Significant accounting policies continued

Business combinations

Acquisitions of businesses are accounted for using the acquisition method, including acquisitions from entities under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred. For acquisitions of entities under common control, if the consideration transferred in a business combination significantly differs from the fair value of the business acquired, the Group recognizes the difference as a capital contribution if the fair value of the business acquired is higher than consideration or a distribution if lower.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit and loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy on Business combinations above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. Significant accounting policies continued

Investments in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group reports its interests in joint venture using the equity method of accounting, whereby an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Property, plant and equipment

Owned assets

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site in which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognized net in other income in profit or loss.

Repairs and maintenance

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Land	indefinite life
Buildings, infrastructure and lease hold improvements	20-40 years
Machinery and equipment	3-22 years
Vehicles	3-10 years
Other	3-10 years

2. Significant accounting policies continued

Depreciation methods, useful lives and residual values are reassessed at each reporting date, with the effect of any changes in accounting estimate recognized on a prospective basis.

Investment property

Investment properties represent buildings and land held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost, including transaction costs, less accumulated depreciation and impairment losses. Land is not depreciated.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives (10-40 years) of each building.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets represent acquired trademarks and computer software. All trademarks have been determined to have an indefinite life.

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Impairment of tangible and intangible assets other than goodwill

The carrying amounts of the Group's non-current assets are reviewed at each reporting date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 for which the estimates of future cash flows have not been adjusted. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination acquisition, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs included in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress cost includes an appropriate share of production overheads based on normal operating capacity.

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

2. Significant accounting policies continued

Biological assets and agricultural produce

Biological assets of the Group consist of livestock (pigs and poultry) and unharvested crops (grain crops and other plantations).

The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any results recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each reporting date as a fair value adjustment. The change in this adjustment from one period to another is recognized as “Net change in fair value of biological assets and agricultural produce” in profit or loss.

Agricultural produce harvested from biological assets is recognised in inventory and measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is recognized as “Net change in fair value of biological assets and agricultural produce” in profit or loss and for items sold is presented on net basis as a reduction of the line “Cost of sales”.

Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

Biological assets

(i) Broilers

Broilers comprise poultry held for chicken meat production. The fair value of broilers is determined by reference to the cash flows that will be obtained from sales of finished chickens, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

(ii) Breeders (laying hens and replacement flock)

Breeders comprise poultry held for regeneration of broilers. The fair value of breeders is determined by reference to the cash flows that will be obtained from sales of hatchery eggs, with an allowance for costs to be incurred and risks to be faced during the remaining productive period.

(iii) Market hogs

Market hogs comprise of pigs held for pork meat production. The fair value of broilers is determined by reference to the cash flows that will be obtained from sales of finished pigs, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

(iv) Sows

Sows comprise pigs held for regeneration of market hogs population. The fair value of sows is determined by reference to the cash flows that will be obtained from sales of weaned piglets, with an allowance for costs to be incurred and risks to be faced during the remaining productive period.

(v) Unharvested crops (wheat, corn, sunflower, barley, pea and others).

At the year-end unharvested crops are carried at the accumulated costs incurred, which approximate the fair value since little biological transformation has taken place due to the seasonal nature of the crops. Subsequent to the year-end unharvested crops in fields are measured at fair value, which is determined by reference to the cash flows that will be obtained from sales of harvested crops, with an allowance for costs to be incurred at the point of sale and risks to be faced during the remaining transformation process.

Agricultural produce

(i) Dressed poultry and pork

The fair value of dressed poultry and pork is determined by reference to market prices at the point of harvest.

(ii) Crops

The fair value of crops is determined by reference to market prices at the point of harvest.

2. Significant accounting policies continued

The Group's biological assets are classified into bearer and consumable biological assets depending upon the function of a particular group of biological assets in the Group's production process. Consumable biological assets are those that are to be harvested as agricultural produce, and include broilers, market hogs and unharvested crops. Bearer biological assets include poultry breeders and sows.

Revenue recognition

The Group derives its revenue from four main sources: sale of processed meat, poultry, pork and grain crops. Revenue is recognised when the products are shipped or when goods are received by its customer, title and risk of ownership has passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

In accordance with the Group's standard sales terms, title is transferred and the customer assumes the risks and rewards of ownership upon shipment. However, on contracts with certain large retail chains, title transfers upon acceptance of goods by the customer at delivery. Sales made under these contracts are recognized upon acceptance by customer.

Sales are recognised at the fair value of the consideration received or receivable, net of VAT, discounts and returns. The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts are offered in the meat processing segment and in the poultry segment. The discounts are graduated to increase when actual sales exceed target sales.

The Group offers product guarantees to its customers, providing them with an option to return damaged and non conforming goods and goods of initial improper quality. The period that goods may be returned is set to a maximum of one month from the date of shipment. Returns are accounted for as deductions to sales in the period to which sales relate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain government grants. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The largest of such government grants relate to reimbursement of interest expense on qualifying loans (“interest subsidies”). The Group records interest subsidies as an offset to interest expense during the period to which they relate.

The Group also receives government grants based on square of cultivated land and volumes of meat or eggs produced and fodder purchased. These grants are less systematic and therefore in general the Group recognizes them only when receives the grant or it is highly probable that the grant will be received. These grants are recorded as reductions to cost of sales during the period to which they relate.

In addition to that, from time to time the Group receives government grants for compensation of certain capital expenditures. These grants are non-systematic and therefore the Group recognizes them only when receives the grant. These grants are recorded as reductions to costs capitalized during the period to which they relate.

Employee benefits

Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group does not have any material long-term employee benefits.

The Group contributes to the State Pension Fund of the Russian Federation. The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period in which they arise. These contributions to the State Pension Fund of the Russian Federation are recognized in the consolidated statement of profit or loss and other comprehensive income when employees have rendered services entitling them to the contribution. The Group does not maintain any supplemental post-retirement benefit plans for its employees.

2. Significant accounting policies continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. The corresponding liability is included in the balance sheet as lease liability. Lease payments are apportioned between interest expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is charged directly against income, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group's general policy on interest costs (see Borrowing cost above).

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and in bank accounts and short-term highly liquid investments having original maturities of less than three months.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received. Where shares are issued above par value, the proceeds in excess of par value are recorded in additional paid-in capital, net of direct issue costs.

2. Significant accounting policies continued

Treasury shares

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

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. At the reporting dates, the Group had only financial assets classified as 'loans and receivables'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

2. Significant accounting policies continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Derecognition of financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. At the reporting dates, the Group had only financial liabilities classified as 'other financial liabilities'.

Other financial liabilities
Other financial liabilities (including borrowings and trade and other payables) are initially recognised at fair value less transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. New and revised International financial reporting standards

IFRS and IFRIC interpretations adopted in the current year

The Group has adopted all IFRS and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017. The adoption of such standards did not have a material impact on the Group's consolidated financial statements, except for the effects of amendments to IAS 7 as described below.

Amendments to IAS 7 Disclosure Initiative
The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings, including finance lease liabilities. A reconciliation between the opening and closing balances of them is provided in Note 26. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

3. New and revised international financial reporting standards continued

IFRS and IFRIC interpretations in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019
IFRS 17 "Insurance Contracts"	1 January 2021
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
IFRIC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IFRS 9 – Prepayment Features With Negative Compensation	1 January 2019
Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

IFRS 9 *"Financial Instruments"*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

3. New and revised international financial reporting standards continued

The standard is effective from 1 January 2018 with early application permitted. The full impact of adopting IFRS 9 on the Group's consolidated financial statements in the year of adoption will depend on the financial instruments that the Group has during 2018 as well as on the economic conditions and judgments made as at the year end. Group has elected not to restate comparatives on initial application of IFRS 9. Based on a preliminary analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

- **Classification and measurement.** The Group has only financial assets and liabilities measured at amortized cost and therefore will continue to classify and measure them on the same bases as is currently adopted under IAS 39.
- **Impairment.** Financial assets measured at amortised cost (loans and receivables and cash and cash equivalents as disclosed in Note 28) will be subject to the impairment provisions of IFRS 9. The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade and other receivables, notes receivable, long-term deposits in banks and cash and cash equivalents as required or permitted by IFRS 9. In general, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items; however, the management anticipates that the increase will not be significant.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue mainly from wholesale of goods to its customers, has no loyalty programs or specific guarantees. Therefore, apart from providing more extensive disclosures on the Group's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group. Management intends to use the following method of IFRS 15 application: retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application (not full retrospective method of transition).

IFRS 16 *Leases*
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

3. New and revised international financial reporting standards continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of 2 866 540 (Note 31). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, the management of the Group does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The impact of adoption of these amendments in the preparation of the consolidated financial statements in future periods is currently being assessed by management.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

3. New and revised international financial reporting standards continued

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 May evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings;
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives. The impact of adoption of these amendments in the preparation of the consolidated financial statements in future periods is currently being assessed by management.

Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity‘s net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods if the Group will not convert Notes receivable classified as net investment in the joint venture to equity investment, as disclosed in Note 16.

4. Key sources of estimation uncertainty

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from those estimates. Additional information relating to contingencies and commitments is disclosed in Note 31.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Biological assets

Biological assets are recorded at fair values less costs to sell. Fair value of the Group's biological assets was determined by using valuation techniques, as there were no observable market prices near the reporting date for biological assets of the same physical conditions. Fair value is determined using Level 3 of fair value hierarchy and the following key unobservable inputs:

Description	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs	Value of unobservable inputs	Relationship of unobservable inputs to fair value
Broilers	1 928 277	Discounted cash flows	Average weight of one broiler – kg	2.3	The higher the weight, the higher the fair value
			Poultry meat price – rubles	83.7	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	67.4	The higher the costs, the lower the fair value
Breeders held for hatchery eggs production	1 969 345	Discounted cash flows	Number of hatchery eggs produced by one breeder	165	The higher the number, the higher the fair value
			Hatchery egg price – rubles	14.4	The higher the price, the higher the fair value
			Projected production costs of hatchery egg – rubles	6.6	The higher the costs, the lower the fair value
Sows	2 259 409	Discounted cash flows	Average number of piglets produced by one sow	28.3	The higher the number, the higher the fair value
			Market price of weaned piglet – rubles	2 217	The higher the price, the higher the fair value
			Discount rate	14.1%	The higher the discount rate, the lower the fair value
Market hogs	6 100 813	Discounted cash flows	Average weight of one market hog – kg	120.1	The higher the weight, the higher the fair value
			Pork meat price – rubles per kg	80.8	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	57.1	The higher the costs, the lower the fair value
Unharvested crops (except for year-end)	611 805	Discounted cash flows	Crops yield – ton/Ha	Not applicable for year-end	The higher the yield, the higher the fair value
			Selling price	Not applicable for year-end	The higher the price, the higher the fair value
			Projected production costs	Not applicable for year-end	The higher the costs, the lower the fair value

4. Key sources of estimation uncertainty continued

Among the unobservable inputs stated above, there are several key assumptions that the Group estimates to determine the fair values of biological assets:

- Expected selling prices;
- Projected production costs and costs to sell.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results.

Should key assumptions used in determination of fair value of biological assets have been 10% higher or lower with all other variables held constant, the fair value of biological assets at the reporting date would be higher or (lower) by the following amounts:

	31 December 2017 Pork		31 December 2017 Poultry	
	10% increase	10% decrease	10% increase	10% decrease
Expected selling prices	1 176 607	(1 178 558)	892 353	(893 499)
Projected production costs and costs to sell	(665 879)	663 053	(603 656)	599 228

Recognition of subsidies receivable

The Group recognizes government grants when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. The Group receives subsidies related to reimbursement of interest expense ("interest subsidies") on working capital loans ("working capital subsidies") and loans received for investment purposes ("investment subsidies"). Starting 2016, the Group recognizes only interest subsidies on qualifying loans that are confirmed by Ministry of agriculture. The Group considers that confirmation is received only when a portion of the subsidy relating to a qualifying loan is collected or an investment project is approved by Ministry of agriculture and management verified that the Group comply with the conditions attached to that project.

The balance of subsidies receivable at 31 December 2016 was 1 100 598, including 348 598 related to investment subsidies and 752 000 to working capital subsidies. During 2017 the Group collected all investment subsidies and 180 913 of working capital subsidies and wrote-off the remaining balance of working capital subsidies receivable of 571 087. Write-off was triggered by the change in legislation in December 2017, prohibiting regional bodies of Ministry of agriculture the use of 2018 subsidy limits for settlement of 2016 liabilities (see Note 8).

The remaining balance of subsidies receivable at 31 December 2017 consists of only subsidies accrued in 2017 on qualifying loan agreements received for investment purposes. The collectability of these balances will depend on Russian economic environment and availability of state financing. Based on the current legislation management believes that it is probable that the balance will be collected.

Determination of fair value of NAPKO

The Group engaged an independent appraiser to conduct a valuation of NAPKO business. The appraiser used three valuation methods – the cost, market and income approach. The spread between the results of the methods ran from 4.5 billion rubles to 6.5 billion rubles. The appraiser determined that fair value of the business was 5.2 billion rubles, being a weighted average number of all three methods. The consideration paid for NAPKO was 4.9 billion rubles (Note 30) was within in the abovementioned range, therefore management concluded that the consideration was reflective of fair value and therefore did not recognize any adjustments to bring the consideration paid to a fair value.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period. There have been no significant changes in estimates of useful lives of property, plant and equipment during the periods included in these consolidated financial statements.

4. Key sources of estimation uncertainty continued

Impairment of trademarks

All trademarks owned by the Group have been determined to have an indefinite life because the patent securing the Group's title can be renewed an unlimited number of times and therefore are tested for impairment annually, or more frequently when there is an indication that they may be impaired. Determining whether a trademark is impaired requires an estimation of the recoverable value of the asset, being higher of fair value of value in use. Fair value, which is determined using a relief from royalty method based on expected sales by trademark. This approach requires the management to estimate the future sales by trademark, royalty rate and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Where the recoverable amount determined on a fair value basis indicates impairment, the Group must also compute a value in use in order to determine if the asset is impaired. The carrying amount of trademarks at 31 December 2017 was 1 215 509 (31 December 2016: 1 215 509). No impairment loss was recognised during 2017 and 2016. Details are set out in Note 14.

Impairment of property, plant and equipment

The Group reviews at each reporting date the carrying amounts of property, plant and equipment to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. Whenever such indications exist, management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash-generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value in-use calculation.

Allowance for impairment of receivables and advances to suppliers

Management maintains an allowance for impairment of receivables and advances to suppliers in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment patterns. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2017 and 2016 the allowance for impairment of receivables was recognized in the amount of 206 612 and 59 480, respectively (see Notes 20, 21) and the allowance of advances to suppliers was recognized in the amount of 167 949 and 81 608, respectively.

5. Operating segments

The Group's operations are divided into five segments by types of products produced: poultry, pork, meat processing, grain and feed. Substantially all of the Group's operations are located within the Russian Federation. All segments have different segment managers responsible for the segments' operations. The chief operating decision maker (the Chief Executive Officer) is individual responsible for allocating resources to and assessing the performance of each segment of the business.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. The pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat and other poultry meat products in the poultry segment and raw pork meat in the pork segment. The grain segment is involved in the farming of wheat and other crops. The feed segment is involved in the production of feed for internal use by pork and poultry segments. All five segments are involved in other business activities, including production of dairy, sale of non-hatchery eggs and other services, which are non-core business activities.

The Group evaluates segment performance based on Adjusted EBITDA. Adjusted EBITDA is defined as profit for the period before income tax expense/benefit, interest income and interest expense, net, foreign exchange loss/gain, depreciation and amortisation expense, net change in fair value of biological assets and agricultural produce, write-off of receivables from insurance company, share of loss of a joint venture and loss on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

5. Operating segments continued

Segment information for the year ended at 31 December 2017 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey***	Total consolidated
Total sales	34 020 373	18 688 379	47 401 429	3 238 261	28 169 777	131 518 219	560 007	(45 511 637)	86 566 589	3 898 480	90 465 069
including other sales	680 431	235 960	901 885	75 115	-	1 893 391	560 007	(799 076)	1 654 322	-	1 654 322
including sales volume discounts	(827 045)	-	(523 618)	-	-	(1 350 663)	-	-	(1 350 663)	(29 696)	(1 380 359)
Intersegment sales	(39 539)	(14 622 070)	(1 902 802)	(1 468 597)	(27 186 212)	(45 219 220)	(292 417)	45 511 637	-	-	-
Sales to external customers	33 980 834	4 066 309	45 498 627	1 769 664	983 565	86 298 999	267 590	-	86 566 589	3 898 480	90 465 069
Net change in fair value of biological assets and agricultural produce	-	651 235	(71 239)	(736 614)	-	(156 618)	-	8 500	(148 118)	-	(148 118)
Cost of sales	(28 058 310)	(12 399 563)	(36 875 483)	(3 823 384)	(26 735 838)	(107 892 578)	(440 325)	45 327 432	(63 005 471)	(3 752 869)	(66 758 340)
Gross profit (loss)	**5 962 063**	**6 940 051**	**10 454 707**	**(1 321 737)**	**1 433 939**	**23 469 023**	**119 682**	**(175 705)**	**23 413 000**	**145 611**	**23 558 611**
Operating expense*	(4 249 598)	(627 148)	(5 342 484)	(270 124)	(368 585)	(10 857 939)	(2 825 222)	283 836	(13 399 325)	(212 339)	(13 611 664)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	(221 325)	(221 325)
Operating income (loss)	**1 712 465**	**6 312 903**	**5 112 223**	**(1 591 861)**	**1 065 354**	**12 611 084**	**(2 705 540)**	**108 131**	**10 013 675**	**(288 053)**	**9 725 622**
Other income (expense), net**	(106 781)	38 664	3 102	2 967	(103 986)	(166 034)	156 258	(97 078)	(106 854)	-	(106 854)
Interest expense, net	(181 389)	(713 729)	(1 112 968)	(175 685)	(942 325)	(3 126 096)	(634 075)	97 078	(3 663 093)	-	(3 663 093)
Profit (loss) before income tax	**1 424 295**	**5 637 838**	**4 002 357**	**(1 764 579)**	**19 043**	**9 318 954**	**(3 183 357)**	**108 131**	**6 243 728**	**(288 053)**	**5 955 675**
Adjustments for:											
Interest expense, net	181 389	713 729	1 112 968	175 685	942 325	3 126 096	634 075	(97 078)	3 663 093	-	3 663 093
Interest income	(16 845)	(41 178)	(164 917)	(1 649)	(2 567)	(227 156)	(147 070)	97 078	(277 148)	-	(277 148)
Foreign exchange loss (gain)	122 422	6 272	164 118	(859)	107 279	399 232	(8 806)	-	390 426	-	390 426
Depreciation and amortisation expense	697 189	1 140 851	1 936 437	464 492	595 260	4 834 229	319 257	-	5 153 486	-	5 153 486
Net change in fair value of biological assets and agricultural produce	-	(651 235)	71 239	736 614	-	156 618	-	(8 500)	148 118	-	148 118
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	221 325	221 325
Share of adjusted EBITDA of a joint venture****	-	-	-	-	-	-	-	-	-	83 448	83 448
Adjusted EBITDA	**2 408 450**	**6 806 277**	**7 122 202**	**(390 296)**	**1 661 340**	**17 607 973**	**(2 385 901)**	**99 631**	**15 321 703**	**16 720**	**15 338 423**
Supplemental information:											
Expenditure for segment property, plant and equipment	4 795 938	5 077 199	1 465 739	397 665	206 831	11 943 372	389 316	-	12 332 688	-	12 332 688
Income tax expense (benefit)	100 185	(19 580)	48 452	12 224	3 401	144 682	162 918	-	307 600	-	307 600

* Operating expenses include selling, general and administrative expenses and other operating income, net.

** Other income (expense), net presents interest income and other income/expense as a combined line item.

*** Turkey represents operations related to purchase and subsequent resale of turkey meat produced by its joint venture through the Group's distribution network. Turkey itself is not an operating segment.

**** Adjusted EBITDA of a joint venture is calculated consistently to that of the Group and reported to the CODM as part of segment reporting.

5. **Operating segments** continued

Segment information for the year ended at 31 December 2016 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey***	Total consolidated
Total sales	31 667 448	15 920 146	47 724 031	3 055 762	28 727 843	127 095 230	126 251	(44 804 288)	82 417 193	-	82 417 193
including other sales	526 538	171 106	1 331 875	47 426	-	2 076 945	126 251	(783 561)	1 419 635	-	1 419 635
including sales volume discounts	(4 545 908)	-	(1 340 206)	-	-	(5 886 114)	-	-	(5 886 114)	-	(5 886 114)
Intersegment sales	(22 795)	(12 634 006)	(1 961 921)	(1 956 712)	(28 146 309)	(44 721 743)	(82 545)	44 804 288	-	-	-
Sales to external customers	31 644 653	3 286 140	45 762 110	1 099 050	581 534	82 373 487	43 706	-	82 417 193	-	82 417 193
Net change in fair value of biological assets and agricultural produce	-	861 422	(288 114)	(477 482)	-	95 826	-	(435 889)	(340 063)	-	(340 063)
Cost of sales	(26 141 947)	(12 182 666)	(40 049 212)	(2 873 596)	(28 109 353)	(109 356 774)	(78 511)	45 212 941	(64 222 344)	-	(64 222 344)
Gross profit (loss)	**5 525 501**	**4 598 902**	**7 386 705**	**(295 316)**	**618 490**	**17 834 282**	**47 740**	**(27 236)**	**17 854 786**	**-**	**17 854 786**
Operating expense*	(3 743 466)	(782 107)	(5 035 890)	(267 828)	(404 658)	(10 233 949)	(2 445 280)	81 107	(12 598 122)	-	(12 598 122)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	(200 191)	(200 191)
Operating income (loss)	**1 782 035**	**3 816 795**	**2 350 815**	**(563 144)**	**213 832**	**7 600 333**	**(2 397 540)**	**53 871**	**5 256 664**	**(200 191)**	**5 056 473**
Other income (expense), net**	207 378	(289 198)	(114 744)	4 885	319 704	128 025	820 560	(306 364)	642 221	-	642 221
Interest expense, net	(245 885)	(964 742)	(1 076 908)	(94 361)	(930 799)	(3 312 695)	(731 984)	306 364	(3 738 315)	-	(3 738 315)
Profit (loss) before income tax	**1 743 528**	**2 562 855**	**1 159 163**	**(652 620)**	**(397 263)**	**4 415 663**	**(2 308 964)**	**53 871**	**2 160 570**	**(200 191)**	**1 960 379**
Adjustments for:											
Interest expense, net	245 885	964 742	1 076 908	94 361	930 799	3 312 695	731 984	(306 364)	3 738 315	-	3 738 315
Interest income	(9 561)	(33 764)	(173 895)	(1 710)	(10 723)	(229 653)	(420 448)	306 364	(343 737)	-	(343 737)
Foreign exchange loss (gain)	(192 501)	(22 285)	304 147	(3 026)	(307 559)	(221 224)	(399 863)	-	(621 087)	-	(621 087)
Depreciation and amortisation expense	639 237	1 010 334	1 969 279	295 430	590 646	4 504 926	155 439	-	4 660 365	-	4 660 365
Net change in fair value of biological assets and agricultural produce	-	(861 422)	288 114	477 482	-	(95 826)	-	435 889	340 063	-	340 063
Write-off of receivables from insurance company	-	347 975	-	-	-	347 975	-	-	347 975	-	347 975
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	200 191	200 191
Adjusted EBITDA	**2 426 588**	**3 968 435**	**4 623 716**	**209 917**	**805 900**	**12 034 556**	**(2 241 852)**	**489 760**	**10 282 464**	**-**	**10 282 464**
Supplemental information:											
Expenditure for segment property, plant and equipment	1 456 365	3 751 235	2 938 689	1 204 436	191 254	9 541 979	328 777	-	9 870 756	-	9 870 756
Income tax expense (benefit)	79 442	71 961	(67 967)	8 978	50 983	143 397	(70 536)	-	72 861	-	72 861

* Operating expenses include selling, general and administrative expense and other operating income, net.
** Other income (expense), net presents interest income and other income/expense as a combined line item.
*** Turkey represents operations related to purchase and subsequent resale of turkey meat produced by its joint venture through the Group's distribution network. Turkey itself is not an operating segment.

Items included within Corporate mainly include payroll and other expenses of the holding company.

No single customer contributed 10% or more to the Group's revenue in either 2017 or 2016.

Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision maker.

6. Cost of sales

Cost of sales for the years ended 31 December 2017 and 2016 comprised:

	2017	2016
Raw materials and goods for resale	45 698 526	44 264 751
Personnel (excluding pension costs)	8 475 295	7 996 612
Depreciation	4 579 762	4 213 810
Utilities	3 724 341	3 480 318
Pension costs	1 635 641	1 477 768
Other	2 644 775	2 789 085
Total cost of sales	**66 758 340**	**64 222 344**

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 19 074 and 67 787 for the years ended 31 December 2017 and 2016, respectively. These subsidies were received based on square of cultivated land and volumes of meat and eggs produced.

7. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2017 and 2016 comprised:

	2017	2016
Personnel (excluding pension costs)	5 058 221	4 541 506
Transportation	2 082 335	1 656 604
Taxes (other than income tax)	925 683	752 460
Materials and supplies	721 796	666 390
Advertising and marketing	701 601	676 903
Pension costs	639 892	698 965
Depreciation and amortization	573 724	446 535
Security services	436 679	431 931
Rent expenses	401 205	458 576
Change in bad debt allowance and other write-off	282 148	231 981
Information technology and communication services	260 720	300 026
Utilities	246 354	237 292
Audit, consulting and legal fees	228 319	322 062
Insurance	167 106	130 138
Veterinary services	156 073	147 531
Repairs and maintenance	88 780	72 467
Bank charges	23 342	25 676
Other	942 584	1 211 670
Total selling, general and administrative expenses	**13 936 562**	**13 008 713**

8. Interest expense, net

Interest expense, net for the years ended 31 December 2017 and 2016 comprised:

	2017	2016
Interest on bank overdrafts and loans	4 429 247	4 920 223
Interest on obligations under finance leases	55 533	54 349
Less: amounts included in the cost of qualifying assets	(815 344)	(492 099)
Total interest expense	**3 669 436**	**4 482 473**
Government grants for compensation of interest expenses accrued*	(973 499)	(1 070 023)
Less: government grants written-off**	571 087	-
Less: amounts included in the cost of qualifying assets	396 069	325 865
Total government grants for compensation of interest expenses	**(6 343)**	**(744 158)**
Total interest expense, net	**3 663 093**	**3 738 315**

* Government grants decreased due to the change in government policy effective from 1 January 2017 – starting from this date accredited banks provide loans to agricultural producers at reduced rates not exceeding 5% per annum on Rouble-denominated loans.

** On 13 December 2017 the Government order was issued, prohibiting regional bodies of Ministry of agriculture to use their 2018 subsidy limits for settlement of 2016 liabilities. As a result, subsidies receivable in the amount of 571 087 were written-off, as shown above.

9. Other (expenses) income, net

Other (expenses) income, net for the years ended 31 December 2017 and 2016 comprised:

	2017	2016
Foreign exchange (loss) gain	(390 426)	621 087
Other income, net	6 424	25 372
Write-off of receivables from insurance company	-	(347 975)
Total other (expenses) income, net	**(384 002)**	**298 484**

In the last week of December 2014 and in January 2015, African Swine Fever (further – ASF) was discovered at Group's units in Orel region, which has a big population of wide boars and high ASF risks. Pigs from that unit were sent to Voronezh unit for fattening, which caused a transmission of the disease. As a result of the ASF outbreak, the Group closed two units in the Orel and Voronezh regions and slaughtered and disposed of approximately 50 000 heads of pigs. All of the disposed animals were insured and the Group expected to receive full compensation equal to their cost and therefore accrued the amount of expected compensation as receivables from insurance company at 31 December 2015. Subsequently in 2016, the Group lost a court case against the insurance company and wrote-off the related receivables.

10. Income tax

All of the Group's taxes are levied and paid in the Russian Federation.

Under Russian legislation, the statutory income tax rate for entities designated as agricultural entities is 0%. The statutory tax rate for non-agricultural entities is 20%.

The main components of income tax for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Current tax expense	(563 511)	(205 983)
Deferred tax benefit	255 911	133 122
Total income tax expense	**(307 600)**	**(72 861)**

The income tax expense can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2017 and 2016 as follows:

	2017	2016
Profit before income tax	5 955 675	1 960 379
Profit before income tax of entities taxed at zero rates (agricultural entities and other tax regimes)	7 969 939	2 601 653
Loss before income tax of generally taxed entities	(2 014 264)	(641 274)
Statutory income tax rate (agricultural entities and other tax regimes)	0%	0%
Statutory income tax rate (general)	20%	20%
Theoretical income tax benefit at the statutory tax rates	(402 853)	(128 255)
Expenses not deductible for Russian statutory taxation purposes	178 584	122 313
Withholding taxes paid	161 516	-
Additional income tax accrued for prior years	97 561	-
Penalties	150 982	-
Other	121 810	78 803
Income tax expense	**307 600**	**72 861**

10. Income tax continued

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Deferred tax asset	754 192	479 624
Deferred tax liability	(1 064 814)	(420 299)
Net deferred tax (liability) asset	**(310 622)**	**59 325**

The movement in the net deferred tax liability for the year ended 31 December 2017 comprised:

	31 December 2016	Recognised in profit or loss	Recognised on acquisition of subsidiaries	31 December 2017
Property, plant and equipment and investment property	(537 717)	(103 126)	(625 858)	(1 266 701)
Trade receivables	(98 155)	20 829	-	(77 326)
Other assets and liabilities	51 384	(11 851)	-	39 533
Tax loss carry forward	643 813	350 059	-	993 872
Net deferred tax (liability) asset	**59 325**	**255 911**	**(625 858)**	**(310 622)**

The movement in the net deferred tax liability for the year ended 31 December 2016 comprised:

	1 January 2016	Recognised in profit or loss	31 December 2016
Property, plant and equipment and investment property	(563 093)	25 376	(537 717)
Trade receivables	(92 840)	(5 315)	(98 155)
Other assets and liabilities	144 585	(93 201)	51 384
Tax loss carry forward	437 551	206 262	643 813
Net deferred tax (liability) asset	**(73 797)**	**133 122**	**59 325**

Starting from 2017 the Group can offset only 50% of taxable profit of each subsidiary against tax loss carry forwards accumulated by the subsidiary and the Group's tax loss carry forwards have no date of expiration (after amendments to the Russian Tax Code effective 1 January 2017). The Group expects no impact on their deferred tax position as a result.

11. Property, plant and equipment

The following table represents movements in property, plant and equipment for the years ended 31 December 2017 and 2016:

	Land and land lease rights	Buildings, infrastructure and leasehold improvements	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost							
Balance as at 1 January 2016	**2 617 042**	**41 585 910**	**22 633 381**	**4 222 525**	**205 212**	**8 801 872**	**80 065 942**
Additions	143 306	3 440 362	3 487 031	781 968	52 341	441 998	8 347 006
Disposals	(12 201)	(106 341)	(382 483)	(114 006)	(13 152)	(19 091)	(647 274)
As at 31 December 2016	**2 748 147**	**44 919 931**	**25 737 929**	**4 890 487**	**244 401**	**9 224 779**	**87 765 674**
Additions	59 567	5 370 772	3 783 735	517 190	48 833	1 108 926	10 889 023
Acquisitions of subsidiaries	5 023 743	74 149	116 906	112 599	289	2 495	5 330 181
Disposals	(204 554)	(18 294)	(639 450)	(96 640)	(4 175)	(35 312)	(998 425)
As at 31 December 2017	**7 626 903**	**50 346 558**	**28 999 120**	**5 423 636**	**289 348**	**10 300 888**	**102 986 453**
Accumulated depreciation or impairment loss							
Balance as at 1 January 2016	-	**(7 804 080)**	**(9 919 540)**	**(1 797 295)**	**(108 998)**	**-**	**(19 629 913)**
Depreciation charge	-	(1 478 315)	(2 179 253)	(558 541)	(41 858)	-	(4 257 967)
Eliminated on disposals	-	88 707	367 507	104 142	7 106	-	567 462
As at 31 December 2016	-	**(9 193 688)**	**(11 731 286)**	**(2 251 694)**	**(143 750)**	**-**	**(23 320 418)**
Depreciation charge	(15 061)	(1 736 809)	(2 511 834)	(645 291)	(56 221)	-	(4 965 216)
Eliminated on disposals	-	12 458	528 866	73 016	3 611	-	617 951
As at 31 December 2017	**(15 061)**	**(10 918 039)**	**(13 714 254)**	**(2 823 969)**	**(196 360)**	**-**	**(27 667 683)**
Carrying amounts							
At 31 December 2016	**2 748 147**	**35 726 243**	**14 006 643**	**2 638 793**	**100 651**	**9 224 779**	**64 445 256**
At 31 December 2017	**7 611 842**	**39 428 519**	**15 284 866**	**2 599 667**	**92 988**	**10 300 888**	**75 318 770**

Net book values of buildings, infrastructure and leasehold improvements include 62 247 and 89 585 of leased buildings and infrastructure as of 31 December 2017 and 2016, respectively. Net book values of vehicles and machinery and equipment include 314 768 and 437 571 of leased equipment as of 31 December 2017 and 2016, respectively.

Advances paid for acquisition and construction of property, plant and equipment are included in construction in progress in the amount of 1 365 858 and 1 878 755 as at 31 December 2017 and 2016, respectively.

Starting from 2017 the Group uses special bank accounts as a guarantee for fulfilment of the Group's obligations under the purchase contracts with foreign suppliers of machinery and equipment. At 31 December 2017, 740 848 deposited on such accounts were presented as restricted cash in the consolidated statement of financial position, since the Group is unable to use these funds for anything other than to fulfil their obligations with respect to the purchase contracts.

12. Investment property

The Group's investment property consists of commercial units located in Vostochnoe Biryulevo region of Moscow and land plots. The changes in the carrying amount of investment property for the years ended 31 December 2017 and 2016 were as follows:

	Land	Buildings	Total
Cost			
Balance as at 1 January 2016	**274 949**	**212 046**	**486 995**
Reconstruction and modernisation	-	17 487	17 487
As at 31 December 2016	**274 949**	**229 533**	**504 482**
Reconstruction and modernisation	-	156 316	156 316
As at 31 December 2017	**274 949**	**385 849**	**660 798**
Accumulated depreciation or impairment loss			
Balance as at 1 January 2016	**-**	**(54 224)**	**(54 224)**
Depreciation charge	-	(6 582)	(6 582)
As at 31 December 2016	**-**	**(60 806)**	**(60 806)**
Depreciation charge	-	(10 581)	(10 581)
As at 31 December 2017	**-**	**(71 387)**	**(71 387)**
Carrying amounts			
At 31 December 2016	**274 949**	**168 727**	**443 676**
At 31 December 2017	**274 949**	**314 462**	**589 411**

For disclosure purpose only, the Group determined the fair value of the buildings as at 1 January 2014 (the date of transition to IFRS) as approximately 1 billion rubles based on the income approach. The management anticipates that the fair value did not materially change in subsequent years.

The Group recognised the following amounts in respect of the investment property in profit or loss:

	2017	2016
Rental income from investment property	177 969	171 648
Direct operating expenses arising from investment property that generated rental income during the year	(159 711)	(134 733)
Operating profit from investment property	**18 258**	**36 915**

13. Goodwill

Goodwill has been allocated for impairment testing purposes to the following cash-generating units, being also operating segments of the Group, and represents the lowest level at which goodwill is monitored for impairment by management:

	2017	2016
Meat-processing	250 247	250 247
Poultry	306 944	306 944
Grain	697 381	-
Total goodwill	**1 254 572**	**557 191**

The recoverable amount of Meat-processing and Poultry cash-generating units is determined based on a value in use calculation, which uses cash flow projections based on financial budgets approved by the management.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Goodwill allocated to Grain segment arose on acquisition of NAPKO Group in 2017 (see Note 30) and was tested for impairment with reference to the range of fair values of the land determined in December 2017 by an independent appraiser in conjunction with consideration of any major developments impacting the business since the valuation date. Based upon this testing, the Group concluded that Goodwill is not impaired.

14. Intangible assets

The following table represents movements of intangible assets for the years ended 31 December 2017 and 2016:

	Computer software	Indefinite life trademarks	Other intangible assets	Total
Cost				
Balance at 1 January 2016	**615 147**	**1 215 509**	**73 345**	**1 904 001**
Additions	469 996	-	85 637	555 633
Balance at 31 December 2016	**1 085 143**	**1 215 509**	**158 982**	**2 459 634**
Additions	365 433	-	7 037	372 470
Balance at 31 December 2017	**1 450 576**	**1 215 509**	**166 019**	**2 832 104**
Accumulated amortisation and impairment loss				
Balance at 1 January 2016	**(248 800)**	**-**	**(51 298)**	**(300 098)**
Amortisation expense	(169 588)	-	(40 285)	(209 873)
Balance at 31 December 2016	**(418 388)**	**-**	**(91 583)**	**(509 971)**
Amortisation expense	(287 886)	-	(19 889)	(307 775)
Balance at 31 December 2017	**(706 274)**	**-**	**(111 472)**	**(817 746)**
Carrying amounts				
At 31 December 2016	**666 755**	**1 215 509**	**67 399**	**1 949 663**
At 31 December 2017	**744 302**	**1 215 509**	**54 547**	**2 014 358**

Computer software

Software is amortised over its useful life ranging from 2 to 10 years and is mainly presented by SAP and Oracle systems installed by the Group.

Indefinite life trademarks

Kurinoe Tsarstvo ("Куриное Царство") trademark

The carrying value of the Kurinoe Tsarstvo trademark was 744 935 as of 31 December 2017 and 2016.

As of 31 December 2017 and 2016, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark was not impaired. The fair value was determined using a relief from royalty method based on expected sales by trademark derived from the segment business plan approved by the management covering a five-year period. The cash flows beyond that period have been extrapolated using a steady 3.5% per annum growth rate, which is the projected long-term average general inflation in Russia.

The key assumptions used for impairment testing purposes are set out below.

In percent	31 December 2017	31 December 2016
Discount rate	19.1%	18.8%
Terminal value growth rate	3.5%	3.6%
Royalty rate	3.3%	3.3%
Trademark revenue growth rate (average of next five years)	4.4%	4.7%

The values assigned to the key assumptions represented management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the trademark.

Cherkizovo ("Черкизово") trademark

The carrying value of the Cherkizovo trademark was 435 737 as of 31 December 2017 and 2016.

As of 31 December 2017 and 2016, management tested the Cherkizovo trademark for impairment and determined that the trademark was not impaired. The fair value was determined using a relief from royalty method based on current year actual sales by trademark and royalty rate of 3.3%. Potential royalty from one-year sales covers the carrying value of the trademark and therefore the Group did not make a detailed calculation for the whole life of the trademark.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the trademark.

15. Biological assets

Non-current biological assets

The balances of non-current biological assets were as follows:

	31 December 2017		31 December 2016	
	Units	Carrying amount	Units	Carrying amount
Sows, heads	90 008	2 259 409	90 959	1 902 652
Cattle, heads	462	29 115	434	24 062
Total bearer non-current biological assets	**90 470**	**2 288 524**	**91 393**	**1 926 714**

The following table represents movements in sows:

	Amount
Balance at 1 January 2016	**1 597 495**
Increase due to purchases and breeding costs of growing livestock	1 110 778
Decrease due to sale	(755 422)
Loss arising from changes in fair value less estimated point-of-sales costs	(50 199)
Balance at 31 December 2016	**1 902 652**
Increase due to purchases and breeding costs of growing livestock	1 017 577
Decrease due to sale	(1 028 836)
Gain arising from changes in fair value less estimated point-of-sales costs	368 016
Balance at 31 December 2017	**2 259 409**

Current biological assets and related work-in progress

All current biological assets are consumable except for breeders, which are bearer biological assets. The balances of current biological assets were as follows:

	31 December 2017		31 December 2016	
	Units	Carrying amount	Units	Carrying amount
Pork				
Market hogs, heads	1 024 074	6 100 813	870 402	5 504 933
	1 024 074	6 100 813	870 402	5 504 933
Poultry				
Broilers, heads	29 681 462	1 928 227	28 828 752	2 243 036
Breeders, heads (bearer biological assets)	2 826 935	1 969 345	2 440 969	1 512 225
	32 508 397	3 897 572	31 269 721	3 755 261
Hatchery eggs, quantity	21 862 017	258 080	20 972 292	224 085
Other	505	24 089	414	31 586
Unharvested crops, hectares	54 957	611 805	25 682	509 012
Work-in progress related to cultivation of crops		673 941		687 604
Total current biological assets and related work-in progress		**11 566 300**		**10 712 481**

15. Biological assets continued

The following table represents movements in the most material classes of the current biological assets:

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Balance at 1 January 2016	**4 232 255**	**1 728 769**	**2 602 867**	**948 080**	**9 511 971**
Increase due to purchases and gain arising from cost inputs	12 403 964	38 125 785	1 053 872	3 737 790	55 321 411
Transfer to consumable biological assets	-	948 803	(948 803)	-	-
Decrease due to sale or harvest of assets	(15 749 040)	(43 279 009)	-	(3 250 078)	(62 278 127)
Disposal of pigs due to African Swine Fever	(6 281)	-	-	-	(6 281)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	4 624 035	4 718 688	(1 195 711)	(239 176)	7 907 836
Balance at 31 December 2016	**5 504 933**	**2 243 036**	**1 512 225**	**1 196 616**	**10 456 810**
Increase due to purchases and gain arising from cost inputs	12 057 936	36 006 280	1 319 673	4 620 970	54 004 859
Increase due to acquisition of subsidiaries	-	-	-	525 035	525 035
Transfer to consumable biological assets	-	1 165 235	(1 165 235)	-	-
Decrease due to sale or harvest of assets	(18 452 419)	(43 935 623)	-	(3 719 082)	(66 107 124)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	6 990 363	6 449 299	302 682	(1 337 793)	12 404 551
Balance at 31 December 2017	**6 100 813**	**1 928 227**	**1 969 345**	**1 285 746**	**11 284 131**

The reconciliations of net change in fair value of biological assets and agricultural produce for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
Fair value adjustment at the beginning of the year (biological assets transferred to inventory and subsequently sold)	(3 877 070)	(3 303 761)
Fair value adjustment at the beginning of the year (agricultural produce subsequently sold)	231 727	(681 645)
Fair value adjustment at the date of acquisition of subsidiaries (agricultural produce subsequently sold)	154 145	-
Fair value adjustment at the end of the year (biological assets)	4 457 066	3 877 070
Fair value adjustment at the end of the year (agricultural produce)	(1 113 986)	(231 727)
Net change in fair value of biological assets and agricultural produce	**(148 118)**	**(340 063)**

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

	2017	2016
Corn	219	183
Winter wheat	245	136
Spring wheat	78	37
Barley	41	6
Pea	36	26
Sunflower	35	22
Soya bean	27	24

The production output of pork and poultry segments of the Group were as follows (in thousands of tonnes):

	2017	2016
Pork meat	212	185
Poultry meat	527	500

Key inputs in fair value measurement of biological assets together with sensitivity to reasonably possible changes in those inputs are disclosed in Note 4.

16. Investments in joint venture

During the year ended 31 December 2012 the Group, together with Grupo Corporativo Fuertes, S.L., established a joint venture, LLC Tambovskaya Indeika. The joint venture's primary business is breeding of turkey. The joint venture started construction of an integrated full cycle turkey production complex in 2013 and started operations in November 2016.

Summarised financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	31 December 2017	31 December 2016
Cash and cash equivalents	1 879	14 952
Other current assets	1 617 899	1 167 530
Non-current assets	8 254 958	8 426 574
Trade and other payables	(524 676)	(244 500)
Short-term borrowings	(1 420 143)	(1 033 401)
Other current liabilities	(64 670)	(176 295)
Long-term borrowings	(8 011 269)	(7 844 353)
Other non-current liabilities	(105 084)	(118 963)
Net assets of the joint venture	**(251 106)**	**191 544**
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's equity interest in the joint venture	**-**	**95 772**
Notes receivable classified as net investment in the joint venture*	2 310 700	1 965 700
Loss of the joint venture, allocated to carrying amount of notes receivable classified as net investment in the joint venture	(125 553)	-
Carrying amount of the Group's interest in the joint venture	**2 185 147**	**2 061 472**

*the Notes are considered to represent an 'in substance' equity interest in the joint venture. The Group, together with the second venturer, expect to legally convert the Notes to an equity investment in the joint venture in 2018.

	2017	2016
Revenue	3 919 919	626 605
Loss for the year and total comprehensive loss for the year	(442 650)	(400 383)
The Group's share of loss of a joint venture	**(221 325)**	**(200 191)**

The above loss for the year includes the following:

	2017	2016
Depreciation and amortisation	463 999	60 270
Interest income	(2 268)	(21 707)
Interest expense	246 184	3 098
Income tax	(5 816)	(2 838)

17. Long-term deposits in banks

	CCY	Effective rate, %	Maturity	31 December 2017	31 December 2016
Deposits in Gazprombank	RUR	8%	2019	641 365	641 365
Total long-term deposits in banks				**641 365**	**641 365**

18. Inventories

	31 December 2017	31 December 2016
Raw materials	7 289 837	7 784 431
Spare parts	695 158	693 730
Work in-progress	343 784	333 379
Finished goods	1 643 032	1 790 578
Total inventory	**9 971 811**	**10 602 118**

19. Taxes recoverable and prepaid

	31 December 2017	31 December 2016
Value added tax	1 922 853	1 694 821
Other taxes	341 629	209 965
Total tax recoverable and prepaid	**2 264 482**	**1 904 786**

20. Trade receivables, net

	31 December 2017	31 December 2016
Trade receivables	4 535 078	4 988 952
Less: allowance for doubtful trade receivables	(86 343)	(46 068)
Total trade receivables, net	**4 448 735**	**4 942 884**

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2017 and 2016:

	2017	2016
Balance at beginning of the year	**46 068**	**47 516**
Additional allowance, recognized during the year	84 373	29 876
Trade receivables written off during the year	(44 098)	(31 324)
Balance at end of the year	**86 343**	**46 068**

21. Other receivables, net

	31 December 2017	31 December 2016
Subsidies receivable for interest expense reimbursement	416 061	1 100 598
Subsidies receivable for purchase of fodder	9 958	4 374
Other receivables	530 813	301 913
Less: allowance for doubtful other receivables	(120 269)	(13 412)
Total other receivables, net	**836 563**	**1 393 473**

The following table summarizes the changes in the allowance for doubtful other receivables for the years ended 31 December 2017 and 2016:

	2017	2016
Balance at beginning of the year	**13 412**	**30 324**
Additional allowance, recognized during the year	112 650	25 484
Other receivables written off during the year	(5 793)	(42 396)
Balance at end of the year	**120 269**	**13 412**

22. Cash and cash equivalents

	31 December 2017	31 December 2016
RUR-denominated cash at banks	152 168	227 208
EURO-denominated cash at banks	17	3 411
USD-denominated cash at banks	64 824	65 759
Bank deposits	483 669	700 951
Cash in hand	3 998	4 874
Total	**704 676**	**1 002 203**

Bank deposits are denominated in rubles and have original maturity of less than 3 months.

23. Other current assets

	31 December 2017	31 December 2016
Prepaid expenses	203 928	151 388
Prepaid interest expense	-	372 470
Notes receivable	300 000	-
Loans receivable	30 965	10 892
Other assets	194	88
Total other current assets	**535 087**	**534 838**

24. Shareholder’s equity

Share capital

As of 31 December 2017 and 2016, issued shares of the Company had a par value of 0.01 rubles. The total number of authorized shares was 54 702 600 and the number of issued shares was 43 963 773. All issued and outstanding shares have equal voting rights. The Company is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

Treasury shares

In 2017 the Group acquired 2 808 576 ordinary shares from funds and portfolios under the management of Prosperity Capital Management and other minority shareholders at a price of RUB 1,300 per ordinary share in the total amount of 3 646 528.

Dividends

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. On April 2017 and October 2017 dividends of approximately 13.65 Russian rubles per share (598 580 in total) and approximately 59.82 Russian rubles per share (2 457 907 in total) were approved at the extraordinary shareholders’ meeting and have been fully paid during the year ended 31 December 2017. In addition to that in 2017 the Group also accrued and paid additional withholding taxes on dividends distributed in 2014-2016 in the amount of 397 483.

On April 2016 dividends of approximately 22.77 Russian rubles per share (998 771 in total) were approved at the extraordinary shareholders’ meeting and have been fully paid during the year ended 31 December 2016.

25. Non-controlling interests

	NCI percentage	31 December 2017	31 December 2016
CJSC Petelinskaya	11.8%	383 348	470 598
CJSC CMPP	4.9%	(71 651)	5 633
LLC PKO Otechestvennyi Product	4.9%	251 435	189 499
Other non-controlling interests		502 714	360 550
Total non-controlling interests		**1 065 846**	**1 026 280**

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations:

As at 31 December 2017 and for 2017	**CJSC Petelinskaya**	**CJSC CMPP**	**LLC PKO Otechestvennyi Product**	**Total**
NCI percentage	**11.8%**	**4.9%**	**4.9%**	
Non-current assets	2 978 586	5 577 614	370 395	8 926 595
Current assets	2 361 839	4 135 176	5 009 916	11 506 931
Non-current liabilities	-	(265 306)	(9 023)	(274 329)
Current liabilities	(2 091 715)	(10 898 264)	(280 269)	(13 270 248)
Net assets	3 248 710	(1 450 780)	5 091 019	6 888 949
Carrying amount of NCI	**383 348**	**(71 651)**	**251 435**	**563 132**
Revenue	5 929 334	34 036 713	3 514 447	43 480 494
Profit (loss)	259 761	(467 001)	1 254 068	1 046 829
Total comprehensive income (loss)	259 761	(467 001)	1 254 068	1 046 829
Profit (loss) allocated to NCI	**30 652**	**(23 064)**	**61 936**	**69 524**
Cash flows from operating activities	752 056	2 805 061	64 602	3 621 719
Cash flows from investment activities	(1 228 307)	(804 875)	(39 407)	(2 072 589)
Cash flows from financing activities (dividends to NCI: nil)	474 365	(2 025 250)	-	(1 550 885)
Net increase (decrease) in cash and cash equivalents	**(1 886)**	**(25 064)**	**25 195**	**(1 755)**

As at 31 December 2016 and for 2016	**CJSC Petelinskaya**	**CJSC CMPP**	**LLC PKO Otechestvennyi Product**	**Total**
NCI percentage	**11.8%**	**4.9%**	**4.9%**	
Non-current assets	1 999 701	5 498 317	382 934	7 880 952
Current assets	3 129 030	5 037 466	3 730 266	11 896 762
Non-current liabilities	(126 014)	(1 466 801)	(9 023)	(1 601 838)
Current liabilities	(1 014 595)	(8 954 936)	(267 227)	(10 236 758)
Net assets	3 988 122	114 046	3 836 950	7 939 118
Carrying amount of NCI	**470 598**	**5 633**	**189 499**	**665 730**
Revenue	5 750 462	31 861 303	3 730 437	41 342 202
Profit (loss)	(884 547)	(1 706 366)	1 594 108	709 561
Total comprehensive (loss) income	(884 547)	(1 706 366)	1 594 108	709 561
Profit (loss) allocated to NCI	**(104 377)**	**(84 274)**	**78 730**	**(109 921)**
Cash flows from operating activities	588 622	539 779	14 110	1 142 511
Cash flows from investment activities	(181 676)	(698 639)	(14 021)	(894 336)
Cash flows from financing activities (dividends to NCI: nil)	(391 648)	48 558	-	(343 090)
Net increase (decrease) in cash and cash equivalents	**15 298**	**(110 302)**	**89**	**(94 915)**

26. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 28. Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	EIR[1]	Adjusted EIR [2]	Year of maturity	31 December 2017 Current	31 December 2017 Non-current	31 December 2016 Current	31 December 2016 Non-current
Bonds	12.50%	12.50%	12.50%	2020	-	5 000 000	-	5 000 000
Bank loans	1.00%-15.10%	8.07%	5.88%	2018-2024	18 452 495	25 340 952	13 079 826	19 099 708
Factoring	8.30%-8.55%	8.35%	8.35%	2018	431 297	-	628 933	-
Other borrowings	0%	0%	0%	2018-2024	8 500	6 571	-	10 947
Interest payable					416 762	-	298 588	-
Finance lease liabilities	8.57%-16.62%	14.18%	14.18%	2018-2024	102 567	255 587	115 650	359 049
Total borrowings					**19 411 621**	**30 603 110**	**14 122 997**	**24 469 704**

As of 31 December 2017, the Group's borrowings are denominated in the following currencies: 47 545 948 in Russian roubles and 2 468 783 in Euro. As of 31 December 2016, the Group's borrowings were denominated in the following currencies: 37 867 221 in Russian roubles and 725 480 in Euro.

Interest on the majority of borrowings is paid on a monthly or quarterly basis, with the exception of bonds, for which the interest is paid on a semi-annual basis.

Bonds

Bonds due in October 2020

In October 2015, the Group placed 5 000 000 bonds in roubles at par value (1 000 roubles at the issuance date) with a maturity date in October 2020. The coupon rate on the bonds, payable semi-annually, is set at 12.5% per annum. The Group accounts for these instruments at amortized cost.

Bank loans

Sberbank of Russia

Borrowings from the Sberbank of Russia consist of two long-term euro denominated bank loans with interest ranging from 1.20% to 3.40%, sixteen long-term and seventeen short-term rouble denominated lines of credit with interest ranging from 1.00%[3] to 13.10% per annum. Principal payments are due from 2018 to 2024. The amount outstanding was 21 788 464 and 10 678 385 as of 31 December 2017 and 31 December 2016, respectively.

Gazprombank

Borrowings from Gazprombank consist of two long-term euro denominated loans with interest ranging from 1.20% to 3.40%, five long-term and three short-term rouble denominated lines of credit with interest ranging from 2.00%[3] to 10.85% per annum. Principal payments are due from 2018 to 2022. Amount outstanding was 5 721 820 and 12 624 909 as of 31 December 2017 and 31 December 2016, respectively.

Rosselkhozbank

Borrowings from Rosselkhozbank consist of eight long-term and ten short-term rouble denominated lines of credit with fixed interest rates ranging from 1.00%[3] to 15.10% per annum. Principal payments are due from 2018 to 2023. The amount outstanding was 1 562 917 and 2 274 894 as of 31 December 2017 and 31 December 2016, respectively.

Bank VTB

Borrowings from Bank VTB consist of one long-term euro denominated loan with an interest set at 2.01% per annum, one long-term and two short-term rouble denominated lines of credit with interest ranging from 8.40% to 8.75% per annum. Principal payments are due from 2018 to 2019. Amount outstanding was 1 769 727 and 1 798 954 as of 31 December 2017 and 31 December 2016, respectively.

Alfa bank

Borrowings from Alfa Bank consist of nine long-term and twenty six short-term rouble denominated lines of credit with interest ranging from 1.00%[3] to 10.15% per annum. Principal payments are due from 2018 to 2022. Amount outstanding was 8 084 220 and 4 803 644 as of 31 December 2017 and 31 December 2016, respectively.

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[1] EIR represents the weighted average interest rate on outstanding loans.

[2] Adjusted EIR represents the effective rate on borrowings at year end, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are submitted annually by the Group as required by law, the existence of such subsidies in any given year is not necessarily indicative of their existence in future periods. See Note 8 for further disclosure of government subsidies related to interest on borrowings.

[3] Low interest rates relate to subsidized borrowings under new government policy effective since 2017, see Note 8.

26. **Borrowings** continued

UniCredit Bank

Borrowings from UniCredit Bank consist of one long-term rouble denominated line of credit with an interest set at 9.41% per annum. Principal payments are due to 2018. Amount outstanding was 4 872 000 as of 31 December 2017.

Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2017 is 34 822 665. The unused credit can be utilized from 2018 to 2022 with expiration of available amounts varying as follows: 4 502 673 expires by 31 December 2018, 10 746 388 expires by 31 December 2019, 16 186 661 expires by 31 December 2020; 3 386 943 expires by 31 December 2022.

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2017:

	31 December 2017	31 December 2016
JSC Vasiljevskaya	-	51%
LLC Cherkizovo Pork	51%	25%
LLC Kuznetsovsky kombinat	100%	100%
CJSC Kurinoe Tsarstvo Bryansk	-	99%
OJSC Kurinoe tsarstvo	100%	100%
SC Cherkizovo-Kashira	100%	-
LLC Lisko Broiler	-	99%

Non-current biological assets with a carrying value of 126 374 and 114 050 were pledged as security under certain borrowings as of 31 December 2017 and 2016, respectively.

Current biological assets with a carrying value of 204 464 and 380 765 were pledged as security under certain borrowings as of 31 December 2017 and 2016, respectively.

Property, plant and equipment with a carrying value of 11 563 112 and 12 770 216 were pledged as security under loan agreements as of 31 December 2017 and 2016, respectively, including construction in progress pledged with a carrying value of 2 407 625 as of 31 December 2017.

Notes receivable, net with a carrying value of 610 000 and 510 000 were pledged as security under loan agreements as of 31 December 2017 and 2016, respectively.

Certain significant loan agreements with the Sberbank of Russia, Rosselkhozbank, Bank VTB, Gazprombank and Alfa-bank contain financial covenants requiring maintenance of specific debt to EBITDA, net debt to EBITDA, EBIT to Interest expense and debt service coverage ratios.

The Group was in breach of one covenant calculated based on the statutory financial statements of one of the Group subsidiaries. Waiver, saying that the bank has no intentions to demand early repayment of the loan and interest payable, was timely received by the Group. The Group is in compliance with all other covenants as at 31 December 2017.

Finance leases liabilities

The Group uses certain fixed assets under leasing contracts that qualified for treatment as finance leases.

Financial lease liabilities are payable as follows:

	Not later than 1 year	Between 1 and 5 years	Later than 5 years
At 31 December 2016			
Future minimum lease payments	171 607	401 733	52 012
Portion related to interest	55 927	94 677	5 982
Present value of minimum lease payments	115 680	307 056	46 030
At 31 December 2017			
Future minimum lease payments	143 528	291 027	26 142
Portion related to interest	40 964	59 721	1 860
Present value of minimum lease payments	102 567	231 305	24 282

26. Borrowings continued

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes					
	1 January 2017	Financing cash flows (i)	Restricted cash (used in investing activities)	Acquisition of subsidiaries (Note 30)	Forex adjustments	Other non-cash changes	Interest accruals and payments	31 December 2017
Borrowings, including finance lease liabilities	38 592 701	9 472 702	740 848	958 070	219 113	(86 877)	118 174	50 014 731

(i) Net amount of proceeds from short-term and long-term borrowings and repayments of short-term and long-term borrowings in the consolidated statement of cash flows.

27. Tax related liabilities

	31 December 2017	31 December 2016
Value added tax	297 189	379 843
Payroll related taxes	290 439	258 464
Property tax	143 735	113 517
Personal income tax withheld	72 841	63 186
Land tax	6 637	10 484
Transportation tax	5 111	2 599
Other taxes	148 171	21 307
Total tax related liabilities	**964 123**	**849 400**

28. Financial instruments

Categories of financial instruments and fair value measurements

The carrying values and fair values of the Group's financial assets and liabilities as of 31 December 2017 and 2016 are as follows:

	31 December 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Loans and receivables				
Notes receivable, net (current and non-current)	610 000	596 584	510 000	504 034
Long-term deposits in banks	641 365	657 817	641 657	631 034
Other non-current assets	556 800	539 725	111 663	111 663
Trade receivables	4 448 735	4 448 735	4 942 884	4 942 884
Other receivables	836 563	836 563	1 393 473	1 393 473
Other current assets	30 965	30 965	10 892	10 892
Restricted cash	740 848	740 848	-	-
Cash and cash equivalents	704 676	704 676	1 002 203	1 002 203
	8 569 952	**8 555 913**	**8 612 772**	**8 596 183**
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings, including finance lease*	50 014 731	49 270 902	38 592 701	36 741 846
Trade payables	9 018 376	9 018 376	8 608 271	8 608 271
Payables for non-current assets	1 912 620	1 912 620	1 061 629	1 061 629
Payroll related liabilities	1 816 396	1 816 396	1 394 940	1 394 940
Other payables and accruals	395 571	395 571	362 395	362 395
	63 157 694	**62 413 865**	**50 019 936**	**48 169 081**

* at 31 December 2017 the Group used 10.0% as market rate of cost of debt for the fair value estimation (for borrowings nominated in RUB). That rate of the cost of debt excludes the effect of subsidies (11.7% at 31 December 2016).

28. **Financial instruments** continued

Financial risk management

The main risks arising from the Group's financial instruments are capital risk management, interest rate risk, credit risk and liquidity risk. Management considers that foreign currency risk is not material to the Group, because the Group has no material outstanding balances denominated in foreign currencies.

The Group's management identifies measures and manages financial risks in accordance with the Group's policies and procedures.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holders. The capital structure of the Group consists of debt, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings. The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Credit risk

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables, long-term deposits, notes receivable and cash in current and deposit accounts with banks and other financial institutions.

The Group's maximum exposure to credit risk arises from the following classes of financial assets:

	31 December 2017	31 December 2016
Long-term deposits in banks	641 365	641 365
Notes receivable, net	610 000	510 000
Other non-current assets	556 800	111 663
Trade receivables	4 448 735	4 942 884
Other receivables	836 563	1 393 473
Other current assets	30 965	10 892
Restricted cash	740 848	-
Cash and cash equivalents (except for cash in hand)	700 678	997 329
Total maximum credit risk	**8 565 954**	**8 607 606**

Trade receivables

The maximum exposure to credit risk for trade receivables by counterparty was as follows:

	31 December 2017	31 December 2016
Company 1	828 036	858 116
Company 2	665 347	774 955
Company 3	268 457	307 474
Company 4	259 086	302 699
Company 5	205 471	285 520
Other counterparties	2 222 338	2 414 120
Total	**4 448 735**	**4 942 884**

The average credit period on sales of goods is 30 days. No interest is charged on trade and other receivables. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are regularly reviewed.

28. Financial instruments continued

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The ageing of trade receivables that were not impaired was as follows:

	31 December 2017	31 December 2016
Neither past due nor impaired	3 689 060	4 165 808
Past due 1-90 days	697 045	729 529
Past due 91-180 days	38 373	31 725
Past due 180-365 days	21 586	15 822
Past due more than 365 days	2 671	-
Total	**4 448 735**	**4 942 884**

Other receivables

Other receivables disclosed above mainly consists of subsidies receivable from regional Ministries of agriculture. Timing of collection depends on availability of budget funds and on average is approximately 6 months. At 31 December 2017, the amount of subsidies receivable outstanding more than one year was nil (at 31 December 2016: 508 460).

Cash and cash equivalents and long-term deposits

The credit risk on cash and cash equivalents and long-term deposits is limited because these funds are placed only with banks with high credit ratings assigned by international credit-rating agencies. All balances on bank accounts are neither overdue nor impaired.

The table below shows the rating and cash and cash equivalents balances with major banks at the reporting dates:

	Rating agency	Rating	31 December 2017	31 December 2016
Bank 1	Standard & Poor's	BB+	457 685	1 362
Bank 2	Moody's	BBB-	190 583	237 541
Bank 3	Fitch Ratings	BB+	14 663	739 814
Other banks	-	-	37 747	18 612
Total cash and cash equivalents at banks			**700 678**	**997 329**

The table below shows the rating and long-term bank deposits balances at the reporting dates:

	Rating agency	Rating	31 December 2017	31 December 2016
Gazprombank	Fitch Ratings	BB+	641 365	641 365
Total long-term bank deposits			**641 365**	**641 365**

28. Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following tables detail the Group's expected maturity for its financial assets, except for cash and cash equivalents. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets, including interest that will be earned on those:

	Effective interest rate, %	Less than 6 month	6 months-1 year	1-4 years	More than 4 years	Total
At 31 December 2016						
Trade and other receivables		6 336 357	-	-	-	6 336 357
Long-term deposits in banks	8.00%	25 666	25 666	710 100	-	761 432
Notes receivable, net	6.35%-9.50%	21 250	21 250	530 889	-	573 389
Other non-current assets		-	-	6 190	105 473	111 663
Other current assets		10 892	-	-	-	10 892
Total		**6 394 165**	**46 916**	**1 247 179**	**105 473**	**7 793 733**
At 31 December 2017						
Trade and other receivables		5 285 298	-	-	-	5 285 298
Long-term deposits in banks	8.00%	25 666	25 666	658 768	-	710 100
Notes receivable, net	6.35%-9.50%	310 940	10 940	320 223	-	642 103
Other non-current assets		-	-	-	556 800	556 800
Other current assets		30 965	-	-	-	30 965
Total		**5 652 869**	**36 606**	**978 991**	**556 800**	**7 225 266**

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Effective interest rate, %	Less than 6 month	6 months-1 year	1-4 years	More than 4 years	Total
At 31 December 2016						
Borrowings, including finance lease	1.20% – 16.62%	8 018 841	9 223 733	25 354 937	5 925 507	48 523 018
Trade and other payables		8 970 666	-	-	-	8 970 666
Payables for non-current assets		1 061 629	-	-	-	1 061 629
Payroll related liabilities		1 394 940	-	-	-	1 394 940
Total		**19 446 076**	**9 223 733**	**25 354 937**	**5 925 507**	**59 950 253**
At 31 December 2017						
Borrowings, Including finance lease	1.00% – 16.62%	9 705 902	13 890 701	28 917 091	8 810 386	61 324 080
Trade and other payables		9 413 947	-	-	-	9 413 947
Payables for non-current assets		1 912 620	-	-	-	1 912 620
Payroll related liabilities		1 816 396	-	-	-	1 816 396
Total		**22 848 865**	**13 890 701**	**28 917 091**	**8 810 386**	**74 467 043**

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group adopts a policy of limiting its exposure to changes in interest rates by borrowing on a fixed rate basis and therefore the interest rate risk is not considered material to the Group.

29. Related parties

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Company and its subsidiaries enter into various transactions with related parties such as the sale and purchase of inventory.

Transactions with key management personnel

Key management personnel of the Group are all members of the Board of Directors and members of the Management Board. The remuneration of key management personnel during the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Salaries and bonuses	298 721	321 396

Transactions with entities under common control

Trading transactions with related parties comprised mostly of purchases of grain crops from and rendering of storage services to JSC Lipetskmyaso, LLC Agrarnaya Gruppa and JSC Penzamyasoprom. On 28 April 2017, the Group acquired JSC Lipetskmyaso and LLC Agrarnaya Gruppa, being a part of NAPKO Group (Note 30). The Group also sells sausages, raw meat and poultry to a retail chain “Myasnov”.

Trade receivables, trade payables and advances issued are associated with such transactions. The Group expects to settle such balances in the normal operating cycle.

The Group also transferred certain land plots to the closed unit investment fund managed by LLC “UK Mikhailovskyi”, entity under common control. The transfer is presented within disposals in the property, plant and equipment note.

Balances with companies under common control are summarized as follows:

Balances	31 December 2017	31 December 2016
Trade receivables	260 718	256 179
Other non-current assets	98 587	80 723
Advances paid	3 604	3 620
Advances paid for property, plant and equipment	-	18 843
Other receivables	6 502	1 762
Closed unit investment fund (presented within other non-current assets)	280 596	-
Trade payables	13 376	5 443
Advances received	17 522	11
Payables for non-current assets	124	-
Other payables	173	1 349

Transactions with companies under common control are summarized as follows:

Transactions	2017	2016
Sales	2 595 805	2 555 161
Rent income	194 247	184 936
Purchases of property, plant and equipment	29 686	38 231
Purchases of goods and other services	28 172	949 904

Transactions with joint ventures

The Group purchases day-old chicks from its joint venture LLC COBB-RUSSIA (former LLC Broiler Budushchego). The Group also purchases turkey meat from LLC Tambovskaya Indeika for its subsequent resale through distribution network of the Group. The Group also sells mixed fodder to LLC Tambovskaya Indeika.

Trade receivables, trade payables and advances issued are associated with such transactions. The Group expects to settle such balances in the normal course of business. In 2017 the Group also granted a long-term loan to LLC COBB-RUSSIA.

29. Related parties continued

Balances with joint ventures are summarized as follows:

Balances	31 December 2017	31 December 2016
Trade receivables	56 369	23 620
Advances paid	12 678	167 951
Other receivables	1 280	226
Long-term loans receivable (presented within other non-current assets)	389 803	66 839
Trade payables	331 298	140 337
Advances received	-	30 211

Transactions with joint ventures are summarized as follows:

Transactions	2017	2016
Sales	839 140	337 875
Sales of property, plant and equipment	1 347	-
Rent income	722	16 471
Purchases of goods and other services	4 260 303	733 654

30. Acquisition of NAPKO

On 28 April 2017, the Group completed the acquisition of 100% of NAPKO, one of Russia's leading grain producers, for cash consideration of 4 872 000 from an entity under common control.

NAPKO's agricultural land bank of 147 000 hectares and the related supporting production infrastructure to cultivate the land and store grain is located in the Lipetsk, Tambov and Penza regions. In 2016, NAPKO produced 250 000 tons of grain.

The results of NAPKO's operations have been included in the consolidated financial statements from the acquisition date.

In the condensed consolidated interim financial statements for the six months ended 30 June 2017 the acquisition was accounted for using the historical book values of the assets and liabilities acquired as the provisional values; although a valuation had been performed regarding the value of the overall business, the detailed fair valuation exercise of individual assets and liabilities had not been completed at that date. As such, the difference between the consideration paid and the historical book values of the net assets acquired was preliminarily allocated to land and land lease rights as the valuation of the acquired business done by an independent appraiser showed that vast majority of the surplus would ultimately relate to that category of property, plant and equipment.

Subsequently, a third party valuation report on the fair value of the individual assets and liabilities acquired was obtained. The consolidated financial statements for the year ended 31 December 2017 therefore reflect the fair values of the following assets and liabilities at the acquisition date, adjusting the provisional values from 30 June 2017 as necessary:

	Provisional values (as previously reported in the six months ended 30 June 2017)	**Fair values**
Purchase price	**4 872 000**	**4 872 000**
Land and land lease rights	5 249 411	5 023 743
Other items of property, plant and equipment	306 438	306 438
Inventories and biological assets	829 408	983 553
Other current assets	319 510	315 372
Short-term loans and finance leases	(958 070)	(958 070)
Other current liabilities	(678 697)	(678 697)
Deferred tax liability	-	(625 858)
Non-controlling interests	(196 000)	(191 862)
Total assets acquired and liabilities assumed	**4 872 000**	**4 174 619**
Goodwill recognized on acquisition	**-**	**697 381**

Notes to the consolidated financial statements

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

30. Acquisition of NAPKO continued

Goodwill arose in the acquisition of NAPKO because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies driven by the proximity of the acquired assets to the main operating units of the Group and increase in vertical integration. NAPKO was one of the main grain suppliers of the Group and therefore the acquisition will allow the Group to secure supply and better control quality of the incoming grain.

Net outflow of cash and cash equivalents on acquisition comprised of the following:

Cash paid to acquire NAPKO	4 872 000
Less: cash and cash equivalents of subsidiaries acquired	(103 941)
Net outflow of cash and cash equivalents on acquisition of NAPKO	**(4 768 059)**

The following pro forma financial information presents consolidated statement of profit or loss as if the acquisition occurred as of the beginning of the reporting period. In determining pro forma amounts, all non-recurring costs were determined to be immaterial.

Pro forma Information	For the year ended 31 December 2017
Revenue	90 507 188
Operating profit	9 710 013
Profit for the year	**5 621 432**

The actual results of operations of NAPKO are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of NAPKO from the date of acquisition (28 April 2017) to 31 December 2017	
Revenue	380 483
Operating income	26 944
Loss for the period	**(51 572)**

31. Commitments and contingencies

Legal

As of 31 December 2017 and 2016, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

31. Commitments and contingencies continued

Recent events also suggest that the tax authorities are taking a more assertive position in their interpretation of the tax legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged, including transfer pricing legislation. Although the transfer pricing legislation was amended in 2012, as of now there is no established practice in place in respect of transfer pricing. Therefore the management believes that their assessment of transfer pricing position of the Group may be challenged by authorities.

From 1 January 2015 a number of amendments into the Russian tax legislation aimed at deoffshorisation of the Russian economy became effective, with the submission of the first documentation package in 2017. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation and a concept of tax residency for foreign companies. The Group is currently assessing the effects of new tax rules on the Group's operations and takes necessary steps to comply with the new requirements of the Russian tax legislation including periodic reviews of its tax planning strategies. However, in view of the recent introduction of the above provisions and insufficient administrative and court practice in these areas, at present the probability of claims from Russian tax authorities and probability of favourable outcome of tax disputes (if they arise) cannot be reliably estimated.

Environmental remediation costs

The Group's management believes that the Group is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2017 and 2016.

Capital commitments

Capital commitments by each operating segments are as follows:

	31 December 2017
Commitments for the acquisition of property, plant and equipment	
Meat-processing	1 773 359
Pork	867 866
Poultry	374 214
Feed	11 784
Total capital commitments	**3 027 223**

At 31 December 2017, the Group had capital projects in progress at LLC Cherkizovo Pork, OJSC Kurinoe Tsarstvo and JSC Cherkizovo-Kashira.

Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending 31 December 2022 and thereafter are as follows:

	31 December 2017
Not later than 1 year	298 090
Later than 1 year and not later than 5 years	927 828
Later than 5 years	1 640 622
Total operating lease commitments	**2 866 540**

Agricultural market risk

As a rule, grain prices exhibit rather high seasonal fluctuation. As a general trend, prices tend to be lower in autumn mainly due to the increasing in supply. Market prices of agricultural commodities are also influenced by a variety of unpredictable factors which are beyond the control of the Group, including weather, planting intentions, government (Russian and foreign) farm programs and policies, changes in global demand resulting from population growth and higher standards of living and global production of similar and competitive crops.

Insurance

The Group holds insurance policies in relation to certain assets. As of 31 December 2017 the Group secured major part of its livestock and property, plant and equipment with a number of insurance companies. The Group holds no other insurance policies in relation to operations, or in respect of public liability or other insurable risks.

32. Subsequent events

Having considered the limited trading liquidity of its GDRs on the London Stock Exchange, and as part of the Company’s new capital markets strategy, the Company has decided to consolidate the free-float and trading of its ordinary shares on the Moscow Exchange, as well as reduce the Company's administrative and reporting costs. In this regard the Company has submitted applications (i) to the UKLA to cancel the standard listing of its GDRs on the Official List of the UKLA and (ii) to the London Stock Exchange for trading in the Company’s GDRs on the Main Market of the London Stock Exchange to be cancelled. The Cancellation takes effect at or about 8:00 a.m. on 15 February 2018.

On 14 February 2018 the Board approved distribution of the Company’s net profit following 2017 results in the form of the dividends in the amount of 75.07 rubles per ordinary share of the Company. Set 3 April 2018 as the record date for the dividends payment.