

# **OJSC Cherkizovo Group**

**Consolidated Financial Statements  
For the Year Ended 31 December 2014  
and Independent Auditor's Report**

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## OJSC CHERKIZOVO GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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 US GAAP 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; and,
- 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 and sound 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 US GAAP;
- maintaining statutory accounting records in compliance with Russian 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 2014 were approved by management on 26 February 2015.

On behalf of the Management:



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**Sergei Mikhailov**  
Chief Executive Officer

26 February 2015



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**Ludmila Mikhailova**  
Chief Financial Officer

26 February 2015

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of OJSC Cherkizovo Group:

We have audited the accompanying consolidated financial statements of OJSC Cherkizovo Group and subsidiaries (together "the Group"), which comprise the consolidated balance sheet as of 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

  
26 February 2015  
Moscow, Russian Federation



Sedov Andrew, Partner (license no. 01-000487)  
ZAO Deloitte & Touche CIS

The Entity: OJSC Cherkizovo Group

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

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

Certificate of registration in the Unified State Register  
№ 1027700425444 of 13.11.2002, issued by Moscow Interdistrict  
Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia»  
(auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

# Consolidated balance sheet

As of 31 December 2014

		2014 US\$000	2013 US\$000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	17 909	64 385
Trade receivables, net of allowance for doubtful accounts of 1 761 and of 5 357 as of 31 December 2014 and 2013, respectively	4	70 250	82 656
Advances paid, net of allowance for doubtful accounts of 1 384 and 2 550 as of 31 December 2014 and 2013, respectively		39 934	39 859
Inventory	5	220 202	281 562
Deferred tax assets	20	2 670	2 794
Other receivables, net of allowance for doubtful accounts of 147 and of 466 as of 31 December 2014 and 2013, respectively	6	21 110	43 289
Other current assets	7	47 490	54 268
<b>Total current assets</b>		<b>419 565</b>	<b>568 813</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	8	944 865	1 377 691
Goodwill	9	9 904	17 368
Other intangible assets, net	9	26 555	41 635
Deferred tax assets	20	1 213	3 482
Notes receivable, net	11	9 878	1 690
Investments in joint venture		5 261	13 006
Long-term deposits in banks	10	11 934	20 513
Other non-current assets		1 612	2 747
<b>Total non-current assets</b>		<b>1 011 222</b>	<b>1 478 132</b>
<b>Total assets</b>		<b>1 430 787</b>	<b>2 046 945</b>

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



# Consolidated balance sheet continued

As of 31 December 2014

		2014 US\$000	2013 US\$000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Trade accounts payable		76 703	121 113
Short-term borrowings	12	239 390	317 223
Tax related liabilities	13	15 179	19 192
Deferred tax liabilities	20	1 144	153
Payroll related liabilities		21 645	28 274
Advances received		19 541	24 859
Payables for non-current assets		10 204	9 741
Interest payable		1 603	3 478
Other payables and accruals		3 951	9 469
<b>Total current liabilities</b>		<b>389 360</b>	<b>533 502</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	12	253 914	523 812
Deferred tax liabilities	20	1 980	6 760
Tax related liabilities	13	1 040	2 241
Payables to shareholders	22	194	333
Other liabilities		2 965	1 938
<b>Total non-current liabilities</b>		<b>260 093</b>	<b>535 084</b>
Commitments and contingencies	25		
<b>Equity:</b>			
Share capital	14	15	15
Additional paid-in capital		240 019	240 112
Treasury shares		(2 243)	(2 406)
Other accumulated comprehensive loss		(648 198)	(144 613)
Retained earnings		1 173 692	859 373
<b>Total shareholders' equity</b>		<b>763 285</b>	<b>952 481</b>
Non-controlling interests		18 049	25 878
<b>Total equity</b>		<b>781 334</b>	<b>978 359</b>
<b>Total liabilities and equity</b>		<b>1 430 787</b>	<b>2 046 945</b>

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

# Consolidated income statement

For the year ended 31 December 2014

		2014 US\$000	2013 US\$000
Sales	15	1 795 562	1 654 919
Cost of sales	16	(1 201 452)	(1 296 472)
<b>Gross profit</b>		<b>594 110</b>	<b>358 447</b>
Selling, general and administrative expense	17	(258 720)	(264 021)
Other operating income (expense), net	8	12 190	(5 762)
<b>Operating income</b>		<b>347 580</b>	<b>88 664</b>
Other (expense) income, net	18	(10 350)	2 828
Financial expense, net	19	(26 131)	(25 095)
Gain from bargain purchase	24	38 113	-
<b>Income before income tax</b>		<b>349 212</b>	<b>66 397</b>
Income tax	20	247	(2 121)
<b>Net income</b>		<b>349 459</b>	<b>64 276</b>
Less: Net (income) loss attributable to non-controlling interests		(3 764)	189
<b>Net income attributable to Cherkizovo Group</b>		<b>345 695</b>	<b>64 465</b>
<hr/>			
Weighted average number of shares outstanding – basic:		43 851 090	43 843 090
Net income attributable to Cherkizovo Group per share – basic (in US dollars):		7.88	1.47
<hr/>			
Weighted average number of shares outstanding – diluted:	14	43 851 090	43 849 900
Net income attributable to Cherkizovo Group per share –diluted (in US dollars):		7.88	1.47

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



# Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 US\$000	2013 US\$000
Net income	349 459	64 276
<i>Other comprehensive loss</i>		
Translation adjustment to presentation currency	(515 178)	(73 474)
<b>Other comprehensive loss</b>	<b>(515 178)</b>	<b>(73 474)</b>
<b>Total comprehensive loss</b>	<b>(165 719)</b>	<b>(9 198)</b>
Less: Comprehensive loss attributable to non-controlling interests	7 829	2 952
<b>Comprehensive loss attributable to Cherkizovo Group</b>	<b>(157 890)</b>	<b>(6 246)</b>

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

# Consolidated cash flow statement

For the year ended 31 December 2014

	2014 US\$000	2013 US\$000
<b>Cash flows from (used in) operating activities:</b>		
Net income	349 459	64 276
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	91 138	91 867
Bad debt expense	3 033	5 387
Foreign exchange loss	17 312	3 000
Deferred tax benefit	(2 328)	(2 419)
(Gain) loss on disposal of property, plant and equipment	(12 190)	5 762
Gain from bargain purchase	(38 113)	-
Other adjustments, net	(35)	147
<b>Changes in operating assets and liabilities</b>		
(Increase) decrease in trade receivables	(35 754)	2 282
Increase in advances paid	(25 485)	(12 935)
(Increase) decrease in inventory	(42 602)	7 332
Increase in other receivables and other current assets	(12 954)	(19 960)
Decrease in other non-current receivables	69	338
(Decrease) increase in trade accounts payable	(8 951)	17 767
Increase in tax related liabilities	4 668	1 526
Increase in other current payables	12 766	13 956
<b>Total net cash from operating activities</b>	<b>300 033</b>	<b>178 326</b>

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

# Consolidated cash flow statement continued

For the year ended 31 December 2014

	2014 US\$000	2013 US\$000
<b>Cash flows from (used in) investing activities:</b>		
Purchases of long-lived assets	(174 978)	(165 448)
Proceeds from sale of property, plant and equipment	29 004	15 281
Acquisitions of subsidiaries, net of cash acquired (Note 24)	(81 700)	(1 130)
Investments in joint venture	3 706	(3 987)
Issuance of long-term loans and placing of long-term deposits	(15 689)	-
Repayment on long-term loans issued	-	1 289
Placing of deposits and issuance of short-term loans	(6 152)	(51 432)
Repayment of short-term loans issued and redemption of deposits	2 701	50 363
<b>Total net cash used in investing activities</b>	<b>(243 108)</b>	<b>(155 064)</b>
<b>Cash flows from (used in) financing activities:</b>		
Proceeds from long-term loans	52 305	147 025
Repayment of long-term loans	(129 027)	(161 328)
Repayment of long-term loans from related parties	-	(6 984)
Proceeds from short-term loans	297 367	294 743
Repayment of short-term loans	(263 230)	(266 317)
Dividends	(31 376)	-
Acquisitions of entities under common control and non-controlling interests (Note 24)	-	(1 030)
<b>Total net cash (used in) from financing activities</b>	<b>(73 961)</b>	<b>6 109</b>
<b>Total cash from (used in) operating, investing and financing activities</b>	<b>(17 036)</b>	<b>29 371</b>
Impact of exchange rate difference on cash and cash equivalents	(29 440)	(6 166)
<b>Net increase in cash and cash equivalents:</b>	<b>(46 476)</b>	<b>23 205</b>
Cash and cash equivalents at the beginning of the year	64 385	41 180
<b>Cash and cash equivalents at the end of the year</b>	<b>17 909</b>	<b>64 385</b>
<b>Supplemental Information:</b>		
Income taxes paid	3 002	12 076
Interest paid	79 535	96 597
Subsidies for compensation of interest expense received	65 120	48 872
<b>Non cash transactions:</b>		
Property, plant and equipment acquired through vendor financing	10 204	9 741

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

## Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital		Treasury shares		Additional paid-in capital	Retained earnings	Other accumulated comprehensive loss	Total shareholders' equity	Non-controlling interests	Total equity
	US\$000	Number of shares	US\$000	Number of shares						
<b>Balances at 1 January 2013</b>	15	43 963 773	(2 550)	(124 183)	231 402	794 908	(72 812)	950 963	37 403	988 366
Net income (loss)	-	-	-	-	-	64 465	-	64 465	(189)	64 276
Other comprehensive loss	-	-	-	-	-	-	(70 711)	(70 711)	(2 763)	(73 474)
Share-based compensation (Note 14)	-	-	144	7 000	4	-	-	148	-	148
Purchase of subsidiaries	-	-	-	-	-	-	-	-	52	52
Purchase of non-controlling interests and effect of legal restructuring (Note 24)	-	-	-	-	8 706	-	(1 090)	7 616	(8 625)	(1 009)
<b>Balances at 31 December 2013</b>	15	43 963 773	(2 406)	(117 183)	240 112	859 373	(144 613)	952 481	25 878	978 359
<b>Balances at 1 January 2014</b>	15	43 963 773	(2 406)	(117 183)	240 112	859 373	(144 613)	952 481	25 878	978 359
Net income	-	-	-	-	-	345 695	-	345 695	3 784	349 459
Other comprehensive loss	-	-	-	-	-	-	(503 585)*	(503 585)	(11 593)	(515 178)
Share-based compensation (Note 14)	-	-	163	9 000	(93)	-	-	70	-	70
Dividends	-	-	-	-	-	(31 376)	-	(31 376)	-	(31 376)
<b>Balances at 31 December 2014</b>	15	43 963 773	(2 243)	(108 183)	240 019	1 173 692	(648 198)	763 285	18 049	781 334

\* Other comprehensive loss is comprised of the translation adjustment associated with translating the Group's financial statements from the Russian Rouble (functional currency) to the US Dollar (reporting currency). See Note 2.

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

# Notes to the consolidated financial statements

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 1 Business and environment

### The business of the Group

OJSC Cherkizovo Group (the "Company") and subsidiaries (together "the Group") 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 four meat processing plants, eleven pig production complexes, seven poultry production complexes, three combined fodder production plants and four grain farming complexes and swine nucleus unit. The Group also operates three trading houses with subsidiaries in several major Russian cities.

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 Cherkizovsky («Черкизовский»), Pyat Zvezd («Пять Звезд»), Petelinka («Петелинка»), Kurinoe Tsarstvo («Куриное Царство») and Imperia Vkusa («Империя вкуса») and has a diverse customer base. At 31 December 2014 and 2013 the number of staff employed by the Group approximated 21 303 and 20 349, respectively.

### 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, which decreased significantly during 2014.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Ruble and other negative economic consequences.

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



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies

### Accounting principles

The Group's subsidiaries maintain their accounting books and records in accordance with Russian or foreign statutory accounting regulations, as applicable. The accompanying consolidated financial statements have been prepared in order to present the consolidated financial position, results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes in Russia or foreign jurisdictions in that they reflect certain adjustments that are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

### Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and subsidiaries controlled through direct ownership of the majority of the voting interests as described in Note 24. Subsidiaries acquired or disposed of during the periods presented are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Business combinations under common control are accounted for in a manner similar to a pooling of interests (see Business combinations accounting policy).

### Foreign currency translation

The functional currency of the Company, and each of its subsidiaries, is the Russian rouble.

Management has selected the US Dollar as the Group's reporting currency and translates the consolidated financial statements into US Dollars. Assets and liabilities are translated at reporting period end exchange rates. Equity items are translated at historical exchange rates. Income and expense items are translated at the weighted average rates of exchange prevailing during the reporting period (i.e. on a quarterly basis). The resulting translation adjustment is recorded as a separate component of other comprehensive (loss) income.

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2014 and 2013 and average rates during the years then ended::

	Exchange rate
31 December 2014	56,2584
Average exchange rate for the first quarter of year 2014	34,9591
Average exchange rate for the second quarter of year 2014	34,9999
Average exchange rate for the third quarter of year 2014	36,1909
Average exchange rate for the fourth quarter of year 2014	47,4243
31 December 2013	32,7292
Average exchange rate for the first quarter of year 2013	30,4142
Average exchange rate for the second quarter of year 2013	31,6130
Average exchange rate for the third quarter of year 2013	32,7977
Average exchange rate for the fourth quarter of year 2013	32,5334

### Management estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

The principal management estimates underlying these consolidated financial statements include estimations used in assessing long-lived assets for impairment, allowances for bad debts, valuation allowances for deferred tax assets, recognition of subsidies receivable from regional and federal authorities and valuation of assets and liabilities of acquired entities used in determining purchase price allocation.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### 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.

### Trade receivables, advances paid and allowance for doubtful accounts

Trade receivables and advances paid are stated at their originally recorded value less allowance for doubtful debts, which approximates their fair value. Advances paid represent prepayments to suppliers for goods and services which are expected to be realized within twelve months. Group companies provide an allowance for doubtful accounts based on management's periodic review of receivables, including the turnover of account balances. Accounts receivable are written off when evidence exists that they will not be collectible.

### Inventory

Inventory, including work in-process, is valued at the lower of cost or market value. Cost is determined using the average cost method. Cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of fixed production and variable overhead costs. Write downs are made for unrealizable inventory in full.

### Livestock

Animals with short productive lives, such as poultry, are classified as inventory on the balance sheet. Full cost absorption (which includes all direct and indirect costs) is used in determining the asset value of livestock. Newborn cattle and pigs, as well as other immature animals purchased for breeding are initially accounted for as inventory. Immature cattle and pigs are not considered to be in service until they reach maturity, at which time their accumulated cost becomes subject to depreciation. The Group treats breeding animals as property, plant and equipment with costs to be depreciated over their useful lives, as follows:

	Age of transfer to property, plant and equipment, years	Depreciation, years
Sows	1	2
Cattle	2	7

### Value added tax

Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers. Input VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to sales. Input VAT related to purchase transactions that are subject to offset against taxes payable after the financial statement date are recognized in the consolidated balance sheets on a net basis.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives of the related assets, as follows:

Land	Indefinite life
Buildings and infrastructure	10-60 years
Machinery and equipment	3-22 years
Vehicles	3-10 years
Cattle	7 years
Sows	2 years
Other	3-10 years

### Capitalised interest expense

Interest is capitalised on expenditures made in connection with capital projects in the amount of interest expense that could have been avoided if expenditures for the assets had not been made. Interest is only capitalised for the period when construction activities are actually in progress and until the resulting properties are put into operation.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Business combinations

The acquisition of businesses from third parties is accounted for using the purchase method of accounting. On acquisition, identifiable assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of non-controlling shareholders is stated at fair value at the date of acquisition.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. For material common control transactions the consolidated historical financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented. Consideration paid is reflected as a decrease in additional paid in capital.

### 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. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. The Group reports its interests in joint venture using the equity method of accounting whereby an interest in the joint venture is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture. When a Group transacts with its jointly controlled entity, 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 entity that are not related to the Group.

### Goodwill and other intangible assets

Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the consideration paid over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not deductible for income tax purpose in the Russian Federation.

Other intangible assets represent trademarks and computer software acquired. The fair value of the Group's acquired trademarks is determined using a relief from royalty method based on expected sales by trademark. All trademarks have been determined to have an indefinite life. Management evaluates a number of factors to determine whether an indefinite life is appropriate, including product sales history, operating plans and the macroeconomic environment. Intangible assets with determinable useful lives and computer software are amortized over their useful lives.

Goodwill and intangible assets deemed to have indefinite lives are reviewed for impairment at least annually or earlier if indications of impairment exist. For purposes of testing goodwill for impairment, management has determined that each segment represents a reporting unit.

The Group first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Group determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Group performs the two-step impairment test. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. The Group uses a discounted cash flow approach to estimate the fair value of its reporting units. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. In estimating the fair value, the Group is required to make a number of estimates and assumptions including assumptions related to projected future cash flows, estimated growth and discount rates. A change in these underlying assumptions could cause a change in the results of the tests and, as such, could result in impairment in future periods. The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### **Impairment of long-lived assets, except for goodwill and intangible assets with indefinite lives**

When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, the Group estimates the future undiscounted cash flows expected to be derived from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), the Group then calculates impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

### **Loans receivable not held for sale**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported in the balance sheet at outstanding principal adjusted for any chargeoffs, an allowance for loan losses and any deferred fees or costs on originated loans, and any unamortized premiums or discounts.

### **Notes receivable**

Notes receivable purchased are valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions / additions to the face value. Amortisation of such discounts / premiums is recorded as additions to / reductions from interest income. Notes receivable for which the Group has the intent and ability to hold to maturity are classified as held to maturity.

### **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, 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 range up to 32% for the meat processing segment and 12% for the poultry segment. No discounts are offered in the pork or grain segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

Any consideration given to direct or indirect customers of the Group in the form of cash, are included in the consolidated income statements as a deduction from sales in the period to which it relates.

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.

### **Marketing expenses**

Marketing costs are expensed as incurred. Marketing expenses are reflected in selling, general and administrative expense in the accompanying consolidated income statements.

### **Government subsidies**

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain subsidies. The largest of such subsidies received relate to reimbursement of interest expense on qualifying loans. The Group records interest subsidies as an offset to interest expense during the period to which they relate. The Group also regularly receives subsidies from regional authorities based on volumes of meat production and fodder purchased. These amounts are recorded as reductions to cost of sales during the period to which they relate.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Under Russian tax law, the Group is precluded from filing a consolidated tax return and offsetting tax assets and tax liabilities for the different legal entities. Accordingly, deferred tax assets are offset, as appropriate, with deferred tax liabilities at each legal entity within the Group. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of operations in the period in which the enactment date changes. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Group adjusts valuation allowances to measure deferred tax assets at the amount considered realizable in future periods if the Group's facts and assumptions change. In making such determination, the Group considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Positions taken in the tax returns of the subsidiaries forming part of the Group may be subject to challenge by the taxing authorities upon examination. The Group recognises the benefit of uncertain tax positions in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Group classifies uncertain tax positions as well as penalties and fines as tax related liabilities. The Company recognizes interest and penalties accrued related to unrecognized tax positions as part of the provision for income taxes.

### Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, long-term deposits, accounts receivable from customers and advances paid to vendors. As of 31 December 2014 95% of total cash and cash equivalents were held in two of top 10 banks by assets in Russia and 95% of total long-term deposits were held in Gazprombank, which is one of top 5 banks by assets in Russia.

As of 31 December 2014, approximately 42% of accounts receivable were outstanding with three third-party customers.

As of 31 December 2014, approximately 15% of advances paid were outstanding with three third-party vendor for planned future purchases of raw materials.

The maximum amount of loss due to credit risk, based on the carrying value of trade receivables, other receivables and advances paid that the Group would incur if related parties failed to perform according to the terms of contracts, was 11 602 as of 31 December 2014.

### Non-controlling interest

Non-controlling interest that resulted from acquisitions that occurred before 1 January 2009 was accounted for at historical value, which is the non-controlling interest's share in the book value of a subsidiary's net assets on the date, when the control over a subsidiary was established by the Group.

Non-controlling interest that resulted from acquisitions completed after 1 January 2009 has been accounted for at fair value as of the date when control over a subsidiary is established by the Group.

### Leases

Leases are classified as capital 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 capital 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 debt from capital leases. 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.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. Effective 1 January 2012, for agro entities all contributions to the Pension fund were calculated by application of a fixed rate of 16% and taxable annual gross remuneration of each employee limited to 512 000 roubles (16 thousand USD). For all other entities of the Group contributions to the Pension fund were calculated by application of a fixed rate of 22% and taxable annual gross remuneration of each employee limited to 512,000 roubles (16 thousand USD) plus annual gross remuneration above the limit were taxable at 10%. Effective 1 January 2013 the limit for all entities increased to 568,000 roubles (18 thousand USD), the rate for agro entities increased to 21% and for all other entities of the Group remained unchanged. Effective 1 January 2014, the limit for all entities increased to 624 000 roubles (16 thousand USD). The Group does not have any additional pension obligations other than said contributions.

### Fair value of financial instruments

Fair value is defined as 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. In determining fair value, the Group uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market rates obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's estimates about the assumptions market participants would use in the pricing of the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level One: Quoted prices for identical instruments in active markets that are observable.
- Level Two: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level Three: Unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market data when available.

The carrying amounts of cash and cash equivalents, trade and other current receivables, trade and other payables and accruals reported in the consolidated balance sheet approximate fair value due to the short maturity of those instruments.

The Group has various borrowings that are measured at amortised cost. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating interest rates on other similar debt adjusted for the Group's estimated non-performance risk, including credit risk (Note 21). Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2014. Non-performance risk was estimated based on spreads between the rates obtained by the Group and average interest rates in the Russian Federation on other similar debt at the reporting date. Additionally, the Group has various loans and notes receivable classified as held to maturity. Solely for the purpose of presentation, the Group has estimated the fair value of these instruments based on the expected discounted cash flows incorporating the Group's weighted average cost of capital (Note 21).

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Effect of accounting pronouncements adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists”, which amends Topic 740 of the Codification. The update provides that a liability related to an unrecognized tax benefit should be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after 15 December 2013. The Group adopted the requirements of ASU No. 2013-11 from 1 January 2014. This adoption did not have an impact on the Group’s results of operations, financial position or cash flows.

### New accounting pronouncements

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, an amendment to FASB Accounting Standards Codification (ASC) Topic 205, Presentation of Financial Statements, and FASB ASC Topic 360, Property, Plant and Equipment. The update revises the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results, removing the lack of continuing involvement criteria and requiring discontinued operations reporting for the disposal of an equity method investment that meets the definition of discontinued operations. The update also requires expanded disclosures for discontinued operations, including disclosure of pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. This ASU is effective for the Group prospectively beginning in fiscal 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Group’s consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, issued as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize 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 or services. This ASU is effective for the Group beginning in fiscal 2017 and can be adopted by the Group either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Group has not yet selected a transition method and is currently evaluating the impact of the amended guidance on its consolidated financial statements.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 3 Cash and cash equivalents

Cash and cash equivalents as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Cash in hand	96	205
Bank accounts, including bank deposits	17 813	64 180
<b>Total cash and cash equivalents</b>	<b>17 909</b>	<b>64 385</b>

Bank accounts, including bank deposits, includes short-term bank deposits with original maturity of less than 3 months of 704 and 52 674 as of 31 December 2014 and 2013, respectively.

## 4 Allowance for doubtful trade receivables

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2014 and 2013:

	2014 US\$000	2013 US\$000
<b>Balance at beginning of the year</b>	<b>5 357</b>	<b>7 986</b>
Additional allowance, recognized during the year	573	2 273
Trade receivables written off during the year	(2 557)	(4 384)
Translation difference	(1 612)	(518)
<b>Balance at end of the year</b>	<b>1 761</b>	<b>5 357</b>

## 5 Inventory

Inventory as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Raw materials	107 285	107 355
Livestock	86 436	129 592
Work in-process	17 915	23 743
Finished goods	8 566	20 872
<b>Total inventory</b>	<b>220 202</b>	<b>281 562</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 6 Other receivables, net

Other receivables, net, as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Subsidies receivable for interest expense reimbursement	16 128	36 715
Subsidies receivable for purchase of fodder	541	173
Other receivables	4 588	6 867
Allowance for doubtful other receivables	(147)	(466)
<b>Total other receivables, net</b>	<b>21 110</b>	<b>43 289</b>

## 7 Other current assets

Other current assets as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
VAT and other taxes receivable	27 290	34 039
Spare parts	8 255	10 655
Prepaid expenses	4 169	2 979
Receivables from insurance company	3 929	-
Loans receivable	3 510	1 029
Other assets	337	5 566
<b>Total other current assets</b>	<b>47 490</b>	<b>54 268</b>

In the last week of December 2014, 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. The units will go through the complete sanitation which will take from 3 to 6 months. All of the destroyed animals were insured and the Group expects to receive full compensation equal to their cost within the 12 months. The amount of expected compensation was accrued and included in receivables from insurance company.

## 8 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Land	22 323	38 667
Buildings, infrastructure and leasehold improvements	543 106	804 449
Machinery and equipment	197 261	286 106
Vehicles	36 041	51 841
Sows	9 865	23 925
Other	1 356	1 923
Construction in-progress and equipment for installation	101 886	135 601
Advances paid for property, plant and equipment	33 027	35 179
<b>Total property, plant and equipment, net</b>	<b>944 865</b>	<b>1 377 691</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 8 Property, plant and equipment, net continued

The following table summarizes the movements in property, plant and equipment for the year ended 31 December 2014:

	2014 US\$000
<b>Balance at beginning of the year</b>	<b>1 377 691</b>
Additions	174 978
Acquired through business combination (Note 24)	149 044
Depreciation charge	(96 390)
Disposals	(18 827)
Translation difference	(641 631)
<b>Balance at end of the year</b>	<b>944 865</b>

Accumulated depreciation amounted to 295 589 and 416 737 as of 31 December 2014 and 2013, respectively. Depreciation expense amounted to 90 090 and 91 196 for the years ended 31 December 2014 and 2013, respectively, which includes depreciation of leased equipment.

Net book values of vehicles and machinery and equipment include 5 007 and 5 265 of leased equipment as of 31 December 2014 and 2013, respectively. Net book values of buildings, infrastructure and leasehold improvements include 3 713 and 6 055 of leased buildings and infrastructure as of 31 December 2014 and 2013, respectively. Accumulated depreciation on leased property and equipment amounted to 6 632 and 10 113 as of 31 December 2014 and 2013, respectively.

Gain (loss) on disposal of property, plant and equipment of 12 190 and (5 762) was recognized in other operating expense, net in the consolidated income statement for the years ended 31 December 2014 and 2013, respectively.

## 9 Goodwill and other intangible assets, net

Goodwill and other intangible assets as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Goodwill	9 904	17 368
Other intangible assets	26 555	41 635
<b>Total goodwill and other intangible assets, net</b>	<b>36 459</b>	<b>59 003</b>

### Goodwill

The changes in the carrying amount of goodwill for 2014 and 2013 were as follows:

<b>Balance at 31 December 2012 US\$000</b>	<b>18 452</b>
Translation (loss)	(1 084)
<b>Balance at 31 December 2013 US\$000</b>	<b>17 368</b>
Translation (loss)	(7 464)
<b>Balance at 31 December 2014 US\$000</b>	<b>9 904</b>

As of 31 December 2014, management performed an annual impairment test for the meat processing and poultry reporting units and determined that goodwill was not impaired.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 9 Goodwill and other intangible assets, net continued

### Other intangible assets

Other intangible assets as of 31 December 2014 and 2013 comprised:

	2014 US\$000			2013 US\$000		
	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	4 883	(881)	4 002	5 419	(1 324)	4 095
Indefinite life trademarks	21 596	-	21 596	36 074	-	36 074
Other intangible assets	1 367	(410)	957	1 702	(236)	1 466
<b>Other intangible assets, net</b>	<b>27 846</b>	<b>(1 291)</b>	<b>26 555</b>	<b>43 195</b>	<b>(1 560)</b>	<b>41 635</b>

### Computer software

Software is amortised over its useful life ranging from two to ten years.

### Indefinite life trademarks

#### Kurinoe Tsarstvo («Куриное Царство») trademark

The carrying value of the Kurinoe Tsarstvo trademark was 13 675 and 22 761 as of 31 December 2014 and 2013, respectively.

As of 31 December 2014 and 2013, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark was not impaired.

#### Cherkizovsky («Черкизовский») trademark

The carrying value of the Cherkizovsky trademark was 7 745 and 13 313 as of 31 December 2014 and 2013, respectively.

As of 31 December 2014 and 2013, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

## 10 Long-term deposits in banks

Long-term deposits in banks as of 31 December 2014 and 2013 comprised:

	Effective %	Maturity	2014 US\$000	2013 US\$000
Deposits in Gazprombank	8%	2019	11 400	19 596
Deposits in Odinbank	10.5%	2017	534	917
<b>Long-term deposits in banks</b>			<b>11 934</b>	<b>20 513</b>

## 11 Notes receivable, net

Notes receivable, net as of 31 December 2014 and 2013 comprised:

	Effective %	Maturity	2014 US\$000	2013 US\$000
Tambovskaya Indeika	2.75%	2022	9 878	-
Gazprombank	8.36%	2014	-	1 690
<b>Notes receivable</b>			<b>9 878</b>	<b>1 690</b>



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 12 Borrowings

Borrowings of the Group as of 31 December 2014 and 2013 comprised:

	Interest rates	WAIR*	EIR**	2014 US\$000		2013 US\$000	
				Current	Non-current	Current	Non-current
Capital leases	10.91%-15.30%	14.12%	14.12%	1 215	4 606	803	7 076
Bonds	9.75%	9.75%	9.75%	-	44 438	-	76 384
Bank loans	9.50%-15.00%	11.60%	4.97%	45 179	54 170	91 909	2 099
Lines of credit	8.00%-15.60%	10.91%	4.00%	192 996	149 356	224 511	435 441
Loans from government				-	117	-	201
Other borrowings				-	1 227	-	2 611
<b>Total borrowings</b>				<b>239 390</b>	<b>253 914</b>	<b>317 223</b>	<b>523 812</b>

\* WAIR represents the weighted average interest rate on outstanding loans.

\*\* 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 19 for further disclosure of government subsidies related to interest on borrowings.

The contractual maturity of long-term borrowings (excluding capital leases) for the six years ending 31 December 2020 and thereafter is as follows:

Maturity of long-term borrowings	2015 US\$000	2016 US\$000	2017 US\$000	2018 US\$000	2019 US\$000	2020 US\$000	>2020 US\$000	Total US\$000
Total borrowings	92 825	119 311	46 832	29 305	16 279	11 736	25 845	342 133*

\* Calculated as total non-current borrowings less non-current capital leases plus current portion of non-current borrowings (excluding capital leases)

As of 31 December 2014, the Group's borrowings were denominated in the following currencies: 492 999 in Russian roubles, 305 in Euro. As of 31 December 2013, the Group's borrowings were denominated in the following currencies: 834 519 in Russian roubles, 2 626 in Euro and 3 890 in USD.

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.

### Capital leases

As of 31 December 2014 and 2013, the Group used certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

The total minimum lease payments due under these lease agreements comprised:

Payments falling due	2014 US\$000		2013 US\$000	
	Total minimum lease payments US\$000	Portion related to interest US\$000	Total minimum lease payments US\$000	Portion related to interest US\$000
Within one year	1 914	699	1 774	971
In year two	1 588	547	1 741	868
In year three	1 323	420	1 731	756
In year four	900	315	1 708	630
In year five	639	251	968	511
After year five	2 140	451	4 897	1 204
	<b>8 504</b>	<b>2 683</b>	<b>12 819</b>	<b>4 940</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 12 Borrowings continued

### Bonds

#### Bonds due in April 2016

In April 2014, the Group placed 3 000 000 bonds in roubles (95 831) at par value (1 000 roubles or 31.62 USD at the issuance date) with a maturity date in April 2016. The Group accounts for these instruments at amortized cost. 500 000 (15 812) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required; such bonds have not, to date, been sold on the market. The remaining 2 500 000 bonds (44 438 using the 31 December 2014 exchange rate) held by third parties are presented as non-current debt as of 31 December 2014. The coupon rate on the bonds, payable semi-annually, is set at 9.75% per annum.

### Bank loans

#### Gazprombank

Borrowings from Gazprombank consist of four short-term rouble denominated loans with interest ranging from 11.0% to 13.5% per annum and three long-term rouble denominated loan with interest ranging from 10.8% to 13.0% per annum. The amount outstanding of short-term loans and long-term loans was 48 133 as of 31 December 2014.

#### Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of one long-term rouble denominated loan with an interest rate of 9.5% per annum. Principal of the long-term loan is due on maturity in 2016. Amount outstanding was 10 462 as of 31 December 2014.

#### Rosselhozbank

Borrowings from Rosselhozbank consist of two short-term rouble denominated loans with interest 10.0% per annum and seven long-term rouble denominated loans with interest ranging from 12.0% to 15.0% per annum. The amount outstanding of the short-term and long-term loans were 5 333 and 35 419 as of 31 December 2014 and 31 December 2013, respectively.

### Lines of credit

#### Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of twenty eight rouble denominated lines of credit with interest ranging from 8.6% to 13.0% per annum. Several of these instruments are guaranteed by related parties. Some of these facilities are guaranteed by municipal authorities. Principal payments are due from 2015 to 2019. The amount outstanding was 202 567 and 375 382 as of 31 December 2014 and 31 December 2013, respectively.

#### Gazprombank

Borrowings from Gazprombank consist of seven rouble denominated lines of credit with interest ranging from 9.1% to 11.5% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2015 to 2022. The amount outstanding was 63 143 and 109 841 as of 31 December 2014 and 31 December 2013, respectively.

#### Bank Zenith

Borrowings from Bank Zenith consist of four long-term rouble denominated lines of credit with an interest rate of 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal is due upon maturity up to 2016. The amount outstanding was 10 439 and 34 506 as of 31 December 2014 and 31 December 2013, respectively.

#### Rosselhozbank

Borrowings from Rosselhozbank consist of nineteen rouble and one euro denominated lines of credit with fixed interest rates ranging from 10.0% to 15.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2015 to 2020. The amount outstanding was 31 392 and 137 748 for rouble denominated and 305 and 2 475 for euro denominated lines of credit as of 31 December 2014 and 31 December 2013, respectively.

#### VTB Bank

Borrowings from VTB consist of thirty one rouble denominated lines of credit with interest rates ranging from 10.99% to 15.6% per annum. Principal payments are due from 2015 to 2017. The amount outstanding was 34 520 as of 31 December 2014.

### Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2014 is 314 293. The unused credit can be utilized from 2015 to 2016 with expiration of available amounts varying as follows: 55 351 expires by 31 December 2015, 258 942 expires by December 2016.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 12 Borrowings continued

### Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates 0%. Principal payments are due from 2015 to 2020.

### Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2014:

- JSC Vasiljevskaya – 51%;
- LLC Cherkizovo Pork – 100%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%;
- CJSC Agrosurs-Voronezh – 100%;
- LLC Resurs (Tambov) – 100%;
- CJSC LipetskMyaso – 100%;
- JSC Kurinoe tsarstvo – 98%;
- LLC Lisko Broiler – 99%.

Inventory with a carrying value of 14 681 and 39 469 was pledged as security under certain borrowings as of 31 December 2014 and 31 December 2013, respectively

Property, plant and equipment with a carrying value of 338 202 and 606 703 was pledged as security under loan agreements as of 31 December 2014 and 31 December 2013, respectively.

Certain significant loan agreements contain covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. Certain significant loan agreements with the Savings Bank of Russia, Gazprombank, VTB Bank and Rosselkhozbank contain financial covenants requiring maintenance of specific debt or net debt to EBITDA ratios. The Group is in compliance with these covenants as of 31 December 2014.

## 13 Tax related liabilities

Current tax related liabilities as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Value added tax	9 279	11 434
Payroll related taxes	2 309	2 612
Property tax payable	1 883	2 820
Personal income tax withheld	1 122	1 764
Transportation tax	104	127
Other taxes	482	435
<b>Total short-term tax related liabilities</b>	<b>15 179</b>	<b>19 192</b>

Non-current tax related liabilities as of 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Corporate income tax	1 033	2 227
Payroll related taxes	7	11
Value added tax	-	3
<b>Total long-term tax related liabilities</b>	<b>1 040</b>	<b>2 241</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 14 Shareholders' equity

### Share capital

As of 31 December 2014 and 2013, issued shares of the Company had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued shares was 43 963 773 (share capital amounted to 15 at 31 December 2014 and 2013). The number of outstanding shares as of 31 December 2014 was 43 855 590.

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.

### 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. In respect of 2012 and 2013, dividends of approximately RUR 34.44 (USD 0.72) per share (31 376 in total) were approved at the extraordinary shareholders' meeting on 10 November 2014 and have been fully paid during the year ended 31 December 2014.

### Shares granted to employees in 2011

In 2011 the controlling shareholder of the Group and one of the Group's subsidiaries have entered into two share compensation agreements directly with management relating to outstanding shares held by the controlling shareholder and treasury shares, respectively. The total amount of shares covered by the agreements was 38,000 (57,000 GDR's) with multiple service periods ranging through June 2014 as follows:

- 10 000 shares (15 000 GDR's) with a service period through December 2011, including 3 000 shares from the controlling shareholder and 7 000 from treasury (such options were exercised during the year ended 31 December 2012).
- 10 000 shares (15 000 GDR's) with a service period through December 2012, including 3 000 shares from the controlling shareholder and 7 000 from treasury (such options were exercised during the year ended 31 December 2013).
- 18 000 shares (27 000 GDR's) with a service period through June 2014, including 9 000 shares from the controlling shareholder and 9 000 from treasury (such options were exercised during the year ended 31 December 2014).

Under the share compensation agreements management has the right to purchase shares at par value (0.01 roubles) after the end of each respective service period. Management estimated the fair value of share options at the grant date at 950. During the years ended 31 December 2014 and 2013 the Group recognized management remuneration amounting to 71 and 148, respectively, relating to share based payments. Total compensation cost related to nonvested awards not yet recognized at 31 December 2014 and 2013 equals nil and 71, respectively. During the years ended 31 December 2014 and 2013 18 000 and 10 000 options were exercised by management of the Group, respectively, and there were no forfeitures or cancellations.

The additional management remuneration recognized as a result of share options granted had no impact on total income tax provisions for the Group as such remuneration is not tax deductible in the Russian Federation.

### Earnings per share

Earnings per share for the years ended 31 December 2014 and 2013 have been determined using the weighted average number of Group shares outstanding over the period.

The calculation of weighted average number of shares outstanding after dilution for the reporting periods was as follows:

	2014	2013
Weighted average number of shares outstanding - basic	43 851 090	43 843 090
Add back incremental treasury shares in respect of share options	-	6 810
<b>Weighted average number of shares outstanding - diluted</b>	<b>43 851 090</b>	<b>43 849 900</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 15 Sales

Sales for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Produced goods and goods for resale	1 873 992	1 689 306
Other sales	32 832	61 878
Sales volume discounts	(92 932)	(81 402)
Sales returns	(18 330)	(14 863)
<b>Total sales</b>	<b>1 795 562</b>	<b>1 654 919</b>

## 16 Cost of sales

Cost of sales for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Raw materials and goods for resale	846 646	929 262
Personnel (excluding pension costs)	144 591	153 738
Depreciation	82 422	85 393
Utilities	73 750	74 715
Pension costs	25 445	27 539
Other	28 598	25 825
<b>Total cost of sales</b>	<b>1 201 452</b>	<b>1 296 472</b>

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 2 125 and 24 793 for the years ended 31 December 2014 and 2013, respectively. These subsidies were received based on the amount of meat produced. Most of the subsidies received in the year ended 31 December 2013 relate to government compensation to agricultural producers who suffered from a significant price increase for mixed fodder in the fourth quarter of 2012.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 17 Selling, general and administrative expense

Selling, general and administrative expense for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Personnel (excluding pension costs)	96 087	102 072
Transportation	29 288	29 755
Pension costs	17 627	16 671
Materials and supplies	15 944	15 443
Rent expenses	14 799	12 083
Taxes (other than income tax)	14 085	13 759
Advertising and marketing	13 382	7 705
Security services	10 969	13 729
Depreciation and amortisation	8 716	6 474
Audit, consulting and legal fees	4 768	5 437
Bad debt expense	3 033	5 387
Utilities	2 930	3 978
Veterinary services	2 897	3 205
Information technology and communication services	3 585	2 860
Bank charges	1 049	1 588
Repairs and maintenance	1 148	1 762
Insurance	2 373	1 606
Other	16 040	20 507
<b>Total selling, general and administrative expense</b>	<b>258 720</b>	<b>264 021</b>

## 18 Other (expense) income net

Other (expense) income, net for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Interest income	6 978	5 719
Foreign exchange loss	(17 312)	(3 000)
Other (expense) income, net	(16)	109
<b>Total other (expense) income, net</b>	<b>(10 350)</b>	<b>2 828</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 19 Financial expense, net

Financial expense, net for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Interest expense, net of subsidies	25 101	24 586
Capital lease expense	1 030	509
<b>Total financial expense, net</b>	<b>26 131</b>	<b>25 095</b>

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 51 614 and 70 111 for the years ended 31 December 2014 and 2013, respectively.

Interest expense capitalised in the years ended 31 December 2014 and 2013 was 2 895 and 4 564 (net of subsidies of 4 369 and 3 324), respectively.

## 20 Income tax

The income tax benefit (expense) for the years ended 31 December 2014 and 2013 comprised:

	2014 US\$000	2013 US\$000
Current provision	(2 081)	(4 540)
Deferred tax benefit	2 328	2 419
<b>Income tax benefit (expense)</b>	<b>247</b>	<b>(2 121)</b>

Most 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%.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 20 Income tax continued

The income tax (benefit) expense can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2014 and 2013 as follows:

	2014 US\$000	2013 US\$000
Income before income tax	349 212	66 396
Income before income tax of entities taxed at zero rates (agricultural entities and other tax regimes)	336 467	43 876
Income before income tax of generally taxed entities	12 745	22 520
Statutory tax rate (agricultural entities and other tax regimes)	0%	0%
Statutory tax rate (General)	20%	20%
Theoretical income tax expense at the statutory tax rate (General) for generally taxed entities	2 549	4 504
Expenses not deductible for Russian statutory taxation purposes, net	4 307	1 476
Gain from bargain purchase	(7 623)	-
Other permanent differences	520	(590)
Change in valuation allowance	-	(3 269)
<b>Actual income tax provision</b>	<b>(247)</b>	<b>2 121</b>

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2014 US\$000	2013 US\$000
Property, plant and equipment and intangibles	(5 825)	(8 289)
Trade receivables	(2 142)	1 132
Loss carry forward	4 456	4 018
Valuation allowance	(167)	(265)
Other assets and liabilities	4 436	2 767
<b>Net deferred tax asset (liability)</b>	<b>759</b>	<b>(637)</b>

At 31 December 2014 and 2013, temporary differences associated with undistributed earnings of subsidiaries were not recognized in these consolidated financial statements, because the Group is in a position to control the timing of the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The valuation allowance is attributable to tax loss carryforwards which are not expected to be utilised by management. As the Group does not have a legal right to offset deferred tax assets and deferred tax liabilities between different legal entities, management expects that the Group will not be able to utilize all of the tax loss carryforwards as certain of the Group's subsidiaries are expected to have operating losses in the future.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 20 Income tax continued

The Group's tax loss carryforwards expire as follows:

	2017 US\$000	2018 US\$000	2019 US\$000	2020 US\$000	2021 US\$000	2022 US\$000	2023 US\$000	2024 US\$000	Total US\$000
<b>Tax loss carry forwards</b>	280	125	66	113	782	1 801	4 594	14 519	22 280

Total amount of tax loss carryforwards, against which valuation allowance was created, equalled 835 as of 31 December 2014.

	2014 US\$000	2013 US\$000
Deferred tax asset – long-term portion	1 213	3 482
Deferred tax liability – long-term portion	(1 980)	(6 760)
<b>Long-term deferred tax liability, net</b>	<b>(767)</b>	<b>(3 278)</b>
Deferred tax asset – current	2 670	2 794
Deferred tax liability – current	(1 144)	(153)
<b>Current deferred tax asset, net</b>	<b>1 526</b>	<b>2 641</b>
<b>Total deferred tax asset (liability), net</b>	<b>759</b>	<b>(637)</b>

The movements in the net deferred tax liability for the years ended 31 December 2014 and 2013 comprised:

<b>Net deferred tax liability, beginning of the year</b>	<b>(637)</b>	<b>(2 779)</b>
Impact of translation gain (loss) and other adjustments	(932)	(277)
Deferred tax benefit	2 328	2 419
<b>Net deferred tax asset (liability), end of the year</b>	<b>759</b>	<b>(637)</b>

## 21 Fair value of financial instruments

The carrying values and fair values of the Group's loans and notes receivable, long-term deposits in banks and borrowings with the exception of capital leases, as of 31 December 2014 and 2013 are as follows:

	2014 US\$000		2013 US\$000	
	Carrying value	Fair value	Carrying value	Fair value
Loans receivable*	3 510	3 296	790	507
Long-term deposits in banks	11 934	8 413	-	-
Notes receivable, net	9 878	4 813	1 690	1 282
<b>Borrowings other than capital leases ** (Note 12)</b>	<b>487 483</b>	<b>462 835</b>	<b>833 156</b>	<b>800 178</b>

\* Loans receivable include both the long-term loans to affiliates and short-term loans receivable.

\*\* Cost of debt of 13.9% was applied, which did not include the effect of subsidies for interest expense.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 22 Related parties

Related parties include shareholders, entities under common ownership and control with the Group, members of key management personnel and affiliated companies. The Company and its subsidiaries enter into various transactions with related parties such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties.

### Trading transactions

Trading transactions with related parties comprise mostly of purchases of grain crops from and rendering of storage services to TZK NAPKO, Agrarnaya Gruppa and CJSC Penzamyasoprom. The Group also sells sausages, raw meat and poultry to a retail chain "Myasnov". All noted related parties are entities under common ownership and control with the Group.

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.

During the year ended 31 December 2012 the Group also received an advance from its joint venture (Tambovskaya Indeika) for future supply of machinery and equipment to be purchased by the Group and resold to the joint venture.

### Financing transactions

During the year ended 31 December 2014 certain shareholders have personally guaranteed certain of the bank loans and lines of credit for a total amount of 23 776.

During the year ended 31 December 2014, the Group loaned 9 878 to its joint venture Tambovskaya Indeika. The notes are unsecured, denominated in RUR with a fixed interest rate of 2.75% per annum. The notes are payable, together with interest, after 8 years.

As of 31 December 2014 and 2013 balances with companies under common control are summarized as follows:

	31 December 2014 US\$000	31 December 2013 US\$000 (restated)*
<b>Balances</b>		
Trade receivables	3 675	5 117
Other non-current receivables	1 095	2 134
Advances paid	447	556
Advances paid for property, plant and equipment	2 274	-
Other receivables	178	193
Trade payables	256	1 010
Other payables	13	86
Long-term borrowings	97	687
Long-term payables to shareholders	166	333

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 22 Related parties continued

For the years ended 31 December 2014 and 2013, transactions with companies under common control are summarized as follows:

Transactions	2014 US\$000	2013 US\$000 (restated)*
Sales	56 604	51 575
Rent income	3 973	2 986
Purchases of security services	1 129	830
Purchases of property, plant and equipment	2 591	171
Purchases of goods and other services	15 089	18 702

\* the Group identified an error in comparative information in the related party note related to omission of disclosure of transactions and balances with the related party "Myasnov". In 2013, sales to Myasnov were approximately US\$50 million. As required by US GAAP, comparative information in the note for the year ended 31 December 2013 has been retrospectively adjusted for a correction of the error.

As of 31 December 2014 and 2013 balances with the Group's joint ventures are summarized as follows:

Balances	31 December 2014 US\$000	31 December 2013 US\$000
Trade receivables	68	75
Advances paid	2 573	666
Other receivables	1 292	-
Trade payables	65	186
Advances received	10 851	14 666
Other payables	-	47
Notes receivable, net	9 878	-

For the years ended 31 December 2014 and 2013, transactions with the Group's joint ventures are summarized as follows:

Transactions	2014 US\$000	2013 US\$000
Sales	162	159
Rent income	135	23
Purchases of goods and other services	3 323	766

## 23 Segment reporting

The Group's operations are divided into four segments by types of products produced: meat processing, poultry, pork and grain. 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 the 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, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. The grain segment was acquired by the Group in May 2011 together with Mosselprom and is involved in the farming of wheat and other crops. All four segments are involved in other business activities, including production of dairy and other services, which are non-core business activities.

The Group evaluates segment performance based on income before income tax. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 22 Segment reporting continued

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Segment information at 31 December 2014 and for the year then ended comprised:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Total consolidated US\$000
Total sales	570 287	990 491	437 862	40 693	746	(244 517)	1 795 562
including other sales	1 007	33 304	7 284	798	746	(10 307)	32 832
including sales volume discounts	(59 090)	(33 842)	-	-	-	-	(92 932)
Intersegment sales	(487)	(32 019)	(182 793)	(29 218)	-	244 517	-
Sales to external customers	569 800	958 472	255 069	11 475	746	-	1 795 562
Cost of sales	(488 598)	(692 974)	(230 430)	(22 708)	(1 097)	234 355	(1 201 452)
<b>Gross profit</b>	<b>81 689</b>	<b>297 517</b>	<b>207 432</b>	<b>17 985</b>	<b>(351)</b>	<b>(10 162)</b>	<b>594 110</b>
Operating expense	(73 514)	(114 958)	(17 752)	(8 730)	(34 271)	2 695	(246 530)
<b>Operating income</b>	<b>8 175</b>	<b>182 559</b>	<b>189 680</b>	<b>9 255</b>	<b>(34 622)</b>	<b>(7 467)</b>	<b>347 580</b>
Other income (expense), net	(3 639)	23 470	(1 087)	17	(12 671)	(16 440)	(10 350)
Financial expense, net	(7 186)	(10 862)	(11 022)	(3 538)	(9 963)	16 440	(26 131)
Gain from bargain purchase	-	-	-	-	38 113	-	38 113
<b>Segment profit</b>	<b>(2 650)</b>	<b>195 167</b>	<b>177 571</b>	<b>5 734</b>	<b>(19 143)</b>	<b>(7 467)</b>	<b>349 212</b>
Supplemental information							
Expenditure for segment property, plant and equipment	19 067	72 254	68 917	10 623	4 117	-	174 978
Depreciation and amortisation expense	10 393	49 881	26 424	3 452	988	-	91 138
Income tax expense (benefit)	(771)	229	893	26	(624)	-	(247)

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

Corporate does not represent a segment. Items included within Corporate represent reconciling items between the balances of the reportable segments, and the consolidated totals for the Group, and include payroll and other expenses of the holding company.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 23 Segment reporting continued

Segment information at 31 December 2013 and for year then ended comprised:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Total consolidated US\$000
Total sales	571 593	844 350	338 770	26 765	566	(127 125)	1 654 919
including other sales	269	44 433	15 161	2 015	-	-	61 878
including sales volume discounts	(51 744)	(29 658)	-	-	-	-	(81 402)
Intersegment sales	(229)	(16 229)	(97 203)	(13 428)	(36)	127 125	-
Sales to external customers	571 364	828 121	241 567	13 337	530	-	1 654 919
Cost of sales	(431 332)	(692 308)	(281 577)	(18 566)	(525)	127 836	(1 296 472)
<b>Gross profit</b>	<b>140 261</b>	<b>152 042</b>	<b>57 193</b>	<b>8 199</b>	<b>41</b>	<b>711</b>	<b>358 447</b>
Operating expense	(88 135)	(114 844)	(33 936)	(5 283)	(26 874)	(711)	(269 783)
<b>Operating income</b>	<b>52 126</b>	<b>37 198</b>	<b>23 257</b>	<b>2 916</b>	<b>(26 833)</b>	<b>-</b>	<b>88 664</b>
Other income (expense), net	(858)	8 371	(221)	11	14 282	(18 757)	2 828
Financial expense, net	(10 139)	(8 812)	(10 481)	(881)	(13 539)	18 757	(25 095)
<b>Segment profit</b>	<b>41 129</b>	<b>36 757</b>	<b>12 555</b>	<b>2 046</b>	<b>(26 090)</b>	<b>-</b>	<b>66 397</b>
Supplemental information							
Expenditure for segment							
property, plant and equipment	28 963	75 832	36 296	17 968	2 050	-	161 109
Depreciation and amortisation expense	9 211	43 846	35 725	2 185	900	-	91 867
Income tax expense (benefit)	1 333	608	45	69	66	-	2 121

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2014 and 2013 is as follows:

	2014 US\$000	2013* US\$000
Meat processing	187 610	281 072
Poultry	791 407	1 017 146
Pork	501 088	746 724
Grain	50 256	69 624
<b>Total for reportable segments</b>	<b>1 530 361</b>	<b>2 114 567</b>
Corporate assets and intersegment eliminations	(99 574)	(67 622)
<b>Total assets</b>	<b>1 430 787</b>	<b>2 046 945</b>

\*During the year ended 31 December 2014 the Group changed presentation of segment assets in the segment note. Since that period the Group excludes investments of holding company from corporate assets and correspondingly increases assets of reportable segments with such amounts. The comparative information as of 31 December 2013 has been retrospectively adjusted to reflect the change in the segment reporting, in order to increase comparability.

Corporate assets comprise cash in bank received from both the issuance of new shares and bond issues and certain other assets.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 24 Subsidiaries, acquisitions, divestitures

### Subsidiaries

As of 31 December 2014 and 2013, the Company controlled all meat processing and agricultural companies through its 100% ownership in OJSC Cherkizovsky Meat Processing Plant, AIC Mikhailovsky Ltd. and CJSC Mosselprom.

As of 31 December 2014 and 2013, the Group included the following principal companies:

Name of company	Legal form	Nature of business	% ownership	
			31.12.2014	31.12.2013
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%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Closed Joint Stock Company	Meat processing plant		
TPC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	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%	-
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of poultry	88%	88%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	76%
LLC Cherkizovo-Pork	Open Joint Stock Company	Pig breeding	100%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%
LLC Tambovmyasoprom	Limited Liability Company	Pig breeding	100%	99%
LLC Budenovets Agrofirma	Limited Liability Company	Pig breeding	100%	100%
LLC Lipetskmyaso	Closed Joint Stock Company	Pig breeding	100%	100%
LLC RAO Penzenskaya Grain Company (PZK)	Limited Liability Company	Pig breeding	100%	100%
LLC Oresemprom	Closed Joint Stock Company	Pig breeding and grain crops cultivation	100%	100%
LLC Resurs	Limited Liability Company	Pig breeding	100%	100%
LLC Agrosurs-Voronezh	Closed Joint Stock Company	Pig breeding	100%	100%
LLC Cherkizovo-Feed Production	Limited Liability Company	Mixed fodder production	100%	100%
LLC TD Myasnoe Tsarstvo	Limited Liability Company	Trading company: distribution of pork	100%	100%
LLC Voronezhmyasoprom	Limited Liability Company	Genetic pig breeding and grain crops cultivation	100%	100%
LLC Cherkizovo-Grain Production	Limited Liability Company	Grain crops cultivation	100%	100%



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 24 Subsidiaries, acquisitions, divestitures continued

### Acquisition of LSKO Broiler

On 24 March 2014, the Group completed an acquisition of 100% of the share capital of ZAO LSKO Broiler ("LSKO") for cash consideration of 90 180 of which 86 655 has been paid as of 31 December 2014 (presented in the cash flow statement net of cash acquired of 4 955) and 1 401 is payable upon completion of ownership registration of certain land plots. The residual difference relates to translation difference.

LSKO is the largest poultry producer in the Voronezh Region and one of the market leaders in the Central and Southern Federal Districts. Based on Russian Poultry Union data, LSKO ranks seventh among top poultry producers with a 2% nationwide market share in volume. Its production capacity is approximately 95,000 tonnes (live weight) per year. LSKO's full-cycle production assets that will be integrated to Cherkizovo Group include (all LSKO production facilities are built in accordance with modern standards and are highly efficient):

- 7 poultry production facilities;
- 4 parent flock sites with a slaughtering facility of 4,000 heads per hour;
- 2 reproduction flock sites;
- Slaughtering complex with capacity of 9,000 heads per hour;
- Hatchery with capacity of 80 million eggs per year;
- Feed mill with 40 tonnes per hour capacity;
- Grain storage facility with overall storage capacity of 100,000 tonnes;
- Meat and bone meal production facility;
- Rendering facility

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

In the condensed consolidated interim financial statements for the six month ended 30 June 2014 the acquisition was accounted for using historical book values as provisional values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since there was no other information available at that time.

A valuation report was obtained subsequently and the Group also completed stock counts of acquired assets and correspondingly adjusted purchase price for any shortage or surplus, therefore consolidated financial statements for the year ended 31 December 2014 have been adjusted to adjust the fair values of the following assets, liabilities and purchase price at the acquisition date:

	2014 US\$000 (as previously reported in six month ended 30 June 2014)	2014 US\$000
<b>Purchase price</b>	<b>89 356</b>	<b>90 180</b>
Inventory	25 924	26 372
Other current assets	8 917	8 917
Property, plant and equipment	97 515	149 044
Trademarks	-	963
Short-term loans and finance leases	(12 304)	(12 304)
Other current liabilities	(7 889)	(7 889)
Long-term loans and finance leases	(36 810)	(36 810)
<b>Total assets acquired and liabilities assumed</b>	<b>75 353</b>	<b>128 293</b>
<b>Goodwill / (gain from bargain purchase) recognized on acquisition</b>	<b>14 003</b>	<b>(38 113)</b>

A bargain purchase gain arose because the seller was acting under pressure of changing business environment in Russia (see Note 1) and was selling non-core business to a strategic investor.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 24 Subsidiaries, acquisitions, divestitures continued

The following pro forma financial information presents consolidated income statements as if the acquisition occurred as of the beginning of the prior annual reporting period (1 January 2013). In determining proforma amounts, all non-recurring costs were determined to be immaterial. Pro forma information is presented for all preceding comparative periods:

Pro forma Information	For the year ended 31 December 2014 US\$000 (UNAUDITED)	For the year ended 31 December 2013 US\$000 (UNAUDITED)
Sales	1 826 052	1 806 607
Operating income	350 449	92 131
<b>Net income</b>	<b>352 288</b>	<b>68 692</b>
Weighted average number of shares outstanding	43 851 090	43 843 090
<b>Earnings per share (USD)</b>	<b>8.03</b>	<b>1.57</b>

These unaudited pro forma results have been prepared for comparison purposes only. The unaudited pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations. The actual results of operations of LISKO are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of LISKO Broiler from the date of acquisition (24 March 2014) to 31 December 2014	US\$000
Sales	126 514
Operating income	32 761
<b>Net income</b>	<b>31 990</b>

### Acquisition of "Dankovskiy Combinat"

On 14 April 2013, the Group completed an acquisition of 95% of the share capital of Dankovskiy Combinat for cash consideration of 1 130. The meat processing plant is located in Dankov city - Lipetsk region, close to the Group's existing pig breeding farms. The company, founded in 1936, is specialized in the slaughtering, boning and freezing of cattle and pigs, as well as in the production of sausages. Slaughter capacity of the plant is approximately 500 pigs per shift, the production capacity for finished products is about 68 tons per day. The plant has a cold room for 500 tons of storage. The Group plans to increase the acquiree's slaughter capacity.

### Legal restructuring in meat processing segment

In April 2013, 8 companies of the meat processing segment were transferred to JSC Cherkizovsky Meat Processing Plant (JSC CMPP) by the means of exchange of additionally issued shares of JSC CMPP for shares of the aforementioned 8 companies. The Group paid 1 009 in cash to certain holders of non-controlling interests in these 8 companies, who executed their right to sell shares to the Group during the reorganization. As a result of the reorganization, non-controlling interests decreased by 8 625. The 7 616 excess of the adjustment to the carrying amount of the non-controlling interest (8 625) over the cash paid (1 009) was recognized as an increase in additional paid-in capital. In addition, the Group's share of accumulated other comprehensive loss was increased by 1 090 through a corresponding increase in additional paid-in capital.

## 25 Commitments and contingencies

### Legal

As of 31 December 2014 and 31 December 2013, 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.

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that the resolution of all such outstanding matters will not have a material impact on the Group's financial position, results of operations or cash flows.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2014

(In thousands of USD, unless noted otherwise)

## 25 Commitments and contingencies continued

### 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.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities 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 2014.

### Insurance

The Group holds insurance policies in relation to certain assets. As of 31 December 2014 the Group secured part of its livestock with a total insurance policy of approximately 88 889 and part of property, plant and equipment and other assets with a total insurance policy of approximately 1 133 654 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.

### Capital commitments

At 31 December 2014, the Group had capital projects in progress at JSC Vasiljevskaya, CJSC Kurinoe Tsarstvo – Bryansk, JSC Kurinoe Tsarstvo, and CJSC Mosselprom. As part of these projects, commitments had been made to contractors of approximately 26 489 towards completion of the projects.

Also the Group is in the process of implementing SAP. As part of this project, commitments have been made to contractors of approximately 5 062 toward completion of the project.

### Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending December 31, 2018 and thereafter are as follows:

	2015 US\$000	2016 US\$000	2017 US\$000	2018 US\$000	2019 US\$000	>2019 US\$000	Total US\$000
<b>Total commitments</b>	4 902	4 876	3 395	1 878	1 529	23 866	40 446

## 26 Subsequent events

The Group has evaluated subsequent events through 26 February 2015, the date on which the consolidated financial statements were issued and no material subsequent events were identified.