PJSC Cherkizovo Group

Consolidated Financial Statements
for the year ended 31 December 2016 and
Independent Auditor's Report

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PJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC Cherkizovo Group (the "Company") and its subsidiaries (the "Group") as at 31 December 2016, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by Management on 1 March 2017.

On behalf of the Management:

Sergei Mikhailov
Chief Executive Officer

Ludmila Mikhailova
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of PJSC Cherkizovo Group

Opinion

We have audited the consolidated financial statements of PJSC Cherkizovo Group (the "Company") and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined a key audit matter	How the matter was addressed in the audit
Recoverability of government subsidies	
At 31 December 2016 the amount of subsidies receivable for interest expense reimbursement was RUB 1,104,972 thousand (2015: RUB 1 417 074 thousand). In the fourth quarter of 2016 the Group changed the estimate regarding the timing of subsidy recognition which resulted in the write-off of the full balance of subsidies receivable accrued on qualifying loans that were not confirmed for subsidizing by the regional bodies of the Ministry of agriculture of the Russian Federation (RUB 1 285 474 thousand). Further details are provided in Notes 4 and 21 to the consolidated financial statements. We focused on this area as a key audit matter because the management of the Group had to apply significant judgement in assessing the recoverability of the subsidies receivable balance.	For subsidies receivable we performed the following audit procedures to assess recoverability of the balance: • we verified the appropriateness of the change in the accounting estimate by reference to the negative changes in the macroeconomic environment, deviation from the historical pattern of significant portion of subsidies being collected in the fourth quarter of the year and a new policy on subsidy assignment to agricultural producers announced by the government in the fourth quarter of 2016 and effective from 1 January 2017; • on a sample basis we verified that compliance criteria for recognition of subsidies were met; • on a sample basis we verified that the Group received proofs of subsidizing from the regional bodies of the Ministry of agriculture of the Russian Federation; • we analytically recalculated the subsidies accrual for 2016 and checked the accuracy of the subsidy rates and calculation of the subsidized shares of the borrowed funds; and • we analysed the subsidies receivable balance by regions of the Russian Federation to identify abnormal concentration, which may indicate potential recoverability issues for subsidies from that particular region.
Valuation of biological assets	
At 31 December 2016 the carrying values of current and non-current biological assets were RUB 10 712 481 thousand and RUB 1 926 714 thousand respectively (2015: RUB 9 829 675 thousand and RUB 1 597 495 thousand). Biological assets are stated at fair value less estimated costs to sell. The Group recognized a fair value adjustment of RUB 3 877 070 thousand at 31 December 2016 (2015: RUB 3 303 761 thousand). Further details are provided in Notes 4 and 15 to the consolidated financial statements. We focused on this area as a key audit matter	We performed audit procedures on all valuation models relating to material types of biological assets. Our audit procedures included verification of management's assumptions used in the models. The assumptions to which the models were most sensitive and most likely to lead to material mistakes in valuation were: • future selling prices and • projected cost per head/ kg.

Why the matter was determined a key audit matter	How the matter was addressed in the audit
because the assessment of the fair value using valuation techniques involves complex and significant judgements about future poultry and pork prices and other assumptions, involving additional uncertainty due to the current volatility of poultry and pork prices in the market.	We challenged management's assumptions in the models with reference to historical data and, where applicable, external benchmarks, noting that the assumptions used fell within an acceptable independently determined range. We compared the current performance up to the date of the audit report with the forecasts to ensure no significant changes had occurred after the testing had been performed. We tested the accuracy of the models with the assistance of our own specialists and carried out audit procedures on management's sensitivity calculations. We tested the appropriateness of the related disclosures provided in the consolidated financial statements. In particular, we focused on the disclosure of key unobservable inputs and the related sensitivity analysis.
Related party transactions	
As described in Note 29 "Related Parties" to the consolidated financial statements, the Group enters into various significant transactions with related parties. The transactions include sales and purchases of inventories, provision of services, and sales and purchases of property, plant and equipment. The transactions with related parties exceeding certain criteria are approved by the Board of Directors. We consider the transactions with related parties to be a key audit matter because the Audit Committee regularly discusses transactions with related parties and the terms on which these transactions have been conducted, in addition to the regulatory, investors' and management's interest in this area, especially in determining appropriate pricing for such transactions.	Our audit procedures included obtaining an understanding of key controls around the process of approval and authorization of related party transactions. Our substantive audit procedures included testing, on a sample basis, the transactions with related parties by reviewing supporting documentation. We also challenged management's conclusion that the transactions were done on an arm's length basis by means of reviewing a sample of agreements and comparing the related party transactions prices to those quoted by comparable companies and market data, where available. We also checked the completeness and accuracy of the related parties disclosure by reference to the audited data.

Other Information

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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Deloitte & Touche

1 March 2017
Moscow, Russian Federation

для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Rinat Khasanov, Director
(license no. 03-000790)

ZAO Deloitte & Touche CIS

The Entity: PJSC Cherkizovo Group

Primary State Registration Number: 1057748318473

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

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

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	2016	2015
Revenue	5	82 417 193	77 032 622
Net change in fair value of biological assets and agricultural produce	15	(340 063)	(1 163 727)
Cost of sales	6	(64 222 344)	(56 720 216)
Gross profit		**17 854 786**	**19 148 679**
Selling, general and administrative expenses	7	(13 008 713)	(11 947 142)
Other operating income, net		410 591	332 489
Share of loss of a joint venture	16	(200 191)	-
Operating profit		**5 056 473**	**7 534 026**
Interest income		343 737	285 762
Interest expense, net	8	(3 738 315)	(1 364 766)
Other income (expenses), net	9	298 484	(583 273)
Profit before income tax		**1 960 379**	**5 871 749**
Income tax (expense) benefit	10	(72 861)	149 060
Profit for the year and total comprehensive income		**1 887 518**	**6 020 809**
Profit and total comprehensive income attributable to:			
Cherkizovo Group		1 919 227	6 007 482
Non-controlling interests		(31 709)	13 327
Earnings per share			
Weighted average number of shares outstanding – basic and diluted:		43 855 590	43 855 590
Net income attributable to Cherkizovo Group per share – basic and diluted (in Russian rubles):		43.76	136.98

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

Consolidated statement of financial position

As at 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	11	64 445 256	60 436 029
Investment property	12	443 676	432 771
Goodwill	13	557 191	557 191
Intangible assets	14	1 949 663	1 603 903
Non-current biological assets	15	1 926 714	1 617 833
Notes receivable, net		510 000	300 000
Investments in joint venture	16	2 061 472	1 301 663
Long-term deposits in banks	17	641 365	641 365
Deferred tax assets	10	479 624	331 300
Other non-current assets		508 140	430 811
Total non-current assets		**73 523 101**	**67 652 866**
Current assets			
Biological assets	15	10 712 481	9 829 675
Inventories	18	10 602 118	12 258 555
Taxes recoverable and prepaid	19	1 904 786	2 835 987
Trade receivables, net	20	4 942 884	4 444 991
Advances paid, net		1 721 691	2 733 842
Other receivables, net	21	1 393 473	1 782 019
Cash and cash equivalents	22	1 002 203	5 560 824
Other current assets	23	534 838	612 566
Total current assets		**32 814 474**	**40 058 459**
TOTAL ASSETS		**106 337 575**	**107 711 325**

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

Consolidated statement of financial position (continued)

As at 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	24	440	440
Treasury shares	24	(78 033)	(78 033)
Additional paid-in capital	24	5 588 320	5 588 320
Retained earnings		47 503 411	46 582 955
Total shareholder's equity		**53 014 138**	**52 093 682**
Non-controlling interest	25	1 026 280	1 055 392
Total equity		**54 040 418**	**53 149 074**
Non-current liabilities			
Long-term borrowings	26	24 469 704	16 118 747
Provisions		58 131	67 131
Deferred tax liability	10	420 299	405 097
Other liabilities		14 379	96 185
Total non-current liabilities		**24 962 513**	**16 687 160**
Current liabilities			
Short-term borrowings	26	14 122 997	25 093 017
Trade payables		8 608 271	8 461 657
Advances received		562 584	443 018
Payables for non-current assets		1 061 629	1 445 128
Tax related liabilities	27	849 400	790 344
Payroll related liabilities		1 394 940	1 372 176
Other payables and accruals		734 823	269 751
Total current liabilities		**27 334 644**	**37 875 091**
Total liabilities		**52 297 157**	**54 562 251**
TOTAL EQUITY AND LIABILITIES		**106 337 575**	**107 711 325**

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

Consolidated statement of changes in equity

For the year ended 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

	Share capital		Treasury shares				Total	Non-	
	Amount	Number of shares	Amount	Number of shares	Additional paid-in capital	Retained earnings	shareholder's equity	controlling interests	Total equity
Balances at 1 January 2015	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 591 204**	**43 968 239**	**49 481 850**	**1 057 073**	**50 538 923**
Profit for the year and total comprehensive income	-	-	-	-	-	6 007 482	**6 007 482**	13 327	**6 020 809**
Acquisition of non-controlling interests	-	-	-	-	(2 884)	-	**(2 884)**	(15 008)	**(17 892)**
Dividends	-	-	-	-	-	(3 392 766)	**(3 392 766)**	-	**(3 392 766)**
Balances at 31 December 2015	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**46 582 955**	**52 093 682**	**1 055 392**	**53 149 074**
Profit for the year and total comprehensive income	-	-	-	-	-	1 919 227	**1 919 227**	(31 709)	**1 887 518**
Additional non-controlling interests arising on set up of new subsidiaries	-	-	-	-	-	-	**-**	2 597	**2 597**
Dividends	-	-	-	-	-	(998 771)	**(998 771)**	-	**(998 771)**
Balances at 31 December 2016	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**47 503 411**	**53 014 138**	**1 026 280**	**54 040 418**

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

Consolidated statement of cash flows

For the year ended 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**1 960 379**	**5 871 749**
Adjustments for:		
Depreciation and amortization	4 660 365	3 826 525
Bad debt expense	231 981	32 062
Foreign exchange (gain) loss, net	(621 087)	646 802
Interest income	(343 737)	(285 762)
Interest expense, net	3 738 315	1 364 766
Net change in fair value of biological assets and agricultural produce	340 063	1 163 727
Gain on disposal of property, plant and equipment, net	(8 054)	(49 793)
Gain on disposal of non-current biological assets, net	(402 456)	(282 827)
Write-off of receivables from insurance company	347 975	-
Share of loss of a joint venture	200 191	-
Other adjustments, net	(28 059)	(108 612)
Operating cash flows before working capital and other changes	**10 075 876**	**12 178 637**
Decrease (increase) in inventories	770 364	(4 648 048)
Increase in biological assets	(202 031)	(1 586 899)
Increase in trade receivables	(477 366)	(466 088)
Decrease (increase) in advances paid	796 090	(522 982)
Decrease (increase) in other receivables and other current assets	947 249	(1 450 027)
Increase in other non-current assets	(70 105)	(28 022)
Increase in trade payables	675 348	3 607 415
Increase in tax related liabilities (other than income tax)	41 155	17 693
Increase (decrease) in other current payables	142 585	(651 507)
Operating cash flows before interest and income tax	**12 699 165**	**6 450 172**
Interest received	255 850	219 758
Interest paid	(4 895 763)	(3 530 632)
Government grants for compensation of interest expense received	1 433 471	2 019 481
Income tax paid	(124 186)	(166 521)
Net cash from operating activities	**9 368 537**	**4 992 258**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8 569 640)	(9 415 480)
Purchase of non-current biological assets	(1 110 778)	(432 481)
Purchase of intangible assets	(555 633)	(273 343)
Proceeds from sale of property, plant and equipment	34 013	220 832
Proceeds from disposal of non-current biological assets	755 422	537 051
Investments in joint venture	(960 000)	(450 000)
Placing of deposits and issuance of short-term loans	-	(156 855)
Placing of notes receivable	(210 000)	(300 000)
Repayment of short-term loans issued and redemption of deposits	6 273	183 895
Net cash used in investing activities	**(10 610 343)**	**(10 086 381)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	11 862 021	9 218 443
Repayment of long-term loans	(5 363 445)	(5 110 160)
Proceeds from short-term loans	21 834 999	21 686 431
Repayment of short-term loans	(30 652 746)	(12 736 663)
Dividends paid	(998 771)	(3 392 766)
Disposal (acquisition) of non-controlling interests	1 127	(17 892)
Net cash (used in) generated from financing activities	**(3 316 815)**	**9 647 393**
Net (decrease) increase in cash and cash equivalents	**(4 558 621)**	**4 553 270**
Cash and cash equivalents at the beginning of the year	**5 560 824**	**1 007 554**
Cash and cash equivalents at the end of the year	**1 002 203**	**5 560 824**

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

(in thousands of Russian rubles, unless otherwise indicated)

1. Nature of the business

General information

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

The Company's parent is MB Capital Europe Ltd., which is registered in Cyprus and owned approximately 61% of the Company's shares at 31 December 2016 and 2015. The ultimate controlling party of PJSC Cherkizovo Group is Babaev / Mikhailov family who jointly control MB Capital Europe Ltd.

At 31 December 2016 and 2015 the Group included the following principal companies:

Name of company	Legal form	Nature of business	% 31.12.2016	% 31.12.2015
OJSC Cherkizovsky Meat Processing Plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	95%	95%
LLC PKO Otechestvennyi Product	Limited Liability Company	Meat processing plant	95%	95%
JSC Cherkizovo-Kashira	Joint Stock Company	Meat processing plant	95%	95%
LLC TPC Cherkizovo	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%	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*	Limited Liability Company	Pig breeding	100%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%
LLC Cherkizovo-Grain Production	Limited Liability Company	Grain crops cultivation	100%	100%

* In December 2015, 7 companies of pork segment: LLC Lipetskmyaso, LLC RAO Penzenskaya Grain Company (PZK), LLC Orelselprom, LLC Resurs, LLC Agroresurs-Voronezh, LLC TD Myasnoe Tsarstvo and LLC Tambovmyasoprom were merged into LLC Cherkizovo-Pork. Subsequently in November and December 2016 LLC Cherkizovo-Feed Production and LLC Voronezhmyasoprom were also merged into LLC Cherkizovo-Pork.

The business of the Group

The Group's operations are spread over the full production cycle from grain and feed production and breeding to meat processing and distribution. The operational facilities of the Group include six meat processing plants, fifteen pig production complexes, eight poultry production complexes, six combined fodder production plants and four grain farming complexes and a 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 Cherkizovo ("Черкизово"), Pyat Zvezd ("Пять Звезд"), Petelinka ("Петелинка"), Kurinoe Tsarstvo ("Куриное Царство") and Imperia Vkusa ("Империя вкуса") and has a diverse customer base.

At 31 December 2016 and 2015 the number of staff employed by the Group approximated 22 775 and 21 690, respectively.

1. Nature of the business continued

Operating environment

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

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

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

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is difficult to determine at this stage.

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

Functional and presentation currency

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

2. Significant accounting policies continued

Foreign currency transactions

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

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

Going concern

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

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

Basis of consolidation

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

Control is achieved when the Company:

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. Significant accounting policies continued

Business combinations (from third parties)

Acquisitions of businesses from third parties are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

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

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

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

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

Acquisitions of entities under common control

Acquisitions of entities under common control are accounted for on the basis of predecessor carrying values, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. For common control transactions the consolidated historical financial statements of the Group are retrospectively 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.

Goodwill

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

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

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

2. Significant accounting policies continued

Investments in joint venture

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

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

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

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

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

Property, plant and equipment

Owned assets

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

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

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

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

Repairs and maintenance

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

Depreciation

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

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

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

2. Significant accounting policies continued

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

Investment property

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

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets other than goodwill

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination acquisition, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

Inventories

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

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

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

2. Significant accounting policies continued

Biological assets and agricultural produce

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

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

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

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

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

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

Biological assets

(i) Broilers

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

(ii) Breeders (laying hens and replacement flock)

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

(iii) Market hogs

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

(iv) Sows

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

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

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

Agricultural produce

(i) Dressed poultry and pork

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

(ii) Crops

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

2. Significant accounting policies continued

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

Revenue recognition

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

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

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

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

Borrowing costs

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

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

Government grants

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

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

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

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

Employee benefits

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

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

2. Significant accounting policies continued

Taxation

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

Current tax

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

Deferred tax

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

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

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

Leases

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

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

Cash and cash equivalents

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

Provisions

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

Share capital

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

2. Significant accounting policies continued

Treasury shares

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

Dividends

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

2. Significant accounting policies continued

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

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

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

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

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

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

3. New and revised International financial reporting standards

IFRS and IFRIC interpretations adopted in the current year

The Group has adopted all IFRS and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2016. The adoption did not have a material impact on the Group's consolidated financial statements.

IFRS and IFRIC interpretations in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IAS 7 – Disclosure Initiative	1 January 2017
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018

3. New and revised international financial reporting standards continued

IFRS 9 *"Financial Instruments"*

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

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management expects to complete the assessment and disclose the impact of adoption in the consolidated financial statements for the year ended 31 December 2017.

3. New and revised international financial reporting standards continued

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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

The five steps in the model are as follows:

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

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

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management expects to complete the assessment and disclose the impact of adoption in the consolidated financial statements for the year ended 31 December 2017.

IFRS 16 *Leases*

IFRS 16 Leases brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed. Management expects to complete the assessment and disclose the impact of adoption in the consolidated financial statements for the year ended 31 December 2017.

3. New and revised international financial reporting standards continued

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

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

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

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

A**mendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses***

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The impact of adoption of these amendments in the preparation of the consolidated financial statements in future periods is currently being assessed by management.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively. The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

(in thousands of Russian rubles, unless otherwise indicated)

4. Key sources of estimation uncertainty

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from those estimates. Additional information relating to contingencies and commitments is disclosed in Note 30.

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

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

Biological assets

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

Description	Fair value as at 31 December 2016	Valuation technique	Unobservable inputs	Value of unobservable inputs	Relationship of unobservable inputs to fair value
Broilers	2 243 036	Discounted cash flows	Average weight of one broiler – kg	2.2	The higher the weight, the higher the fair value
			Poultry meat price – rubles	97.3	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	71.3	The higher the costs, the lower the fair value
Breeders held for hatchery eggs production	1 512 225	Discounted cash flows	Number of hatchery eggs produced by one breeder	161	The higher the number, the higher the fair value
			Hatchery egg price – rubles	13.4	The higher the price, the higher the fair value
			Projected production costs of hatchery egg – rubles	7.1	The higher the costs, the lower the fair value
Sows	1 902 652	Discounted cash flows	Average number of piglets produced by one sow	26.8	The higher the number, the higher the fair value
			Market price of weaned piglet – rubles	1 631	The higher the price, the higher the fair value
			Discount rate	13.8%	The higher the discount rate, the lower the fair value
Market hogs	5 504 933	Discounted cash flows	Average weight of one market hog – kg	118.2	The higher the weight, the higher the fair value
			Pork meat price – rubles per kg	86.0	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	63.0	The higher the costs, the lower the fair value
Unharvested crops (except for year-end)	509 012	Discounted cash flows	Crops yield – ton/Ha	Not applicable for year-end	The higher the yield, the higher the fair value
			Selling price	Not applicable for year-end	The higher the price, the higher the fair value
			Projected production costs	Not applicable for year-end	The higher the costs, the lower the fair value

(in thousands of Russian rubles, unless otherwise indicated)

4. Key sources of estimation uncertainty continued

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

- Expected crops yield (except for year-end);
- Expected selling prices;
- Projected production costs and costs to sell;
- Discount rate.

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

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

	31 December 2016	
	10% increase	**10% decrease**
Expected selling prices	1 874 732	(1 794 247)
Projected production costs and costs to sell	(1 202 920)	1 123 164
Discount rate	(42 455)	43 243

Recognition of subsidies receivable

The Group recognizes government grants when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Historically, the Group recognized government grants related to reimbursement of interest expense ("interest subsidies") when management verified that the loan agreement qualify for subsidizing, because the historical experience showed that this is the point of time when the recoverability of the subsidy became probable.

Following stagnation of the economic growth rates and significant budget deficit in Russia in 2015 and 2016 the government slowed down subsidy payments in 2016 and in the fourth quarter 2016 announced a new policy on subsidy assignment to agricultural producers - starting from 1 January 2017 accredited banks will provide loans to agricultural producers at reduced rates not exceeding 5% per annum on RUR-denominated loans. The government will then provide a subsidy to the banks compensating the difference between market and factual rates.

Considering the negative change in the environment as well as increase in uncertainty regarding collectability of subsidies accrued under the previous policy, management reassessed the timing of the interest subsidy recognition and determined that only subsidies on qualifying loans that are confirmed by Ministry of agriculture shall be recognized. Typically, the Group considers that confirmation is received only when a portion of the subsidy relating to a qualifying loan is collected. The change in estimate resulted in decrease of subsidies receivable balance and increase in interest expense for the year ended 31 December 2016 for 1 285 474 (interest expense subsidies offset the related interest expense).

The remaining balance of subsidies receivable at 31 December 2016 consists of only subsidies on qualifying loans that are confirmed by Ministry of agriculture, however, there is still uncertainty regarding recoverability of these receivables. Management believes that it is probable that the balance will be collected based on its interpretations of current legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Useful lives of property, plant and equipment

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

4. Key sources of estimation uncertainty continued

Impairment of trademarks

All trademarks owned by the Group have been determined to have an indefinite life because the patent securing the Group's title can be renewed an unlimited number of times and therefore are tested for impairment annually, or more frequently when there is an indication that they may be impaired. Determining whether a trademark is impaired requires an estimation of the recoverable value of the asset, being higher of fair value of value in use. Fair value, which is determined using a relief from royalty method based on expected sales by trademark. This approach requires the management to estimate the future sales by trademark, royalty rate and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Where the recoverable amount determined on a fair value basis indicates impairment, the Group must also compute a value in use in order to determine if the asset is impaired. The carrying amount of trademarks at 31 December 2016 was 1 215 509 (31 December 2015: 1 215 509). No impairment loss was recognised during 2016 and 2015. Details are set out in Note 14.

Impairment of property, plant and equipment

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

Allowance for impairment of receivables and advances to suppliers

Management maintains an allowance for impairment of receivables and advances to suppliers in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment patterns. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2016 and 2015 the allowance for impairment of receivables was recognized in the amount of 59 480 and 77 840, respectively (see Notes 20, 21) and the allowance of advances to suppliers was recognized in the amount of 81 608 and 113 686, respectively.

5. Operating segments

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

5. Operating segments continued

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

	Meat-processing	Pork	Poultry	Grain	Feed	Total operating segments	Corporate	Intersegment	Total consolidated
Total sales	31 667 448	15 920 146	47 724 031	3 055 762	28 727 843	127 095 230	126 251	(44 804 288)	82 417 193
including other sales	526 538	171 106	1 331 875	47 426	-	2 076 945	126 251	(783 561)	1 419 635
including sales volume discounts	(4 545 908)	-	(1 340 206)	-	-	(5 886 114)	-	-	(5 886 114)
Intersegment sales	(22 795)	(12 634 006)	(1 961 921)	(1 956 712)	(28 146 309)	(44 721 743)	(82 545)	44 804 288	-
Sales to external customers	31 644 653	3 286 140	45 762 110	1 099 050	581 534	82 373 487	43 706	-	82 417 193
Net change in fair value of biological assets and agricultural produce	-	861 422	(288 114)	(477 482)	-	95 826	-	(435 889)	(340 063)
Cost of sales	(26 141 947)	(12 182 666)	(40 049 212)	(2 873 596)	(28 109 353)	(109 356 774)	(78 511)	45 212 941	(64 222 344)
Gross profit / (loss)	**5 525 501**	**4 598 902**	**7 386 705**	**(295 316)**	**618 490**	**17 834 282**	**47 740**	**(27 236)**	**17 854 786**
Operating expense*	(3 743 466)	(782 107)	(5 035 890)	(267 828)	(404 658)	(10 233 949)	(2 645 471)	81 107	(12 798 313)
Operating income / (expense)	**1 782 035**	**3 816 795**	**2 350 815**	**(563 144)**	**213 832**	**7 600 333**	**(2 597 731)**	**53 871**	**5 056 473**
Other income (expense), net**	207 378	(289 198)	(114 744)	4 885	319 704	128 025	820 560	(306 364)	642 221
Interest expense, net	(245 885)	(964 742)	(1 076 908)	(94 361)	(930 799)	(3 312 695)	(731 984)	306 364	(3 738 315)
Profit / (loss) before income tax	**1 743 528**	**2 562 855**	**1 159 163**	**(652 620)**	**(397 263)**	**4 415 663**	**(2 509 155)**	**53 871**	**1 960 379**
Adjustments for:									
Interest expense, net	245 885	964 742	1 076 908	94 361	930 799	3 312 695	731 984	(306 364)	3 738 315
Interest income	(9 561)	(33 764)	(173 895)	(1 710)	(10 723)	(229 653)	(420 448)	306 364	(343 737)
Foreign exchange loss (gain)	(192 501)	(22 285)	304 147	(3 026)	(307 559)	(221 224)	(399 863)	-	(621 087)
Depreciation and amortisation expense	639 237	1 010 334	1 969 279	295 430	590 646	4 504 926	155 439	-	4 660 365
Net change in fair value of biological assets and agricultural produce	-	(861 422)	288 114	477 482	-	(95 826)	-	435 889	340 063
Write-off of receivables from insurance company	-	347 975	-	-	-	347 975	-	-	347 975
Share of loss of a joint venture	-	-	-	-	-	-	200 191	-	200 191
Adjusted EBITDA	**2 426 588**	**3 968 435**	**4 623 716**	**209 917**	**805 900**	**12 034 556**	**(2 241 852)**	**489 760**	**10 282 464**
Supplemental information:									
Expenditure for segment property, plant and equipment	1 456 365	3 751 235	2 938 689	1 204 436	191 254	9 541 979	328 777	-	9 870 756
Income tax expense (benefit)	79 442	71 961	(67 967)	8 978	50 983	143 397	(70 536)	-	72 861

* Operating expenses include selling, general and administrative expense, other operating income, net and share of loss of a joint venture.
** Other income (expense), net presents interest income and other income/expense as a combined line item.

(in thousands of Russian rubles, unless otherwise indicated)

5. Operating segments continued

Segment information for the year ended at 31 December 2015 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total operating segments	Corporate	Intersegment	Total consolidated
Total sales	29 150 254	16 579 185	44 590 211	2 580 713	27 855 810	120 756 173	27 205	(43 750 756)	77 032 622
including other sales	416 945	172 835	1 511 443	57 512	-	2 158 734	27 205	(647 109)	1 538 831
including sales volume discounts	(3 954 954)	-	(1 388 201)	-	-	(5 343 155)	-	-	(5 343 155)
Intersegment sales	(32 016)	(11 502 192)	(2 640 958)	(2 117 129)	(27 458 461)	(43 750 756)	-	43 750 756	-
Sales to external customers	29 118 238	5 076 993	41 949 253	463 584	397 349	77 005 417	27 205	-	77 032 622
Net change in fair value of biological assets and agricultural produce	-	(1 387 143)	(283 880)	326 376	-	(1 344 647)		180 920	(1 163 727)
Cost of sales	(24 835 957)	(10 529 115)	(35 901 044)	(1 827 087)	(27 033 691)	(100 126 894)	(13 484)	43 420 162	(56 720 216)
Gross profit / (loss)	**4 314 297**	**4 662 927**	**8 405 287**	**1 080 002**	**822 119**	**19 284 632**	**13 721**	**(149 674)**	**19 148 679**
Operating expense*	(3 060 987)	(662 041)	(5 061 999)	(242 294)	(590 873)	(9 618 194)	(2 089 879)	93 420	(11 614 653)
Operating income / (expense)	**1 253 310**	**4 000 886**	**3 343 288**	**837 708**	**231 246**	**9 666 438**	**(2 076 158)**	**(56 254)**	**7 534 026**
Other income (expense), net**	(163 317)	(73 852)	794 746	15 555	(96 885)	476 247	(314 189)	(459 569)	(297 511)
Interest expense, net	(202 541)	(356 155)	(628 523)	(14 277)	(192 010)	(1 393 506)	(430 748)	459 488	(1 364 766)
Profit / (loss) before income tax	**887 452**	**3 570 879**	**3 509 511**	**838 986**	**(57 649)**	**8 749 179**	**(2 821 095)**	**(56 335)**	**5 871 749**
Adjustments for:									
Interest expense, net	202 541	356 155	628 523	14 277	192 010	1 393 506	430 748	(459 488)	1 364 766
Interest income	(10 405)	(11 102)	(175 026)	(330)	(25 059)	(221 922)	(523 438)	459 598	(285 762)
Foreign exchange loss (gain)	205 719	71 822	(614 651)	17 144	129 179	(190 787)	837 589	-	646 802
Depreciation and amortisation expense	467 157	869 643	1 862 574	167 236	399 855	3 766 465	60 060	-	3 826 525
Net change in fair value of biological assets and agricultural produce	-	1 387 143	283 880	(326 376)	-	1 344 647	-	(180 920)	1 163 727
Loss on disposal of subsidiaries	-	42 569	-	-	-	42 569	-	-	42 569
Adjusted EBITDA	**1 752 464**	**6 287 109**	**5 494 811**	**710 937**	**638 336**	**14 883 657**	**(2 016 136)**	**(237 145)**	**12 630 376**
Supplemental information:									
Expenditure for segment property, plant and equipment	1 339 934	1 932 674	4 390 494	812 359	2 034 685	10 510 146	459 969	-	10 970 115
Income tax expense (benefit)	(110 423)	6 698	(8 040)	5 962	4 421	(101 382)	(47 678)	-	(149 060)

* Operating expenses include selling, general and administrative expense, other operating income, net and share of loss of a joint venture.
** Other income (expense), net presents interest income and other income/expense as a combined line item.

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

No single customer contributed 10% or more to the Group’s revenue for both 2016 and 2015.

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

(in thousands of Russian rubles, unless otherwise indicated)

6. Cost of sales

Cost of sales for the years ended 31 December 2016 and 2015 comprised:

	2016	2015
Raw materials and goods for resale	44 264 751	39 911 889
Personnel (excluding pension costs)	7 996 612	6 962 848
Depreciation	4 213 810	3 454 254
Utilities	3 480 318	3 174 341
Pension costs	1 477 768	1 286 236
Other	2 789 085	1 930 648
Total cost of sales	**64 222 344**	**56 720 216**

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 67 787 and 33 902 for the years ended 31 December 2016 and 2015, respectively. These subsidies were received based on square of cultivated land and volumes of meat and eggs produced.

7. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2016 and 2015 comprised:

	2016	2015
Personnel (excluding pension costs)	4 541 506	4 216 641
Transportation	1 656 604	1 442 255
Taxes (other than income tax)	752 460	687 737
Pension costs	698 965	675 212
Advertising and marketing	676 903	657 163
Materials and supplies	666 390	902 606
Rent expenses	458 576	673 789
Depreciation and amortization	446 535	372 271
Security services	431 931	427 248
Audit, consulting and legal fees	322 062	191 010
Information technology and communication services	300 026	231 153
Utilities	237 292	222 247
Change in bad debt allowance and other write-off	231 981	32 063
Veterinary services	147 531	126 251
Insurance	130 138	103 208
Repairs and maintenance	72 467	106 012
Bank charges	25 676	30 212
Other	1 211 670	850 064
Total selling, general and administrative expenses	**13 008 713**	**11 947 142**

8. Interest expense, net

Interest expense, net for the years ended 31 December 2016 and 2015 comprised:

	2016	2015
Interest on bank overdrafts and loans	4 920 223	3 976 055
Interest on obligations under finance leases	54 349	49 231
Less: amounts included in the cost of qualifying assets	(492 099)	(92 545)
Total interest expense	**4 482 473**	**3 932 741**
Government grants for compensation of interest expenses	(1 070 023)	(2 616 550)
Less: amounts included in the cost of qualifying assets	325 865	48 575
Total government grants for compensation of interest expenses	**(744 158)**	**(2 567 975)**
Total interest expense, net	**3 738 315**	**1 364 766**

(in thousands of Russian rubles, unless otherwise indicated)

9. Other expenses, net

Other expenses, net for the years ended 31 December 2016 and 2015 comprised:

	2016	2015
Foreign exchange gain (loss)	621 087	(646 802)
Other income, net	25 372	63 529
Write-off of receivables from insurance company	(347 975)	-
Total other expense, net	**298 484**	**(583 273)**

10. Income tax

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

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

The main components of income tax for the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Current tax expense	(205 983)	(93 882)
Deferred tax benefit	133 122	242 942
Total income tax (expense) benefit	**(72 861)**	**149 060**

The income tax benefit (expense) can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2016 and 2015 as follows:

	2016	2015
Profit before income tax	1 960 379	5 871 749
Profit before income tax of entities taxed at zero rates (agricultural entities and other tax regimes)	2 601 653	7 495 350
Loss before income tax of generally taxed entities	(641 274)	(1 623 601)
Statutory income tax rate (agricultural entities and other tax regimes)	0%	0%
Statutory income tax rate (general)	20%	20%
Theoretical income tax benefit at the statutory tax rates	(128 255)	(324 720)
Expenses not deductible for Russian statutory taxation purposes	122 313	103 359
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	47 953
Other	78 803	24 348
Income tax expense (benefit)	**72 861**	**(149 060)**

(in thousands of Russian rubles, unless otherwise indicated)

10. Income tax continued

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2016 and 2015:

	31 December 2016	31 December 2015
Deferred tax asset	479 624	331 300
Deferred tax liability	(420 299)	(405 097)
Net deferred tax asset (liability)	**59 325**	**(73 797)**

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

	31 December 2015	Recognised in profit or loss	31 December 2016
Property, plant and equipment and investment property	(563 093)	25 376	(537 717)
Trade receivables	(92 840)	(5 315)	(98 155)
Other assets and liabilities	144 585	(93 201)	51 384
Tax loss carry forward	437 551	206 262	643 813
Net deferred tax liability	**(73 797)**	**133 122**	**59 325**

The movement in the net deferred tax liability for the year ended 31 December 2015 comprised:

	1 January 2015	Recognised in profit or loss	31 December 2015
Property, plant and equipment and investment property	(610 486)	47 393	(563 093)
Trade receivables	(120 498)	27 658	(92 840)
Other assets and liabilities	172 978	(28 393)	144 585
Tax loss carry forward	241 267	196 284	437 551
Net deferred tax liability	**(316 739)**	**242 942**	**(73 797)**

Starting from 2017 the Group can offset only 50% of taxable profit of each subsidiary against tax loss carry forwards accumulated by the subsidiary and the Group’s tax loss carry forwards have no date of expiration (after amendments to the Russian Tax Code effective 1 January 2017).

(in thousands of Russian rubles, unless otherwise indicated)

11. Property, plant and equipment, net

The following table represents movements in property, plant and equipment for the years ended 31 December 2016 and 2015:

	Land	Buildings, infrastructure and leasehold improvements	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost							
Balance as at 1 January 2015	**2 563 605**	**36 971 546**	**19 356 462**	**3 547 983**	**146 047**	**7 590 035**	**70 175 678**
Additions	82 969	4 769 768	3 567 109	837 617	61 177	1 268 643	10 587 283
Disposals	(29 344)	(59 216)	(268 031)	(151 602)	(1 931)	(17 596)	(527 720)
Disposal of subsidiary	(188)	(96 188)	(22 159)	(11 473)	(81)	(39 210)	(169 299)
As at 31 December 2015	**2 617 042**	**41 585 910**	**22 633 381**	**4 222 525**	**205 212**	**8 801 872**	**80 065 942**
Additions	143 306	3 440 362	3 487 031	781 968	52 341	441 998	8 347 006
Disposals	(12 201)	(106 341)	(382 483)	(114 006)	(13 152)	(19 091)	(647 274)
As at 31 December 2016	**2 748 147**	**44 919 931**	**25 737 929**	**4 890 487**	**244 401**	**9 224 779**	**87 765 674**
Accumulated depreciation or impairment loss							
Balance as at 1 January 2015	-	**(6 552 580)**	**(8 258 922)**	**(1 520 374)**	**(85 448)**	**-**	**(16 417 324)**
Depreciation charge	-	(1 321 935)	(1 872 860)	(429 257)	(25 554)	-	(3 649 606)
Eliminated on disposals	-	8 027	201 937	147 349	1 931	-	359 244
Eliminated on disposal of subsidiary	-	62 408	10 305	4 987	73	-	77 773
As at 31 December 2015	-	**(7 804 080)**	**(9 919 540)**	**(1 797 295)**	**(108 998)**	**-**	**(19 629 913)**
Depreciation charge	-	(1 478 315)	(2 179 253)	(558 541)	(41 858)	-	(4 257 967)
Eliminated on disposals	-	88 707	367 507	104 142	7 106	-	567 462
As at 31 December 2016	-	**(9 193 688)**	**(11 731 286)**	**(2 251 694)**	**(143 750)**	**-**	**(23 320 418)**
Carrying amounts							
At 31 December 2015	**2 617 042**	**33 781 830**	**12 713 841**	**2 425 230**	**96 214**	**8 801 872**	**60 436 029**
At 31 December 2016	**2 748 147**	**35 726 243**	**14 006 643**	**2 638 793**	**100 651**	**9 224 779**	**64 445 256**

Net book values of buildings, infrastructure and leasehold improvements include 89 585 and 122 484 of leased buildings and infrastructure as of 31 December 2016 and 2015, respectively. Net book values of vehicles and machinery and equipment include 437 571 and 349 636 of leased equipment as of 31 December 2016 and 2015, respectively.

Advances paid for acquisition and construction of property, plant and equipment are included in construction in progress in the amount of 1 878 755 and 2 611 365 as at 31 December 2016 and 2015, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

12. Investment property

The Group's investment property consists of commercial units located in Vostochnoe Biryulevo region of Moscow and land plots. The changes in the carrying amount of investment property for the years ended 31 December 2016 and 2015 were as follows:

	Land	Buildings	Total
Cost			
Balance as at 1 January 2015	489 679	183 814	673 493
Reconstruction and modernisation	-	28 232	28 232
Transfer into other non-current assets	(100 801)	-	(100 801)
Sale of land plots	(113 929)	-	(113 929)
As at 31 December 2015	**274 949**	**212 046**	**486 995**
Reconstruction and modernisation	-	17 487	17 487
As at 31 December 2016	**274 949**	**229 533**	**504 482**
Accumulated depreciation or impairment loss			
Balance as at 1 January 2015	-	(48 565)	(48 565)
Depreciation charge	-	(5 659)	(5 659)
As at 31 December 2015	**-**	**(54 224)**	**(54 224)**
Depreciation charge	-	(6 582)	(6 582)
As at 31 December 2016	**-**	**(60 806)**	**(60 806)**
Carrying amounts			
At 31 December 2015	**274 949**	**157 822**	**432 771**
At 31 December 2016	**274 949**	**168 727**	**443 676**

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

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

	2016	2015
Rental income from investment property	171 648	188 009
Direct operating expenses arising from investment property that generated rental income during the year	(134 733)	(90 018)
Operating profit from investment property	**36 915**	**97 991**

13. Goodwill

There have been no changes in the carrying amount of goodwill for the years ended 31 December 2016 and 2015.

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

- Meat-processing – 250 247 thousand rubles;
- Poultry – 306 944 thousand rubles.

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

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

(in thousands of Russian rubles, unless otherwise indicated)

14. Intangible assets

The following table represents movements of intangible assets for the years ended 31 December 2016 and 2015:

	Computer software	Indefinite life trademarks	Other intangible assets	Total
Cost				
Balance at 1 January 2015	**384 302**	**1 215 509**	**30 847**	**1 630 658**
Additions	230 845	-	42 498	273 343
Balance at 31 December 2015	**615 147**	**1 215 509**	**73 345**	**1 904 001**
Additions	469 996	-	85 637	555 633
Balance at 31 December 2016	**1 085 143**	**1 215 509**	**158 982**	**2 459 634**
Accumulated amortisation and impairment loss				
Balance at 1 January 2015	**(101 429)**	**-**	**(16 491)**	**(117 920)**
Amortisation expense	(147 371)	-	(34 807)	(182 178)
Balance at 31 December 2015	**(248 800)**	**-**	**(51 298)**	**(300 098)**
Amortisation expense	(169 588)	-	(40 285)	(209 873)
Balance at 31 December 2016	**(418 388)**	**-**	**(91 583)**	**(509 971)**
Carrying amounts				
At 31 December 2015	**366 347**	**1 215 509**	**22 047**	**1 603 903**
At 31 December 2016	**666 755**	**1 215 509**	**67 399**	**1 949 663**

Computer software

Software is amortised over its useful life ranging from 2 to 10 years.

Indefinite life trademarks

Kurinoe Tsarstvo (“Куриное Царство”) trademark

The carrying value of the Kurinoe Tsarstvo trademark was 744 935 as of 31 December 2016 and 2015.

As of 31 December 2016 and 2015, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark was not impaired. The fair value was determined using a relief from royalty method based on expected sales by trademark derived from the segment business plan approved by the management covering a five-year period. The cash flows beyond that period have been extrapolated using a steady 3.6% per annum growth rate, which is the projected long-term average general inflation in Russia.

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

In percent	31 December 2016	31 December 2015
Discount rate	18.8%	18%
Terminal value growth rate	3.6%	5%
Royalty rate	3.3%	3.3%
Trademark revenue growth rate (average of next five years)	4.7%	8%

The Group expected and achieved a major increase in sales under that trademark in 2015 driven by massive advertising campaign in Central part of Russia and increase in production capacity after Lisko acquisition.

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

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

Cherkizovo (“Черкизово”) trademark

The carrying value of the Cherkizovo trademark was 435 737 as of 31 December 2016 and 2015.

As of 31 December 2016 and 2015, management tested the Cherkizovo trademark for impairment and determined that the trademark was not impaired. The fair value was determined using a relief from royalty method based on current year actual sales by trademark and royalty rate of 3.3%. Potential royalty from one-year sales covers the carrying value of the trademark and therefore the Group did not make a detailed calculation for the whole life of the trademark.

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

(in thousands of Russian rubles, unless otherwise indicated)

15. Biological assets

Non-current biological asset

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

	31 December 2016		31 December 2015	
	Units	**Carrying amount**	**Units**	**Carrying amount**
Sows, heads	90 959	1 902 652	76 640	1 597 495
Cattle, heads	434	24 062	423	20 338
Total bearer non-current biological assets	**91 393**	**1 926 714**	**77 063**	**1 617 833**

The following table represents movements in sows:

	Amount
Balance at 1 January 2015	**1 749 344**
Increase due to purchases and breeding costs of growing livestock	432 481
Decrease due to sale	(537 051)
Loss arising from changes in fair value less estimated point-of-sales costs	(47 279)
Balance at 31 December 2015	**1 597 495**
Increase due to purchases and breeding costs of growing livestock	1 110 778
Decrease due to sale	(755 422)
Loss arising from changes in fair value less estimated point-of-sales costs	(50 199)
Balance at 31 December 2016	**1 902 652**

Current biological asset and related work-in progress

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

	31 December 2016		31 December 2015	
	Units	**Carrying amount**	**Units**	**Carrying amount**
Pork				
Market hogs, heads	870 402	5 504 933	799 184	4 232 255
	870 402	5 504 933	799 184	4 232 255
Poultry				
Broilers, heads	28 828 752	2 243 036	29 890 640	1 728 769
Breeders, heads (bearer biological assets)	2 440 969	1 512 225	2 402 262	2 602 867
	31 269 721	3 755 261	32 292 902	4 331 636
Hatchery eggs, quantity	20 972 292	224 085	21 195 577	287 676
Other	414	31 586	435	30 028
Unharvested crops, hectares	25 682	509 012	26 482	406 427
Work-in progress related to cultivation of crops		687 604		541 653
Total current biological assets and related work-in progress		**10 712 481**		**9 829 675**

15. Biological assets continued

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

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Balance at 1 January 2015	**4 870 838**	**1 860 688**	**1 892 419**	**444 534**	**9 068 479**
Increase due to purchases and gain arising from cost inputs	11 154 812	33 041 422	1 083 897	2 293 804	47 573 935
Transfer to consumable biological assets	-	810 452	(810 452)	-	-
Decrease due to sale or harvest of assets	(16 406 350)	(38 968 269)	-	(2 523 201)	(57 897 820)
Disposal of pigs due to African Swine Fever	(271 610)	-	-	-	(271 610)
Gain arising from changes in fair value less estimated point-of-sales costs	4 884 565	4 984 476	437 003	732 943	11 038 987
Balance at 31 December 2015	**4 232 255**	**1 728 769**	**2 602 867**	**948 080**	**9 511 971**
Increase due to purchases and gain arising from cost inputs	12 403 964	38 125 785	1 053 872	3 737 790	55 321 411
Transfer to consumable biological assets	-	948 803	(948 803)	-	-
Decrease due to sale or harvest of assets	(15 749 040)	(43 279 009)	-	(3 250 078)	(62 278 127)
Disposal of pigs due to African Swine Fever	(6 281)	-	-	-	(6 281)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	4 624 035	4 718 688	(1 195 711)	(239 176)	7 907 836
Balance at 31 December 2016	**5 504 933**	**2 243 036**	**1 512 225**	**1 196 616**	**10 456 810**

Reconciliation of net change in fair value of biological assets and agricultural produce for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Fair value adjustment at the beginning of the year (biological assets transferred to inventory and subsequently sold)	(3 303 761)	(4 974 784)
Fair value adjustment at the beginning of the year (agricultural produce subsequently sold)	(681 645)	(174 349)
Fair value adjustment at the end of the year (biological assets)	3 877 070	3 303 761
Fair value adjustment at the end of the year (agricultural produce)	(231 727)	681 645
Net change in fair value of biological assets and agricultural produce	**(340 063)**	**(1 163 727)**

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

	2016	2015
Corn	183	111
Winter wheat	136	106
Spring wheat	37	42
Pea	26	17
Soya bean	24	17

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

	2016	2015
Pork meat	185	169
Poultry meat	500	470

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

(in thousands of Russian rubles, unless otherwise indicated)

16. Investments in joint venture

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

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

	31 December 2016	31 December 2015
Cash and cash equivalents	14 952	195 016
Other current assets	1 167 530	697 494
Non-current assets	8 426 574	6 192 398
Trade and other payables	(244 500)	(4 700)
Short-term borrowings	(1 033 401)	-
Other current liabilities	(176 295)	(9 702)
Long-term borrowings	(7 844 353)	(6 359 617)
Other non-current liabilities	(118 963)	(118 963)
Net assets of the joint venture	**191 544**	**591 926**
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's equity interest in the joint venture	**95 772**	**295 963**
Notes receivable classified as net investment in the joint venture*	1 965 700	1 005 700
Carrying amount of the Group's interest in the joint venture	**2 061 472**	**1 301 663**

*the Notes are considered to represent an 'in substance' equity interest in the joint venture. The Group, together with the second venturer, expect to legally convert the Notes to an equity investment in the joint venture in 2017.

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

The above loss for the year includes the following:

	2016
Depreciation and amortisation	60 270
Interest income	(21 707)
Interest expense	3 098
Income tax	(2 838)

17. Long-term deposits in banks

	CCY	Effective rate, %	Maturity	31 December 2016	31 December 2015
Deposits in Gazprombank	RUR	8%	2019	641 365	641 365
Total long-term deposits in banks				**641 365**	**641 365**

18. Inventories

	31 December 2016	31 December 2015
Raw materials	7 784 431	9 655 054
Spare parts	693 730	742 454
Work in-process	333 379	311 393
Finished goods	1 790 578	1 549 654
Total inventory	**10 602 118**	**12 258 555**

(in thousands of Russian rubles, unless otherwise indicated)

19. Taxes recoverable and prepaid

	31 December 2016	31 December 2015
Value added tax	1 694 821	2 570 134
Other taxes	209 965	265 853
Total tax recoverable and prepaid, net	**1 904 786**	**2 835 987**

20. Trade receivables, net

	31 December 2016	31 December 2015
Trade receivables	4 988 952	4 492 507
Less: allowance for doubtful trade receivables	(46 068)	(47 516)
Total trade receivables, net	**4 942 884**	**4 444 991**

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2016 and 2015:

	2016	2015
Balance at beginning of the year	**47 516**	**99 071**
Additional allowance, recognized during the year	29 876	20 239
Trade receivables written off during the year	(31 324)	(71 794)
Balance at end of the year	**46 068**	**47 516**

21. Other receivables, net

	31 December 2016	31 December 2015
Subsidies receivable for interest expense reimbursement	1 100 598	1 417 074
Subsidies receivable for purchase of fodder	4 374	4 916
Other receivables	301 913	390 353
Less: allowance for doubtful other receivables	(13 412)	(30 324)
Total other receivables, net	**1 393 473**	**1 782 019**

The following table summarizes the changes in the allowance for doubtful other receivables for the years ended 31 December 2016 and 2015:

	2016	2015
Balance at beginning of the year	**30 324**	**8 270**
Additional allowance, recognized during the year	25 484	23 163
Other receivables written off during the year	(42 396)	(1 109)
Balance at end of the year	**13 412**	**30 324**

22. Cash and cash equivalents

	31 December 2016	31 December 2015
RUR-denominated cash at banks	227 208	468 173
EURO-denominated cash at banks	3 411	74
USD-denominated cash at banks	65 759	84 997
Bank deposits	700 951	5 002 812
Cash in hand	4 874	4 768
Total	**1 002 203**	**5 560 824**

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

(in thousands of Russian rubles, unless otherwise indicated)

23. Other current assets

	31 December 2016	31 December 2015
Prepaid expenses	151 388	182 551
Prepaid interest expense	372 470	-
Receivables from insurance company	-	319 987
Loans receivable	10 892	105 919
Other assets	88	4 109
Total other current assets	**534 838**	**612 566**

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

24. Shareholder's equity

Share capital

As of 31 December 2016 and 2015, issued shares of the Company had a par value of 0.01 rubles. The total number of authorized shares was 54 702 600 and the number of issued shares was 43 963 773. All issued and outstanding shares have equal voting rights. The Company is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

Dividends

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. On April 2016 dividends of approximately 22.77 Russian rubles per share (998 771 in total) were approved at the extraordinary shareholders' meeting and have been fully paid during the year ended 31 December 2016. On 6 April 2015 and 29 September 2015 dividends of approximately 54.60 and 22.75 rubles per share, respectively (3 392 766 in total) were approved at the extraordinary shareholders' meeting and have been fully paid during the year ended 31 December 2015.

(in thousands of Russian rubles, unless otherwise indicated)

25. Non-controlling interests

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

As at 31 December 2016 and for 2016	**CJSC Petelinskaya**	**CJSC CMPP**	**Total**
NCI percentage	**11.8%**	**4.9%**	
Non-current assets	1 999 701	5 498 317	7 498 018
Current assets	3 129 030	5 037 466	8 166 496
Non-current liabilities	(126 014)	(1 466 801)	(1 592 815)
Current liabilities	(1 014 595)	(8 954 936)	(9 969 531)
Net assets	3 988 122	114 046	4 102 168
Carrying amount of NCI	**470 598**	**5 633**	**476 231**
Revenue	5 750 462	31 861 303	37 611 765
Profit	(884 547)	(1 706 366)	(2 409 081)
Total comprehensive income	(884 547)	(1 706 366)	(2 409 081)
Profit allocated to NCI	**(104 377)**	**(84 274)**	**(179 671)**
Cash flows from operating activities	588 622	539 779	1 128 401
Cash flows from investment activities	(181 676)	(698 639)	(880 315)
Cash flows from financing activities (dividends to NCI: nil)	(391 648)	48 558	(343 090)
Net increase in cash and cash equivalents	**15 298**	**(110 302)**	**(95 004)**

As at 31 December 2015 and for 2015	**CJSC Petelinskaya**	**CJSC CMPP**	**Total**
NCI percentage	**11.8%**	**4.9%**	
Non-current assets	1 914 873	5 614 060	7 528 933
Current assets	5 269 449	5 128 212	10 397 661
Non-current liabilities	(144 241)	(196 629)	(340 870)
Current liabilities	(2 098 165)	(8 610 891)	(10 709 056)
Net assets	4 941 916	1 934 752	6 876 668
Carrying amount of NCI	**583 146**	**95 554**	**678 700**
Revenue	5 323 190	29 643 821	34 967 011
Profit	321 251	(777 751)	(456 500)
Total comprehensive income	321 251	(777 751)	(456 500)
Profit allocated to NCI	**37 908**	**(38 412)**	**(504)**
Cash flows from operating activities	(681 980)	75 628	(606 352)
Cash flows from investment activities	(358 562)	(424 768)	(783 330)
Cash flows from financing activities (dividends to NCI: nil)	1 041 352	469 749	1 511 101
Net increase in cash and cash equivalents	**810**	**120 609**	**121 419**

(in thousands of Russian rubles, unless otherwise indicated)

26. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 29. Terms and conditions of outstanding loans were as follows:

	Nominal		Adjusted	Year	31 December 2016		31 December 2015	
	interest rate	EIR[1]	EIR [2]	of maturity	Current	Non-current	Current	Non-current
Bonds	12.50%	12.50%	12.50%	2020	-	5 000 000	2 500 000	5 000 000
Bank loans	1.20%-15.00%	10.81%	7.21%	2017-2024	13 079 826	19 099 708	21 845 147	10 830 813
Factoring	10.81%-11.56%	10.81%	10.81%	2017	628 933	-	303 310	-
Other borrowings	-	-	-	2023	-	10 947	-	10 947
Interest payable					298 588	-	363 084	-
Finance lease liabilities	8.57%-16.62%	14.16%	14.16%	2017-2024	115 650	359 049	81 476	276 987
Total borrowings					**14 122 997**	**24 469 704**	**25 093 017**	**16 118 747**

As of 31 December 2016, the Group's borrowings are denominated in the following currencies: 37 867 221 in Russian roubles and 725 480 in Euro. As of 31 December 2015, the Group's borrowings were denominated in the following currencies: 40 874 513 in Russian roubles and 337 251 in Euro.

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

Bonds

Bonds due in October 2020

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

Bank loans

Sberbank of Russia

Borrowings from the Sberbank of Russia consist of one long-term euro denominated bank loan with an interest set at 2.50% per annum, fourteen long-term and eleven short-term rouble denominated lines of credit with interest ranging from 9.50% to 13.10%per annum. Principal payments are due from 2017 to 2024. The amount outstanding was 10 678 385 and 15 950 933 as of 31 December 2016 and 31 December 2015, respectively.

Gazprombank

Borrowings from Gazprombank consist of two long-term euro denominated loans with interest ranging from 1.20% to 3.40% per annum, eight long-term and twenty six short-term rouble denominated loans with interest ranging from 9.50% to 12.60%per annum. Principal payments are due from 2017 to 2022. The amount outstanding of loans was 12 624 909 and 9 190 801 as of 31 December 2016 and 31 December 2015, respectively.

Rosselkhozbank

Borrowings from Rosselkhozbank consist of twenty four rouble and one euro denominated long-term lines of credit with fixed interest rates ranging from 10.00% to 15.00% per annum. Principal payments are due from 2017 to 2023. The amount outstanding was 2 274 894 and 3 218 894 as of 31 December 2016 and 31 December 2015, respectively.

Bank VTB

Borrowings from Bank VTB consist of one long-term euro denominated loan with an interest set at 2.01% per annum, four long-term and three short-term rouble denominated lines of credit with interest ranging from 10.00% to 12.25% per annum. Principal payments are due from 2017 to 2018. Amount outstanding was 1 798 954 and 2 644 099 as of 31 December 2016 and 31 December 2015, respectively.

Alfa bank

Borrowings from Alfa Bank consist of two long-term euro denominated loan with an interest rate of 4.10% per annum, thirteen long-term rouble denominated loans and one short-term rouble denominated loan with an interest ranging from 8.76% to 10.80% per annum. Principal of the long-term loan is due on maturity from 2017 to 2019. The amount outstanding was 4 803 644 and 1 627 648 as of 31 December 2016 and 31 December 2015, respectively.

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

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

(in thousands of Russian rubles, unless otherwise indicated)

26. **Borrowings** continued

Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2016 is 33 627 605. The unused credit can be utilized from 2017 to 2020 with expiration of available amounts varying as follows: 10 183 972 expires by 30 April 2017, 15 830 262 expires by 31 December 2018, 3 202 000 expires by 30 April 2019, 4 411 371 expires by September 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 2016:

	31 December 2016	31 December 2015
JSC Vasiljevskaya	51%	51%
LLC Cherkizovo Pork	25%	25%
LLC Kuznetsovsky kombinat	100%	100%
LLC Kurinoe Tsarstvo – Bryansk	99%	99%
JSC Kurinoe tsarstvo	100%	100%
LLC Lisko Broiler	99%	99%

Non-current biological assets with a carrying value of 114 050 and 152 246 were pledged as security under certain borrowings as of 31 December 2016 and 2015, respectively.

Current biological assets with a carrying value of 380 765 and 485 251 were pledged as security under certain borrowings as of 31 December 2016 and 2015, respectively.

Property, plant and equipment with a carrying value of 12 770 216 and 16 563 987 was pledged as security under loan agreements as of 31 December 2016 and 2015, respectively.

Notes receivable, net with a carrying value of 510 000 and 300 000 were pledged as security under loan agreements as of 31 December 2016 and 2015, respectively.

Certain significant loan agreements with the Sberbank of Russia, Rosselkhozbank, Bank VTB, Gazprombank and Alfa-bank contain financial covenants requiring maintenance of specific debt to EBITDA, net short-term debt to EBITDA, EBIT to Interest expense and debt service coverage ratios. The Group is in compliance with these covenants as of 31 December 2016.

Finance leases liabilities

The Group uses certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalising the leases.
Financial lease liabilities are payables as follows:

	Not later than 1 year	Between 1 and 5 years	Later than 5 years
At 31 December 2015			
Future minimum lease payments	125 255	290 264	86 401
Portion related to interest	43 779	85 587	14 091
Present value of minimum lease payments	81 476	204 677	72 310
At 31 December 2016			
Future minimum lease payments	171 607	401 733	52 012
Portion related to interest	55 927	94 677	5 982
Present value of minimum lease payments	115 680	307 056	46 030

(in thousands of Russian rubles, unless otherwise indicated)

27. Tax related liabilities

	31 December 2016	31 December 2015
Value added tax	379 843	313 552
Payroll related taxes	258 464	213 792
Property tax	113 517	165 934
Personal income tax withheld	63 186	69 858
Land tax	10 484	12 392
Transportation tax	2 599	5 673
Other taxes	21 307	9 143
Total tax related liabilities	**849 400**	**790 344**

28. Financial instruments

Categories of financial instruments and fair value measurements

The carrying values and fair values of the Group’s financial assets and liabilities as of 31 December 2016 and 2015 are as follows:

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Loans and receivables				
Notes receivable, net	510 000	504 034	300 000	296 044
Long-term deposits in banks	641 657	631 034	641 365	601 369
Other non-current assets	111 663	111 663	96 379	96 379
Trade receivables	4 942 884	4 942 884	4 444 991	4 444 991
Other receivables	1 393 473	1 393 473	1 782 019	1 782 019
Other current assets	10 892	10 892	425 906	425 906
Cash and cash equivalents	1 002 203	1 002 203	5 560 824	5 560 824
	8 612 772	**8 596 183**	**13 251 484**	**13 207 532**
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings, other than finance lease*	38 118 002	36 304 998	40 853 301	39 545 901
Financial lease liabilities	474 699	436 848	358 463	336 368
Trade payables	8 608 271	8 608 271	8 461 657	8 461 657
Payables for non-current assets	1 061 629	1 061 629	1 445 128	1 445 128
Payroll related liabilities	1 394 940	1 394 940	1 372 176	1 372 176
Other payables and accruals	362 395	362 395	269 751	269 751
	50 019 936	**48 169 081**	**52 760 476**	**51 430 981**

* at 31 December 2016 the Group used 11.7% as market rate of cost of debt for the fair value estimation (for borrowings nominated in RUB). That rate of the cost of debt excludes the effect of subsidies (12.9% at 31 December 2015).

Financial risk management

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

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

(in thousands of Russian rubles, unless otherwise indicated)

28. Financial instruments continued

Capital risk management

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

Credit risk

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

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

	31 December 2016	31 December 2015
Long-term deposits in banks	641 365	641 365
Notes receivable, net	510 000	300 000
Other non-current assets	111 663	96 379
Trade receivables	4 942 884	4 444 991
Other receivables	1 393 473	1 782 019
Other current assets	10 892	425 906
Cash and cash equivalents (except for cash in hand)	997 329	5 556 056
Total maximum credit risk	**8 607 606**	**13 246 716**

Trade receivables

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

	31 December 2016	31 December 2015
Company 1	858 116	725 702
Company 2	774 955	742 947
Company 3	307 474	208 630
Company 4	302 699	262 253
Company 5	285 520	367 084
Other counterparties	2 414 120	2 138 375
Total	**4 942 884**	**4 444 991**

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

(in thousands of Russian rubles, unless otherwise indicated)

28. Financial instruments continued

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

	31 December 2016	31 December 2015
Neither past due nor impaired	4 165 808	4 082 044
Past due 1-90 days	729 529	321 957
Past due 91-180 days	31 725	18 677
Past due 180-365 days	15 822	7 086
Past due more than 365 days	-	15 227
Total	**4 942 884**	**4 444 991**

Other receivables

Other receivables disclosed above mainly consists of subsidies receivable from regional Ministries of agriculture. Timing of collection depends on availability of budget funds and on average is approximately 6 months. In 2016 management carefully reviewed the recoverability of the balance and reassessed timing of subsidy recognition, see Note 4. At 31 December 2016, the amount of subsidies receivable outstanding more than one year was 508 460 (at 31 December 2015: 199 034).

Cash and cash equivalents and long-term deposits

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

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

	Rating agency	Rating	31 December 2016	31 December 2015
Bank 1	Fitch Ratings	BB+	739 814	2 034 351
Bank 2	Moody's	BBB-	237 541	490 328
Bank 3	Standard & Poor's	BB+	1 362	3 003 177
Other banks	-	-	18 612	28 200
Total cash and cash equivalents at banks			**997 329**	**5 556 056**

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

	Rating agency	Rating	31 December 2016	31 December 2015
Gazprombank	Fitch Ratings	BB+	641 365	641 365
Total long-term bank deposits			**641 365**	**641 365**

(in thousands of Russian rubles, unless otherwise indicated)

28. Financial instruments continued

Liquidity risk

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

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

	Effective interest rate, %	Less than 6 month	6 months-1 year	1-3 years	More than 3 years	Total
At 31 December 2015						
Trade and other receivables		6 227 010	-	-	-	6 227 010
Long-term deposits in banks	8%	25 666	25 666	761 433	-	812 765
Notes receivable, net	9%-9.5%	14 005	14 005	328 010	-	356 020
Other non-current assets		-	-	-	96 379	96 379
Other current assets		425 906	-	-	-	425 906
Total		**6 692 587**	**39 671**	**1 089 443**	**96 379**	**7 918 080**
At 31 December 2016						
Trade and other receivables		6 336 357	-	-	-	6 336 357
Long-term deposits in banks	8%	25 666	25 666	710 100	-	761 432
Notes receivable, net	6.35%-9.5%	21 250	21 250	530 889	-	573 389
Other non-current assets		-	-	6 190	105 473	111 663
Other current assets		10 892	-	-	-	10 892
Total		**6 394 165**	**46 916**	**1 247 179**	**105 473**	**7 793 734**

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

	Effective interest rate, %	Less than 6 month	6 months-1 year	1-3 years	More than 3 years	Total
At 31 December 2015						
Borrowings, other than finance lease	3.39% – 15%	14 818 169	12 952 502	11 438 923	10 701 330	49 910 924
Finance lease obligations	10.91%– 15.3%	62 642	62 642	248 992	126 121	500 397
Trade and other payables		8 731 408	-	-	-	8 731 408
Payables for non-current assets		1 445 128	-	-	-	1 445 128
Payroll related liabilities		1 372 176	-	-	-	1 372 176
Total		**26 429 523**	**13 015 144**	**11 687 915**	**10 827 451**	**61 960 033**
At 31 December 2016						
Borrowings, other than finance lease	1.2% – 15%	7 933 038	9 137 930	25 008 128	5 818 571	47 897 667
Finance lease obligations	8.57%-16.62%	85 803	85 803	346 809	106 936	625 351
Trade and other payables		8 970 666	-	-	-	8 970 666
Payables for non-current assets		1 061 629	-	-	-	1 061 629
Payroll related liabilities		1 394 940	-	-	-	1 394 940
Total		**19 446 076**	**9 223 733**	**25 354 937**	**5 925 507**	**59 950 253**

Interest rate risk

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Related parties

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

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

Transactions with key management personnel

Key management personnel of the Group are all members of Board of Directors and members of Management Board. The remuneration of key management personnel during the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Salaries and bonuses	321 396	285 681
Share-based payments	-	2 612

Trading transactions with entities under common control

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”.

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.

Balances with companies under common control are summarized as follows:

Balances	31 December 2016	31 December 2015
Trade receivables	256 179	243 453
Other non-current assets	80 723	57 083
Advances paid	3 620	2 269
Advances paid for property, plant and equipment	18 843	-
Other current assets	-	2 927
Other receivables	1 762	19 014
Trade payables	5 443	18 093
Advances received	11	450
Other payables	1 349	53
Long-term payables to shareholders	-	9 138

Transactions with companies under common control are summarized as follows:

Transactions	2016	2015
Sales	2 555 161	2 593 693
Rent income	184 936	159 218
Purchases of security services	-	21 810
Purchases of property, plant and equipment	38 231	267 459
Purchases of goods and other services	949 904	1 173 837

(in thousands of Russian rubles, unless otherwise indicated)

29. Related parties continued

Trading transactions with joint ventures

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

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

Balances with joint ventures are summarized as follows:

Balances	31 December 2016	31 December 2015
Trade receivables	23 620	21
Advances paid	167 951	135 641
Other receivables	226	-
Other non-current assets	66 839	28 293
Other current assets	-	3 400
Trade payables	140 337	4 557
Advances received	30 211	63 722

Transactions with joint ventures are summarized as follows:

Transactions	2016	2015
Sales	337 875	5 539
Sales of property, plant and equipment	-	666 349
Rent income	16 471	1 030
Purchases of goods and other services	733 654	246 715

30. Commitments and contingencies

Legal

As of 31 December 2016 and 2015, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(in thousands of Russian rubles, unless otherwise indicated)

30. Commitments and contingencies continued

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 2016 and 2015.

Capital commitments

Capital commitments by each operating segments are as follows:

	31 December 2016
Commitments for the acquisition of property, plant and equipment	
Meat-processing	125 472
Pork	1 661 874
Poultry	381 740
Grain	170 316
Feed	107 649
Total capital commitments	**2 447 052**

At 31 December 2016, the Group had capital projects in progress at LLC Cherkizovo Pork, OJSC Kurinoe Tsarstvo and JSC Cherkizovo-Kashira.

Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending 31 December 2021 and thereafter are as follows:

	31 December 2016
Not later than 1 year	217 307
Later than 1 year and not later than 5 years	952 938
Later than 5 years	1 197 047
Total operating lease commitments	**2 367 292**

Agricultural market risk

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

Insurance

The Group holds insurance policies in relation to certain assets. As of 31 December 2016 the Group secured major part of its livestock and property, plant and equipment with a number of insurance companies. The Group holds no other insurance policies in relation to operations, or in respect of public liability or other insurable risks.