Annual Report 2016

STEPPING UP

CHERKIZOVO

SINCE 1974

Cherkizovo Group is...

Russia's largest vertically integrated meat and feed producer. The Group is among the top three producers and suppliers of raw and processed poultry and pork products and the leading feed manufacturer in Russia. During 2016, Cherkizovo Group further strengthened its leading market position across all of its key segments.

The Group's operations are structured into four operating divisions: Poultry, Pork, Meat Processing, and Grain. The Group also carries out associated sales and trading operations.

The Group's Poultry division consists of eight full cycle poultry production complexes with a combined capacity of 600,000 tonnes live weight per annum. The Pork operations consist of 15 modern, integrated pork production complexes.

The Group operates six meat processing plants with a combined annual capacity of 226,000 tonnes, where it produces fresh and ready-to-cook products. In addition, the Group owns: nine feed mills, with a combined annual capacity of over 2.5 million tonnes; grain storage facilities, with an overall storage capacity of more than 850,000 tonnes; and over 140,000 hectares of agricultural land. Cherkizovo Group employs 22,800 people.

Cherkizovo's strategy is aimed at ensuring stable organic growth and efficient expansion, underpinned by the continued development of its infrastructure through the implementation of a long-term investment programme. Cherkizovo Group's shares and GDRs are traded on the London Stock Exchange (LSE) and on the Moscow Exchange under the symbols LSE:CHE; MOEX:GCHE.

STEPPING UP
the Corporate Ladder

STEPPING UP
the Operating Ladder

STEPPING UP
the Transparency Ladder

82.4 RUB bln
CONSOLIDATED REVENUE

10.3 RUB bln
CONSOLIDATED EBITDA

903 th. tonnes
MEAT PRODUCTS SALES

POULTRY	PORK	MEAT PROCESSING	GRAIN
500.3	184.8	218.1	338.8
TH. TONNES	TH. TONNES	TH. TONNES	TH. TONNES
+57% from 2012	**+78% from 2012**	**+71% from 2012**	**+201% from 2012**

N°1 RUSSIAN
FEED PRODUCER

N°2 RUSSIAN
POULTRY PRODUCER

N°3 RUSSIAN
PORK PRODUCER

RUSSIA'S TOP MEAT PRODUCER
ACCORDING TO THE RANKING BY AGROINVESTOR

Sources: Poultry Union of Russia, Pork Union of Russia.

MOODY'S RATING B1
EXPERT RA RATING A++

For more information, please, visit our corporate website:
www.cherkizovo.com

Stepping Up

the Corporate Ladder

A comprehensive re-branding of the Group undertaken in 2016 reflects our enhanced positioning, vision and strategy.

New corporate colours:

Brand colours

Poultry

Turkey

Pork

Meat Processing

Grain

OUR YEAR IN REVIEW

In 2016, Cherkizovo Group strengthened its positions as Russia's top meat producer with sales surpassing 903,000 tonnes of meat products.

P. 06-07

WHERE WE OPERATE

Production facilities serve 80% of the population of Russia.

P. 10-11

KEY EVENTS

A year of milestones for Cherkizovo Group.

P. 12-13

MESSAGE FROM THE CHAIRMAN

"Despite challenging macroeconomic conditions, we not only delivered strong financial and operational results, but also significantly improved our governance structure to ensure that the Group is well positioned for the next phase of its development".

P. 14-15

MESSAGE FROM THE CEO

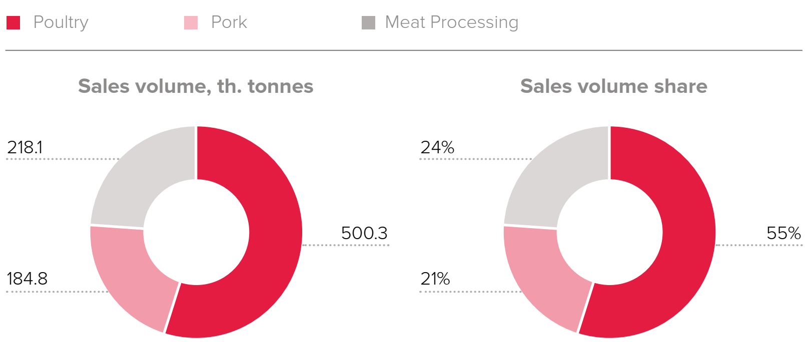
"Our focus is shifting from development to maintenance, streamlining, production of higher-margin value added products, further development of the downstream part of the business and investment in operational efficiency across all segments".

P. 16-19

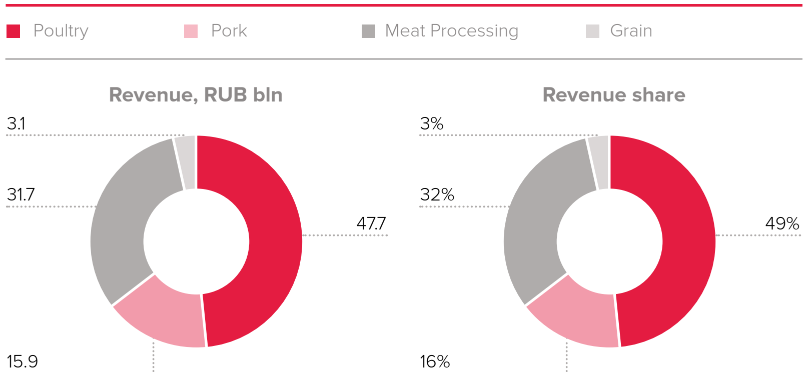
Our Year in Review

In 2016, Cherkizovo Group strengthened its position as Russia's top meat producer with sales surpassing 903,000 tonnes of meat products. The Group's sales volumes increased 9% year-on-year, with particularly strong volume growth in the Grain farming segment, which grew by 27% year-on-year to around 339,000 tonnes.

Sales volumes of meat products in 2016



Revenue in 2016



POULTRY

Cherkizovo Group is one of Russia's largest poultry meat producers and a leading manufacturer of brand name poultry products. In 2016, total sales volumes for the Poultry division increased by 6% year-on-year to 500,321 tonnes of sellable weight. This growth was driven by higher production levels achieved through improvements in efficiency and the launch of new poultry houses. Cherkizovo Group also launched production at the new Tambov Turkey facility and expanded the export of poultry products to international markets.

For more information see pages 34-35.

47.7 RUB bln
REVENUE

500.3 th. tonnes
SALES

PORK

In 2016, Cherkizovo Group maintained its position as one of the top three pork producers in Russia. Production volumes for the Pork division increased by 9% year-on-year in 2016 to 184,766 tonnes of live weight. This was primarily due to a new genetics enhancement programme launched at the beginning of the year to improve the health status of livestock and efficiency by increasing liveability and weekly farrows.

For more information see pages 38-39.

15.9 RUB bln
REVENUE

184.8 th. tonnes
PRODUCTION

MEAT PROCESSING

Cherkizovo Group is one of the top three meat processing producers in Russia. Cherkizovo manufactures a wide range of high-quality meat products. In 2016, sales volumes in the Meat Processing division grew by 14% year-on-year to 218,085 tonnes. This increase was primarily due to the launch of a new pig slaughter facility at the Dankov meat processing plant in the second half of 2015, which boosted both the volume and the product range.

For more information see pages 42-43.

31.7 RUB bln
REVENUE

218.1 th. tonnes
SALES

GRAIN

Cherkizovo Group cultivated 81,000 hectares in Russia's central regions in 2016 and achieved crop yields that are above the national average. Cherkizovo harvested 41% more grain in the Central Black Earth region compared to the previous year. The record results were achieved through investments in new technology, including the deployment of highly intensive technologies in soil treatment and using the top grade market and hybrid seeds. Sales volumes of the segment reached 338,808 tonnes in 2016, increasing by 27% compared to 2015.

For more information see pages 40-41.

3.1 RUB bln
REVENUE

338.8 th. tonnes
SALES

Key Figures

KEY OPERATIONAL FIGURES, TONNES			
Divisions	2016	2015	Year-on-year
Poultry	500,321	470,432	6%
Pork	184,766	169,563	9%
Meat Processing	218,085	191,200	14%
Grain	338,808	267,371	27%

KEY FINANCIAL FIGURES, RUB MLN			
	2016	2015	Year-on-year
Revenue	82,417.2	77,032.6	7%
Gross profit	17,854.8	19,148.7	(7%)
Operating expenses	(12,798.3)	(11,614.7)	10%
Adjusted EBITDA	10,282.5	12,630.4	(19%)
Adjusted EBITDA margin	12.5%	16.4%	
Operating profit / (loss)	5,056.5	7,534.0	(33%)
Income / (Loss) before tax	1,960.4	5,871.7	(67%)
Profit / (loss)	1,919.2	6,007.5	(68%)
Net operating cash flow	9,368.5	4,992.3	88%
Net debt	36,949.1	35,009.6	6%

Our Key Strengths

VERTICALLY INTEGRATED BUSINESS MODEL

A diversified, integrated business model ensures Cherkizovo Group's strong presence across all key segments of the meat production and processing chain. As a result, the Group is well positioned, in terms of its strategic sustainability and readiness, to withstand challenges in the marketplace.

For more information see page 27.

STABLE FINANCIAL POSITION

Steady cash flow and access to borrowing at low interest rates have enabled Cherkizovo Group to continue its investments in the development of production. The Group maintains a comfortable debt/EBITDA ratio of 3.75 as at the end of 2016.

For more information see pages 44-55.

STRONG BRANDS

Cherkizovo Group has built a broad portfolio of strong brands in the poultry and meat processing market segments and these have earned high levels of brand recognition and consumer loyalty. In 2016, the Group introduced new brands targeted at the international marketplace.

For more information see pages 10-11.

OUR TEAM

People represent our key advantage. Cherkizovo Group has built a strong professional team headed by experts trained both in Russia and internationally with distinguished track records in leading Russian and foreign companies.

For more information see pages 63-67.

DEVELOPMENT STRATEGY ENCOMPASSING ORGANIC GROWTH AND M&A

The Group's strategy encompasses organic growth through investment in new production facilities, as well as taking advantage of selective M&A opportunities that fit with the Group's business model and can increase its market share.

For more information see pages 26-33.

LEADER IN TECHNOLOGY AND INNOVATION

All of Cherkizovo Group's facilities are equipped with the latest production technologies and comply with the latest biosecurity standards. The Group is an established leader in innovation among Russian agro-industrial companies.

For more information see pages 29-33.

DISTRIBUTION AND LOGISTICS

Cherkizovo Group's 'production belt' is located in the most densely-populated area of the Russian Federation. The Group's own logistics complexes and refrigerator fleet of over 1,000 vehicles ensure our chilled products can be delivered promptly to our customers.

For more information see pages 10-11.

FAVOURABLE REGULATORY ENVIRONMENT

The agro-industrial sector and national food security are key focuses of Russia's domestic policy, with producers benefiting from favourable local regulations and tax environment. Cherkizovo Group, as a leading Russian meat producer, benefits from this favourable regulatory environment.

For more information see page 16.

Where We Operate

We have production facilities in Moscow and Moscow region, as well as Bryansk, Voronezh, Kursk, Lipetsk, Kaliningrad, Penza, Tambov, Orel, Tula, Vologda and Ulyanovsk regions and deliver our products to 80% of the population of Russia.

OUR BRANDS

Our marketing strategy is aimed at aligning our product offering with the needs of our customers across the markets where we operate. The high level of recognition and loyalty enjoyed by our brands reflect the popularity of our products nationwide, and increasingly abroad.

POULTRY

Petelinka

Petelinka is Russia's best known and most popular chilled poultry meat brand. The Petelinka brand range includes more than 40 products: whole chickens, cuts, by-products, minced meat, and marinated kebabs. The National Trade Association recognised Petelinka as Product of the Year.

Domashnaya Kurochka (Home Chicken)

The Petelinskaya Poultry Factory produces eco-products made of chilled poultry meat under the Domashnaya Kurochka (Home Chicken) brand. The product line includes whole chickens and cuts. The brand is sold in all major retail chains in Moscow and the Central Federal District.

Kurinoe Tsarstvo (Chicken Kingdom)

Kurinoe Tsarstvo is one of Russia's leading chilled and frozen poultry brands. The product line includes whole chickens, cuts, by-products and minced meat. Kurinoe Tsarstvo products have won numerous medals and awards at leading trade fairs.

- Distribution Centre
- Meat Processing Plant
- Pork Complex
- Turkey Complex
- Poltry Complex
- Feed Mill
- Plowing Land

Vasilievsky Broiler

Vasilievsky Broiler is the market leader in the chilled poultry segment of the Volga and Central Federal Districts. It is produced at Vasilievskaya Poultry Farm located in the Penza region.

Mosselprom

Mosselprom is one of the most popular poultry brands in Moscow and the Moscow region. Poultry farms in the Moscow and Tula regions produce chilled and frozen poultry, as well as ready-to-cook products.

Dajajti

Cherkizovo Group launched a new halal export brand, Dajajti, in 2016 after it received licences to export poultry products to the Middle East. Dajajti, which means 'my chicken', is a brand aimed primarily at the international halal market.

Latifa

Cherkizovo's first halal brand, Latifa, is sold on the domestic market and in CIS countries.

CHERKIZOVO PREMIUM

Cherkizovo

Cherkizovo is one of Russia's leading meat product brands. The product line includes nearly 300 types of sausages, as well as chilled and frozen meats, ready-to-cook products, ham and deli meats. The company supplies raw meat for Cherkizovsky Meat Processing Plant from its own farms.

Imperiya Vkusa (The Taste Empire)

Imperiya Vkusa (The Taste Empire) ham is produced at Cherkizovo's plants in Kaliningrad and Ulyanovsk. The product line includes four kinds of deli meat: turkey, beef, pork shoulder and poultry meat, prepared with modern equipment imported from Spain.

Myasnaya Gubernia

Myasnaya Gubernia is a range of sausage products offering an optimum price/quality ratio. The product line includes cooked and semi-smoked sausages. The products are manufactured from domestic raw materials at Cherkizovo's plants in Moscow, Penza and Ulyanovsk.

Key Events

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

FEBRUARY

Cherkizovo Group acquires right to export its products to the UAE

Cherkizovo Group receives all of the necessary licences to export chicken meat to the United Arab Emirates. Cherkizovo Group's largest chicken production plant, Vasilievskaya Poultry Farm, located in Penza Region, was granted the right to export to the UAE. The export authorisation was issued by the UAE's Ministry of Environment and Water following an inspection of the poultry factory in December 2015. The Group's halal products are made under the Latifa and Dajajti brands.

For more information see the website: http://cherkizovo.com/en/press/company-news/5970/

Cherkizovo Group begins breeding turkey unique for the Russian market

Cherkizovo Group announces the operational launch of a hatchery as part of the Tambov Turkey project, which will allow the Group to begin breeding a variety of turkey that is unique for the Russian market.

They are smaller and lighter than the turkeys Russian consumers are accustomed to, with the average turkey weighing just 7-9kg. The Group's turkeys will contain half the fat of other brands, making it the healthiest meat available on the market. The turkey products that will be delivered to stores will be branded with at least four different types of packaging and designed to suit a broad range of preferences.

For more information see the website: http://cherkizovo.com/en/press/company-news/5972/

APRIL

Cherkizovo Group implements SAP in one of the biggest such projects in the Russian food industry

Cherkizovo Group's ultra-fresh products, which are delivered from slaughter to store within 24 hours, were the main driver behind the implementation of SAP ERP. As a result of implementing SAP ERP, Cherkizovo Group is now able to track and meet the primary demand for its products. The benefits of SAP ERP can already be seen. The Group has been able to halve headcount in the sales department and reallocate these staff to other departments, leading to increased efficiency in other areas of the business. Order processing time has also fallen by half.

For more information see the website: http://cherkizovo.com/en/press/company-news/7105/

AUGUST

Cherkizovo Group starts exporting poultry meat to Egypt

Cherkizovo Group dispatched its first shipment of poultry meat to Egypt. Products are shipped from Cherkizovo's Chicken Kingdom poultry farm in Lipetsk region. The production process at these facilities has been certified by the Halal Centre of Moscow.

For more information see the website: http://cherkizovo.com/en/press/company-news/6512/

Cherkizovo Group ranks as Russia's top meat producer

Cherkizovo Group has come first in Agroinvestor's (Russia's leading agricultural publication) ranking of Russia's top 20 meat producers of 2015. The Group tops this ranking by a margin of 75,000 tonnes, which underlines its leading position within the domestic market. In 2015, the Company produced 582,000 tonnes of poultry meat in live weight and 169,000 tonnes of live pork.

For more information see the website: http://cherkizovo.com/en/press/company-news/6511/

NOVEMBER

Cherkizovo Group receives permission to export poultry products to the EU

Cherkizovo Group's Vasilyevskaya poultry farm receives the EU Export Compliance Certificate 58/4, allowing the Group to export poultry products to the European Union and beyond. This certificate is also recognised by many countries outside the EU, such as Serbia, Macedonia, Georgia and South Africa. As a result of receiving this certification, the company is now a member of the European Commission's Trade Control and Expert System (TRACES), which is an online management tool for all sanitary requirements for intra-EU trade.

For more information see the website: http://cherkizovo.com/en/press/company-news/7312/

John Ross appointed Chief Operating Officer (COO) at Cherkizovo Group

John Ross joins Cherkizovo Group with over 25 years of operational and management experience in the agricultural sector. At Cherkizovo Group, John Ross will be responsible for the production functions across the Group's five business segments. Prior to this, he was at Zacky Farms, USA, for over 20 years, working his way up from operations manager to president of the company. He began his career at Cargill.

For more information see the website: http://cherkizovo.com/en/press/company-news/7338/

Cherkizovo Group begins construction of a new meat processing plant in the Moscow region

Cherkizovo Group begins construction of a new meat processing plant in the Kashira district of Moscow region. When completed, this new plant will be the largest of its kind in Europe. The 80-tonne daily production capacity of this new facility outstrips that of any other meat processing plant in Europe. It will be fitted with state-of-the-art equipment to ensure the highest quality and biosafety of the end products.

For more information see the website: http://cherkizovo.com/en/press/company-news/7347/

DECEMBER

Cherkizovo launched a new organic line 'Clean Label'

The line represents new, affordable organic products under the Petelinka brand. 'Clean Label' includes cutlets, sausages, barbecue meat and various products for oven roasting. All of the products are made using only poultry meat and spices and are manufactured in Moscow region at one of Russia's largest poultry production facilities.

For more information see the website: http://cherkizovo.com/en/press/company-news/7431/

Cherkizovo Group achieves a record harvest in 2016

Over 465 thousand tonnes of grain were gathered, an increase of 40% from the previous year. The main crops harvested in 2016 included corn (231,000 tonnes), winter and spring wheat (181,000 tonnes), soy (26,000 tonnes) and peas (26,000 tonnes). Production of corn, the highest contributor to the crops, has doubled compared to the previous year. To meet the demand, a total of 79 harvesters and 100 tractors were deployed by the Group during the harvesting campaign.

For more information see the website: http://cherkizovo.com/en/press/company-news/7584/

Message from the Chairman

“Last year, the Board of Directors of Cherkizovo Group entrusted me, as its new Chairman, with the privilege of looking after the interests of our shareholders. Therefore, it gives me great pleasure to present the Group’s 2016 Annual Report.

First of all, on behalf of the Board and all our employees, I would like to express our sincere gratitude to Igor Babaev, the founder and former Chairman of Cherkizovo Group, for his determination and unrelenting effort in creating and guiding the company from its inception to becoming the hugely successful organisation it is today. Thanks to his unfailing enthusiasm, vast experience and dedication, the Group is now Russia’s largest meat company, which gives us a solid foundation for continued future growth and international expansion.

Last year, despite challenging macroeconomic conditions, we not only delivered strong financial and operational results, but also significantly improved our governance structure to ensure that the Group is well positioned for the next phase of its development with a key, strategic focus on improving efficiency.

We put in place a new Board structure to significantly increase the role of independent directors and broaden the pool of expertise. The newly elected independent directors bring a wealth of international and world-class knowledge and experience, ranging from the agriculture and food production industries to strategic investment and management. In order to strengthen our existing corporate governance still further, independent directors are now heading all of our key Board committees.

The strengthened Board’s main focus during the year has been on revamping the Group’s long-term growth strategy. The Board also made a number of important operational decisions in order to deal with the challenges posed by the market during the reporting period. I would like to thank the directors for their invaluable contribution and stewardship during this turbulent period. I firmly believe that their unparalleled experience and dedication will continue to be instrumental in our next stage of development.

In 2015, the Board of Directors approved the Group’s new dividend policy. We expect to maintain a steady dividend flow to shareholders at a level of at least 20% of our net profit.

In the drive to overhaul our governance and management structure, we also strengthened our Executive team. We created the new position of Group Chief operating officer (COO) to further coordinate and improve the efficiency of our operations across all divisions. We welcome John Ross, with over 25 years of international operational and management experience in the agricultural sector, to this important role. I am confident that John’s vast experience will make an invaluable contribution to achieving our strategic objectives.

The Board was faced with a challenging macroeconomic situation on our domestic market, as overall conditions in the Russian economy continued to put pressure on the agriculture industry. The devaluation of the rouble, falling disposable incomes and rising inflation had a significant impact on our operations, in particular during the first quarter of 2016.

The Group was able to overcome the significant challenges posed in the early part of the year with a concerted sales effort, which resulted in increased sales volumes for the year of around 900,000 tonnes, making Cherkizovo the number one producer of meat products in Russia.

In many respects, 2016 was a breakthrough year for us in terms of recognising our achievements over the last ten years and identifying the Group’s future strategic direction. We are gradually coming to the end of a significant, capital-intensive stage in our development and investment, which has seen the creation of a new, integrated operational structure. With this now in place, we are turning our attention to investment in the processing and production of high-margin value-added products.

We have laid solid foundations for the future profitable growth of the Group and have put in place several strategic initiatives designed to generate good returns over the next three to five years. That said, the priority for the Board remains ensuring the continued growth of the Group over the longer-term, by capitalising on the new vertically integrated structure and focusing on the most profitable market segments.

The Group has a unique combination of international expertise and home-grown talent. We continuously aim to implement the most advanced technologies and strive to be at the forefront of scientific developments in the agricultural and food industry. Thus, in 2016, we established the most high-tech state-of-the art in-house R&D centre in the Russian food production industry and became the first partner of the Skolkovo Innovation Centre in biotechnology.

Cherkizovo Group will continue building on its competitive advantages and focusing on the quality and biosafety of our products. With the progress we are making in achieving operational and working capital efficiencies and our strong and growing market position in Russia, we are well-positioned to capture growth opportunities, both domestically and internationally.

On behalf of all of the shareholders and the Board of Directors of Cherkizovo Group, I would like to express my sincere gratitude to the management and all employees for their commitment and contribution to the development and growth of the Group, making it the company it is today. I am confident, that with our solid vertically integrated operations, talented and dedicated workforce and highly experienced Board, we are on course to achieving our long-held objective of becoming a truly world-class company, radically changing international perceptions of the Russian agriculture sector along the way.

Evgeny Mikhailov
Chairman

Message from the CEO

I am pleased to report that 2016 proved to be a year of milestones for Cherkizovo Group. We completed a number of landmark projects and achieved significant progress on our strategic initiatives. At the same time, we were able to deliver a strong set of results across all business divisions despite a backdrop of adverse market conditions. We also remained at the forefront of the national agricultural industry, setting new standards for the quality and biosafety of our products and the efficiency of our operations.

OUR PERFORMANCE

In 2016, we increased total meat product sales by 9% year-on-year, reaching 903,000 tonnes and reclaiming our status as Russia's top meat producer. Within this figure, the Poultry division's share of total sales increased by 6% to 500,321 tonnes, which was primarily attributable to the delivery of the new Mosselprom poultry houses, the growth of branded product sales and the expansion of our presence in the ready-to-eat, value-added segment.

Production in the Pork division grew by 9% in 2016 to 184,766 tonnes, which was primarily due to our new genetic improvement strategy coming on stream and the establishment of two new wean-to-finish sites in Voronezh region.

The Meat Processing division's sales increased by 14%, to 218,085 tonnes in 2016, with the new pig slaughter facility at the Dankov meat processing plant working at full capacity during the year. We managed to increase our market share in meat processing despite the challenging market conditions.

While all divisions delivered strong results, the Grain division demonstrated particularly robust sales, up 27% year-on-year to 338,808 tonnes. The average price, however, fell by 6% year-on-year as a result of record harvest in the country.

The Group's revenue for the year grew by 7% to RUB 82.4 billion with the Poultry and Meat Processing segments being the main growth drivers. The latter performed particularly strongly and saw revenue increase 9% to RUB 31.7 billion.

The fourth quarter was our best performing quarter of the year. Our focus on enhanced operational efficiency across all segments has already helped to deliver an uptick in EBITDA, with an 83% year-on-year increase in fourth quarter EBITDA. Poultry prices remained strong and the segment delivered over half of the year's EBITDA in the last three months of the year.

CHALLENGING MARKET ENVIRONMENT

During the year, Cherkizovo Group faced extremely challenging market conditions resulting from a combination of macroeconomic factors. In particular, the volatility of the rouble, which was especially acute during the first half of 2016, combined with falling disposable incomes, had a significant impact on our operations.

At the same time, Russian pork and poultry prices fell significantly and, when combined with the effects of the rouble devaluation, reached some of the lowest levels seen in the world in US dollar equivalent terms. The underlying fall in pork and poultry prices was primarily caused by a rise in supply as the Russian government's agricultural development policy continued to boost domestic meat production capacity during the year. As a result of this policy, Russia is rapidly moving towards full self-sufficiency in domestic pork and poultry production, thus dramatically reducing the share of imported meat products on the market. Overall, we had to overcome the extreme volatility in pork and poultry prices during the first half of the year, although they then gradually stabilised towards the end of the year.

REGULATORY ENVIRONMENT

In July 2016, a new amendment to the law "On the Fundamentals of State Regulation of the Trade Activities in the Russian Federation" came into effect, stipulating new pricing rules for retail chains and their relationships with suppliers. Prior to this, the amendment had been subject to discussions for almost two years. Among other things, it abolishes retroactive bonuses and shifts the balance slightly towards producers.

EU and US sanctions against Russia, and the corresponding Russian sanctions against the EU and US, had little overall impact on the domestic meat production industry. The low-price environment, combined with increased domestic meat production capacity, made meat product imports into Russia commercially unviable for many international producers, notwithstanding the sanctions.

I would like to highlight the great significance of the support provided by the Russian government for the domestic agricultural industry. The national subsidy programmes, along with the levels of support offered by local authorities in the regions, are essential for the continued successful development of the sector. The measures aimed at encouraging domestic agricultural companies to expand their presence in overseas markets are also contributing significantly to the growth of the industry. In 2016, Cherkizovo Group and the Russian Ministry of the Economic Development signed a cooperation agreement to promote foreign trade, which is designed to support our export strategy.

"While 2016 marked an impressive year of expansion for Cherkizovo Group, we are now seeking to build on this strong foundation and consolidate our market-leading position. Our focus is shifting from development to maintenance, streamlining, production of higher-margin value added products, further development of the downstream part of the business and investment in operational efficiency across all segments.

Message from the CEO (continued)

“

An important element of our strategy is the expansion of production capacity and the enhancement of our product range with higher value-added, higher-margin products for domestic and international consumers, leveraging our vertically integrated model.

NEW LANDMARK PROJECTS

In recent years, we have invested in the development of landmark projects that we believe will both ensure the Group's continued future growth and further strengthen our competitive advantage as Russia's leading meat producer. In 2016, we continued to open new production facilities and we expect these to make a significant positive contribution to our overall performance in the future.

We completed the construction of the Elets egg hatchery and started the production at the new state-of-the-art breeder farm with a total production capacity of 64 million hatching eggs. This will make us self-sufficient by the end of 2017. We have invested over RUB 3 billion into the project to date.

The Tambov Turkey project, a joint venture between Cherkizovo Group and our partner, Spain's Grupo Fuertes, became operational in 2016. This brand new facility represents a joint investment of approximately RUB 10 billion and has a live weight production capacity of approximately 50,000 tonnes per year.

Another important achievement for us was the successful launch of our new state-of-the-art, in-house R&D centre, which represents a landmark project for the entire Russian food production industry. The quality and safety of food products is rapidly becoming one of the most important factors for consumers and, with this new R&D centre in place, we, as a Group, are fully committed to ensuring that our production process is the most efficient and safest in the industry.

We also invested almost RUB 650 million in the construction of new infrastructure at our Mosselprom site, to create the largest poultry production facility in the Moscow region. Some 24 new poultry houses with technologically advanced facilities were completed this year and are expected to boost the Group's annual production volumes by 12,000 tonnes. Meanwhile, in the Pork division, we launched a new genetic improvement strategy at the beginning of 2016, designed to improve both overall pig health and efficiency by increasing liveability and weekly farrows.

In 2016, we also began construction of the Kashira meat processing plant. This project marks the beginning of a new stage in our strategic development, as we look to create the largest facility of its kind in Europe equipped with the latest technology and correspondingly high levels of automation. Capital expenditure on the project is expected to total approximately RUB 6.7 billion, making it the largest food sector investment project to date in the Moscow region.

LAUNCH OF NEW VALUE-ADDED PRODUCT LINES

An important element of our strategy is the expansion of production capacity and the enhancement of our product range with higher value-added, higher-margin products for domestic and international consumers, leveraging our vertically integrated model.

In 2016, we also developed a new range of branded products specifically for the Middle East and African markets to strengthen our international offering in line with our export expansion strategy and, at the same time, continued our efforts to increase export deliveries to the Middle East, African and Asian markets. Another important achievement for us during the year was receiving EU permission for the export of poultry products, which not only creates new export opportunities for us in terms of EU countries, but also opens up other markets to us outside the EU that recognise the EU certification.

As for the domestic market, we added the new, natural Clean label to our Petelinka brand, which is additive and preservative-free, and meets the growing consumer demand for healthy products. We also launched a new range of ready-to-cook pork products in 2016, becoming one of the top three producers in Russia in this very promising segment.

EFFICIENCY AND QUALITY CONTROL

Our operations now cover the whole value chain in line with our “Farm to Fork” approach. This allows us full control over the quality of final products and the efficiency of the production process, while significantly reducing our dependence on imports. We are confident that this will have a long-term positive effect on our financial performance.

Ensuring high quality production across all product ranges remains an absolute priority for us. In July last year, with this objective in mind, we began the deployment of our new state-of-the-art quality control system. This system represents a significant investment for us and is intended to lead to the full centralisation of quality control practices across all divisions, and uniform compliance to the highest standards. To put this into perspective, we already conduct around 350,000 microbiological, and over 60,000 chemical tests per year as part of the Group-wide quality excellence drive.

MANAGEMENT SYSTEMS

During 2016, we implemented a number of initiatives aimed at streamlining business processes and enhancing overall operational efficiency in terms of marketing, distribution and logistics. In particular, in 2016, we announced the implementation of a transformational project, unique in its scale for the domestic agriculture industry. Our new SAP ERP solution on the HANA platform at our Petelino trading house is a centralised platform allowing us to deliver ultra-fresh products from slaughter to store within 24 hours.

As a result of the SAP implementation, we are now able to track and quickly satisfy orders through our fully automated, real-time communications channels with the leading federal retail chains in Russia. Following the success of this first phase of the SAP project at Petelino, we are planning to roll out a similar Group-wide unified sales system within the next few years.

BUILDING FUTURE GROWTH ON A SOLID FOUNDATION

Over the last decade, our main focus has been on developing a solid, vertically integrated structure for our business to provide a strong foundation for the next stage of growth. This past year has marked the end of this extensive phase of development, as a number of landmark projects have reached fruition. Going forward, we now expect to see significant benefits from the investment projects that we have completed in recent years, both in 2017 and the years ahead.

We are unquestionably a leading player in the Russian agriculture industry, with a broad portfolio of well recognised and trusted brands, offering high quality products to our customers nationwide. From now on, while maintaining our strong customer focus, we intend to further streamline our operations, ensure greater efficiencies and synergies between our various vertically integrated business segments.

To reflect our new enhanced positioning and support our new strategy, we have embarked on a comprehensive re-branding of the Group, involving a new logo and new corporate colours to be launched and rolled out across all business divisions in 2017.

I strongly believe that the combination of our increased production capacity, state-of-the-art, highly vertically-integrated production facilities, newly-strengthened world-class Board and highly-skilled workforce, ensures that we are well-positioned to face the challenges that lie ahead. We therefore look to the future with confidence and optimism in terms of our continued growth, our expansion into new international markets, our opportunity to positively impact international perceptions of the Russian food industry and, ultimately, our ability to become a leading player in the global food production industry.

Sergey Mikhailov
CEO

Stepping Up

the Operating Ladder

MARKET OVERVIEW

Cherkizovo Group retained its leading position in the Russian meat processing market, with a market share of 7%, up 1 pp from 6% in 2015.

P. 22-25

STRATEGY & BUSINESS MODEL

We use our leading market position to advance Russia's agriculture sector through knowledge, sharing skills, making investments, helping to develop the legislative framework for the sector and applying leading global solutions and technological advances to our operations.

P. 26-27

With the introduction of the new state-of-the-art facilities, the creation of a unique Research and Development Centre, the launch and expansion of export deliveries and the ongoing commitment to quality and efficiency, Cherkizovo Group is well positioned to further capitalise on its leadership in the food market.

Business model chain:

Grain → Feed production → Poultry → Pork → Meat processing → Distribution → Consumers → Financial highlights

INVESTMENT PROGRAMME

Using a combination of the most advanced production and construction techniques, state-of-the-art technology, modern equipment and international expertise, we have developed highly efficient meat and grain production, meat processing facilities, and upgraded our sales and logistics operations.

P. 28-29

QUALITY CONTROL

Our quality control system ensures that the Group's production complies with all relevant Russian and international safety and hygiene requirements and standards. In mid-2016, Cherkizovo began the implementation of its centralised quality control system and created a new quality assurance department.

P. 30-31

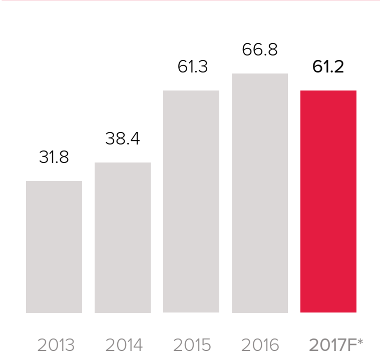
RESEARCH & DEVELOPMENT

We have always been early adopters of new technology and work with top industry experts to achieve our vision. In order to pursue this strategy, we created the unique European-standard, innovative R&D Centre.

P. 32-33

Market Overview

US dollar to Russian rouble exchange rate dynamics, 2013-2017F

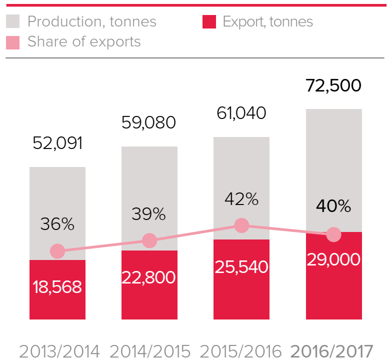


* - Forecast provided by Bloomberg
Source: OANDA

RUSSIAN ROUBLE STRENGTHENING

The rouble recovered over the course of 2016, with the yearly average exchange rate standing at 66.8 RUB/USD. The currency stability that set in during the middle of the year had a two-fold impact on the agro-industrial sector in Russia. First, costs across the industry stabilised at the same time as Russia saw a record grain harvest. Second, negatively, it had an adverse effect on the livestock and poultry exports.

Wheat production and export, 2013/14-2016/17*

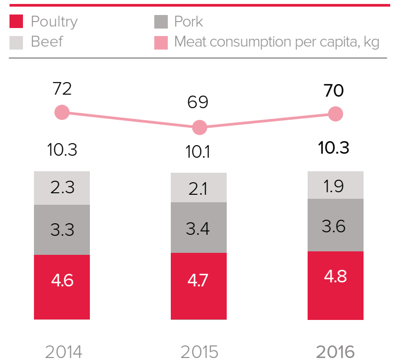


* - USDA forecast
Source: USDA

HIGH WHEAT PRODUCTION

The record harvest in Russia led to a significant increase in the volume of grain reserves. Wheat production grew by 19% to reach a record high level of 72.5 million tonnes in the 2016-2017 agriculture season, compared to 61.4 million tonnes in the 2015-2016 season. Despite exceptional levels of grain production, the share of exported wheat is expected to decline slightly to 40% in 2016-2017, according to the USDA, from 42% in 2015-2016. This was primarily due to heightened competition on international markets and currency stabilisation on the domestic market. Against the backdrop of an increased grain supply, the Group benefited from falling animal feed costs.

Consumption of key meat categories, 2014-2016, mln tonnes

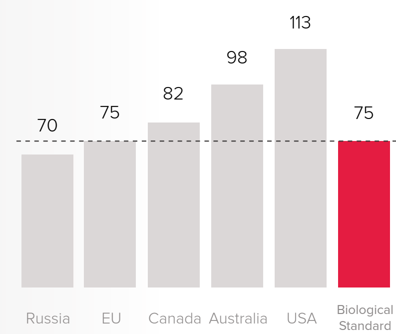


Source: Rosstat, Belstat, Federal Custom Service, EEU

AVAILABLE MEAT RESOURCES

During 2016, levels of meat consumption in Russia began to show signs of recovery, as industry leaders competed for market share by offering attractive prices to consumers. Total meat consumption (excluding goat and sheep meat) increased by 1.5% to 10.3 million tonnes in 2016, from 10.1 million tonnes in 2015. Meat consumption per capita grew by 1.4% to 70 kg in 2016, compared with 69 kg in 2015. This increase was primarily attributable to pork meat regaining the market share it lost over the last few years. Despite this growth, Russia continues to offer substantial long-term growth opportunities when compared to more developed markets, with meat consumption per capita of 75 kg to 113 kg in the EU and the USA respectively.

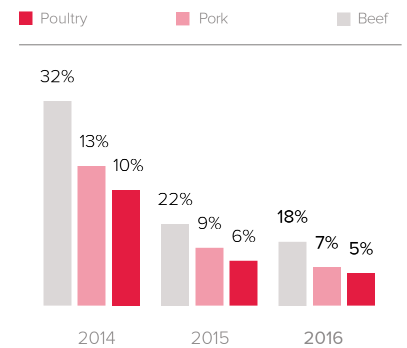
Meat consumption per capita, 2016, kg/year



Source: USDA

The share of imports in Russian meat consumption declined during 2016, mainly due to increasing production volumes by domestic meat producers (excluding beef), as well as refocused meat exports by the Brazilian suppliers to other markets. This is evident across all types of meat. In poultry, the decrease was only 1%, from 6% in 2015 to 5% in 2016. The share of imported pork declined to 7% from 9% in 2015 and the share of beef fell to 18% from 22% in 2015. Brazil and Belarus remain the main meat suppliers to Russia.

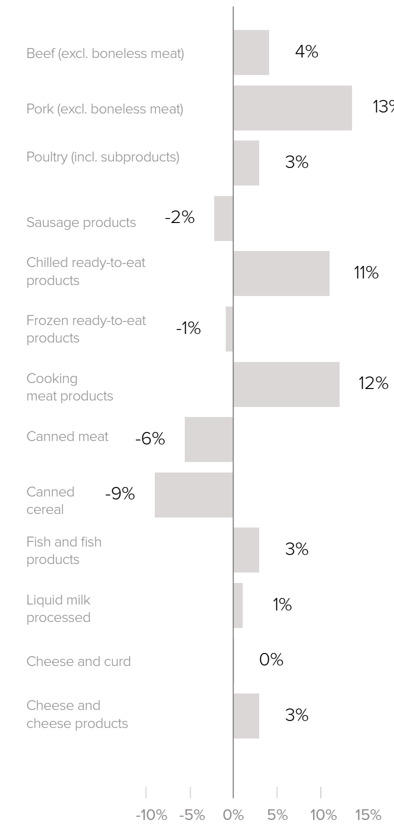
Declines in the share of imports, %



Source: Cherkizovo

During 2016, meat products output reflected trends in consumer demand for affordable over premium products as a consequence of the continuing pressures on household budgets. As such, the production of sausages declined by 2% to 2.41 million tonnes last year, compared to 2.46 million tonnes in 2015. By contrast, the production of chilled, ready-to-cook meat products including cheaper cuts / broilers increased by 11% to 1.22 million tonnes in 2016 from 1.1 million tonnes in 2015. We believe that the expected economic recovery and growth in disposable income will drive demand for sausages.

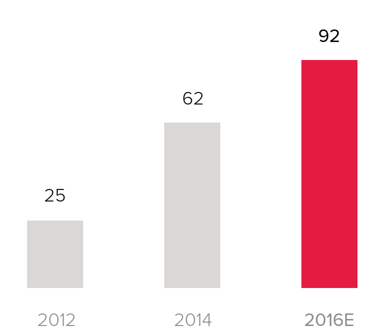
Change in output of meat products and key substitutes, 2015/2016



Source: Rosstat

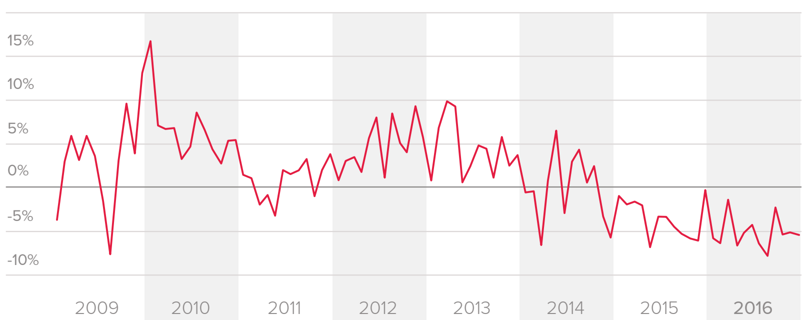
Market Overview (continued)

Export of poultry (excluding chicken feet), 2014-2016, th. tonnes



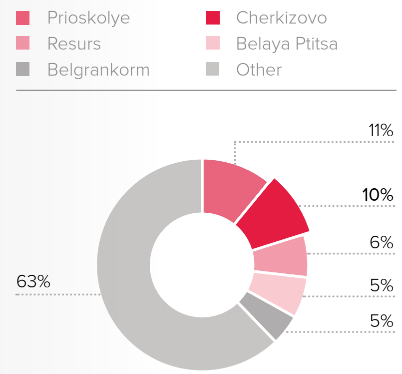
Source: FCS, EEU

Monthly changes in real incomes, YoY, %, 2009-2016



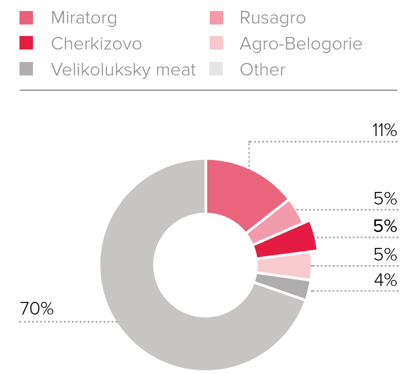
Source: Rosstat

Russian poultry market structure



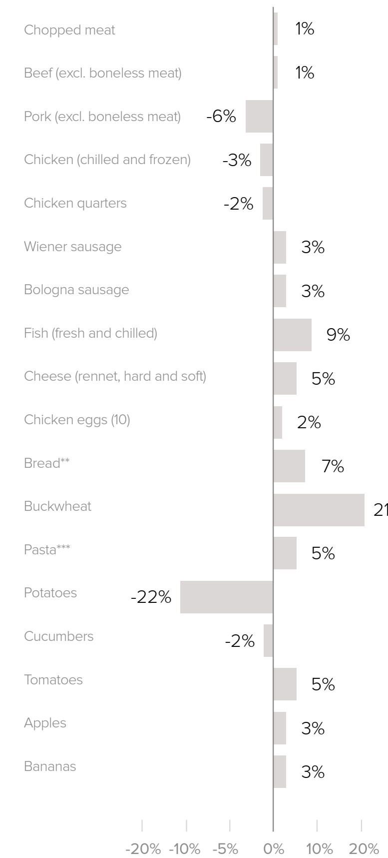
Source: Russian Poultry Union

Russian pork market structure



Source: National Union of Pork Producers, Cherkizovo

Change in average retail prices, 2015/2016



** - from rye flour and mixed rye-wheat flour
*** - from premium wheat flour
Source: Rosstat

EXPORTS

In 2016, total Russian export of poultry (excluding chicken feet) grew by 48% to 92,000 tonnes, compared to 62,000 tonnes in 2014. Export to the countries of the Eurasian Economic Union was stable at 42,000 tonnes, while export to other countries stood at 50,000 tonnes.

FACTORS INFLUENCING CONSUMER CHOICE

In 2016, consumer demand continued to decline. As a result, the key factor that has dictated consumer choice has been price. Consumer demand has switched to goods that have seen falling retail prices.

THE GROUP'S MARKET POSITION

In 2016, Cherkizovo Group retained its leading position in the Russian meat processing market, with a market share of 7%, up 1 pp from 6% in 2015. In the poultry sector, we remained in second position with a market share of 10%, up by 0,2 pp from 2015. In the pork segment, we held third position in the market with a market share of 5.2%, marginally down from 5.4% in 2015.

Our Strategy

Cherkizovo Group has come a long way in order to become the largest vertically integrated meat and feed producer in Russia. We use our leading market position to advance Russia's agriculture sector through knowledge, sharing skills, making investments, helping to develop the legislative framework for the sector and applying leading global solutions and technological advances to our operations. All of this creates additional value for all stakeholders in the industry.

OUR STRATEGIC PRIORITIES

PRODUCT PORTFOLIO AND ASSET DEVELOPMENT

- Well-balanced development of the brand portfolio with increasing share of value-added products
- Continue increasing the number of products and service quality with a focus on implementing robust biosecurity standards and practices
- Implementation of investment programme through upgrading production assets and opening new facilities

TECHNOLOGY, RESEARCH AND KNOWLEDGE LEADERSHIP

- Strengthen in-house research and development facilities and industry expertise
- Develop cooperation with Russian and international food research and production experts to bring the most advanced global expertise to the domestic food market
- Empower human capital and reward excellence

EFFICIENT GROWTH

- Ensure qualitative expansion of business in all key segments via organic growth and M&A
- Drive efficiency throughout entire organisation, sourcing and value chain
- Maintain high quality of management across the whole vertically integrated structure and adhere to the best practices of corporate governance

STRENGTHENING MARKET POSITION IN OUR KEY MARKETS

- Maintain and strengthen market leadership in core Russian meat markets
- Expand existing export supplies
- Open new, international markets for our products

FINANCIAL STABILITY

- Reduce earnings/cash flow volatility through vertical integration, diverse product line and exports
- Maintain comfortable leverage level
- Drive profits and cash flow, while delivering attractive returns to investors

BUSINESS MODEL

Cherkizovo Group is the largest vertically integrated meat and feed producer in Russia. Our principle of 'Quality from Farm to Fork' is at the heart of our strategy. The Group's farms grow crops that are used by our feed mills. Feed producing facilities are fully owned by the Group, ensuring the high quality of feed and biosafety for the livestock. Our work in selective breeding and genetics is aimed at preserving the best qualities of the breeds. In poultry farming, we strive to achieve complete self-sufficiency when it comes to hatching eggs. Our highly skilled employees oversee the whole cycle of pork and poultry breeding with adherence to the highest standards of animal welfare. Our sausage production facilities use only the freshest meat supplied by our own farms, ensuring the highest quality for our consumers. The final link in our chain is our own fleet of refrigerated trucks that promptly deliver chilled products to distributors, supermarket chains and other retail stores nationwide.

Such a high degree of vertical integration not only gives us a competitive edge, but also ensures the full control of the entire production cycle, effective cost management and a high degree of responsiveness to rapidly changing consumer demand. Over the last few years, the model has proven to be successful and resilient against a background of challenging macroeconomic conditions and fluctuating commodity prices, enabling the Group to deliver incremental returns to our shareholders and much needed support to the communities where we operate.

The Group is managed as four business segments that combine common industry expertise, operational capability and market intelligence. Operational decisions are made at a local level by teams of highly skilled managers who are closer to the day-to-day running of the business and have a granular knowledge of their business segments. The head office is small and sees its main function to provide a framework in which the business unit managers can take the lead in implementing the strategic priorities set by the Board of Directors. It uses short lines of communication to provide prompt, inclusive and direct decision making and to ensure that all business activities are appropriately monitored and supported.

Consumers

- Covering up to 80% of the Russian population
- New consumers on international markets

Research and development

- Using the latest technologies
- Launch of Cherkizovo R&D centre

Employee development

- Professional growth opportunities
- Industry leading experts

Environment

- Beyond compliance approach
- A strategy of reducing the environmental footprint of operations

Communities

- Socially responsible employer
- Support of local economies

Our Strategy (continued)

NEW MARKETS

We see a targeted, international expansion of our exports to the Middle East, South East Asia and Africa as a significant driver of future growth. Our leading domestic market position, combined with our robust production capacity and the strength of our balance sheet, positions us to be a leading Russian food exporter. During 2016, we made good progress in strengthening our overseas offering and customer base. During the year, the Group was also awarded a EU Export Compliance Certificate allowing us to export products to European Union countries. To support our strategy for international exports expansion still further, we signed a cooperation agreement with the Russian Export Centre (REC), giving us direct access to a large established network of potential export partners.

The Group believes that diversifying our revenues geographically will strengthen our financial and operational position and will help to ensure our long-term success and growth in Russia and abroad.

Gaining access to new markets involves rigorous inspection of the Group's production processes and technologies, as well as ensuring that we meet the strictest biosafety requirements. Our newly granted export licences are testament to the relentless work of our highly experienced and committed team across all of our operational divisions to meet the highest international product safety and quality industry standards.

INVESTMENT PROGRAMME

Cherkizovo Group has invested heavily in the construction, development and modernisation of production facilities over recent years. This significant investment programme, financed from profits, additional debt capital and state subsidies, is already starting to pay off.

In 2016, all of our investment projects continued to make progress on schedule. Using a combination of the most advanced production and construction techniques, state-of-the-art technology, modern equipment and international expertise, we have developed highly efficient meat and grain production, meat processing facilities, and upgraded our sales and logistics operations.

We have accumulated significant expertise in the construction of meat production facilities, combining international best practices with our own know-how. In the context of our export expansion strategy, we have ensured that our plants comply with the requisite quality and safety standards of our target export markets.

We are focused on making constant improvements to all areas of our operations. We maintain a close dialogue with our peers as well as leaders in the global agricultural industry in order to ensure that we share ideas and remain at the forefront of the most advanced technologies and solutions. In addition, we have established our own corporate Research & Development Centre in order to consolidate and develop our industry knowledge and skills still further.

Our corporate culture is defined by our openness to discussion and the free exchange of ideas. This helps us to retain flexibility and deploy the most effective solutions in the framework of our investment programme.

An important element of our investment policy is supporting long-term cooperation with contractors and suppliers. This approach helps us to deliver the most ambitious investment programmes on time, in strict compliance will all applicable requirements and in line with the best international standards.

Largest completed investment projects:

10 RUB bln
INVESTMENTS IN TAMBOV TURKEY PROJECT

3.7 RUB bln
INVESTMENTS IN ELETSPROM HATCHERY AND BROILER PRODUCTION FACILITY

1.7 RUB bln
INVESTMENTS IN VORONEZH FEED MILL

1.4 RUB bln
INVESTMENTS IN ELETS GRAIN STORAGE FACILITY

Our investment projects in progress:

ELETSPROM

During 2016, Cherkizovo Group continued to develop Eletsprom, Russia's largest poultry breeding facility. As part of the project, Cherkizovo launched a hatchery in the Lipetsk region with an annual capacity of 240 million eggs. The project ensures we can meet our import substitution goals in our egg hatching production.

This has been a breakthrough project for the Russian food industry as a whole, as it has created a platform for the local egg hatching at a high volume. For Cherkizovo Group, the project brings a wide range of business advantages, including the expansion of our presence in the high-margin segment of poultry meat production as well as boosting the overall efficiency of the Poultry division and decreasing our dependency on imported deliveries of hatching eggs.

The Group launched the first parent stock cluster at Lipetsk in 2016 and there are currently three more parent stock sites nearing completion. The entire project, consisting of two replacement chick sites and four parent stock sites, will be fully completed in 2017.

We use modern, state-of-the-art equipment at the facility, with high levels of automation, while complying with the highest sanitary and biosafety standards.

This project represented the first time that stabilised soil technology was used in building poultry production facilities in Russia. This helped us to reduce the time required for construction by several months. We used the most advanced insulation and ventilation systems and applied the best international practices in the construction of the facilities. When the project is completed, the Group's production capacity will reach 325 million hatching eggs per year, making it 92% self-sufficient in hatching eggs. Total investment in the project has exceeded RUB 3.7 billion.

3.7 RUB bln
TOTAL INVESTMENT IN THE PROJECT

92%
SELF-SUFFICIENT IN HATCHING EGGS

Hatching eggs: results and forecasts

Hatching eggs (thousands)	2016	2017f	2018f	2019f
In-house	274,603	300,314	325,222	325,222
Including 2 sites (at Butyrky)	-	39,092	64,000	64,000
Bought from outside	99,464	54,978	30,070	30,070
Total	**374,067**	**355,292**	**355,292**	**355,292**
% of in-house hatching eggs	73%	85%	92%	92%

KASHIRA MEAT PROCESSING PLANT

In 2016, Cherkizovo Group began construction of a new, highly efficient meat processing plant in Kashira district, Moscow region. The project represents the largest food industry construction project in the Moscow region, with total capital expenditure expected to reach RUB 6.7 billion. The Group is planning to create the largest meat plant of its kind in Europe, with a daily production capacity of 80 tonnes and employing approximately 150 people.

The Group intends to use modern equipment and energy-efficient technology as well as state-of-the-art IT system, with the full automation of all processing operations. We are also committed to ensuring the highest levels of product quality and biosafety. The plant, which is scheduled to open in 2018, will form part of the Group's vertically integrated structure, processing mostly raw materials produced by Cherkizovo's other divisions.

Our Strategy (continued)

PIG-BREEDING CLUSTER PROJECT

In 2016, we began development of a new pig-breeding cluster project in Lipetsk and Voronezh regions. The use of the latest technologies has helped us to cut construction costs by almost a third. The project comprised the construction of two facilities, each with seven finisher sites and an annual production capacity of 294,000 animals (35,000 tonnes of live weight). In 2016, we completed the construction of one sow farm in Lipetsk region and two finisher sites in Voronezh region.

SAP ERP SOLUTION

Cherkizovo Group undertook one of the most notable projects in the Russian food industry last year, with the implementation of the SAP Enterprise Resource Planning (ERP) solution on the HANA platform at Petelino Trading House. The SAP ERP solution has streamlined business processes and improved efficiency at the Petelino Trading House, helping us to ensure delivery of ultra-fresh products from slaughter to store within 24 hours. The system provides us with accurate, real-time information and automates our communications with Russia's federal retail chains. As a result, our supply chain is now tailored to meet the requirements of each of our customers. The system also gives us access to a new suite of analytical tools designed to upgrade our sales and marketing activities. The project, which is unique in scale in the entire Russian food sector, will be used in the creation of a unified, company-wide sales system.

CORN PRODUCTION PROJECT (AHI)

In 2015, we began a new corn production project (AHI) in Lipetsk region aimed at increasing corn yields year-on-year. In 2016, the project has already proved highly successful.

OREL GRAIN DRYER FACILITY

A grain dryer facility was launched last year in Znamensk district, Orel region. It has been constructed using both foreign and Russian-made equipment and has a capacity of 200 tonnes of wheat or 110 tonnes of corn per hour.

QUALITY CONTROL

The highest standards of production quality remain an absolute priority for Cherkizovo Group. Our quality control system ensures that the Group's production complies with all relevant Russian and international safety and hygiene requirements and standards. In mid-2016, Cherkizovo began the implementation of its centralised quality control system and created a new quality assurance department.

The main purpose of the department is to integrate quality control procedures across the entire production chain, from growing grain to the manufacturing of meat products. With the new department and system in place, issues of quality control are centralised and subject to common standards. Promoting a quality control culture among all employees is one of the top elements of the new programme.

The Group's new R&D centre represents a key element of the new quality control system. During the year, Cherkizovo Group launched several new quality control programmes. The Group's production now complies with the halal standards of the UAE and Egypt and we have started exporting our production to these Muslim countries. The Group is also in compliance with standards in China and other South-East Asian countries. Other new quality control programmes were launched to comply with the specific requirements of global restaurant chains, such as KFC and Burger King.

Key elements of the Quality Control System

Hazard Analysis and Critical Control Points (HACCP)

This is a systematic and preventive approach to safeguarding food from biological, chemical, and physical hazards in production processes.

Mercury

The automated system launched by the Federal Service for Veterinary and Phytosanitary Surveillance for the electronic certification of production. It tracks all movements of product in Russia to enhance its veterinary and biological safety.

Good Manufacturing Practices (GMP)

These are the practices required to conform to the guidelines recommended by the agencies that control the authorisation and licencing for the manufacture and sale of food. These guidelines provide the minimum requirements that a food product manufacturer must meet to ensure that the products are of high quality and do not pose any risk to the consumer or wider public.

Hygienic practices

These practices regulate the regular cleaning of equipment and production areas, requiring the use of only top-quality detergents.

Pest control

This is a complex system and includes humane methods of preventing potential contamination from rodents, insects and birds.

Laboratory control

The system of regular laboratory analysis at all stages of the production process.

Employee training

Regular training of all employees to ensure that the highest standards of health and safety are met.

Contractor training

Training of new contractors.

Working with suppliers

An audit of all new suppliers and regular audits of purchased production.

Handling consumer complaints

The Group has two hotlines for our clients. All claims are dealt with within seven days.

Going forward we are planning to continue the integration and centralisation of the new Quality Control System to encompass each division of the Group. We will also focus on ensuring compliance with international quality standards. We are working on the implementation of a new feedback system to respond to consumer comments on product taste and quality.

Key elements of the Quality Control System

Production & Distribution	Procurement	External Relations
HACCP & Sanitary programme	Group food safety and quality requirements	Certification body
Training for plants and DCs management	RM and PM supplier assessment	Authority
Food safety audits	Critical supplier audits	Support PR
Handling consumer complaints	Traceability programme	
Crisis plan	Material mock recall	
Traceability programme	Legislative requirements	
Detergents and disinfection plan		
Pest control		

What we do to ensure better quality control:

- Develop food safety policies to be introduced at each stage of production
- Ensure compliance with biosecurity principles
- Build a quality team including the most talented and skilled QA managers
- Carry out hygiene audits of suppliers
- Carry out a food safety risk assessment for each plant
- Ensure control of food safety and application of food quality indicators

Our Strategy (continued)

RESEARCH AND DEVELOPMENT CENTRE

We firmly believe that technological and scientific advances are critical to ensuring long term success in the agricultural industry. We have always been early adopters of new technology and work with top industry experts to achieve our vision. In order to pursue this strategy, we created the unique European-standard, innovatvie R&D centre.

With the latest technology and testing methods, the R&D centre is able to carry out over 1,000 laboratory tests across all areas of agricultural activity, from soil analysis to quality control of finished goods. It is equipped to diagnose and prevent animal diseases at an early stage, test feed quality, detect changes in the quality of food and determine food energy values. It can measure the impact that quality standards and product ingredients have on human health.

The R&D centre is at the core of our own Quality Control System, as it ensures a total control of the quality of our products at every stage of the production from farm to fork. It supervises the compliance of our products with the Technical Regulation of the Customs Union, GOST, ISO and other applicable requirements. The R&D centre can guarantee the biosecurity of products through the early detection of animal diseases, toxins and other substances dangerous to humans.

The R&D centre's team conducts extensive research in a wide range of areas such as biotechnologies, genomics, molecular biology, veterinary-sanitary examination and medicine. The findings help us to increase our productivity and efficiency levels.

OUR PARTNERS

The R&D centre's mission is to improve the quality of human life by helping to maintain a healthy lifestyle with a well balanced diet. The R&D centre also contributes to solving a broad range of issues affecting the industry as a whole, such as reviving Russia's livestock herds and genetic improvement in poultry and pork production.

THE R&D CENTRE STRUCTURE

CENTRE FOR TESTING OF FEED AND ANIMAL PRODUCTS

- Physical and chemical analysis of feed
- Fnished and semi-finished products and ingredients research
- Soil, fertilisers and water quality research
- Amino acid analysis

CENTRE FOR VETERINARY-SANITARY EXAMINATION

- Biochip multiplex rapid analysis
- Microbiological and toxicological analysis
- Biochemical blood tests

CENTRE FOR GENETICS AND MOLECULAR BIOLOGY

- PCR-based diagnostics of animal diseases
- GMO detection and molecular-biological evaluation
- Genomics and DNA sequencing

350 RUB mln

INVESTED IN THE PROJECT

The R&D centre operates in line with the strictest Russian and international standards using the most advanced scientific equipment, some of which is unique in Russia. It employs highly qualified scientists who regularly expand their professional expertise with advanced training in Germany, France, the USA and other countries.

In addition, the R&D centre acts as an industry-wide facility and its services are available to other industry players. The R&D centre develops innovative laboratory technologies for use in agriculture and works to establish and expand cooperation with other major Russian and international research institutions.

In November 2016, Cherkizovo Group signed a cooperation agreement with the Skolkovo Technology Park, envisaging the creation of an acceleration centre for research in the agricultural biotechnology sector. Cherkizovo was the first partner to join the park.

In December 2016, the R&D centre received an ISO/IEC 17043:2010 (GOST ISO/IEC 17043-2013) certificate for provider work, which allows it to conduct tests for other laboratories. This accreditation underlines the R&D centre's technical competence and the efficacy of its quality management system.

Young aspiring team

1,500 m^2

OF STATE-OF-THE-ART SCIENTIFIC FACILITIES

100

TYPES OF TESTS ARE CONDUCTED FOR AGRICULTURE, THE FOOD INDUSTRY AND MEDICINE

Operational Review
Poultry

In 2016, poultry sales volumes rose by 6% to 500,321 tonnes, compared to 470,432 tonnes in 2015.

Performance indicators, 2014-2016

Indicators	2014	2015	2016	'16/'15, %
Meat finished goods yield, % of live weight	82.7	84.0	84.5	0.7%
Feed conversion rate per kg of live weight	1.76	1.69	1.66	(1.8%)
Average growing period, days	37.1	37.2	36.7	(1.3%)
Average daily gain, g	54.5	56.9	57.5	1.1%
Liveability, %	92.9	93.4	94.6	1.3%

This growth was largely attributable to a combination of improvements in productivity and the establishment of 24 new poultry houses at the Mosselprom production facility, aided by higher consumer demand for branded, processed and ready-to-cook products and in part resulting from the growth in exports.

The average gross price per product achieved in 2016 was 94.94 RUB/kg, a slight improvement on the average gross price per product of 94.52 RUB/kg achieved in 2015.

In 2016, the Group began exporting poultry products to several new countries. For example, in August, we began exporting to Egypt and Tanzania. At the same time the Group launched the new Dajajti brand, which was especially created to serve the Halal poultry export market to Muslim countries. The Group was also awarded two significant new export licences in 2016, receiving a poultry export licence for the United Arab Emirates in January and an EU poultry export licence in the fourth quarter of the year, the latter of which confirmed the Group's Vasilievskaya production facility's compliance with the EU's strict veterinary and sanitary requirements.

During the year, the Group continued to further implement its vertical integration strategy, with the first cluster of a new parent stock-breeding farm completed in Elets in the Lipetsk region. This represents a key step towards import substitution, the Group's further vertical integration and self-sufficiency in egg hatching.

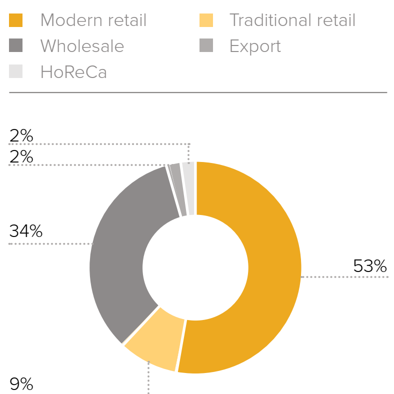
The Group also implemented a new and centralised Enterprise Resource Planning (ERP) technology platform simultaneously across 14 sites designed to streamline operations and increase productivity.

During the year, the Group maintained its focus on ensuring strict compliance with the highest Russian and international biological safety standards at its facilities. In 2016, the Group also established a new laboratory designed to monitor the quality of incoming ingredients to our animal feed plants. This has allowed us to produce animal feed to the highest quality standards, resulting in the faster and healthier growth of our poultry.

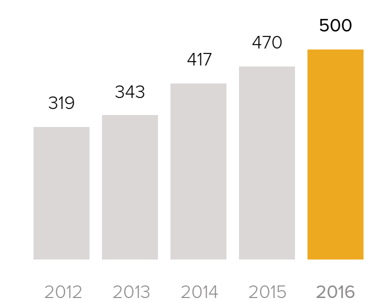
OUR PLANS

During 2017, key initiatives are to further reduce costs in the Poultry division, while also improving the KPIs of the breeding programme. The Group also plans to increase the ready-to-eat share of total sales and expand cooperation with retail customers, such as the HoReCa segment.

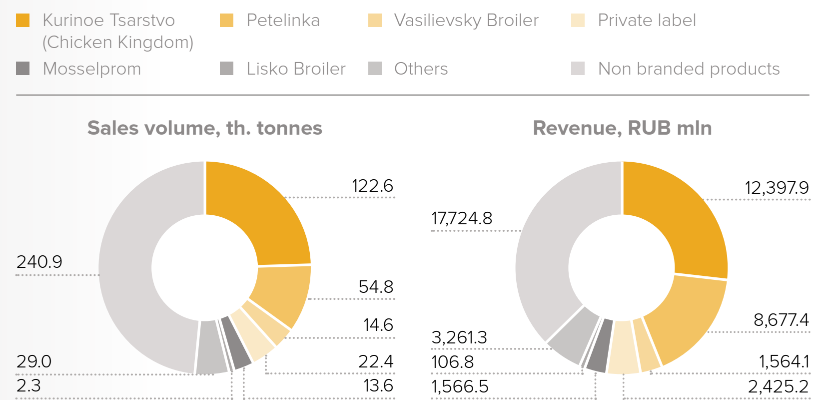
Sales by channels in 2016



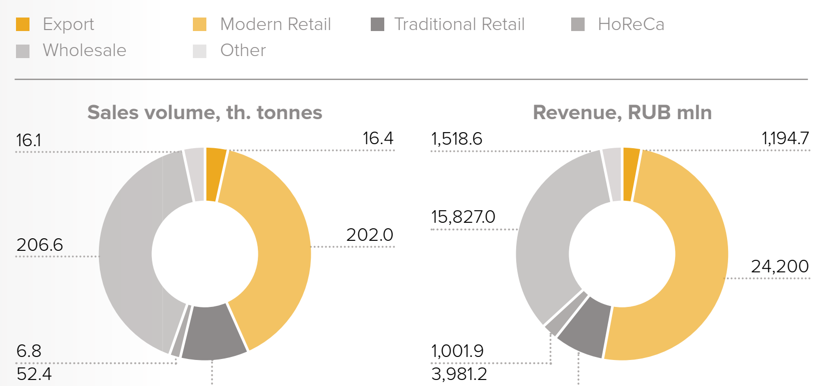
Sales of finished products, th. tonnes



Sales by brands in 2016



Sales by channels in 2016



Cherkizovo Group's poultry production facilities in Central Russia, which utilise advanced veterinary security and production efficiency technologies, include the Mosselprom and Petelinskaya facilities near Moscow, the Vasilievskaya facility in Penza region, the Lisko Broiler facility in Voronezh region and the Kurinoe Tsarstvo facilities in Bryansk and Lipetsk Regions. The Group has a total of eight full cycle poultry manufacturing clusters located in the Moscow, Bryansk, Voronezh, Kursk, Lipetsk, Penza and Tula regions with a combined total live weight production capacity of over half a million tonnes per year, or more than 200 million broilers.

Find out The Company's division location on **Map of Operations** on page 10-11.

Turkey

Tambov Turkey

Tambov Turkey, a joint project with Grupo Fuertes, a major European agricultural company based in Spain, became fully operational in 2016.

This project has established and solidified Cherkizovo Group's position in the fast growing Russian turkey market, a segment offering substantial long-term growth potential. With Tambov Turkey expected to achieve full operating capacity in 2017, Cherkizovo will become one of the top-three turkey producers in Russia. The Group also plans to launch export sales of turkey products to the European Union, Asia and the Middle East as well as the CIS region.

By the end of 2016, the number of livestock at the facility reached 660,000 birds. The Group supplied over 6,000 tonnes of turkey meat during 2016, with the first consignment being delivered to retail outlets and HoReCa customers in autumn 2016. Cherkizovo's turkeys differ from those currently available in Russia in its compact size and relatively small weight (7-9kg), which makes it perfect for home cooking. The Group has developed four turkey meat brands designed to reach all segments of the market.

In February 2016, as part of the Tambov Turkey project, Cherkizovo Group commenced operations at its state-of-the-art hatchery, which has an annual capacity of 5.9 million eggs. The first batch of 30,000 Grade Maker hatching eggs was imported from France.

A grain elevator with capacity of 90,000 tonnes and a feed mill, with annual capacities of 180,000 tonnes and 90,000 tonnes respectively, along with a slaughter site, were constructed as part of the project. Tambov Turkey's current annual live weight production capacity is 50,000 tonnes.

We have room to double capacity if necessary to meet future demand.

Grupo Fuertes, as project partner, is overseeing each stage of the production process from egg hatching to slaughter, ensuring that our turkey products fully comply with ISO 22000/FSSC 2200 European quality and biosafety standards. Grupo Fuertes also brings its expertise to feed production and the development of ready-to-eat products, where fully automated processes help the Group achieve high levels of production efficiency.

Cherkizovo Group has invested around RUB 10 billion in the project to date. The investment by regional authorities has been delivered as promised: the roads have been built and gas and electricity have been supplied to all of our operating facilities.

EVENT OF THE YEAR

In 2016, the first phase of the Tambov Turkey project won the 'Event of the year. Russia 2015' online vote held by publisher Vremya Rossii. The prize came in the agricultural category in recognition of the size of the investment, the level of innovation displayed by the project, as well as the number of jobs created.

10 th. ha
LAND PLOT

50 th. tonnes
TURKEY MEAT (LIVE WEIGHT) CAPACITY PER YEAR

350 km
FROM THE MOSCOW REGION, EXCELLENT LOCATION

x2
POTENTIAL OF DOUBLING CAPACITY TO MEET FUTURE DEMAND

TAMBOV TURKEY HIGHLIGHTS

- An integrated project comprising all stages from feed production to meat processing
- Construction launched in 2015, with full operational capacity planned for 2017
- Expertise of Grupo Fuertes, a leading European turkey producer and a major Spanish agricultural company
- The lowest cost of sales in the market
- Product quality meets highest European standards
- Modern equipment and machinery, state-of-the-art technology

Operational Review
Pork

The Pork division delivered a strong performance in 2016, with production volumes increasing by 9% to a record-high 184,766 tonnes, compared to 169,563 tonnes in 2015.

These excellent results were primarily attributable to a new genetic improvement strategy implemented at the beginning of the year and aimed at improving both pig health as well as productivity through increased liveability and weekly farrows. At the same time the establishment of two new wean-to-finish sites in the Voronezh region also contributed to increased production volumes.

The Pork division suffered from pricing pressure in 2016, with average pork prices falling 10% during the year from 98.51 RUB/kg in 2015 to 88.28 RUB/kg in 2016. The decline in average pork prices was primarily attributable to the lower purchasing power of Russian consumers and an overall increase in pork production across the country during the year.

In 2016, Cherkizovo Group implemented a new genetic improvement strategy which has eliminated several chronic diseases in the pig stock, improved overall animal health and has led to the ability to produce better tasting and higher quality meat at a reduced cost. The Group envisages that this strategy will allow us to make significant increases in genetic potential over the medium term and this should also improve our international competitiveness.

Cherkizovo Group is also focusing attention on gilt development units (GDU), where sows are allowed to develop their genetic potential to the maximum as the animal is grown until mature and ready to breed. The Group currently breeds approximately 1,800 gilts per week.

In 2016, the Group continued the development of its pork facility clusters in Lipetsk and Voronezh regions, with the second phase of the Voronezh project being completed in June. When completed the cluster project will comprise two units with a total of 14 finisher facilities, two breeding facilities and a feed mill. One breeding and three finisher facilities were completed in 2016, while the Group began construction of seven further finisher facilities during the year with plans to build an additional three in 2017.

Each unit has been built using state-of-the-art technology and is designed for 294,000 heads or 35,000 tonnes live weight per year. The Group benefits from relatively low building costs for these facilities compared to industry norms, utilising a wooden framework similar to that used in house construction, which has also been shown to reduce pigs' stress levels resulting in higher quality meat. The Group uses a type of screen in the construction of the floor, commonly used in the construction of airstrips. Its use is unique in the pork industry to date and ensures the efficient and safe collection of manure.

These new, state-of-the-art greenfield pork facilities have enabled Cherkizovo Group to achieve industry-leading margins. The efficiency indicators are some 50-70% higher compared to previously designed pork farms.

Following its renovation in 2016, the Dankov pig slaughter facility began operating at full capacity. With this capacity, Cherkizovo Group is now able to slaughter 80% of pigs at its own facilities, compared to 40% before the renovation was completed.

In 2016, the Group also continued to devote particular attention to ensuring high biosafety standards with the result that infrastructure, technology and safety regulations across all of the Group's facilities now adhere to the highest Russian and international safety standards.

The Group's new R&D centre commenced operations in 2016 with the goal of increasing the quality and biosafety of all Cherkizovo Group's pork products.

Performance indicators, 2014-2016

Indicators	2014	2015	2016	'16/'15, %
Pigs weaned per crate per year	109.4	115.9	119.0	2.7%
Average hog weight, kg	117.3	121.4	119.0	(2.0%)
Feed conversion rate	2.68	2.61	2.66	1.9%
Finisher loss, %	7.1	8.0	8.3	3.8%
Products sold/sow, kg	2,131	2,138	2,597	21.5%

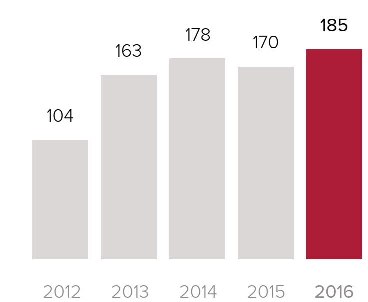
OUR PLANS

In 2017, the Group plans to complete the construction of pork clusters in Voronezh and Lipetsk regions. As a result, by 2018, we expect to be able to increase pork product production volumes significantly, as these two new production facilities, with a combined annual output of 70,000 tonnes, become operational. The Group plans to finish construction of ten further fattening facilities in 2017, allowing us to eventually reach production of 275,000 tonnes live weight per annum.

We also anticipate sales of pork products rising to record levels in 2017, following the further improvement of our genetic system.

Our medium-term strategy for the Pork division is to ensure its high performance through the utilisation of the most modern production facilities and one of the best feeding and nutritional programmes in the world. We aim to develop the most cost-efficient production of pork products to ensure our competitiveness on the world stage as we look to expand our export strategy.

Sales, th. tonnes



185 th. tonnes
PRODUCTION VOLUME

15.9 RUB mln
TOTAL SALES

The Group operates 15 major pig-breeding facilities in the Central and Volga Federal Districts, all located in close proximity to the Group's grain elevators and feed mills, and constructed in accordance with the highest international standards. The excellent location of the pig breeding facilities contributes to their veterinary and biological safety, as well as the high quality of the pork produced. Each standard module facility consists of a sow farm for 5,800 sows, a nursery site for up to 20,000 animals and two finisher sites for 22,000 pigs each.

Find out The Company's division location on **Map of Operations** on page 10-11.

Operational Review
Grain

The Grain division delivered record-breaking operational results in 2016. Harvest volume increased by 41% to the highest level to date, reaching around 468,000 tonnes of gross weight compared to around 333,000 tonnes the previous year.

As a result, the grain sales reached around 339,000 tonnes in 2016, which is a 27% increase from 267,000 tonnes in 2015. The average crop yield of the cultivated land increased by 47% to 5.75 tonnes per hectare, while the tillable land area grew by 4% to 95 thousand hectares following the integration of previously abandoned land in Tambov region. This outstanding performance is attributable to a combination of factors, such as exceptionally good weather in the regions of operations, a gradual increase of the share of more cost-efficient corn in farming and higher yields in regions where the soil improvement programme is in place.

The soil improvement programme was launched in 2015 and is aimed at reducing soil acidity harmful to crops and consequently improving soil nutrients, which in turn leads to higher yields. To increase the harvest, we have implemented moisture saving technologies such as soil deep loosening and liquid fertiliser. Among other cost saving initiatives implemented in 2016, was the adoption of organic fertilisers, which reduced the cost of the mineral fertilisers. As a result, the manure from the Group's Poultry and Pork segments forms the main part of the organic fertiliser needs of the Grain division.

As a Group, we are committed to achieving efficiency through technology, research and knowledge leadership. We keep working to identify and adopt cost-saving technologies, which help us to achieve the best crop yields among peers in the Central Black Earth region. In 2016, we researched and made a decision to invest in two initiatives – Precision Planting and the use of liquid nitrogen fertiliser.

Precision Planting is an American innovative technology that enables us to plant crops more accurately at higher speeds. The system allows farmers to plant a row of crops like corn up to twice as fast compared to conventional machinery, while achieving top crop yields.

The liquid nitrogen fertiliser, due to its low cost production is far more cost effective than granulated ammonium nitrate. In addition, its storage and handling does not require any additional investment.

The financial performance of the Grain division in 2016 was affected by the decline in the grain market. The average price of the product fell by 6% in 2016 as a result of a record harvest in Russia. The Group as a whole benefited from this trend due to its vertically integrated model: 75% of the Grain division output was sold to other Group's divisions at market price.

During 2016, the Group continued to strengthen its leading position on the feed market through operating both of its feed mills in Voronezh and Bryansk region at full capacity. This led to an increase in production of high-quality feed to 1.57 million tonnes in 2016 from 1.50 million tonnes in 2015.

OUR PLANS

The Group's strategic long-term objective is to increase its harvest volumes to 1,500,000 tonnes by 2020. This would ensure Group's full self-sufficiency in terms of the grain for the internal animal feed production.

In order to further improve our cost efficiency, we are planning to increase the share of the corn and soy in the crop mix to 80%, while reducing the production cost to 5 RUB/kg and to 12 RUB/kg respectively, as well as the corn processing cost to RUB 600 per tonne of product.

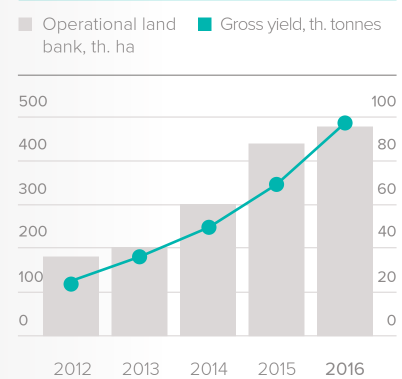
In 2017, in line with our long-term strategy we anticipate to increase the Group's harvest volumes by 20%. The new precision farming project aimed at improving the efficiency of resources is due to be rolled out across our farms. It is expected to contribute significantly towards achieving the harvest volumes target. The Group also plans to increase the crop area in Tambov region by 5,000 hectares in 2017.

Assets, 2014-2016

Assets	2014	2015	2016	'16/'15, %
Land bank, thousand ha	140	140	140	n/c
Crop areas, thousand ha	58	85	81	(4.7%)
Feed mills, pcs	8	9	9	n/c
Grain elevator capacity, thousand tonnes	588	854	854	n/c

Crop	2014		2015		2016	
	Yield, th. tonnes	Cultivated area, th. ha	Yield, th. tonnes	Cultivated area, th. ha	Yield, th.tonnes	Cultivated area, th. ha
Wheat	125	21	150	43	182	36
Corn	42	10	116	16	233	24
Barley	25	5	6	2	-	-
Peas	23	7	17	6	26	10
Sunflower	19	8	23	7	-	-
Soy	8	8	20	11	27	11
Total	242	58	333	85	468	81

Gross yield and crop area, 2012-2016



339 th. tonnes
GRAIN SALES IN 2016

3.1 RUB mln
TOTAL SALES

Cherkizovo Group started growing its own grain in 2011 after deepening its level of vertical integration. The Group has a land bank of more than 140,000 hectares, of which it owns nearly 60%. Approximately 92,000 hectares are located in the most fertile Central Black Earth regions such as Lipetsk, Orel, Tambov and Voronezh and were actively cultivated during 2016.

Find out The Company's division location on **Map of Operations** on page 10-11.

Operational Review
Meat Processing

In 2016, sales in the Meat Processing division grew by 14% to 218,085 tonnes compared to 191,200 tonnes in 2015.

The increase was primarily attributable to the growth in production of non-sausage products with the new pig slaughter facility at the Dankov meat processing plant running at full capacity in 2016, boosting both volume and product assortment.

Average product price decreased by 3% in 2016 to 167.84 RUB/kg compared to 2015, with non-sausage products representing a greater proportion of sales. This reflects a common trend in the Russian market with consumers preferring natural meat and healthy food products. The Group intends to capitalise on this trend over the medium-term.

Cherkizovo Group maintained its leadership in the smoked sausage segment of the Russian market in 2016 and plans to continue to increase the share of smoked sausage products in its sales. At the same time, we are focusing on value-added, ready-to-cook products, which are key revenue drivers for the Group. We will continue to monitor market trends closely and adjust our product portfolio accordingly, in line with shifts in demand in the domestic market. In 2016, for example, we developed a new mid-priced sausage product pipeline, under the 'Fermerskaya' brand, in response to growing demand in the medium price sausage segment.

As the Group supplies its own raw meat to its modern production system, we are able to control processing at all key stages, while our ability to deliver from slaughter to store within 24 hours is one of our key strategic advantages.

Over recent years, Cherkizovo Group has made substantial investments in upgrading its meat processing facilities. Modern high-performance European equipment has been installed throughout its facilities, with the result that all facilities are GOST R ISO 9001 – 2008 certified.

OUR PLANS

In the year ahead, Cherkizovo Group is focused on improving margins on meat processing products through increased sales of natural meat products compared to sausage products. At the same time, the Group plans to strengthen its leading position in the smoked sausage market by constructing the new Kashira meat processing facility in Moscow region, due for completion in 2018. This facility, which will use state-of-the-art technology and be fully automated, will be the largest producer of smoked sausage products in Europe, with an annual capacity of approximately 30,000 tonnes. The Group plans to invest a total of approximately RUB 6.7 billion in the project.

Performance indicators, 2014-2016

Indicators	2014	2015	2016	'16/'15, %
Product sales per employee, tonnes	31.3	40.7	45.8	12.5%
Output per workshop employee, tonnes	40.6	51.7	62.0	19.9%

SALES TO THE LEADING FEDERAL RETAIL CHAINS, TONNES

Sausage products

	2015	2016	%
X5 Retail	11,788	13,182	12
Tander	10,199	14,730	44
Dixy	5,192	6,071	17
Auchan and Atak	5,031	5,032	0
Lenta	2,958	3,816	29
Metro	3,297	3,312	0
O'key	1,498	1,738	16
Total	**39,963**	**47,880**	**20**

Ready-to-eat products

	2015	2016	%
X5 Retail	8,853	16,896	91
Auchan and Atak	3,985	3,899	(2)
Dixy	4,159	3,505	(16)
Lenta	1,224	3,894	218
Tander	1,755	1,825	4
O'key	295	2,696	813
Metro	3	908	30,167
Total	**20,275**	**33,622**	**66**

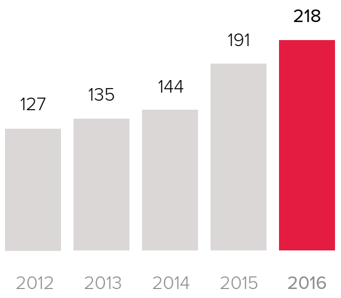
Sausage and Ready-to-eat products

	2015	2016	%
X5 Retail	20,641	30,077	46
Tander	11,954	16,555	38
Dixy	9,351	9,576	2
Auchan and Atak	9,017	8,930	(1)
Lenta	4,182	7,710	84
Metro	3,300	4,220	28
O'key	1,793	4,434	147
Total	**60,238**	**81,503**	**35**

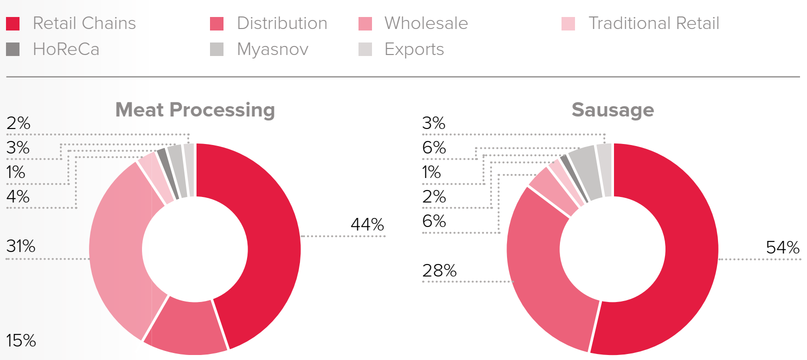
The Cherkizovsky Meat Processing Plant in Northeast Moscow is the Group's flagship facility in the Meat Processing division. The division also includes: the Penzensky Meat and Poultry Processing Plant, which has its own slaughtering facility; the Ulyanovsky Meat Processing Plant; and the Otechestvenny Product Meat Processing Plant in Pravdinsk, Kaliningrad region. These plants produce several hundred tonnes of high-quality sausages, hams, deli meats, cutlets, vacuum-packed chilled products and ready-to-eat products every day.

Find out The Company's division location on **Map of Operations** on page 10-11.

Product sales, th. tonnes



Product sales by channels in 2016



Financial Report

In 2016, Cherkizovo's rouble revenue increased by 7% year-on-year to RUB 82.4 billion.

The year 2016 was a challenging one for the agricultural sector in Russia. For Cherkizovo Group, the weakness in the rouble at the beginning of the year led to an increase in costs which, combined with low meat and grain prices last year, put some pressure on our margins, which overall registered a slight decline year-on-year.

In spite of these challenging market conditions, I am pleased to report that we were able to demonstrate strong operational results across all business segments, especially in the Poultry and Meat Processing divisions, with the result that the Group's total revenues increased 7% year-on-year to RUB 82.4 billion in 2016. Net operating cash flow over the same period rose by an impressive 88% to RUB 9.4 billion compared with RUB 5.0 billion in 2015. This rise was primarily attributable to the improvement in working capital.

In 2016, the Group rebalanced its debt structure, increasing the share of long-term debt to 63% of total debt from 39% in 2015 and, correspondingly, reducing the share of short-term debt to 37% from 61% in 2015. Overall, total debt fell by 6% year-on-year from RUB 41.2 billion as at the end of December 2015 to RUB 38.6 billion as at the end of December 2016. Our debt ratios also remained comfortably within all our covenant requirements.

Total capital expenditure was RUB 9.9 billion in 2016, with the Pork division accounting for RUB 3.8 billion and the Poultry division RUB 2.9 billion. The remaining RUB 3.2 billion was spread across the other business divisions.

BUSINESS REVIEW

The Group is the largest, vertically integrated meat and feed producer in Russia, while we rank among the top three players in the country for pork and poultry. Our principal operations include: the production and sale of processed meat products, primarily in the European region of Russia; the breeding of broiler chickens; the processing and sale of chilled and frozen poultry products produced at our facilities in the Bryansk, Voronezh, Kursk, Lipetsk, Moscow, Penza and Tula Regions; the breeding of pigs at our facilities in the Vologda, Voronezh, Lipetsk, Moscow, Orel, Penza and Tambov Regions; the sale of live pigs; and the production of grain on the Group's land bank. We also carry out trading and distribution activities, as well as producing feed, which is used at our pork and poultry facilities.

The Group's operations are structured as four business divisions: Poultry, Pork, Meat Processing and Grain. The Poultry division consists of eight poultry breeding facilities and their associated trading company.

The Pork division operates fifteen state-of the-art breeding facilities, while the Meat Processing division comprises six processing plants, producing sausages, hams, ready-to-eat meats and other meat products. This division also carries out associated sales and trading operations. In 2016, the Grain division had 81,000 hectares of land under cultivation. Cherkizovo Group operates nine feed mills to meet the needs of its divisions. All of our operating divisions are also involved in other non-core activities. The expenses of the management company are recorded under Corporate Expenditure.

In 2016, Cherkizovo Group sold over 903,000 tonnes of meat products, outperforming all of our industry peers. According to the Russian Poultry Union, as well as our own estimates, we are the second largest poultry producer overall in Russia but have a market leading position in Moscow and Moscow region. According to the National Union of Pork Producers, we are also the third largest producer in Russia's highly fragmented pork market.

In 2016, total sales by volume in the Poultry division reached 500,000 tonnes of sellable weight, 218,000 tonnes in the Meat Processing division and 185,000 tonnes of live weight produced in the Pork division while grain sales totalled 339,000 tonnes. The Group also produced 1.57 million tonnes of feed for internal consumption.

MARKET AND REGULATORY REVIEW

Income tax benefit

According to the Russian Tax Code, agricultural producers benefit from zero income tax. For Cherkizovo Group, this rate applies to the poultry, pork and grain operations. However, the zero tax rate does not apply to our Trading, Distribution, Feed Production and Meat Processing segments. As a result, the effective tax rate was 3.7% in 2016, compared to 2.5% in 2015, whereas the general corporate tax rate in Russia is 20%.

Beginning in 2017, the Group is allowed to offset 50% of the taxable profit produced by each subsidiary against any tax loss accumulated by the subsidiary carried forward. There is no expiration date for any tax losses carried forwards (after amendments to the Russian Tax Code effective 1 January 2017).

Reimbursement of interest expense

Agricultural enterprises are eligible for reimbursement of interest expense on investment and working capital loans taken before 31 December 2016, equal to the official Central Bank of Russia (CBR) refinancing rate (the "refinancing rate") effective on the date of the loan agreement, where two thirds of the refinancing rate is reimbursed by the State Budget and the remaining one third of the refinancing rate us reimbursed by the regional authorities. From 1 January 2016, the refinancing rate was equal to the key rate. Between 1 January and 10 June 2016, the key rate was fixed at 11%; from 10 June 2016 to 16 September 2016, the key rate was fixed at 10.5%; and from 19 September 2016 to 31 December 2016 the key rate was fixed at 10%.

Financial Report (continued)

Following the stagnation in the economy in 2016 and the resulting significant budget deficit, the Russian Government has slowed down subsidy payments. In the fourth quarter of 2016, the Russian Government announced a new policy regarding subsidies 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 rouble-denominated loans. The Government then provides a subsidy to the banks compensating them for the difference between the market and actual rates. Given the uncertainty surrounding the collectability of subsidies accrued under the previous policy, management has taken the view that only subsidies on qualifying loans that are confirmed by the Ministry of Agriculture will be recognised in the accounts. The change in estimated amount of subsidies to be received has resulted in a decrease in the subsidies receivable balance and an increase in interest expense of RUB 1.3 billion.

FOREIGN EXCHANGE DIFFERENCES

Cherkizovo products are typically priced in roubles. A significant portion of raw materials costs such as feed components and veterinary supplies are denominated in foreign currency. Other costs, such as payroll, transportation expenses and interest expense, are incurred in roubles.

At the beginning of 2016, there was significant rouble weakness and volatility against the leading global currencies. During first and second quarters, the rouble was less volatile and started to strengthen against global currencies. According to the Central Bank of Russia, the official exchange rates as at 1 January 2016 were 72.93 rouble per US dollar and 79.64 rouble per euro while by 31 December 2016, these exchange rates were 60.66 and 63.81 respectively. As at 31 December 2016, 97% of our long-term and 100% of our short-term outstanding debt (excluding finance leases) consisted of rouble-denominated loans.

PJSC CHERKIZOVO GROUP 2016 CONSOLIDATED RESULTS

The year 2016 was very much one of two halves for the Group. Although we were able to achieve strong volume growth, we experienced particularly challenging market conditions with unusually low prices in early 2016. As market conditions and prices gradually improved throughout the year, we were able to deliver a strong set of operating results for the year as a whole, with Group revenue for 2016 of RUB 82.4 billion, an increase of 7% year on year, and driven largely by the Poultry and Meat Processing segments.

Gross profit fell by 7% in 2016 to RUB 17.9 billion from RUB 19.1 billion in 2015. The majority of this decrease can be attributed to the Poultry and Pork segments, where a significant portion of costs are denominated in foreign currencies (mainly the US dollar) and are, therefore, affected by exchange rate movements. As a result of these higher costs, principally caused by adverse exchange rate fluctuations in the beginning of the year, the gross margin consequently fell to 21.7% in 2016 from 24.9% in 2015.

Operating expenses increased by 10% year-on-year to RUB 12.8 billion in 2016, compared to RUB 11.6 billion in 2015, as a result of higher payroll, taxes, transportation and other selling expenses. Adjusted EBITDA fell by 19% year-on-year to RUB 10.3 billion from RUB 12.6 billion in 2015.

The adjusted EBITDA margin fell to 12.5% in 2016. Our focus in the year ahead remains on enhancing operational efficiency across all segments, and we are confident that our continuing efforts combined with the anticipated improvement in market conditions, will lead to an improvement in profitability in 2017.

Interest expense rose 14% year-on-year to RUB 4.5 billion in 2016. While the Group's loan portfolio decreased by 6% to RUB 38.6 billion as at the end of 2016 (2015: RUB 41.2 billion), net interest expense for 2016 was RUB 3.7 billion, up 174% from RUB 1.4 billion in 2015 resulting from write-off of RUB 1.3 billion of unrecoverable interest subsidies. The Group accrued RUB 0.7 billion of subsidies in 2016, which are included in the net interest expense figure above and represent a year-on-year decrease of 71%, primarily due to the change in management's estimates of subsidy recognition and the related write-off of subsidies receivable which are not expected to be recovered.

See market and regulatory review section.

Net profit decreased by 68% in 2016 to RUB 1.9 billion compared to RUB 6.0 billion in 2015. This was primarily due to the write-off of RUB 1.3 billion of interest subsidies, which are not expected to be recovered, and to the write-off of RUB 0.3 billion of receivables due from insurance regarding ASF compensation. As a result, the net profit margin fell to 2.3% in 2016 from 7.8% in 2015.

In 2016, net operating cash flow rose to RUB 9.4 billion compared with RUB 5.0 billion in 2015 as a result of the improvement in working capital (revision of payment terms with suppliers and better inventory management).

Consolidated income statement data

(in thousands of roubles)	Year ended 31 December 2016	Year ended 31 December 2015
Sales	**82,417,193**	**77,032,622**
incl. Sales volume discounts	(5,886,114)	(5,343,155)
incl. Sales returns	(952,321)	(1,034,171)
Net change in fair value of biological assets and agricultural produce	(340,063)	(1,163,727)
Cost of sales	(64,222,344)	(56,720,216)
Gross profit	**17,854,786**	**19,148,679**
Gross margin	21.7%	24.9%
Operating expenses	(12,798,313)	(11,614,653)
Operating Income	**5,056,473**	**7,534,026**
Operating margin	6.1%	9.8%
Profit before income tax and non-controlling interests	**1,960,379**	**5,871,749**
Profit attributable to Group Cherkizovo	**1,919,227**	**6,007,482**
Net profit margin	2.3%	7.8%
Weighted average number of shares outstanding	**43,855,590**	**43,855,590**
Earnings per share		
Profit attributable to Cherkizovo Group per share – basic and diluted (roubles)	**43.76**	**136.98**
Consolidated Adjusted EBITDA reconciliation*		
Profit before income tax and non-controlling interests	**1,960,379**	**5,871,749**
Add:		
Interest expense, net of subsidies	3,738,315	1,364,766
Interest income	(343,737)	(285,762)
Foreign exchange (gain)/loss, net	(621,087)	646,802
Depreciation and amortisation	4,660,365	3,826,525
Net change in fair value of biological assets and agricultural produce	340,063	1,163,727
Share of loss of a joint venture	200,191	-
Write-off of receivables from insurance company	347,975	-
Loss on disposal of subsidiaries	-	42,569
Consolidated Adjusted EBITDA*	**10,282,464**	**12,630,376**
Adjusted EBITDA Margin	12.5%	16.4%

Financial Report (continued)

12 Months 2016 ended December 31, 2016 Consolidated Selected Financial Data

(in thousands of roubles)	Meat Processing	Pork	Poultry	Grain	Feed	Corporate assets/ expenditure	Inter-division	Combined
Total sales	31,667,448	15,920,146	47,724,031	3,055,762	28,727,843	126,251	(44,804,288)	82,417,193
including other sales	526,538	171,106	1,331,875	47,426	-	126,251	(783,561)	1,419,635
including sales volume discounts	(4,545,908)	-	(1,340,206)	-	-	-	-	(5,886,114)
Intersegment sales	(22,795)	(12,634,006)	(1,961,921)	(1,956,712)	(28,146,309)	(82,545)	44,804,288	-
Sales to external customers	31,644,653	3,286,140	45,762,110	1,099,050	581,534	43,706	-	82,417,193
Net change in fair value of biological assets and agricultural produce	-	861,422	(288,114)	(477,482)	-	-	(435,889)	(340,063)
Cost of sales	(26,141,947)	(12,182,666)	(40,049,212)	(2,873,596)	(28,109,353)	(78,511)	45,212,941	(64,222,344)
Gross profit / (loss)	**5,525,501**	**4,598,902**	**7,386,705**	**(295,316)**	**618,490**	**47,740**	**(27,236)**	**17,854,786**
Operating expense	(3,743,466)	(782,107)	(5,035,890)	(267,828)	(404,658)	(2,645,471)	81,107	(12,798,313)
Operating income / (expense)	**1,782,035**	**3,816,795**	**2,350,815**	**(563,144)**	**213,832**	**(2,597,731)**	**53,871**	**5,056,473**
Other income (expense), net	207,378	(289,198)	(114,744)	4,885	319,704	820,560	(306,364)	642,221
Interest expense, net	(245,885)	(964,742)	(1,076,908)	(94,361)	(930,799)	(731,984)	306,364	(3,738,315)
Profit before income tax (division profit)	**1,743,528**	**2,562,855**	**1,159,163**	**(652,620)**	**(397,263)**	**(2,509,155)**	**53,871**	**1 ,960, 379**
Adjustments for:								
Interest expense, net	245,885	964,742	1,076,908	94,361	930,799	731,984	(306,364)	3,738,315
Interest income	(9,561)	(33,764)	(173,895)	(1,710)	(10,723)	(420,448)	306,364	(343,737)
Foreign exchange loss/(gain)	(192,501)	(22,285)	304,147	(3,026)	(307,559)	(399,863)	-	(621,087)
Depreciation and amortisation expense	639,237	1,010,334	1,969,279	295,430	590,646	155,439	-	4,660,365
Net change in fair value of biological assets and agricultural produce	-	(861,422)	288,114	477,482	-	-	435,889	340,063
Share of loss of a joint venture	-	-	-	-	-	200,191	-	200,191
Write-off of receivables from insurance company	-	347,975	-	-	-	-	-	347,975
Adjusted EBITDA	**2,426,588**	**3,968,435**	**4,623,716**	**209,917**	**805,900**	**(2,241,852)**	**489,760**	**10,282,464**

Total net division profit	**1,960,379**
Non-controlling interests	31,709
Income taxes	(72,861)
Profit attributable to Cherkizovo Group	**1,919,227**

POULTRY DIVISION

In 2016, sales volumes increased 6% year-on-year to 500,321 tonnes of sellable weight, from 470,432 tonnes in 2015. This growth was driven primarily by higher production levels, which resulted from improvements in efficiency and the launch of new poultry houses at the Mosselprom production facility.

The average price during 2016 was flat compared to the previous year and stood at 94.94 RUB/kg*. Total sales for the division increased 7% year-on-year to RUB 47.7 billion (2015: RUB 44.6 billion).

* Here and below, all average prices exclude VAT.

Gross profit fell by 12% year-on-year to RUB 7.4 billion from RUB 8.4 billion in 2015 due to higher costs for feed components, hatching eggs and veterinary supplies which are denominated in foreign currencies (mostly US dollars) and were, therefore, negatively impacted by adverse exchange rate movements during the year. The negative impact was most acute in the first quarter of the year when the Russian rouble hit a new record low. The currency situation has since stabilised, although the average real exchange rate for 2016 was still 10% lower year-on-year. The gross margin for 2016 decreased to 15.5% from 18.9% in 2015.

Operating expenses as a percentage of sales were slightly lower at 10.6%, compared to 11.4% in 2015. Operating income fell by 30% year-on-year to RUB 2.4 billion from RUB 3.3 billion in 2015, while the operating margin fell to 4.9% from 7.5% in the corresponding period of last year. Net profit for the division was RUB 1.2 billion, a year-on-year drop of 67%. This was mainly a result of the higher costs of feed components and other direct materials, which were denominated in foreign currencies and were negatively impacted by the adverse exchange rate movements during the year.

Adjusted EBITDA fell by 16% year-on-year to RUB 4.6 billion (2015: RUB 5.5 billion), while the adjusted EBITDA margin fell to 9.7% from 12.3% in 2015.

Poultry division income statement data

(in thousands of roubles)	Year ended 31 December 2016	Year ended 31 December 2015
Total Sales	47,724,031	44,590,211
Interdivision sales	(1,961,921)	(2,640,958)
Sales to external customers	**45,762,110**	**41,949,253**
Net change in fair value of biological assets and agricultural produce	(288,114)	(283,880)
Cost of sales	(40,049,212)	(35,901,044)
Gross profit	**7,386,705**	**8,405,287**
Gross margin	15.5%	18.9%
Operating expenses	(5,035,890)	(5,061,999)
Operating Income	**2,350,815**	**3,343,288**
Operating margin	4.9%	7.5%
Interest income	173,895	175,026
Interest expense, net	(1,076,908)	(628,523)
Other (expenses) income, net	(288,639)	619,720
Division profit	**1,159,163**	**3,509,511**
Division profit margin	2.4%	7.9%
Poultry processing division Adjusted EBITDA reconciliation*		
Division profit	**1,159,163**	**3,509,511**
Add:		
Interest expense, net of subsidies	1,076,908	628,523
Interest income	(173,895)	(175,026)
Foreign exchange loss/(gain)	304,147	(614,651)
Depreciation and amortisation	1,969,279	1,862,574
Net change in fair value of biological assets and agricultural produce	288,114	283,880
Poultry processing division Adjusted EBITDA*	**4,623,716**	**5,494,811**
Adjusted EBITDA Margin	9.7%	12.3%

Financial Report (continued)

PORK DIVISION

Production volumes in the Pork division increased by 9% year-on-year in 2016, to 184,766 tonnes. This was primarily due to a new genetics improvement strategy launched by the management at the beginning of the year to improve the health status of pigs and efficiency by increasing liveability and weekly farrows. The launch of two new wean-to-finish sites in Voronezh region also helped to boost production.

In 2016, the average pork price decreased by 10% year-on-year to 88.28 RUB/kg. This fall was primarily a result of Russian consumers' lower purchasing power and an overall increase in pork production across the country.

Total sales in the Pork division fell by 4% in 2016 to RUB 15.9 billion compared to RUB 16.6 billion in 2015. This dip in sales was expected, and in line, with the 10% fall in the average price year-on-year. Gross profit in 2016 stood at RUB 4.6 billion, a decrease of 1% from 2015 (2015: RUB 4.7 billion) while the gross margin rose to 28.9% from 28.1% in 2015.

Operating expenses as a percentage of sales in 2016 were slightly higher compared to 2015 and stood at 4.9% (2015: 4.0%), the rise being primarily attributable to the increase in transportation expenses.

Operating income fell by 5% year-on-year to RUB 3.8 billion from RUB 4.0 billion in 2015, while the operating margin fell to 24.0% from 24.1% in the previous year. Net profit decreased by 28% year-on-year to RUB 2.6 billion (2015: RUB 3.6 billion).

Adjusted EBITDA declined to RUB 4.0 billion, representing a year-on-year decrease of 37%. The adjusted EBITDA margin fell to 24.9% in 2016 from 37.9% in 2015.

Pork division income statement data

(in thousands of roubles)	Year ended 31 December 2016	Year ended 31 December 2015
Total Sales	15,920,146	16,579,185
Interdivision sales	(12,634,006)	(11,502,192)
Sales to external customers	**3,286,140**	**5,076,993**
Net change in fair value of biological assets and agricultural produce	861,422	(1,387,143)
Cost of sales	(12,182,666)	(10,529,115)
Gross profit	**4,598,902**	**4,662,927**
Gross margin	28.9%	28.1%
Operating expenses	(782,107)	(662,041)
Operating Income	**3,816,795**	**4,000,886**
Operating margin	24.0%	24.1%
Interest income	33,764	11,102
Interest expense, net	(964,742)	(356,155)
Other (expenses)/income, net	(322,962)	(84,954)
Division profit	**2,562,855**	**3,570,879**
Division profit margin	16.1%	21.5%
Pork division Adjusted EBITDA reconciliation*		
Division profit	**2,562,855**	**3,570,879**
Add:		
Interest expense, net of subsidies	964,742	356,155
Interest income	(33,764)	(11,102)
Foreign exchange (gain)/loss	(22,285)	71,822
Depreciation and amortisation	1,010,334	869,643
Net change in fair value of biological assets and agricultural produce	(861,422)	1,387,143
Write-off of receivables from insurance company	347,975	-
Loss on disposal of subsidiaries	-	42,569
Pork division Adjusted EBITDA*	**3,968,435**	**6,287,109**
Adjusted EBITDA Margin	24.9%	37.9%

MEAT PROCESSING DIVISION

During 2016, sales volumes in the Meat Processing division grew by 14% year-on-year to 218,085 tonnes from 191,200 tonnes in 2015, which was primarily due to production growth in non-sausage products. The average price in this segment fell by 3% year-on-year to 167.84 RUB/kg due to non-sausage products representing a greater share of sales. Overall total sales were 9% higher in 2016 and reached RUB 31.7 billion (2015: RUB 29.2 billion).

Gross profit increased by 28% year-on-year to RUB 5.5 billion, compared to RUB 4.3 billion in 2015, while the gross margin rose to 17.4% in 2016 from 14.8% in 2015.

In 2016, operating expenses as a percentage of sales rose to 11.8%, compared to 10.5% in 2015, which was primarily due to higher transportation and payroll expenses. Operating income increased by 42% year-on-year to RUB 1.8 billion from RUB 1.3 billion in 2015, while the operating margin rose to 5.6% from 4.3% in 2015.

The Meat Processing segment generated net profit of RUB 1.7 billion in 2016, representing an increase of 96% compared to 2015 (2015: RUB 0.9 billion).

In 2016, adjusted EBITDA demonstrated growth of 38% and reached RUB 2.4 billion (2015: RUB 1.8 billion), while the adjusted EBITDA margin rose to 7.7% in 2016, compared to 6.0% in 2015.

Meat Processing division income statement data

(in thousands of roubles)	Year ended 31 December 2016	Year ended 31 December 2015
Total Sales	31,667,448	29,150,254
Interdivision sales	(22,795)	(32,016)
Sales to external customers	**31,644,653**	**29,118,238**
Cost of sales	(26,141,947)	(24,835,957)
Gross profit	**5,525,501**	**4,314,297**
Gross margin	17.4%	14.8%
Operating expenses	(3,743,466)	(3,060,987)
Operating Income	**1,782,035**	**1,253,310**
Operating margin	5.6%	4.3%
Interest income	9,561	10,405
Interest expense, net	(245,885)	(202,541)
Other (expenses)/income, net	197,817	(173,722)
Division profit	**1,743,528**	**887,452**
Division profit margin	5.5%	3.0%
Meat Processing division Adjusted EBITDA reconciliation*		
Division profit	**1,743,528**	**887,452**
Add:		
Interest expense, net of subsidies	245,885	202,541
Interest income	(9,561)	(10,405)
Foreign exchange (gain)/loss	(192,501)	205,719
Depreciation and amortisation	639,237	467,157
Meat Processing division Adjusted EBITDA*	**2,426,588**	**1,752,464**
Adjusted EBITDA Margin	7.7%	6.0%

Financial Report (continued)

GRAIN DIVISION

Sales in the Grain division, representing a variety of different crops, grew by 27% in 2016 to 338,808 tonnes compared to 267,371 tonnes in 2015. This increase was primarily driven by a 41% increase in the Group's harvest to 467,916 tonnes, versus 332,866 tonnes in 2015.

The average crop yield of the Group's land under cultivation increased by 47% to 5.75 t/ha, while the Group's tillable land area grew by 4% year-on-year to 94,814 ha.

The average grain price for 2016 fell by 6% year-on-year to 8.83 RUB/kg as a result of a record harvest in the country.

Grain division income statement data

(in thousands of roubles)	Year ended 31 December 2016	Year ended 31 December 2015
Total Sales	3,055,762	2,580,713
Interdivision sales	(1,956,712)	(2,117,129)
Sales to external customers	**1,099,050**	**463,584**
Net change in fair value of biological assets and agricultural produce	(477,482)	326,376
Cost of sales	(2,873,596)	(1,827,087)
Gross (loss)/profit	**(295,316)**	**1,080,002**
Gross margin	(9.7%)	41.8%
Operating expenses	(267,828)	(242,294)
Operating (Loss)/Income	**(563,144)**	**837,708**
Operating margin	(18.4%)	32.5%
Interest income	1,710	330
Interest expense, net	(94,361)	(14,277)
Other (expenses)/income, net	3,175	15,225
Division (loss)/ profit	**(652,620)**	**838,986**
Division profit margin	(21.4%)	32.5%
Grain processing division Adjusted EBITDA reconciliation*		
Division (loss)/profit	**(652,620)**	**838,986**
Add:		
Interest expense, net of subsidies	94,361	14,277
Interest income	(1,710)	(330)
Foreign exchange (gain)/loss	(3,026)	17,144
Depreciation and amortisation	295,430	167,236
Net change in fair value of biological assets and agricultural produce	477,482	(326,376)
Grain processing division Adjusted EBITDA*	**209,917**	**710,937**
Adjusted EBITDA Margin	6.9%	27.5%

LIQUIDITY AND CAPITAL RESOURCES

Capital requirements

During 2016, significant progress was made to improve the Group's working capital, evidenced by a strengthened net operating cash flow position at the end of the year. In addition to the working capital, the Group's capital is used to finance the following:

- capital expenditure, primarily to further enhance our production segments;
- repayment of debt.

We anticipate capital expenditure and repayment of our long-term debt to be the most significant expense items over the next few years.

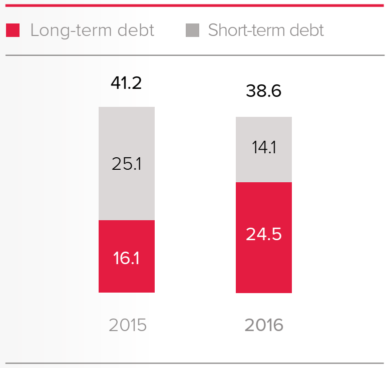
We generally rely on operating cash flows and bank loans to finance capital expenditure. In 2016, our major funding sources were cash from operating activities, as well as short-term and long-term bank loans.

We financed our capital expenditure primarily with long-term loans and own funds.

Maturities of long-term loans and borrowings (excluding finance leases), as of 31 December 2016

Maturities of long-term loans and borrowings	2017, RUB bn	2018, RUB bn	2019, RUB bn	2020, RUB bn	2021, RUB bn	2022, RUB bn	>2022, RUB bn	Total, RUB bn
Total loans and borrowings	3.4	7.3	5.3	6.7	1.8	2.0	1.0	27.5

Debt structure, RUB bln



Debt

As of 31 December 2016, net debt amounted to RUB 36.9 billion, compared to RUB 35.0 billion at the end of 2015. Total debt stood at RUB 38.6 billion as of 31 December 2016, a decrease of 6% from the end of 2015. As of 31 December 2016, long-term debt represented 63% of the debt portfolio and amounted to RUB 24.5 billion. Short-term debt stood at RUB 14.1 billion, or 37% of the portfolio. The effective cost of debt was 9.7% in 2016 (2015: 3.3%). Subsidised loans and credit lines made up 35% of the debt portfolio in 2016 (2015: 81%). Cash and cash equivalents totalled RUB 1.0 billion as of 31 December 2016.

Capital expenditure

The Group's capital expenditure on property, plant, equipment and maintenance amounted to RUB 9.9 billion in 2016, representing a year-on-year decrease of 10%. Of that, RUB 2.9 billion was invested in the Poultry division, primarily in the construction of the hatchery and grain storage facility in the Lipetsk region (Eletsprom Project). In the Pork division, RUB 3.8 billion was invested in the purchase of equipment for the new finisher complexes in Voronezh region, as well as constructing new finisher complexes in Lipetsk region. RUB 1.5 billion was invested in the Meat Processing division for the construction of the Kashira meat processing plant in Moscow Region.

Financial Report (continued)

In the Grain division, RUB 1.2 billion was invested in the construction of a new grain drying facility. The feed division received RUB 0.2 billion of investment while the Cherkizovo Group also invested RUB 1.1 billion in the Tambov Turkey project in 2016.

Subsidies

In 2016, the Group accrued subsidies for interest reimbursement of RUB 0.7 billion, which offset interest expense (2015: RUB 2.6 billion). The Group received RUB 1.4 billion of subsidies in 2016, compared to RUB 2.0 billion in 2015.

Cash flows

Net operating cash flow for 2016 was RUB 9.4 billion, representing a significant increase compared with RUB 5.0 billion in 2015. This was primarily attributable to the improvement in working capital (revision of payment terms with suppliers and better inventory management).

Operating activities

Net cash from operating activities grew by 88% to RUB 9.4 billion in 2016 compared to RUB 5.0 in 2015.

In 2016, the Group reduced its working capital by RUB 2.6 billion year-on-year (2015: increase of RUB 5.7 billion).

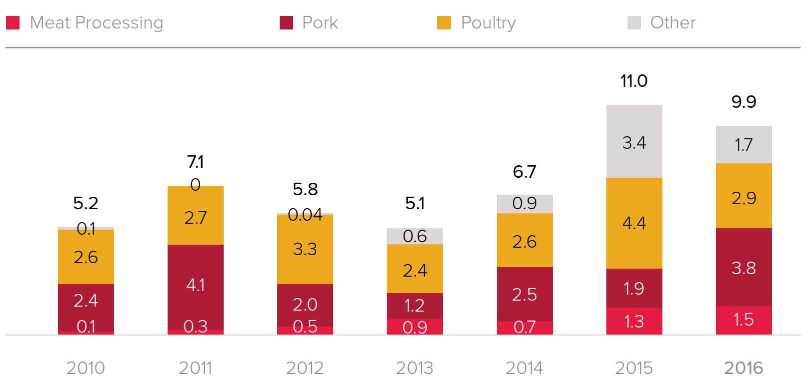
The key factors driving the change in working capital include:

- A RUB 0.8 billion decrease in inventories (2015: an increase of RUB 4.6 billion)
- A RUB 0.9 billion decrease in other receivables and other current assets (2015: growth of RUB 1.5 billion)
- A RUB 0.8 billion decrease in advances paid (2015: an increase of RUB 0.5 billion)

A year-on-year decrease in inventory was due to improvements in inventory management.

A decrease in other receivables was due to write-off of unrecoverable interest subsidies.

Capital expenditures, RUB bln



Cash flows, RUB bln

	2016	2015
Net cash flows from operating activities	9.4	5.0
Net cash flows used in investing activities	(10.6)	(10.1)
Net cash (used in) / generated from financing activities	(3.3)	9.6
Net (decrease)/increase in cash and cash equivalents	(4.6)	4.6

A decrease in advances paid was attributable to the implementation of a new payment policy with improved standard payment terms.

Investing activities

Net cash used in investing activities was RUB 10.6 billion in 2016, compared to RUB 10.1 billion in 2015.

Financing activities

In 2016, net cash used in financing activities was equal to RUB 3.3 billion.

Liquidity

As at 31 December 2016, total cash and cash equivalents was RUB 1.0 billion (2015: RUB 5.6 billion), and working capital stood at RUB 5.5 billion (2015: RUB 2.2 billion).

Since 31 December 2016, we have continued to meet our payment obligations to trade creditors using cash generated from operating activities and debt financing.

As at 31 December 2016, our trade working capital, calculated as current assets less current liabilities, excluding short-term loans and the current portion of long-term debt, was RUB 19.6 billion (2015: RUB 27.3 billion).

In 2016, trade receivables grew to RUB 4.9 billion (2015: RUB 4.4 billion). As at 31 December 2016, our trade receivables from related parties totalled RUB 0.3 billion (2015: RUB 0.2 billion). As at 31 December 2016, trade receivables turnover averaged 21 days (2015: 20 days) while the allowance for doubtful accounts was RUB 0.05 billion (2015: RUB 0.05 billion).

As at 31 December 2016, our trade payables increased to RUB 8.6 billion (2015: RUB 8.5 billion). Our payables to related parties was RUB 0.15 billion (2015: RUB 0.02 billion). As at the reporting date, our trade payables turnover averaged 49 days (2015: 41 days).

As at 31 December 2016, advances paid, excluding the allowance for doubtful accounts, amounted to RUB 1.7 billion (2015: RUB 2.7 billion). Of total advances paid, RUB 0.2 billion was given to related parties (2015: RUB 0.1 billion). As at 31 December 2016, the allowance for doubtful accounts on advances paid was RUB 0.1.

Our inventories consist primarily of raw materials and goods for resale, work in progress, and finished goods. As at 31 December 2016, inventories amounted to RUB 10.6 billion (2015: RUB 12.3 billion).

As at 31 December 2016, the value of our livestock amounted to RUB 10.7 billion (2015: RUB 9.8 billion). Other receivables primarily include subsidies from the government, which decreased to RUB 1.1 billion in 2016 (2015: RUB 1.4 billion).

OUTLOOK

There are signs that the macroeconomic situation in Russia is starting to recover, with GDP expected to return to moderate growth during 2017. Consumer spending is expected to rise as inflation is forecast to be at a record low level. The investment climate is also improving and foreign direct investment is expected to continue its rebound from pre-recession levels. It is anticipated that the first quarter of the year will be soft, as is often the case for Cherkizovo Group's business. The Group's first quarter margins tend to be the lowest in the year as a result of the typical post-holiday drop in consumer spending and seasonally low meat consumption at the beginning of the year.

Having completed the majority of our capital-intensive development phase, Cherkizovo Group is now looking at a more modest CAPEX in 2017. We are shifting our investment focus from development to a combination of maintenance, operational efficiency and the production of higher-margin, value-added products. In 2017, we will continue to build on our competitive advantages, as well as capitalising on both domestic market consolidation and selective international opportunities.

Ludmila Mikhailova
Chief Financial Officer

*__Non-IFRS financial measures.__ This report includes financial information prepared in accordance with international financial reporting standards, or IFRS, as well as other financial measures referred to as non-IFRS. The non-IFRS financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS.

Adjusted Earnings before Interest, Income Tax, Depreciation and Amortization ("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. Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of our net revenues. Our adjusted EBITDA may not be similar to adjusted EBITDA measures of other companies; is not a measurement under IFRS accounting principles and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that adjusted EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our adjusted EBITDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within our industry.

** **Net debt** is calculated as total debt minus cash and cash equivalents, short-term bank deposits and long-term bank deposits.

Stepping Up

the Transparency Ladder

In 2016, Cherkizovo Group enhanced its Corporate Governance structure and moved towards greater transparency while making the role of independent director on the Board more prominent. The newly elected members of the Board and the strengthened Executive team bring a wealth of international knowledge and experience to lead the Group through its new, exciting development phase for the benefit of all its stakeholders.

CORPORATE GOVERNANCE

The Board of Directors and the Management are committed to the creation of shareholder value and following sound corporate governance practices that meet the expectations of all of our stakeholders.

P. 58-68

SHAREHOLDER STRUCTURE

The Group's biggest shareholders are MB Capital Europe Ltd., Prosperity Capital Management Limited, Norges Bank and Grupo Fuertes.

P. 69

INVESTOR RELATIONS

Cherkizovo recognises the importance of maintaining open and transparent communication with shareholders, bondholders and potential investors.

P. 70

SUSTAINABLE DEVELOPMENT

We see sustainability as the main pillar of our future growth, underpinning the robustness and resilience of our business model.

P. 71-75

Corporate Governance

DIRECTORS STATEMENT

The Board of Directors and the Management are committed to the creation of shareholder value and following sound corporate governance practices that meet the expectations of all of our stakeholders. Therefore, we are pleased to present the Group's annual report and audited financial statements for the year ending 31 December 2016.

During 2016, we further strengthened our Board to ensure our team brings together the world-class expertise needed to lead the Group through its next stage of development.

Corporate governance system

Cherkizovo Group has been a public company for over ten years. The Group's ordinary shares are listed on the Moscow Exchange (Listing Level 1) and its Global Depository Receipts (GDRs) are listed on the London Stock Exchange (LSE), with a combined free float of approximately 35% of total shares.

To meet its ongoing obligations, the Group follows the guidelines of the Corporate Governance Code (2014), as approved by the Russian Government, and recommended to issuers by the Central Bank of Russia.

The document is available at: http://www.cbr.ru/Eng/sbrfr/files/Corporate_Governance_Code.pdf

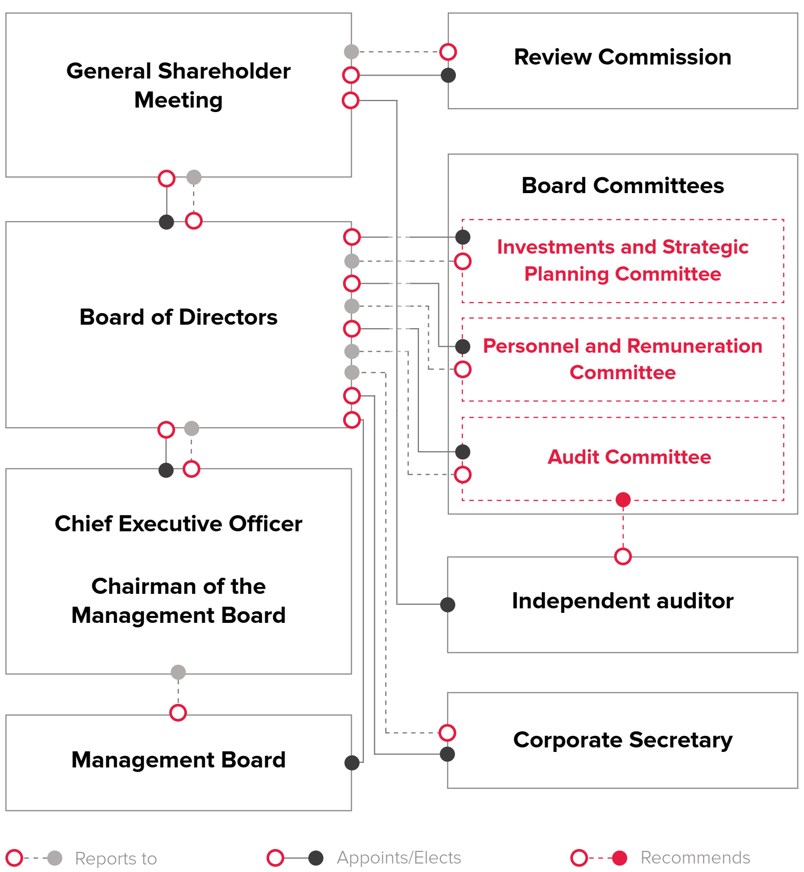
Under Russian law, the Russian Civil Code governs the Group's actions, as do the Law on Joint Stock Companies, other Russian laws and regulations, and its Charter. In addition, the Group is governed by its own internally approved regulations, including:

- Regulations for the General Meeting of Shareholders
- Regulations for the Board of Directors
- Regulations for the Review Commission
- Regulations for the Management Board
- Regulations for the General Director
- Regulations for the Board of Directors Audit Committee
- Regulations for the Board of Directors Personnel and Remuneration Committee
- Regulations on dividend policy
- Regulations on insider information
- Regulations on bonuses and allowances payable to members of the Board of Directors

These documents are available at: http://cherkizovo.com/en/company/corporate-governance/documents/.

In 2016, Cherkizovo Group took a number of steps designed to increase the role of independent directors and strengthening the Board and other governance systems in order to safeguard the interests of all shareholders. The new Board will now focus on developing the Group's future development strategy and leveraging the Group's vertically integrated structure to drive increases in operational efficiency.

CORPORATE GOVERNANCE STRUCTURE



Going concern

The Board of Directors is satisfied that the Group's financial statements have been prepared by applying the 'going concern' principle, and that the same principle is embedded in the 2017 budget and long-term plans of the Group.

Dividends

In 2016, Cherkizovo Group paid RUB 1 billion in dividends (RUB 22.75 per ordinary share).

General Meeting of Shareholders

The Group's ultimate governing body is the General Meeting of Shareholders, which provides all shareholders with the opportunity to communicate directly with members of the Board and the Management team. The Annual General Meeting of Shareholders (AGM) provides a forum for shareholders to raise issues both formally and informally with the directors. The running order of the AGM includes the presentation and approval of PJSC Cherkizovo Group's audited accounts, the election of directors and the appointment of auditors for the next year.

Last year, the Group held its AGM on 22 April 2016. Seven members were either elected or re-elected to serve on the new Board of Directors including four new non-executive directors.

See **Board of Directors** section on page 55 for more details.

During 2016, only one General Meeting of Shareholders was held with the following agenda items:

- Election of members to the Counting Comission
- Approval of the Group's annual report
- Approval of the Group's annual financial statements
- Review and approval of the Group's profit distribution and dividend payments for 2015
- Approval of the number of members to be included in the Group's Board of Directors
- Election of the Group's Board of Directors
- Election of members to the Group's Review Commission
- Approval of the Group's auditor
- Approval of the Group's internal documents

BOARD OF DIRECTORS

In 2016, we reviewed the composition of the Board to ensure the combined expertise of our directors is aligned with the Group's future plans.

The new Board comprises seven members, including four new non-executive Directors. The Board was elected on 22 April 2016. The current Board brings together a group of talented individuals with a strong understanding of our industry, our sector and our strategic goals. We are confident that we now have the right team in place to drive future growth and exploit the full potential of our vertically integrated structure.

The Board of Directors includes three independent directors: Elliot Brinton Jones, Emin Tofik Oglu Mammadov, elected to the Board in April 2016, and Vitaliy Podolskiy, re-elected to the Board in April 2016, all of whom meet the independent director criteria of the Russian and UK Corporate Governance Codes. Richard Paul Sobel and Rafael Fuertes were also elected to the Board in April 2016 as non-executive directors.

Further significant changes to the Board in 2016 included the election of Evgeny Mikhailov as Chairman of the Board of Directors. Previously head of the Investment Projects department at Cherkizovo Group, he was elected Chairman at the first meeting of the Group's new Board of Directors held on 17 May 2016. During the same session, the Board also passed a resolution to create a new position, deputy Chairman of the Board of Directors, to which Richard Sobel was elected.

The role of the Board

The Board is accountable to shareholders for the creation and delivery of a strong, sustainable financial performance and long-term shareholder value. It meets these objectives by confirming the Group's strategy and ensuring that the necessary resources are in place to achieve these strategic goals. The Board also sets the Group's key policies and reviews management and financial performance.

The full list of the Board's responsibilities at: http://cherkizovo.com/en/company/corporate-governance/.

The Board operates within a clearly established framework of controls and procedures and follows defined lines of responsibility. This structure allows for the internal controls and external risks to be assessed and managed effectively.

The Board of Directors is responsible for the general management of the Group, including determining its business priorities, convening the Annual and Extraordinary General Meeting of Shareholders and appointing the executive bodies of the Group, among other functions.

The full list of Board competences is outlined in Art. 12.1,2 of the Charter available on the website at: http://cherkizovo.com/upload/iblock/40d/40d48ca92e930d064a23dbb9ec3bcad4.pdf

According to the Group's Charter, Board resolutions are adopted upon their approval by a majority vote of the Directors present at the meeting. Exceptions to this rule are matters, such as major transactions, that require approval by unanimous vote in accordance with Russian law. Meetings of the Board are considered duly convened if the majority of the directors are present.

Corporate Governance (continued)

Meetings of the Board are held as per the annual schedule and on an ad hoc basis whenever necessary, but no fewer than five times a year. Matters requiring decisions outside of the scheduled meetings are dealt with through additional meetings and conference calls.

As of the date of publication of this report, the Board had met seven times since the beginning of the corporate year (April 22, 2016) to discuss all relevant matters within its remit.

Information on the items reviewed at these Board meetings is disclosed in the form of press releases and these are available at: http://cherkizovo.com/en/press/

Election and Re-election

According to the Group's Charter, the entire Board of Directors is re-elected at every Annual General Meeting of Shareholders. Directors are elected by cumulative voting, where each shareholder may cast all of their votes equal to the number of voting shares held, multiplied by the number of directors to be elected to the Board.

Each shareholder may either cast all of their votes for one nominee or distribute votes among two or more nominees. Directors may be removed from office by a majority vote at the Meeting of Shareholders at any time and without explanation.

Members of the Board

The Board of Directors was elected on 22 April 2016 and consists of seven members with a wide range of professional expertise.

EVGENY MIKHAILOV

Chairman of the Board

Evgeny Mikhailov is the Chairman of the Board of Directors of Cherkizovo Group PJSC. From 2004, he was also a member of the Board of Directors and first deputy CEO of AIC Mikhailovsky OJSC. In 2002, he worked as a financial analyst at Morgan Stanley, and, in 2001, was an assistant to the vice president of US telecommunications company, aTelo Inc., in Washington DC. He graduated from the University of California (Los Angeles) in 2004 with a degree in Business Economics.

SERGEY MIKHAILOV

Chairman of the Investment and Strategic Planning Committee, CEO of Cherkizovo Group

Sergey Mikhailov has been Chief Executive Officer and a member of the Board of Directors of Cherkizovo Group since 2006. Mr Mikhailov led Cherkizovo Group during its successful IPO on the London Stock Exchange in 2006, representing the first Russian agricultural company to be listed on the LSE.

In 2001, Mr Mikhailov was marketing director of Cherkizovo's Meat Processing Plant. He was promoted to deputy chief executive officer of the plant in 2002 and, a year later, he became its CEO.

In 1998, he founded the telecommunications company, aTelo, Inc., in the US and was its CEO until 2001. In 1998, he trained as a financial analyst at Goldman Sachs before moving to Morgan Stanley in 1999.

He graduated from Georgetown University (Washington DC) in 2000 with a degree in Finance and Economics.

RICHARD PAUL SOBEL

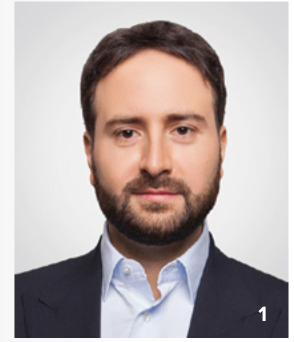
Deputy Chairman of the Board, non-executive director

Richard Paul Sobel was elected to the Board of Directors of Cherkizovo Group in 2016. He is a recognised expert in the field of direct investment. As one of the pioneers of the Russian private equity industry, Mr Sobel was a senior fund manager at Baring Asset Management (1994-1997) and at Alfa Capital Partners (2003-2011). He is the founder and manager of Altai Advisors, a consulting company which specialises in providing advice on potential investment opportunities in Russia, the CIS, Europe and the US. Previously, Mr Sobel was a consultant at Bain & Company in Boston, USA, and an investment executive in Moscow at Batterymarch Financial Management, the European Bank for Reconstruction and Development and CIBC Oppenheimer. He graduated from Stanford University and has an MBA from Harvard Business School.

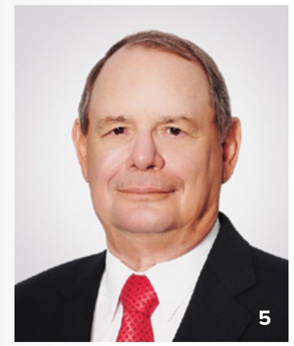
RAFAEL FUERTES

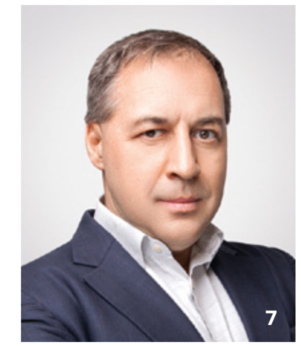
Non-executive director

Rafael Fuertes was elected to Cherkizovo Group's Board of Directors in 2016. He has extensive experience in the agricultural industry, primarily in animal breeding, meat processing and crop farming. Mr Fuertes is the Chairman of the Board of Directors of Grupo Fuertes, a leading Spanish agricultural holding company, which is a minority shareholder of Cherkizovo Group, with a 5.06% stake, and is a partner in the Tambov Turkey joint venture. He graduated from University of Murcia, Spain.









1. Evgeny Mikhailov
2. Sergey Mikhailov
3. Richard Paul Sobel
4. Rafael Fuertes
5. Elliot Brinton Jones
6. Emin Tofik oglu Mammadov
7. Vitaliy Podolskiy

ELLIOT BRINTON JONES

Independent non-executive director

Elliot Brinton Jones was elected to Cherkizovo Group's Board of Directors in 2016. He has a strong track record in the agricultural industry. Mr Jones is the owner of Jones and Jones Consulting and has over 16 years of experience in advising various poultry companies in the US and other countries on their strategic development. Prior to that, he worked for a number of US poultry and turkey production companies, including Foster Farms, Zacky Farms, Swift Dairy and Poultry Group. He graduated from the University of San Francisco.

EMIN TOFIK OGLU MAMMADOV

Chairman of the Personnel and Remuneration Committee, independent non-executive director

Emin Tofik Oglu Mammadov was elected to Cherkizovo Group's Board of Directors in 2016. He has broad experience in retail and consumer brand development in emerging markets. Mr Mammadov is President, Global Foodservice of Kraft Heinz Company.

Prior to that, he led a number of large multinational corporations in India, South Africa, Middle East and China. He graduated from the Baku Institute of Social Management and Political Science, Azerbaijan, with a degree in International Relations.

VITALIY PODOLSKIY

Chairman of the Audit Committee, independent non-executive director

Vitaliy Podolskiy joined Cherkizovo Group's Board of Directors in June 2012. He has more than 17 years experience in the financial and retail/FMCG sectors in the US, UK, Germany and Russia. From 2003 to 2006, he was CFO at one of Russia's leading supermarket chains, Perekrestok. Between 2006 and 2008, following the merger with the leading discount chain, Pyaterochka, he became CFO and a member of the Management Board of X5 Retail Group N.V., which is listed on the London Stock Exchange and is the largest retail chain in Eastern Europe. In 2008, he joined the crisis management team at Euroset as First Vice President, Finance and Administration.

From June to November 2009, he was CEO and deputy Chairman of the Board of Directors at the hypermarket chain, Mosmart CJSC (Russia), where he led a major restructuring.

From 2008, he was a member of both the Board of Directors and the Audit and Personnel Committees at Rosinter Restaurants OJSC (Russia), Europe's largest restaurant chain. From 2011, he was a member of the Board of Directors and Chairman of the Finance and Strategic Committee at RG Brands OJSC (Kazakhstan), a leading soft drink FMCG company in Central Asia. From 2012, he was on the Board of Directors of Caesar Satellite OJSC. He graduated from Moscow State University (Department of Journalism). He received an MBA in International Business and Finance from the University of Chicago.

Corporate Governance
(continued)

BOARD COMMITTEES

The Board delegates the review of certain matters to three committees: the Audit Committee, the Personnel and Remuneration Committee, and the Investment and Strategic Planning Committee. These three committees serve as consultative and advisory bodies that deal with issues that are raised by the Board. The Committees are not considered as management bodies of the company.

Committee meetings are held when required, with a minimum of a five times a year. They are held separate to the Board meetings and focus on issues that may require preliminary Board consideration. The decisions of each Committee are taken by a majority vote of all committee members taking part in the meeting. Each member has one vote. Each of the committees met six times from the beginning of the corporate year (April 22, 2016).

The Board is satisfied that the Committees have sufficient skills, experience and resources to carry out their duties effectively. The respective committee chairmen report on their activities at the following Board meeting. Details of committee membership, roles and work are set out below:

Audit Committee

The Board of Directors established the Audit Committee in April 2006. Its exclusive functions are to assess candidates for the role of Group auditor, review the auditor's reports and evaluate the effectiveness of internal control procedures, as well as suggest areas where these procedures could be improved. Membership of the committee is reviewed annually, with members selected from among the independent directors. In 2016, with the appointment of new independent directors, new members jointed the committee. As at 20 May 2016, Elliot Brinton Jones and Emin Tofik Oglu Mammadov joined the existing Chairman of the committee, Vitaliy Podolskiy.

The Audit Committee adheres to a formal list of items to be considered at each committee meeting.

Committee members:

Vitaliy Podolskiy
Chairman, independent non-executive director

Elliot Jones
Independent non-executive director

Emin Mammadov
Independent non-executive director

Primary functions:

- Ensure the completeness, accuracy and consistency of financial statements
- Ensure the reliability and efficiency of risk management and internal control systems
- Ensure the independence and integrity of internal and external audits
- Maintain an efficient system of reporting of internal and external fraud (including unauthorised use of insider or confidential information) and other violations, and oversee the implementation of any related measures approved by the Group's management

Full list of the Committee functions is available at: http://cherkizovo.com/en/company/corporate-governance/documents/

Personnel and Remuneration Committee

The Personnel and Remuneration Committee was established in July 2010. Membership is reviewed annually and in 2016, Emin Tofik Oglu Mammadov was appointed as Chairman of the Personnel and Remuneration Committee and was joined on the committee by Vitaliy Podolskiy and newly-elected Board member, Elliot Brinton Jones.

The Board approved the new version of Regulations for the Board of Directors Personnel and Remuneration Committee to conform to the Moscow Exchange Listing Rules.

The committee adheres to a formal list of items to be considered at each committee meeting during the financial year.

Committee members:

Emin Mammadov
Chairman, independent non-executive director

Elliot Jones
Independent non-executive director

Vitaliy Podolskiy
Independent non-executive director

Primary functions:

- Formulating key aspects of the corporate HR policy
- Approval of performance targets for the remuneration of Directors, members of the Management Board and the Chief Executive Officer
- Perform the Board assessment procedure

Full list of the Committee functions is available at: http://cherkizovo.com/en/company/corporate-governance/documents/

Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee was established in June 2012. Its membership is reviewed annually. Following the expansion of the Board in 2016, all four newly-elected non-executive directors, namely Elliot Jones, Emin Mammadov, Richard Sobel and Rafael Fuertes, were appointed as members of the committee with Sergey Mikhailov, the CEO of the Group, as its Chairman.

The committee adheres to a formal list of items to be considered at each committee meeting during the financial year.

Committee members:

Sergey Mikhailov
Chairman, CEO of Cherkizovo Group

Elliot Jones
Independent non-executive director

Emin Mammadov
Independent non-executive director

Richard Sobel
Non-executive director

Rafael Fuertes
Non-executive director

Primary functions:

- The business priorities of Cherkizovo Group
- The development strategy and long-term strategic goals and objectives of the Group, as well as annual and long-term investment programmes

Full list of the Committee functions is available at: http://cherkizovo.com/en/company/corporate-governance/documents/

Acting within the scope of its competence, the Committee works with the CEO, Management Board and relevant business divisions of the Group.

MANAGEMENT BOARD

The Group's Management Board was established in June 2010 and was strengthened further in 2016 to 14 from 10 members as at the end of 2015.

The Group's Board of Directors approves both the size of the Management Board and selects the people to serve on the Management Board on the basis of proposals from the Chairman of the Management Board. The size of the Management Board should be optimal for constructive business discussions, as well as timely and effective decision-making.

The Management Board is authorised to approve strategic plans, as well as the business priorities, and review the business performance of the Group and its subsidiaries and affiliates. The powers of Cherkizovo Group's Management Board are set out in the Charter.

SERGEY MIKHAILOV
Chief Executive Officer

Sergey Mikhailov has been Chief Executive Officer and a member of the Board of Directors of Cherkizovo Group since 2006. Mr Mikhailov led Cherkizovo Group during its successful IPO on the London Stock Exchange in 2006, representing the first Russian agricultural company to be listed on the LSE.

In 2001, Mr Mikhailov was marketing director of Cherkizovo's Meat Processing Plant. He was promoted to deputy chief executive officer of the plant in 2002 and, a year later, he became its CEO.

In 1998, he founded the telecommunications company, aTelo, Inc., in the US and was its CEO until 2001. In 1998, he trained as a financial analyst at Goldman Sachs before moving to Morgan Stanley in 1999.

He graduated from Georgetown University (Washington DC) in 2000 with a degree in Finance and Economics.

JOHN ROSS
Chief Operating Officer

John Ross has been the Chief Operating Officer of Cherkizovo Group since October 2016 and reports directly to Sergey Mikhailov, Group CEO.

For the last 25 years, John has been the head of a number of integrated, multi-plant production corporations as well as a member of the management team at major international poultry companies.

Prior to joining Cherkizovo Group, John held the position of president at Arasco Food (Saudi Arabia). Before that he worked at Zacky Farms for over 20 years, joining the company as an operations manager and going on to become the president of the Group. His career began at the agricultural holding company, Cargill. He is a graduate of Kansas State University with a degree in Agriculture Mechanisation.

Corporate Governance
(continued)

LUDMILA MIKHAILOVA

Chief Financial Officer

Ludmila Mikhailova has been the Group's CFO since 2006.

Between 2001 and 2004, she worked as a financial analyst at McFarlane Gordon Inc, General Mills Co (Canada) and at ING Barings (UK). She then held a number of managerial positions at Cherkizovo Group and AIC Cherkizovsky.

She is ranked among the Top 1,000 Managers in Russia.

She graduated from the Financial Academy of the Government of the Russian Federation and received an MBA from York University, Canada.

SERGEY POLYAKOV

Head of Poultry Division

Sergey Polyakov has been CEO of the Poultry Division Management Company since 2014. From 2000 to 2008, he held management positions at the Sodruzhestvo Group. Prior to joining Cherkizovo Group, he worked at Obyedinennaya Zernovaya Kompaniya OJSC, where he carried out the functions of a CEO and was in charge of the company's business activities.

He was also CEO of PRODO from 2009 to 2011.

He graduated with honours from the Economics Department of the European Humanities University.

MAKSIM ZUDIN

Head of Agro Division

Maksim Zudin has been the head of the Agro Division of Cherkizovo Group since 2015. He is responsible for the strategic development of the Pork, Feed and Grain farming divisions.

Prior to joining Cherkizovo Group, he was the Head of the oil production division at Solnechniye Produkti. Between 2003 and 2013, he was the Head of the Agro Division as well as a member of the management board at Razgulyai Group, where he was responsible for the Eastern branch.

He is a graduate of Moscow State University with a degree in Mechanics and Mathematics.

ANDREY CHOLOKYAN

Head of Meat Processing Division

Andrey Cholokyan has been managing director of the Meat Processing segment of Cherkizovo Group OJSC since 2010. He was deputy CEO of Development and Marketing in the executive office of Lianozovsky Kolbasny Zavod from 2002. Prior to this, he held senior management positions at the Ostankinsky, Biryulevsky and Cherkizovsky meat processing plants. He is a graduate of the Moscow Technological Institute of the Meat and Dairy Industry and has a PhD in Economics.

YURY DYACHUK

Head of Legal Department

Yury Dyachuk has been head of the Group's Legal Support and Real Estate Operations Department since 2006. He has 14 years of experience as a practising lawyer, and was head of the Group's Legal Business Units for 12 years. In 2005, he was senior counsel and managed the restructuring of Cherkizovo Group, after being Head of the Legal Department of AIC Cherkizovsky since 2001. He was head of the Legal Department of Cherkizovsky Meat Processing Plant (CMPP) between 1996 and 2000, and was a member of the department from 1995 to 1996. He graduated from the Moscow State Law Academy in 1995 with a degree in Civil Law.

MARINA KAGAN

Head of Corporate Communications

Marina Kagan has served as Cherkizovo Group's head of Corporate Communications since 2015.

Marina began her career in London on BBC radio and television. Between 1998 and 2004, she advised Russian companies preparing for IPOs.

In 2004, she was appointed Director of Corporate Communications at Wimm-Bill-Dann Foods OJSC and was a member of the management board. She later served as Vice President of Corporate Communications, Eastern Europe at PepsiCo. Prior to joining Cherkizovo, Ms Kagan held the position of Director of Corporate Communications at O'Key Group of Companies.

She graduated from Westminster University, London.

Corporate Governance
(continued)

ANDREY KHIZHNYAK

Head of Sales and Marketing

Andrey Khizhnyak has been Head of Sales and Marketing since September 2013. He has 17 years of experience in marketing and sales management. Prior to joining Cherkizovo Group, he worked for a range of companies, including Obyedinennye Konditery LLC, Razgulyai Market LLC, and OST Group. Between 2001 and 2004, he was Head of Marketing at the Cherkizovsky Meat Processing Plant OJSC and AIC Cherkizovsky Trading Group OJSC. He was recognised as one of Russia's top five business managers in 2010, and one of the top ten food marketing managers in 2007 by the Russian Managers Association.

He graduated from the Moscow State Law Academy.

ALEXEY SKOROBOGATOV

Head of Procurement and Logistics

Alexey Skorobogatov has been head of Procurement and Logistics at Cherkizovo Group OJSC since October 2011. From 2009 to 2011, he was regional head of Procurement at Danone Nutricia Baby Food, Eastern Europe, and between 2006 and 2009, he was head of Procurement at Wimm-Bill-Dann Foods OJSC. Prior to this, he worked at Mobilnye Telesistemy (MTS) OJSC, where he set up and headed the procurement and logistics department, which was later combined into a single logistics department. He is a graduate of the Pyatigorsk State Linguistic University.

VLADISLAV BELYAEV

Head of IT

Vladislav Belyaev has been head of IT since February 2012. Between 2008 and 2012, he was head of the Enterprise Management Systems Department at Vimpel-Kommunikatsii OJSC. Prior to this, he held senior management positions at CafeMax CJSC and at Moskovskiy Industrialny Bank OJSC. He is a graduate of the Moscow Institute of Radio Engineering, Electronics, and Automation and Moscow State University.

LEONID IZMAILOV

Head of the Investment Projects Department

Leonid Izmailov has been the head of the Investment Projects Department at Cherkizovo Group since 2014. He is responsible for managing the construction process of major investment projects.

Between 2010 and 2014, Leonid was the technical director and operational cluster director of AgroTerra LLC. Prior to this role, he held a number of senior management positions across a range of companies, including Russkiye Masla (now part of Kernel), Bunge, Unilever and Nestle Food.

He graduated from Moscow State University with a degree in Chemistry.

ALEXANDER GUSAKOV

Head of Security Department

Alexander Gusakov has been the security director of Cherkizovo Group since February 2016.

Mr Gusakov has over ten years of experience in corporate security. Prior to joining Cherkizovo Group, he worked for Henkel Rus, Zurich Insurance Group and Gazprom. Between 1981 and 2005, he worked in the state security services.

He graduated from The Higher School of the Committee for State Security with a degree in Law.

VERA ELISEEVA

Head of HR

Vera Eliseeva was appointed chief people officer of Cherkizovo Group in May 2016.

Prior to joining Cherkizovo Group, Vera served as head of Organisational Development with a major finance and retail holding company, vice president and director of the Personnel Department at MTS Bank, and Head of the Organisational Department and a Member of the Management Board at the mobile retailer, Svyaznoy. Before that, she headed up the personnel management division for Wimm-Bill-Dann Foods OJSC.

She is a graduate of the Moscow State Institute of International Relations (MGIMO) and has an MBA degree from California State University, East Bay (Hayward).

Corporate Governance (continued)

CORPORATE SECRETARY

In line with the best international corporate governance practices, the Board of Directors created the new role of Corporate Secretary in 2012 to support the Board's functions and document flow. Valery Kuprienko was appointed Corporate Secretary for the current term of the Board (April 2016 – April 2017), but subsequently stepped down. In November 2016, the Board appointed Anastasia Bakhmacheva to this role.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors has overall responsibility for maintaining an adequate internal control and risk management system at the Group, as well as reviewing its effectiveness. Internal control is also exercised by the Review Commission in compliance with the Charter and the Regulation on the Review Commission. The Review Commission coordinates financial and business audits at the Group, the key task being to ensure that the business operations of Cherkizovo Group comply with Russian law, meet the interests of shareholders, and that financial statements and audit reports do not contain material misstatements. Members of the Review Commission are elected by the General Meeting of Shareholders for one year. The CEO or other members of the Board of Directors are not permitted to be members of the Review Commission.

Disclosure procedures within Cherkizovo Group follow the guidelines set out in the relevant corporate regulation approved on 25 April 2011. Cherkizovo Group protects inside information in accordance with the Regulation on Insider Information adopted on 28 December 2011. This regulation contains a list of insider information relating to the Group and was updated in 2015.

Cherkizovo Group complies with European Union's Market Abuse Regulation (MAR). The company maintains a list of insiders with the help of Insider manager program, which is licensed by the Financial Conduct Authority of Great Britain (FCA) and is disclosing insider information according to the requirements of MAR.

Cherkizovo Group's senior management has made itself familiar with the requirements of MAR.

The Group has prepared a new document, the Information policy of PJSC Cherkizovo Group, formulating the responsibility for compliance with MAR, as well as internal documents regulating the procedure of transactions involving PJSC Cherkizovo Group's securities.

Review Commission

The Group's Charter and respective regulation govern the work of the Review Commission. It oversees and coordinates audits of the Group's financial and economic activities. Its principal duties are to ensure that the Group's activities comply with the applicable Russian legislation, do not infringe on the rights of shareholders, and that accounting and reporting do not contain material misstatements.

The members of the commission are elected for one year at the General Meeting of Shareholders and may not include the chief executive officer or any other members of the Board.

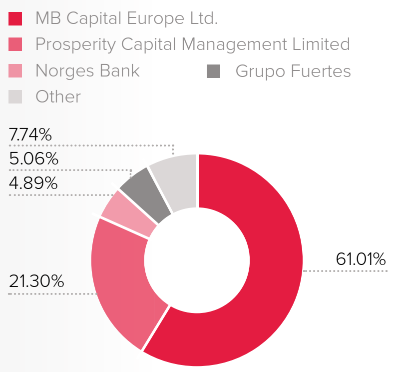
DISCLOSURE TO AUDITORS

As far as each of the directors is aware, there is no material information undisclosed to the Group's auditors. Each of the directors has taken all steps required of them to obtain all material information and provide it to the Group's auditors.

The Groups' current auditors, Deloitte & Touche CIS ZAO, were appointed on March 2016 and are due for re-appointment in 2017.

Investor and Shareholder Information

Shareholder structure, %



SHAREHOLDER STRUCTURE

Igor Babaev and his family control 65% of Cherkizovo Group's issued share capital, mainly through MB Capital Europe Ltd. The Group's free float* is 35%.

As at 31 December 2016, Prosperity Capital Management (21.30%) and Norges Bank Limited (4.89%) were among the top five shareholders.

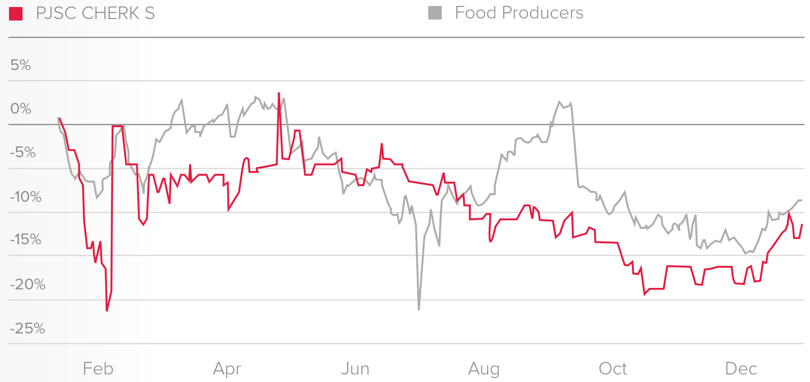
* The free float ratio of 35% was calculated based on information disclosed by the issuer and other publicly available data about the (beneficiary) owners of ordinary shares and/or depositary receipts.

The total number of shares is the number of outstanding shares and/or shares represented by depositary receipts within the same category (type) as of the calculation date. The free float is calculated as the total number of outstanding shares minus the number of shares that are not in free float. The free float ratio is the ratio between the number of shares in free float and the total number of outstanding shares, expressed as a percentage.

Stock price dynamics in 2016, RUB

Source: Moscow Exchange

GDR price vs. Industry Index in 2016



Source: London Stock Exchange

Common Shares

The Group has listed its common shares on Moscow exchange (MOEX) in 2006. During 2016, the price declined by 26% from RUB 1,040 to RUB 773 against a market background of further declines in consumer demand in Russia.

As of 31 December 2015 on close	1,040
12-month high	1,098
12-month low	738
As of 31 December 2016 on close	773
12-month average price on close	874
12-month average daily trade volume, shares	2,346

Source: Moscow Exchange

GDRs

The Group's global depositary receipts (GDRs) have been traded on the London Stock Exchange (LSE) since 2006. Every three receipts represent two common shares. In 2016, the GDR price declined by 11% from US$ 9.26 to US$ 8.6 as of the end of December 2016, in line with the Food Producers Index.

As of 31 December 2015 on close	9.26
12-month high	9.88
12-month low	7.52
As of 31 December 2016 on close	8.6
12-month average price	8.61
12-month average daily trade volume, shares	10,394

Source: LSE

Investor and Shareholder Information (continued)

DIVIDEND POLICY

The Board of Directors of the Group approved the Dividend Policy in April 2015. It is based on the principle of the rational distribution of profit, taking into account the interests of the shareholders and investment capital required for the future development of business of the Group.

In considering the payment of dividends, the Board will, with the assistance of the Investment and Strategic Planning committee, take into account the current financial status of the Group and the amount of the proposed dividend, which shall be at least 20% of the consolidated net profit for the reporting period, in accordance with Russian Accounting Standards.

The General Meeting of Shareholders makes the final resolution approving the payment of dividends.

The full version of the Divided Policy of the Group is available at: http://cherkizovo.com/dividendpolicy-en.pdf

In 2016, Cherkizovo Group paid RUB 1 billion in dividends (RUB 22.75 per ordinary share).

BONDS

The Group's only corporate bond issue, the BO-001P-01 series (registration number 4B02-01-10797-A-001P), with an annual coupon rate of 12.5%, was issued in October 2015 for a total amount of RUB 5 billion with a five-year maturity. The bonds are traded on the Moscow Exchange and, as of 30 December 2016, its yield to maturity was 11.47%.

In April 2016, Cherkizovo Group redeemed its BO-04 series semi-annual coupon bonds for a total of RUB 3 billion. The bonds were issued in March 2013.

INVESTOR RELATIONS

The Group continued to operate in a challenging macroeconomic environment during 2016, but we have noted encouraging signs for a potential recovery, with the stabilisation of oil prices and interest rates, as well as the slow-down in the devaluation of the Russian currency. Overall, Russia, continues to experience a degree of negative shareholder sentiment. The Cherkizovo Group recognises the importance of maintaining open and transparent communication with shareholders, bondholders and potential investors, especially in these testing times. We do this through meetings, presentations, investor conferences and ad hoc events with institutional investors and sell-side analysts.

SHAREHOLDER ACCESS TO INFORMATION

We ensure shareholders have the details of the Group's results and other news releases through the London Stock Exchange's Regulatory News Service.

The news releases are published on the Press Centre section of the Group's website at: http://cherkizovo.com/en/press/

All financial reports and presentations are available at: http://cherkizovo.com/en/investors/.

Sustainable Development

Cherkizovo Group aims to ensure its sustainable growth in an ever-changing environment. We see sustainability as the main pillar of our future growth, underpinning the robustness and resilience of our business model.

Our corporate governance practices and stakeholder engagement principles encompass the interests of all parties and are continuously reviewed and taken into account across all levels of our operational activities.

Our operations are far reaching and encompass a broad variety of stakeholders, including our employees, shareholders, partners, governments, local authorities and communities, peers and competitors, as well as our customers in Russia and abroad. In 2016, we continued to engage with all of our stakeholders to identify and discuss policy issues relevant to sustainability of the Group's business model. We maintain constant dialogue with all interested parties in order to develop strategic approaches that meet the requirements of our stakeholders.

EMPLOYEE POLICIES

Cherkizovo Group is one of the leading employers in the Russian agricultural sector. We create jobs across the whole value chain from grain farming, meat production and processing to distribution and other segments of the food industry. The Group adheres to the strictest Russian and international employment standards and follows best practices when it comes to providing the most comfortable work environment and opportunities for professional development for our employees. As at the end of 2016, the Group employed 22,800 people across all of its facilities.

Recruitment

We recognise the importance of attracting, developing and retaining highly skilled and qualified professionals, as well as nurturing young talent to ensure the continuing and sustainable success of our business. Our People Management policy is designed to deliver on this. The Group finds and recruits accomplished experts and managers, while also actively engaging and developing young talent from a graduate entry level. In addition, our operations also require production staff with no previous experience.

During 2016, we continued to work with educational institutions in the regions where we operate, including the Timiryazev Agricultural Academy, the Voronezh State Agricultural University and others.

We welcome students to apply for internships, on-the-job training programmes and pre-degree apprenticeship. In addition, Cherkizovo Group launched the Youth Programme last year, and it has already helped our facilities recruit more than 40 graduates.

Each business segment within Cherkizovo Group has its operational specifics and its own requirements for new personnel, but the Group as a whole adheres to the same principles of finding and retaining the best professionals in the industry as well as top graduate talent. Our leadership across some of the key segments of the Russian food industry, combined with our ambitions to become a major international food supplier, drive our demand for highly skilled and ambitious professionals.

Sustainable Development
(continued)

Cherkizovo presentation for MADI students

In 2016, Cherkizovo Group held a talk on employment opportunities in the Group for the students of the Moscow Automobile and Road Construction State Technical Institute (MADI). MADI's high calibre graduates, offering a range of mechanics, logistics specialists, traffic controllers and transportation economics expertise are of particular interest to the Group's operations.

22.8 th.
EMPLOYEES ACROSS ALL FACILITIES IN CHERKIZOVO GROUP

40
GRADUATES WERE RECRUITED BY THE GROUP AFTER YOUTH PROGRAMME

Training and Development

Cherkizovo Group seeks to be a leader in innovation in the agricultural sector and places great importance on the use of the most advanced solutions and technologies. This approach involves the continuous development of the expertise and skills of our employees. The Group has a large-scale training programme and educational courses in place to foster the professional growth of all our staff. Also, we have developed a comprehensive system of mentoring, which is designed to transfer the experience and skills to the new employees. We regularly participate in trade conferences and other industry events across the globe to ensure we are on par with the global food industry leaders.

The Group pays particular attention to the continuous improvement of management skills. We have developed a series of dedicated programmes for our senior and middle level management covering all key management disciplines, such as human resources management and development of soft skills.

In 2016, we launched the Management Competency Model, developed to ensure a consistent approach to the selection of talented managers.

During 2016, the Group held the second "Cherkizovo People" Strategic Management Conference. Managers from across all of the business segments attended the event to exchange ideas and continue discussions on current opportunities, trends, strategic direction and the Group's long-term growth plans to ensure its market leadership in the coming years.

In addition to the regular and ad hoc training programmes, the Group launched its Distance Learning programme. The project was piloted in the Meat Processing division in 2015 and continued throughout 2016. All courses can be accessed and completed via dedicated in-house software, which is also used to regular monitor the learning progress. It is planned to roll out the Distance Learning programmes across the whole Group.

Compensation and benefits

Cherkizovo Groups offers its employees competitive remuneration packages on par with the average salary levels in the relative region of operations. The Group also has in place a system of rewards and compensation for outstanding achievements.

The Group fully complies with Russian legal requirements for providing social support to its employees and runs a series of additional social programmes aimed at ensuring social protection for our staff and their families. The Group offers transparent compensation system, paid sick leave and annual holiday, paid three-year parental leave with guaranteed return to the workplace, as well as a number of other benefits ranging from an additional paid holiday allowance based on the length of service to financial assistance for important events in our employees lives, such as getting married or having a baby.

The majority of our operations have on-site staff canteens serving daily hot meals, free transfers to sites, as well as subsidised travel to health resorts and children's summer camps for employees and their families.

The Group pays particular attention to the health of employees and provides regular health checks and on-demand access to the on-site medical professionals at the Group's facilities.

Internal communications

Our corporate culture is based on the principles of transparency, leadership, openness to innovations and respect. We are focused on developing and nurturing our corporate culture and sharing our vision and values with every member of our team. The opinion of each employee is very important to us therefore we encourage the free exchange of view and ideas.

We share our corporate news with our employees across all facilities through a monthly internal newspaper and a corporate intranet portal, which facilitates further exchange of knowledge and ideas across the Group. In 2015, we launched the "Your Opinion Counts" survey designed to measure and improve employees' engagement with the business. The results of the Survey helped us to fine-tune our engagement initiatives in 2016.

Cross-cultural communications

Cherkizovo Group is fully committed to implementing the best international practices across our operations and managerial functions and sees an ongoing dialogue between our employees and industry experts from other countries as essential to delivering on this pledge.

The Cross-Cultural Communication and Expat Induction Programme helps our employees from other countries become acquainted with the practices and specifics of our facilities. The programme was initially launched at our Grain division, and the work is underway to roll it out across the Group.

Sustainable Development
(continued)

HEALTH, SAFETY AND THE ENVIRONMENT

As a leader in the Russian agricultural industry and one of the largest employers in the country, with production facilities nationwide, we pay particular attention to the health and safety of our employees and our impact on the environment. The Group not only complies with all legal requirements for ensuring safety in the workplace, biological and veterinary security, natural resource management, and environmental protection, it also goes further by running a wide range of programmes focused on sustainable growth and excellence in Health, Safety and Environment (HSE) issues.

We have the strictest requirements for maintaining biological safety at all our production sites. Each facility is fully equipped with all the necessary tools to minimise biological risks that are natural for the meat production and processing. We monitor and prevent environmental risks using the latest equipment and technologies, as well as constantly monitoring our environmental impact.

To ensure the high quality of our products, we carry out inspections at every stage of the production cycle, from the feed production to the breeding of young stock, to processing and sales.

The Group has programmes in place aimed at minimising its negative environmental impact and reducing consumption of energy and natural resources. Each of our facilities set targets on reducing air pollution, waste generation and energy consumption, in line with the Russian legislation and internal regulatory requirements. In addition, we comply with the requirements in terms of establishing buffer zones around our production facilities. We monitor environmental conditions at production facilities, regularly assess and take measures to prevent and minimise any negative impact on the environment in the regions where we operate. For example, as part of our zero-waste production programme, manure from pork production facilities has been certified as a natural fertiliser that can be used by Grain farming division.

HSE COMPLIANCE IN MEAT PRODUCTION

Comfort	We maintain optimum conditions for all livestock by controlling air temperature and circulation, lighting and humidity.
Traceability	We control systems that run through all stages of the production process, from the feed production to the breeding, processing and sales, to ensure the high quality of our products.
Balanced feeding	We produce our own feed with a balanced formula of proteins, microelements, vitamins, and amino acids to ensure the our livestock receives the optimum energy source.
Specialisation and separation of facilities by territory	We carry out all production stages at individual sites separated by at least a five-kilometre sanitary protection zone. Separating production sites helps prevent the spread of the diseases between different generations of animals and between breeding and production stock.
All-in / All-out principle	Each production site has animals of the same generation only. The sites are thoroughly cleaned and disinfected between production processes.
Preventive measures	We strictly monitor production processes at our facilities to ensure they comply with the highest international standards. The measures include strict control of access to all production sites, limiting the number of visitors, prohibiting staff from moving between sites, maintaining effective operation of all veterinary and sanitary stations, handling clinical examination and veterinary care of all stock.
Environmental protection	We monitor effluent discharges, air pollution, water and energy consumption at all our facilities.

COMMUNITY RELATIONS AND CHARITY

Cherkizovo Group plays an important role in the life of the local communities in the regions where it operates. The Group's companies are among the largest taxpayers in the agricultural industry in the central regions of Russia. We maintain close relationships with the local authorities and communities.

In addition to ongoing cooperation with communities, the Group regularly runs various charitable projects for local orphanages, schools, cultural and sporting organisations. Each of the Group's facilities provides support to socially vulnerable groups as part of a strategy of responsible citizenship.

LETTERS TO FATHER FROST

As part of our charity programme, we support children from the Ark social rehabilitation centre, near Elets. Every year the kids are encouraged to write letters to Farther Frost, Russia's Santa Claus. In response to these letters we bring New Year gifts and arrange a fancy dress party, helping to create a festive mood for the children.

EASTER GIFTS

We support local orphanages and other facilities for children, providing financial assistance, arranging visits and gift giving to celebrate holidays. In April 2016, our Lipetsk Chicken Kingdom team visited the Eduard Belan Children's Support Centre to celebrate the Easter holiday with the children, and they brought the kids Easter cakes and sweets.

NEW YEAR GIFTS FOR CHILDREN

In 2016, the Group's employees held an inaugural corporate New Year Charity event to raise money for children suffering from cancer. The Group matched the donations of employees. Such initiatives not only raise much-needed funds and the awareness of worthy causes, but also promote a culture of compassion across the Group.

CHILDREN'S DAY

Each summer, we arrange a celebration on Children's Day. In 2016 we also held a Group-wide drawing contest for the children of our employees. Over 300 kids participated in the competition and sent in drawings portraying their parents at work.

WEEKEND VOLUNTARY WORK

The Group's Poultry division regularly holds weekend events where our employees volunteer their time at schools and orphanages in local towns. In line with this voluntary ethos, the Group organised a series of events and barbecues in spring of 2016 in Bryansk, Kursk, Liski, Penza, Lipetsk and Tula. Teams of our employees helped local children to clean their schoolyards, plant trees and then arranged a barbecue for the kids. Everyone involved greatly appreciated the opportunity to share in the spring holidays with the kids.

Consolidated Financial Statements

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

In spite of the challenging market conditions, Cherkizovo Group was able to demonstrate strong operational results across all business segments, increasing total revenue 7% year-on-year to RUB 82.4 billion in 2016, with net operating cash flow over the same period rising by an impressive 88% to RUB 9.4 billion. The Group rebalanced its debt structure with total debt falling by 6% year-on-year to RUB 38.6 billion as at the end of December 2016. Our debt ratios also remained comfortably within all of our covenant requirements.

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:

Sergey Mikhailov
Chief Executive Officer

Ludmila Mikhailova
Chief Financial Officer

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; • 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.

Independent Auditor’s Report (continued)

(To the Board of Directors and Shareholders of PJSC Cherkizovo Group)

Why the matter was determined a key audit matter	How the matter was addressed in the audit
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 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 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. 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;

Independent Auditor's Report (continued)

(To the Board of Directors and Shareholders of PJSC Cherkizovo Group)

- 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;
- 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.

1 March 2017
Moscow, Russian Federation

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 United State Register Nº 1057748318473 of 22.09.2005, issued bu Moscow Interdistrict Inspectorate of Russian Ministry of Taxation Nº46.

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

Audit Firm: ZAO "Deloitte&Touche CIS"

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

Primary State Registration Number: 1027700425444

Certificate of Registration in the United State Register Nº 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of Russian Ministry of Taxation Nº39.

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 roubles, 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 roubles):		43.76	136.98

Consolidated statement of financial position

(As at 31 December 2016)

(in thousands of Russian roubles, 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**

	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**

Consolidated statement of changes in equity

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

	Share capital		Treasury shares		Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
	Amount	Number of shares	Amount	Number of shares					
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**

Consolidated statement of cash flows

(For the year ended 31 December 2016)

(in thousands of Russian roubles, 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**

	2016	2015
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**

Notes to the consolidated financial statements

(For the year ended 31 December 2016)

(in thousands of Russian roubles, 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.

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;
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

Functional and presentation currency

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

Foreign currency transactions

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

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

Going concern

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

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

Basis of consolidation

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

Control is achieved when the Company:

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

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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

1) 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.

2) 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.

3) 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.

4) 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.

5) 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

1) Dressed poultry and pork

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

2) Crops

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

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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.

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

- 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;
- 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;
- 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;
- 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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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 – roubles	97.3	The higher the price, the higher the fair value
			Projected production costs – roubles 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 – roubles	13.4	The higher the price, the higher the fair value
			Projected production costs of hatchery egg – roubles	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 – roubles	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 – roubles per kg	86.0	The higher the price, the higher the fair value
			Projected production costs – roubles 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

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, 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**

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**

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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)**

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).

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, 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 roubles 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 roubles;
- Poultry – 306,944 thousand roubles.

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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**

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

	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**

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**

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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 roubles and have original maturity of less than 3 months.

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 roubles. 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 roubles 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 roubles 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.

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**

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, 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 interest rate	EIR*	Adjusted EIR**	Year of maturity	31 December 2016		31 December 2015	
					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**

* EIR represents the weighted average interest rate on outstanding loans.
** 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.

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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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:

As at 31 December 2015 and for 2015	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

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

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**

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)

(in thousands of Russian roubles, unless otherwise indicated)

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 months	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 months	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.

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:

	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

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

Transactions with companies under common control are summarized as follows:

	31 December 2016	31 December 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

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:

Balances	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.

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.

Notes to the consolidated financial statements (continued)

(For the year ended 31 December 2016)
(in thousands of Russian roubles, unless otherwise indicated)

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.

Shareholder Information

CONTACTS

PJSC Cherkizovo Group
5B Lesnaya St.,
Moscow 125047, Russia
White Square Office Centre
Tel.: +7 495 660 2440
Website: www.cherkizovo.com
Email: info@cherkizovo.com

REGISTRATION NUMBER

1057748318473 of 22 September 2005

REGISTRAR

JSC "Noviy Registrator"
30-1 Buzheninova St.
Moscow 107996, Russia
Tel.: +7 495 980 1100, +7 499 519 0262

AUDITORS

Deloitte and Touche CIS
5B Lesnaya St.,
Moscow 125047, Russia
White Square Office Centre

DEPOSITORY

The Bank of New York Mellon
1 Wall Street,
New York, NY 10286
United States

LEGAL ADVISORS

(English law)
Cleary Gottlieb Steen & Hamilton LLP,
55 Basinghall Street,
London EC2V 5EH, UK