CHERKIZOVO
SINCE 1974

DELICIOUS STORY

DELICIOUS STORY

Cherkizovo Group
is the largest meat producer in Russia

committed to quality and product excellence. The Group is among the top three leading manufacturers of poultry, pork and processed meat in Russia.

STRONG PERFORMANCE IN 2017

CONSOLIDATED REVENUE

90.5

RUB bln

EBITDA

15.3

RUB bln

SALES*

997.7

th. tonnes

For more information, please, visit our corporate website:

http://cherkizovo.com/en/

* Sales include turkey, poultry, pork and meat processing products (excluding feed and grain).

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Cherkizovo at a Glance

Food production is not only our business, it is our passion and mission. For us, every detail matters. This is why our business integrates all stages of the agricultural value chain from grain farming to the manufacturing of finished products.

Sustainable growth across all segments

522,500
TONNES
+ 52% in five years

211,750
TONNES (production)
+ 30% in five years

236,638
TONNES
+ 76% in five years

26,835
TONNES

449,215
TONNES
+ 222% in five years

We control the entire production cycle – from farm to fork– for our consumers to enjoy the best offering.

The Group's brands, including Cherkizovo, Petelinka and Kurinoe Tsarstvo, are very well known and well liked by the Russian consumers. The Group is comprised of Grain, Feed, Poultry, Pork and Meat Processing business segments. The vertically integrated business model, covering the entire production chain from crops to finished products, contributes to the Group's strategic sustainability and assures the highest quality standards.

The Group's vision is to deliver sustainable organic growth, aided by targeted acquisitions, and to further develop the infrastructure as part of a long-term investment programme. Our key priorities include enhancing operational efficiency and customising the product offering to ever evolving consumer preferences and trends.

Cherkizovo Group's key focus is on product excellence and on meeting consumer demands. Consistent growth is supported by a strong marketing function. The Group invests substantially in consumer surveys and new global trends and marketing innovations analysis. Our consumers and their needs are always at the heart of what we do.

A++
EXPERT RA
RATING

B1
MOODY'S
RATING

The Group's shares are quoted on the Moscow Exchange (MOEX) **(MOEX ticker: GCHE)**.

Highlights

Ludmila Mikhaylova
Chief Financial Officer

We are pleased to report the Company's solid sales growth and improved profitability for 2017, as our focus on implementing strategic initiatives delivered value to shareholders and positioned us for a favourable medium-term outlook.

OPERATING HIGHLIGHTS, sales, tonnes

Segments	2017	2016	2015	Year-on-year, %
Poultry	**522,500**	500,321	470,432	4%
Pork (production)	**211,750**	184,766	169,563	15%
Meat Processing	**236,638**	218,085	191,200	9%
Turkey*	**26,835**	–	–	–
Grain	**449,215**	338,808	267,371	33%

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FINANCIAL HIGHLIGHTS, RUB mln

	2017	2016	2015	Year-on-year, %
Revenue	**90,465**	82,417	77,033	10%
Gross profit	**23,559**	17,855	19,149	32%
Operating expenses	**(13,833)**	(12,798)	(11,615)	8%
Adjusted EBITDA	**15,338**	10,282	12,630	49%
Adjusted EBITDA margin	**17%**	13%	16%	4 p.p.
Operating profit	**9,726**	5,056	7,534	92%
Profit before tax	**5,956**	1,960	5,872	204%
Net profit	**5,800**	1,919	6,007	202%
Net cash flow from operating activities	**13,016**	9,369	4,992	39%
Net debt	**48,669**	36,949	35,010	32%

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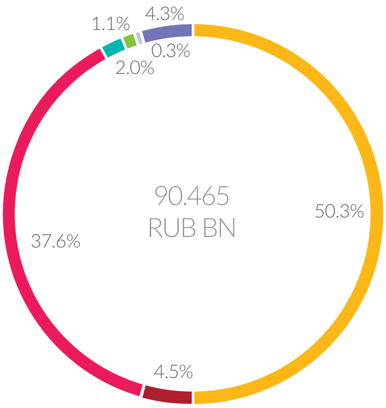
* Turkey data represents sales of turkey meat produced by Tambov Turkey JV through the Group's distribution network.

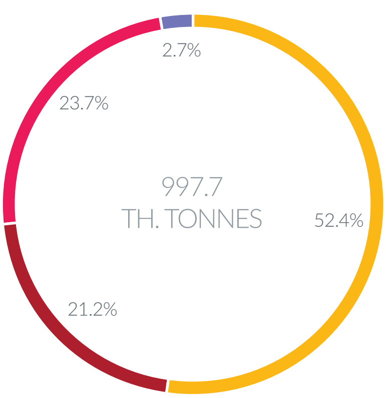
Segment Overview

Revenue to external customers, %



Poultry	50.3%
Pork	4.5%
Meat Processing	37.6%
Grain	2.0%
Feed	1.1%
Other	0.3%
Turkey*	4.3%

Production volumes by segment, %



Poultry	52.4%
Pork	21.2%
Meat Processing	23.7%
Turkey*	2.7%

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

POULTRY

Cherkizovo Group is Russia's major** poultry producer and the leader in branded poultry. Over the past decade, the Company has been actively purchasing, upgrading and debottlenecking poultry factories in Russia's central regions, working to roll out the most advanced technologies for production efficiency and veterinary safety. In 2017, the Group continued to ramp up poultry production and improve operational efficiency while also increasing the share of value-added products.

REVENUE

47.4
RUB BLN
- 1% y-o-y

SALES

522,500
TONNES
+ 4% y-o-y

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** – based on the Group's estimates.

PORK

Cherkizovo Group is Russia's second largest pork producer. Built from scratch, the Group's Pork segment today has 16 pig farms that grow over 2 million pigs a year. In 2017, the Group boosted its output by launching new nursery-finisher sites and enhancing performance by implementing genetics improvement and animal health programmes.

REVENUE

18.7
RUB BLN
+ 17% y-o-y

PRODUCTION

211,750
TONNES
+ 15% y-o-y

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MEAT PROCESSING

A top three producer in the Russian market of processed meats, Cherkizovo Group offers a wide range of high-quality meat products. In 2017, the Group added new sales volumes, driven partly by stronger sales in federal retail chains and higher share of branded products in the sausages and ready-to-cook pork products.

REVENUE

34.0

RUB BLN

+ 7% y-o-y

SALES

236,638

TONNES

+ 9% y-o-y

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GRAIN

Cherkizovo Group has been developing the Grain segment since 2011. The Group has a land bank of about 287,000 hectares. Today, the Company cultivates over 170,000 hectares various crops in Central Russia and delivers high yields well above the national average. In 2017, sales grew by one third, mainly on the back of the acquisition of NAPKO, a leading Russian grain producer.

REVENUE

3.2

RUB BLN

+ 6% y-o-y

SALES

449,215

TONNES

+ 33% y-o-y

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TURKEY*

The Group tapped into the turkey business in 2012, after announcing plans to set up a joint venture with Spain's Grupo Fuertes. The project became operational in 2016, and the new Pava-Pava turkey brand hit the shelves of retail chains as early as February 2017. After reaching the project's full capacity in October 2017, the joint venture emerged as a one of the top turkey producers in Russia.

REVENUE

3.9

RUB BLN

SALES

26,835

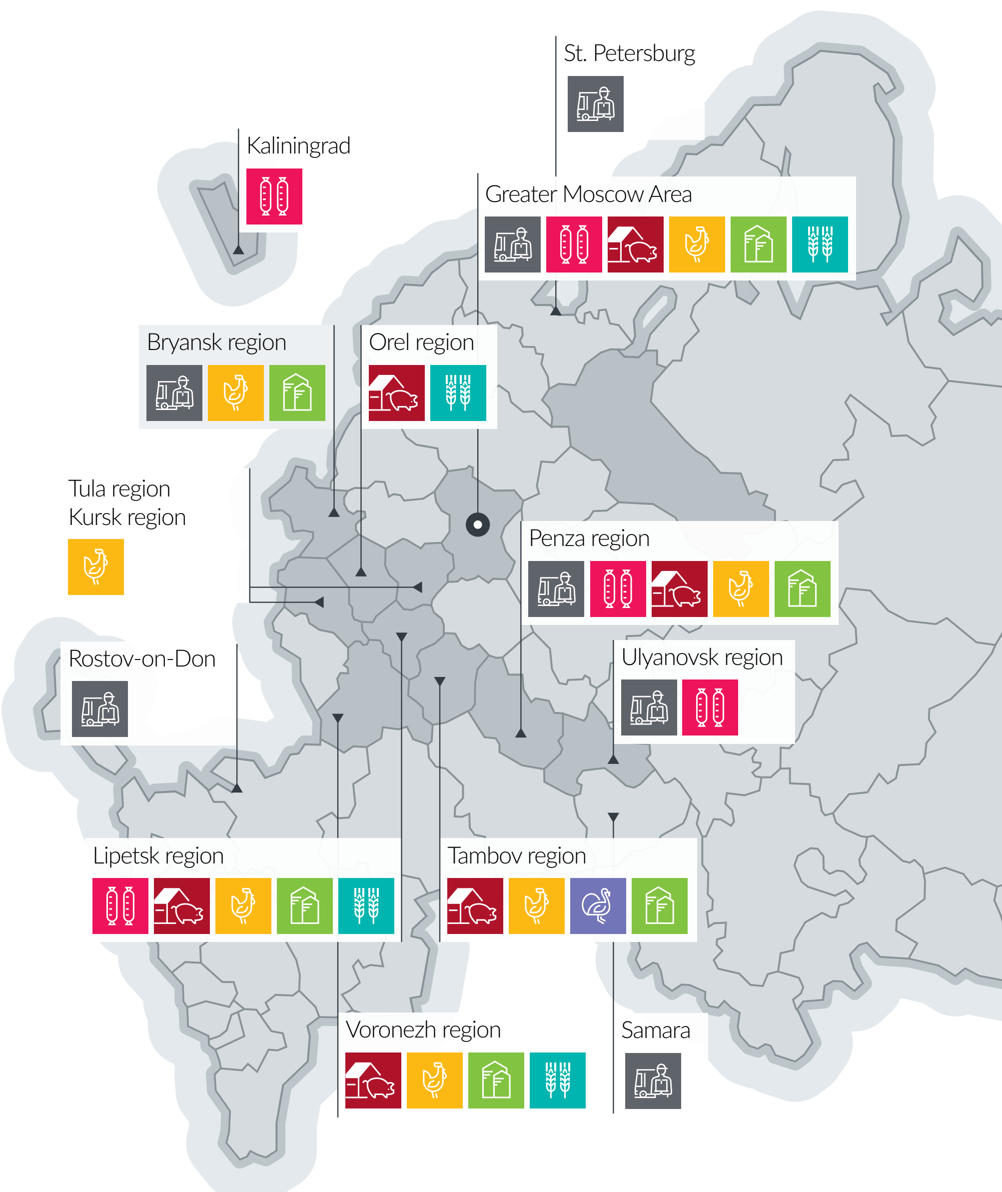
TONNES

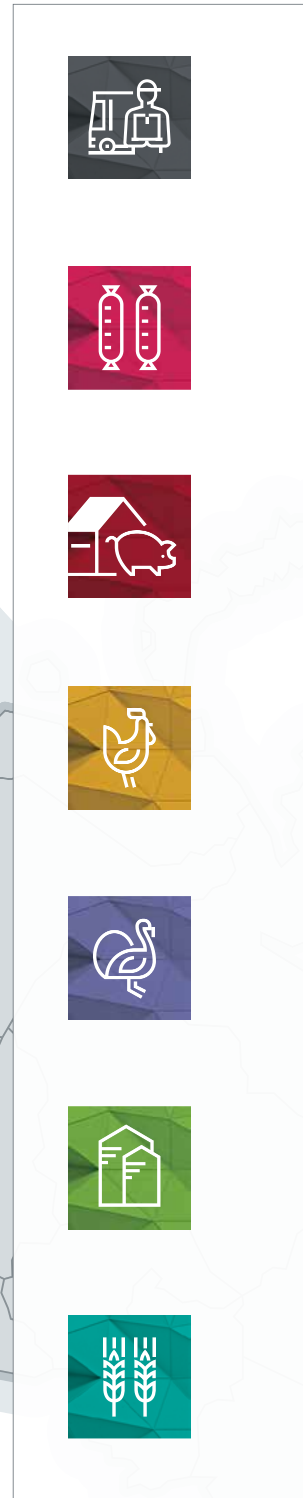
Please see **page 56** for details

* Turkey is not an operating segment.

Geography

Cherkizovo Group's operations are located in the European part of Russia, including Moscow and Moscow region, St. Petersburg and Leningrad region, Belgorod, Bryansk, Voronezh, Kursk, Lipetsk, Kaliningrad, Penza, Rostov, Tambov, Orel, Tula, Ulyanovsk and Krasnodar regions.





9
WAREHOUSES

6
SLAUGHTER AND MEAT PROCESSING FACILITIES

16
PIG FARMS

7
POULTRY FARMS

1
TURKEY PRODUCTION JOINT VENTURE

8
FEED MILLS

12
GRAIN ELEVATORS

~287,000
HECTARES
TOTAL LAND BANK

The Group's products are on offer in major national retail chains and other stores. They are also used in HoReCa (primarily fast food restaurants) and exported abroad. Today, Cherkizovo products are available to over 80% of people in Russia and to an increasing number of consumers in other countries.

Key export markets

- CIS
- Middle East and Africa
- Southeast Asia

Top brands by awareness[1]

No.1 **BRAND**
IN RUSSIA'S SAUSAGE AND PORK PRODUCTS MARKET
brand awareness – **59.6%**

No.1 **BRAND**
IN RUSSIA'S POULTRY MARKET
brand awareness – **35.3%***

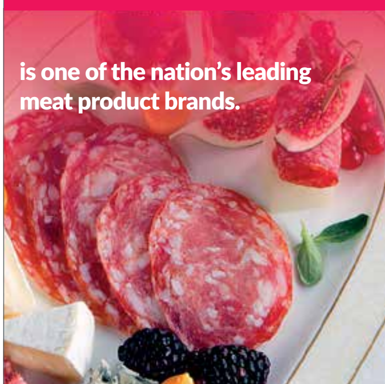
No.3 **BRAND**
IN THE POULTRY MARKET IN RUSSIA
brand awareness – **24.7%***

[1] 2017 data, source: Rusindex Quarterly Survey.
* among the largest poultry producers.

Key Brands

Cherkizovo Group is expanding its brand portfolio, which comprises some of the most popular brands in the meat products market, including Cherkizovo, Petelinka, and Kurinoe Tsarstvo. The Group is also committed to strengthening its brands that target international markets, with the Dajajti halal export brand as just one example. In 2017, the Tambov Turkey introduced Pava-Pava, a new brand for turkey products.

CHERKIZOVO



is one of the nation's leading meat product brands.

For over 40 years, Cherkizovsky Meat Processing Plant has been producing high-quality sausages and meat products. Its remarkably wide product range includes sausages and ready-to-cook pork products.

PETELINKA

is the best known and most popular chilled poultry meat brand in the Russian poultry market.

Petelinka product range includes whole chicken, cuts, by-products, minced meat, and marinated kebabs. Natural and healthy, Petelinka ready-to-cook solutions are made from 100% chicken fillet and natural spices.

KURINOE TSARSTVO

is one of Russia's leading chilled and frozen poultry brands.

The product range includes whole chicken, cuts, by-products, and minced meat. To produce chilled poultry meat, we use the best and latest equipment.

PAVA-PAVA

is a new brand designed for a variety of turkey that is unique to the Russian market.

It contains 50% less fat than turkey offered by other producers. The Pava-Pava range includes turkey thighs and wings, medallions, diced meat, thinly cut meat, steaks, by-products, and ready-to-cook products. Turkey is bred in the green Tambov region, where the joint venture with Grupo Fuertes is located.

Core Strengths

Sustainable vertically integrated business model

A diversified, integrated business model underpins Cherkizovo Group's strong positions across all key segments of the meat production and processing chain while also ensuring robust quality control across the board.

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Solid financial position

The Group is soon to complete its major investment projects in a variety of segments. Over the next few years, investment returns are expected to improve as new projects roll out.

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Quality excellence

The Group continues to put quality, safety and taste first, helping to make products ever more popular among consumers. In developing its product line, Cherkizovo is always willing to incorporate consumer feedback and preferences and to respond to market trends. In 2017, the Group's product strategy focused on growing the share of value-added and convenience foods and expanding the healthy food line.

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Combination of organic growth and M&As

The Group pursues a strategy that combines organic growth, driven by investments in new production capacities, and acquisitions of operating businesses well suited for integration into the Group's business model. Since the 2017 acquisition of NAPKO, a leading Russian grain company, the Group has been adding solid new volumes in the Grain segment. Other segments have demonstrated strong performance on the back of organic growth, efficiency improvements, and new capacity additions.

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Strong brands

Cherkizovo Group continues to strengthen its brand portfolio, which includes the highly recognisable and popular brands of Cherkizovo, Petelinka, Kurinoe Tsarstvo. We are also launching new brands. In 2017, Pava-Pava was introduced for turkey products.

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Our team

Our people are our key competitive advantage.
At Cherkizovo Group, we have a strong team led by outstanding professionals who have been trained in Russia and abroad and boast a track record with major businesses in Russia and internationally.

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Technology and innovation

All of our production sites were designed to meet the latest efficiency and veterinary safety requirements and are aligned with the highest global standards.

Relying on our in-house R&D expertise, we make sure all Cherkizovo products are covered by comprehensive food quality and safety control. We also have a large-scale research programme in place.

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Distribution and logistics

We operate Group-owned logistics facilities and a fleet of some 1,000 refrigerated vehicles to guarantee quick delivery of chilled products to our consumers. The Group continues to solidify its competitive edge in logistics, in particular by centralising its operations.

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History

1974

Cherkizovsky Meat Processing Plant opens in Moscow

2005

Agroindustrial enterprises Cherkizovsky and Mikhailovsky are merged into **Cherkizovo Group**

2006

Cherkizovo Group raises **USD 228.5 million** in a successful IPO on MOEX and LSE

2007

Cherkizovo Group solidifies its position in the poultry market following takeover of **Kurinoe Tsarstvo**, a major poultry producer

2008

Cherkizovo Group launches Phase **1 of a modern pig farm project** in the Central Black Earth region

2009

Consolidated revenue exceeds **USD 1 billion**

2011

The Grain division is set up

Cherkizovo Group acquires **Mosselprom**

2012

Cherkizovo Group establishes a **JV with Spain's Grupo Fuertes** to make **turkey products**

2013

Cherkizovo Group acquires **Dankov Meat Processing Plant** in the Lipetsk region

2014

The Group enhances its standing in the poultry market by acquiring **Lisko Broiler**

2015

Cherkizovo sets up a **state-of-the-art R&D and laboratory centre**, unmatched in the Russian agricultural sector and designed in line with best European standards

2016

Cherkizovo Group taps into **export markets**

2017

Cherkizovo Group acquires NAPKO

Tambov Turkey reaches full production capacity

Key Developments

February

New parent stock unit goes operational

Cherkizovo Group launched the first parent stock unit at the new poultry farm in the Lipetsk region. Parent stock units are part of a large-scale poultry farm project in the region, with some **RUB 3 billion already invested** in the initiative.

New sow farm opens in Lipetsk region

Cherkizovo Group launched a new sow farm in Dankov, the Lipetsk region. The site will be delivering piglets to the nursery and finisher sites of the Pork segment. The new sow farm is designed to house **11,600 sows** at a time and some 7,000 weaned piglets a week. With this site in place, Cherkizovo Group will raise its pork capacity by **350,000 heads a year.**

March

Cherkizovo Group makes it into top three best employers

Cherkizovo Group was named a top three employer in Russia's Food Production, Manufacturing and Trading category, according to HeadHunter's extensive and reputable employer ranking.

Launch of Pava-Pava turkey brand

Pava-Pava is a brand specially designed to market Tambov Turkey's products, which are now available in retail chains across Russia.

April

Cherkizovo Group completes NAPKO acquisition

Cherkizovo Group completed the acquisition of 100% of NAPKO, a leading Russian grain producer. The deal perimeter included **147,000 hectares** of agricultural land in the Lipetsk, Tambov and Penza regions and infrastructure facilities for grain growing and storage. In 2016, NAPKO produced 250,000 tonnes of grain on that land. The deal increased Cherkizovo Group's **total land bank to approximately 287,000 hectares.**

September

Cherkizovo Group reaps record-high winter wheat harvest

The company gathered nearly **270,000 tonnes of winter wheat**, almost double of what was harvested last year (140,000 tonnes), mainly after expanding the winter-wheat area to **49,900 hectares** from just 27,400 hectares in 2016.

Cherkizovo Group tops meat producer ranking

For the second consecutive year, Cherkizovo Group is named the **top meat producer**, according to the Agroinvestor journal. As per Agroinvestor analysts, the top three players are unlikely to change over the next few years, with Cherkizovo Group expected to establish its foothold as No.1 by implementing the pork and poultry growth projects that were announced earlier.

October

Third feed production line gets rolling in Voronezh region

After launching the third 33-tonne-per-hour production line, the company increased the capacity of its feed mill in Latnoe, Voronezh region, to 85 tonnes per hour. A total of **RUB 115.8 million** was invested in the project.

April – May

Roskachestvo confirms superior quality of Cherkizovo products

In an extensive contest arranged by Roskachestvo, a non-profit quality control group in Russia, Kurinoe Tsarstvo broiler chicken was awarded a certificate of conformity and praised as a product of superior quality that surpasses Roskachestvo's standards.

Cherkizovo Group takes the lead in feed production

For the second year running, Cherkizovo Group ranks the first among Russia's top 20 feed producers, according to the Agroinvestor Magazine.

June

Cherkizovo Group signs an investment agreement to build a meat processing plant in Kashira

At the SPIEF and as part of its business agenda, Cherkizovo Group and the Moscow region signed an investment agreement to build a fully automated plant in the town of Kashira. With a capacity to make **80 tonnes of smoked sausages per day**, the plant will be operating on a scale unprecedented in Russia and even Europe. It will feature state-of-the-art equipment to ensure product quality and biosafety, and will be relying on resource-saving technologies. The project will receive **over RUB 6 billion in investment.**

July

Controlling shareholder buys out Cherkizovo Group's shares from Prosperity Capital Management

PCM

The controlling shareholder of PJSC Cherkizovo Group jointly with affiliates signed an agreement with Prosperity Capital Management's funds and portfolios to buy out about 21% of Cherkizovo's ordinary shares and GDRs at RUB 1,300 per share for a total of ca. **RUB 12 billion.** The buyout will enable the company to improve market liquidity, including through an SPO, or use the shares for M&A purposes.

Tambov Turkey reaches full capacity

Tambov Turkey, a JV between Cherkizovo Group and Grupo Fuertes, has reached its design capacity and became one of the **a major turkey producers in the Russian market.**

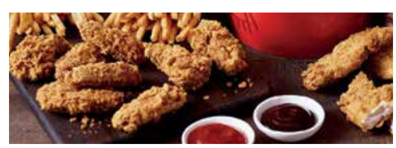
November

Cherkizovo Group intends to delist GDRs

Cherkizovo Group announced its intention to delist GDRs from the LSE, citing limited liquidity. The decision is in line with the company's new equity strategy, which is focused on consolidating free float on the MOEX to cut administrative and listing costs.

December

Cherkizovo Group partners up with KFC



Cherkizovo Group became a **strategic partner of KFC Russia** and was awarded a prestigious prize for suppliers from Yum!, the owner of KFC.

Leveraging innovation for product excellence

It is our belief that advanced and innovative solutions are one of the pillars for an agricultural business to thrive.

Relying on the very best innovative approaches is what ultimately enables us to continue improving the product range. By doing that, we are well-positioned to offer delicious meat products catering to the ever evolving needs of our consumers.

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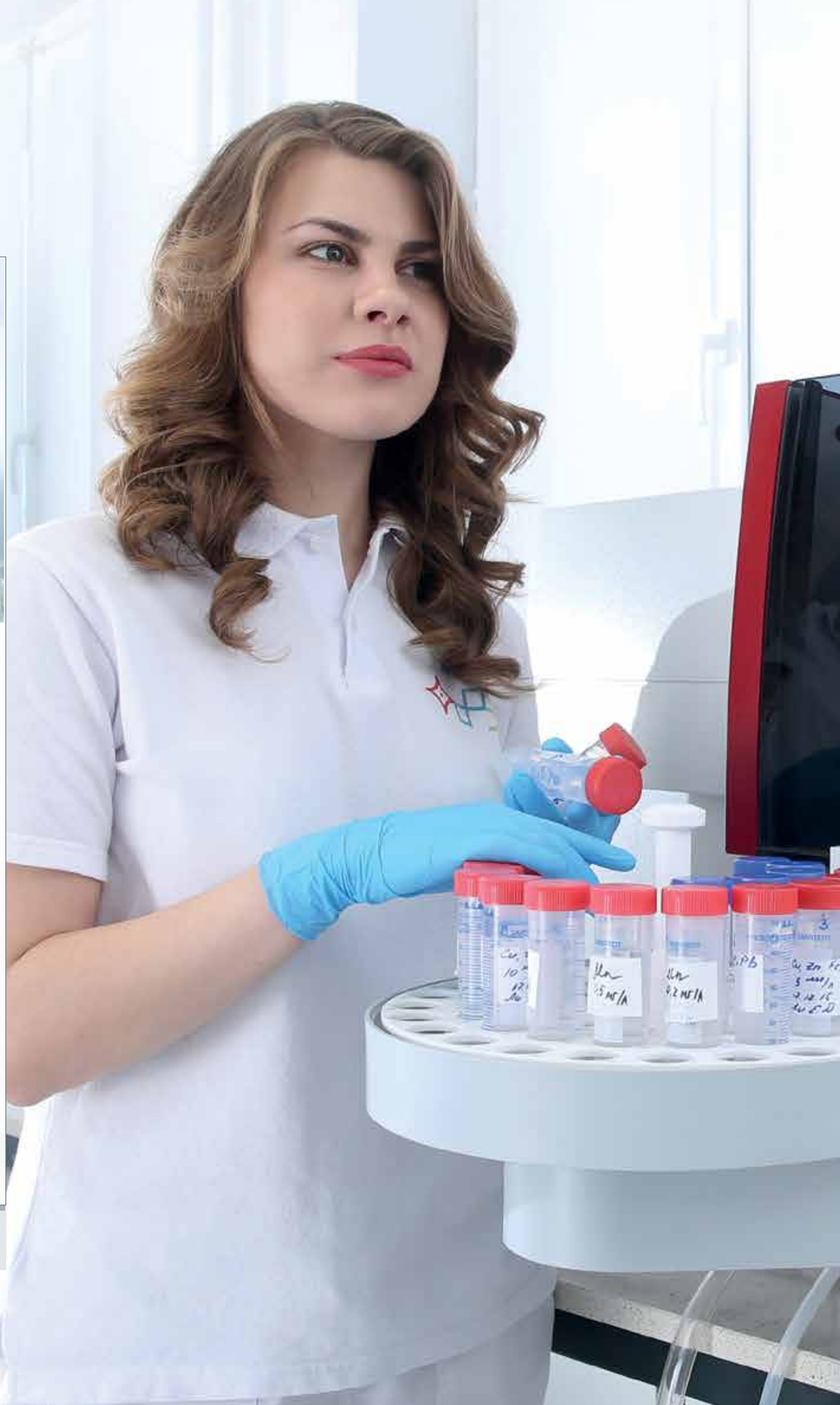

We have always pioneered new meat production technologies. Today, we continue to push forward our cooperation with some of the best researchers and experts in the industry while growing our in-house research and innovation capabilities.

Cherkizovo Lab – unique innovations at our R&D centre

OVER

40

companies,

BUSINESSES AND FARMS WERE ENGAGED IN 2017

OVER

1,000

complex laboratory tests

FOR AGRICULTURE AND MEDICINE

1,500

m^2

TOTAL AREA OF THE UNIQUE R&D CENTRE

New brands and product lines

In 2017, **PAVA-PAVA**, a new brand of turkey products was launched, including medallions, diced meat, thinly cut meat, steaks, thighs, wings, by-products, and ready-to-cook products, for a quick and easy cooking experience.

Turkey is bred in the Tambov region, **known for its green spaces**

Twice as small as those available in the market, each turkey can be easily put into an oven uncut

It contains **50% less fat** than the breeds used by other Russian producers

Please see **page 56** for details

Чистый продукт

The growing consumer demand for healthy organic products led us to launch **CLEAN LABEL**, a new Petelinka range distinguished by:

No food additives or preservatives

Wide product range, including cutlets, barbecue sausages, kebabs, and products for roasting

Use of the **latest equipment alongside compliance** with all sanitary requirements

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Advanced production technologies for product excellence

Advanced technologies used by Cherkizovo Group across its production facilities comply with the latest standards in biosecurity. The Group is a renowned innovation leader among the Russian agricultural companies.

We use cutting-edge equipment and technology

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We control the entire production cycle – from farm to fork – for our customers to enjoy the very best offering

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Message from the Chairman

I am pleased to report that 2017 witnessed continued stability and recovery in Russia's economy and agricultural sector, conditions which enabled Cherkizovo Group to deliver very strong financial and operational results.

Russia's meat market is the 4th largest globally in terms of volumes produced, with solid outlook and growth potential. In 2017 Russia's economy returned to growth, achieved record low inflation, experienced lower rouble volatility and saw modest growth in consumer demand. We believe the Russian meat industry offers attractive opportunities and material upside potential driven by the market size, forecast growth rate, shifting consumer preferences and industry consolidation opportunities.

Cherkizovo is the leading, vertically integrated, diversified branded meat producer in Russia with top 1 and 2 positions, respectively, in poultry and pork segments in Russia, and a top 5 position in the Russian processed meat segment. We are well-positioned to capitalize on the meat market's forecast growth in the coming years.

For over fifteen years, Cherkizovo and the Russian meat industry generally have been well supported by Government interest rate subsidies and income tax holidays. The favourable regulatory and tax regime benefited the industry overall and market leaders such as Cherkizovo.

Equally, we take pride in the responsible, positive role our Company plays in the development of the Russia's agriculture industry, in the communities where we operate and in the well-being of our customers, suppliers and employees.

Since 2006 we invested approximately 80 billion Rubles to expand and modernize our state of the art asset base, monitor and control quality and costs, develop new value-added products, introduce modern management information systems, and market, sell and distribute our products to customers. As we approach completion of our current investment cycle, we believe Cherkizovo is well prepared to capitalize on its significant investment to deliver strong operating results and cash flow in the years ahead.

The long term recovery in Russian consumer spending coupled with significant Government support have led to a sustained increase in Russia's domestic meat production, with poultry and pork production now meeting Government goals of self-sufficiency. With domestic meat supply and demand approaching a new equilibrium, coupled with growing demands from major retailers and end customers, local competition is rising, and foreshadowing market consolidation where smaller and weaker producers will be acquired or exit. These trends and conditions mostly benefit larger, more efficient producers, with popular, quality, value-added products. Cherkizovo is poised to lead the next stage of Russia's meat industry development.

As Russia's largest producer of branded meat products, Cherkizovo has earned an enduring reputation for its wide variety of pork and poultry products which have won popularity with consumers thanks to their superior quality, convenience and overall value proposition.

Our development strategy is centred around our consumers. We are focused on optimizing our brands and aligning them with evolving consumer preferences, growing volumes and the assortment of our value-added products to provide a more comprehensive offering, consolidating our positions in modern retail chains, and other high-value added channels, and expanding geographically alongside federal retailers and major food service companies to better serve existing and new regions and customers.

Federal retail chains remain our biggest customers and we intend to grow in tandem as modern retail continues to gain share over traditional retail and wholesale. Our retail customers are looking for long term partners that can support their growth and meet their complicated logistical service requirements for perishable goods across expanding regions with multiple distribution locations. We continuously modernize and tailor our distribution operations and information systems to make our interaction reliable and efficient for our customers and suppliers.

Equally, we focus on achieving ongoing improvement in operations, from supply chain and farming, through to production, distribution and customer service to improve efficiency and reduce risks at each stage of our value chain. Our long term strategy is to become a cost leader in the domestic meat industry, reaping benefits of our vertically integrated business model and constantly striving for excellence in operations.

Our overriding commitment is to delivering value to our shareholders, namely through strong operating performance, sustained growth in free cash flow and steady dividends to shareholders.

In 2017, the Company delivered on this commitment, through a material increase in Sales and EBITDA, by paying a RUB 78 dividend per ordinary share, and through a 50% rise in our share price on the Moscow Stock Exchange. In the near future Company Dividend policy is expected to be amended to target an annual dividend of at least 50% of net income in accordance with IFRS for the immediately preceding fiscal year and adjusted for any net change in the fair value of biological assets and agricultural produce. This will be subject to the Company maintaining a net debt/adjusted EBITDA ratio below 2.5x over the medium-term, and being able to finance future spending on operations, organic growth, and/or strategic acquisitions.

Over the next few years, our financial objectives are to achieve organic revenue growth above the market and to deliver high operating margins and cash flow. To achieve these objectives, our strategy is to continue to emphasize and expand our value-added product offering, maintain modern and efficient operations, selectively add new production capacity, and opportunistically participate in the consolidation of the currently fragmented Russian meat industry. We will selectively target modern assets that can be acquired at attractive prices and which support our value-added product and marketing strategy. In 2017 we adopted a capital expenditure and M&A policy that screens all potential investments based on their return on invested capital, with increased focus on project implementation and accountability to plan.

In 2017, we continued our long-standing commitment to best practices in corporate governance. I would like to acknowledge the valuable role of our directors who bring extensive experience in Russian and international business, world-class expertise ranging from agriculture and consumer industries, as well as strategy, finance and general management experience. The Board's key committees – the Audit Committee and Personnel and Remuneration Committee – are currently made up of only independent Directors. I would like to thank our directors for their significant contributions and guidance throughout 2017 and am confident their experience and commitment will continue to bring meaningful value to the Group during our next stage of development.

I would also like to express our sincere appreciation to our Group's senior executives, middle management and line employees for their dedication and hard work. They are the life blood of our business, contributing day in and day out to making our Company successful, sustaining our market leadership, and serving our customers and other constituents.

With a proud legacy of success, and a strong business platform, we look forward to continuing to serve our customers and other constituents, to maintaining our leadership in the Russian meat industry and to realizing our ambitious vision and goals.

Evgeny Mikhaylov
Chairman of the Board of Directors

Message from the CEO

In 2017 Cherkizovo Group achieved strong progress in implementation of its business strategy, and delivered excellent operating and financial performance. During the year, we maintained our leadership in Russia's meat market, as total meat sales approached 1 million tonnes, up 10% year-on-year.

Organic growth, operating improvements and a strategic acquisition were key drivers behind our improved performance in the reporting period. Performance was aided by a recovery in the domestic meat market and a more favourable pricing environment. With the unfavourable 2016 market environment and performance behind us, we believe our recovery demonstrates the recession resistant nature of our industry, appeal of our products and overall strength of our business model.

Cherkizovo enjoys a unique position in Russia's meat and agricultural industry as the largest vertically integrated producer. We offer consumers the widest range of quality meats across segments, a product offering and value proposition which holds significant appeal for major retail chains and HoReCas.

Our sales and marketing strategy is designed to sharpen the Group's competitive edge through a robust consumer-focused, value-added product portfolio, and to optimise and align our product and brand portfolio with evolving consumer preferences. The Group keeps a close eye on food market trends, consumer preferences, product innovations and best international practices. Priorities are to offer tasty, fresh, quality value-added products at competitive prices in Russia and in selected export markets and to increase the share of production sold as value-added products which generate meaningfully greater revenue and cash flow per kilo, unlocking incremental value from our extensive farming, production and distribution operations.

Operationally, we strive to continuously improve efficiency throughout our value-chain, with investment in modernization and expansion projects, quality, cutting-edge processes, business automation, as well as in personnel training and management development.

Finally, as the Russian economy returns to growth and the meat industry appears poised to enter a new stage of competition and consolidation, we believe Cherkizovo is well positioned to selectively participate and benefit from the anticipated meat industry consolidation.

Regulatory environment

In 2017 the Russian government continued its general support for domestic agricultural producers although it amended its policy for interest rate subsidies in respect of new investment projects in the sector. Interest rate subsidies for capital investment in pork production and the zero corporate income tax rate for agricultural produce remain the only Federal support for meat manufacturers as domestic production has grown to close to equilibrium with current domestic demand.

During the year Russia's new Law on Trade came into effect, requiring greater transparency in relations between agricultural producers and retailers, thereby allowing producers to improve management of working capital and increase free cash flow generation.

The reporting period also saw changes in Russian pork and beef import regulations. In December 2017, complying with demands of the World Trade Organisation (WTO), Russia lifted its ban on pork imports from the European Union that had been introduced in 2014 after reported cases of African swine fever in EU countries. Also, in December, the Federal Service for Veterinary and Phytosanitary Surveillance of Russia (Rosselkhoznadzor) imposed a temporary ban on supplies of pork and beef from Brazil, as ractopamine fed to Brazil's livestock to increase muscle fibre size is prohibited in Russia. If this ban remains in force, we expect a decline in imports and an upward trend in domestic prices.

In recent years geopolitical tensions between Russia and both the US and European countries have resulted in sanctions and counter sanctions, reducing the role of international meat and agriculture producers in Russia, which we believe, are overall neutral to positive for the Company given the nature of our products, affording us an opportunity to strengthen our market leading position in the absence of competition from global players. In our opinion a relaxation or removal of sanctions and counter sanctions would impact smaller, weaker players more than market leaders like Cherkizovo.

Our performance

In 2017, the Group's revenue rose by 10% to RUB 90.5 billion. The combination of market recovery and more favourable pricing environment, operational improvements, cost controls, efficiencies and benefits from our vertical integration, led to a surge in EBITDA of 49% to RUB 15.3 billion, with our EBITDA margin jumping to 17% from 13% in 2016.

Poultry segment sales of finished products increased to 522,500 tonnes, up 4% year-on-year, due to a steadily rising share of branded (primarily Petelinka, which increased 25% compared to 2016) and value-added products in the segment's total sales – the target was achieved with modest incremental investment in operations and better focus on product marketing. Growth was further supported by an overall increase in output.

Pork segment delivered the strongest performance among the Group's businesses. Its production volumes increased by 15% to a record 211,750 tonnes, while sales grew by 13% to 200,308 tonnes. The Group was able to achieve these figures thanks to the launch of a sow farm in the Lipetsk region, seven nursery and finisher sites in the Lipetsk and Voronezh regions, and implementation of a programme to improve animal genetics and overall health of animals.

Meat Processing segment increased sales by 9% to 236,638 tonnes, driven by stronger branded product sales through retail chains and incorporation of the Ural and North-Western regions into the distribution network. During the year, we also kept working on strengthening our position across niche markets (smoked sausage, ham, and semi-smoked sausage).

Grain segment harvest volumes surged by 60% to nearly 750,000 tonnes versus 468,000 tonnes in 2016, and sales growth was not far behind with a 33% increase to 449,215 tonnes vs 338,808 tonnes in 2016. These results are mainly attributable to the Q2 2017 acquisition of NAPKO, a leading Russian grain producer, which added 147,000 hectares of land and more than doubled our operational land bank, enabling the Group to maintain grain self-sufficiency of up to 60% going forward.

Our rankings in Russia:

No.1
MEAT PRODUCER

No.1
POULTRY PRODUCER

No.2
PORK PRODUCER

Landmark projects

In 2017, three landmark capital projects were high priorities. Following their completion in 2018, the Group will largely complete its latest investment cycle. Going forward, we expect to focus on development capex which are central to our strategic priorities and forecast a high return on capital.

First, in the Pork segment – a new sow farm began operations in the Lipetsk region in early 2017, reaching its full production capacity by the end of the year. We also constructed and launched seven nursery and finisher sites in the Lipetsk and Voronezh regions. With the new facilities commissioned, Cherkizovo boosted its pork capacity by 350,000 heads per year. In 2018, we plan to complete seven more nursery and finisher sites in the Lipetsk, Voronezh and Penza regions, making sure that our Pork segment reaches its full production capacity of 300,000 tons per annum in the next couple years.

Second, Tambov Turkey, the Group's joint venture with the Spanish Grupo Fuertes, reached its full slaughter-weight production capacity of 45,000 tonnes per year in 2017. Its annual sales totalled 27,000 tonnes, quickly placing Tambov Turkey among Russia's top turkey producers. Additional marketing efforts are planned to develop customer awareness of the benefits of turkey meat, to drive sales and earnings. As market conditions develop, we anticipate making incremental investment to expand turkey production to 75,000 tonnes per year, capitalizing on our significant initial investment in turkey operations. Specifically, we are considering construction of new turkey nursery and finisher sites in the Lipetsk and Tambov regions in the near term.

Third, in line with our strategy to develop Russia's state-of-the-art meat processing facilities and to grow our share in this segment, in 2018 we will complete and launch a sausage factory in the Kashira district with annual capacity of c. 30,000 tonnes. It will be the largest fully automated processing facility in Russia and Europe, boasting the most advanced technologies available in the industry. Going forward, we plan to rely more heavily on automation to ramp up production of other processed meat products.

Quality assurance

Maintaining high product quality is an absolute priority for us. Last year, we upgraded our quality assurance system, bolstering our centralised quality assurance function, supported by teams across business units, to enforce Group-wide biosafety standards. To ensure best-in-class quality and taste, we seek to introduce cutting-edge solutions at all production sites, with our world class Cherkizovo Lab the driving force behind our efforts to set new industry standards for quality and reliability.

In 2017 the Group implemented a series of other initiatives to improve food quality and safety. For example, Poultry segment focused on extending shelf life by launching new cooling and grading systems (the latter gives an opportunity to evaluate finished products, while also identifying stages with potential flaws). In 2018, we plan to roll out similar initiatives in Meat Processing and Pork segments.

Brands and products

In 2017 the Group undertook a detailed review of its brand portfolio, with the result being a recommitment to three core brands, supported by a group of smaller brands. In the coming years we will continue to sharpen our focus on product positioning, utility of marketing

~30,000
TONNES
SAUSAGE PER YEAR
annual capacity
of plant in Kashira district

spending and rationalization of sku's based on product line profitability, with the goal to bolster our overall competitiveness, value proposition to retail and Horeca and operational effectiveness.

Cherkizovo remains one of our top three brands. It is associated with superior quality and is great for both meat lovers who stick to healthy diets and those who prefer to indulge their taste buds. Petelinka is our best selling and most well-known brand of high-quality natural poultry products. Our second most important poultry brand is Chicken Kingdom catered towards convenient trend in meat consumption. The launch of the Pava-Pava brand from Tambov Turkey JV represented an important step in our bid to enter the turkey market, which we believe offers significant potential as it targets growing demands from more health-conscious consumers.

We continue to invest to enhance our portfolio of brands, which enjoy strong awareness and demand in their respective market segments. Cherkizovo and Petelinka are leading the charge in the sausage, pork and poultry product categories. In Moscow and St Petersburg, Petelinka is the undisputed leader among the largest poultry producers boasting a recognition level of 72.9% and 79.7%, respectively.

We are committed to serve our consumers with a comprehensive offering of delicious branded value-added products of invariably high quality. Currently branded value-added products account for 58% of our total sales, and we are keen to increase that percentage, since sales and profit contribution per kilogramare materially higher.

A growing share of Russia's consumers now demand high-quality, healthy meats. Equally, they seek convenience, value and quality, driving growth in demand for ready-to-cook and ready-to-serve products. In light of evolving market trends and consumer preferences, we continue to expand our ready-to-cook and ready-to-eat products. In addition, growing popularity of healthy natural products prompted us to launch Clean Label, a new Petelinka range with no food additives or preservatives.

We are deepening our strong ties with retail chains and expanding our sales network, with a focus on broader distribution in the North-Western, Volga and Central Federal Districts. The Group also pays close attention to promising distribution channels for our non-branded products. For example, Cherkizovo is working to enhance relationships with customers in the HoReCa segment, including KFC and Burger King, and intends to partner with other leading Russian and international food service chains.

To ensure efficient distribution and service to retail chains and Horeca, the Group is working to set up a single trading company tasked with supporting sales across segments. In 2017, as part of this project, we transformed Trading Company Petelino into Trading Company Cherkizovo, while also synchronising processes across the main logistics chain. The single trading company will use SAP ERP to improve sales management and efficiency.

Outlook

Looking into 2018, we aim to further develop high-quality product lines, strengthen brands and enhance operational efficiency. We will also focus on promoting a single trading company and completing our major capital projects. In the medium term, we will continue to evolve our portfolio of value-added products in line with consumer demand, solidifying our market position in high-margin segments and high growth sales channels. We will strive to sustain our position as the main supplier for nationwide retail chains and HoReCa customers, through product quality, shelf life, service and competitive terms, leveraging these relationships to gradually expand our regional coverage into Urals and parts of Siberia.

Our long-term vision is to preserve and extend our leadership position in the Russian meat market, through a combination of organic growth and M&A, to penetrate selected export markets and to rank among the most efficient and profitable agricultural businesses globally.

In late 2017 we took a decision to delist from the London Stock Exchange, which became effective in February 2018, with a view to consolidate trading in our shares on the Russian exchange. We remain committed to our standing as a public company, recognizing the benefits this affords. We re-energized our investor relations effort, and as market conditions permit, we intend to take steps to increase the free float and liquidity of our shares to enable trading in our shares to reach valuations which reflect the true value of our Company.

With a strong balance sheet, diverse product range, modern, vertically integrated operation, strong management and dedicated staff, we target an unusual and compelling opportunity. Despite periodic volatility in the Russian economy and uncertainty related to geo-politics, our path for strategic development is clear, and our future remains largely in our control. For over twenty-five years Cherkizovo has overcome volatility and uncertainty and succeeded. I remain confident in the wisdom of our focused strategy and excited about our future.

In conclusion, I would like to thank our employees, management and Board for their contributions and accomplishments in 2017 and for their confidence in and commitment to our shared vision and future.

Sergey Mikhaylov

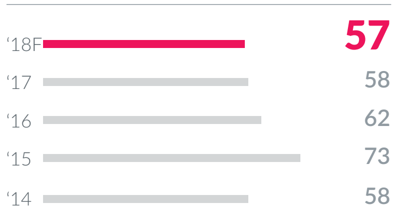
CEO

Market Overview

STABLE ROUBLE

In 2017, the moderately volatile RUB/USD exchange rate moved slightly down from 62 to 58 roubles per US dollar. While relatively strong national currency represents a headwind for meat exports, it also helps curb inflation and support real disposable income. In 2017, rouble movements did not have a decisive effect on the costs of animal farming businesses.

National currency exchange rate in 2014–2018F*,
RUB/USD

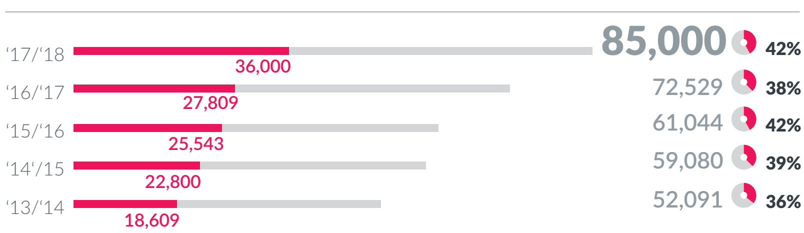


Source: Bloomberg, * Bloomberg forecast

RECORD HARVEST

In the 2017–2018 agricultural season, wheat production in Russia skyrocketed and is about to reach 85 million tonnes, as estimated by the US Department of Agriculture. Thanks to a series of high yields, the year saw a record inventory build-up and lower feed grain prices, which enabled Russian animal farming businesses to stabilise their costs. At the same time, there was a significant increase in the probability of adverse weather conditions.

Wheat production and export volumes in 2013/2014–2017/2018*



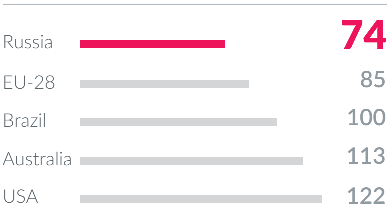
Source: USDA,* USDA forecast

INCREASED MEAT CONSUMPTION IN RUSSIA

In 2017, the uptrend in meat consumption persisted. The total capacity of Russia's meat market during the year was about 11 million tonnes, up 5% year-on-year. Average per capita consumption increased to 74 kg per capita[1]. The market is being shaped by growing pork and poultry production.

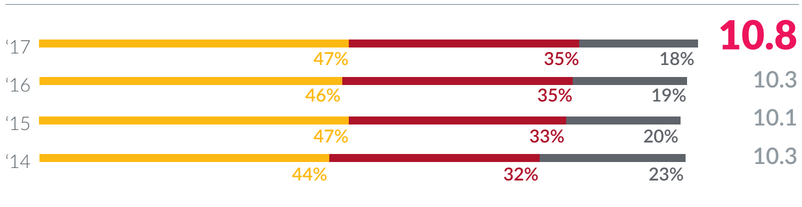
The wide spread between per capita consumption in Russia and in economies with a developed meat market indicates a significant potential for growth in the Russian market. Normally, meat consumption grows alongside real disposable income.

Global meat consumption per capita in 2017,
kg/year



Source: USDA

Meat consumption in Russia in 2014-2017,
mln tonnes

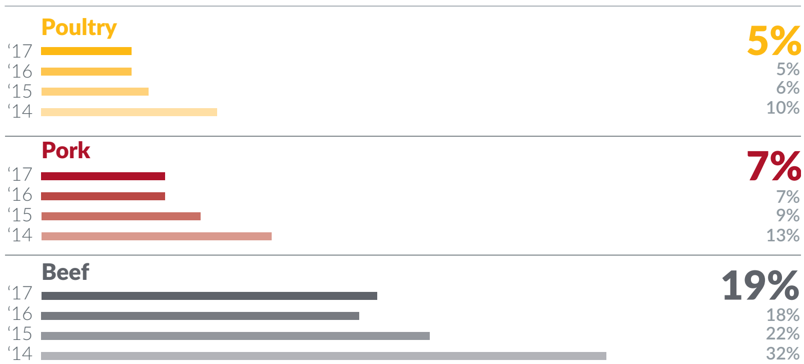


Source: Rosstat, Belstat, Federal Customs Service, Eurasian Economic Commission, Cherkizovo Group's estimates

IMPORT SHARE STABILISATION

In 2017, the share of imports in meat consumption regained its footing after a major slump in recent years. Belarus and Brazil remained the core suppliers, although late 2017 saw bans on the Brazil pork and beef: ractopamine, which is fed to Brazil's livestock to increase the muscle fibre size, is prohibited in Russia. Beef and pork imports are expected to decline should the ban continue into 2018.

Change in import share in 2014-2017,
%



Source: Cherkizovo Group

[1] Source: Rosstat, Federal Customs Service, Cherkizovo Group.

CONSUMER CHOICE DRIVERS

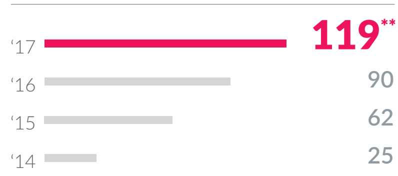
In most cases, food production in Russia is on par with consumption due to low levels of imports and exports.

In 2017, Russians opted for affordable substitutes (canned meat, pork, poultry) instead of expensive foods, such as sausages and cheese. This is likely to change once real disposable income starts to move upwards.

Downward trend in real disposable income that persisted in previous years started to abate in the middle of 2017; and while consumers still remained sensitive to shelf prices of the meat products, we already see positive signs of higher consumption spending.

Of all key meat categories, only poultry meat exports influence the consumption.

Exports in 2014–2017, '000 tonnes*

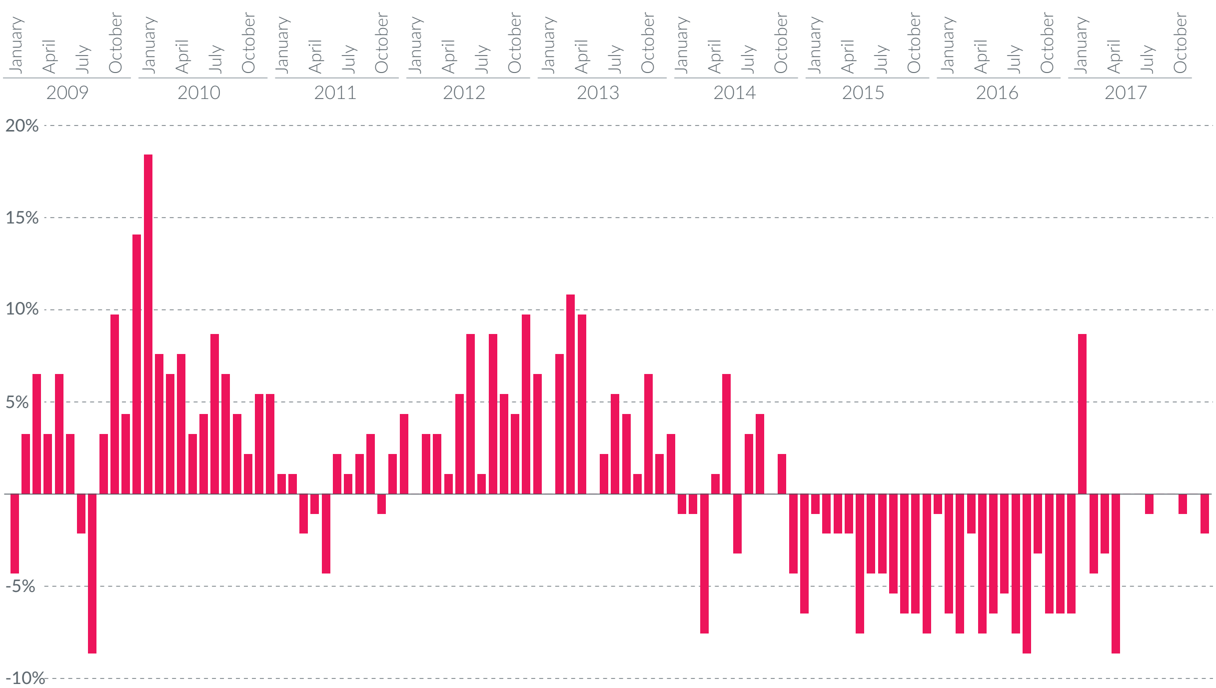


* Poultry meet (excl. paws)
** Cherkizovo Group's forecast

Source: Federal Customs Service, Eurasian Economic Commission, Cherkizovo Group

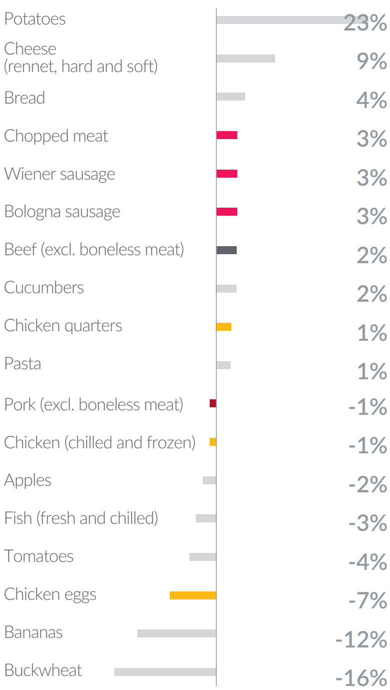
Excluding exports of chicken feet, Russia exported 117,000 tonnes of poultry, up 29% year-on-year. Ukraine and Kazakhstan currently account for the bulk of the export volumes.

Monthly changes in real disposable income, 2009–2017, %



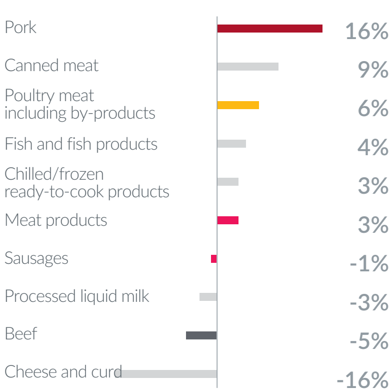
Source: Rosstat

Average retail prices for staple food in 2017/2016, %



Source: Rosstat

Output of meat products and key substitutes in 2017/2016 (across the agricultural sector), %



Source: Rosstat

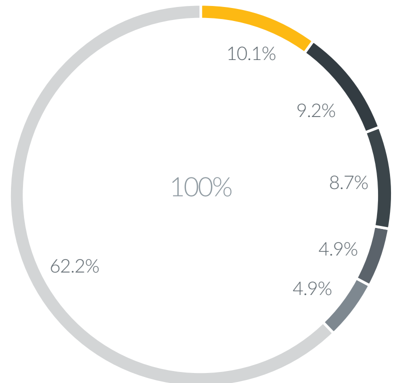
THE GROUP'S MARKET POSITION

In 2017, Cherkizovo Group remained an undisputed leader of the Russian meat market with a share of 6.5% (Agroinvestor ranking).

According to the Russian Union of Poultry Producers, in 2017 the Group outperformed Prioskolie, its closest peer, and ranked first in the Russian poultry meat producers rating. This came mainly on the back of the Group's Tambov Turkey JV's ramp-up to the full production capacity in 2017.

The National Union of Swine Breeders reports that Cherkizovo displaced Rusagro from the second place in the rating of Russia's largest pork producers with its share rising to 5.5%.

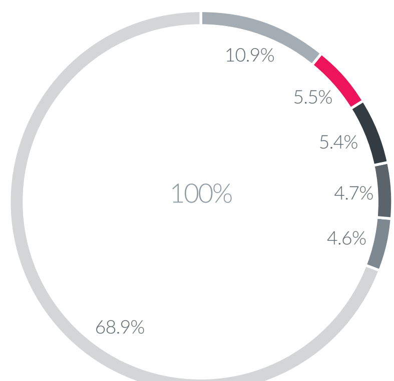
Russian poultry market in 2017, %



Cherkizovo	10.1%
Resource	9.2%
Prioskolie	8.7%
Belaya Ptitsa	4.9%
Belgrankorm	4.9%
Others	62.2%

Source: The Russian Union of Poultry Producers

Russian pork market in 2017, %



Miratorg	10.9%
Cherkizovo Group	5.5%
Rusagro	5.4%
Agro-Belogorie	4.7%
Velikoluksky pork farm	4.6%
Others	68.9%

Source: The National Union of Swine Breeders

Our Strategy

Cherkizovo Group is the largest vertically integrated consumer-driven meat producer in Russia. Our strategy is centred around further strengthening of the Group's market position and delivering higher shareholder value by enhancing operational efficiency and developing product offering in line with evolving customer expectations.

The Group's absolute strategic priority is to ensure ongoing quality improvement and offering a wider range of branded products. Sustainable development is also on the Group's agenda as a way to meet the requirements of all stakeholders.

As the largest market player, the Group contributes to developing Russia's agricultural sector on a nationwide scale by implementing **advanced technologies**, leveraging cutting-edge practices, sharing knowledge and experience and helping to develop the legislative framework.

We strive for excellence across the entire production chain – from growing crops to producing high quality meat products. We make delicious wholesome ready-to-cook and ready-to-eat foods. We implement the **best quality assurance practices** and pay close attention to complying with the **highest biosecurity standards**.

Our key priorities include continuous **efficiency improvement** in terms of both increasing productivity and reducing environmental footprint. We work incessantly to **improve our cost profile** while maintaining the highest quality of our products. The Group runs a number of farm animal health and welfare programmes. Caring attitude to animals is essential for enhancing both operational efficiency and quality of our products.

In agriculture, **scientific innovations** are key to long-term success, that is why we pay special attention to developing our corporate R&D centre, a one-of-a-kind in the sector.

Over the past few years, we implemented an **impressive investment programme** that included debottlenecking and upgrading our existing production sites, building new state-of-the-art facilities, introducing operational and IT innovations, optimising logistics, as well as strengthening our brand reputation and extending the product range. As a result, we have created a strong production platform for a successful delivery of our long-term development strategy. With our strong brand portfolio, we stand out as a company focused on meeting end-consumer demand.

STRATEGY IN ACTION

Product portfolio and asset development

Strategic goals

1. **Ensure a well-balanced development of the brand portfolio with a growing share of value-added products.**
2. **Implement the investment programme, including the upgrade of the existing and construction of new production assets.**
3. **Continue to expand the offering and pursue service excellence with a focus on implementing stringent biosecurity standards and practices.**

What we did in 2017

- In the course of the year, the Group focused on developing its product offering and expanding the share of branded value added products, with the latter reaching 58% in revenue from sales of meat products as at the end of the year.
- In addition to developing and enhancing its historically strong brands such as Cherkizovo, Petelinka and Kurinoe Tsarstvo, the Group also launched new brands such as Pava-Pava, a new turkey brand.
- We opened eight new production sites, including a sow farm in the Lipetsk region and seven nursery-finisher sites in the Voronezh and Lipetsk regions.
- The Group ramped up its feed production capacities by adding the third 33 tonnes per hour line in Latnoe, Voronezh region, increasing the feed mill's total capacity to 85 tonnes per hour.
- Tambov Turkey – the Group's joint venture with the Spanish Grupo Fuertes – reached its full slaughter weight production capacity of 45,000 tonnes per year.
- We launched construction of a fully automated meat processing plant in Kashira, Moscow region, to become the biggest facility of its kind in Europe.

Technology, research and knowledge leadership

Strategic goals

1. **Empower human capital and reward excellence.**
2. **Strengthen in-house R&D facilities and industry expertise.**
3. **Develop cooperation with Russian and international food research and production experts to bring the most advanced global expertise to the domestic food market.**

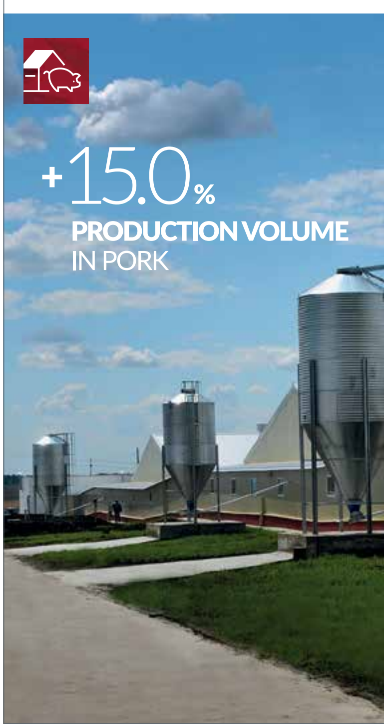
What we did in 2017

- In 2017, the Group created the first continuous education cluster based at the Cherkizovsky Meat Processing Plant. Run in partnership with Razumovsky Moscow State University of Technologies and Management and Talalikhin Moscow Educational Centre, the project seeks to bridge the gap in skilled human resources and to design new training programmes in line with business needs.
- HeadHunter ranked Cherkizovo Group a Top 3 employer in Russia in the Food Production, Manufacturing and Trading sector, which is a recognition of the Group's accomplishments in creating favourable working conditions and career development opportunities.
- The Group continues to integrate advanced technologies across the production chain. For example, the Cherkizovsky Meat Processing Plant has been developing a lean management system since 2014, embracing such tools as 5S, kaizen, a training system using standardised work charts (SWC), training within industry (TWI), standardised work, production analysis boards. In 2017, the Group announced the results of the 2nd annual kaizen contest held among the plant's employees: in the course of 2,5 years after the lean initiative was launched, 1,082 improvement proposals were submitted and about 80% of them already implemented.
- The high quality of Cherkizovo's IT infrastructure was marked with the IT Leader award in the Food and Tobacco Manufacturers category. The Group operates a modern electronic document flow system covering all processes, and has a new corporate data transfer network in place.
- The Group's R&D centre is the recognised leader of the Russian laboratory testing market in such segments as amino acid and eimeriostatic analysis and exogenous feed enzyme activity studies based on the comparative tests among the world's best laboratories. These competencies were acknowledged by the leading manufacturers and globally recognised laboratories, including Evonik Industries AG (Germany), Ajinomoto Co., Inc. (Japan), Adisseo Group (China), Laboratorie CARAT (France).
- Cherkizovo Lab was licensed to provide educational services. The Lab will be used as a training platform for over ten areas of study, including analytical chemistry, veterinary medicine, molecular biology, genetics, agronomy, and ecology.

Efficient growth

Strategic goals

1. Ensure qualitative business expansion in all key segments through the organic and M&A paths.
2. Drive efficiency throughout the entire organisational, sourcing and value chain.
3. Maintain high quality of management across the whole vertically integrated structure and adhere to the best practices of corporate governance.



What we did in 2017

— In Poultry, sales volume grew by 4% to 522.5 thousand tonnes, driven primarily by an increase in production. Meat yield from live weight added 1 p.p. with the feed conversion rate per kg of live weight falling by 2%.

— In Pork, production volume rose by 15% to 211.8 thousand tonnes due to the start of market hogs sales from the new nursery-finisher sites and the implementation of genetics improvement and animal health programmes. The latter helped to improve operational metrics with 12.5 piglets born alive per sow per litter, up 4.2% year-on-year, and the finisher loss decreasing by 1.7 p.p. from 8.3% to 6.6%.

— In Meat Processing, sales volume went up by 9% to reach 236.6 thousand tonnes, driven by stronger sales in federal retail chains and higher share of branded products in the sausages and ready-to-cook meat categories.

— The Group enjoyed a record high harvest, also attributable to the acquisition of NAPKO. The Group's total land bank increased to approximately 287,000 hectares.

— To streamline its logistics and trade operations, the Group is setting up a single trading company to support sales by all of the Groups' segments. In 2017, as part of this project, Trading Company Petelino was renamed Trading Company Cherkizovo, synchronising all the processes across the main logistics chain.

— The Group continued to improve its corporate governance framework. All Board members have in-depth market knowledge and extensive track record in the industry. In addition, the Group has three independent directors serving on its Board.

— The Group has a strong corporate communications and investor relations function recognised by an award from the Financial Communications and Investor Relations Alliance (ARFI).

Strengthening key market positions

Strategic goals

1. Maintain and strengthen leadership in core Russian meat markets.
2. Ramp up export supplies.
3. Tap into new international markets.

What we did in 2017

- For the second year running, Cherkizovo Group ranked as Russia's top meat producer according to Agroinvestor Magazine.
- The Group was named the No.1 supplier in service excellence category according to Advantage's survey conducted among Russia's top retailers.
- The Group came first in the rating of Russia's leading feed producers by Agroinvestor Magazine.
- The National Union of Swine Breeders named Cherkizovo Group the second largest pork producer in Russia.
- The Group continued to expand its sales geography.

Financial stability

Strategic goals

1. Reduce earnings/cash flow volatility through vertical integration, diverse offering and exports.
2. Maintain comfortable leverage level.
3. Drive profits and cash flow, while delivering attractive shareholder returns.

What we did in 2017

- In February 2017, RAEX (Expert RA) confirmed Cherkizovo Group's highest credit (creditworthiness) rating at A++, with a stable outlook.

A++
EXPERT RA
RATING

- The Group is committed to generating shareholder value.
In 2017, Cherkizovo Group decided to pay out RUB 13.65 per ordinary share, in dividends for 2016.
In addition, in September 2017, it was resolved that the Group's net retained earnings for 2014, 2015, 2016 and 1H 2017 will be distributed RUB 59.82 per ordinary share, paid out in dividends.

Business Model

Cherkizovo Group leverages a vertically integrated business model to control the entire production cycle – from farm to fork. Realising that taste and quality are key in building consumer experiences, the Group keeps a close watch on market trends and conducts marketing surveys and reviews to adjust its product offering to consumer preferences.

The Group is structured into four product segments: Poultry, Pork, Meat Processing, Grain and Tambov Turkey – the Group's joint venture.

POULTRY

The Poultry segment focuses on chicken products, whole chickens and cuts, including chilled and frozen meat and multiple RTC/RTH/RTE[1] products. The segment also supplies heart and liver by-products, etc. We use a variety of sales channels to market both branded and non-branded products.

[1] RTC – ready-to-cook
RTH – ready-to-heat
RTE – ready-to-eat

PORK

The Pork segment embraces breeding, nursery, finisher operations, and sale of market hogs to both the Group's entities and third parties. In 2017, market hogs were mostly sold to the Meat Processing segment to make finished products. The remaining part was shipped to third parties, which are generally located not far from our production sites.

The Group keeps focused on expanding and upgrading its production capacities to fully deliver on a strategy of efficient growth. Highly-qualified personnel and unique R&D competencies offered by Cherkizovo Lab are the key elements of our business model.

Please see **page 46** for details

MEAT PROCESSING

The Meat Processing segment comprises two core product categories, namely sausage and pork products. The sausage division makes a variety of products from pork, chicken, turkey and beef, including cooked, cooked and smoked, semi-smoked and smoked sausages, salami, hot dogs, smoked meat, deli meats, hams and cold cuts. The pork products division also produces raw meat, ready-to-cook foods and minced meat.

GRAIN

The segment’s Grain is sold to third parties or used by the Group to produce feed at in-house feed mills. The feed is then sold to the Poultry and Pork segments. Cherkizovo's land bank totals about 287,000 hectares.

TURKEY

Tambov Turkey JV is a full-cycle business covering the entire production chain – feed production, breeding, slaughtering and processing. Imported hatching eggs are used. It produces medallions, diced meat, thinly cut meat, steaks, thighs, wings, by-products, and ready-to-cook products. The Group purchases majority of the turkey produced by the Tambov Turkey JV and resells it through its distribution network. The Group also accounts for 50% of the JV's profit and adjusted EBITDA.

Both strict quality control and commitment to good manufacturing practices help us make high-margin products which are compelling, delicious and healthy. All the while, the Group plays an important social role by creating jobs in some of the Russian regions and making a difference in the local communities.

RESOURCES

Investments in Expansion and Modernisation of production facilities

12.3
RUB BLN
CAPEX in 2017

9
new production facilities launched in 2017

Selective Acquisitions
In 2017, Cherkizovo Group acquired **NAPKO**, one of Russia's leading grain producers

Highly Professional Staff
>23,000 people

Own Research and Development Centre – Cherzkizovo LAB

1,500 m²
of state-of-the-art scientific facilities

1,000
tests for agriculture, the food industry and medicine

Quality Control System
Number of quality tests in the Meat Processing segment increased by **20%**

CREATING VALUE THROUGH

GRAIN

~287
TH. HA
LAND BANK

SALES
449.2
TH. TONNES

REVENUE
3.2
RUB BLN

FEED

8
FEED MILLS

100%
self-sufficiency in feed

MEAT PRODUCTION

POULTRY

7
POULTRY PRODUCTION COMPLEXES

95%
self-sufficiency in hatching eggs

PORK

16
PORK PRODUCTION COMPLEXES

Implementation of **programmes to enhance genetics and animal health status**

TURKEY

TAMBOV TURKEY PROJECT

Production of a **unique** to the Russian market cross breed of turkey

MARKETING RESEARCH AND

SUSTAINABLE GROWTH UNDERPINNED

REVENUE
90.5
RUB BLN

EBITDA
15.3
RUB BLN

VERTICALLY INTEGRATED BUSINESS MODEL

SALES
522.5
TH. TONNES

REVENUE
47.4
RUB BLN

PRODUCTION
211.8
TH. TONNES

REVENUE
18.7
RUB BLN

SALES
26.8
TH. TONNES

REVENUE
3.9
RUB BLN

MEAT PROCESSING

6
SLAUGHTERY AND MEAT PROCESSING FACILITIES

SALES
236.6
TH. TONNES

REVENUE
34.0
RUB BLN

Meat produced by other Group segments is used.

DISTRIBUTION

Centralised distribution and logistics system

~ 1,000 Owned and rented refrigerators ensure our chilled products can be delivered promptly to our customers across the country

Collaboration with leading national retail chains

Key customers in HoReCa segment, such as KFC and Burger King

RESULTS

High-quality, tasty and healthy products for consumers

High level of brand awareness in Russia:
59.6% – Cherkizovo brand,
35.3% – Petelinka,
24.7% – Chicken Kingdom ("Kurinoe Tsarstvo")

Recognition of high quality of products, including the certification of **"Chicken Kingdom" products with the Russian quality mark**

Dividends

In 2017, the Group paid dividends totalling
3.45
RUB BLN,
representing
73.47
RUB
per ordinary share

An Attractive Employer

In 2017, Cherkizovo Group was ranked among the **top three agriculture employers in Russia** by the HeadHunter, Russia's largest recruitment website

Benefits for local communities
The group is a large taxpayer and creates **new jobs** in the regions of operations. Group regularly runs various **sponsorship and charitable projects** to support local communities.

OPINION POLLS OF CONSUMERS

BY STRONG FINANCIAL POSITION

EBITDA MARGIN
17.0%

NET DEBT / EBITDA
3.2x

Investment Programme

Over the last decade, Cherkizovo Group has invested around RUB 80 billion in growth projects. Whether it was new construction or upgrades of the existing facilities, we were able to make the manufacturing process highly profitable and efficient, which in turn boosted the quality and marketability of our products.

In 2017, Cherkizovo Group completed several major construction projects, in which it invested RUB 5.7 billion out of its RUB 12.3 billion investment programme. In the Pork division, we launched a sow farm in the Lipetsk region and seven nursery-finisher sites in the Voronezh and Lipetsk regions, while the Poultry division received a replacement chick unit and a parent stock unit in the Lipetsk region.

12.3
RUB BLN
TOTAL CAPEX

5,7
RUB BLN
Invested
IN MAJOR
CONSTRUCTION PROJECTS
completed in 2017

MAJOR COMPLETED INVESTMENT PROJECTS

Sow farm in Dankov

In 1H 2017, we launched a new sow farm in the Lipetsk region. It can house 11,600 sows at a time and about 7,500 weaned piglets a week. The farm has raised Cherkizovo Group's pork capacity to 350,000 heads a year. The new facility delivers piglets to the nursery and finisher sites of the Pork segment in the Lipetsk and Voronezh regions.

The farm complies with the highest biosecurity standards in terms of production space isolation. Its infrastructure permits only in-house feed trailers and animal trucks so as to shut out any third-party vehicles. There are special stations for transferring feed and piglets to minimise the contact of the production premises with the outside environment. In addition, the sow farm has a covered disinfection barrier, the staff can stay inside during working hours, and biological waste is disposed of on-site.

1.3
RUB BLN
CAPEX

Finisher sites in the Lipetsk and Voronezh regions

In 2017, Cherkizovo Group launched five new sites in the Lipetsk region and two new sites in the Voronezh region. Each is designed to house 22,000 pigs at a time, with an annualised output of 45,000 market hogs or 5,500 tonnes of pork.

All facilities were built using state-of-the-art technologies, such as wood structures similar to those used in residential construction and seamless flooring widely used for runways. This is a unique approach to pig farming, which also ensures efficient and safe manure collection.

3.5
RUB BLN
CAPEX
RUB 500 mln per site

Eletsprom in the Lipetsk region

In 2017, Cherkizovo Group completed the construction of Eletsprom, a poultry facility in the Lipetsk region, with four parent stock units and two replacement chick units now in place. The Group is now on track to achieve 95% self-sufficiency in hatching eggs, which is a big step forward in strengthening the vertically integrated business model and delivering on the import substitution plan.

3.3

RUB BLN

CAPEX

Fleet Expansion

In 2017, Cherkizovo Group actively invested in increasing its own fleet. New refrigerators for delivery of finished products, trucks for grain delivery, vehicles for transportation of animals were acquired.

~800

RUB MLN

CAPEX

Mosselprom+

In 2017, Mosselprom completed Phase 1 of a poultry farm expansion project, upgrading its slaughter, evisceration, cooling and sorting facilities and boosting productivity by 50% to 9,000 heads per hour. The existing cut up line was made 20% faster.

We were also able to lower whole chicken temperatures and extend product shelf lives by setting up a new mist cooling system.

The facilities were revamped with almost no disruption to production operations.

~270

RUB MLN

CAPEX

New line at the feed mill in Latnoe

The feed mill in Latnoe, Voronezh region, launched a third 33-tonnes-per-hour production line, boosting the Group's feed capacity by 10% to 1.65 million tonnes per year.

118

RUB MLN

CAPEX

KEY ONGOING PROJECTS

The smoked sausage factory in the Moscow region


Continuing with our strategy of increasing the share of value-added products and meeting consumer preferences, we carried on building a smoked sausage factory in the Kashira district, which is scheduled for completion in 2018. This investment project is the largest in the Moscow region's food sector and one of a kind not only in Russia, but also in Europe.

The factory's resource-saving technologies and state-of-the-art equipment will ensure product quality and safety, as well as prevent any environmental damage. Smoked sausage production will be fully automated, enabling superior quality by minimising manual labour. Further strengthening its vertically integrated business model, Cherkizovo Group will be sourcing all meat and other ingredients from across its operations.

The factory will produce around 30,000 tonnes of finished products per year. A flagship project for the Group, it is poised to become an undisputed leader of Russia's meat processing industry in the next 20 years, delivering 30% of the national smoked sausage production. Growth in modern meat processing will remain the Group's strategic priority going forward.


>200
NEW JOBS

6
RUB BLN
CAPEX

~4
RUB BLN
CAPEX IN 2016-2017

Construction of new finisher sites

In 2017, Cherkizovo Group commenced the construction of seven pig finisher sites in the Voronezh, Lipetsk and Penza regions, all expected to be commissioned in 2018. Each site is designed to house 22,000 pigs at a time, with an annualised output of 45,000 market hogs or 5,500 tonnes of pork. The commissioning is going to mark the end of the Group's multi-year cycle of investments in expanding pork production.

3.5
RUB BLN
CAPEX
RUB 500 mln per site

New chilling system at poultry factories

Plans for 2018 include installation of a new cooling system at the slaughter facilities of Kurinoe Tsarstvo Bryansk and Lisko Broiler. The new system will ensure that whole chicken is properly chilled, thus extending its shelf life.

230
RUB MLN
CAPEX

Quality Assurance

The highest product quality is a number one priority for Cherkizovo Group. The "Quality from farm to fork" approach paves the way for comprehensive quality assurance across the entire production chain. Over a year ago, we embarked on upgrading our quality assurance system and are now able to exercise centralised quality assurance all across the board and ensure consistent compliance with biosafety standards in line with the Group's best practices.

In 2017, the Group launched a series of initiatives to improve food quality and safety. In the Poultry segment, for example, we focused on extending shelf lives by launching a new cooling system and introducing a system to grade products according to their key organoleptic properties. We now are able not only to evaluate finished products, but also to identify the stage at which the deficiency occurred. This enables us to identify the cause and develop an action plan to improve quality and minimise losses. In 2018, we plan to launch similar initiatives in the Meat Processing and Pork segments.

Our Hazard Analysis and Critical Control Points (HACCP) system is a vital element of our strategy set to boost operational excellence and the quality of finished goods. We have been designing new HACCP-based assurance procedures across the Group.

The Group holds a number of international quality certificates, including those of the Food Safety System Certification and ISO 9001. In 2017, the Group also continued defining internal standards and taking steps to ensure compliance with global food safety and quality standards. Our products are already compliant with EU, UAE, Egyptian, Tanzanian, Angolan, Beninese and Chinese national standards.

To ensure best-in-class quality and taste, we seek to introduce cutting-edge solutions at all production sites. The key driver behind our efforts to streamline the quality assurance system is the Cherkizovo Lab. Its research fuels state-of-the-art solutions and testing methods in all production segments, enabling us to deliver great quality and full compliance with requirements of the Technical Regulations of the Customs Union, GOST, etc.

Our food safety and quality team is highly qualified and experienced. On top of that, we keep training our employees in new methods and new skills. Individual assessments help us identify areas to be addressed and arrange regular internal and external trainings for our team members.

As an aspiring **international leader** in food safety, we seek to surpass customer expectations and bring the **most delicious and popular products** to the market.

KEY ELEMENTS OF THE QUALITY MANAGEMENT SYSTEM

Hazard Analysis and Critical Control Points (HACCP)
HACCP is a systematic preventive approach to ensuring food safety and addressing biological, chemical and physical hazards in production processes.

Mercury
Mercury is an automated system launched by the Federal Service for Veterinary and Phytosanitary Surveillance to perform electronic certification of production. It tracks the product all the way from farm to shelf across Russia to enhance its veterinary and biological safety.

Laboratory control
All stages of the production process feature laboratory studies on an ongoing basis. GMP compliance is assessed using the bacterial stability index based on the data from laboratory tests of the product's microbiological properties and equipment blanks. The bacterial stability index is a key performance indicator for every facility.

Good Manufacturing Practice (GMP)
GMP calls for systematic measures to ensure compliance of production facilities and equipment with sanitary and hygienic standards. Embracing requirements on the use of effective and safe detergents and disinfectants, the practice also includes continuous employee training and monitoring.

The measures are to conform to the guiding principles recommended by agencies responsible for the authorisation and licencing of food manufacturing and sales. These guiding principles provide minimum requirements for food manufacturers to ensure that their products are of high quality and do not pose any risk to consumers.

Pest control
Pest control is a complex system that includes humane methods of preventing potential contamination of foods by rodents, insects and birds.

Employee training
Regular food safety trainings for everyone to make sure that the highest health and safety standards are met.

Requirements for contractors
Contractors may start working at the Group's facilities only subject to their full compliance with the Group's quality and safety requirements. Training of new contractors.

Supplier management
All new suppliers undergo safety assessment, product safety and quality are regularly audited.

Consumer feedback management
The Group has two hotlines for clients. Health-related complaints are looked into within 24 hours. Other complaints are reviewed within a seven-day period. The Group's quality assurance department and heads of segments, receive daily reports on all quality-related complaints.

Declining number of complaints is a key performance indicator for our facilities.

Cherkizovo Lab

Cherkizovo Group has its own innovative in-house R&D and laboratory centre. Measuring up to the highest European standards, this food research and development centre is one of a kind in the Russian agricultural sector, producing scientific innovations that make our products more competitive.

We seek to roll out advanced solutions across the entire production cycle to cement our leadership not just when it comes to sales, but also in terms of quality and taste of our products. Cherkizovo Lab enables us to ensure the highest quality of products from farm to fork and keep up with the latest food production trends.

The Lab monitors Cherkizovo products for compliance with all applicable requirements and standards regulating food quality and safety. In addition, the Lab provides laboratory services for other agricultural companies, with third-party customers (represented by over 40 companies, businesses and farms) accounting for around a third of all lab tests in 2017.

Cherkizovo Lab is equipped with state-of-the-art technology that allows it to run over 1,000 of the most complex agricultural tests, from soil analysis to finished product quality control, as well as R&D operations with a focus on developing biotechnology, genomics, molecular biology, veterinary and sanitary control, and medicine.

CHERKIZOVO LAB STRUCTURE

Feed and animal source products quality control centre

http://cherkizovolab.ru/labs/**food**

Veterinary and sanitary examination centre

http://cherkizovolab.ru/labs/**veterinary**

Genomics and molecular biology centre

http://cherkizovolab.ru/labs/**genomics**

In 2017, Cherkizovo Lab continued building a strong professional team of promising young Russian scientists trained to international standards and regularly improving their skills through international work placements. During the same year, the Lab launched another round of work placements at Thermo Fisher Scientific (Lyon, France). Previously, the Lab's employees did placements in the world's leading laboratories, including DuPont Nutrition Biosciences ApS (Aarhus, Denmark), Bruker Optiks (Ettlingen, Germany), SKALAR BV (Breda, Netherlands) and others.

Last year, Cherkizovo Lab hit a new milestone, becoming a member of the Association of Analytical Centres affiliated with the International Laboratory Accreditation Cooperation (ILAC). It will enable the Lab to conduct interlaboratory comparative tests and access a modern regulatory framework that governs analytical control matters.

In 2017, the Lab was benchmarked against the best global peers and was named the leader of the Russian market in a number of tests, gaining acknowledgement from the globally recognised laboratories.

The Lab is looking to further improve the accuracy of its tests, studies and diagnostics, expand its competencies, achieve higher visibility in the laboratory market, attract new customers and boost workload.

Educational licence

In 2017, Cherkizovo Lab received an educational licence that authorises it to award official diplomas. The Lab plans to run professional courses in

›10
DIFFERENT AREAS

Calibration solutions for feed amino acids

Cherkizovo Lab is the leader of innovative feed production solutions. In December 2017, it joined forces with the DairyNews information agency to set up a School of Fake Feeds and unveil new calibration solutions for feed amino acids in the process.

Cooperation with Skolkovo

Cherkizovo Lab actively collaborates with the Skolkovo Innovation Centre. For example, it helps select startup projects for venture funding in the agro-biotechnological cluster. The Lab is also involved in Skolkovo's biotechnology initiatives, including projects focusing on the use of non-traditional protein or the development of biologically active substances.

Sequencing

Cherkizovo was the first private agricultural company in Russia to research sequencing viral and bacterial infections. In 2017, the Lab's experts studied new sequencing methods at a number of U.S. universities. The Lab and its partners are currently doing research on molecular biology and diagnostics of animal infectious diseases.

Operational Review: **Poultry**

The Poultry segment delivered an impressive performance in 2017, with the sales of finished products gaining 4% to reach 522,500 tonnes as compared to 500,321 tonnes in 2016.

The strong results came on the back of a steadily rising share of branded and value-added products (such as the ready-to-cook products) in the segment's total sales and the overall increase in output.

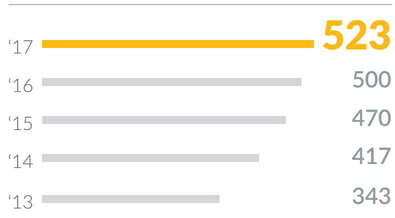
In 2017, the average sales price dropped by 4% to RUB 88.84 per kg vs RUB 92.22 per kg in 2016.

Last year, we continued down the path of enhanced efficiency to reduce the cost of production. As a result, the feed conversion rate per kg of live weight dropped by 2% to 1.63 kg, with the livability rising by 1% to 95.36%. Stronger operational performance coupled with a significant decline in grain prices helped cut the costs per tonne of products by 8% year-on-year.

In 2017, we proceeded with the development of the Poultry segment. Cherkizovo Group completed the construction of Eletsprom, a poultry production facility in the Lipetsk region, with four parent stock units and two replacement chick units now in place. The Group now boasts a nearly 95% self-sufficiency in hatching eggs, a big step forward to strengthening the vertically integrated business model and delivering on the import substitution plan.

In the reporting period, we continued to adopt best management practices and expand the use of advanced production technologies making an emphasis on cost-cutting through economically sound decision-making. An upgrade project at the Mosselprom poultry farm helped ramp up its production capacity from 6,000 to 9,000 heads per hour. In 2016 and 2017, similar upgrade projects were completed at the facilities of Kurinoe Tsarstvo Bryansk, Petelinskaya and Lisko Broiler.

Finished product sales,
th. tonnes



+11.1%
CAGR

OPERATIONAL PERFORMANCE

Indicator	2015	2016	2017	17'/16', %
Chicks per Hen housed, units	105.4	108.6	**118.0**	8.7%
Hatchability, %	75.3%	77.4%	**78.0%**	0.6 p.p.
Hatchability (hatchery), %	76.3%	77.7%	**77.6%**	-0.1 p.p.
Broilers days on feed	37.2	36.7	**37.4**	1.9%
Feed conversion rate (FCR)	1.69	1.66	**1.63**	-1.8%
Yield, %	83.9%	84.5%	**85.4%**	0.9 p.p.
Livability, %	93.4%	94.6%	**95.4%**	0.8 p.p.
Live weight, gr	2,152	2,146	**2,267**	5.6%
Density, heads per sq.m.	20.6	20.7	**20.7**	0.0%
Efficiency index (EPEF)	320.0	332.0	**353.8**	6.6%

522,500
TONNES
SALES

88.84
RUB PER KG
AVERAGE SALES PRICE

In 2017, new mist cooling systems were launched at the slaughter facilities of the Uzlovskaya, Petelinskaya and Mosselprom farms to lower whole chicken temperatures and extend shelf lives without affecting the product quality, enabling us, among other things, to expand our sales geography.

Also, in 2017, new programmes were rolled out to improve product quality and food safety, including programmes to extend shelf life, increase the share of premium products and put in place a HACCP-based system for managing production processes. To that end, we upgraded the existing internal standards and developed new ones.

In the reporting year, Cherkizovo Group continued to tap into new export markets. In mid-2017, the Vasilyevskaya poultry farm in the Penza region obtained a permit to export its products to Iraq. Previously, Cherkizovo's farms had been granted licences to export poultry to Egypt, UAE, Tanzania, Angola and the EU.

About the segment

The Poultry segment focuses on chicken products, whole chickens and cuts, including chilled and frozen meat and ready-to-cook products. The segment also supplies heart and liver by-products. We use a variety of sales channels to market both branded and non-branded products. The proprietary chicken products are sold under several Cherkizovo brands differentiated by product type, price and geography, with Petelinka (including Clean Label) and Kurinoe Tsarstvo as the flagship brands.

Cherkizovo Group comprises the Mosselprom and Petelinskaya poultry farms in the Moscow region, the Vasilyevskaya farm in the Penza region, Lisko Broiler in the Voronezh region and Kurinoe Tsarstvo in the Bryansk and Lipetsk regions. All of the Group's facilities boast advanced veterinary safety and production efficiency technologies. The Group has seven full-cycle manufacturing facilities with a total live weight production capacity of over 500,000 tonnes per year, or more than 260 million broilers.

>260
MLN BROILERS PER YEAR

PLANS AND PROSPECTS

In 2018, we intend to further boost productivity in the segment together with improving product quality and food safety.

The Uzlovskaya poultry farm is set to double its production capacity (to 6,000 heads per hour) by introducing a two-shift system. In addition, a new cooling system is planned to be installed at the slaughter facilities of Kurinoe Tsarstvo Bryansk and Lisko Broiler to extend the product shelf lives. The Group also intends to further increase the share of value-added products in total sales and promote cooperation with retail chains and companies in the HoReCa segment.

Operational Review:
Pork

In 2017, the Pork segment delivered excellent results as production volumes grew by 15% to an all-time high of 211,750 tonnes as compared to 184,766 tonnes in 2016.

The growth was largely driven by the parent stock genetics improvement and animal health programmes resulting in enhanced performance (survival rate) and weekly farrow rates, as well as by the launch of eight new nursery-finisher sites in the Lipetsk and Voronezh regions and a sow farm for 12,000 sows in the Lipetsk region. The average sales price rose by 3% in 2017 to RUB 90.77 per kg vs RUB 88.28 per kg in 2016. Higher prices came a result of increased demand for pork after stabilisation of the consumer sentiment in Russia.

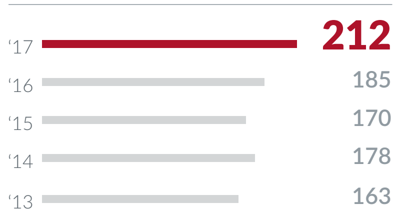
In early 2017, the Group launched a new sow farm in the Lipetsk region which, by the end of the year, reached its full capacity of 12,000 sows and 7,500 weaned piglets per week. This boosted our pork capacities by 350,000 heads a year, with piglet production in the Lipetsk region rising by nearly 50%.

The growing number of piglets required additional nursery and finisher sites. In 2017, eight new sites were commissioned: six in the Lipetsk region and two in the Voronezh region. Each site is designed to house 22,000 pigs at a time, with an annualised output of ca. 45,000 market hogs or 5,500 tonnes of pork.

All facilities were built leveraging state-of-the-art technologies, such as wood structures similar to those used in residential construction and seamless flooring widely used for runways. This is a unique approach to pig farming, as said structures ensure efficient and safe manure collection.

Last year, we continued consistently improving our performance in the Pork segment, as it has a direct impact on product costs. We successfully reduced finisher losses by 1.7 p.p. from 8.3% in 2016 to 6.6% in 2017, lowered finisher feed conversion rates by 2.3% from 2.66 to 2.60.

Sales,
th. tonnes



+6.7%
CAGR

OPERATIONAL PERFORMANCE

Indicator	2015	2016	2017	17'/16',%
Productive females, units	77,808	71,148	**72,375**	1.7%
Piglets born alive per sow per litter	11.7	12.0	**12.5**	4.2%
Pre-weaning mortality, %	15.1%	12.3%	**10.5%**	-1.8 p.p.
Nursery loss, %	6.3%	3.7%	**2.5%**	-1.2 p.p.
Finisher loss, %	8.0%	8.3%	**6.6%**	-1.7 p.p.
Average weight, kg	121.4	119	**119.5**	0.4%
KG sold per productive sow, kg	2,138	2,597	**2,925**	12.6%
Feed conversion finisher	2.61	2.66	**2.6**	-2.3%

211,750
TONNES
PRODUCTION VOLUMES

90.77
RUB PER KG
AVERAGE SALES PRICE

In 2017, we managed to deliver one of the best results globally – the number of piglets born alive per litter almost reached 13, driving survival rate to over 90%. A number of other indicators also put Cherkizovo Group ahead of many industry leaders in North America. This strong performance came as a result of our efforts to improve animals' health and living conditions, as animal care is essential for enhancing both operational efficiency and product quality.

Animal nutrition has an immense influence on the quality of our products. We impose stringent requirements on the feed produced internally and ingredients sourced from third-party suppliers. In 2017, we augmented in-house feed production capacities by launching the third line at the Group's feed mill in Latnoe.

We continuously enhance biosecurity controls across the production sites. As part of our disease eradication programme, we depopulate, clean and re-populate the farms. The Group's infrastructure, production and safety policies applied across the segment's facilities fully comply with the international and Russian standards.

About the segment

Our pork business embraces breeding, nursery, finisher operations, and sale of market hogs to both the Group's entities and third parties. In 2017, the majority of market hogs were sold to the Meat Processing division to produce finished products. The remaining part was shipped to third parties, which are generally located not far from our production sites.

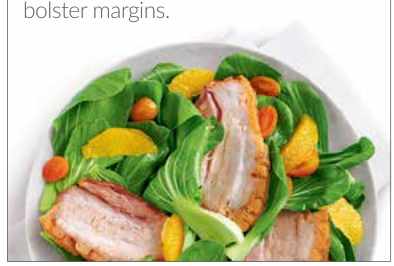
The segment comprises 16 largest pig farms in the Central and Volga Federal Districts. They are situated in close proximity to the Group's grain elevators and feed mills built to match best international standards. This favourable geographical position helps ensure veterinary and biological safety and the highest quality of meat products. In 2017, the segment's output amounted to 211,750 tonnes.

PLANS AND PROSPECTS

In 2018, we plan to build seven new nursery-finisher sites in the Lipetsk, Voronezh and Penza regions.

Our mid-term vision for the pork business is to boost performance by using cutting-edge production facilities and putting in place one of world's best finisher nutrition programmes. We strive to make pork production as cost efficient as possible to strengthen our competitive position in the global market and go ahead with the export expansion plan.

We will stay focused on product excellence and safety. To this end, we will continue to leverage the hi-tech offering of Cherkizovo Lab and R&D centre and invest in human capital. Cherkizovo will not stay put and will make every effort to enhance efficiency, cut costs, increase production volumes and bolster margins.



Operational Review: **Meat Processing**

In 2017, sales in the Meat Processing segment increased by 9% to reach record 236,638 tonnes vs 218,085 tonnes in 2016.

The rise was mainly driven by higher sales of branded sausages and ready-to-cook pork products across the modern food retail formats, and by broader geography of supplies to the Urals and North-West regions.

In 2017, the average product price remained almost flat year-on-year at 147.65[1] RUB/kg. Prices were adversely affected by the new trade law reducing the rebate cap from 10% to 5%. However, our effort to increase the share of value-added products in total sales yielded a positive result and enabled us to keep the last year's price.

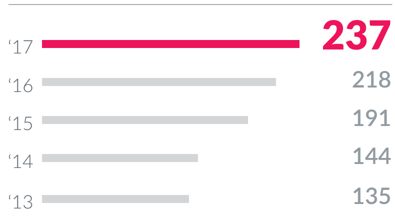
In 2017, the Group continued to consolidate its leadership in the smoked and semi-smoked sausage market. In 2017, smoked sausage production reached 17,500 tonnes, 1% up year-on-year, while semi-smoked sausage output rose to 7,700 tonnes.

Our share in major retail chains (sausage segment) gained 14% to hit a total of 60%. In late 2017, the Group rolled out new products and in 2018, our consumers will be offered seven new types of high-quality cured sausage.

In the reporting period, the Group kept focusing on raw meat and ready-to-cook products and on growing its share in the key markets – Moscow and St Petersburg. In 2017, contribution of these products to total segment sales grew by 36 p.p. to 39%.

The Group paid special attention to improving food quality and safety in 2017. We introduced a comprehensive monitoring of all production processes and finalised all process flowcharts. The Cherkizovo Lab and R&D Centre enabled us to increase the number of feedstock, ingredient and finished product quality tests by 15–20%.

Product sales,
th. tonnes



+15.1%
CAGR

OPERATIONAL PERFORMANCE

Indicator	2015	2016	2017	'17/'16, %
Product sales per employee, tonnes	40.7	45.8	**49.8**	9%
Output per workshop employee, tonnes		62.0	**67.4**	9%

[1] The price is indicated without VAT.

236,638
TONNES
SALES

147.65
RUB PER KG
AVERAGE SALES PRICE

The Group also continued to enhance operating performance. In 2017, we managed to boost meat boning productivity by 21% and plan to push this figure further in 2018.

The Cherkizovsky Meat Processing Plant saw a pilot launch of the Total Productive Maintenance (TPM) system on top of the existing lean manufacturing system. We expect to deploy it at the Cherkizovsky Meat Processing Plant and the Dankov Meat Processing Plant in 2018. It will reduce downtime by at least 25% throughout the entire production chain from slaughtering to product packaging. The TPM system is unrivalled in the Russian meat processing market.

The Group is closely monitoring trends in consumer preferences and promptly updates its production portfolio. In 2017, we kept developing the **Fermerskaya** product line.

About the segment

The Meat Processing segment comprises two core product categories, namely sausage and pork products. The sausage division makes a variety of products from pork, chicken, turkey and beef, including cooked, cooked and smoked, semi-smoked and smoked sausages, salami, hot dogs, smoked meat, deli meats, hams and cold cuts. The pork division produces raw meat, ready-to-cook products and minced meat.

The Cherkizovsky Meat Processing Plant in north-eastern Moscow is the Group's flagship facility in the segment. The segment also includes: the Penzensky Meat and Poultry Processing Plant featuring an in-house slaughtering facility; the Ulyanovsky Meat Processing Plant; the Otechestvenny Product Meat Processing Plant in Pravdinsk, Kaliningrad region, and the Dankov Meat Processing Plant in the Lipetsk region, a state-of-the-art pork slaughtering and cutting facility. These factories produce some hundred tonnes of high-quality sausage, ham, deli meats, cutlets, vacuum-packed chilled and ready-to-cook products each day. In 2017, the segment's sales totalled 236,638 tonnes.

~30,000
TONNES SAUSAGE PER YEAR
annual capacity
of plant in Kashira district

PLANS AND PROSPECTS

Cherkizovo Group seeks to boost profitability of meat processing products by improving sales of natural meat products compared to sausage products. We also intend to strengthen our leadership in the smoked sausage market by launching a factory in the Kashira district boasting an annual capacity of around 30,000 tonnes. It will be fully automated and will feature state-of-the-art technology. Plants like this one are a strategic initiative the Group will focus on going forward.

In 2018, we intend to launch new production lines at the Penza Meat and Poutry Plant, thus doubling the annual capacity of the semi-smoked sausage factory to 14,400 tonnes. We are also planning to increase our cutting capacity by 30%.

One of our key targets for 2018 is to ramp up the production of minced meat and related products, such as meatballs, burgers, cutlets, kupati, etc. in line with market demand. In mid-2018, we are going to boost output of these products by 20%.

Operational Review: **Grain**

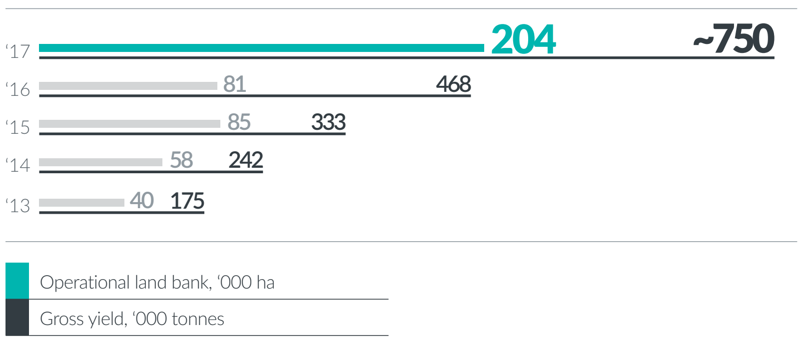
In 2017, the Grain segment hit a record high as its harvest surged by 60% to reach about 750,000 tonnes compared to 468,000 tonnes in 2016, with the external sales gaining 33% to reach 449,215 tonnes versus 338,808 tonnes.

Strong results are mainly attributable to the acquisition of NAPKO, a leading Russian grain company, in Q2 2017, and high yields secured by innovative solutions, such as Precision Planting and the use of liquid nitrogen fertiliser.

In 2017, grain prices suffered a 21% decline year-on-year due to the record-high harvest in Russia putting pressure on the segment's financial performance while boosting the Group's operations as a whole thanks to our vertically integrated business model: in 2017, 58% of the segment's products were used for the internal feed production.

A strategic milestone of 2017 was the acquisition of NAPKO adding 147,000 hectares of agricultural land in the Lipetsk, Tambov and Penza regions to Cherkizovo Group's land bank, which now totals about 287,000 hectares.

Gross yield and operational land bank,
'000 ha/'000 tonnes



In 2017, the Group's operational land bank grew to 204,000 hectares compared to 81,000 hectares in 2016. Besides, the Group acquired infrastructure facilities for grain production and storage.
With the NAPKO acquisition, the Group is expected to become less susceptible to the grain market volatility, in particular, potential grain shortage, weaker rouble and changing supplier prices.

In 2017, we kept driving the segment's operational excellence. In line with our plans, the reporting period saw some equipment transferred to Precision Planting, which was first introduced in 2016.
A dedicated training programme was launched in the same year, along with the standard operating procedures.

In 2017, the liquid fertiliser technology boasting greater plant benefits versus the dry one was introduced to 80% of row-crop areas. To solidify its vertically integrated business model, Cherkizovo Group launched a programme to reduce costs by making the maximum use of organic manure fertilisers from the Group's Poultry and Pork segments.

No.1

In 2017, Cherkizovo Group **ranked first among Russia's major feed producers**, according to Agroinvestor Magazine.

449,215
TONNES
SALES

~287,000
HA
TOTAL LAND BANK

58%
OF THE SEGMENT'S PRODUCTS
were used for in-house purposes

The Grain segment is taking active measures to improve soil as part of its long-term strategy. In 2017, Cherkizovo rolled out an amelioration programme seeking to reduce soil acidity and raise the pH value from 4.5 to 6–6.5.

In 2017, the Group continued consolidating its leadership in feed production. The feed mill in Latnoe, Voronezh region, launched a third 33-tonnes-per-hour production line, boosting the Group's feed capacity to 2.6 million tonnes per year.

About the segment

The segment's grain is sold to third parties or used by the Group to produce feed for the Poultry and Pork segments at its in-house feed mills.

Cherkizovo Group started growing grain back since 2011 with a view to strengthening its vertically integrated business model. Cherkizovo's land bank totals about 287,000 hectares, where the Group owns some 78%. Around 128,000 hectares are located in the most fertile Central Black Earth regions, namely Lipetsk, Orel, Tambov and Voronezh regions.

Assets	2015	2016	2017	'17/'16, %
Land bank, '000 ha	140	140	~287	105%
Crop area, '000 ha	85	81	204	137%
Grain elevator capacity, '000 tonnes	854	854	882	+11%
Feed mills, pcs*	9	9	8	-11%

* belongs to the Feed segment.

PLANS AND PROSPECTS

With the favourable market conditions and 2018 harvest forecasts factored in, grain prices are expected to remain flat at 2017 lows. On the back of this, the Group has increased the share of lands allocated for grain, including winter and spring wheat and barley, to 55% in 2018. Being a high-margin crop, sunflower has seen a 16% increase in the portfolio, while corn lands have been reduced to 10% from 30% in 2017.

The NAPKO acquisition and the current market environment have triggered some changes to the segment's five-year strategy. First, we aim to further expand the crop area by 10–15,000 hectares by introducing innovations and reducing the share of out-of-crop lands.

In 2018, we will complete the soil improvement and balanced plant nutrition programme introduced in 2017.

Operational Review: **Turkey**

Rafael Fuertes
Chairman of the Board of Grupo Fuertes, Member of the Board of Cherkizovo Group

Tambov Turkey is the first project of Grupo Fuertes in Russia and the first joint venture with Cherkizovo Group. From the outset, we aimed to create a unique turkey production facility to ensure a full quality control at every stage of the process. Our choice of partner was clear. We saw Cherkizovo Group not only as the leading player in the Russian meat production industry, but a company with similar values and the same uncompromising approach to quality. Several years of successful collaboration with the Cherkizovo's talented team resulted in the facility reaching its full capacity in 2017, proving that we made the right choice.

Building on the success of the last few years, we look forward to growing the business and exploring further opportunities as the Group's business partner and shareholder.

The Tambov Turkey has quickly reached its design capacity of 45,000 tonnes slaughter weight per annum. In 2017, JV established itself as the fourth largest player in the Russian turkey market. The sales volume via Trading Company Cherkizovo amounted to 26,835 tonnes.

Turkey consumption is relatively low in Russia compared to other markets, but has been growing steadily over recent years and is set to increase further going forward. With our flexible approach, we have already captured this trend and started to expand the product range.

In 2017, the new Pava-Pava brand entered the market with a unique product proposition and distinctive premium packaging. Vacuum-packed and hermetically sealed, our chilled turkey products remain fresh longer. The Pava-Pava range includes medallions, diced meat, thinly cut meat, steaks, thighs, wings, by-products, and ready-to-cook products, for a quick and easy cooking experience.

OPERATIONAL PERFORMANCE

Indicator	2017
Meat yield from live weight, %	73.4
Feed conversion rate per kg of weight gain	2.44
Growing period, days	112
Average daily weight gain, g	122
Survival rate, %	92.2

26,835
TONNES
SALES

45,000
TONNES OF SLAUGHTER WEIGHT PER ANNUM
CAPACITY

We grow the Hybrid Grade Maker turkey, which contains 50% less fat than any other breed grown in Russia. This makes our turkey one of the healthiest in the Russian turkey market. It is also unique due to its small size. The entire bird can easily fit into an oven.

Production facilities of JV are located in the Tambov region, known for its green spaces. Tambov Turkey JV is fully vertically integrated, from procuring feed ingredients to products' packaging. For maximum biosecurity, we have put in place a Hazard Analysis and Critical Control Points (HACCP) programme and some other initiatives to monitor birds' health and performance, an integral part of achieving the highest meat quality.

Officially compliant with ISO 22000:2005 and FSSC 22000 international food safety standards, Tambov Turkey JV meets all the European and Russian requirements for the highest quality of meat.

Tambov Turkey JV is one of Russia's most efficient turkey producers. We use best-in-class European equipment to automate production processes and pay less for feed ingredients thanks to centralised procurement. As we use different feed production formulas depending on feed ingredient pricing, we are able to keep our production costs to a minimum without compromising the quality. In addition, our feed mill is in close proximity to the finisher sites. All of this, taken together, makes us one of the lowest cost turkey producers in Russia.

About the Tambov Turkey project
In 2016, growing domestic consumer demand for turkey as a healthier alternative to other meats prompted us to launch Tambov Turkey, a joint venture with Spain's Grupo Fuertes in the Tambov region. Its full-cycle process covers the entire production chain – feed production, breeding, slaughtering and processing. Imported hatching eggs are used. In February 2017, the new Pava-Pava brand was launched to promote turkey products such as medallions, diced meat, thinly cut meat, steaks, thighs, wings, by-products, and ready-to-cook products. The produce is sold to Trading Company Cherkizovo and distributed along with the Group's other products.

ТАМБОВСКАЯ ИНДЕЙКА®

The Tambov Turkey production site includes an incubator for 5.9 million eggs per year, four growth sites, nine finisher sites, a 180,000 tpa feed mill, a 90,000 tonnes grain elevator, a high-tech processing unit, and modern waste treatment facilities. As at the end of 2017, around 1.5 million turkeys were reared at our Tambov region farms.

PLANS AND PROSPECTS

The Group considers building new turkey finisher sites in the Lipetsk and Tambov regions in 2018–2019. The new sites would be in close proximity to the poultry-processing facility in the Tambov region, a strong advantage in terms of logistics and production efficiency.

In the mid-term, the Group aims to become Russia's largest turkey producer with one of the lowest cost bases. In 2018, we plan to launch new high value-added products.

Product Strategy

Cherkizovo Group is committed to providing quality products to consumers in line with their needs and expectations. While striving to respond to market trends, we also work to shape consumer preferences by launching new product categories and tastes.

Made from natural and healthy ingredients, our products are often based on unique recipes as a guarantee of their top-notch quality and great taste.

The Group has an extensive marketing research programme that covers testing, focus groups, surveys, and analysis of feedback, including that from social networks. We work tirelessly to improve communication with both end consumers and partners – retail networks and HoReCa customers.

We remain focused on expanding and enhancing our portfolio of brands, with many of them ranking high by popularity in their segments. As one example, Cherkizovo and Petelinka are among the leaders in the sausage and pork and poultry product categories.

In 2017, Cherkizovo enjoyed all-Russian brand awareness of 59.6%, while the number for Petelinka stood at 35.3%. On top of that, in Moscow and St Petersburg, Petelinka is the undisputed market leader with awareness levels of 72.6% and 78.2%, respectively.

In parallel, we are launching new brands and product lines as part of our commitment to provide consumers with the greatest variety of high-quality delicious products. The rollout of the Pava-Pava brand marked a milestone in our journey in the turkey market with its strong growth potential. Branded value added products account for 56% of our meat products sales, and we plan to boost their share further.

We keep abreast of our consumers' preferences for healthy foods and work to introduce new additions to our range of diet products, including low-fat options. We are expanding deep processing in terms of both ready-to-cook and ready-to-eat foods while also developing totally new recipes to match the increasingly hectic pace of modern life and consumers' greater focus on quality.

Strong foothold in key segments

The Group continues to step up presence in its traditionally strong segments, including smoked sausage and poultry product categories. We guarantee the quality of our products, secured by uncompromising quality controls throughout the entire production chain, from growing grain to making finished products.

Over the years, our products have won multiple prestigious awards. In 2017, our Salchichon smoked sausage and Belgian-Style Ribs received awards in the Choice of Retail Networks contest held at Prodexpo, the largest food, beverage and food raw materials exhibition in Russia and Eastern Europe.

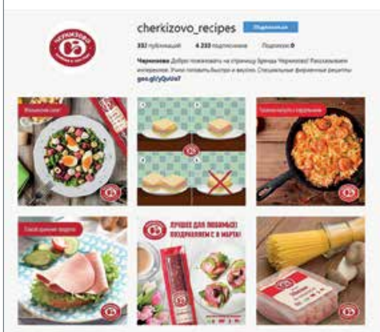
In the same year, Kurinoe Tsarstvo's whole chicken product received the Russian Quality Mark from Roskachestvo, a quality control group in Russia. The organisation was set up by the federal government to monitor the quality of products offered to Russian consumers. The Quality Mark means that the product fully meets all applicable standards and requirements of Roskachestvo.

PETELINKA SALES HIT A RECORD HIGH

68,369

TONNES

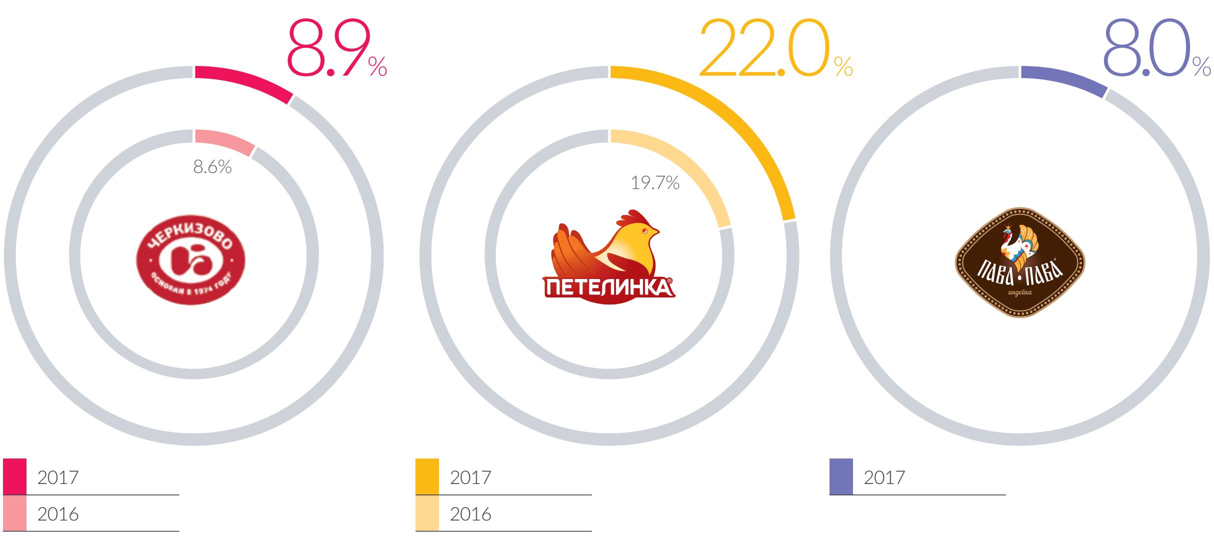
+ 25% y-o-y



We are committed to bolstering our interaction with customers using **digital channels**, including our corporate and brand-specific websites, mobile applications, and social media. The Group runs brand promotion programmes across its portfolio, including Cherkizovo, Petelinka, Kurinoe Tsarstvo and Pava-Pava.

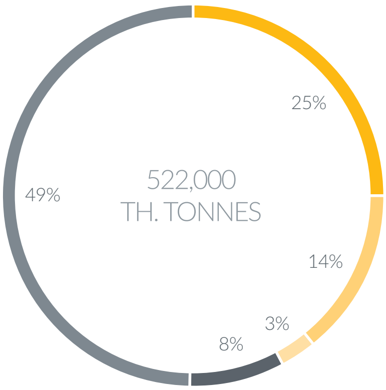
In 2017, total visitor traffic to the Petelinka website (www.petelinka.ru) exceeded 4 million users. Petelinka is present in all the most popular social media networks, where we can share news and recipes, discuss our products and collect feedback. In 2017, as part of the Group's marketing strategy, we also launched the Petelinka loyalty programme (**My Petelinka Club**).

Share in total branded product mix of national retail networks in 2016-2017[1]

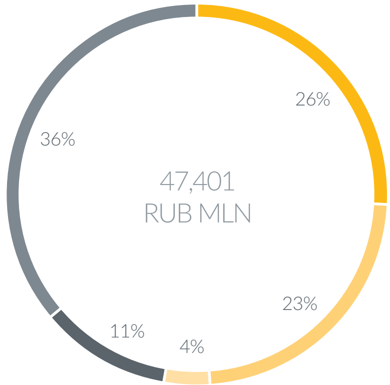


[1] Cherkizovo Group's estimates.

Product sales by brands in the Poultry segment in 2017, %

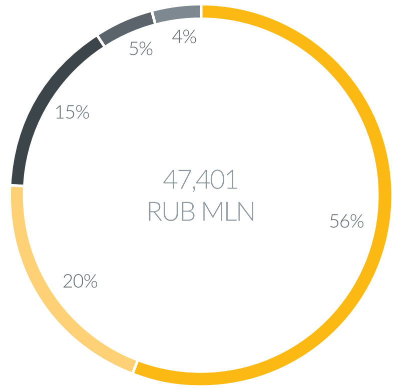


Kurinoe Tsarstvo	25%
Petelinka	14%
Private label	3%
Other brands and value added products	8%
Non branded products	49%



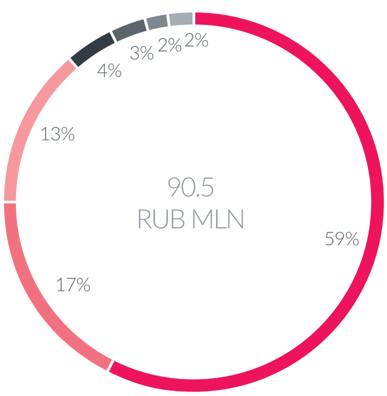
Kurinoe Tsarstvo	26%
Petelinka	23%
Private label	4%
Other brands and value added products	11%
Non branded products	36%

Product sales by channels, %



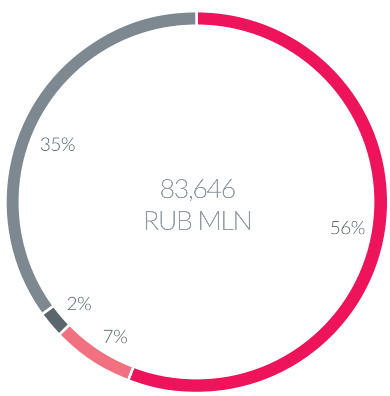
Modern Retail	56%
B2B	20%
Traditional trade	15%
Export	5%
HoReCa	4%

Product sales by channels in the company in 2017, %



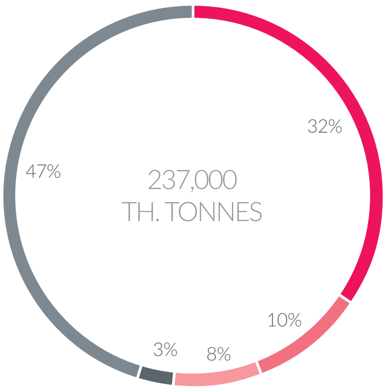
Modern retail	59%
Traditional retail	17%
B2B (Meat and meat products)	13%
Live pork	4%
Grain and feed	3%
HoReCa	2%
Exports	2%

Products breakdown in the company, %

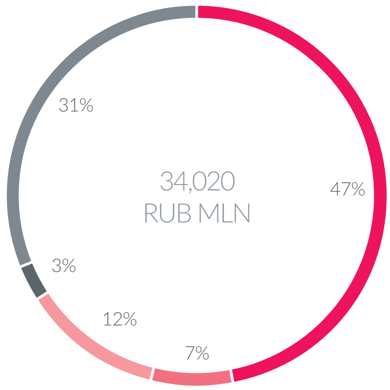


Branded	56%
Private label	7%
HoReCa	2%
Non branded/commodity	35%

Product sales by brands in the Meat Processing segment in 2017, %

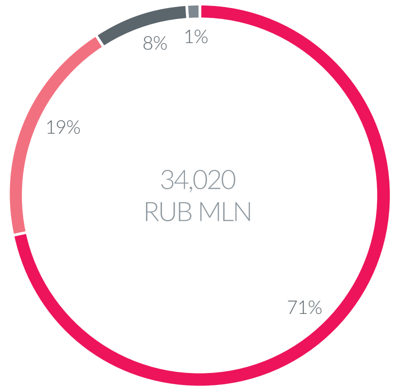


	Cherkizovo	32%
	Myasnaya Guberniya	10%
	Private label	8%
	Other brands and value added products	3%
	Non branded products	47%



	Cherkizovo	47%
	Myasnaya Guberniya	7%
	Private label	12%
	Other brands and value added products	3%
	Non branded products	31%

Product sales by channels, %



	Modern trade	71%
	Traditional trade	19%
	B2B	8%
	Export	1%

Broader range of ready-to-cook and ready-to-eat foods

In 2017, we continued adding new options to our range of ready-to-cook and ready-to-eat products in a variety of market segments. As part of this strategy, we launched Belgian-Style Ribs, a completely new product made from traditional Belgian ingredients, including chocolate, beer and malt, without artificial flavours.

Last year, we also relaunched the Petelinka-branded line of cutlets and barbecue products, adding a refined product range and recipes free from food additives. This boosted cutlet sales by 33% in 2017.

In January 2018, Tambov Turkey introduced Herbes de Provence turkey leg quarters, another new product that boasts a great taste of poultry meat flavoured with classic herbs. The marinade is made of oil and herbs, along with lemon, apple and orange juices, dried apples and papaya extract.

On top of that, 2017 also saw the introduction of a **new barbecue line of pork sausages and kupati**.

Promotion in the HoReCa segment

We remain committed to strengthening our ties with HoReCa customers, focusing on key partners like KFC and Burger King while also being open for cooperation with other HoReCa players. Contracts with HoReCa customers are the testament to the high quality and safety of our products and their compliance with the most stringent production standards. Our competitive edge in this segment is secured by full control over the entire production chain, from growing and producing crops to delivering finished products.

ABOUT COMPANY
STRATEGIC REPORT
FINANCIAL REVIEW
CORPORATE GOVERNANCE
SUSTAINABLE DEVELOPMENT

Turkey as a new poultry category

Turkey meat has a high nutritional value, good taste and dietary properties, but for a number of reasons it still accounts for just 4.5%[1] of the Russian poultry market. However, its consumption is rapidly on the rise as consumer increasingly turn to healthy eating and healthier alternatives to the traditional meat products. With Tambov Turkey reaching its design capacity, the project now ranks among the top producers of turkey in Russia and is perfectly positioned to grow further by expanding both capacities and assortment in response to the market environment.

Since 2017, the Pava-Pava brand has been offering a wide range of delicious and healthy turkey products, including turkey breast, tenderloin, drumsticks, wings and bone steaks. Tambov Turkey grows the Hybrid Grade Maker turkey, which is unique for the Russian market and has 50% less fat than turkey by other Russian producers.

Export products

The major share of our exports goes to the CIS, but we continue growing our deliveries to other international markets, including the Middle East, Africa and Southeast Asia. At the end of 2017, the share of branded products made up 32% of the Group's total export revenue.

To tap into the export markets of Islamic countries, the Group has developed a line of halal products. Their compliance with the standards was confirmed by Moscow's Halal Certification Centre as well as veterinary services of the relevant export markets. Our halal products come under the Latifa and Dajajti brands.

The new export permits obtained in 2017 confirmed our products' compliance with the high international standards in biosafety.

Non-consumable products

Greater operating and environmental efficiency is a major element of the Group's strategy, so we seek to minimise production waste and ensure the best use of all resources. As part of this approach, all by-products, blood, animal bones and other food waste are used for making non-consumable products, in particular animal feed. The Group has all the necessary technological processes in place to ensure compliance with rigorous veterinary standards and requirements for the end products. We have long-term contracts to supply non-consumable products to some of the largest producers of animal feed.

New turkey products have already begun to enjoy consumer recognition. In 2017, the Turkey Salami and Light Menu Turkey Ham sausages **ranked first and second in the Innovative Product** contest held by Prodexpo in Moscow.

[1] Source: Cherkizovo Group estimates, industrial production.

Financial Performance Overview

Ludmila Mikhaylova
CFO

In 2017,
Cherkizovo Group's revenue increased by 10% to RUB 90.5 billion.

CONSOLIDATED REVENUE

90.5
RUB bln

EBITDA

15.3
RUB bln

KEY FINANCIAL INDICATORS IN 2015-2017

	2015	2016	2017
Revenue, RUB bln	77.0	82.4	**90.5**
Gross profit, RUB bln	19.1	17.9	**23.6**
Gross margin	*25%*	*22%*	*26%*
Adjusted EBITDA, RUB bln	12.6	10.3	**15.3**
Adjusted EBITDA margin	*16%*	*13%*	*17%*
Net profit, RUB bln	6.0	1.9	**5.8**
Net profit margin	*8%*	*2%*	*6%*
Net cash flow from operating activities, RUB bln	5.0	9.4	**13.0**
Net debt, RUB bln	35.0	36.9	**48.7**
Net debt / Adjusted EBITDA	*2.77*	*3.59*	*3.17*

With a greater macroeconomic stability in 2017, the rouble traded in a relatively narrow range against key foreign currencies and consumer demand started to show the first signs of recovery. Although prices for our products remained under pressure, the Group delivered an impressive performance stepping up its production volumes and enhancing operational efficiency.

In 2017, Cherkizovo Group's consolidated revenue increased by 10% year-on-year to RUB 90.5 billion, with adjusted EBITDA surging by 49% to RUB 15.3 billion and adjusted EBITDA margin rising to 17% (up from 12.5% in 2016). Net profit tripled to RUB 5.8 billion as compared to RUB 1.9 billion in 2016, while operating cash flow increased by 39% to RUB 13.0 billion (RUB 9.4 billion in 2016).

Net debt came in at RUB 48.7 billion vs RUB 36.9 billion in 2016, with our financials providing sufficient comfort on all debt covenants.

In 2017, total capital expenditures stood at RUB 12.3 billion, with the largest part attributable to the Pork (RUB 5.1 billion) and Meat Processing (RUB 4.8 billion) segments. The remaining CAPEX was distributed among other businesses.

OPERATIONAL PERFORMANCE OVERVIEW

Cherkizovo Group is Russia's largest vertically integrated manufacturer of meat products and feed. We are No. 1 player in the market of chicken meat, holding the second place in the pork segment and ranking fourth by the volumes of turkey produced.

Our key businesses comprise production and sales of processed meats (mainly in the European part of Russia), breeding and rearing of broilers, processing and sales of chilled and frozen poultry supplied by facilities in the Bryansk, Voronezh, Kursk, Lipetsk, Moscow, Penza and Tula regions, pig farming in the Voronezh, Lipetsk, Moscow, Orel, Penza and Tambov regions, sales of market hogs and grain cultivation on the Group-owned lands. We also engage in sales and distribution activities and produce feed for our poultry and pig farms.

The Group's structure embraces four product segments: Poultry, Pork, Meat Processing, Grain. The Poultry division includes eight poultry farms with the Group-owned trading houses. The Pork division includes 16 state-of-the-art pig farms.

The Meat Processing division includes six slaughtery and meat processing facilities producing sausages, ham, ready-to-cook meats and other meat products. The grain division includes a land bank with an area of about 287,000 hectares. Tambov Turkey is a Russian-Spanish joint venture. In addition, Cherkizovo Group operates eight feed mills catering for the needs of the key segments. The divisions may also run non-core businesses. The expenses of the managing company are recognised in Corporate Expenses.

In 2017, the Group produced approximately 1 million tonnes of meat products outperforming its peers by a wide margin. According to the Russian Union of Poultry Producers and the Group's own estimates, we rank first among Russia's major poultry producers in terms of sales volumes. According to the National Union of Swine Breeders, we are the second largest player in a highly fragmented pork market.

In 2017, Cherkizovo Group's sales totalled 522,500 tonnes of finished products in the Poultry segment, 236,638 tonnes in the Meat Processing segment, 211,750 tonnes (production on a live weight basis) in the Pork segment, and over 449,215 tonnes in the Grain segment. The Group also produced some 1.67 million tonnes of feed to cater for its own needs.

MARKET AND REGULATORY OVERVIEW

FX exchange rates

In 2017, the Russian rouble demonstrated moderate levels of volatility against the US dollar and the euro, ending the year in a positive territory. According to the Central Bank of Russia, as at 31 December 2017, the USD/RUB and EUR/RUB pairs traded at 57.60 and 68.87, respectively (vs 60.66 and 63.81 as at 31 December 2016). At the end of the year, RUB-denominated liabilities accounted for 92% of the Group's long-term debt and 100% of its short-term debt.

Cherkizovo's products are generally priced in Russian roubles, while many of our sourcing costs, including certain feed ingredients and veterinary drugs, are directly or indirectly linked to foreign exchange rates. On the other hand, some other costs, such as payroll, interest payments and transportation, are denominated in Russian roubles.

~1

MLN TONNES
OF MEAT PRODUCTS
were produced in 2017

Interest rates

In 2017, the Central Bank of Russia delivered multiple rate cuts, lowering the key rate from 10.0% at the end of 2016 to 7.75% at the end of 2017. Beyond the reporting period, the key rate was further cut to 7.5% on 12 February 2018.

Tax benefits

Russian agricultural producers have a zero corporate income tax rate. This rate applies to the Group's Poultry, Pork, Turkey and Grain segments. However, no tax benefits are provided for sales and distribution, feed production and meat processing. Taking into account the tax benefits, our effective corporate income tax rate in 2017 came in at 2.6% (net of penalties and fines), down from 3.7% in 2016. The general income tax rate for Russian companies was 20%.

On 1 January 2017, amendments to the Russian Tax Code became effective allowing the Group to offset no more than 50% of each subsidiary's taxable income against the accrued carryforward tax losses. No time limit is set for the use of the Group's tax loss carryforward. Hence, the Group does not expect its deferred tax position to be affected.

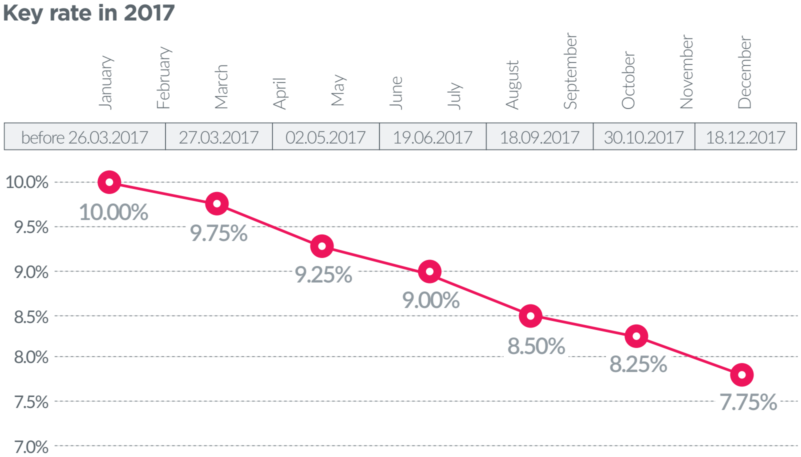
Loan benefits and government subsidies for interest payments

Starting 1 January 2017, authorised banks offer Russian agricultural producers loans at a reduced interest rate (5% or lower for RUB-denominated loans), with the government covering the difference between the market and actual rates.

Previously, agricultural producers had the right to claim a refund for interest expenses on investment and working capital loans issued before 31 December 2016 in an amount equal to the refinancing rate of the Central Bank of Russia effective as at the loan agreement date, with two thirds of such amount reimbursed by the federal government and the remaining one third by the regional government.

On 13 December 2017, a government order was published prohibiting regional agencies of the Ministry of Agriculture from using subsidy limits for 2018 to repay loans for 2016. As a result, Cherkizovo Group had to write off RUB 571 million of subsidy receivables, with government subsidies for interest expense reimbursements in 2017 totalling a meagre RUB 6.3 million vs RUB 744.2 million in 2016.

Key rate in 2017



Source: Central Bank of Russia

6.3

RUB MLN

GOVERNMENT SUBSIDIES for interest expense reimbursements in 2017

CONSOLIDATED RESULTS OF PJSC CHERKIZOVO GROUP

In 2017, Cherkizovo Group's revenue increased by 10% to RUB 90.5 billion as compared to RUB 82.4 billion in 2016. Key growth drivers were the Pork and Meat Processing divisions, with their revenues rising by 17% and 7%, respectively. The Group-wide indicator remained in the positive territory despite a 1% revenue drop in the Poultry segment. In 2017, average prices remained flat or slightly dipped across the segments (except grain business).

Gross profit jumped 32% to RUB 23.6 billion (vs RUB 17.9 billion in 2016) driven by higher output across the segments, favourable prices for feed ingredients (primarily grain) and enhanced operational performance in the Poultry and Pork segments. Lower costs and higher sales helped boost gross margin from 21.7% in 2016 to 26.0% in 2017.

Operating expenses increased by 8% to RUB 13.8 billion (vs RUB 12.8 billion in 2016) stoked by a rise in selling expenses. As percentage of the revenue, though, operating expenses went down from 15.5% in 2016 to 15.3% in 2017. Operating profit soared by 92% to RUB 9.7 billion.

As a result, adjusted EBITDA for 2017 surged by 49% year-on-year to RUB 15.3 billion. Adjusted EBITDA margin also demonstrated significant growth spiking at 17.0% compared to 12.5% in 2016. This rise showed that we can boost profits by rolling out our operational excellence enhancement strategy across the Group's segments.

Thanks to interest rate cuts, interest expenses remained virtually unchanged year-on-year at RUB 3.7 billion. This came as an impressive result as the Group's total debt increased by 30% to RUB 50.0 billion, while accrued subsidies (included in net interest expenses) amounted only to RUB 6.3 million.

For further details, **see** "Market and Regulatory Overview" **page 66**

Net profit tripled from RUB 1.9 billion in 2016 to RUB 5.8 billion in 2017, while net profit margin rose from 2.3% to 6.4%. Operating cash flow increased from RUB 9.4 billion in 2016 to RUB 13.0 billion, driven primarily by higher operating profit.

REVENUE
90.5
RUB BLN
+ 10% y-o-y

GROSS PROFIT
23.6
RUB BLN
+ 32% y-o-y

EBITDA
15.3
RUB BLN
+ 49% y-o-y

NET PROFIT
5.8
RUB BLN
+ 200% y-o-y

CONSOLIDATED INCOME STATEMENT DATA
for the year ended 31 December 2017

(RUB '000)	Year ended 31 December 2017	Year ended 31 December 2016	Change, %
Revenue	**90,465,069**	**82,417,193**	**9.8%**
incl. sales volume discounts	(1,380,359)	(5,886,114)	(76.5%)
incl. sales returns	(1,000,200)	(952,321)	5.0%
Net change in fair value of biological assets and agricultural produce	(148,118)	(340,063)	(56.4%)
Cost of sales	**(66,758,340)**	**(64,222,344)**	**3.9%**
Gross profit	*23,558,611*	*17,854,786*	*31.9%*
Gross profit margin	26.0%	21.7%	4.3 p.p.
Operating expenses	(13,611,664)	(12,598,122)	8.0%
Share of loss of a joint venture	**(221,325)**	**(200,191)**	**10.6%**
Operating profit	*9,725,622*	*5,056,473*	*92.3%*
Operating margin	10.8%	6.1%	4.7 p.p.
Profit before income tax	**5,955,675**	**1,960,379**	**203.8%**
Profit attributable to Cherkizovo Group	**5,800,371**	**1,919,227**	**202.2%**
Net profit margin	*6.4%*	*2.3%*	*4.1 p.p.*
Weighted average number of shares outstanding	**42,760,328**	**43,855,590**	(2.5%)
Earnings per share:			
Profit attributable to Cherkizovo Group per share – basic and diluted, RUB	**135.7**	**43.8**	**209.8%**
Consolidated adjusted EBITDA[1] reconciliation			
Profit before income tax and non-controlling interests	**5,955,675**	**1,960,379**	**203.8%**
Add:			
Interest expense, net of subsidies	3,663,093	3,738,315	(2.0%)
Interest income	(277,148)	(343,737)	(19.4%)
Foreign exchange (gain)/loss, net	390,426	(621,087)	(162.9%)
Depreciation and amortisation	5,153,486	4,660,365	10.6%
Net change in fair value of biological assets and agricultural produce	148,118	340,063	(56.4%)
Share of loss of a joint venture	221,325	200,191	10.6%
Write-off of receivables from insurance company	–	347,975	
Share of adjusted EBITDA[1] of a joint venture	83,448	–	
Consolidated adjusted EBITDA[1]	**15,338,423**	**10,282,464**	49.2%
Adjusted EBITDA margin[1]	*17.0%*	*12.5%*	*4.5 p.p.*

CONSOLIDATED SELECTED FINANCIAL DATA
for the year ended 31 December 2017

(in thousands of rubles)	Meat processing	Poultry	Pork
Total Sales	**34,020,373**	47,401,429	18,688,379
including other sales	680,431	901,885	235,960
including sales volume discounts	(827,045)	(523,618)	–
Intersegment sales	(39,539)	(1,902,802)	(14,622,070)
Sales to external customers	33,980,834	45,498,627	4,066,309
% of Total sales	*37.5%*	*50.3%*	*4.5%*
Net change in fair value of biological assets and agricultural produce	–	(71,239)	651,235
Cost of sales	(28,058,310)	(36,875,483)	(12,399,563)
Gross profit/(loss)	**5,962,063**	**10,454,707**	**6,940,051**
Gross margin	*17.5%*	*22.1%*	*37.1%*
Operating expenses	(4,249,598)	(5,342,484)	(627,148)
Share of loss of a joint venture	–	–	–
Operating income / (loss)	**1,712,465**	**5,112,223**	**6,312,903**
Operating margin	*5.0%*	*10.8%*	*33.8%*
Other income (expense), net	(106,781)	3,102	38,664
Interest expense, net	(181,389)	(1,112,968)	(713,729)
Division profit / (loss) before income tax	**1,424,295**	**4,002,357**	**5,637,838**
Division profit before income tax margin	*4.2%*	*8.4%*	*30.2%*
Supplemental information:			
Income tax expense (benefit)	100,185	48,452	(19,580)
Depreciation and amortisation	697,189	1,936,437	1,140,851
Division profit / (loss) before income tax	**1,424,295**	**4,002,357**	**5,637,838**
Add:			
Interest expense, net	181,389	1,112,968	713,729
Interest income	(16,845)	(164,917)	(41,178)
Foreign exchange loss (gain)	122,422	164,118	6,272
Depreciation and amortisation	697,189	1,936,437	1,140,851
Net change in fair value of biological assets and agricultural produce	–	71,239	(651,235)
Share of loss of a joint venture	–	–	–
Share of adjusted EBITDA of a joint venture*	–	–	–
Adjusted EBITDA[1]	**2,408,450**	**7,122,202**	**6,806,277**
Adjusted EBITDA Margin[1]	*7.1%*	*15.0%*	*36.4%*

Reconciliation between net division profit and profit attributable to Cherkizovo Group

Total division profit	**5,955,675**
Non-controlling interests	152,296
Income taxes	(307,600)
Profit attributable to Cherkizovo Group	**5,800,371**

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

Grain	Feed	Total reportable segments	Corporate	Inter-segment	Total without Turkey	Turkey*	Total consolidated
3,238,261	**28,169,777**	**131,518,219**	**560,007**	**(45,511,637)**	**86,566,589**	**3,898,480**	**90,465,069**
75,115	—	1,893,391	560,007	(799,076)	1,654,322	—	1,654,322
—	—	(1,350,663)	—	—	(1,350,663)	(29,696)	(1,380,359)
(1,468,597)	(27,186,212)	(45,219,220)	(292,417)	45,511,637	—	—	—
1,769,664	983,565	86,298,999	267,590	—	86,566,589	3,898,480	90,465,069
2.0%	*1.1%*	*95.4%*	*0.3%*	—	—	*4.3%*	*100%*
(736,614)	—	(156,618)	—	8,500	(148,118)	—	(148,118)
(3,823,384)	(26,735,838)	(107,892,578)	(440,325)	45,327,432	(63,005,471)	(3,752,869)	(66,758,340)
(1,321,737)	**1,433,939**	**23,469,023**	**119,682**	**(175,705)**	**23,413,000**	**145,611**	**23,558,611**
-40.8%	*5.1%*	*17.8%*	*21.4%*	—	—	*3.7%*	*26.0%*
(270,124)	(368,585)	(10,857,939)	(2,825,222)	283,836	(13,399,325)	(212,339)	(13,611,664)
—	—	—	—	—	—	(221,325)	(221,325)
(1,591,861)	**1,065,354**	**12,611,084**	**(2,705,540)**	**108,131**	**10,013,675**	**(288,053)**	**9,725,622**
-49.2%	*3.8%*	*9.6%*	*-483.1%*	—	—	*-7.4%*	*10.8%*
2,967	(103,986)	(166,034)	156,258	(97,078)	(106,854)	—	(106,854)
(175,685)	(942,325)	(3,126,096)	(634,075)	97,078	(3,663,093)	—	(3,663,093)
(1,764,579)	**19,043**	**9,318,954**	**(3,183,357)**	**108,131**	**6,243,728**	**(288,053)**	**5,955,675**
-54.5%	*0.1%*	*7.1%*	*-568.5%*	—	—	*-7.4%*	*6.6%*
12,224	3,401	144,682	162,918	—	307,600	—	307,600
464,492	595,260	4,834,229	319,257	—	5,153,486	—	5,153,486
(1,764,579)	**19,043**	**9,318,954**	**(3,183,357)**	**108,131**	**6,243,728**	**(288,053)**	**5,955,675**
175,685	942,325	3,126,096	634,075	(97,078)	3,663,093	—	3,663,093
(1,649)	(2,567)	(227,156)	(147,070)	97,078	(277,148)	—	(277,148)
(859)	107,279	399,232	(8,806)	—	390,426	—	390,426
464,492	595,260	4,834,229	319,257	—	5,153,486	—	5,153,486
736,614	—	156,618	—	(8,500)	148,118	—	148,118
—	—	—	—	—	—	221,325	221,325
—	—	—	—	—	—	83,448	83,448
(390,296)	**1,661,340**	**17,607,973**	**(2,385,901)**	**99,631**	**15,321,703**	**16,720**	**15,338,423**
-12.1%	*5.9%*		*-426.0%*	*-0.2%*	*17.7%*	*0.4%*	*17.0%*

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

POULTRY

Revenue declined by 1% from RUB 47.7 billion in 2016 to RUB 47.4 billion. This came as a result of lower sales prices amid higher production volumes in the domestic market, with the Group's efforts to increase the share of added-value products having only a limited effect.

In 2017, the segment's sales grew by 4% to 522,500 tonnes (vs 500,321 tonnes in 2016) driven by improvements in operational performance of its key assets.

The average sales price declined by 4% year-on-year to RUB 88.84 per kg due to a high base effect and weak demand in the summertime.

Gross profit soared by 42% to RUB 10.5 billion (vs RUB 7.4 billion in 2016), as the Group boosted the share of Petelinka brand in total sales, cut feed expenses and improved the feed mix. Gross margin rose from 15.5% in 2016 to 22.1% in 2017.

Operating expenses as a percentage of revenue increased from 10.6% in 2016 to 11.3% in 2017.

Operating profit nearly doubled to RUB 5.1 billion compared to RUB 2.4 billion a year earlier, while operating margin jumped from 4.9% to 10.8%.

Adjusted EBITDA soared by 54% from RUB 4.6 billion in 2016 to RUB 7.1 billion in 2017, with adjusted EBITDA margin rising from 9.7% to 15.0%.

Net profit came in at RUB 4.0 billion as compared to RUB 1.2 billion in 2016.

POULTRY DIVISION INCOME STATEMENT DATA, RUB '000

Indicator	Year ended 31 December 2017	Year ended 31 December 2016	Change, %
Total sales	47,401,429	47,724,031	(0.7%)
Interdivision sales	(1,902,802)	(1,961,921)	(3.0%)
Sales to external customers	**45,498,627**	**45,762,110**	(0.6%)
Net change in fair value of biological assets and agricultural produce	(71,239)	(288,114)	(75.3%)
Cost of sales	(36,875,483)	(40,049,212)	(7.9%)
Gross profit	**10,454,707**	**7,386,705**	41.5%
Gross profit margin	*22.1%*	*15.5%*	*6.6 p.p.*
Operating expenses	(5,342,484)	(5,035,890)	6.1%
Operating profit	**5,112,223**	**2,350,815**	117.5%
Operating margin	*10.8%*	*4.9%*	*5.9 p.p.*
Interest income	164,917	173,895	(5.2%)
Interest expense, net	(1,112,968)	(1,076,908)	3.3%
Other expenses, net	(161,815)	(288,639)	(43.9%)
Division profit before tax	**4,002,357**	**1,159,163**	245.3%
Division profit before tax margin	*8.4%*	*2.4%*	*6.0 p.p.*
Poultry division adjusted EBITDA[1] reconciliation			
Division profit before tax	**4,002,357**	**1,159,163**	245.3%
Add:			
Interest expense, net of subsidies	1,112,968	1,076,908	3.3%
Interest income	(164,917)	(173,895)	(5.2%)
Foreign exchange loss, net	164,118	304,147	(46.0%)
Depreciation and amortisation	1,936,437	1,969,279	(1.7%)
Net change in fair value of biological assets and agricultural produce	71,239	288,114	(75.3%)
Poultry division adjusted EBITDA	**7,122,202**	**4,623,716**	54.0%
Adjusted EBITDA margin	*15.0%*	*9.7%*	*5.3 p.p.*

PORK

Revenue in the Pork segment increased by 17% to RUB 18.7 billion (vs RUB 15.9 billion in 2016), driven by a year-on-year rise in volumes and average sales prices.

The segment's production volumes grew by 15% to 211,750 tonnes in 2017 (as compared to 184,766 tonnes in 2016) driven by the commissioning of new finisher sites constructed and populated over the past two years.

Sales rose by 13% to 200,308 tonnes vs 177,153 tonnes in 2016. In 2017, the average sales price reached RUB 90.77 per kg, up 3% year-on-year thanks to the strengthening of purchasing power in the domestic market.

Gross profit in 2017 jumped by 51% to RUB 6.9 billion (vs RUB 4.6 billion in 2016), as the Group boosted sales, cut feed expenses and continuously improved operational performance by implementing its genetics improvement and animal health programmes that had kicked off in the previous years.

Gross margin rose sharply, reaching 37.1% in 2017 vs 28.9% in 2016.

Operating expenses stood at 3.4% of revenue, down from 4.9% a year earlier. Operating profit surged by 65% from RUB 3.8 billion in 2016 to RUB 6.3 billion in 2017, with operating margin advancing from 24.0% to 33.8%.

Adjusted EBITDA soared by 72% from RUB 4.0 billion in 2016 to RUB 6.8 billion in 2017, while adjusted EBITDA margin improved from 24.9% to 36.4%.

Net profit doubled to RUB 5.6 billion vs RUB 2.6 billion in 2016.

PORK DIVISION INCOME STATEMENT DATA, RUB '000

Indicator	Year ended 31 December 2017	Year ended 31 December 2016	Change, %
Total sales	18,688,379	15,920,146	17.4%
Interdivision sales	(14,622,070)	(12,634,006)	15.7%
Sales to external customers	**4,066,309**	**3,286,140**	23.7%
Net change in fair value of biological assets and agricultural produce	651,235	861,422	(24.4%)
Cost of sales	(12,399,563)	(12,182,666)	1.8%
Gross profit	**6,940,051**	**4,598,902**	50.9%
Gross profit margin	*37.1%*	*28.9%*	*8.2 p.p.*
Operating expenses	(627,148)	(782,106)	(19.8%)
Operating profit	**6,312,903**	**3,816,796**	65.4%
Operating margin	*33.8%*	*24.0%*	*9.8 p.p.*
Interest income	41,178	33,764	22.0%
Interest expense, net	(713,729)	(964,742)	(26.0%)
Other expenses, net	(2,514)	(322,962)	(99.2%)
Division profit before tax	**5,637,838**	**2,562,856**	120.0%
Division profit before tax margin	*30.2%*	*16.1%*	*14.1 p.p.*
Pork division adjusted EBITDA[1] reconciliation			
Division profit before tax	**5,637,838**	**2,562,856**	120.0%
Add:			
Interest expense, net of subsidies	713,729	964,742	(26.0%)
Interest income	(41,178)	(33,764)	22.0%
Foreign exchange loss / (gain), net	6,272	(22,285)	(128.1%)
Depreciation and amortisation	1,140,851	1,010,334	12.9%
Net change in fair value of biological assets and agricultural produce	(651,235)	(861,422)	(24.4%)
Write-off of receivables from insurance company	–	347,975	(100%)
Pork division adjusted EBITDA[1]	**6,806,277**	**3,968,436**	71.5%
Adjusted EBITDA margin[1]	*36.4%*	*24.9%*	*11.5 p.p.*

MEAT PROCESSING

The segment's revenue in 2017 rose by 7% to RUB 34.0 billion (vs RUB 31.7 billion in 2016) driven by stronger sales and the unchanged average sales price.

In 2017, the segment's sales grew by 9% to 236,638 tonnes vs 218,085 tonnes in 2016 mainly due to a wider range of branded products in the sausage and pork product categories.

The average sales price in 2017 remained flat year-on-year at RUB 147.65 per kg thanks to a higher share of value-added products in total sales.

Gross profit in the reporting period increased by 8% to RUB 6.0 billion compared to RUB 5.5 billion in 2016. Gross margin went up from 17.4% in 2016 to 17.5%.

In 2017, the share of operating expenses reached 12.5% of total revenue vs 11.8% in 2016.

Operating profit dropped by 4% to RUB 1.7 billion compared to RUB 1.8 billion in 2016. Operating margin decreased from 5.6% in 2016 to 5.0%.

In 2017, adjusted EBITDA remained flat year-on-year at RUB 2.4 billion.

Net profit in the Meat Processing segment totalled RUB 1.4 billion, down 18% year-on-year.

MEAT PROCESSING DIVISION INCOME STATEMENT DATA, RUB '000

Indicator	Year ended 31 December 2017	Year ended 31 December 2016	Change, %
Total sales	34,020,373	31,667,448	7.4%
Interdivision sales	(39,539)	(22,795)	73.5%
Sales to external customers	**33,980,834**	**31,644,653**	7.4%
Cost of sales	(28,058,310)	(26,141,947)	7.3%
Gross profit	**5,962,063**	**5,525,501**	7.9%
Gross profit margin	*17.5%*	*17.4%*	*0.1 p.p.*
Operating expenses	(4,249,598)	(3,743,467)	13.5%
Operating profit	**1,712,465**	**1,782,034**	(3.9%)
Operating margin	*5.0%*	*5.6%*	*(0.6 p.p.)*
Interest income	16,845	9,561	76.2%
Interest expense, net	(181,389)	(245,885)	(26.2%)
Other (expenses)/income, net	(123,626)	197,817	(162.5%)
Division profit before tax	**1,424,295**	**1,743,527**	(18.3%)
Division profit before tax margin	*4.2%*	*5.5%*	*(1.3 p.p.)*
Meat processing division adjusted EBITDA[1] reconciliation			
Division profit before tax	**1,424,295**	**1,743,527**	(18.3%)
Add:			
Interest expense, net of subsidies	181,389	245,885	(26.2%)
Interest income	(16,845)	(9,561)	76.2%
Foreign exchange loss / (gain), net	122,422	(192,501)	(163.6%)
Depreciation and amortisation	697,189	639,237	9.1%
Meat processing division adjusted EBITDA[1]	**2,408,450**	**2,426,587**	(0.7%)
Adjusted EBITDA margin[1]	*7.1%*	*7.7%*	*(0.6 p.p.)*

GRAIN

The segment's revenue in 2017 rose by 6% to RUB 3.2 billion vs RUB 3.1 billion in 2016. Sales were mainly driven by the acquisition of NAPKO. At the same time, the average sales price plummeted by 21% year-on-year to RUB 7.01 per kg due to higher supply in the domestic market. In 2017, this segment posted a loss of RUB 1.8 billion.

GRAIN DIVISION INCOME STATEMENT DATA, RUB '000

Indicator	Year ended 31 December 2017	Year ended 31 December 2016	Change, %
Total sales	3,238,261	3,055,762	6.0%
Interdivision sales	(1,468,597)	(1,956,712)	(24.9%)
Sales to external customers	**1,769,664**	**1,099,050**	61.0%
Net change in fair value of biological assets and agricultural produce	(736,614)	(477,482)	54.3%
Cost of sales	(3,823,384)	(2,873,596)	33.1%
Gross loss	**(1,321,737)**	**(295,316)**	347.6%
Gross profit margin	*(40.8%)*	*(9.7%)*	*(31.1 p.p.)*
Operating expenses	(270,124)	(267,828)	0.9%
Operating loss	**(1,591,861)**	**(563,144)**	182.7%
Operating margin	*(49.2%)*	*(18.4%)*	*(30.8 p.p.)*
Interest income	1,649	1,710	(3.6%)
Interest expense, net	(175,685)	(94,361)	86.2%
Other income, net	1,318	3,175	(58.5%)
Division loss before tax	**(1,764,579)**	**(652,620)**	170.4%
Division profit before tax margin	*(54.5%)*	*(21.4%)*	*(33.1 p.p.)*
Grain division adjusted EBITDA[1] reconciliation			
Division loss before tax	**(1,764,579)**	**(652,620)**	170.4%
Add:			
Interest expense, net of subsidies	175,685	94,361	86.2%
Interest income	(1,649)	(1,710)	(3.6%)
Foreign exchange gain, net	(859)	(3,026)	(71.6%)
Depreciation and amortisation	464,492	295,430	57.2%
Net change in fair value of biological assets and agricultural produce	736,614	477,482	54.3%
Grain division adjusted EBITDA[1]	**(390,296)**	**209,917**	(285.9%)
Adjusted EBITDA margin[1]	*(12.1%)*	*6.9%*	*(19.0 p.p.)*

TURKEY

In 2012, Cherkizovo Group and Grupo Corporativo Fuertes S.L. established Tambov Turkey, a turkey breeding and production joint venture that reached its design capacity at the end of 2017. The Group buys turkey meat from Tambov Turkey in order to resell it through its own distribution network.

Turkey operations include sales of turkey meat purchased from Tambov Turkey JV and related selling and distribution expenses. The Group also accounts for 50% of the JV's profit or loss and adjusted EBITDA. In 2017, turkey revenue totalled RUB 3.9 billion, with gross profit reaching RUB 146 million. Operating loss and loss before income tax stood at RUB 288 million.

The joint venture's losses attributable to Cherkizovo Group totalled RUB 221 million, whereas adjusted EBITDA attributable to the Group reached RUB 83.4 million. The division's adjusted EBITDA amounted to RUB 16.7 million.

GROSS PROFIT

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RUB MLN

TURKEY DIVISION INCOME STATEMENT DATA, RUB '000

Indicator	Year ended 31 December 2017
Total sales	3,898,480
including sales volume discounts	(29,696)
Sales to external customers	3,898,480
Cost of sales	(3,752,869)
Gross profit	**145,611**
Operating expenses	(212,339)
Share of loss of a joint venture	(221,325)
Operating loss	**(288,053)**
Loss before income tax	**(288,053)**
Adjustments for:	
Share of loss of a joint venture	221,325
Share of adjusted EBITDA of a joint venture	83,448
Adjusted EBITDA	**16,720**

LIQUIDITY AND CAPITAL

Capital needs

The Group needs capital to finance:

- capital expenditures to further develop key business segments; and
- debt repayment.

We expect capital expenditures, potential acquisitions and long-term loans repayment to be major spending items over the next few years, with the volume of capital expenditures set to decline after completion of the main stage of our investment programme in 2018.

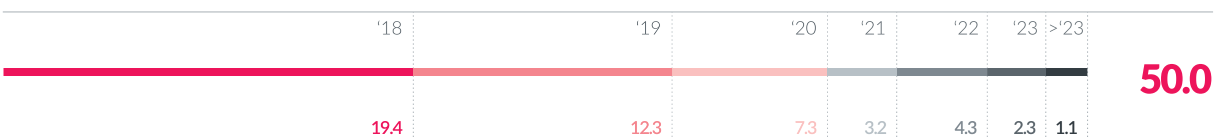
To finance our CAPEX programme, we will primarily rely on operating cash flows and bank loans, which were the major sources of liquidity in 2017. Back then, we were giving preference to long-term loans and internally available funds.

Debt

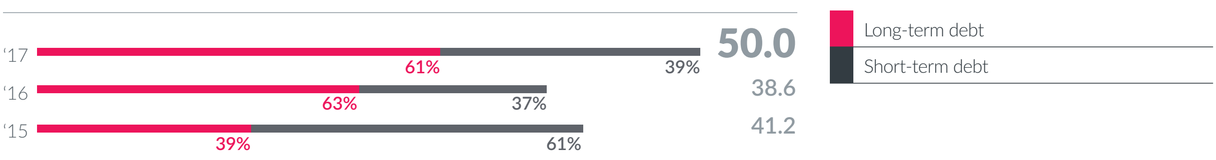
As at 31 December 2017, net debt[2] came in at RUB 48.7 billion as compared to RUB 36.9 billion at the end of 2016. Total debt increased from RUB 38.6 billion at the end of 2016 to RUB 50 billion.

As at 31 December 2017, long-term debt stood at RUB 30.6 billion, or 61% of the Group's debt portfolio, while short-term debt of RUB 19.4 billion accounted for 39% of the debt portfolio. The effective cost of debt decreased from 9.7% in 2016 to 7.3% in 2017. In 2017, the share of subsidised loans and credit facilities in the Group's debt portfolio remained flat year-on-year at 35%. As at 31 December 2017, cash and cash equivalents totalled RUB 0.7 billion.

Maturities and amounts of long-term loans and borrowings* as at 31 December 2017, RUB bln



Total debt structure,
RUB bln

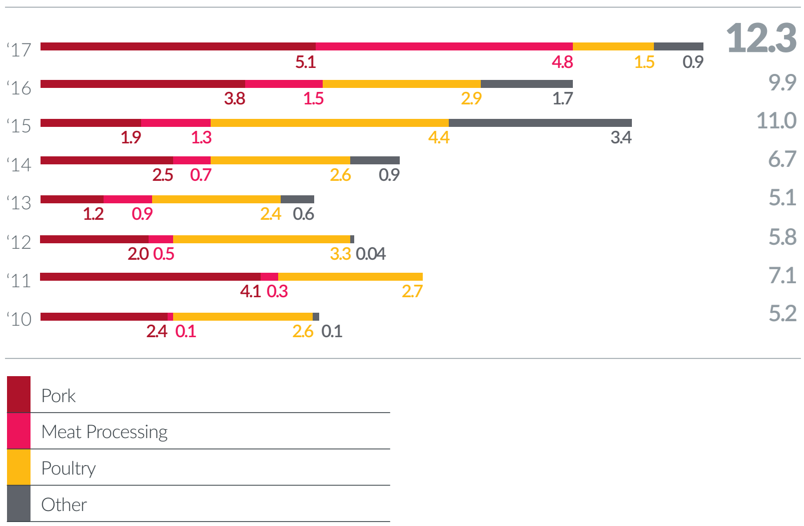


* The total debt amount includes bonds, bank loans, factoring, finance lease liabilities, other borrowing and interest payables.

CAPITAL EXPENDITURES

In 2017, Cherkizovo Group's capital expenditures on property, plant, equipment and maintenance amounted to RUB 12.3 billion (up 27% year-on-year) and included RUB 4.8 billion invested in the Meat Processing segment (mainly in the construction of a new meat processing plant in Kashira, Moscow region); RUB 5.1 billion invested in the Pork segment (mostly in the construction of finisher sites in the Lipetsk region, site development in the Voronezh region and construction of two weaning and finisher sites in the Penza region); RUB 1.5 billion invested in the Poultry segment; and RUB 0.4 billion invested in the Grain segment (construction of a new grain drying facility).

Capital expenditures in 2010–2017, RUB bln



SUBSIDIES

In 2017, the Group accrued RUB 6 million (vs RUB 0.7 billion in 2016) of debt servicing subsidies used to offset interest expenses. In the reporting period, the group received RUB 541 million of subsidies as compared to RUB 1.4 billion in 2016.

In 2017, the Group wrote off subsidies in the amount of RUB 571 million due to the legal amendments imposing a ban on the use of subsidies for 2018 to repay loans for 2016.

CASH FLOWS

Operating activities

Net operating cash flow increased from RUB 9.4 billion in 2016 to RUB 13.0 billion in 2017, driven by growth in operating profit.

Working capital dropped by RUB 1.1 billion in 2017, whereas, in 2016, the decline amounted to RUB 2.6 billion.

The key factors behind such working capital decrease include a RUB 1.3 billion drop in inventories (vs a drop of RUB 0.8 billion in 2016) coming on the back of greater efficiency in inventory management and a RUB 0.4 billion decline in trade receivables (vs an increase of RUB 0.5 billion in 2016) resulting from enhanced cooperation with retail chains.

Working capital was positively impacted by a material rise in biological assets (an increase of RUB 0.5 billion vs the addition of RUB 0.2 billion in 2016), which was mainly attributable to the expansion of the pig stock driven by the commissioning of new finisher sites, higher average broiler weight and launch of new parent stock sites. We expect this considerable increase in biological assets to help us significantly step up production volumes in the future.

CASH FLOWS, RUB BLN

	2017	2016	2015
Net cash flows from operating activities	**13.0**	9.4	5.0
Net cash generated from / (used in) financing activities	**(15.7)**	(10.6)	(10.1)
Net cash (used in) / generated from financing activities	**2.4**	(3.3)	9.6
Net (decrease)/increase in cash and cash equivalents	**(0.3)**	(4.6)	4.6

Investing activities

Net cash used for investment purposes totalled RUB 15.7 billion vs RUB 10.6 billion in 2016.

Financing activities

In 2017, net cash from financing activities reached RUB 2.4 billion.

Liquidity

As at 31 December 2017, cash and cash equivalents stood at RUB 0.7 billion as compared to RUB 1.0 billion in 2016. Net current assets amounted to RUB 2.4 billion, down from RUB 5.5 billion in 2016. After 31 December 2017 we continued to use cash from operating activities and debt financing to meet our obligations to trade creditors.

As at 31 December 2017, our trade working capital calculated as the difference between current assets and current liabilities (excluding short-term loans and the current portion of long-term debt) stood at RUB 17 billion compared to RUB 19.6 billion in 2016.

Ludmila Mikhaylova
CFO

Non-IFRS financial measures.
This review release 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.

1. 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.
2. Net debt is calculated as total debt minus cash and cash equivalents, short-term bank deposits and long-term bank deposits.

Corporate Governance

Cherkizovo Group has an effective corporate governance system that ensures the implementation of the strategy taking into account the interests of shareholders and other stakeholders.

DIRECTORS STATEMENT

The Board of Directors and the Management are pleased to present this annual report and audited financial statements for the year ending 31 December 2017 and aim to continue to further comply with all regulations and relevant corporate governance best practices.

CORPORATE GOVERNANCE SYSTEM

Cherkizovo Group follows the requirements of the applicable Russian law, the guidelines of the Corporate Governance Code (2014), as approved by the Board of Directors of the Central Bank of Russia, Articles of Association (Charter) and internally approved Regulations, which include:

- Regulations for General Meeting of Shareholders
- Regulations for the Board of Directors
- Regulations for the Board of Directors Audit Committee
- Regulations on Investments and Strategic Planning Committee
- Regulations for the Board of Directors Personnel and Remuneration Committee
- Regulations on the Review Commission
- Regulations on Chief Executive Officer
- Regulations on the Management Board
- Regulations on Corporate Secretary
- Regulations on Internal Audit
- Regulations on Bonuses and Allowances Paid to the Members of the Board of Directors
- Regulations of Information Policy on Disclosure and Delivery of Information
- Regulations on Dividend Policy
- Regulations on Insider Information
- Regulations on Liquidation Commission

The Articles of Association and internal Regulations are available on the corporate website at: **http://cherkizovo.com/en/company/corporate-governance/documents/**

PJSC "Cherkizovo Group" has been a public company since its IPO in 2006. Cherkizovo Group ordinary shares are listed on the Moscow Exchange (Listing Level 1) and Global Depositary Receipts (GDRs) were listed on the London Stock Exchange (LSE). In November 2017, having considered the limited trading liquidity of its GDRs on the London Stock Exchange, and as part of the Group's new capital markets strategy Cherkizovo has decided to consolidate the free-float and trading of its ordinary shares on the Moscow Exchange as well as to reduce the Company's administrative and reporting costs. The last day of trading in the GDRs on the London Stock Exchange was 14 February 2018.

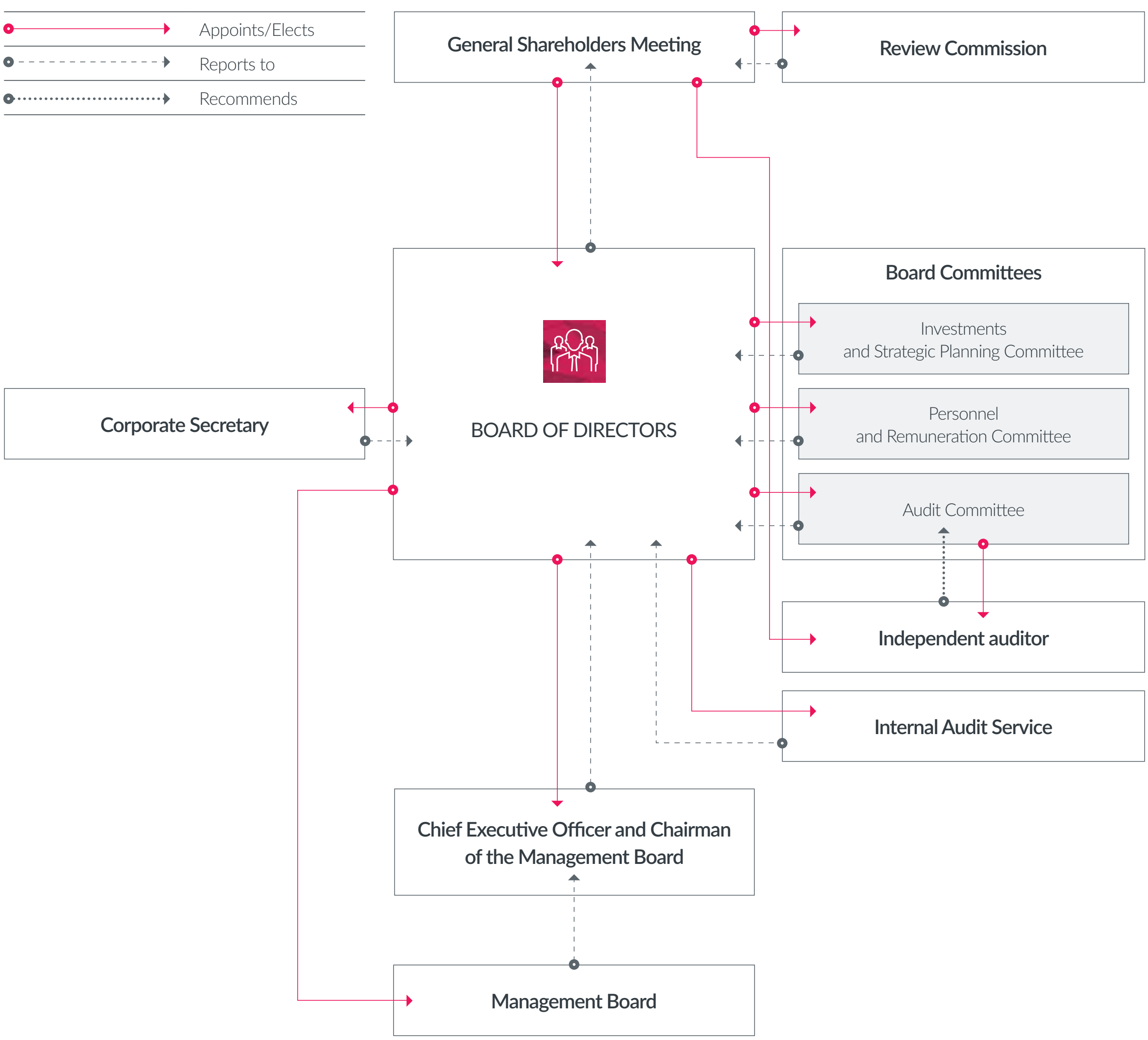
CORPORATE GOVERNANCE STRUCTURE

Cherkizovo Group is governed by the General Shareholder Meeting. The corporate governance structure also includes the Board of Directors, the Management Board led by the Chairman of the Management Board who is the Chief Executive Officer, the three Board Committees, the Review Commission, and the Corporate secretary.

Cherkizovo annually conducts an independent external audit of financial reports prepared in accordance with the Russian and International accounting standards.

GOING CONCERN

The Board of Directors is satisfied that PJSC "Cherkizovo Group" financial statements have been prepared by applying the 'going concern' principle, and that the same principle is embedded in the 2018 budget and long-term plans of Cherkizovo Group.



DIVIDENDS

The dividend policy of Cherkizovo Group is based on the principle of rational distribution of profit with due consideration for the interests of shareholders and demand for investments to ensure Group's sustainable and profitable growth in a competitive environment.

Based on the resolution of the Annual General Meeting of Shareholders held on 11 April 2017, based on the Group performance for the year 2016, dividends were paid to shareholders in the amount of 13.65 RUB per one ordinary share.

The Extraordinary General Meeting of shareholders of Cherkizovo Group, held on 26 September 2017 in the form of absentee voting, resolved to distribute net profit based on the results of 2014, 2015 and 2016 and the first half of 2017 in the amount of 59.82 RUB per one ordinary share.

At the meeting on 14 February 2018, the Board of Directors proposed a dividend 75.07 RUB per ordinary share for the year ended 31 December 2017, subject to approval by the Annual General Meeting of Shareholders, which took place on 23 March 2018.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the ultimate governing body of Cherkizovo Group. The Annual General Meeting of Shareholders (AGM) is held annually and convened by the Board of Directors. Agenda of the AGM includes such items as approval of Cherkizovo Group's annual report and consolidated annual audited accounting statements, approval of distribution of profit and loss, election the Board of Directors and the Review Commission members, appointment of an auditor. In addition, Cherkizovo Group can call Extraordinary General Meetings of shareholders (EGM) to seek approvals for particular issues.

General meetings of shareholders provide invaluable opportunities for direct communications between the shareholders and Cherkizovo Group governing bodies – the Chairman of the Board and the Management team.

In 2017, the AGM was held on the 11 April and passed resolutions including the approval of Cherkizovo Group 2016 annual report and consolidated annual audited financial statements for 2016 prepared in accordance with the Russian Accounting Standards, the distribution of the recommended dividend payments, the election of the Board of Directors and the Review Commission members, as well as the reappointment of Deloitte & Touche CIS as Cherkizovo Group auditor for 2017.

Based on the resolution of the Annual General Meeting of Shareholders held on 11 April 2017, based on the Cherkizovo Group performance for the year 2016, dividends were paid to shareholders in the amount of 13.65 RUB per one ordinary share.

BOARD OF DIRECTORS

The Board of Directors is the governing body of Cherkizovo Group. It performs strategic management of the Group, determines underlying principles and approaches to risk management and internal control, controls activities of executive bodies along with exercising other functions within its competence in accordance with the Charter of PJSC "Cherkizovo Group" and the Russian law. The Board of Directors ensures the implementation of resolutions passed at General Meetings of Shareholders, determines the Group's development strategy, approves plans and budgets, develops risk management and internal control among other functions.

10
MEETINGS
the Board of Directors held in 2017

For fulfillment of its mission the Board of Directors is guided by the following principles:

- decision-making on the basis of reliable information on current state of affairs;
- avoidance of limitation of shareholders' rights for participation in management of affairs, receipt of dividends and information on Cherkizovo Group;
- ensuring objectivity of the decisions made and achieving the balance of interests of various groups of shareholders.

According to Articles of Association, Board resolutions are adopted upon their approval by a simple 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 is present.

Members of the Board of Directors

At the AGM in April 2017, the following members of the Board were re-elected: Sergey Igorevich Mikhaylov, Evgeny Igorevich Mikhaylov, Emin Tofik oglu Mammadov, Richard Paul Sobel, Rafael Fuertes Quintanilla, Elliot Brinton Jones. In accordance with shareholder's proposal the Board included Roger Gary Wills into the list of candidates for voting at the AGM, who was elected as a member of the Board.

At the first meeting of the Board following the AGM Evgeny Mikhaylov was re-elected as Board Chairman and Richard Paul Sobel as a Deputy Chairman of the Board.

The interests of shareholders were represented by the three independent directors: Emin Mammadov, Elliot Jones, and Roger Wills.

Evgeny Mikhaylov
Chairman of the Board of Directors

Evgeny Mikhaylov is the Chairman of the Board of Directors of Cherkizovo Group. Since 2006, he is also the Head of Business Development responsible for the sustainable strategic growth of all business areas, the origination and coordination of investment projects and the Group geographical expansion.

Prior to joining the Cherkizovo Group in 2004 as First Deputy CEO of AIC Mikhailovsky he was an assistant to the Vice President of US telecommunications company, aTelo, Inc., in Washington DC and worked as a financial analyst at Morgan Stanley.

He graduated from the University of California (Los Angeles) in 2004 with a degree in Business Economics.

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

Sergey Mikhaylov has been Chief Executive Officer of Cherkizovo Group since 2006. He is responsible for the general management of the company, sustainable development and strategy.

In 2001, Sergey was appointed as Marketing Director of Cherkizovsky Meat Processing Plant. He was promoted to Deputy Chief Executive Officer for marketing and sales in 2002 and in 2003 he became the Chief Executive Officer of AIC Cherkizovsky.

In 1998, he trained as a financial analyst at Goldman Sachs and at Morgan Stanley in 1999. In 1998, he founded the telecommunications company, aTelo, Inc., in the United States.

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

Emin Tofik oglu Mammadov
Independent non-executive director, Chairman of the Personnel and Remuneration Committee, member of the Audit Committee and member of the Investment and Strategic Planning Committee

Emin Mammadov has broad experience in food retail and consumer brand development across emerging markets.

He is the President of Global Foodservice at The Kraft Heinz Company. Prior to that, he led the Heinz Company divisions in India, South Africa, China and Middle East.

Emin graduated from Baku Institute of Social Management and Political Science, Azerbaijan with with a degree in International Relations.

Members of the Board of Directors:

1. Evgeny Mikhaylov
2. Sergey Mikhaylov
3. Emin Tofik oglu Mammadov
4. Richard Paul Sobel
5. Rafael Fuertes
6. Elliot Brinton Jones
7. Filip Kegels

Richard Paul Sobel

Deputy Chairman of the Board, non-executive director, member of the Investment and Strategic Planning Committee

Richard Sobel has a wealth of experience in direct investments.

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 founder and manager of Altai Advisors, a consulting company which specializes in providing advice on potential investment opportunities in Russia, CIS, Europe and the United States.

Previously, he was a consultant at Bain & Company in Boston, USA, and an investment manager at Batterymarch Financial Management, the European Bank for Reconstruction and Development and CIBC Oppenheimer.

Richard graduated from Stanford University, USA and has an MBA from Harvard Business School, USA.

Rafael Fuertes

Non-executive director, member of the Investment and Strategic Planning Committee

Rafael Fuertes has extensive experience in the agricultural industry, in particular in animal breeding, meat processing and crop farming.

He is the Chairman of the Board of Directors of Grupo Fuertes, a leading Spanish agricultural holding company, which is the partner of Cherkizovo Group in the “Tambov Turkey” joint venture and a minority shareholder in Cherkizovo Group owning 8.0065% of issued shares.

He graduated from University of Murcia, Spain.

Elliot Brinton Jones

Independent non-executive director, Chairman of the Audit Committee, member of the Personnel and Remuneration Committee and member of the Investment and Strategic Planning Committee

Elliot has a strong track record in the agricultural industry and over the last 17 has been leading the advisory company Jones and Jones Consulting 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 Company during 20 years.

Filip Kegels

Independent non-executive director, member of the Audit Committee, member of the Personal and Remuneration Committee, member of the Investment and Strategic Committee

Filip Kegels is an experienced expert in the field of food production and consumer brand development on European, Asian and developing markets. During a number of years Filip headed international operations of Danone Group. He served Vice-President & Non-Executive Chairman Group Danone China & Japan (Asia-Pacific, India & Middle East), Vice-President of Danone – Africa, Middle East & Asia-Pacific. He also has successful experience of doing business in Russia as member of the Board and CEO of Danone Unimilk Russia. He is a founder of BTF Solutions.

Filip Kegels has a broad experience of board service at leading international companies, and currently serves on the Board of Yakult (Japan). Earlier Mr. Kegels chaired the Boards of Danone Murray Goulburn, Australia and Centrale Laitiere, Morrocco, served as Vice Chairman of the boards of Al Safi Danone, Saudi Arabia, and Pulmuone Danone, South Korea. He also served on the Boards of Strauss Health, Israel; Mengniu Group, China; Brookeside, Kenia; and Fanmilk Sub-Saharan Africa, Luxemburg.

He graduated from Catholic University of Antwerp (Master in Economics) and University of Brussels (MBA).

BOARD COMMITTEES

The Board has established three committees to oversee each designated area in more details: the Audit Committee, the Personnel and Remuneration Committee, and the Investment and Strategic Planning Committee. The Committees act as advisory bodies to the Board. Functions and tasks of each committee are determined by the relevant Regulations on committees.

All Committee members have sufficient skills, experience and resources to carry out their duties effectively, and are authorised to engage the services of external advisers as deemed necessary. Each Board Committee provides recommendations to the Board on matters of its responsibility and scope.

Committee meetings are held when required, with a minimum of five times a year for the Personnel and Remuneration Committee and the Investment and Strategic Planning Committee, and with a minimum of four times a year for the Audit Committee. They are held separately from 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. The respective committee chairmen report on their activities at the following Board meeting.

In April 2017, the Board approved the composition of the all three Committees and elected their members and chairmen. The Audit Committee met 4 times during the reporting period, the Investment and Strategic Planning Committee met 5 times, and the Personnel and Remuneration Committee held 6 meetings in 2017.

Audit Committee

The Audit Committee was established in 2006 with the principal purpose of the committee to assist the Board in discharging its responsibilities for monitoring the integrity of the Cherkizovo Group financial statements. In addition, the Committee reviews the reliability and efficiency of the Cherkizovo Group's risk management and internal control systems, as well as monitor the effectiveness, objectivity and performance of the Cherkizovo Group internal and external auditors, internal whistleblowing procedures.

The Committee comprises of independent directors only.

Committee members are:

Elliot Jones
Chairman, Independent director

Emin Mammadov
Independent director

Filip Kegels
Independent director

Personnel and Remuneration Committee

The Personnel and Remuneration Committee has been operating since 2010. Principal functions of the Committee in the area of remuneration include development and review of Cherkizovo Group's remuneration policy, preliminary performance assessment of the Management Board, Group's Chief Executive Officer and top management, development of recommendations on remuneration amount and principles, development of key performance indicators for the members of the Management Board, the Chief Executive Officer and top management executives, along with other functions within the Committee's competence. In terms of the human resources the Committee's functions include annual Board self-assessment, recommending appointments to the Management Board and Chief Executive Officer, as well as executing the Board of Directors evaluation in terms of professional expertise, experience, independence, and other functions as governed by Regulations on Personnel and Remuneration Committee.

The Committee comprises of independent directors only.

Committee members are:

Emin Mammadov
Chairman, Independent director

Elliot Jones
Independent director

Filip Kegels
Independent director

Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee was incorporated in 2012. The primary purpose of the Committee is development of recommendations to the Board of Directors on determination of business priorities, consideration of long-term development strategy, strategic targets and development objectives, annual and investment policy of the Cherkizovo Group.

Committee members are:

Sergey Mikhaylov
Chairman,
CEO of Cherkizovo Group

Richard Sobel
Deputy Chairman of the Board

Elliot Jones
Independent director

Rafael Fuertes
Non-executive director

Emin Mammadov
Independent director

Filip Kegels
Independent director

MANAGEMENT BOARD

The Management Board is a collective executive governing body of the Cherkizovo Group, managing its operations, and execution of General Meeting of Shareholders and the Board of Directors resolutions. The Management Board acts in the interests of Cherkizovo Group and its shareholders, and is accountable to the Board of Directors and to the General Meeting of Shareholders.

The Management Board is authorized to approve strategic plans, as well as the business priorities, and review the business performance of the Cherkizovo Group and its subsidiaries and affiliates.

The Management Board is led by the Chairman of the Management Board, who also acts Cherkizovo Group's Chief Executive Officer (CEO). The CEO's mission is to ensure Cherkizovo Group's profitability and competitive performance, its financial and economic sustainability, shareholder rights and benefits for Cherkizovo Group's personnel.

In 2017, the Management Board held 7 meetings.

Members of the Management Board

Management Board of Cherkizovo Group includes 13 members. Sergey Mikhaylov acts as Cherkizovo Group's CEO.

In 2017, the Board members made the following changes:

- In May 2017, following the recommendations of the Personnel and Remuneration Committee, the Board elected Violetta Shimkevich, HR director, as a member of the Management Board
- In December 2017 the Board has excluded Marina Kagan, from Management Board
- In March 2018 the Board has excluded Andrey Cholokyan, from Management Board

Sergey Mikhaylov

Director General, CEO of Cherkizovo Group

Sergey Mikhaylov has been Chief Executive Officer of Cherkizovo Group since 2006. He is responsible for the general management of the company, sustainable development and strategy.

Mr. Mikhaylov led Cherkizovo Group during its successful IPO on the London Stock Exchange (LSE) in 2006, representing the Group the first Russian agricultural company to be listed on the LSE. Later the Group became the largest meat and feed producer in Russia.

In 2001, Sergey Mikhaylov was appointed as Marketing Director of Cherkizovo's Meat Processing Plant. He was promoted to Deputy Chief Executive Officer for marketing and sales in 2002 and in 2003 he became the Chief Executive Officer of AIC Cherkizovsky.

In 1998, he trained as a financial analyst at Goldman Sachs and at Morgan Stanley in 1999. In 1998, he founded the telecommunications company, aTelo, Inc., in the United States and was its CEO.

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

Ludmila Mikhaylova

Chief Financial Officer, Member of the Management Board

Ludmila Mikhaylova has been the CFO of Cherkizovo Group since 2006. Her responsibilities include determining the Cherkizovo Group's financial policy, managing internal and external financial statements, budgeting and sourcing funds for the effective development of the Group.

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

A number of major transactions were implemented under Ludmila Mikhaylova's supervision, allowing the Group to consolidate approximately 13% of Russia's national poultry market. In 2006, the company successfully carried out its IPO on the London Stock Exchange, raising over $250 mln.

Ludmila Mikhaylova 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.

John Ross

Chief Operating Officer, Member of the Management Board

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

He is responsible for production functions across all business segments of the Cherkizovo Group, coordinates activities of main assets and conducts unified management of agricultural, poultry, pork, meat processing and turkey segments.

Prior to joining Cherkizovo Group John led a number of large enterprises, and served as a member of management teams at major international agricultural holding companies in the poultry business for 25 years.

Prior to joining the Cherkizovo Group, John held the position of President at Arasco Food (Saudi Arabia). Before that he worked at Zacky Farms, USA, for over 20 years, joining the company as an Operations Manager and going on to become the President of the Company. His career began in the agricultural holding company, Cargill.

He is a graduate of Kansas State University with a degree in Agriculture Mechanization.

Alexey Skorobogatov

Head of Procurement and Logistics, Member of the Management Board

Alexey Skorobogatov has been Head of Procurement and Logistics at Cherkizovo Group since 2011. He is responsible for the development and coordination of procurement activities in the most efficient and cost effective manner.

Between 2006 and 2009, he was Head of Procurement at Wimm-Bill-Dann Produkty Pitaniya OJSC. From 2009 to 2011, he was regional Head of Procurement at Danone Nutricia Baby Food, Eastern Europe, and 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.

Maksim Zudin

Head of Agro Division, Deputy Chief Operating Officer, Member of the Management Board

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 the Cherkizovo Group, Maksim was the Head of 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 the Razgulyai Group where he was responsible for the East branch and played a key role in the project “Krupa”.

He graduated from faculty of Mechanics and Mathematics of the Moscow State University.

Andrey Khizhnyak

Head of Sales and Marketing Strategy, Member of the Management Board

Andrey Khizhnyak has been Head of Sales and Marketing Strategy of Cherkizovo Group since September 2013. He is responsible for strategic planning and allocation of Company’s marketing budget to ensure sales growth across all segments. He also has an overall responsibility for overseeing the marketing programme execution within the Cherkizovo Group.

Between 2001 and 2004, he was Head of Marketing at the Cherkizovsky Meat Processing Plant OJSC. In 2004–2007 he was the marketing director at the Eksima Agricultural Holding, which incorporates more than 26 enterprises, including the Mikoyanovskiy plant. Between 2010-2012 he was the Commercial Director at Obyedinennye Konditery LLC. Prior to joining the Group, he worked for a range of companies, including OST Group of Enterprises and Betalink.

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

He graduated from the Moscow State University of Law with a degree in Jurisprudence.

Yury Dyachuk

Head of the Legal Support and Real Estate Operations Department, Member of the Management Board

Yury Dyachuk has worked at Cherkizovo Group for over 20 years.

Since 2006 he has been overseeing all legal aspects of the Group's operations and compliance and acted as a General Counsel for Cherkizovo Group.

He worked at Legal Department of Cherkizovsky Meat Processing Plant (CMPP) from 1995 to 1996 and was the Head of the Legal Department between 1996 and 2000. In 2005, he was senior counsel advising on on the restructuring of Cherkizovo Group.

He graduated from the Moscow State Law Academy.

Vladislav Belyaev

Head of IT, Member of the Management Board

Vladislav Belyaev has been Head of IT at Cherkizovo Group since 2012. He is responsible for all aspects of the information technology across the Group including the on-going improvements of the regional IT-infrastructure and running of in-house IT-projects.

Between 2008 and 2012, he was Head of the Management Systems Department at Vimpel-Kommunikatsii OJSC. Vladislav led the implementation of enterprise resources planning (ERP-system) at SAP in 2013. In 2015 he oversaw the roll out of the electronic document management system (EDMS) across the Group and the creation of the unique modern data processing center.

Prior to this, he held senior management positions at CafeMax CJSC and Moskovskiy Industrialny Bank OJSC.

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

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, Member of the Management Board

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.

Prior to joining the Group Leonid was the Technical Director and Operational Cluster Director of the AgroTerra LLC for four years. Prior to this, he held a number of senior management positions across a range of companies, including Russkiye Masla, Bunge, Unilever and Nestle Food.

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

Alexander Gusakov

Security Director,
Member of the Management Board

Alexander Gusakov has been the Security Director of Cherkizovo Group since February 2016. He is responsible for the development and control of safety standards and procedures, provision of economic, information and physical security of the Group, as well as the coordination and interaction with government authorities at both national and regional levels.

Alexander has over 10 years of experience in corporate security management at international companies. Prior to joining the Group, he worked for Henkel Rus, Zurich Insurance Company and Gazprom.

Between 1981 and 2005, he worked in the state security services.

He graduated from The Higher School of the KGB with a degree in law.

Violetta Shimkevich

HR Director,
Member of the Management Board

Violetta has worked at Cherkizovo Group since 2012, and was appointed as its HR in 2013. She is responsible for the implementation of the personnel policy across the Group, while supervising employee recruitment and development, ensuring the effective management of human resources at all levels.

From 2007, she worked at Danone (in the Dairy products division) in the position of HR business partner, and in 2010, she moved into Baby food (Nutrition) as the Compensation and benefits manager. Violetta began her career as the HR Specialist at Metro Cash & Carry, where she progressed to HR Manager of the Shopping centre division.

Violetta graduated from the Russian State University of Trade and Economics.

CORPORATE SECRETARY

Corporate secretary role has been present at Cherkizovo Group since 2012. The Corporate Secretary is a Company officer ensuring effective ongoing communication with the Group shareholders, overview of the protection of the shareholders' rights and interests, support of the effective operations of the Board of Directors. Corporate Secretary operates in accordance with the Regulations on the Corporate Secretary. At present, the position of Corporate Secretary is held by Anastasia Bakhmacheva. She was appointed by the Board of Directors as the Corporate Secretary of Cherkizovo Group in November 2016, and re-appointed to the new Board term in April 2017.

Anastasia Bakhmacheva
Corporate Secretary
Anastasia has been in the field of corporate governance for more than 14 years. Prior to joining the Cherkizovo Group, she served as the Deputy Head of Legal Department at PPF BLAGOSOSTOYANIYE for the period of two years and held the position of Managing Director at OJSC VTB Bank from 2011 to 2015 with the primary responsibility for corporate governance of VTB Group. During 2009-2011 Anastasia was a corporate secretary at OJSC Bashneft, after heading the corporate relations at OJSC VimpelCom for five years overseeing the legal compliance with the Russian and the US regulatory requirements.

She is the member of the National Union of Corporate Secretaries.

She graduated from the International Law Institute under Ministry of Justice of the Russian Federation with a degree in Civil Law and Higher School of Economics NRU in the program “Legal Enforcement of the Business”. She holds the qualification certificate of financial market specialist (NPF activity on CPI and NPS).

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of Cherkizovo Group is responsible for the approval of procedures in relation to the internal control of financial and economic activities, including approval of the regulations for internal control, in-house audit and inspections. Internal control is also exercised by the Review Commission in compliance with the Articles of Association and the Regulation on the Review Commission. The Review Commission coordinates financial and business audits at Cherkizovo Group. Members of the Review Commission are elected by the General Meeting of Shareholders for one year.

In April 2017, the AGM elected the Review Commission consisting of: Ekaterina Kolesnikova, Elena Kozhukalova, Boris Tivilev.

DISCLOSURE

Cherkizovo Group's information policy is based on a set of principles and procedures for disclosure and delivery of information and aims to ensure the protection of stakeholders' rights. The policy promotes openness and transparency thus enhancing the Group's corporate image. The Company discloses information in accordance with the laws of the Russian Federation, regulatory acts of the Bank of Russia, as well as the listing rules of the Moscow Exchange. It also takes into account the principles of disclosure and provision of information by public joint-stock companies recommended by the Russian Corporate Governance Code. Cherkizovo Group Regulations on information policy on disclosure and delivery of information were approved by the Board of Directors in December 2017.

The main principles of Cherkizovo Group's Information Policy are: regularity, consistency, efficiency, timeliness, accessibility, reliability, completeness, comparability, neutrality, fairness and ease of control.

The Group discloses information by publishing it on the Interfax news agency, posting on the corporate website, within the framework of meetings with stakeholders and in the other ways established by law, the Articles of Association and other internal documents of the Cherkizovo Group.

DISCLOSURE TO AUDITORS

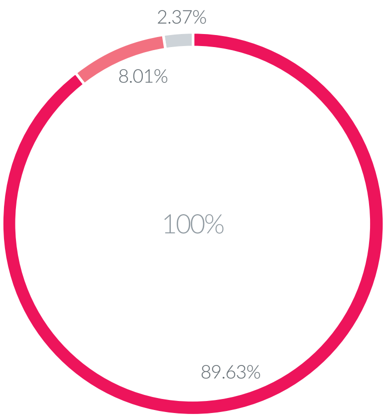
As far as each of the directors is aware, there is no material information undisclosed to Cherkizovo Group auditors. Each of the directors has taken all steps required of them to obtain all material information and provide it to Cherkizovo Group auditors.

Cherkizovo Group current auditors, Deloitte & Touche CIS ZAO, were appointed in April 2017 and are due for reappointment in 2018.

In 2017, Cherkizovo Group complied with European Union's Market Abuse Regulation (MAR). In order to protect confidentiality of the insider information and exclude the risks of its unlawful use and distribution, a special procedure of accessing the insider information is in place.

Shareholder and Investor Highlights

SHAREHOLDING STRUCTURE



MB Capital Europe Ltd. and its affiliates	89.63%
Grupo Corporativo Fuertes, S.L.	8.01%
Shares in free float	2.37%

2017 saw material changes to Cherkizovo Group's shareholding structure. At the end of the reporting period, the Babaev and Mikhaylov families held a cumulative stake of about 89.63%, mainly through MB Capital Europe Ltd. and its affiliates. By the end of 2017, the Spanish Grupo Corporativo Fuertes S.L., Cherkizovo's partner in Tambov Turkey JV, increased its share to 8.01%. As a result, free float[1] decreased to circa 2.37%.

In August 2017, the controlling shareholder of Cherkizovo Group and its affiliates jointly acquired 21.05% of shares from Prosperity Capital Management's funds and portfolios.

Earlier in July 2017, MB Capital Europe Ltd. completed the sale of a 2.89% stake in Cherkizovo Group to Grupo Corporativo Fuertes S.L., increasing its share from 5.12% to 8.01%.

In October 2017, LLC Mikhailovsky Agroindustrial Enterprise, Cherkizovo Group's subsidiary, exercised its tender offer to buy back 73,407 shares and 503,293 GDRs (0.93% of the Group's authorised capital) from minority shareholders. As a result, MB Capital Europe Ltd. and its affiliates came into possession of a 89.52% stake in Cherkizovo Group.

Ordinary shares

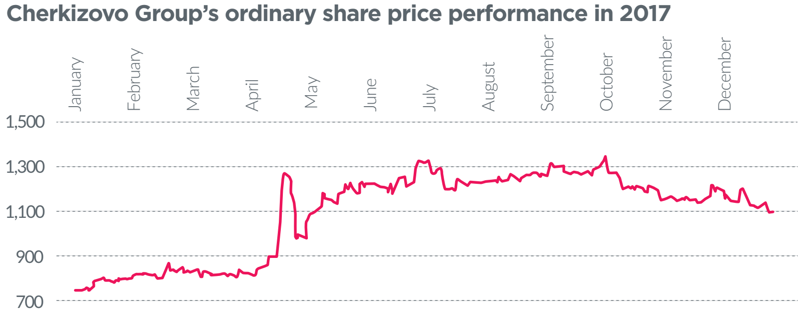
Cherkizovo Group's ordinary shares have been trading on MICEX since 2006, including on the Moscow Exchange since 2011. During 2017, the shares added 44.5% rising from RUB 773 to RUB 1,117 per share.

ORDINARY SHARE PRICE PERFORMANCE IN 2017, RUB

Closing price as at 31 December 2016	773
12M high	1,359
12M low	769
Closing price as at 31 December 2017	1,117
Average 12M closing price	1,115
12M ADTV, shares	2,751

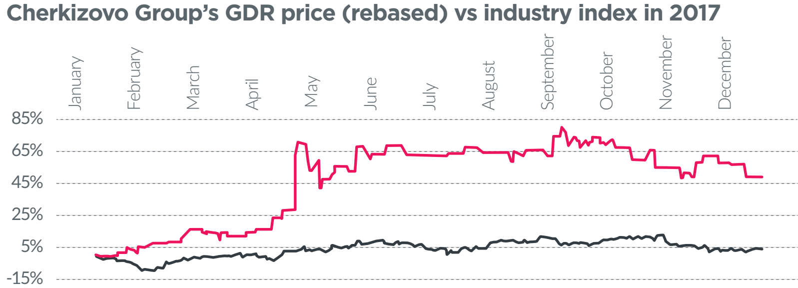
Source: Moscow Exchange

Cherkizovo Group's ordinary share price performance in 2017



Source: Moscow Exchange

Cherkizovo Group's GDR price (rebased) vs industry index in 2017



Source: London Stock Exchange

CHERKIZOVO GROUP GDRs | Food producers

[1] Free float is calculated based on issuer's disclosures and other publicly available data on (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 of the same class (type) as of the calculation date. Free float is calculated as the total number of outstanding shares less the number of shares that are not in free float. Free float is a ratio representing correlation between the number of shares in free float and the total number of outstanding shares, expressed as a percentage.

GDRs

Cherkizovo Group's global depositary receipts (GDRs) had been listed on the London Stock Exchange (LSE) since 2006, with three GDRs representing two ordinary shares. During 2017, GDRs added 48.8% rising from USD 8.6 to USD 12.8 towards the end of the year and outperforming the LSE Food Producers Index, which recorded a marginal year-on-year growth.

In 2017, the Board of Cherkizovo Group decided to remove its GDRs from the Official List of the UK Listing Authority and cancel their listing on the Main Market of the London Stock Exchange.

14 February 2018 was the last day of trading on the London Stock Exchange for Cherkizovo Group's GDRs. Limited supply of liquidity for the Group's GDRs on the LSE was the key factor behind the delisting decision. Moreover, it was fully in line with the Group's new equity strategy, which calls for consolidating free float on the Moscow Exchange to cut administrative and reporting costs.

GDR PRICE PERFORMANCE IN 2017, USD

Closing price as at 31 December 2016	8.60
12M high	15.50
12M low	8.50
Closing price as at 31 December 2017	12.80
Average 12M closing price	12.64
12M ADTV, GDRs	12,214

Source: London Stock Exchange

DIVIDEND POLICY

In 2015, the Board of Directors approved the Group's Dividend Policy seeking to streamline profit distribution by taking into account the interests of shareholders and capital expenditures required for the future growth.

With assistance from the Investment and Strategic Planning Committee, the Board of Directors considers dividend distribution based on the current financial position of the Group and the total payout amount, which, according to the International Financial Reporting Standards, must be equal to at least 20% of the consolidated net profit for the reporting period. The General Meeting of Shareholders makes the final decision on dividend payouts.

The full version of the **Group's Divided Policy** is available on its website at: **http://cherkizovo.com/upload/iblock/83a/83a1cb0f6dfd2dcf44259b8541422c8a.pdf**

In 1H 2017, Cherkizovo Group paid dividends for 2016 in the amount of RUB 13.65 per ordinary share. In 2H 2017, it also paid dividends for 2014, 2015, 2016 and 1H 2017 in the amount of RUB 59.82 per ordinary share. At its meeting on 14 February 2018, the Group's Board of Directors recommended that the Annual General Meeting of Shareholders scheduled for 23 March 2018 resolve to distribute the net profit for the 2017 reporting year by paying dividends of RUB 75.07 per ordinary share.

BONDS

In October 2015, Cherkizovo Group issued its RUB 5 billion BO-001P-01 series bonds (registration number 4B02-01-10797-A-001P) with a maturity period of 5 years and annual coupon of 12.5%. The bonds are listed on the Moscow Exchange. As at 31 December 2017, their yield to maturity was 12.87%.

INVESTOR RELATIONS

Cherkizovo Group recognises the importance of maintaining an open and transparent dialogue with shareholders, bondholders and potential investors. To achieve this end, we employ a wide range of communication tools, including meetings, presentations, investor conferences and special events for investors and research analysts.

SHAREHOLDER ACCESS TO INFORMATION

We make sure that shareholders have access to the Group's results and other news releases.

News releases are available on our website at: **http://cherkizovo.com/press/company-news/**

Information for shareholders and investors is available on our website at: **http://cherkizovo.com/investors/**

Corporate action notices and other mandatory disclosures are published on the Group's website and the Corporate Disclosure Centre's website at: **https://www.e-disclosure.ru/portal/company.aspx?id=6652**

Sustainable Development

Cherkizovo Group is committed to making sustainability a core part of its development in the ever-changing highly competitive environment. Sustainability values are embedded into our business model that spans the entire value chain and involves a wide range of stakeholders. We seek to enhance stakeholder relations by taking them to a partnership level. Our stakeholders are our customers, employees, shareholders, partners, agricultural industry players, suppliers, local and federal governments, trade organisations, charities, and local communities in the regions where we operate.

We rely on a variety of forms of stakeholder engagement, including public hearings, customer and employee surveys, ongoing dialogue with government authorities on everything that matters for the development of our business and the well-being of local communities, charity initiatives, and more.

The success of our business is our priority – but never at the expense of people or the environment. We are confident that in any business, profitability is something that must be aligned with benefits for the community at large.

While expanding its market share, Cherkizovo Group aims to increase its positive social impact and mitigate the environmental footprint.

Today, consumers are increasingly focused on environmental protection and corporate social responsibility, demonstrating willingness to change their shopping habits and patterns. Aware of that, we put sustainability at the heart of our product strategy and work to emphasize our social and environmental responsibility.

We believe that our strategy to boost operational excellence and our strong consumer focus make a difference for all the stakeholders.

With our modern facilities, we create **new jobs** and provide exciting employment opportunities for local communities.

By delivering a **sustainable and profitable growth**, we generate a **steady dividend flow** to our shareholders.

Our passion for **efficiency across the value chain**, reinforced with rigorous biosafety and **quality control**, makes us well-positioned to offer healthier and better products to consumers domestically and globally.

As one of the largest and most profitable food producers in Russia, Cherkizovo Group is also **among the industry's major taxpayers**.

In addition to benefiting Cherkizovo Group, the **latest technologies and innovations** we are putting online help drive the agricultural industry in general.

By **upgrading and debottlenecking** our operations, we are going green to help the environment.

All this improves consumer confidence in our business, providing us with an invaluable competitive edge that we seek to solidify going forward.

Our Employees

HR POLICY

Cherkizovo Group is among the largest employers in the Russian agricultural sector. We currently have over 25,000 employees country-wide. We are committed to attracting and retaining the best talent as we strive to create the right environment for everyone to unlock their full potential. Our strong international team is the main driving force behind our industry leadership.

We seek to comply with Russia's applicable labour laws and regulations, whilst adhering to international best practices. In 2017, HeadHunter, Russia's leading recruitment website, named Cherkizovo amongst the top three employers of choice in the Russian agricultural sector.

In 2017, we hired 383 new employees in line with the launch of new production sites and the acquisition of NAPKO. As at 31st December 2017, we employed a total of over 23,000 people.

Our strategic focus on excellence goes beyond our operating activities and extends to the personnel policy that we have in place. In 2017, we prioritised the introduction of new systems, latest solutions, and best-in-class tools in HR management. We kept working to standardise and automate processes as a step towards greater vertical integration. A special focus was made on employee training and onboarding programmes.

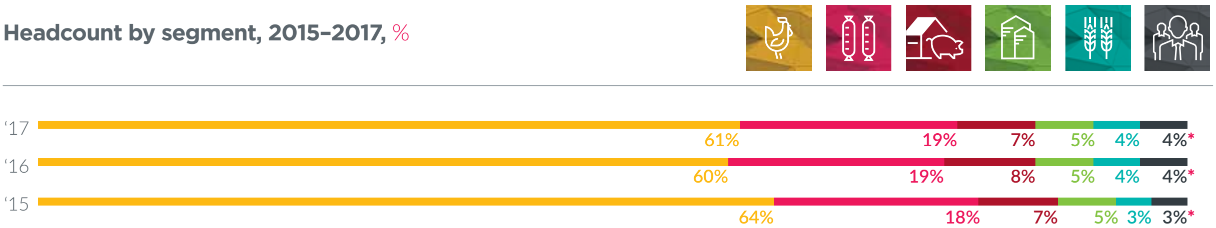
>23,000
PEOPLE
EMPLOYEES

Top 3
EMPLOYERS OF CHOICE
IN THE RUSSIAN AGRICULTURAL SECTOR, ACCORDING TO HH.RU

Key HR initiatives in 2017

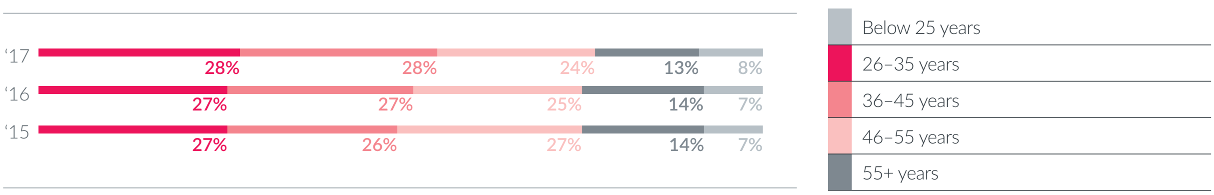
1. Performance management system for the Group's executive managers
2. Automation of processes in management by objectives and competency assessment
3. Executive assessment and development system using the Corporate Management Competency Model
4. Executive management development programme
5. Professional development for the sales force
6. Remote learning system for operational staff
7. Dedicated Youth project to attract and develop young talent
8. Strategic sessions to enhance management teams

Headcount by segment, 2015–2017, %

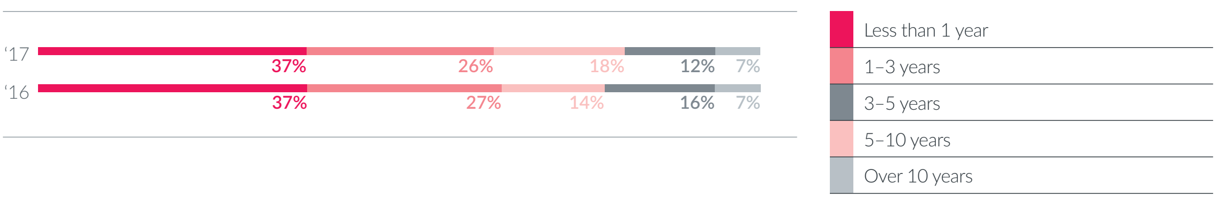


* Cherkizovo Group

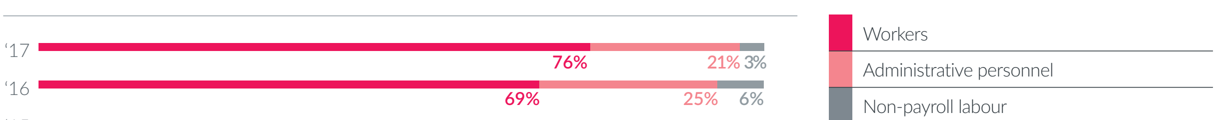
Employee age, 2015–2017, % ❶



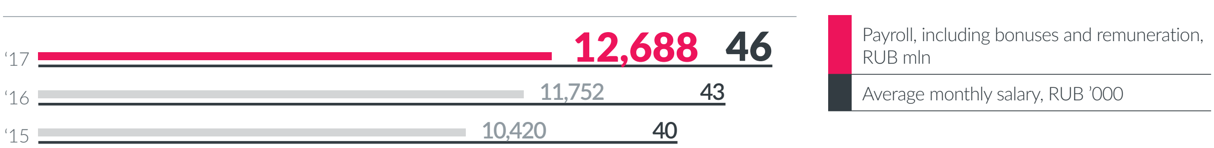
Years of employment with the Company, 2016–2017, % ❶



Employees by type of employment and non-payroll staff, % ❶



Payroll and average salaries in 2015–2017, RUB mln/RUB th.



❶ Numbers may not sum up due to rounding.

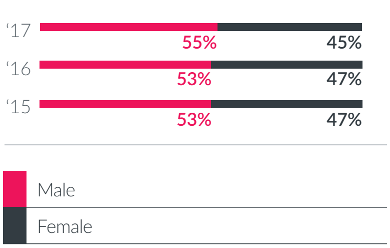
RECRUITMENT

The Group is hiring across the segments where it operates, including grain and feed production, animal farming, meat processing, marketing, and R&D.

We always seek to recruit internally, encouraging vertical and horizontal career progression, including movement within and between segments. To bring the best managerial talent on board, the Group looks to hire seasoned professionals from both Russia and internationally to benefit from their unique expertise and new ideas.

We are running the Youth programme to attract young talent and graduates. Our ambition is to promote sustainable development by working closely with local communities and hiring locally to support economies in the regions where we operate. To support that, the Group builds partnership with regional employment centres and government authorities. In 2017, these initiatives helped us strengthen the team with 180 talented individuals.

Headcount by gender in 2015–2017, %



The Group is expanding cooperation with universities and colleges: in addition to those that provide training in agriculture, we look to team up with educational providers specialised in finance, management, and IT.

Cherkizovo Group rejects all forms of discrimination by age, gender or any other ground. Across our segments, we have exciting careers to match the skills of men and women from a variety of backgrounds, qualification and experience.

INDUCTION AND MENTORING

We have an advanced mentoring programme and initiatives to help new employees settle into their roles. On their first day with the Group, people receive an immersive induction programme, enhanced by onboarding guidelines and dedicated online tools. We also work hard to collect feedback from everyone who is newly employed – this helps us understand how happy they are with the Company, the team, their current area of responsibility, and promotion opportunities.

Since 2017, the Group has been introducing a single mentoring programme across its production sites, looking to attract and onboard junior talent in a variety of fields, including veterinary, process management, quality assurance, and engineering. In 2017, more than 20 mentors were involved in training 45 interns and graduates from Russia's leading agricultural universities. Following the programme, a majority of the interns were offered a full-time job with the Group.

In the Meat Processing segment, we have a dual education programme for the students of the Razumovsky Moscow State University of Technologies and Management. Working closely with the University's professors, we developed a bespoke course in multiple processes and jobs available in the meat industry. The programme includes both theory and on-the-job training. As at the end of 2017, we had 54 students enrolled. Going forward, we aim to create an ongoing training cluster to secure a flow of young talent into the Group. The initiative is available in a number of regions where the University's branches and Cherkizovo sites are located.

TRAINING AND DEVELOPMENT

Cherkizovo Group works to offer more opportunities for its people to grow professionally and advance their careers. We firmly believe that professional and personal aspirations of everyone in the team is crucial to the Group's success.

In 2017, we introduced competency-based employee assessments and individual development plans. We also launched a centralised programme to assess and develop management teams based on the Corporate Management Competency Model. The assessment exercise covered 100% of our managers. Building on that, we came up with individual development plans and executive training programmes. The courses aim to enhance managerial skills and include a variety of fields.

We also designed training programmes for various groups of operational staff. The cornerstone of the programmes are standardised work charts and processes. Across our production sites, training is focused on improved biosecurity, occupational safety, labour productivity, and quality.

Since 2017, we have been running a robust programme to assess and develop professional competencies of our sales personnel. In line with that, we have regular assessments and mandatory training in the standards of work that apply.

In 2017, we held Days of Learning and Development, with open workshops and master classes in many fields. Everyone taking part in the event had the opportunity to learn more about the latest training formats, trends and developments, and get a feel of some of the less popular options for professional training and education.

We provide regular further training to our employees and opportunities to visit industry conferences, seminars, and exhibitions.

We believe that for the Group to succeed, we need to invest time in sharing knowledge with the wider professional community in Russia and internationally, and to explore best practices. Our people are regularly involved in Russian and global industry events. They also benefit from stints with international labs and visits to facilities of our partners abroad.

The Group encourages employees who are willing to learn and develop new skills. We continue improving our corporate online library that we created jointly with the Alpina publishing house. At some of our facilities, we offer English language classes and English club sessions to help our employees practise their language skills.

Distance learning

Distance learning is the most flexible format for our employees to hone and develop their skills. Training courses can be accessed through Cherkizovo WORLD, a dedicated distance learning system.

The Group seeks to use the latest technologies and approaches to learning. Among other things, we make extensive use of gamification techniques. In 2017, we launched Planet Challenge, a game-based online course to train our executives in management by objectives and talent development. Throughout the year, we were working to add new online courses to our portfolio and take the online channel one step further. On top of that, we are also expanding our catalogue of training courses for operational staff.

Programmes for graduates, students and children

In addition to training programmes available to employees, the Group arranges a variety of awareness raising events for graduates, students, and children. The purpose is to make them passionate about agriculture and have the most talented individuals join the Group later on.

Career guidance for school students

In 2017, Tambov Turkey joined the Industrial Open Week, a nationwide event designed to promote career choice for schoolchildren and demonstrate day-to-day operations of plants and other facilities. During a tour around the Company's feed mill and warehouse, our employees explained how turkey is produced and provided insights about career pathways in agriculture.

Continuous education cluster

Cherkizovo Group signed an agreement with the Moscow State University of Technologies and Management to set up a continuous education cluster using the resources of the Cherkizovsky Meat Processing Plant.

The cluster was designed to build up competencies of meat industry professionals and provide training to those willing to work in this field. It opens up access to knowledge and practical skills in many areas, including lean techniques, helping to address the shortage of skilled professionals. New training programmes, aligned with the Group's needs, will provide employees with everything they need to bring innovative technologies to the meat processing plants. The first dual education programmes were launched in 2017.

In June 2017, as part of the project, we arranged tours around the Group's production sites for the University's professors who will be involved in developing educational programmes and training sessions for our staff.

Career opportunities for graduates

Cherkizovo Group offers plenty of employment opportunities for university graduates across its operations. We also host a variety of events designed to attract young professionals trained in agriculture.

We actively cooperate with the Voronezh State Agrarian University, the largest agricultural university in Russia's Black Earth region. In 2017, teams from our Grain and Pork segments took part in the university's Job Fair, a move that brought in 70 job applications from graduates willing to join Cherkizovo.

50

GRADUATE STUDENTS BECAME TRAINEES

In 2017, we held the Cherkizovo Day at the University's premises for students to learn more about the Group. We also continued our collaboration with the Penza State Agrarian University, including workshops, plant visits, and internship opportunities for students. In 2017, cooperation with the two universities enabled us to offer internships to 15 students.

In 2017, the Cherkizovsky Meat Processing Plant hosted an Open Day for agricultural students and graduates, providing lectures, training sessions and master classes in various areas of production and management. The event encouraged many participants to apply for an internship at our plant.

COMPENSATION AND BENEFITS

We make sure to offer our staff acompetitive level of salary, enhanced with bonuses for professional achievements. Fully in line with Russian laws and regulations, we are committed to providing social benefits and additional perks to create the best environment for our staff and their families. Our fringe benefits include:

- Paid sick leave and annual leave
- Paid parental leave of three years, with guaranteed right to return to the same job
- Additional paid holiday allowance based on the length of employment
- Vouchers to health resorts and summer camps for employees and their families
- Financial assistance or additional leave of absence due to personal circumstances or emergencies

Most of our assets have corporate canteens, and there are on-site health centres at some of the facilities. We are also developing corporate health insurance plans for our employees.

CORPORATE CULTURE

At Cherkizovo Group, we make a point of creating and fostering a friendly working environment where everyone feels motivated and empowered to succeed as professionals and individuals. Our corporate culture revolves around the principles of transparency, celebration of leadership, and capacity to innovate. We support free exchange of opinions and ongoing dialogue between executives and employees. People at Cherkizovo are always encouraged to contribute, and all contributions are treated with respect. Recognising the importance of communications, we have channels for employee feedback to make sure every voice is heard.

In 2017, we had the second wave of Your Opinion Counts, a personnel engagement survey that showcases our achievements in talent management.

Results of the Your Opinion Counts survey held in 2015 and 2017

Engagement [1]	'17	66
	'15	59
Critical success factors [2]	'17	72
	'15	60

>17,000

EMPLOYEES
PARTICIPATED IN THE SURVEY
YOUR OPINION COUNTS

The employee engagement index came in at 66%, a notable improvement vs 59% in 2015. In the metric of Critical Success Factors, the rise was even more impressive, 72% compared to 60% in 2015. The survey was a major exercise that covered more than 17,000 employees, making sure the data were reliable and statistically significant. The survey gave us the milestones to aim for when improving our corporate culture further.

Sourcing talent from around the globe, we run a cross-cultural programme that helps our international staff learn more about our operations, corporate culture, and Russian agricultural sector at large.

[1] **Engagement** is shown by employees loyal to the company and willing to go an extra mile.

[2] **Critical success factors** mean that people make the most of their professional expertise and competencies and work in an environment that helps foster productivity.

Health, Safety and the Environment

At Cherkizovo Group, we pay special attention to the health and safety of our employees and our environmental footprint. We recognise our responsibility to communities and our staff. We ensure safety in the workplace, biological and veterinary security, efficient natural resource management, and implementation of state-of-the-art eco-friendly technologies.

The Group has programmes in place aimed at minimising its environmental impact and reducing consumption of energy and natural resources. Each of our facilities sets targets on reducing air pollution, waste generation and energy consumption in line with the Russian legislation and best industry practices. Also, we comply with the regulations on establishing buffer zones around our production facilities.

Cherkizovo Group monitors environmental conditions at the production facilities, does regular assessments and takes measures to prevent and minimise any negative impact on the environment in the regions where it operates. For example, as part of our vertically integrated business model, manure from the farms has been certified as an organic fertiliser that can be used by the Grain division.

Each facility is fully equipped with all the necessary tools to minimise biological risks associated with animal farming and meat processing. We make every effort to ensure compliance of our production with international best practices and to guarantee security at animal farms. Among other things, we have introduced strict access control, limits on visits, and clinical examinations, as well as prohibited employees from entering different production facilities, ensured smooth operation of all veterinary and sanitary facilities, and provided veterinary care for all stock.

Seamless floors at state-of-the-art nursery and finisher sites
For several years now, the Group has been pouring seamless monolithic floors at the nursery and finisher sites of its Pork division. This technology is widely used in runway construction and represents a unique innovation in pig farming, making it possible to completely manure-proof the soil.

Soil improvement programme
The Grain division is taking active measures to improve the soil. Its amelioration programme aims to reduce soil acidity and raise the pH value from 4.5 to 6–6.5. In 2017, we treated around 10,000 ha of land with a deoxidiser, and we intend to make it 25,000 ha in 2018.

10,000
HA
OF LAND WAS TREATED WITH A DEOXIDISER IN 2017

HUMANE TREATMENT OF ANIMALS

Cherkizovo Group is doing its best to ensure humane animal treatment and improve the respective practices. We are committed to adopting the best international solutions when it comes to caring for animals throughout their life and using the most advanced and humane methods of slaughter. In rearing and slaughtering animals, the Pork division works hard to adhere to the US National Pork Board's Pork Quality Assurance Plus (PAQ+) and ensure humane treatment.

In 2017, we started implementing standard operating procedures at the Pork division to improve the well-being of animals throughout their entire life cycle. In 2018, these standards are expected to be in full effect.

During the reporting period, we also invested in the Needle Free technology at the Pork division. Compared to needle systems, needle free injections allow for less painful vaccination with veterinary pharmaceuticals, while at the same time improving meat quality and food safety. The system is expected to be fully implemented during 2018–2019.

At the end of 2017, the Dankov meat processing plant introduced CO2 stunning in place of the now considered obsolete electrical stunning. On the ethical side, the new system is much more humane and causes animals a lot less stress, all while also improving meat quality.

Our modern nursery and finisher facilities are built using wood structures akin to those seen in residential construction. This is a unique approach in pig farming, which significantly improves animals' living conditions.

In 2018, the Pork division's focus areas in humane animal treatment will be as follows:

Developing euthanasia procedures. There needs to be a humane and streamlined plan for euthanising sick or injured pigs that do not respond to care and treatment.

Developing humane procedures for moving animals. There need to be humane methods in place to move animals that are unable to move by themselves within production sites and between them, which includes transportation to slaughter facilities.

Animal transportation. Methods of animal transportation between production sites should have as little negative health effects as possible and minimise the risk of injuries and diseases. The focus will be on the loading and unloading procedures, as well as on the comfort of vehicles (placement, right temperature, good ventilation, etc.).

Pork division's key achievements in 2017

Standard operating procedures

Implementation at the Pork division commenced in 2017.

Needle Free injection system

Implementation at the Pork division commenced in 2017.

CO2 stunning

System was implemented at the Dankov meat processing plant.

Community Relations and Charity

At Cherkizovo Group, we aim to benefit all our stakeholders, from shareholders and consumers to more than 23,000 employees who are the driving force of our business. The Group plays an important role in local communities across its footprint. Our subsidiaries are among the agricultural industry's major taxpayers in Central Russia. Their tax contributions are important sources of revenue for the federal and regional budgets needed to support local communities and authorities who are our close stakeholders.

In addition to engaging with local communities, the Group runs charitable projects for local orphanages, schools and cultural and sports organisations on a regular basis. Our facilities provide support to socially vulnerable population groups in line with the Group's corporate social responsibility strategy. In 2017, some of the Group's charitable projects were initiated by employees and funded by way of their personal contributions.

Children's Day (1st June)

Traditionally, employees of Cherkizovo Group take an active part in charitable initiatives associated with the Children's Day, ranging from hosting special celebrations in local orphanages to buying clothes for children.

In Bryansk, employees of the Group's Poultry segment together with student volunteers staged a morning performance for the residents of the local orphanage. The children were presented with new clothes, shoes and summer camp games. In addition, the institution's canteen received new kitchenware.

In Penza, a friendly football match was played between the Spassky orphanage and the Vasilyevskaya poultry farm. The kids were also given a master class on gingerbread painting presented by the Group's employee for those interested in creative arts. It was followed by a picnic party, where children were treated with kebabs and other delicious dishes. On top of that, the Group's employees bought a large television set and other household appliances for the orphanage. The donations raised by the employees were used to buy individual presents for the children.

Knowledge Day (1st September)

Cherkizovo Group pays special attention to children's education. On Knowledge Day, orphanages are usually presented with school supplies, textbooks, school uniforms and shoes.

In Bryansk, boys and girls of two social orphanages received new textbooks, workbooks, school uniforms and handicraft kits from the employees of Kurinoe Tsarstvo. First-graders were provided with personal gifts.

In Penza, employees of the personnel department of the Vasilyevskaya poultry farm purchased school uniforms and shoes personally fitting all kids by size. Children were also given office supplies.

Orphanages in the Lipetsk and Moscow regions received home appliances, including washing machines, dryers and irons.

Victory Day (9th May)

On Victory Day, Cherkizovo employees traditionally pay tribute to the World War II veterans. Each year, they participate in special celebrations and wreath laying, while also congratulating veterans and giving them presents.

In the Moscow region, the Group's employees laid a wreath in the village of Chastsy and distributed food baskets with Cherkizovo branded products to the veterans.

In Penza, the employees of the Vasilyevskaya poultry farm personally presented veterans with 39 food baskets. Traditionally, we extended congratulations to our former employees who are World War II veterans.

New Year

Orphanages also get support from Cherkizovo Group for the New Year holiday.

On New Year's Day, employees of Kurinoe Tsarstvo dressed as Father Frost and Snow Maiden joined a morning performance in the Bryansk orphanage and gave sweet gifts to children. The orphanage also received aid in the form of new bathroom fixtures, household appliances and children's clothes.

In Penza, the employees of the Vasilyevskaya poultry farm opted for buying personal gifts for children of the local orphanage in response to their letters to Father Frost instead of fundraising. Together with their families and colleagues, they purchased gifts and wrote letters with personal greetings for the children.

In Lipetsk, the orphans were given presents and letters from Father Frost written by the Group's employees.

In the Voronezh region, New Year gift sets were purchased for children and adolescents of the Liskinsky social orphanage. The Group also purchased new furniture for the orphanage.

Easter

In Penza, the Group funded the purchase and delivery of a greenhouse for the Spassky orphanage. The children were also presented with traditional sweet Easter sets.

In Lipetsk, each child of the local orphanage was presented with an Easter egg-shaped Tula gingerbread, a cake and a box of chocolate Easter treats.

Consolidated Financial Statements

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

CONTENTS

Statement of Management Responsibilities for the Preparation and Approval of the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

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

Management is also responsible for:

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

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

On behalf of the Management:

Sergei Mikhaylov
Chief Executive Officer

Ludmila Mikhaylova
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 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined a key audit matter	How the matter was addressed in the audit
Valuation of biological assets	
At 31 December 2017 the carrying values of current and non-current biological assets related to pork segment were RUB 6,100,813 thousand and RUB 2,259,409 thousand respectively (2016: RUB 5,504,933 thousand and RUB 1,902,652 thousand) and the carrying value of current biological assets related to poultry segment was RUB 3,897,572 thousand (2016: RUB 3,755,261 thousand). Biological assets are stated at fair value less estimated costs to sell. At 31 December 2017 the effect of fair value adjustment on the carrying value of biological assets was RUB 4,457,066 thousand (2016: RUB 3,877,070 thousand).	We performed audit procedures on all valuation models relating to material types of biological assets. Our audit procedures included verification of management's assumptions used in the models. The assumptions to which the models were most sensitive and most likely to lead to material mistakes in valuation were: — Future selling prices and — The projected cost per head/ kg.

Further details are provided in Notes 4 and 15 to the consolidated financial statements. We focused on this area as a key audit matter because the assessment of the fair value using valuation techniques involves complex and significant judgements about future poultry and pork prices as well as the projected costs, and because the valuation is particularly sensitive to these assumptions.	We challenged management's assumptions in the models with reference to historical data and, where applicable, external/independent sources, noting that the assumptions used fell within an acceptable independently determined range. We compared the current performance up to the date of the audit report with the forecasts to ensure no significant changes in market conditions had occurred after the testing had been performed, which can affect the assumptions used in the models. We tested the accuracy of the models and management's sensitivity calculations. We tested the appropriateness of the related disclosures provided in the consolidated financial statements. In particular, we focused on the disclosure of key unobservable inputs and the related sensitivity analysis.
NAPKO acquisition: determination of fair value of the business acquired	
In April 2017 the Group completed an acquisition of 100% of NAPKO from entity under common control for cash consideration of RUB 4,872,000 thousand. Management of the Group concluded that the acquisition had been conducted on the arm-length basis. This conclusion was supported by the business valuation report prepared by an independent appraiser. The Group accounts for business combinations under common control using the acquisition method. Significant differences, if any, between consideration transferred and fair value of the business acquired is recognized as a contribution/distribution of equity. Further details are provided in Notes 4 and 30 to the consolidated financial statements. We focused on this area as a key audit matter because the valuation of the business, and particularly a business under common control, involves complex and significant judgements about valuation techniques to be applied including considering the future performance of the business. In addition, transactions with related parties and their associated terms are an area of focus of the Audit Committee and various other stakeholders.	We performed the following audit procedures in respect of this key audit matter: — We verified that the transaction was approved by the Group's Board of Directors and that the respective approval policies were followed; — We tested the business valuation report with the assistance of our internal valuation specialists, including assessing the appropriateness of the selected valuation techniques, the methodology and key assumptions used by an independent appraiser; — We audited the arithmetic accuracy of the valuation models as well as the input data used by the appraiser; and — We checked that the consideration paid in accordance with the agreement did not significantly differ from the fair value of the business acquired as per the valuation report.

Other Information

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

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

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

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

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

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

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

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

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

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

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

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Rinat Khasanov,
Team leader

15 February 2018

The Entity: PJSC Cherkizovo Group

Primary State Registration Number: 1057748318473

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

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

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register

№ 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

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

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

Consolidated statement of financial position

As at 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

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

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

Consolidated statement of financial position continued

As at 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

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

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

Consolidated statement of changes in equity

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	Share capital	
	Amount	Number of shares
Balances at 1 January 2016	**440**	**43,963,773**
Profit for the year and total comprehensive income	–	–
Additional non-controlling interests arising on set up of new subsidiaries	–	–
Dividends (Note 24)	–	–
Balances at 31 December 2016	**440**	**43,963,773**
Profit for the year and total comprehensive income	–	–
Additional non-controlling interests recognized on acquisition of subsidiaries (Note 30)	–	–
Purchase of treasury shares (Note 24)	–	–
Dividends (Note 24)	–	–
Balances at 31 December 2017	**440**	**43,963,773**

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

Treasury shares						
Amount	Number of shares	Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
(78,033)	**(108,183)**	**5,588,320**	**46,582,955**	**52,093,682**	**1,055,392**	**53,149,074**
—	—	—	1,919,227	1,919,227	(31,709)	**1,887,518**
—	—	—	—	—	2,597	**2,597**
—	—	—	(998,771)	(998,771)	—	**(998,771)**
(78,033)	**(108,183)**	**5,588,320**	**47,503,411**	**53,014,138**	**1,026,280**	**54,040,418**
—	—	—	5,800,371	5,800,371	(152,296)	**5,648,075**
—	—	—	—	—	191,862	**191,862**
(3,646,528)	(2,808,576)	—	—	(3,646,528)	—	**(3,646,528)**
—	—	—	(3,453,970)	(3,453,970)	—	**(3,453,970)**
(3,724,561)	**(2,916,759)**	**5,588,320**	**49,849,812**	**51,714,011**	**1,065,846**	**52,779,857**

Consolidated statement of cash flows

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**5,955,675**	**1,960,379**
Adjustments for:		
Depreciation and amortization	5,153,486	4,660,365
Bad debt expense	282,148	231,981
Foreign exchange loss (gain), net	390,426	(621,087)
Interest income	(277,148)	(343,737)
Interest expense, net	3,663,093	3,738,315
Net change in fair value of biological assets and agricultural produce	148,118	340,063
Loss (gain) on disposal of property, plant and equipment, net	106,321	(8,054)
Gain on disposal of non-current biological assets, net	(423,512)	(402,456)
Write-off of receivables from insurance company	–	347,975
Share of loss of a joint venture	221,325	200,191
Other adjustments, net	(14,392)	(28,059)
Operating cash flows before working capital and other changes	**15,205,540**	**10,075,876**
Decrease in inventories	1,259,252	770,364
Increase in biological assets	(489,539)	(202,031)
Decrease (increase) in trade receivables	384,564	(477,366)
(Increase) decrease in advances paid	(169,281)	796,090
(Increase) decrease in other receivables and other current assets	(333,616)	947,249
Increase in other non-current assets	(113,739)	(70,105)
Increase in trade payables	48,691	675,348
Increase in tax related liabilities (other than income tax)	50,889	41,155
Increase in other current payables	445,491	142,585
Operating cash flows before interest and income tax	**16,288,252**	**12,699,165**
Interest received	143,745	255,850
Interest paid	(3,444,545)	(4,895,763)
Government grants for compensation of interest expense received	541,187	1,433,471
Income tax paid	(512,430)	(124,186)
Net cash from operating activities	**13,016,209**	**9,368,537**

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,881,600)	(8,569,640)
Purchase of non-current biological assets	(1,017,577)	(1,110,778)
Purchase of intangible assets	(372,470)	(555,633)
Proceeds from sale of property, plant and equipment	30,880	34,013
Proceeds from disposal of non-current biological assets	1,028,836	755,422
Acquisitions of subsidiaries, net of cash acquired	(4,768,059)	–
Investments in joint venture	(345,000)	(960,000)
Placing of deposits and issuance of loans	(412,470)	–
Placing of notes receivable	(100,000)	(210,000)
Repayment of loans issued and redemption of deposits	150,050	6,273
Net cash used in investing activities	**(15,687,410)**	**(10,610,343)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	20,542,792	11,862,021
Repayment of long-term loans	(10,378,936)	(5,363,445)
Proceeds from short-term loans	11,555,329	21,834,999
Repayment of short-term loans	(12,246,483)	(30,652,746)
Purchase of treasury shares	(3,646,528)	–
Dividends paid	(3,453,970)	(998,771)
Disposal of non-controlling interests	1,470	1,127
Net cash generated from (used in) financing activities	**2,373,674**	**(3,316,815)**
Net decrease in cash and cash equivalents	**(297,527)**	**(4,558,621)**
Cash and cash equivalents at the beginning of the year	**1,002,203**	**5,560,824**
Cash and cash equivalents at the end of the year	**704,676**	**1,002,203**

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

(in thousands of Russian rubles, unless otherwise indicated)

1. NATURE OF THE BUSINESS

General information

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

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

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

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

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

** Hereinafter poultry includes only chicken.

The business of the Group

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Functional and presentation currency

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

Foreign currency transactions

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

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

Going concern

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

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

Basis of consolidation

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

Control is achieved when the Company:
— Has power over the investee;
— Is exposed, or has rights, to variable returns from its involvement with the investee; and
— Has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:
— The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
— Potential voting rights held by the Company, other vote holders or other parties;
— Rights arising from other contractual arrangements; and
— Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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Business combinations

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

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

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

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

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

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

Goodwill

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

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

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

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.

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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.

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.

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

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

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

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

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

Agricultural produce
(i) Dressed poultry and pork
The fair value of dressed poultry and pork is determined by reference to market prices at the point of harvest.

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

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

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

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

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

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

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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).

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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.

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.

Notes to the consolidated financial statements

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3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS and IFRIC interpretations adopted in the current year

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

Amendments to IAS 7 Disclosure Initiative

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

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

IFRS and IFRIC interpretations in issue but not yet effective

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

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

IFRS 9 “Financial Instruments”

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

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

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

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

Amendments to IAS 40 Transfers of Investment Property

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

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

IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:
- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings;
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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Biological assets

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

Description	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs	Value of unobservable inputs	Relationship of unobservable inputs to fair value
			Average weight of one broiler – kg	2.3	The higher the weight, the higher the fair value
			Poultry meat price – rubles	83.7	The higher the price, the higher the fair value
Broilers	1,928,277	Discounted cash flows	Projected production costs – rubles per kg	67.4	The higher the costs, the lower the fair value
			Number of hatchery eggs produced by one breeder	165	The higher the number, the higher the fair value
			Hatchery egg price – rubles	14.4	The higher the price, the higher the fair value
Breeders held for hatchery eggs production	1,969,345	Discounted cash flows	Projected production costs of hatchery egg – rubles	6.6	The higher the costs, the lower the fair value
			Average number of piglets produced by one sow	28.3	The higher the number, the higher the fair value
			Market price of weaned piglet – rubles	2,217	The higher the price, the higher the fair value
Sows	2,259,409	Discounted cash flows	Discount rate	14.1%	The higher the discount rate, the lower the fair value
			Average weight of one market hog – kg	120.1	The higher the weight, the higher the fair value
			Pork meat price – rubles per kg	80.8	The higher the price, the higher the fair value
Market hogs	6,100,813	Discounted cash flows	Projected production costs – rubles per kg	57.1	The higher the costs, the lower the fair value
			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
Unharvested crops (except for year-end)	611,805	Discounted cash flows	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 selling prices;
— Projected production costs and costs to sell.

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

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

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

Recognition of subsidies receivable

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

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

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

Determination of fair value of NAPKO

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

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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 2017 was 1,215,509 (31 December 2016: 1,215,509). No impairment loss was recognised during 2017 and 2016. Details are set out in Note 14.

Impairment of property, plant and equipment

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

Allowance for impairment of receivables and advances to suppliers

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

5. OPERATING SEGMENTS

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

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

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

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

	Meat-processing	Pork	Poultry	Grain
Total sales	34,020,373	18,688,379	47,401,429	3,238,261
including other sales	680,431	235,960	901,885	75,115
including sales volume discounts	(827,045)	–	(523,618)	–
Intersegment sales	(39,539)	(14,622,070)	(1,902,802)	(1,468,597)
Sales to external customers	33,980,834	4,066,309	45,498,627	1,769,664
Net change in fair value of biological assets and agricultural produce	–	651,235	(71,239)	(736,614)
Cost of sales	(28,058,310)	(12,399,563)	(36,875,483)	(3,823,384)
Gross profit (loss)	**5,962,063**	**6,940,051**	**10,454,707**	**(1,321,737)**
Operating expense*	(4,249,598)	(627,148)	(5,342,484)	(270,124)
Share of loss of a joint venture	–	–	–	–
Operating income (loss)	**1,712,465**	**6,312,903**	**5,112,223**	**(1,591,861)**
Other income (expense), net**	(106,781)	38,664	3,102	2,967
Interest expense, net	(181,389)	(713,729)	(1,112,968)	(175,685)
Profit (loss) before income tax	**1,424,295**	**5,637,838**	**4,002,357**	**(1,764,579)**
Adjustments for:				
Interest expense, net	181,389	713,729	1,112,968	175,685
Interest income	(16,845)	(41,178)	(164,917)	(1,649)
Foreign exchange loss (gain)	122,422	6,272	164,118	(859)
Depreciation and amortisation expense	697,189	1,140,851	1,936,437	464,492
Net change in fair value of biological assets and agricultural produce	–	(651,235)	71,239	736,614
Share of loss of a joint venture	–	–	–	–
Share of adjusted EBITDA of a joint venture****	–	–	–	–
Adjusted EBITDA	**2,408,450**	**6,806,277**	**7,122,202**	**(390,296)**
Supplemental information:				
Expenditure for segment property, plant and equipment	4,795,938	5,077,199	1,465,739	397,665
Income tax expense (benefit)	100,185	(19,580)	48,452	12,224

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

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

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

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

Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey***	Total consolidated
28,169,777	131,518,219	560,007	(45,511,637)	86,566,589	3,898,480	90,465,069
—	1,893,391	560,007	(799,076)	1,654,322	—	1,654,322
—	(1,350,663)	—	—	(1,350,663)	(29,696)	(1,380,359)
(27,186,212)	(45,219,220)	(292,417)	45,511,637	—	—	—
983,565	86,298,999	267,590	—	86,566,589	3,898,480	90,465,069
—	(156,618)	—	8,500	(148,118)	—	(148,118)
(26,735,838)	(107,892,578)	(440,325)	45,327,432	(63,005,471)	(3,752,869)	(66,758,340)
1,433,939	**23,469,023**	**119,682**	**(175,705)**	**23,413,000**	**145,611**	**23,558,611**
(368,585)	(10,857,939)	(2,825,222)	283,836	(13,399,325)	(212,339)	(13,611,664)
—	—	—	—	—	(221,325)	(221,325)
1,065,354	**12,611,084**	**(2,705,540)**	**108,131**	**10,013,675**	**(288,053)**	**9,725,622**
(103,986)	(166,034)	156,258	(97,078)	(106,854)	—	(106,854)
(942,325)	(3,126,096)	(634,075)	97,078	(3,663,093)	—	(3,663,093)
19,043	**9,318,954**	**(3,183,357)**	**108,131**	**6,243,728**	**(288,053)**	**5,955,675**
942,325	3,126,096	634,075	(97,078)	3,663,093	—	3,663,093
(2,567)	(227,156)	(147,070)	97,078	(277,148)	—	(277,148)
107,279	399,232	(8,806)	—	390,426	—	390,426
595,260	4,834,229	319,257	—	5,153,486	—	5,153,486
—	156,618	—	(8,500)	148,118	—	148,118
—	—	—	—	—	221,325	221,325
—	—	—	—	—	83,448	83,448
1,661,340	**17,607,973**	**(2,385,901)**	**99,631**	**15,321,703**	**16,720**	**15,338,423**
206,831	11,943,372	389,316	—	12,332,688	—	12,332,688
3,401	144,682	162,918	—	307,600	—	307,600

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

	Meat-processing	Pork	Poultry	Grain
Total sales	31,667,448	15,920,146	47,724,031	3,055,762
including other sales	526,538	171,106	1,331,875	47,426
including sales volume discounts	(4,545,908)	–	(1,340,206)	–
Intersegment sales	(22,795)	(12,634,006)	(1,961,921)	(1,956,712)
Sales to external customers	31,644,653	3,286,140	45,762,110	1,099,050
Net change in fair value of biological assets and agricultural produce	–	861,422	(288,114)	(477,482)
Cost of sales	(26,141,947)	(12,182,666)	(40,049,212)	(2,873,596)
Gross profit (loss)	**5,525,501**	**4,598,902**	**7,386,705**	**(295,316)**
Operating expense*	(3,743,466)	(782,107)	(5,035,890)	(267,828)
Share of loss of a joint venture	–	–	–	–
Operating income (loss)	**1,782,035**	**3,816,795**	**2,350,815**	**(563,144)**
Other income (expense), net**	207,378	(289,198)	(114,744)	4,885
Interest expense, net	(245,885)	(964,742)	(1,076,908)	(94,361)
Profit (loss) before income tax	**1,743,528**	**2,562,855**	**1,159,163**	**(652,620)**
Adjustments for:				
Interest expense, net	245,885	964,742	1,076,908	94,361
Interest income	(9,561)	(33,764)	(173,895)	(1,710)
Foreign exchange loss (gain)	(192,501)	(22,285)	304,147	(3,026)
Depreciation and amortisation expense	639,237	1,010,334	1,969,279	295,430
Net change in fair value of biological assets and agricultural produce	–	(861,422)	288,114	477,482
Write-off of receivables from insurance company	–	347,975	–	–
Share of loss of a joint venture	–	–	–	–
Adjusted EBITDA	**2,426,588**	**3,968,435**	**4,623,716**	**209,917**
Supplemental information:				
Expenditure for segment property, plant and equipment	1,456,365	3,751,235	2,938,689	1,204,436
Income tax expense (benefit)	79,442	71,961	(67,967)	8,978

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

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

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

Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey***	Total consolidated
28,727,843	127,095,230	126,251	(44,804,288)	82,417,193	–	82,417,193
–	2,076,945	126,251	(783,561)	1,419,635	–	1,419,635
–	(5,886,114)	–	–	(5,886,114)	–	(5,886,114)
(28,146,309)	(44,721,743)	(82,545)	44,804,288	–	–	–
581,534	82,373,487	43,706	–	82,417,193	–	82,417,193
–	95,826	–	(435,889)	(340,063)	–	(340,063)
(28,109,353)	(109,356,774)	(78,511)	45,212,941	(64,222,344)	–	(64,222,344)
618,490	**17,834,282**	**47,740**	**(27,236)**	**17,854,786**	**–**	**17,854,786**
(404,658)	(10,233,949)	(2,445,280)	81,107	(12,598,122)	–	(12,598,122)
–	–	–	–	–	(200,191)	(200,191)
213,832	**7,600,333**	**(2,397,540)**	**53,871**	**5,256,664**	**(200,191)**	**5,056,473**
319,704	128,025	820,560	(306,364)	642,221	–	642,221
(930,799)	(3,312,695)	(731,984)	306,364	(3,738,315)	–	(3,738,315)
(397,263)	**4,415,663**	**(2,308,964)**	**53,871**	**2,160,570**	**(200,191)**	**1,960,379**
930,799	3,312,695	731,984	(306,364)	3,738,315	–	3,738,315
(10,723)	(229,653)	(420,448)	306,364	(343,737)	–	(343,737)
(307,559)	(221,224)	(399,863)	–	(621,087)	–	(621,087)
590,646	4,504,926	155,439	–	4,660,365	–	4,660,365
–	(95,826)	–	435,889	340,063	–	340,063
–	347,975	–	–	347,975	–	347,975
–	–	-	–	–	200,191	200,191
805,900	**12,034,556**	**(2,241,852)**	**489,760**	**10,282,464**	**–**	**10,282,464**
191,254	9,541,979	328,777	–	9,870,756	–	9,870,756
50,983	143,397	(70,536)	–	72,861	–	72,861

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

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

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

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6. COST OF SALES

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

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

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

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

8. INTEREST EXPENSE, NET

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

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

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

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

9. OTHER (EXPENSES) INCOME, NET

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

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

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

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10. INCOME TAX

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

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

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

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

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

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

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

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

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

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

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

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

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

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11. PROPERTY, PLANT AND EQUIPMENT

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

	Land and land lease rights	Buildings, infrastructure and leasehold improvements
Cost		
Balance as at 1 January 2016	**2,617,042**	**41,585,910**
Additions	143,306	3,440,362
Disposals	(12,201)	(106,341)
As at 31 December 2016	**2,748,147**	**44,919,931**
Additions	59,567	5,370,772
Acquisitions of subsidiaries	5,023,743	74,149
Disposals	(204,554)	(18,294)
As at 31 December 2017	**7,626,903**	**50,346,558**
Accumulated depreciation or impairment loss		
Balance as at 1 January 2016	–	**(7,804,080)**
Depreciation charge	–	(1,478,315)
Eliminated on disposals	–	88,707
As at 31 December 2016	**–**	**(9,193,688)**
Depreciation charge	(15,061)	(1,736,809)
Eliminated on disposals	–	12,458
As at 31 December 2017	**(15,061)**	**(10,918,039)**
Carrying amounts		
At 31 December 2016	**2,748,147**	**35,726,243**
At 31 December 2017	**7,611,842**	**39,428,519**

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

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

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

Machinery and equipment	Vehicles	Other	Construction in progress	Total
22,633,381	**4,222,525**	**205,212**	**8,801,872**	**80,065,942**
3,487,031	781,968	52,341	441,998	8,347,006
(382,483)	(114,006)	(13,152)	(19,091)	(647,274)
25,737,929	**4,890,487**	**244,401**	**9,224,779**	**87,765,674**
3,783,735	517,190	48,833	1,108,926	10,889,023
116,906	112,599	289	2,495	5,330,181
(639,450)	(96,640)	(4,175)	(35,312)	(998,425)
28,999,120	**5,423,636**	**289,348**	**10,300,888**	**102,986,453**
(9,919,540)	**(1,797,295)**	**(108,998)**	**–**	**(19,629,913)**
(2,179,253)	(558,541)	(41,858)	–	(4,257,967)
367,507	104,142	7,106	–	567,462
(11,731,286)	**(2,251,694)**	**(143,750)**	**–**	**(23,320,418)**
(2,511,834)	(645,291)	(56,221)	–	(4,965,216)
528,866	73,016	3,611	–	617,951
(13,714,254)	**(2,823,969)**	**(196,360)**	**–**	**(27,667,683)**
14,006,643	**2,638,793**	**100,651**	**9,224,779**	**64,445,256**
15,284,866	**2,599,667**	**92,988**	**10,300,888**	**75,318,770**

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12. INVESTMENT PROPERTY

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

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

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

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

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

13. GOODWILL

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

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

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

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

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

14. INTANGIBLE ASSETS

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

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

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Computer software

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

Indefinite life trademarks

Kurinoe Tsarstvo ("Куриное Царство") trademark

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

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

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

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

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

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

Cherkizovo ("Черкизово") trademark

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

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

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

15. BIOLOGICAL ASSETS

Non-current biological assets

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

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

The following table represents movements in sows:

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

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Current biological assets and related work-in progress
All current biological assets are consumable except for breeders, which are bearer biological assets. The balances of current biological assets were as follows:

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

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

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Balance at 1 January 2016	**4,232,255**	**1,728,769**	**2,602,867**	**948,080**	**9,511,971**
Increase due to purchases and gain arising from cost inputs	12,403,964	38,125,785	1,053,872	3,737,790	55,321,411
Transfer to consumable biological assets	–	948,803	(948,803)	–	–
Decrease due to sale or harvest of assets	(15,749,040)	(43,279,009)	–	(3,250,078)	(62,278,127)
Disposal of pigs due to African Swine Fever	(6,281)	–	–	–	(6,281)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	4,624,035	4,718,688	(1,195,711)	(239,176)	7,907,836
Balance at 31 December 2016	**5,504,933**	**2,243,036**	**1,512,225**	**1,196,616**	**10,456,810**

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Increase due to purchases and gain arising from cost inputs	12,057,936	36,006,280	1,319,673	4,620,970	54,004,859
Increase due to acquisition of subsidiaries	–	–	–	525,035	525,035
Transfer to consumable biological assets	–	1,165,235	(1,165,235)	–	–
Decrease due to sale or harvest of assets	(18,452,419)	(43,935,623)	–	(3,719,082)	(66,107,124)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	6,990,363	6,449,299	302,682	(1,337,793)	12,404,551
Balance at 31 December 2017	**6,100,813**	**1,928,227**	**1,969,345**	**1,285,746**	**11,284,131**

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

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

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

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

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

	2017	2016
Pork meat	212	185
Poultry meat	527	500

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

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16. INVESTMENTS IN JOINT VENTURE

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

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

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

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

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

The above loss for the year includes the following:

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

17. LONG-TERM DEPOSITS IN BANKS

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

18. INVENTORIES

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

19. TAXES RECOVERABLE AND PREPAID

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

20. TRADE RECEIVABLES, NET

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

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

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

21. OTHER RECEIVABLES, NET

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

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

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

22. CASH AND CASH EQUIVALENTS

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

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

23. OTHER CURRENT ASSETS

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

24. SHAREHOLDER'S EQUITY

Share capital

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

Treasury shares

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

Dividends

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

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

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25. NON-CONTROLLING INTERESTS

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

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

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

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

26. BORROWINGS

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

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

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

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

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

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

Bonds

Bonds due in October 2020

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

Bank loans

Sberbank of Russia

Borrowings from the Sberbank of Russia consist of two long-term euro denominated bank loans with interest ranging from 1.20% to 3.40%, sixteen long-term and seventeen short-term ruble denominated lines of credit with interest ranging from 1.00%[1] to 13.10% per annum. Principal payments are due from 2018 to 2024. The amount outstanding was 21,788,464 and 10,678,385 as of 31 December 2017 and 31 December 2016, respectively.

Gazprombank

Borrowings from Gazprombank consist of two long-term euro denominated loans with interest ranging from 1.20% to 3.40%, five long-term and three short-term ruble denominated lines of credit with interest ranging from 2.00%[1] to 10.85% per annum. Principal payments are due from 2018 to 2022. Amount outstanding was 5,721,820 and 12,624,909 as of 31 December 2017 and 31 December 2016, respectively.

Rosselkhozbank

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

Bank VTB

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

Alfa bank

Borrowings from Alfa Bank consist of nine long-term and twenty six short-term ruble denominated lines of credit with interest ranging from 1.00%[1] to 10.15% per annum. Principal payments are due from 2018 to 2022. Amount outstanding was 8,084,220 and 4,803,644 as of 31 December 2017 and 31 December 2016, respectively.

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

UniCredit Bank

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

Unused lines of credit

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

Collateral under borrowings

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

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

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

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

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

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

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

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

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

Financial lease liabilities are payable as follows:

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

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

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

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

27. TAX RELATED LIABILITIES

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

28. FINANCIAL INSTRUMENTS

Categories of financial instruments and fair value measurements

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

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

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

Financial risk management

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

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

Capital risk management

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

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Credit risk

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

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

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

Trade receivables

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

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

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

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

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

Other receivables

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

Cash and cash equivalents and long-term deposits

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

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

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

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

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

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.

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

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

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

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

Interest rate risk

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

29. RELATED PARTIES

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

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

Transactions with key management personnel

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

	2017	2016
Salaries and bonuses	298,721	321,396

Transactions with entities under common control

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

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

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

Balances with companies under common control are summarized as follows:

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

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Transactions with companies under common control are summarized as follows:

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

Transactions with joint ventures

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

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

Balances with joint ventures are summarized as follows:

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

Transactions with joint ventures are summarized as follows:

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

30. ACQUISITION OF NAPKO

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

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

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

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

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

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

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

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

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

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

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

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

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

31. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

Environmental remediation costs

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

Capital commitments

Capital commitments by each operating segments are as follows:

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

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

Operating lease commitments

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

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

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

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

32. SUBSEQUENT EVENTS

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

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

Shareholder Information

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