PJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim
Financial Statements
for the Six Months ended 30 June 2018

Contents

PJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the consolidated financial position of PJSC Cherkizovo Group (the "Company") and its subsidiaries (collectively – the "Group") as at 30 June 2018, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

In preparing the condensed consolidated interim 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 IAS 34 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 condensed consolidated interim financial statements of the Group comply with IAS 34;
- 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 condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 were approved by Management on 23 August 2018.

On behalf of the Management:

Ludmila Mikhailova
Chief Financial Officer

AO Deloitte & Touche CIS
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Moscow, 125047,
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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of PJSC Cherkizovo Group

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC Cherkizovo Group and its subsidiaries (collectively – the "Group") as at 30 June 2018 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Srbuhi Hakobyan,
Engagement leader

23 August 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: AO "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.

Unaudited condensed consolidated interim statement of profit or loss and other comprehensive income

For the six months ended 30 June 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Revenue	4	45 539 148	43 348 896	90 465 069
Net change in fair value of biological assets and agricultural produce	10	7 010 180	1 157 992	(148 118)
Cost of sales	5	(34 627 150)	(31 626 336)	(66 758 340)
Gross profit		**17 922 178**	**12 880 552**	**23 558 611**
Selling, general and administrative expenses	6	(7 266 644)	(6 333 796)	(13 936 562)
Other operating income, net		49 567	266 943	324 898
Share of loss of a joint venture		(229 994)	(189 991)	(221 325)
Operating profit		**10 475 107**	**6 623 708**	**9 725 622**
Interest income		127 612	139 697	277 148
Interest expense, net	7	(1 639 160)	(1 538 547)	(3 663 093)
Other expenses, net	8	(255 539)	(204 637)	(384 002)
Profit before income tax		**8 708 020**	**5 020 221**	**5 955 675**
Income tax expense		(91 689)	(40 440)	(307 600)
Profit for the period and total comprehensive income		**8 616 331**	**4 979 781**	**5 648 075**
Profit (loss) and total comprehensive income (loss) attributable to:				
Cherkizovo Group		8 708 693	5 106 255	5 800 371
Non-controlling interests		(92 362)	(126 474)	(152 296)
Earnings per share				
Weighted average number of shares outstanding – basic and diluted:		41 047 014	43 855 590	42 760 328
Profit attributable to Cherkizovo Group per share – basic and diluted (in Russian rubles):		212.16	116.43	135.65

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

Unaudited condensed consolidated interim statement of financial position

As at 30 June 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	9	76 370 119	75 318 770
Investment property		585 417	589 411
Goodwill		1 254 572	1 254 572
Intangible assets		2 018 469	2 014 358
Non-current biological assets	10	3 014 520	2 288 524
Notes receivable		160 000	310 000
Investments in joint ventures		2 821 501	2 185 147
Long-term deposits in banks		641 365	641 365
Restricted cash	9	145 662	740 848
Deferred tax assets		754 192	754 192
Other non-current assets		481 980	804 322
Total non-current assets		**88 247 797**	**86 901 509**
Current assets			
Biological assets	10	18 982 605	11 566 300
Inventories	11	8 792 293	9 971 811
Taxes recoverable and prepaid		1 998 634	2 264 482
Trade receivables, net		4 562 623	4 448 735
Advances paid, net		810 493	1 415 099
Other receivables, net	12	1 228 725	836 563
Cash and cash equivalents	13	1 361 575	704 676
Other current assets		499 951	535 087
Total current assets		**38 236 899**	**31 742 753**
TOTAL ASSETS		**126 484 696**	**118 644 262**

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

Unaudited condensed consolidated interim statement of financial position (continued)

As at 30 June 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	30 June 2018	31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital		440	440
Treasury shares		(3 724 561)	(3 724 561)
Additional paid-in capital		5 599 428	5 588 320
Retained earnings	14	55 477 106	49 849 812
Total shareholder's equity		**57 352 413**	**51 714 011**
Non-controlling interest		961 065	1 065 846
Total equity		**58 313 478**	**52 779 857**
Non-current liabilities			
Long-term borrowings	15	34 920 761	30 603 110
Provisions		58 131	58 131
Deferred tax liability		1 026 731	1 064 814
Other liabilities		496	3 272
Total non-current liabilities		**36 006 119**	**31 729 327**
Current liabilities			
Short-term borrowings	15	17 803 666	19 411 621
Trade payables		8 994 016	9 018 376
Advances received		437 105	616 371
Payables for non-current assets		1 386 411	1 912 620
Tax related liabilities		1 030 417	964 123
Payroll related liabilities		1 617 964	1 816 396
Other payables and accruals		895 520	395 571
Total current liabilities		**32 165 099**	**34 135 078**
Total liabilities		**68 171 218**	**65 864 405**
TOTAL EQUITY AND LIABILITIES		**126 484 696**	**118 644 262**

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

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Share capital		Treasury shares						
	Amount	**Number of shares**	**Amount**	**Number of shares**	**Additional paid-in capital**	**Retained earnings**	**Total shareholder's equity**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2017	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**47 503 411**	**53 014 138**	**1 026 280**	**54 040 418**
Profit for the period and total comprehensive income	-	-	-	-	-	5 106 255	**5 106 255**	(126 474)	**4 979 781**
Additional non-controlling interests recognized on acquisition of subsidiaries	-	-	-	-	-	-	**-**	196 000	**196 000**
Dividends	-	-	-	-	-	(598 580)	**(598 580)**	-	**(598 580)**
Balances at 30 June 2017	**440**	**43 963 773**	**(78 033)**	**(108 183)**	**5 588 320**	**52 011 086**	**57 521 813**	**1 095 806**	**58 617 619**
Balances at 1 January 2018	**440**	**43 963 773**	**(3 724 561)**	**(2 916 759)**	**5 588 320**	**49 849 812**	**51 714 011**	**1 065 846**	**52 779 857**
Profit for the period and total comprehensive income	-	-	-	-	-	8 708 693	**8 708 693**	(92 362)	**8 616 331**
Purchase of non-controlling interests	-	-	-	-	11 108	-	**11 108**	(12 419)	**(1 311)**
Dividends (Note 14)	-	-	-	-	-	(3 081 399)	**(3 081 399)**	-	**(3 081 399)**
Balances at 30 June 2018	**440**	**43 963 773**	**(3 724 561)**	**(2 916 759)**	**5 599 428**	**55 477 106**	**57 352 413**	**961 065**	**58 313 478**

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

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 30 June 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	**8 708 020**	**5 020 221**	**5 955 675**
Adjustments for:			
Depreciation and amortization	2 839 084	2 383 254	5 153 486
Bad debt expense	36 765	26 947	282 148
Foreign exchange loss, net	256 102	209 112	390 426
Interest income	(127 612)	(139 697)	(277 148)
Interest expense, net	1 639 160	1 538 547	3 663 093
Net change in fair value of biological assets and agricultural produce	(7 010 180)	(1 157 992)	148 118
Loss on disposal of property, plant and equipment, net	8 664	52 844	106 321
Gain on disposal of non-current biological assets, net	(58 231)	(314 637)	(423 512)
Share of loss of a joint venture	229 994	189 991	221 325
Other adjustments, net	(3 276)	(3 161)	(14 392)
Operating cash flows before working capital and other changes	**6 518 490**	**7 805 429**	**15 205 540**
Decrease in inventories	1 554 064	2 686 051	1 259 252
Increase in biological assets	(1 519 067)	(2 167 397)	(489 539)
(Increase) decrease in trade receivables	(131 926)	1 045 212	384 564
Decrease (increase) in advances paid	599 846	56 901	(169 281)
Decrease (increase) in other receivables and other current assets	247 514	189 135	(333 616)
Increase in other non-current assets	(16 535)	(30 597)	(113 739)
(Decrease) increase in trade payables	(146 481)	(1 379 117)	48 691
Increase in tax related liabilities (other than income tax)	176 618	84 324	50 889
(Decrease) increase in other current payables	(215 518)	(385 949)	445 491
Operating cash flows before interest and income tax	**7 067 005**	**7 903 992**	**16 288 252**
Interest received	144 974	77 428	143 745
Interest paid	(2 091 501)	(1 456 204)	(3 444 545)
Government grants for compensation of interest expense received	70 095	58 507	541 187
Income tax paid	(397 679)	(116 936)	(512 430)
Net cash from operating activities	**4 792 894**	**6 466 787**	**13 016 209**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(4 415 981)	(3 975 563)	(9 881 600)
Purchases of non-current biological assets	(418 776)	(443 895)	(1 017 577)
Purchases of intangible assets	(167 468)	(98 558)	(372 470)
Proceeds from sale of property, plant and equipment	63 529	1 694	30 880
Proceeds from disposal of non-current biological assets	486 614	577 978	1 028 836
Acquisitions of subsidiaries, net of cash acquired	-	(4 768 059)	(4 768 059)
Investments in joint ventures	(198 250)	(345 000)	(345 000)
Placing of deposits and issuance of loans	-	(1 471)	(412 470)
Placing of notes receivable	-	(100 000)	(100 000)
Proceeds from repayment of loans issued and redemption of deposits	387 500	50	150 050
Net cash used in investing activities	**(4 262 832)**	**(9 152 824)**	**(15 687 410)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term loans	13 241 177	9 419 635	20 542 792
Repayment of long-term loans	(8 642 692)	(1 803 054)	(10 378 936)
Proceeds from short-term loans	9 971 484	5 194 473	11 555 329
Repayment of short-term loans	(11 360 422)	(8 953 480)	(12 246 483)
Purchase of treasury shares	-	-	(3 646 528)
Dividends paid	(3 081 399)	(598 580)	(3 453 970)
(Purchase) disposal of non-controlling interests	(1 311)	105	1 470
Net cash from financing activities	**126 837**	**3 259 099**	**2 373 674**
Net increase (decrease) in cash and cash equivalents	**656 899**	**573 062**	**(297 527)**
Cash and cash equivalents at the beginning of the period	**704 676**	**1 002 203**	**1 002 203**
Cash and cash equivalents at the end of the period	**1 361 575**	**1 575 265**	**704 676**

Non-cash transactions: in 2017 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 15). The transfer represents a non-cash transaction, because the credit line and the restricted bank account were opened within the same bank and the transaction did not impact the Group's cash position.

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

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 the reporting date. The ultimate controlling party of PJSC Cherkizovo Group is Babaev / Mikhailov family who jointly control MB Capital Europe Ltd.

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.

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 and political developments on future operations and financial position of the Group is difficult to determine at this stage.

2. Basis of preparation

These financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

These financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2017 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The financial results for the six months ended 30 June 2018 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017.

3. Significant accounting policies

These 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").

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the impact of the adoption of the following new and amended standards from 1 January 2018:

- IFRS 9 "Financial Instruments";
- IFRS 15 "Revenue from Contracts with Customers";
- Annual Improvements to IFRSs 2014-2016 Cycle.

The impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's results of operations and financial position is described below. The adoption of other standards and amendments did not have an impact on the Group's results of operations, financial position or cash flows.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

IFRS 9 "Financial Instruments"

Impact of adoption

As the Group has only financial assets and liabilities measured at amortized cost, starting from 1 January 2018 it continues to classify and measure them on the same bases as it was previously adopted under IAS 39.

Financial assets measured at amortised cost are now subject to the impairment provisions of IFRS 9.

The Group applied the simplified approach to recognise lifetime expected credit losses for its trade and other receivables. The application of the expected credit loss model of IFRS 9 resulted in earlier recognition of credit losses for the respective items and increased the amount of loss allowance recognized for financial assets. However, the increase was not significant, as the Group holds cash and cash equivalents, notes receivable and long-term deposits in top 3 Russian banks with high credit ratings assigned by international credit-rating agencies (from BBB- to BB+). As for the trade and other receivables, the Group analysed history of bad debt allowances recognized as well as receivables written off directly to profit or loss and came to a conclusion that bad debt allowance recognised as at 1 January 2018 and 30 June 2018 is sufficient, taking into account new impairment requirements of IFRS 9.

IFRS 9 was adopted without restating comparative information. The adjustments arising from the new impairment rules were immaterial and therefore reflected in the current reporting period.

Accounting policy effective from 1 January 2018

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

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. At the reporting dates, the Group had only financial assets classified as those to be measured at amortised cost.

3. Significant accounting policies continued

Amortised cost and 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised in profit or loss using the effective interest method and is included in the “interest income” line item.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade and other receivables. The amount of expected credit losses (further “ECL”) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Group always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12m ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Derecognition of financial assets
The Group derecognises a financial asset only 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 measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. At the reporting dates, the Group had only financial liabilities classified as those to be measured at amortised cost.

Financial liabilities subsequently measured at amortised cost
Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, or (3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

3. Significant accounting policies continued

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

IFRS 15 "Revenue from Contracts with Customers"

Impact of adoption
As the Group recognises revenue mainly from wholesale of goods to its customers, has no loyalty programs or specific guarantees, there was no impact on the consolidated financial position and/or financial performance of the Group from the application of IFRS 15.

Accounting policy effective from 1 January 2018
The Group derives its revenue from four main sources: sale of processed meat, poultry, pork and grain crops. Revenue is recognised when control of the products has transferred, being when the products are shipped or when the goods are delivered to the customer, it has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

In accordance with the Group's standard sales terms, control is transferred upon shipment. However, on contracts with certain large retail chains, control transfers upon delivery. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recognised at the fair value of the consideration received or receivable, net of VAT, discounts and returns. No element of financing is deemed present as the sales are typically made with a credit term of less than 30 days, which is consistent with market practice.

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 typically limited to the expiration period for the goods shipped and is not exceeding one month from the date of shipment. Returns are accounted for as deductions to sales in the period to which sales relate. Accumulated historical experience of the Group indicates that the share of goods returned is insignificant and that the most returns relate to chilled poultry and pork meat with a return period of less than 10 days. Therefore, the Group does not recognise any liability related to customers' right to return products within the return period and does not recognise an asset related to the right to recover the product from the customer where the customer is expected to exercise his/her right of return.

4. 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** operations include the production of two distinctive product lines: Sausages product line, which comprises a wide range of processed meat products, including sausages, ham, hot dogs, etc., and Pork product line, which comprises production and sales of pork meat.
- The **Poultry segment** operations consist of breeding, raising and processing broilers, as well as sales of chilled and frozen chicken products.
- The **Pork segment** operations consist of breeding, raising and selling live pigs.
- 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 also presents separately two reconciling columns in the table with segment information:

- **The Corporate** column mainly include payroll and other expenses of the holding company and
- **The Turkey** column represents operations related to purchase and subsequent resale of turkey meat produced by the joint venture through the Group's distribution network.

Each of Turkey and Corporate itself are not operating segments.

The Group evaluates segment performance based on Adjusted EBITDA, which is the primary segment profit measure of the Group. Adjusted EBITDA 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 3, except for the revaluation of unsold harvest of the Grain segment (current year harvest) at fair value at the year-end as described below. Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision maker.

Starting in 2018 the Group has changed its definition of Adjusted EBITDA. Pursuant to the revised definition, Adjusted EBITDA now includes the effect of unsold harvest of the Grain segment, which is calculated as the unrealised portion of Adjusted EBITDA of the current year harvest, which remained unsold at the reporting date less the realised effect of prior year harvest sold during the current period.

This means that the Adjusted EBITDA definition is now 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, share of loss of a joint venture and loss on disposal of subsidiaries plus share of Adjusted EBITDA of a joint venture and the effect of the unsold harvest of the Grain segment on Adjusted EBITDA.

The main reason for the change was to align the reported calendar year Adjusted EBITDA of the Grain segment with the agricultural year Adjusted EBITDA in order to more accurately assess the performance of the segment and the fact that the crops produced by the Group are commodities easily sold at a market price. The current year harvest is not revalued before the year-end and is stated at cost. At the year-end the current year harvest, which remained unsold and is recorded as finished goods is revalued to fair value. The unrealised portion of Adjusted EBITDA of the current year harvest is then calculated as the fair value of the harvested crops at the year-end less the cost of the crops and plus the depreciation accumulated within the cost of the crops. After the year-end the unsold harvest is stated at fair value determined at 31 December of the prior year and is not revalued subsequently. Crops sold by the Grain segment to the Feed segment are recorded as raw materials and are not revalued at the reporting dates, however, any gain or loss on these intersegment sales is included in the effect of unsold harvest of the Grain segment on Adjusted EBITDA and is presented separately in the Intersegment column in the table with segment information below.

The comparative information for the six months ended 30 June 2017 and for the year ended 31 December 2017 has been retrospectively adjusted to reflect the change in the segment profit measure.

(in thousands of Russian rubles, unless otherwise indicated)

4. **Operating segments** continued

Segment information for the six months ended 30 June 2018 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey	Total consolidated
Total sales	17 606 933	10 034 357	23 958 184	2 012 534	14 268 306	67 880 314	363 535	(25 253 377)	42 990 472	2 548 676	45 539 148
including other sales	326 338	145 181	472 597	36 403	-	980 519	363 535	(550 448)	793 606	-	793 606
including sales volume discounts	(378 790)	-	(286 272)	-	-	(665 062)	-	-	(665 062)	(28 291)	(693 353)
Intersegment sales	(97 664)	(8 889 555)	(806 292)	(1 054 387)	(14 030 130)	(24 878 028)	(208 698)	25 253 377	166 651	(166 651)	-
Sales to external customers	17 509 269	1 144 802	23 151 892	958 147	238 176	43 002 286	154 837	-	43 157 123	2 382 025	45 539 148
Net change in fair value of biological asserts and agricultural produce	-	3 876 174	613 546	2 551 190	-	7 040 910	-	(30 730)	7 010 180	-	7 010 180
Cost of sales	(15 297 308)	(6 032 280)	(19 094 756)	(2 795 879)	(13 927 982)	(57 148 205)	(256 473)	24 988 870	(32 415 808)	(2 211 342)	(34 627 150)
Gross profit (loss)	**2 309 625**	**7 878 251**	**5 476 974**	**1 767 845**	**340 324**	**17 773 019**	**107 062**	**(295 237)**	**17 584 844**	**337 334**	**17 922 178**
Operating expenses*	(2 060 338)	(381 687)	(2 869 880)	(207 621)	(131 811)	(5 651 337)	(1 500 916)	223 620	(6 928 633)	(288 444)	(7 217 077)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	(229 994)	(229 994)
Operating income (loss)	**249 287**	**7 496 564**	**2 607 094**	**1 560 224**	**208 513**	**12 121 682**	**(1 393 854)**	**(71 617)**	**10 656 211**	**(181 104)**	**10 475 107**
Other income (expenses), net**	(169 217)	17 752	6 409	3 740	(45 222)	(186 538)	73 211	(14 600)	(127 927)	-	(127 927)
Interest expense, net	(28 694)	(269 714)	(300 950)	(86 461)	(427 519)	(1 113 338)	(540 422)	14 600	(1 639 160)	-	(1 639 160)
Profit (loss) before income tax	**51 376**	**7 244 602**	**2 312 553**	**1 477 503**	**(264 228)**	**10 821 806**	**(1 861 065)**	**(71 617)**	**8 889 124**	**(181 104)**	**8 708 020**
Adjustments for:											
Interest expense, net	28 694	269 714	300 950	86 461	427 519	1 113 338	540 422	(14 600)	1 639 160	-	1 639 160
Interest income	(10 121)	(23 232)	(38 249)	(925)	(2 772)	(75 299)	(66 913)	14 600	(127 612)	-	(127 612)
Foreign exchange loss (gain)	179 735	5 572	31 894	(2 815)	47 994	262 380	(6 278)	-	256 102	-	256 102
Depreciation and amortisation expense	363 831	594 797	1 018 146	393 078	287 019	2 656 871	181 136	-	2 838 007	1 077	2 839 084
Net change in fair value of biological assets and agricultural produce	-	(3 876 174)	(613 546)	(2 551 190)	-	(7 040 910)	-	30 730	(7 010 180)	-	(7 010 180)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	229 994	229 994
Share of adjusted EBITDA of a joint venture***	-	-	-	-	-	-	-	-	-	(66 713)	(66 713)
Effect of the unsold current year harvest less the effect of prior year harvest sold during the current period	-	-	-	518 272	-	518 272	-	(30 730)	487 542	-	487 542
Adjusted EBITDA	**613 515**	**4 215 279**	**3 011 748**	**(79 616)**	**495 532**	**8 256 458**	**(1 212 698)**	**(71 617)**	**6 972 143**	**(16 746)**	**6 955 397**
Supplemental information:											
Expenditure for segment property, plant and equipment	1 365 413	1 849 793	725 911	164 232	142 493	4 247 842	268 128	-	4 515 970	-	4 515 970
Income tax expense (benefit)	(15 277)	41 276	51 317	6 652	(57 287)	26 681	65 008	-	91 689	-	91 689

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

4. Operating segments continued

Restated segment information for the six months ended 30 June 2017 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey	Total consolidated
Total sales	15 616 747	8 991 733	23 720 958	630 345	13 482 803	62 442 586	251 854	(20 833 991)	41 860 449	1 488 447	43 348 896
including other sales	304 833	95 680	438 300	36 963	-	875 776	251 854	(333 942)	793 688	-	793 688
including sales volume discounts	(380 269)	-	(230 421)	-	-	(610 690)	-	-	(610 690)	(4 784)	(615 474)
Intersegment sales	(6 586)	(6 670 439)	(884 399)	(136 515)	(13 013 551)	(20 711 490)	(122 501)	20 833 991	-	-	-
Sales to external customers	15 610 161	2 321 294	22 836 559	493 830	469 252	41 731 096	129 353	-	41 860 449	1 488 447	43 348 896
Net change in fair value of biological asserts and agricultural produce	-	1 017 141	167 963	(97 580)	-	1 087 524	-	70 468	1 157 992	-	1 157 992
Cost of sales	(12 879 207)	(6 032 517)	(18 139 359)	(781 799)	(12 918 113)	(50 750 995)	(170 025)	20 741 257	(30 179 763)	(1 446 573)	(31 626 336)
Gross profit (loss)	**2 737 540**	**3 976 357**	**5 749 562**	**(249 034)**	**564 690**	**12 779 115**	**81 829**	**(22 266)**	**12 838 678**	**41 874**	**12 880 552**
Operating expenses*	(1 867 689)	(121 175)	(2 461 562)	(169 821)	(182 483)	(4 802 730)	(1 337 548)	124 954	(6 015 324)	(51 529)	(6 066 853)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	(189 991)	(189 991)
Operating income (loss)	**869 851**	**3 855 182**	**3 288 000**	**(418 855)**	**382 207**	**7 976 385**	**(1 255 719)**	**102 688**	**6 823 354**	**(199 646)**	**6 623 708**
Other income (expenses), net**	(34 145)	17 583	(86 692)	(4 148)	639	(106 763)	123 356	(81 533)	(64 940)	-	(64 940)
Interest expense, net	(118 920)	(171 818)	(489 071)	(70 286)	(452 451)	(1 302 546)	(317 534)	81 533	(1 538 547)	-	(1 538 547)
Profit (loss) before income tax	**716 786**	**3 700 947**	**2 712 237**	**(493 289)**	**(69 605)**	**6 567 076**	**(1 449 897)**	**102 688**	**5 219 867**	**(199 646)**	**5 020 221**
Adjustments for:											
Interest expense, net	118 920	171 818	489 071	70 286	452 451	1 302 546	317 534	(81 533)	1 538 547	-	1 538 547
Interest income	(7 825)	(20 443)	(76 801)	(1 143)	(863)	(107 075)	(114 155)	81 533	(139 697)	-	(139 697)
Foreign exchange loss (gain)	41 978	3 420	166 212	5 374	947	217 931	(8 819)	-	209 112	-	209 112
Depreciation and amortisation expense	329 218	539 321	956 711	106 504	309 890	2 241 644	141 610	-	2 383 254	-	2 383 254
Net change in fair value of biological asserts and agricultural produce	-	(1 017 141)	(167 963)	97 580	-	(1 087 524)	-	(70 468)	(1 157 992)	-	(1 157 992)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	189 991	189 991
Adjusted EBITDA (as previously reported)	**1 199 077**	**3 377 922**	**4 079 467**	**(214 688)**	**692 820**	**9 134 598**	**(1 113 727)**	**32 220**	**8 053 091**	**(9 655)**	**8 043 436**
Effect of the unsold current year harvest less the effect of prior year harvest sold during the current period	-	-	-	(27 839)	-	(27 839)	-	70 468	42 629	-	42 629
Adjusted EBITDA (as restated)	**1 199 077**	**3 377 922**	**4 079 467**	**(242 527)**	**692 820**	**9 106 759**	**(1 113 727)**	**102 688**	**8 095 720**	**(9 655)**	**8 086 065**
Supplemental information:											
Expenditure for segment property, plant and equipment	1 391 607	1 979 708	679 783	266 063	134 920	4 452 081	130 008	-	4 582 089	-	4 582 089
Income tax expense (benefit)	2 725	13 765	17 920	1 516	(6 163)	29 763	10 677	-	40 440	-	40 440

* Operating expenses include selling, general and administrative expenses and other operating income, net.
** Other income (expenses), net presents interest income and other expenses, net as a combined line item.

(in thousands of Russian rubles, unless otherwise indicated)

4. **Operating segments** continued

Restated segment information for the year ended 31 December 2017 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey	Total consolidated
Total sales	34 020 373	18 688 379	47 401 429	3 238 261	28 169 777	131 518 219	560 007	(45 511 637)	86 566 589	3 898 480	90 465 069
including other sales	680 431	235 960	901 885	75 115	-	1 893 391	560 007	(799 076)	1 654 322	-	1 654 322
including sales volume discounts	(827 045)	-	(523 618)	-	-	(1 350 663)	-	-	(1 350 663)	(29 696)	(1 380 359)
Intersegment sales	(39 539)	(14 622 070)	(1 902 802)	(1 468 597)	(27 186 212)	(45 219 220)	(292 417)	45 511 637	-	-	-
Sales to external customers	33 980 834	4 066 309	45 498 627	1 769 664	983 565	86 298 999	267 590	-	86 566 589	3 898 480	90 465 069
Net change in fair value of biological asserts and agricultural produce	-	651 235	(71 239)	(736 614)	-	(156 618)	-	8 500	(148 118)	-	(148 118)
Cost of sales	(28 058 310)	(12 399 563)	(36 875 483)	(3 823 384)	(26 735 838)	(107 892 578)	(440 325)	45 327 432	(63 005 471)	(3 752 869)	(66 758 340)
Gross profit (loss)	**5 962 063**	**6 940 051**	**10 454 707**	**(1 321 737)**	**1 433 939**	**23 469 023**	**119 682**	**(175 705)**	**23 413 000**	**145 611**	**23 558 611**
Operating expenses*	(4 249 598)	(627 148)	(5 342 484)	(270 124)	(368 585)	(10 857 939)	(2 825 222)	283 836	(13 399 325)	(212 339)	(13 611 664)
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	(221 325)	(221 325)
Operating income (loss)	**1 712 465**	**6 312 903**	**5 112 223**	**(1 591 861)**	**1 065 354**	**12 611 084**	**(2 705 540)**	**108 131**	**10 013 675**	**(288 053)**	**9 725 622**
Other income (expenses), net**	(106 781)	38 664	3 102	2 967	(103 986)	(166 034)	156 258	(97 078)	(106 854)	-	(106 854)
Interest expense, net	(181 389)	(713 729)	(1 112 968)	(175 685)	(942 325)	(3 126 096)	(634 075)	97 078	(3 663 093)	-	(3 663 093)
Profit (loss) before income tax	**1 424 295**	**5 637 838**	**4 002 357**	**(1 764 579)**	**19 043**	**9 318 954**	**(3 183 357)**	**108 131**	**6 243 728**	**(288 053)**	**5 955 675**
Adjustments for:											
Interest expense, net	181 389	713 729	1 112 968	175 685	942 325	3 126 096	634 075	(97 078)	3 663 093	-	3 663 093
Interest income	(16 845)	(41 178)	(164 917)	(1 649)	(2 567)	(227 156)	(147 070)	97 078	(277 148)	-	(277 148)
Foreign exchange loss (gain)	122 422	6 272	164 118	(859)	107 279	399 232	(8 806)	-	390 426	-	390 426
Depreciation and amortisation expense	697 189	1 140 851	1 936 437	464 492	595 260	4 834 229	319 257	-	5 153 486	-	5 153 486
Net change in fair value of biological asserts and agricultural produce	-	(651 235)	71 239	736 614	-	156 618	-	(8 500)	148 118	-	148 118
Share of loss of a joint venture	-	-	-	-	-	-	-	-	-	221 325	221 325
Share of adjusted EBITDA of a joint venture***	-	-	-	-	-	-	-	-	-	83 448	83 448
Adjusted EBITDA (as previously reported)	**2 408 450**	**6 806 277**	**7 122 202**	**(390 296)**	**1 661 340**	**17 607 973**	**(2 385 901)**	**99 631**	**15 321 703**	**16 720**	**15 338 423**
Effect of the unsold current year harvest less the effect of prior year harvest sold during the current period	-	-	-	(778 431)	-	(778 431)	-	8 500	(769 931)	-	(769 931)
Adjusted EBITDA (as restated)	**2 408 450**	**6 806 277**	**7 122 202**	**(1 168 727)**	**1 661 340**	**16 829 542**	**(2 385 901)**	**108 131**	**14 551 772**	**16 720**	**14 568 492**
Supplemental information:											
Expenditure for segment property, plant and equipment	4 795 938	5 077 199	1 465 739	397 665	206 831	11 943 372	389 316	-	12 332 688	-	12 332 688
Income tax expense (benefit)	100 185	(19 580)	48 452	12 224	3 401	144 682	162 918	-	307 600	-	307 600

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

5. Cost of sales

Cost of sales for the six months ended 30 June 2018 and 2017 and for the year ended 31 December 2017 comprised:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Raw materials	23 087 266	21 703 750	45 698 526
Personnel (excluding pension costs)	4 549 493	4 008 036	8 475 295
Depreciation	2 516 967	2 107 895	4 579 762
Utilities	2 010 570	1 847 668	3 724 341
Pension costs	901 748	777 305	1 635 641
Other	1 561 106	1 181 682	2 644 775
Total cost of sales	**34 627 150**	**31 626 336**	**66 758 340**

6. Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2018 and 2017 and for the year ended 31 December 2017 comprised:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Personnel (excluding pension costs)	2 517 525	2 432 689	5 058 221
Transportation	1 221 955	917 552	2 082 335
Taxes (other than income tax)	492 646	472 143	925 683
Pension costs	419 750	313 808	639 892
Advertising and marketing	473 817	261 078	701 601
Depreciation and amortisation	322 117	275 359	573 724
Materials and supplies	281 127	311 194	721 796
Rent expenses	255 991	208 563	401 205
Security services	220 341	211 213	436 679
Utilities	124 416	118 853	246 354
Audit, consulting and legal fees	113 516	111 437	228 319
Information technology and communication services	105 816	120 115	260 720
Veterinary services	98 120	75 810	156 073
Insurance	94 695	70 977	167 106
Repairs and maintenance	38 633	30 772	88 780
Change in bad debt allowance and other write-off	36 765	23 560	282 148
Bank charges	16 802	10 616	23 342
Other	432 612	368 057	942 584
Total selling, general and administrative expenses	**7 266 644**	**6 333 796**	**13 936 562**

7. Interest expense, net

Interest expense, net for the six months ended 30 June 2018 and 2017 and for the year ended 31 December 2017 comprised:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Interest on bank overdrafts and loans	2 190 133	2 141 096	4 429 247
Interest on obligations under finance leases	21 995	29 865	55 533
Less: amounts included in the cost of qualifying assets	(162 258)	(378 713)	(815 344)
Total interest expense	**2 049 870**	**1 792 248**	**3 669 436**
Government grants for compensation of interest expenses	(474 369)	(469 617)	(973 499)
Less: government grants written-off*	-	-	571 087
Less: amounts included in the cost of qualifying assets	63 659	215 916	396 069
Total government grants for compensation of interest expenses	**(410 710)**	**(253 701)**	**(6 343)**
Total interest expense, net	**1 639 160**	**1 538 547**	**3 663 093**

* 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, working capital subsidies receivable in the amount of 571 087 were written-off, as shown above.

(in thousands of Russian rubles, unless otherwise indicated)

8. Other expenses, net

Other expenses, net for the six months ended 30 June 2018 and 2017 and for the year ended 31 December 2017 comprised:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Foreign exchange loss	(256 102)	(209 112)	(390 426)
Other income, net	563	4 475	6 424
Total other expenses, net	**(255 539)**	**(204 637)**	**(384 002)**

9. Property, plant and equipment

The carrying amounts of property, plant and equipment as of 30 June 2018 and 31 December 2017 comprised:

	30 June 2018	31 December 2017
Land and land lease rights	7 627 686	7 611 842
Buildings, infrastructure and leasehold improvements	40 220 776	39 428 519
Machinery and equipment	15 460 893	15 284 866
Vehicles	2 594 732	2 599 667
Other	84 265	92 988
Construction in-progress and equipment for installation	8 787 204	8 935 030
Advances paid for property, plant and equipment	1 594 563	1 365 858
Total property, plant and equipment	**76 370 119**	**75 318 770**

During the period, the Group acquired assets with a cost of 3 833 260 and recognised a depreciation expense in the amount of 2 828 689.

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 30 June 2018, 145 662 (31 December 2017: 740 848) deposited on such accounts were presented as restricted in the condensed consolidated interim 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.

10. Biological assets

Non-current biological assets

The balances of non-current biological assets as of 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018		31 December 2017	
	Units	Carrying amount	Units	Carrying amount
Sows, heads	99 722	2 982 667	90 008	2 259 409
Cattle, heads	496	31 853	462	29 115
Total bearer non-current biological assets	**100 218**	**3 014 520**	**90 470**	**2 288 524**

(in thousands of Russian rubles, unless otherwise indicated)

10. Biological assets continued

Current biological assets and related work-in progress

The balances of current biological assets were as follows:

	30 June 2018		31 December 2017	
	Units	**Carrying amount**	**Units**	**Carrying amount**
Pork				
Market hogs, heads	1 124 102	9 648 746	1 024 074	6 100 813
	1 124 102	9 648 746	1 024 074	6 100 813
Poultry				
Broilers, heads	27 679 183	2 445 058	29 681 462	1 928 227
Breeders, heads (bearer biological assets)	2 417 894	1 919 658	2 826 935	1 969 345
	30 097 077	4 364 716	32 508 397	3 897 572
Hatchery eggs, quantity	19 003 460	246 285	21 862 017	258 080
Other	524	26 040	505	24 089
Unharvested crops, hectares	165 466	4 360 243	54 957	611 805
Work-in progress related to cultivation of crops		336 575		673 941
Total current biological assets and related work-in progress		**18 982 605**		**11 566 300**

The fair value of market hogs largely increased due to the expected increase in market prices of live pigs in July-August 2018 compared to the beginning of the year (from 81 rubles per kilogram of live weight in January-March 2018 to 101 rubles in July 2018), when utilised in the discounted cash flow model used to estimate fair value, resulting in a significant gain on revaluation of market hogs during the six months ended 30 June 2018, included in Net change in fair value of biological assets and agricultural produce.

The fair value of unharvested crops largely increased due to the seasonality of crop farming with the majority of costs incurred and biological transformation occurring during the first half of the year.

11. Inventories

Inventories as of 30 June 2018 and 31 December 2017 comprised:

	30 June 2018	31 December 2017
Raw materials	6 197 716	7 289 837
Spare parts	804 185	695 158
Work-in-process	477 403	343 784
Finished goods	1 312 989	1 643 032
Total inventories	**8 792 293**	**9 971 811**

12. Other receivables, net

Other receivables as of 30 June 2018 and 31 December 2017 comprised:

	30 June 2018	31 December 2017
Subsidies receivable for interest expense reimbursement	820 335	416 061
Subsidies receivable for purchase of fodder	14 895	9 958
Other receivables	521 620	530 813
Less: allowance for doubtful other receivables	(128 125)	(120 269)
Total other receivables, net	**1 228 725**	**836 563**

The balance of subsidies receivable for interest expense reimbursement consists of only subsidies accrued on qualifying loan agreements received for investment purposes. Management believes that it is probable that the balance will be collected based on the current legislation, however, there is still uncertainty regarding recoverability of these receivables.

(in thousands of Russian rubles, unless otherwise indicated)

13. Cash and cash equivalents

Cash and cash equivalents as of 30 June 2018 and 31 December 2017 comprised:

	30 June 2018	31 December 2017
Ruble-denominated cash at banks	574 107	152 168
EURO-denominated cash at banks	-	17
USD-denominated cash at banks	66 181	64 824
Bank deposits	716 470	483 669
Cash in hand	4 817	3 998
Total cash and cash equivalents	**1 361 575**	**704 676**

14. Shareholder's equity

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 23 March 2018 dividends of approximately 75.07 Russian rubles per share (3 081 399 in total) were approved at the extraordinary shareholders' meeting. The dividends were fully paid by the end of May 2018.

15. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	EIR[1]	Adjusted EIR [2]	Year of maturity	30 June 2018		31 December 2017	
					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%	7.55%	5.43%	2018-2026	17 360 489	29 705 688	18 452 495	25 340 952
Factoring	-	-	-		-	-	431 297	-
Other borrowings	0%	0%	0%	2018-2025	8 500	6 571	8 500	6 571
Interest payable	-	-	-		339 347	-	416 762	-
Finance lease liabilities	10.47%-16.62%	13.96%	13.96%	2018–2024	95 330	208 502	102 567	255 587
Total borrowings					**17 803 666**	**34 920 761**	**19 411 621**	**30 603 110**

As of 30 June 2018, the Group's borrowings were denominated in the following currencies: 50 191 353 in Russian rubles and 2 533 074 in Euro. As of 31 December 2017, the Group's borrowings were denominated in the following currencies: 47 545 948 in Russian rubles and 2 468 783 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.

[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 7 for further disclosure of government subsidies related to interest on borrowings.

(in thousands of Russian rubles, unless otherwise indicated)

15. Borrowings continued

Bank loans

Terms and conditions of outstanding bank loans were as follows:

	Currency	Nominal interest rate	Year of maturity	30 June 2018	31 December 2017
Sberbank of Russia	Russian rubles	1.00%*-13.10%	2018-2024	23 910 739	19 722 386
Sberbank of Russia	Euro	1.50%-3.40%	2024	2 112 037	2 060 204
Gazprombank	Russian rubles	1.00%*-10.85%	2019-2022	6 156 773	5 532 968
Gazprombank	Euro	1.20%-3.40%	2018-2019	188 147	188 852
Rosselkhozbank	Russian rubles	11.21%-15.10%	2018-2023	1 029 247	1 562 917
Bank VTB	Russian rubles	7.55%	2019	4 148 605	1 550 000
Bank VTB	Euro	2.01%	2018	232 890	219 727
Alfa bank	Russian rubles	1.00%*-9.75%	2019-2026	5 287 596	8 084 220
UniCredit Bank	Russian rubles	7.10%-9.23%	2018	4 000 000	4 872 000
Others	Russian rubles	-	2018	144	173
Total bank loans				**47 066 177**	**43 793 447**

* Low interest rates relate to subsidized borrowings under new government policy effective since 2017, see Note 8 of the consolidated financial statements for the year ended 31 December 2017.

Unused lines of credit

The total amount of unused credit on lines of credit as of 30 June 2018 is 49 049 590. The unused credit can be utilized from 2018 to 2022 with expiration of available amounts varying as follows: 2 998 951 expires by 31 December 2018, 10 198 211 expires by 31 December 2019, 26 531 900 expires by 31 December 2020, 2 029 390 expires by 31 December 2021 and 7 291 138 expires by 31 December 2022.

Covenants

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. The Group timely received waiver stating that the bank will not demand an early repayment of the loan and interest payable. The Group is in compliance with all other covenants as at 30 June 2018.

16. 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 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018		31 December 2017	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets not measured at fair value				
Amortised cost				
Notes receivable (current and non-current)	310 000	315 256	610 000	596 584
Long-term deposits in banks	641 365	711 832	641 365	657 817
Other non-current assets	127 344	127 344	556 800	539 725
Trade receivables	4 562 623	4 562 623	4 448 735	4 448 735
Other receivables	1 228 725	1 228 725	836 563	836 563
Other current assets	144 744	144 744	30 965	30 965
Restricted cash	145 662	145 662	740 848	740 848
Cash and cash equivalents	1 361 575	1 361 575	704 676	704 676
	8 522 038	**8597 761**	**8 569 952**	**8 555 913**
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings, including finance lease*	52 724 427	53 426 268	50 014 731	49 270 902
Trade payables	8 994 016	8 994 016	9 018 376	9 018 376
Payables for non-current assets	1 386 411	1 386 411	1 912 620	1 912 620
Payroll related liabilities	1 617 964	1 617 964	1 816 396	1 816 396
Other payables and accruals	895 520	895 520	395 571	395 571
	65 618 338	**66 320 179**	**63 157 694**	**62 413 865**

* As at 30 June 2018 the Group used 8.6% (as at 31 December 2017: 10.0%) as market rate of cost of debt for the fair value estimation (for borrowings nominated in RUB). That rate excludes the effect of subsidies.

(in thousands of Russian rubles, unless otherwise indicated)

17. Related parties

The Company and its subsidiaries enter into various transactions with related parties such as the sale and purchase of inventory, purchase of property, plant and equipment and others. In addition, the Group enters into financing transactions with related parties.

Transactions with key management personnel

Key management personnel of the Group are all members of Board of Directors and members of Management Board. The remuneration of key management personnel during the six months ended 30 June 2018 and 2017 were as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Salaries and bonuses	219 660	172 092

Transactions with entities under common control

Trading transactions with related parties mostly comprised the sale of sausages, raw meat and poultry to a retail chain “Myasnov” and lease of certain production and office space to “Myasnov” and other entities under common control.

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”, an entity under common control.

Balances with companies under common control are summarized as follows:

Balances	30 June 2018	31 December 2017
Trade receivables	201 553	260 718
Other non-current assets	92 620	98 587
Advances paid	3 604	3 604
Other receivables	5 861	6 502
Closed unit investment fund (presented within other non-current assets)	317 557	280 596
Trade payables	21 270	13 376
Advances received	8 494	17 522
Payables for non-current assets	-	124
Other payables and accruals	399	173

Transactions with companies under common control are summarized as follows:

Transactions	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Revenue	1 312 323	1 314 536	2 595 805
Rent income	99 141	96 190	194 247
Purchases of property, plant and equipment	13 853	14 686	29 686
Purchases of goods and other services	7 582	19 627	28 172

(in thousands of Russian rubles, unless otherwise indicated)

17. Related parties continued

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, which was subsequently transferred to investments in joint ventures during the six months ended 30 June 2018.

Balances with joint ventures are summarized as follows:

Balances	**30 June 2018**	**31 December 2017**
Trade receivables	22 084	56 369
Advances paid	41 655	12 678
Other receivables	-	1 280
Long-term loans receivable (presented within other non-current assets)	-	389 803
Trade payables	573 991	331 298
Other payables for investments in joint ventures*	334 761	-

*the payables balance relates to the capital contribution to be paid to the joint venture by 31 December 2018.

Transactions with joint ventures are summarized as follows:

Transactions	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**	**Year ended 31 December 2017**
Revenue	62 093	293 826	839 140
Rent income	-	1 347	1 347
Purchases of property, plant and equipment	-	-	722
Purchases of goods and other services	2 754 340	1 643 738	4 260 303

18. Contingencies

At the reporting date, the Group is litigating the results of recent field tax audits of certain subsidiaries of the Group done by the regional tax authorities. Management is of the opinion that no material losses will be incurred as a result of these litigations and accordingly no provision has been made in these condensed consolidated interim financial statements. Management estimates that the Group’s possible exposure in relation to the aforementioned tax audits will not exceed 5% of the Group’s profit for the six months ended 30 June 2018.

There were no other material changes from the year-end.

19. Subsequent events

In July 2018, the Group has signed a letter of intention to acquire 100% of shares of JSC “Altaisky Broiler”.