PJSC Cherkizovo Group

Consolidated Financial Statements
for the year ended 31 December 2018 and
Independent Auditor's Report

Contents

PJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, 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 2018 were approved by Management on 14 February 2019.

On behalf of the Management:

Sergei Mikhailov
Chief Executive Officer

Ludmila Mikhailova
Chief Financial Officer

AO Deloitte & Touche CIS
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Russia

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of PJSC Cherkizovo Group (the "Company") and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for 2018 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 2018 the carrying values of current and non-current biological assets related to pork segment were RUB 7 628 296 thousand and RUB 2 637 746 thousand respectively (2017: RUB 6 100 813 thousand and RUB 2 259 409 thousand) and the carrying value of current biological assets related to poultry segment was RUB 6 003 621 thousand (2017: RUB 3 897 572 thousand). Biological assets are stated at fair value less estimated costs to sell. At 31 December 2018 the effect of fair value adjustment on the carrying value of biological assets was RUB 6 583 555 thousand (2017: RUB 4 457 066 thousand). Further details are provided in Notes 4 and 15 to the consolidated financial statements. We focused on this area as a key audit matter because the assessment of the fair value using valuation techniques involves complex and significant judgements about future poultry and pork prices as well as the projected costs, and because the valuation is particularly sensitive to these assumptions.	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. 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.

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.

Srbuhi Hakobyan,
Engagement partner

14 February 2019

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.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	2018	2017*
Revenue	5	102 639 145	90 465 069
Net change in fair value of biological assets	15	1 836 336	734 141
Net revaluation of harvested crops in stock	15	2 242 187	(882 259)
Cost of sales	6	(74 794 308)	(66 758 340)
Gross profit		**31 923 360**	**23 558 611**
Selling, general and administrative expenses	7	(16 549 987)	(13 936 562)
Other operating income, net		238 537	324 898
Share of loss of joint ventures and associates	16	(56 778)	(221 325)
Operating profit		**15 555 132**	**9 725 622**
Interest income		289 785	277 148
Interest expense, net	8	(3 266 694)	(3 663 093)
Other expenses, net	9	(785 015)	(384 002)
Profit before income tax		**11 793 208**	**5 955 675**
Income tax benefit (expense)	10	187 091	(307 600)
Profit for the year and total comprehensive income		**11 980 299**	**5 648 075**
Profit and total comprehensive income attributable to:			
Cherkizovo Group		12 004 027	5 800 371
Non-controlling interests		(23 728)	(152 296)
Earnings per share			
Weighted average number of shares outstanding – basic and diluted:		41 047 014	42 760 328
Net income attributable to Cherkizovo Group per share – basic and diluted (in Russian rubles):		292.45	135.65

*The Group has re-presented comparative information for the year ended 31 December 2017 due to the change in presentation of Net change in fair value of biological assets and agricultural produce line (Note 2).

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

Consolidated statement of financial position

As at 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	82 766 158	75 318 770
Investment property	12	594 858	589 411
Goodwill	13	1 254 572	1 254 572
Intangible assets	14	2 143 865	2 014 358
Non-current biological assets	15	2 673 452	2 288 524
Notes receivable, net		-	310 000
Investments in joint ventures and associates	16	3 518 031	2 185 147
Long-term deposits in banks	17	641 365	641 365
Restricted cash	11	108 762	740 848
Deferred tax assets	10	1 073 214	754 192
Rights to claim debt	30	4 685 209	-
Other non-current assets	29	678 405	804 322
Total non-current assets		**100 137 891**	**86 901 509**
Current assets			
Biological assets	15	15 394 856	11 566 300
Inventories	18	12 429 008	9 971 811
Taxes recoverable and prepaid	19	1 908 669	2 264 482
Trade receivables, net	20	5 732 868	4 448 735
Advances paid, net		875 156	1 415 099
Other receivables, net	21	1 523 442	836 563
Cash and cash equivalents	22	9 612 582	704 676
Other current assets	23	563 192	535 087
Total current assets		**48 039 773**	**31 742 753**
TOTAL ASSETS		**148 177 664**	**118 644 262**

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

Consolidated statement of financial position continued

As at 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	Notes	31 December 2018	31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	24	440	440
Treasury shares	24	(3 724 561)	(3 724 561)
Additional paid-in capital	24	5 611 444	5 588 320
Retained earnings		57 931 797	49 849 812
Total shareholder's equity		**59 819 120**	**51 714 011**
Non-controlling interests	25	989 986	1 065 846
Total equity		**60 809 106**	**52 779 857**
Non-current liabilities			
Long-term borrowings	26	44 643 317	30 603 110
Provisions		-	58 131
Deferred tax liability	10	995 521	1 064 814
Other liabilities		363	3 272
Total non-current liabilities		**45 639 201**	**31 729 327**
Current liabilities			
Short-term borrowings	26	24 169 639	19 411 621
Trade payables		10 830 231	9 018 376
Advances received		576 025	616 371
Payables for non-current assets		1 216 255	1 912 620
Tax related liabilities	27	1 324 720	964 123
Payroll related liabilities		2 707 145	1 816 396
Other payables and accruals		905 342	395 571
Total current liabilities		**41 729 357**	**34 135 078**
Total liabilities		**87 368 558**	**65 864 405**
TOTAL EQUITY AND LIABILITIES		**148 177 664**	**118 644 262**

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

Consolidated statement of changes in equity

For the year ended 31 December 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 year and total comprehensive income	-	-	-	-	-	5 800 371	**5 800 371**	(152 296)	**5 648 075**
Additional non-controlling interests recognized on acquisition of subsidiaries (Note 30)	-	-	-	-	-	-	**-**	191 862	**191 862**
Purchase of treasury shares (Note 24)	-	-	(3 646 528)	(2 808 576)	-	-	**(3 646 528)**	-	**(3 646 528)**
Dividends (Note 24)	-	-	-	-	-	(3 453 970)	**(3 453 970)**	-	**(3 453 970)**
Balances at 31 December 2017	**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 year and total comprehensive income	-	-	-	-	-	12 004 027	**12 004 027**	(23 728)	**11 980 299**
Purchase of non-controlling interests	-	-	-	-	23 124	-	**23 124**	(52 132)	**(29 008)**
Dividends (Note 24)	-	-	-	-	-	(3 922 042)	**(3 922 042)**	-	**(3 922 042)**
Balances at 31 December 2018	**440**	**43 963 773**	**(3 724 561)**	**(2 916 759)**	**5 611 444**	**57 931 797**	**59 819 120**	**989 986**	**60 809 106**

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

Consolidated statement of cash flows

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

	2018	2017*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**11 793 208**	**5 955 675**
Adjustments for:		
Depreciation and amortization	6 045 330	5 153 486
Bad debt expense	118 281	282 148
Foreign exchange loss, net	829 060	390 426
Interest income	(289 785)	(277 148)
Interest expense, net	3 266 694	3 663 093
Net change in fair value of biological assets	(1 836 336)	(734 141)
Net revaluation of harvested crops in stock	(2 242 187)	882 259
(Gain) loss on disposal of property, plant and equipment, net	(46 803)	106 321
Gain on disposal of non-current biological assets, net	(191 733)	(423 512)
Share of loss of joint ventures and associates	56 778	221 325
Other adjustments, net	(54 052)	(14 392)
Operating cash flows before working capital and other changes	**17 448 455**	**15 205 540**
(Increase) decrease in inventories	(713 195)	1 259 252
Increase in biological assets	(764 004)	(489 539)
(Increase) decrease in trade receivables	(1 278 773)	384 564
Decrease (increase) in advances paid	535 979	(169 281)
Decrease (increase) in other receivables and other current assets	626 480	(333 616)
Decrease (increase) in other non-current assets	62 331	(113 739)
Increase in trade payables	1 321 392	48 691
Increase in tax related liabilities (other than income tax)	507 747	50 889
Increase in other current payables	617 989	445 491
Operating cash flows before interest and income tax	**18 364 401**	**16 288 252**
Interest received	245 414	143 745
Interest paid	(4 159 815)	(3 444 545)
Government grants for compensation of interest expense received	332 891	541 187
Income tax paid	(605 889)	(512 430)
Net cash from operating activities	**14 177 002**	**13 016 209**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9 180 580)	(9 881 600)
Purchase of non-current biological assets	(943 840)	(1 017 577)
Purchase of intangible assets	(431 246)	(372 470)
Proceeds from sale of property, plant and equipment	181 217	30 880
Proceeds from disposal of non-current biological assets	993 047	1 028 836
Acquisitions of subsidiaries, net of cash acquired	(5 646 243)	(4 768 059)
Investments in joint ventures and acquisitions of associates	(578 673)	(345 000)
Placing of deposits and issuance of loans	(100 607)	(412 470)
Placing of notes receivable	-	(100 000)
Repayment of loans issued and notes receivable and redemption of deposits	387 500	150 050
Net cash used in investing activities	**(15 319 425)**	**(15 687 410)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	30 007 072	20 542 792
Repayment of long-term loans	(21 056 406)	(10 378 936)
Proceeds from short-term loans	22 263 112	11 555 329
Repayment of short-term loans	(17 212 399)	(12 246 483)
Purchase of treasury shares	-	(3 646 528)
Dividends paid	(3 922 042)	(3 453 970)
(Purchase) disposal of non-controlling interests	(29 008)	1 470
Net cash generated from financing activities	**10 050 329**	**2 373 674**
Net increase (decrease) in cash and cash equivalents	**8 907 906**	**(297 527)**
Cash and cash equivalents at the beginning of the year	**704 676**	**1 002 203**
Cash and cash equivalents at the end of the year	**9 612 582**	**704 676**

Non-cash transactions:

- In December 2018 the Group acquired Rosselkhozbank's rights to claim debt (loans) from LLC "Belaya ptitsa-Kursk" (further "Belaya Ptitsa Kursk") and related security agreements (Note 30). To finance the transaction the Group assumed a five-year rubles-denominated loan from Rosselkhozbank. No cash was received or provided with respect to the two transactions with Rosselkhozbank, and therefore the acquisition did not impact the Group's cash position.
- 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.

*The Group has re-presented comparative information for the year ended 31 December 2017 due to the change in presentation of Net change in fair value of biological assets and agricultural produce line (Note 2).

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

(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 ultimate controlling party of PJSC Cherkizovo Group is Mikhailov family who jointly control the Company.

At 31 December 2018 and 2017 the Group included the following principal companies:

Name of company	Legal form	Nature of business	% 31.12.2018	% 31.12.2017
JSC Cherkizovsky Meat Processing Plant (JSC CMPP)	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%
JSC Petelinskaya	Joint Stock Company	Raising poultry**	88%	88%
JSC Vasiljevskaya	Joint Stock Company	Raising poultry	100%	100%
OJSC Kurinoe Tsarstvo	Open Joint Stock Company	Raising poultry	100%	100%
JSC Kurinoe Tsarstvo Bryansk	Joint Stock Company	Raising poultry	100%	100%
JSC Mosselprom	Joint Stock Company	Raising poultry	100%	100%
LLC Lisko Broiler	Limited Liability Company	Raising poultry	100%	100%
JSC Altaisky Broiler*	Joint Stock Company	Raising poultry	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%	100%
JSC Lipetskmyaso	Joint Stock Company	Grain crops cultivation	100%	100%

* In 2018 the Group acquired JSC Altaisky Broiler (see Note 30). Whilst the Group also acquired production facilities of Krasnoyaruzhsky Broiler and accounted for it as a business combination, no separate legal entity was acquired.

** 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 eight meat processing plants, sixteen pig production complexes, nine poultry production complexes, nine combined fodder production plants and more than 290 000 hectares of agricultural land.

The Group's assets and distribution network is spread across European and Siberian parts of Russia.

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 2018 and 2017 the number of staff employed by the Group approximated 23 496 and 23 158, 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.

(in thousands of Russian rubles, unless otherwise indicated)

2. Significant accounting policies

Statement of compliance

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

Change in presentation

The Group has changed presentation of gains and losses arising on initial recognition of harvested crops at fair value less costs to sell in the statement of profit or loss and other comprehensive income. Pursuant to the Group’s revised presentation policy, the Group now presents such gains and losses in a separate line “Net revaluation of harvested crops in stock” in profit or loss. Prior to this change, they were presented in “Net change in fair value of biological assets and agricultural produce” together with gains and losses arising on revaluation of biological assets. Consequently, the line “Net change in fair value of biological assets and agricultural produce” was renamed to “Net change in fair value of biological assets”. Management of the Group believes that the changed presentation introduces additional granularity that will be useful to users of the financial statements due to different nature of gains and losses arising from change in fair value of biological assets and gains and losses arising on initial recognition of harvested crops at fair value less costs to sell.

The Group has retrospectively applied the new presentation and, therefore, comparative information has been retrospectively re-presented. The effect of the change in presentation on the consolidated statement of profit or loss and other comprehensive income and consolidated cash flow statement for the year ended 31 December 2017 was as follows:

	2017 (as previously reported)	Change in presentation	2017 (as re-presented)
Net change in fair value of biological assets and agricultural produce	(148 118)	148 118	-
Net change in fair value of biological assets	-	734 141	734 141
Net revaluation of harvested crops in stock	-	(882 259)	(882 259)

Basis of preparation

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

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

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

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

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

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

2. Significant accounting policies continued

Functional and presentation currency

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

Foreign currency transactions

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

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

Going concern

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

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

Basis of consolidation

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

Control is achieved when the Company:

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

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

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

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

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

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

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

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

2. Significant accounting policies continued

Business combinations

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.

2. Significant accounting policies continued

Investments in joint ventures and associates

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.

An entity is considered an associate if the Group has significant influence over its financial and operating activities. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group reports its interests in joint ventures and associates 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.

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

Property, plant and equipment

Owned assets

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

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

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property, plant and equipment are recognized net in other income in profit or loss.

Repairs and maintenance

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

Depreciation

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

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

2. Significant accounting policies continued

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

Investment property

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

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

Inventories

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

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

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

2. Significant accounting policies continued

Biological assets and agricultural produce

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

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

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

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each reporting date as a fair value adjustment. The change in this adjustment from one period to another is recognized as "Net change in fair value of biological assets" 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 harvested crops at fair value less costs to sell is recognized as "Net revaluation of harvested crops in stock" in profit or loss and for items sold is presented on net basis as a reduction of the line "Cost of sales". A gain or loss arising on initial recognition of other agricultural produce is recognized as "Net change in fair value of biological assets" and for items sold is presented on net basis as a reduction of the line "Cost of sales".

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

Biological assets

(i) Broilers

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

(ii) Breeders (laying hens and replacement flock)

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

(iii) Market hogs

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

(iv) Sows

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

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

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

Agricultural produce

(i) Dressed poultry and pork

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

(ii) Crops

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

2. Significant accounting policies continued

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

Revenue recognition

The Group derives its revenue from five main sources: sale of processed meat, poultry, pork, grain crops and feed. Disaggregation of revenue is consistent with the revenue information that is disclosed for each reportable segment. 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.

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 the reimbursement of interest expense on qualifying loans, which is received directly by the Group ("interest subsidies") and for the reimbursement of interest expense through accredited banks, who provide loans to agricultural producers at reduced rates not exceeding 5% per annum on Rouble-denominated loans ("reduced rate lending subsidy"). The difference between market rate and the reduced rate equals the Key rate of the Bank of Russia ("the Key rate") and is compensated by the Ministry of Agriculture to the accredited banks. If Ministry of Agriculture will not compensate the interest expense accrued during the interest period (typically month or quarter) due to lack of available funds or due to any other reason, than the bank can unilaterally increase the interest rate payable by the Group by the Key rate. The Group records interest and reduced rate lending 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.

2. Significant accounting policies continued

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 has implemented a long-term employee bonus plan for its key employees according to which the amount of bonus is determined by reference to the Group's cumulative financial results for 2017-2018 financial years and is payable in two tranches during 2019. To qualify for the bonus employees are required to remain in service until each payment date. The Group starts to recognize the amount of bonus only when it is probable that the performance conditions will be achieved and an outflow of economic benefits will be required to settle the obligation. At that date the Group recognises the cumulative expense related to past service period and starts recognising the remaining expense over the residual period of service, which includes the period until the payment date.

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).

2. Significant accounting policies continued

Cash and cash equivalents

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

Provisions

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

Share capital

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

Treasury shares

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

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

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

2. Significant accounting policies continued

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.

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.

(in thousands of Russian rubles, unless otherwise indicated)

3. New and revised International financial reporting standards

IFRSs and IFRIC interpretations adopted in the current year

The Group has adopted all IFRSs and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. 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.

IFRS 9 “Financial Instruments”

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 31 December 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.

IFRS 15 “Revenue from Contracts with Customers”

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.

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 2019 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 16 “Leases”	1 January 2019
IFRS 17 “Insurance Contracts”	1 January 2021
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 9 – Prepayment Features With Negative Compensation	1 January 2019
Amendments to IAS 19 – Employee Benefits Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

IFRS 16 *Leases*

General impact of application of 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.

3. New and revised international financial reporting standards continued

The date of initial application of IFRS 16 for the Group will be 1 January 2019. According to the transition provisions of IFRS 16, the Group will apply the modified retrospective method of transition with liabilities measured at the present value of the remaining lease payments, discounted using incremental borrowing rate at 1 January 2019, and right-of-use assets measured as an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. In accordance with this method the Group will not restate comparative information for the previous period.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has noncancellable operating lease commitments of 3 267 750 (Note 31). A preliminary assessment indicates that all of these arrangements relate to leases other than short term leases and leases of low value assets, and hence the Group will recognise a right of use asset of approximately 1 400 000 and a corresponding lease liability in respect of all these leases. The impact on profit or loss is to decrease Selling, general and administrative expenses by approximately 300 000, to increase depreciation by approximately 200 000 and to increase Interest expense by approximately 100 000.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by approximately 200 000 and to increase net cash used in financing activities by the same amount.

3. New and revised international financial reporting standards continued

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the management of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

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 management of the Group do not anticipate that the application of the amendments in the future will have an 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 management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

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 do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

3. New and revised international financial reporting standards continued

Annual Improvements to IFRS Standards 2015–2017 Cycle

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group’s consolidated financial statements.

4. Key sources of estimation uncertainty

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

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.

(in thousands of Russian rubles, unless otherwise indicated)

4. Key sources of estimation uncertainty continued

Fair value is determined using Level 3 of fair value hierarchy and the following key unobservable inputs:

Description	Fair value as at 31 December 2018	Valuation technique	Unobservable inputs	Value of unobservable inputs	Relationship of unobservable inputs to fair value
Broilers	2 909 525	Discounted cash flows	Average weight of one broiler – kg	2.4	The higher the weight, the higher the fair value
			Poultry meat price – rubles	109.5	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	81.9	The higher the costs, the lower the fair value
Breeders held for hatchery eggs production	3 094 096	Discounted cash flows	Number of hatchery eggs produced by one breeder	157	The higher the number, the higher the fair value
			Hatchery egg price – rubles	18.8	The higher the price, the higher the fair value
			Projected production costs of hatchery egg – rubles	7.8	The higher the costs, the lower the fair value
Sows	2 637 746	Discounted cash flows	Average number of piglets produced by one sow	34.7	The higher the number, the higher the fair value
			Market price of weaned piglet – rubles	2 215	The higher the price, the higher the fair value
			Discount rate	13.1%	The higher the discount rate, the lower the fair value
Market hogs	7 628 296	Discounted cash flows	Average weight of one market hog – kg	124.8	The higher the weight, the higher the fair value
			Pork meat price – rubles per kg	95.0	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	68.3	The higher the costs, the lower the fair value
Unharvested crops (except for year-end)	782 411	Discounted cash flows	Crops yield – ton/Ha	Not applicable for year-end	The higher the yield, the higher the fair value
			Selling price	Not applicable for year-end	The higher the price, the higher the fair value
			Projected production costs	Not applicable for year-end	The higher the costs, the lower the fair value

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

- Expected 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 2018 Pork		31 December 2018 Poultry	
	10% increase	10% decrease	10% increase	10% decrease
Expected selling prices	1 884 817	(1 880 581)	1 255 702	(1 258 371)
Projected production costs and costs to sell	(1 248 396)	1 248 066	(774 692)	770 926

4. Key sources of estimation uncertainty continued

Recognition of subsidies receivable for interest expense reimbursement

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. 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 complies with the conditions attached to that project.

The balance of subsidies receivable at 31 December 2018 is 985 344 and consists of only subsidies accrued in 2018 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.

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 2018 was 1 215 509 (31 December 2017: 1 215 509). No impairment loss was recognised during 2018 and 2017. 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.

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** operations include the production of two distinctive product lines: the Sausages product line, which comprises a wide range of processed meat products, including sausages, ham, hot dogs, etc., and the 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 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 2. Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision maker.

As previously reported in the interim condensed consolidated financial statements for the six months ended 30 June 2018, starting from 1 January 2018, the Group changed the definition of Adjusted EBITDA and included the effect of unsold harvest in calculation, which is revalued at the year-end. 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.

In the fourth quarter of 2018, the Group further adjusted the definition to align management accounting policy with IFRS accounting and now Adjusted EBITDA includes revaluation of unsold harvest at fair value less costs to sell at the harvest date. In addition, the Group has adjusted for the bonuses to employees under long-term incentive program, recognised for the first time in 2018.

This means that the Adjusted EBITDA 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, bonuses to employees under long-term incentive program and share of loss of joint ventures and associates plus share of Adjusted EBITDA of joint ventures and associates and depreciation and amortisation accumulated in harvested crops in stock.

Adjusted EBITDA for the year ended 31 December 2018 was calculated under the new policy and is presented in the table below. The comparative information 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)

5. **Operating segments** continued

Segment information for the year ended at 31 December 2018 comprised:

	Meat-processing	**Pork**	**Poultry**	**Grain**	**Feed**	**Total reportable segments**	**Corporate**	**Intersegment**	**Total without Turkey**	**Turkey**	**Total consolidated**
Total sales	38 438 972	23 576 166	53 797 241	6 986 006	31 738 006	154 536 391	775 725	(58 487 602)	96 824 514	5 814 631	102 639 145
including other sales	669 872	313 946	1 074 548	86 972	527 583	2 672 921	775 725	(1 231 845)	2 216 801	-	2 216 801
including sales volume discounts	(682 375)	-	(709 085)	-	-	(1 391 460)	-	-	(1 391 460)	(81 738)	(1 473 198)
Intersegment sales	(179 261)	(20 529 684)	(1 877 449)	(3 989 632)	(31 210 423)	(57 786 449)	(448 281)	58 487 602	252 872	(252 872)	-
Sales to external customers	38 259 711	3 046 482	51 919 792	2 996 374	527 583	96 749 942	327 444	-	97 077 386	5 561 759	102 639 145
Net change in fair value of biological assets	-	899 056	1 264 368	-	-	2 163 424	-	(327 088)	1 836 336	-	1 836 336
Net revaluation of harvested crops in stock	-	-	-	1 297 189	-	1 297 189	-	944 998	2 242 187	-	2 242 187
Cost of sales	(34 202 152)	(13 290 802)	(41 561 439)	(6 133 969)	(30 977 130)	(126 165 492)	(554 659)	57 052 214	(69 667 937)	(5 126 371)	(74 794 308)
Gross profit (loss)	**4 236 820**	**11 184 420**	**13 500 170**	**2 149 226**	**760 876**	**31 831 512**	**221 066**	**(817 478)**	**31 235 100**	**688 260**	**31 923 360**
Operating expense*	(4 712 174)	(769 307)	(6 097 666)	(431 126)	(423 605)	(12 433 878)	(3 726 500)	463 082	(15 697 296)	(614 154)	(16 311 450)
Share of loss of joint ventures and associates	-	-	-	-	-	-	-	-	-	(56 778)	(56 778)
Operating (loss) income	**(475 354)**	**10 415 113**	**7 402 504**	**1 718 100**	**337 271**	**19 397 634**	**(3 505 434)**	**(354 396)**	**15 537 804**	**17 328**	**15 555 132**
Other (expense) income, net**	(451 460)	61 114	118 881	2 691	(221 018)	(489 792)	147 849	(153 287)	(495 320)	-	(495 320)
Interest expense, net	(121 756)	(588 028)	(621 387)	(172 516)	(870 766)	(2 374 453)	(1 045 528)	153 287	(3 266 694)	-	(3 266 694)
(Loss) profit before income tax	**(1 048 570)**	**9 888 199**	**6 899 998**	**1 548 275**	**(754 513)**	**16 533 389**	**(4 403 113)**	**(354 396)**	**11 775 880**	**17 328**	**11 793 208**
Adjustments for:											
Interest expense, net	121 756	588 028	621 387	172 516	870 766	2 374 453	1 045 528	(153 287)	3 266 694	-	3 266 694
Interest income	(19 991)	(64 279)	(171 402)	(2 146)	(55 380)	(313 198)	(129 874)	153 287	(289 785)	-	(289 785)
Foreign exchange loss (gain)	484 364	10 416	74 279	(192)	277 409	846 276	(17 216)	-	829 060	-	829 060
Depreciation and amortisation expense	882 526	1 338 876	2 056 073	809 172	609 025	5 695 672	346 839	-	6 042 511	2 819	6 045 330
Net change in fair value of biological assets	-	(899 056)	(1 264 368)	-	-	(2 163 424)	-	327 088	(1 836 336)	-	(1 836 336)
Share of loss of joint ventures and associates	-	-	-	-	-	-	-	-	-	56 778	56 778
Share of adjusted EBITDA of joint ventures and associates***	-	-	-	-	-	-	-	-	-	165 415	165 415
Bonuses to employees under long-term incentive program	38 763	40 090	171 990	8 353	19 206	278 402	373 100	-	651 502	6 889	658 391
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	(272 508)	-	(272 508)	-	-	(272 508)	-	(272 508)
Adjusted EBITDA	**458 848**	**10 902 274**	**8 387 957**	**2 263 470**	**966 513**	**22 979 062**	**(2 784 736)**	**(27 308)**	**20 167 018**	**249 229**	**20 416 247**
Supplemental information:											
Segment capital expenditure	2 181 464	3 882 879	2 019 862	389 594	299 674	8 773 473	979 019		9 752 492		9 752 492
Income tax (benefit) expense	(375 528)	2 471	88 334	103 790	14 124	(166 809)	(20 282)	-	(187 091)	-	(187 091)

* 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.

*** Adjusted EBITDA of joint ventures and associates includes only adjusted EBITDA of Tambov Turkey JV, being the only material equity investment of the Group. Adjusted EBITDA is calculated consistently to that of the Group and reported to the CODM as part of segment reporting.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

5. **Operating segments** continued

Segment information for the year ended at 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 assets	-	651 235	(71 239)	154 145	-	734 141	-	-	734 141	-	734 141
Net revaluation of harvested crops in stock	-	-	-	(890 759)	-	(890 759)	-	8 500	(882 259)	-	(882 259)
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 expense*	(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 joint ventures and associates	-	-	-	-	-	-	-	-	-	(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 (expense), 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 assets	-	(651 235)	71 239	(154 145)	-	(734 141)	-	-	(734 141)	-	(734 141)
Share of loss of joint ventures and associates	-	-	-	-	-	-	-	-	-	221 325	221 325
Share of adjusted EBITDA of joint ventures and associates***	-	-	-	-	-	-	-	-	-	83 448	83 448
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	186 900	-	186 900	-	-	186 900	-	186 900
Adjusted EBITDA	**2 408 450**	**6 806 277**	**7 122 202**	**(1 094 155)**	**1 661 340**	**16 904 114**	**(2 385 901)**	**108 131**	**14 626 344**	**16 720**	**14 643 064**
Supplemental information:											
Segment capital expenditure	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 expense and other operating income, net.
** Other income (expense), net presents interest income and other income/expense as a combined line item.
*** Adjusted EBITDA of joint ventures and associates includes only adjusted EBITDA of Tambov Turkey JV, being the only material equity investment of the Group. Adjusted EBITDA 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)

6. Cost of sales

Cost of sales for the years ended 31 December 2018 and 2017 comprised:

	2018	2017
Raw materials and goods for resale	50 332 407	45 698 526
Personnel (excluding pension costs)	9 550 062	8 475 295
Depreciation	5 414 452	4 579 762
Utilities	3 945 140	3 724 341
Pension costs	1 959 121	1 635 641
Other	3 593 126	2 644 775
Total cost of sales	**74 794 308**	**66 758 340**

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 48 410 and 19 074 for the years ended 31 December 2018 and 2017, 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 2018 and 2017 comprised:

	2018	2017
Personnel (excluding pension costs)	5 307 384	5 058 221
Transportation	2 695 018	2 082 335
Advertising and marketing	1 087 946	701 601
Taxes (other than income tax)	1 049 877	925 683
Pension costs	858 536	639 892
Bonuses to employees under long-term incentive program*	658 392	-
Materials and supplies	657 468	721 796
Depreciation and amortization	630 878	573 724
Security services	461 914	436 679
Rent expenses	449 335	401 205
Audit, consulting and legal fees	310 325	228 319
Information technology and communication services	287 309	260 720
Utilities	265 226	246 354
Veterinary services	163 572	156 073
Insurance	155 745	167 106
Change in bad debt allowance and other write-off	118 281	282 148
Repairs and maintenance	78 698	88 780
Bank charges	40 891	23 342
Other	1 273 192	942 584
Total selling, general and administrative expenses	**16 549 897**	**13 936 562**

* In 2017 the Group entered into long-term remuneration agreement with key employees of the Group. Under the terms of the arrangement, the Group agreed to pay a one-time bonus in 2019 if the Group's financial performance will achieve target level for 2017 and 2018 on cumulative basis and employee will continue to serve the Group until the date of bonus distribution. Until the fourth quarter of 2018 the achievement of the result was not probable based on management estimates. In the fourth quarter of 2018 the Group achieved the target due to favourable market conditions.

(in thousands of Russian rubles, unless otherwise indicated)

8. Interest expense, net

Interest expense, net for the years ended 31 December 2018 and 2017 comprised:

	2018	2017
Interest on bank overdrafts and loans*	4 853 118	4 429 247
Interest on obligations under finance leases	40 524	55 533
Less: amounts included in the cost of qualifying assets	(290 034)	(815 344)
Total interest expense	**4 603 608**	**3 669 436**
Government grants for compensation of interest expenses accrued*	(1 519 147)	(973 499)
Less: government grants written-off**	-	571 087
Less: amounts included in the cost of qualifying assets	182 233	396 069
Total government grants for compensation of interest expenses	**(1 336 914)**	**(6 343)**
Total interest expense, net	**3 266 694**	**3 663 093**

* Starting from 1 January 2017 the Group receives government grants through accredited banks, who provide loans to agricultural producers at reduced rates not exceeding 5% per annum on Rouble-denominated loans (“reduced rate lending subsidy”). The difference between market rate and the reduced rate equals the Key rate of the Bank of Russia and is compensated by Ministry of Agriculture to the accredited banks. The Group presents such subsidy in the table above gross of related interest expense in the amount of 537 386.

** 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.

9. Other expenses, net

Other expenses, net for the years ended 31 December 2018 and 2017 comprised:

	2018	2017
Foreign exchange loss	(829 060)	(390 426)
Other income, net	44 045	6 424
Total other expenses, net	**(785 015)**	**(384 002)**

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% for generally taxed entities and 10% for other tax regimes.

The main components of income tax for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Current tax expense	(201 224)	(563 511)
Deferred tax benefit	388 315	255 911
Total income tax benefit (expense)	**187 091**	**(307 600)**

The income tax expense can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2018 and 2017 as follows:

	2018	2017
Profit before income tax	11 793 208	5 955 675
Profit before income tax of entities taxed at zero rates (agricultural entities)	13 860 968	7 969 939
Profit before income tax of entities taxed at 10% (other tax regimes)	281 189	-
Loss before income tax of generally taxed entities	(2 348 950)	(2 014 264)
Statutory income tax rate (agricultural entities)	0%	0%
Statutory income tax rate (other tax regimes)	10%	0%
Statutory income tax rate (general)	20%	20%
Theoretical income tax benefit at the statutory tax rates	(441 671)	(402 853)
Expenses not deductible for Russian statutory taxation purposes	185 497	178 584
Withholding taxes paid	-	161 516
Additional income tax accrued for prior years	43 287	97 561
Penalties	-	150 982
Other	25 796	121 810
Income tax (benefit) expense	**(187 091)**	**307 600**

(in thousands of Russian rubles, unless otherwise indicated)

10. **Income tax** continued

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2018 and 2017:

	31 December 2018	31 December 2017
Deferred tax asset	1 073 214	754 192
Deferred tax liability	(995 521)	(1 064 814)
Net deferred tax asset (liability)	**77 693**	**(310 622)**

The movement in the net deferred tax liability for the year ended 31 December 2018 comprised:

	31 December 2017	Recognised in profit or loss	31 December 2018
Property, plant and equipment and investment property	(1 266 701)	(7 514)	(1 274 215)
Trade receivables	(77 326)	11 497	(65 829)
Other assets and liabilities	39 533	(22 679)	16 854
Tax loss carry forward	993 872	407 011	1 400 883
Net deferred tax (liability) asset	**(310 622)**	**388 315**	**77 693**

The movement in the net deferred tax liability for the year ended 31 December 2017 comprised:

	1 January 2017	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)**

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.

(in thousands of Russian rubles, unless otherwise indicated)

11. Property, plant and equipment

The following table represents movements in property, plant and equipment for the years ended 31 December 2018 and 2017:

	Land and land lease rights	Buildings, infrastructure and leasehold improvements	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost							
Balance as at 1 January 2017	**2 748 147**	**44 919 931**	**25 737 929**	**4 890 487**	**244 401**	**9 224 779**	**87 765 674**
Additions	59 567	5 370 772	3 783 735	517 190	48 833	1 108 926	10 889 023
Acquisitions of subsidiaries	5 023 743	74 149	116 906	112 599	289	2 495	5 330 181
Disposals	(204 554)	(18 294)	(639 450)	(96 640)	(4 175)	(35 312)	(998 425)
As at 31 December 2017	**7 626 903**	**50 346 558**	**28 999 120**	**5 423 636**	**289 348**	**10 300 888**	**102 986 453**
Additions	98 024	6 419 570	5 450 294	866 988	50 205	(4 693 935)	8 191 146
Acquisitions of subsidiaries	3 321	3 598 086	1 496 552	82 399	326	18 074	5 198 758
Disposals	(164 243)	(207 382)	(766 948)	(118 249)	(25 390)	(16 693)	(1 298 905)
As at 31 December 2018	**7 564 005**	**60 156 832**	**35 179 018**	**6 254 774**	**314 489**	**5 608 334**	**115 077 452**
Accumulated depreciation or impairment loss							
Balance as at 1 January 2017	**-**	**(9 193 688)**	**(11 731 286)**	**(2 251 694)**	**(143 750)**	**-**	**(23 320 418)**
Depreciation charge	(15 061)	(1 736 809)	(2 511 834)	(645 291)	(56 221)	-	(4 965 216)
Eliminated on disposals	-	12 458	528 866	73 016	3 611	-	617 951
As at 31 December 2017	**(15 061)**	**(10 918 039)**	**(13 714 254)**	**(2 823 969)**	**(196 360)**	**-**	**(27 667 683)**
Depreciation charge	(19 958)	(2 015 335)	(2 806 471)	(701 583)	(53 383)	-	(5 596 730)
Eliminated on disposals	-	113 845	718 359	97 225	23 690	-	953 119
As at 31 December 2018	**(35 019)**	**(12 819 529)**	**(15 802 366)**	**(3 428 327)**	**(226 053)**	**-**	**(32 311 294)**
Carrying amounts							
At 31 December 2017	**7 611 842**	**39 428 519**	**15 284 866**	**2 599 667**	**92 988**	**10 300 888**	**75 318 770**
At 31 December 2018	**7 528 986**	**47 337 303**	**19 376 652**	**2 826 447**	**88 436**	**5 608 334**	**82 766 158**

Net book values of buildings, infrastructure and leasehold improvements include 40 291 and 62 247 of leased buildings and infrastructure as of 31 December 2018 and 2017, respectively. Net book values of vehicles and machinery and equipment include 176 981 and 314 768 of leased equipment as of 31 December 2018 and 2017, respectively.

Advances paid for acquisition and construction of property, plant and equipment are included in construction in progress in the amount of 531 804 and 1 365 858 as at 31 December 2018 and 2017, 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. Deposits on such accounts in the amount of 108 762 and 740 848 as at 31 December 2018 and 2017, respectively, 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.

(in thousands of Russian rubles, unless otherwise indicated)

12. Investment property

The Group's investment property consists of commercial units located in Vostochnoe Biryulevo region of Moscow and land plots. The changes in the carrying amount of investment property for the years ended 31 December 2018 and 2017 were as follows:

	Land	Buildings	Total
Cost			
Balance as at 1 January 2017	**274 949**	**229 533**	**504 482**
Reconstruction and modernisation	-	156 316	156 316
As at 31 December 2017	**274 949**	**385 849**	**660 798**
Reconstruction and modernisation	-	17 516	17 516
As at 31 December 2018	**274 949**	**403 365**	**678 314**
Accumulated depreciation or impairment loss			
Balance as at 1 January 2017	**-**	**(60 806)**	**(60 806)**
Depreciation charge	-	(10 581)	(10 581)
As at 31 December 2017	**-**	**(71 387)**	**(71 387)**
Depreciation charge	-	(12 069)	(12 069)
As at 31 December 2018	**-**	**(83 456)**	**(83 456)**
Carrying amounts			
At 31 December 2017	**274 949**	**314 462**	**589 411**
At 31 December 2018	**274 949**	**319 909**	**594 858**

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:

	2018	2017
Rental income from investment property	192 709	177 969
Direct operating expenses arising from investment property that generated rental income during the year	(196 186)	(159 711)
Operating (loss) profit from investment property	**(3 477)**	**18 258**

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:

	2018	2017
Meat-processing	250 247	250 247
Poultry	306 944	306 944
Grain	697 381	697 381
Total goodwill	**1 254 572**	**1 254 572**

The recoverable amount of Meat-processing, Poultry and Grain cash-generating units is determined based on a value in use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows beyond that period have been extrapolated using a steady 3.5% per annum growth rate. 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.

The key assumptions used for impairment testing of Goodwill allocated to Grain cash-generating unit are set out below.

In percent	**31 December 2018**
Discount rate	13.1%
Terminal value growth rate	3.5%
Average annual increase in prices (average of next five years)	1-4%

(in thousands of Russian rubles, unless otherwise indicated)

14. Intangible assets

The following table represents movements of intangible assets for the years ended 31 December 2018 and 2017:

	Computer software	Indefinite life trademarks	Other intangible assets	Total
Cost				
Balance at 1 January 2017	**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**
Additions	409 983	-	6 690	416 673
Balance at 31 December 2018	**1 860 559**	**1 215 509**	**172 709**	**3 248 777**
Accumulated amortisation and impairment loss				
Balance at 1 January 2017	**(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)**
Amortisation expense	(276 594)	-	(10 572)	(287 166)
Balance at 31 December 2018	**(982 868)**	**-**	**(122 044)**	**(1 104 912)**
Carrying amounts				
At 31 December 2017	**744 302**	**1 215 509**	**54 547**	**2 014 358**
At 31 December 2018	**877 691**	**1 215 509**	**50 665**	**2 143 865**

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 2018 and 2017.

As of 31 December 2018 and 2017, 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 2018	31 December 2017
Discount rate	18.1%	19.1%
Terminal value growth rate	3.5%	3.5%
Royalty rate	3.3%	3.3%
Trademark revenue growth rate (average of next five years)	4.4%	4.4%

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 2018 and 2017.

As of 31 December 2018 and 2017, management tested the Cherkizovo trademark for impairment and determined that the trademark was not impaired. The fair value was determined using a relief from royalty method based on current year actual sales by trademark and royalty rate of 3.3%. Potential royalty from one-year sales covers the carrying value of the trademark and therefore the Group did not make a detailed calculation for the whole life of the trademark.

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

(in thousands of Russian rubles, unless otherwise indicated)

15. Biological assets

Non-current biological assets

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

	31 December 2018		31 December 2017	
	Units	Carrying amount	Units	Carrying amount
Sows, heads	100 903	2 637 746	90 008	2 259 409
Cattle, heads	510	35 706	462	29 115
Total bearer non-current biological assets	**101 413**	**2 673 452**	**90 470**	**2 288 524**

The following table represents movements in sows:

	Amount
Balance at 1 January 2017	**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**
Increase due to purchases and breeding costs of growing livestock	943 840
Decrease due to sale	(993 047)
Gain arising from changes in fair value less estimated point-of-sales costs	427 544
Balance at 31 December 2018	**2 637 746**

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 2018		31 December 2017	
	Units	Carrying amount	Units	Carrying amount
Pork				
Market hogs, heads	1 130 928	7 628 296	1 024 074	6 100 813
	1 130 928	7 628 296	1 024 074	6 100 813
Poultry				
Broilers, heads	32 859 688	2 909 525	29 681 462	1 928 227
Breeders, heads (bearer biological assets)	2 884 976	3 094 096	2 826 935	1 969 345
	35 744 664	6 003 621	32 508 397	3 897 572
Hatchery eggs, quantity	23 257 939	344 586	21 862 017	258 080
Other	435	16 566	505	24 089
Unharvested crops, hectares	59 555	782 411	54 957	611 805
Work-in progress related to cultivation of crops		619 376		673 941
Total current biological assets and related work-in progress		**15 394 856**		**11 566 300**

15. Biological assets continued

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

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Balance at 1 January 2017	**5 504 933**	**2 243 036**	**1 512 225**	**1 196 616**	**10 456 810**
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**
Increase due to purchases and gain arising from cost inputs	13 909 273	39 309 505	1 770 492	2 527 694	57 516 964
Increase due to acquisition of subsidiaries	-	204 571	589 156	-	793 727
Transfer to consumable biological assets	-	1 571 818	(1 571 818)	-	-
Decrease due to sale or harvest of assets	(23 262 220)	(47 699 953)	-	(4 736 000)	(75 698 173)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	10 880 430	7 595 357	336 921	2 324 347	21 137 055
Balance at 31 December 2018	**7 628 296**	**2 909 525**	**3 094 096**	**1 401 787**	**15 033 704**

The reconciliations of net change in fair value of biological assets are as follows:

	2018	2017
Fair value adjustment at the beginning of the year (biological assets transferred to inventory and subsequently sold)	(4 457 066)	(3 877 070)
Fair value adjustment at the date of acquisition of subsidiaries (biological assets transferred to inventory and subsequently sold)	(290 153)	154 145
Fair value adjustment at the end of the year (biological assets)	6 583 555	4 457 066
Net change in fair value of biological assets	**1 836 336**	**734 141**

The reconciliations of net revaluation of harvested crops in stock are as follows:

	2018	2017
Fair value adjustment at the beginning of the year (agricultural produce subsequently sold)	1 113 986	231 727
Fair value adjustment at the end of the year (agricultural produce)	1 128 201	(1 113 986)
Net revaluation of harvested crops in stock	**2 242 187**	**(882 259)**

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

	2018	2017
Winter wheat	235	245
Spring wheat	73	78
Sunflower	65	35
Corn	61	219
Barley	34	41
Soya bean	33	27
Pea	17	36

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

	2018	2017
Pork meat	247	212
Poultry meat	544	527

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

(in thousands of Russian rubles, unless otherwise indicated)

16. Investments in joint ventures and associates

The Group's significant joint ventures and associates include:

	Type of investment	Ownership and voting interest of the Group	31 December 2018	31 December 2017
LLC Tambovskaya Indeika (Tambov Turkey JV)	Joint venture	50%	2 987 458	2 185 147
Samson – Food Products	Associate	75%	350 000	-
LLC COBB-RUSSIA	Joint venture	50%	180 573	-
Total investments in joint ventures and associates			**3 518 031**	**2 185 147**

Tambov Turkey JV

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 2018	31 December 2017
Cash and cash equivalents	4 607	1 879
Other current assets	3 120 817	1 617 899
Non-current assets	7 876 543	8 254 958
Trade and other payables	(546 350)	(524 676)
Short-term borrowings	(1 720 368)	(1 420 143)
Other current liabilities	(136 157)	(64 670)
Long-term borrowings	(3 530 990)	(8 011 269)
Other non-current liabilities	(93 188)	(105 084)
Net assets of the joint venture	**4 974 915**	**(251 106)**
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's equity interest in the joint venture	**2 487 458**	**-**
Notes receivable classified as net investment in the joint venture*	500 000	2 310 700
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	**2 987 458**	**2 185 147**

*the Notes are considered to represent an 'in substance' equity interest in the joint venture. The Group, together with the second venturer, converted most of the Notes to an equity investment in the joint venture in 2018 and expect to complete the conversion in 2019. These Notes together with the Group's equity interest in the joint venture are pledged as security under borrowings of the joint venture.

	2018	2017
Revenue	5 331 006	3 919 919
Operating expenses without depreciation and amortisation, foreign exchange loss (gain), net change in fair value of biological assets	(5 000 175)	(3 753 022)
Adjusted EBITDA	**330 831**	**166 897**
Depreciation and amortisation	(623 898)	(463 999)
Interest income	394	2 268
Interest expense	(201 857)	(246 184)
Foreign exchange loss (gain)	(37 928)	8 201
Net change in fair value of biological assets	420 138	95 983
Income tax	(1 236)	(5 816)
Loss for the year and total comprehensive loss for the year	**(113 556)**	**(442 650)**
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's share of Adjusted EBITDA	**165 415**	**83 449**
The Group's share of loss of the joint venture	**(56 778)**	**(221 325)**

As of 31 December 2018, management tested the Group's investment in Tambov Turkey for impairment and determined that the investment was not impaired.

(in thousands of Russian rubles, unless otherwise indicated)

16. Investments in joint ventures and associates continued

Samson – Food Products

On 25 December 2018 the Group acquired 75% in LLC “Myasokombinat Vsevolzhskyi” and LLC “Svezhyi Propuct” (together “Samson – Food Products”) for cash consideration of 350 000 payable at the acquisition date and contingent consideration payable within two years after the acquisition. The contingent consideration depends on performance of Samson – Food Products in 2019. The fair value of the contingent consideration was provisionally estimated as zero and will be reassessed within 12 months after the acquisition date. At the acquisition date the Group also signed a shareholders agreement with JSC “Samson-Producty Pitaniya”, being the Seller and holder of the residual 25% share. Under the terms of this arrangement, the Group agreed that operational management, including the General Director appointment decisions, remains the authority of the Seller until the final sale of the residual 25% share. Based on the above considerations the Group accounted for the investment in 75% of Samson – Food Products as an investment in an associate.

The acquisition was accounted for using historical book values of assets and liabilities acquired as provisional values since there was no other information available at that time. The difference between consideration paid and historical book value of the net assets acquired was preliminary allocated to goodwill.

The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment and other non-current assets, and accordingly, these amounts are preliminary and subject to change.

Preliminary purchase price allocation and summarised financial information in respect of the Group’s associate and its reconciliation to the carrying amount of the interest in the associate are set out below. The summarised financial information below represents amounts shown in the associate’s financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	31 December 2018
Cash and cash equivalents	1 322
Other current assets	640 655
Goodwill	244 234
Property, plant and equipment	265 476
Other non-current assets	541 611
Trade and other payables	(541 155)
Short-term borrowings	(552 013)
Other current liabilities	(62 659)
Long-term borrowings	(70 476)
Other non-current liabilities	(328)
Net assets of the associate	**466 667**
Proportion of the Group’s ownership interest in the associate	75%
Carrying amount of the Group’s interest in the associate	**350 000**

LLC Cobb-Russia

LLC Cobb-Russia is a joint venture with GP CY Holdings Ltd. LLC Cobb-Russia is the official distributor and producer of "Cobb" poultry breeders in Russia. Prior to 2018 the joint venture accumulated significant losses and the Group’s investment was written-off in full. In 2018 the Group made additional investment of 180 573 into the capital of LLC Cobb-Russia. In 2018 the joint venture increased its operating activity and profitability and compensated previously accumulated losses and therefore at 31 December 2018 the investment is accounted at cost.

17. Long-term deposits in banks

	CCY	Effective rate, %	Maturity	31 December 2018	31 December 2017
Deposits in Gazprombank	RUR	8%	2022	641 365	641 365
Total long-term deposits in banks				**641 365**	**641 365**

(in thousands of Russian rubles, unless otherwise indicated)

18. Inventories

	31 December 2018	31 December 2017
Raw materials	9 135 972	7 289 837
Spare parts	898 824	695 158
Work in-progress	461 423	343 784
Finished goods	1 932 789	1 643 032
Total inventory	**12 429 008**	**9 971 811**

19. Taxes recoverable and prepaid

	31 December 2018	31 December 2017
Value added tax	1 398 550	1 922 853
Other taxes	510 119	341 629
Total tax recoverable and prepaid	**1 908 669**	**2 264 482**

20. Trade receivables, net

	31 December 2018	31 December 2017
Trade receivables	5 852 077	4 535 078
Less: allowance for doubtful trade receivables	(119 209)	(86 343)
Total trade receivables, net	**5 732 868**	**4 448 735**

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2018 and 2017:

	2018	2017
Balance at beginning of the year	**86 343**	**46 068**
Additional allowance, recognized during the year	58 948	84 373
Trade receivables written off during the year	(26 082)	(44 098)
Balance at end of the year	**119 209**	**86 343**

21. Other receivables, net

	31 December 2018	31 December 2017
Subsidies receivable for interest expense reimbursement	985 344	416 061
Subsidies receivable for compensation of capital expenditure*	200 000	-
Subsidies receivable for purchase of fodder	14 895	9 958
Other receivables	454 886	530 813
Less: allowance for doubtful other receivables	(131 683)	(120 269)
Total other receivables, net	**1 523 442**	**836 563**

*these subsidies were collected in cash in January 2019 and related to compensation of certain portion of capital expenditures for construction of Kashira meat-processing plant, which was completed in 2018.

The following table summarizes the changes in the allowance for doubtful other receivables for the years ended 31 December 2018 and 2017:

	2018	2017
Balance at beginning of the year	**120 269**	**13 412**
Additional allowance, recognized during the year	56 170	112 650
Other receivables written off during the year	(44 756)	(5 793)
Balance at end of the year	**131 683**	**120 269**

(in thousands of Russian rubles, unless otherwise indicated)

22. Cash and cash equivalents

	31 December 2018	31 December 2017
RUR-denominated cash at banks	772 615	152 168
EURO-denominated cash at banks	29	17
USD-denominated cash at banks	77 061	64 824
Bank deposits	8 758 826	483 669
Cash in hand	4 051	3 998
Total	**9 612 582**	**704 676**

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

23. Other current assets

	31 December 2018	31 December 2017
Prepaid expenses	178 803	203 928
Notes receivable	310 000	300 000
Loans receivable	45 989	30 965
Other assets	28 400	194
Total other current assets	**563 192**	**535 087**

24. Shareholder's equity

Share capital

As of 31 December 2018 and 2017, 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 February 2018 and September 2018 dividends of approximately 75.07 Russian rubles per share (3 081 399 in total) and approximately 20.48 Russian rubles per share (840 643 in total) were approved at the extraordinary shareholders' meeting and have been fully paid during the year ended 31 December 2018.

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.

(in thousands of Russian rubles, unless otherwise indicated)

25. Non-controlling interests

	NCI percentage	31 December 2018	31 December 2017
JSC Petelinskaya	11.8%	467 556	383 348
JSC CMPP	4.9%	60 426	(71 651)
LLC PKO Otechestvennyi Product	4.0%	208 866	251 435
Other non-controlling interests		253 138	502 714
Total non-controlling interests		**989 986**	**1 065 846**

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 2018 and for 2018	JSC Petelinskaya	JSC CMPP	LLC PKO Otechestvennyi Product	Total
NCI percentage	**11.8%**	**4.9%**	**4.0%**	
Non-current assets	2 289 032	6 015 524	379 206	8 683 762
Current assets	3 674 764	4 531 458	5 319 719	13 525 940
Non-current liabilities		(178 795)	(19 011)	(197 806)
Current liabilities	(2 001 456)	(9 144 689)	(407 680)	(11 553 825)
Net assets	3 962 340	1 223 498	5 272 234	10 458 072
Carrying amount of NCI	**467 556**	**60 426**	**208 866**	**736 848**
Revenue	6 945 601	38 803 470	2 735 645	48 484 716
Profit (loss)	713 632	(468 313)	230 002	475 321
Total comprehensive income (loss)	713 632	(468 313)	230 002	475 321
Profit (loss) allocated to NCI	**84 209**	**(23 129)**	**9 112**	**70 192**
Cash flows from operating activities	(600 273)	4 799 812	28 668	4 228 207
Cash flows from investment activities	760 257	(1 030 596)	(44 845)	(315 184)
Cash flows from financing activities (dividends to NCI: nil)	(160 000)	(183 895)	-	(343 895)
Net increase (decrease) in cash and cash equivalents	**(16)**	**3 585 321**	**(16 177)**	**3 569 128**

As at 31 December 2017 and for 2017	JSC Petelinskaya	JSC 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)**

(in thousands of Russian rubles, unless otherwise indicated)

26. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 28. Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	EIR[1]	Adjusted EIR [2]	Year of maturity	31 December 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%	6.64%	5.24%	2019-2026	23 708 147	39 471 585	18 452 495	25 340 952
Factoring					-	-	431 297	-
Other borrowings	0%	0%	0%	2025	-	6 571	8 500	6 571
Interest payable					371 503	-	416 762	-
Finance lease liabilities	10.47%-16.62%	13.83%	13.83%	2019-2024	89 989	165 161	102 567	255 587
Total borrowings					**24 169 639**	**44 643 317**	**19 411 621**	**30 603 110**

As of 31 December 2018, the Group's borrowings are denominated in the following currencies: 66 417 885 in Russian roubles and 2 395 071 in Euro. As of 31 December 2017, the Group's borrowings are denominated in the following currencies: 47 545 948 in Russian roubles 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 roubles at par value (1 000 roubles at the issuance date) with a maturity date in October 2020. The coupon rate on the bonds, payable semi-annually, is set at 12.5% per annum. The Group accounts for these instruments at amortized cost.

Bank loans

Terms and conditions of outstanding bank loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2018	31 December 2017
Sberbank of Russia	Russian roubles	1.00%*-13.10%	2019-2024	22 348 602	19 722 386
Sberbank of Russia	Euro	1.50%-3.40%	2024	2 299 202	2 060 204
Alfa bank	Russian roubles	1.00%*-9.75%	2019-2026	10 695 132	8 084 220
Bank VTB	Russian roubles	7.55%-9.20%	2020-2023	9 645 257	1 550 000
Bank VTB	Euro	-	-	-	219 727
Gazprombank	Russian roubles	1.00%*-10.85%	2019-2022	6 616 762	5 532 968
Gazprombank	Euro	1.20%	2019	95 869	188 852
Raiffeisenbank	Russian roubles	7.81%	2020	5 985 535	173
Rosselkhozbank	Russian roubles	10.03%-15.10%	2020-2023	5 456 161	1 562 917
UniCredit Bank	Russian roubles	12.50%	2022	37 211	4 872 000
Total bank loans				**63 179 732**	**43 793 447**

* Low interest rates relate to subsidized borrowings under new government policy effective since 2017 (Note 8).

Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2018 is 56 394 657. The unused credit can be utilized from 2019 to 2026 and only for the purposes specified in the relevant loan agreements. Expiration of available amounts varying as follows: 10 555 587 expires by 31 December 2019, 30 579 361 expires by 31 December 2020, 1 268 579 expires by 31 December 2021, 6 291 129 expires by 31 December 2022 and 7 700 000 expires by 31 December 2026.

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

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

(in thousands of Russian rubles, unless otherwise indicated)

26. **Borrowings** continued

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2018:

	31 December 2018	31 December 2017
JSC Altaisky Broiler	100%	-
LLC Cherkizovo Pork	51%	51%
LLC Kuznetsovsky kombinat	-	100%
OJSC Kurinoe tsarstvo	100%	100%
JSC Cherkizovo-Kashira	100%	100%

Non-current biological assets with a carrying value of nil and 126 374 were pledged as security under certain borrowings as of 31 December 2018 and 2017, respectively.

Current biological assets with a carrying value of nil and 204 464 were pledged as security under certain borrowings as of 31 December 2018 and 2017, respectively.

Property, plant and equipment with a carrying value of 11 199 904 and 11 563 112 were pledged as security under loan agreements as of 31 December 2018 and 2017, respectively, including construction in progress pledged with a carrying value of nil and 2 407 625 as of 31 December 2018 and 2017, respectively.

Notes receivable, net with a carrying value of 310 000 and 610 000 were pledged as security under loan agreements as of 31 December 2018 and 2017, respectively.

Certain significant loan agreements with the Sberbank of Russia, Rosselkhozbank, Bank VTB, Gazprombank, Raiffeisenbank 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 compliance with the covenants as at 31 December 2018.

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 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
At 31 December 2018			
Future minimum lease payments	117 387	186 831	9 637
Portion related to interest	27 398	31 022	285
Present value of minimum lease payments	89 989	155 809	9 352

(in thousands of Russian rubles, unless otherwise indicated)

26. Borrowings continued

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 2018	Financing cash flows (i)	Restricted cash (used in investing activities)	Acquisition of subsidiaries (Note 30)	Acquisition of debt rights (Note 30)	Forex adjustments	Other non-cash changes	Interest accruals and payments	31 December 2018
Borrowings, including finance lease liabilities	50 014 731	14 001 379	(632 086)	338 287	4 685 209	418 647	32 048	(45 259)	68 812 956

			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 2018	31 December 2017
Value added tax	758 825	297 189
Payroll related taxes	314 851	290 439
Property tax	145 066	143 735
Personal income tax withheld	91 732	72 841
Land tax	8 594	6 637
Transportation tax	4 631	5 111
Other taxes	1 021	148 171
Total tax related liabilities	**1 324 720**	**964 123**

(in thousands of Russian rubles, unless otherwise indicated)

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, except for the rights to claim debt that are separately disclosed in Note 30, as of 31 December 2018 and 2017 are as follows:

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Amortised cost				
Notes receivable, net (current and non-current)	310 000	310 000	610 000	596 584
Long-term deposits in banks	641 365	666 513	641 365	657 817
Other non-current assets	177 069	177 069	556 800	539 725
Trade receivables	5 732 868	5 732 868	4 448 735	4 448 735
Other receivables	1 523 442	1 523 442	836 563	836 563
Other current assets	74 647	74 647	30 965	30 965
Restricted cash	108 762	108 762	740 848	740 848
Cash and cash equivalents	9 612 582	9 612 582	704 676	704 676
	18 180 735	**18 205 883**	**8 569 952**	**8 555 913**
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings, including finance lease*	68 812 956	67 512 690	50 014 731	49 270 902
Trade payables	10 830 231	10 830 231	9 018 376	9 018 376
Payables for non-current assets	1 216 255	1 216 255	1 912 620	1 912 620
Payroll related liabilities	2 707 145	2 707 145	1 816 396	1 816 396
Other payables and accruals	905 342	905 342	395 571	395 571
	84 471 929	**83 171 663**	**63 157 694**	**62 413 865**

* At 31 December 2018 the Group used 9.8% 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 (10.0% at 31 December 2017).

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.

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, rights to claim debt and cash in current and deposit accounts with banks.

The Group's maximum exposure to credit risk arises from the following classes of financial assets (except for the rights to claim debt that are separately disclosed in Note 30):

	31 December 2018	31 December 2017
Long-term deposits in banks	641 365	641 365
Notes receivable, net	310 000	610 000
Other non-current assets	177 069	556 800
Trade receivables	5 732 868	4 448 735
Other receivables	1 523 442	836 563
Other current assets	74 647	30 965
Restricted cash	108 762	740 848
Cash and cash equivalents (except for cash in hand)	9 608 531	700 678
Total maximum credit risk	**18 176 684**	**8 565 954**

(in thousands of Russian rubles, unless otherwise indicated)

28. Financial instruments continued

Trade receivables

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

	31 December 2018	31 December 2017
Company 1	852 227	828 036
Company 2	837 943	665 347
Company 3	528 958	268 457
Company 4	493 935	259 086
Company 5	350 864	205 471
Other counterparties	2 668 941	2 222 338
Total	**5 732 868**	**4 448 735**

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 2018	31 December 2017
Neither past due nor impaired	4 619 297	3 689 060
Past due 1-90 days	942 472	697 045
Past due 91-180 days	148 086	38 373
Past due 180-365 days	23 013	21 586
Past due more than 365 days	-	2 671
Total	**5 732 868**	**4 448 735**

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 6-12 months. At 31 December 2018, the amount of subsidies receivable outstanding more than one year was nil (at 31 December 2017: nil).

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 stable 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 2018	31 December 2017
Bank 1	Standard & Poor's	BBB-	8 103 356	457 685
Bank 2	Moody's	Ba1	1 118 248	190 583
Bank 3	Fitch Ratings	BB+	189 139	14 663
Other banks	-	-	197 788	37 747
Total cash and cash equivalents at banks			**9 608 531**	**700 678**

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

	Rating agency	Rating	31 December 2018	31 December 2017
Gazprombank	Fitch Ratings	BB+	641 365	641 365
Total long-term bank deposits			**641 365**	**641 365**

(in thousands of Russian rubles, unless otherwise indicated)

28. Financial instruments continued

Liquidity risk

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

The following tables detail the Group's expected maturity for its financial assets, except for cash and cash equivalents and rights to claim debt. 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 2017						
Trade and other receivables		5 285 298	-	-	-	5 285 298
Long-term deposits in banks	8%	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**
At 31 December 2018						
Trade and other receivables		7 256 310	-	-	-	7 256 310
Long-term deposits in banks	8%	25 666	25 666	761 433	-	812 765
Notes receivable, net	6.35%-7.39%	156 490	163 733	-	-	320 223
Other non-current assets		-	-	-	177 069	177 069
Other current assets		74 647	-	-	-	74 647
Total		**7 513 113**	**189 399**	**761 433**	**177 069**	**8 641 014**

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 2017						
Borrowings, including finance lease	1%-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**
At 31 December 2018						
Borrowings, Including finance lease	5.2%-13.83%	9 108 246	19 645 516	41 416 819	10 808 323	80 978 904
Trade and other payables		11 735 573	-	-	-	11 735 573
Payables for non-current assets		1 216 255	-	-	-	1 216 255
Payroll related liabilities		2 707 145	-	-	-	2 707 145
Total		**24 767 219**	**19 645 516**	**41 416 819**	**10 808 323**	**96 637 877**

Interest rate risk

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Related parties

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

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

Transactions with key management personnel

Key management personnel of the Group are all members of the Board of Directors and members of the Management Board. The remuneration of key management personnel during the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Salaries and bonuses, excluding social security contributions	550 099	298 721

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	31 December 2018	31 December 2017
Trade receivables	290 559	260 718
Other non-current assets	92 134	98 587
Advances paid	5 985	3 604
Other receivables	7 129	6 502
Closed unit investment fund (presented within other non-current assets)	494 220	280 596
Trade payables	25 169	13 376
Advances received	1 320	17 522
Payables for non-current assets	-	124
Other payables	-	173

Transactions with companies under common control are summarized as follows:

Transactions	2018	2017
Sales	2 593 148	2 595 805
Rent income	208 231	194 247
Purchases of property, plant and equipment	13 853	29 686
Purchases of goods and other services	19 247	28 172

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 the 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 partially repaid in 2018 and partially converted to equity investment in LLC Cobb-Russia.

(in thousands of Russian rubles, unless otherwise indicated)

29. Related parties continued

Balances with joint ventures are summarized as follows:

Balances	31 December 2018	31 December 2017
Trade receivables	83 563	56 369
Advances paid	8	12 678
Other receivables	-	1 280
Long-term loans receivable (presented within other non-current assets)	-	389 803
Trade payables	1 056 965	331 298
Other payables	139 176	-

Transactions with joint ventures are summarized as follows:

Transactions	2018	2017
Sales	303 083	839 140
Sales of property, plant and equipment	-	1 347
Rent income	83	722
Purchases of goods and other services	5 935 791	4 260 303

30. Acquisitions

Acquisition of Altaisky Broiler

On 28 November 2018, the Group completed the acquisition of 100% of JSC “Altaisky Broiler” for cash consideration of 4 588 000.

Altaisky Broiler is one of the leading players in the Siberian poultry market with an annual output of 67 thousand tonnes (live weight) of poultry products (58 thousand tonnes of finished products). Today, it is a state-of-the-art poultry production facility comprising a hatchery, a feed mill, four fattening sites, a slaughterhouse, and a meat packing plant in Biysk. The acquisition will enable Cherkizovo Group to access the Siberian Federal District market and strengthen its market-leading position in the domestic poultry market.

The acquisition was accounted for using historical book values of assets and liabilities acquired as provisional values since there was no other information available at that time. The difference between consideration paid and historical book value of the net assets acquired was preliminary allocated to property, plant and equipment based on the internal valuation analysis done by management of the Group.

The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment, and accordingly, these amounts are preliminary and subject to change.

The provisional purchase price allocation was as follows:

	Provisional values (at the acquisition date)
Purchase price	**4 588 000**
Property, plant and equipment	3 988 911
Inventories and biological assets	533 394
Other current assets	676 129
Short-term loans and finance leases	(309 976)
Long-term loans and finance leases	(28 311)
Other current liabilities	(272 147)
Total assets acquired and liabilities assumed	**4 588 000**
Goodwill recognized on acquisition	**-**

(in thousands of Russian rubles, unless otherwise indicated)

30. Acquisitions continued

Net outflow of cash and cash equivalents on acquisition comprised of the following:

Consideration payable to acquire Altaisky Broiler	4 588 000
Less: cash and cash equivalents of subsidiaries acquired	(560 378)
Less: consideration remained unpaid at 31 December 2018	(200 000)
Net outflow of cash and cash equivalents on acquisition of Altaisky Broiler	**3 827 622**

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 2018**
Revenue	107 439 888
Operating profit	15 994 148
Profit for the year	**12 333 623**

The actual results of operations of Altaisky Broiler are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of Altaisky Broiler from the date of acquisition (28 November 2018) to 31 December 2018	
Revenue	524 300
Operating income	114 106
Profit for the period	**114 547**

Acquisition of poultry breeder's facilities of Krasnoyaruzhsky Broiler

On 23 October 2018, the Group acquired all tangible assets, including poultry parent stock, of four hatching eggs' production facilities of CJSC "Krasnoyaruzhsky Broiler" (Belgorod region) and hired most of the employees working at these sites. Total consideration amounted to 1 799 003 and was paid in cash.

The acquisition will allow the Group to supply Altaisky Broiler with hatching eggs and cover all of the Group's needs in hatching eggs supply.

The acquisition was accounted for using statutory book values of assets acquired as provisional values since there was no other information available at that time. The statutory book value of assets was equal to value stated in legal documents for acquisition of these assets. The difference between consideration paid and statutory book value of the net assets acquired was preliminary allocated to property, plant and equipment based on the internal valuation analysis done by management of the Group.

The Group is in the process of obtaining a third party valuation report on the fair value of the assets acquired including obtaining third-party valuation of the property, plant and equipment, and accordingly, these amounts are preliminary and subject to change.

The provisional purchase price allocation was as follows:

	Provisional values (at the acquisition date)
Purchase price	**1 799 003**
Property, plant and equipment	1 209 847
Biological assets (poultry breeders)	589 156
Total assets acquired and liabilities assumed	**1 799 003**
Goodwill recognized on acquisition	**-**

Notes to the consolidated financial statements

For the year ended 31 December 2018

(in thousands of Russian rubles, unless otherwise indicated)

30. **Acquisitions** continued

The actual results of operations of the facilities are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of the facilities from the date of acquisition (23 October 2018) to 31 December 2018	
Revenue	131 563
Operating loss	(12 093)
Loss for the period	**(36 512)**

The acquired facilities were part of the legal entity CJSC "Krasnoyaruzhsky Broiler" and there is no separate financial information related to performance of these facilities prior to the acquisition date. Therefore, information about revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination had been as of the beginning of the annual reporting period is impracticable and is not disclosed.

Acquisition of rights to claim debt from Belaya Ptitsa Kursk

On 21 December 2018 the Group acquired Rosselkhozbank's rights to claim debt (in the form of loans) from LLC "Belaya ptitsa-Kursk" (further "Belaya Ptitsa Kursk") and the related security agreements (i.e. underlying collateral) for a principal amount of 5 639 169. The collateral included property pledge agreements for most of Belaya Ptitsa-Kursk's property, plant and equipment and share pledge agreements for 100% of capital of LLC "Belaya ptitsa-Kursk".

To finance the transaction the Group obtained a five-year rubles-denominated loan from Rosselkhozbank in the principal amount of 5 639 169 at 0% per annum during the first two years and 10% subsequently. The fair value of the loan at inception date was 4 685 209 determined using the market interest rate of 10%.

No cash was received or provided with respect to the two transactions with Rosselkhozbank, which has been reported as a non-cash transaction in the statement of cash flows reflecting rights to claim debt acquired and loan assumed.

At the acquisition date, the rights to claim debt from Belaya Ptitsa Kursk were accounted for at fair value, which was determined as equal to the fair value of the loan obtained from Rosselkhozbank. Belaya Ptitsa Kursk had not been servicing the debt for a number of months prior to the transaction and had also stopped its operating activities; therefore, at acquisition, the Group classified the rights as purchased credit-impaired financial assets. Notwithstanding the foregoing, the Group concluded that the fair value of the underlying collateral exceeds the fair value of the rights acquired and therefore did not recognise a loss allowance. The Group ultimately expects to settle the rights through the recovery of the underlying collateral once such collateral becomes the legal property of the Group. At the date of acquisition of the rights, Belaya Ptitsa Kursk's facilities were not operational and the Group plans to relaunch the production in Q1 2019, using it in combination with the Group's existing parent stock sites and feed mills to leverage the potential synergies perceived as existing.

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.

Allocation of the purchase price of NAPKO in the consolidated financial statements for the year ended 31 December 2017 was as follows:

	Fair values (at the acquisition date)
Purchase price	**4 872 000**
Land and land lease rights	5 023 743
Other items of property, plant and equipment	306 438
Inventories and biological assets	983 553
Other current assets	315 372
Short-term loans and finance leases	(958 070)
Other current liabilities	(678 697)
Deferred tax liability	(625 858)
Non-controlling interests	(191 862)
Total assets acquired and liabilities assumed	**4 174 619**
Goodwill recognized on acquisition	**697 381**

(in thousands of Russian rubles, unless otherwise indicated)

30. Acquisitions continued

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.

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 prior annual reporting period (1 January 2017). 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**

31. Commitments and contingencies

Legal

As of 31 December 2018 and 2017, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

(in thousands of Russian rubles, unless otherwise indicated)

31. Commitments and contingencies continued

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 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 2018 and 2017.

Capital commitments

Capital commitments by each operating segments are as follows:

	31 December 2018
Commitments for the acquisition of property, plant and equipment	
Meat-processing	282 747
Pork	389 870
Poultry	387 453
Feed	72 734
Total capital commitments	**1 132 803**

At 31 December 2018, the Group had capital projects in progress at LLC Cherkizovo Pork and OJSC Kurinoe Tsarstvo.

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 2018
Not later than 1 year	389 476
Later than 1 year and not later than 5 years	1 034 379
Later than 5 years	1 843 895
Total operating lease commitments	**3 267 750**

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 2018 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

On 13 February 2019 the Board recommended that the General meeting of shareholders approve distribution of the Company's net profit following 2018 results in the form of the dividends in the amount of 101.63 rubles per ordinary share of the Company. Set 9 April 2019 as the final date for the dividends payment.