CHERKIZOVO
SINCE 1974

Annual Report
2018

Your food is Our Passion

Cherkizovo Today

No. 1

Top-ranking Russian meat producer[1]

No. 1

Leading poultry producer in 2018[2]

No. 2

Second largest pork producer in Russia in 2018[3]

No. 3

Third largest turkey producer[4]

B1

MOODY'S rating

The Group's shares are quoted on the Moscow Exchange (MOEX)

MOEX ticker: GCHE

Cherkizovo Group is the largest meat producer in Russia committed to quality and product excellence.

The Group is among the **top three leading** manufacturers of poultry, pork and meat processing products.

We know everything there is to know about meat. We had our start in meat processing and have since become the country's largest meat producer, controlling the entire production chain from growing and producing crops to delivering the end product.

For us, it is all about our consumers: we carefully monitor changes in their preferences in order to meet and even exceed expectations. Following the market trend, we seek to offer more healthy diet options by developing new product lines.

ABOUT THE REPORT

The annual report contains information on the activities of Public Joint Stock Company "Cherkizovo Group" ("Cherkizovo Group", "Cherkizovo", the Group, the Company) in the period from 1 January to 31 December of 2018.

The report discloses financial and non-financial performance, details on the Group's strategy, and information on the corporate governance framework. It also covers the key results of the Company's corporate social responsibility performance.

For the first time, the Company has prepared the report with reference to the GRI Sustainability Reporting Standards.

For further details on the report and GRI Standards compliance, see page **208-209**

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1 According to Agroinvestor ranking.

2 According to the Russian Union of Poultry Producers.

3 According to the ranking by the National Union of Swine Breeders.

4 According to Agrifoods rating. Company's JV Tambov Turkey is ranked in the rating.

Our Values

Producing delicious and safe meat products is our priority

We are responsible for the results of our work to the consumers, employees and partners. Our focus rests precisely on consumer needs and the highest meat quality for our products.

By developing our business, we contribute to the agricultural potential of the nation

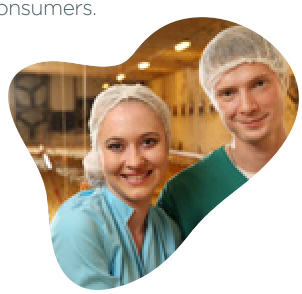
We apply state-of-the-art technologies in agriculture, engage highly qualified experts, and develop both our existing employees and young talent.

We are open to innovation

We are committed to developing new ideas, solutions, technologies and recipes, and adopting best global practices, innovations and scientific findings.

We are passionate about what we do

We seek to maintain our success by building on our strengths, achieve excellence in what we do, and deliver quality meat products to our consumers.



We are a team of experts in meat processing

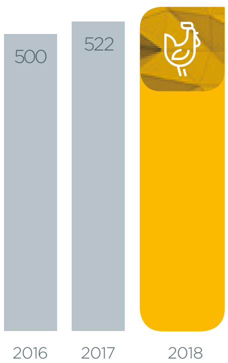
We employ specialists with a high level of professionalism and expertise in their fields.

Content

Key Performance Indicators

OPERATING HIGHLIGHTS

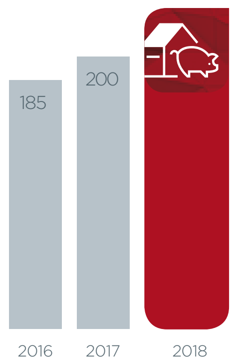
Poultry sales,
'000 tonnes
+4% y-o-y



544

For further details see:
Poultry **52**

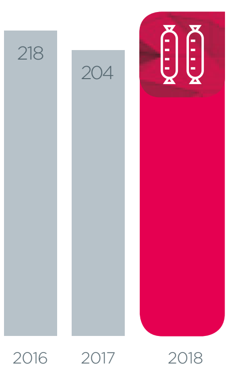
Pork sales,
'000 tonnes
+18% y-o-y



237

For further details see:
Pork **56**

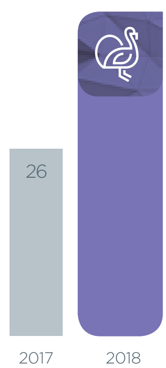
Meat Processing sales,
'000 tonnes
+12% y-o-y



230

For further details see:
Meat Processing **60**

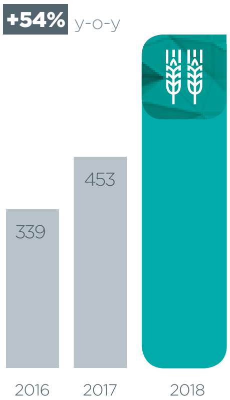
Turkey sales[1],
'000 tonnes
+49% y-o-y



39

For further details see:
Turkey **70**

Grain sales,
'000 tonnes
+54% y-o-y



696

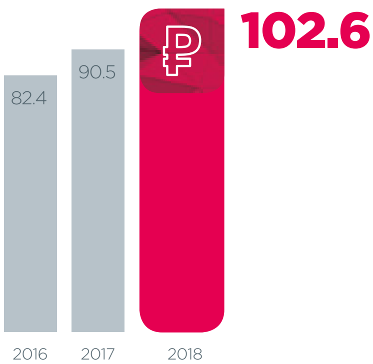
For further details see:
Grain **66**

—
1 Turkey data represents sales of turkey meat produced by Tambov Turkey JV through the Group's distribution network.
2 Headcount is indicated without regard of Tambov Turkey JV and companies acquired in 2018.

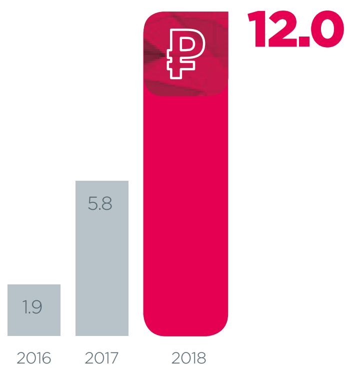
3
Estimated as accrued dividends divided by net income adjusted for net change in fair value of biological assets. On 16 May 2018, Cherkizovo Board of Directors approved dividend payout of not less than 50% of IFRS net income subject to leverage (mid-term net debt/EBITDA <2.5x) and ability to finance existing operations and development (incl. M&A).

FINANCIAL HIGHLIGHTS

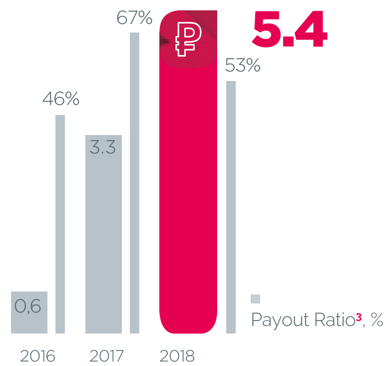
Revenue,
RUB billion
+13.5% y-o-y



Net profit,
RUB billion
+107% y-o-y



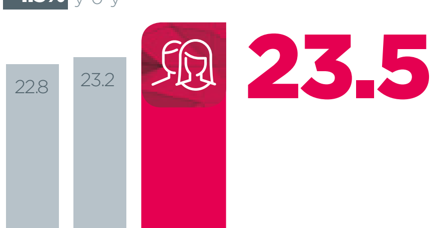
Dividends,
RUB billion



RUB million / %	2016	2017	2018	Year-on-year, %
Revenue	82,417	90,465	**102,639**	13.5%
Gross profit	17,855	23,559	31,923	35.5%
Operating expenses	(12,798)	(13,612)	(16,311)	19.8%
Adjusted EBITDA	9,484	14,643	20,416	39.4%
Adjusted EBITDA margin	11.5%	16.2%	**19.9%**	3.7 pp
Operating profit	5,056	9,726	15,555	59.9%
Profit before tax	1,960	5,956	11,793	98.0%
Net profit	1,919	5,800	**12,004**	107%
Net cash flow from operating activities	9,369	13,016	14,177	8.9%
Net debt	36,949	48,669	58,559	20.3%

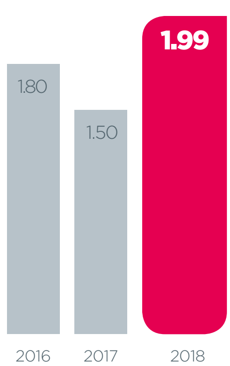
NON-FINANCIAL HIGHLIGHTS

Headcount[2],
'000 employees
+1.5% y-o-y



For further details see:
Our Employees **98**

LTIFR,
+33% y-o-y



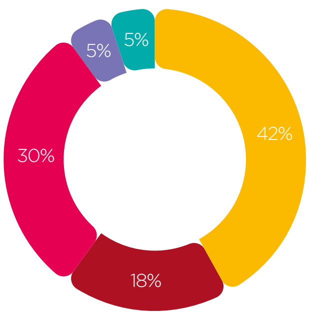
For further details see:
Health, Safety and the Environment **104**

Segment Overview

The Group is structured into the product segments of **Poultry**, **Pork**, **Meat Processing** and **Grain and Feed**. We also make **turkey meat products** as part of our joint venture with Grupo Fuertes.

Revenue by segment,

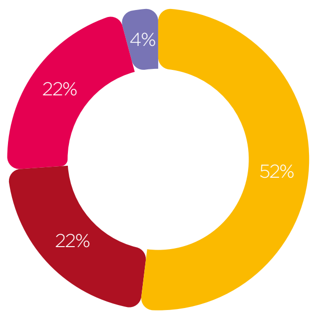
%



	RUB bln
Poultry	53.8
Pork	23.6
Meat Processing	38.4
Turkey	5.8
Grain	7.0

Meat sales by segment,

%



	th tonnes
Poultry	544.2
Pork	236.9
Meat Processing	229.5
Turkey[1]	39.2

The bulk of the products is sold through retail networks and the HoReCa segment. The Group's centralized logistics infrastructure enables us to achieve the fastest delivery times.

Cherkizovo keeps a close watch on and caters to consumer preferences. We regularly conduct large-scale marketing surveys, review feedback, and test the key and new products. This fuels market demand for Cherkizovo's products.

The **vertically integrated business model** covers the entire production chain from growing grain and feed production to end products, which guarantees the **highest quality standards**.

For further details see:

Business Model **40**

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

POULTRY

The Poultry segment focuses on chicken products and by-products, as well as an extended mix of branded products. We also have a separate HoReCa product line.

Cherkizovo's flagship brands in the Poultry segment:

Core product categories:
chicken products:

- whole chickens
- cuts
- chilled and frozen meat
- ready-to-cook products
- by-products

Key facilities:

- Mosselprom, Moscow region,
- Petelinskaya Poultry Factory, Moscow region,
- Vasilyevskaya poultry farm, Penza region,
- Lisko Broiler, Voronezh region,
- Kurinoe Tsarstvo, Bryansk and Lipetsk regions.

Year's highlights:

① purchase of Altaisky Broiler, which gives the Group an entry point to the Siberian Federal District market;
② acquisition of claims under the loan and security agreements of Belaya Ptitsa Kursk.

Benefits for the consumer:

① chilled and frozen meat and ready-to-cook products
② guaranteed freshness and quality
③ wide assortment of ready-to-cook products

2018 performance:

Sales
544 th tonnes **+4%** y-o-y

Revenue
RUB **53.8** billion **+13.5%** y-o-y

Please see page 52 for details

PORK

The Pork segment embraces breeding of market hogs and their sale to both the Group's entities and third parties. In 2018, 87% of market hogs was sold to the Meat Processing segment to make end products. The rest were shipped to third parties.

Core product category:

market hogs

Core geographies:

- Penza region
- Lipetsk region
- Voronezh region
- Tambov region
- Orel region.

Year's highlight:

7 new wean-to-finish sites

launched in the Lipetsk, Voronezh and Penza regions

2018 performance:

Sales

237 **+18%** y-o-y

th tonnes

Revenue

RUB **23.6** **+26.2%** y-o-y

billion

Please see page **56** for details

MEAT PROCESSING

Cherkizovo's Meat Processing segment comprises two core product categories, namely sausages and meat products from pork, poultry and turkey. Our products are sold under several brands across different price categories.

Leading brands:

Key facilities:

- slaughter facilities: Dankov, Penza;
- meat processing plants: Otechestvenny Product (Kaliningrad), Cherkizovo-Kashira, Cherkizovo MPP in Moscow and its offshoots in Penza and Ulyanovsk

Core product categories:

higher value added products:

a variety of sausages, smoked meat, deli meats, cold cuts

lower value added products:

raw meat, ready-to-cook foods and minced meat

Year's highlights:

1. launch of a fully automated meat processing plant in Kashira.
2. purchase of a 75% stake in Samson, set to strengthen Cherkizovo's position in St. Petersburg and Leningrad region[1]

[1] Under the terms of identical shareholders' agreements, operational management, including the appointment of the General Director, remains within the authority of the seller until the final sale of the residual 25% stake.

Benefits for the consumer:

1. a large mix of high-quality sausages, deli meats and ready-to-cook products
2. unique and consistent product characteristics: taste, texture, packaging
3. strict quality control at all production stages

2018 performance:

Sales

230 **+12%** y-o-y

th tonnes

Revenue

RUB **38.4** **+13%** y-o-y

billion

Please see page **60** for details

GRAIN AND FEED

The Grain segment's crops are sold to third parties or used by the Group to produce feed at in-house mills.

Core product categories:

- crops (wheat, soy, sunflower, corn, barley)
- feeds

Core geographies:

- Voronezh region
- Lipetsk region
- Moscow region
- Orel region
- Penza region
- Bryansk region
- Tambov region

Important milestone:

- we completed the soil improvement and balanced plant nutrition program.

2018 performance:

Sales

696 +54% y-o-y

th tonnes

Revenue

RUB **7.0** +115.7% y-o-y

billion

Please see page **66** for details

TURKEY

Cherkizovo makes turkey products at Tambov Turkey, its joint venture with Grupo Fuertes. The full-cycle process covers the entire production chain – feed production, breeding, slaughtering and processing.

Brand

Core product categories:

Turkey meat:

- whole turkey
- cuts (fillet, diced meat, steaks, thighs, wings)
- ready-to-cook products
- by-products

Core facility:

- Tambov Turkey, Tambov region

Year's highlight:

Pava-Pava became Russia's

third

largest turkey brand[1]

Benefits for the consumer:

① chilled turkey meat and ready-to-cook products from the greenest region in Russia

② high-quality and low-calorie fresh meat for people who lead a healthy lifestyle

2018 performance:

Sales

39 +49% y-o-y

th tonnes

Revenue

RUB **5.8** +49.2% y-o-y

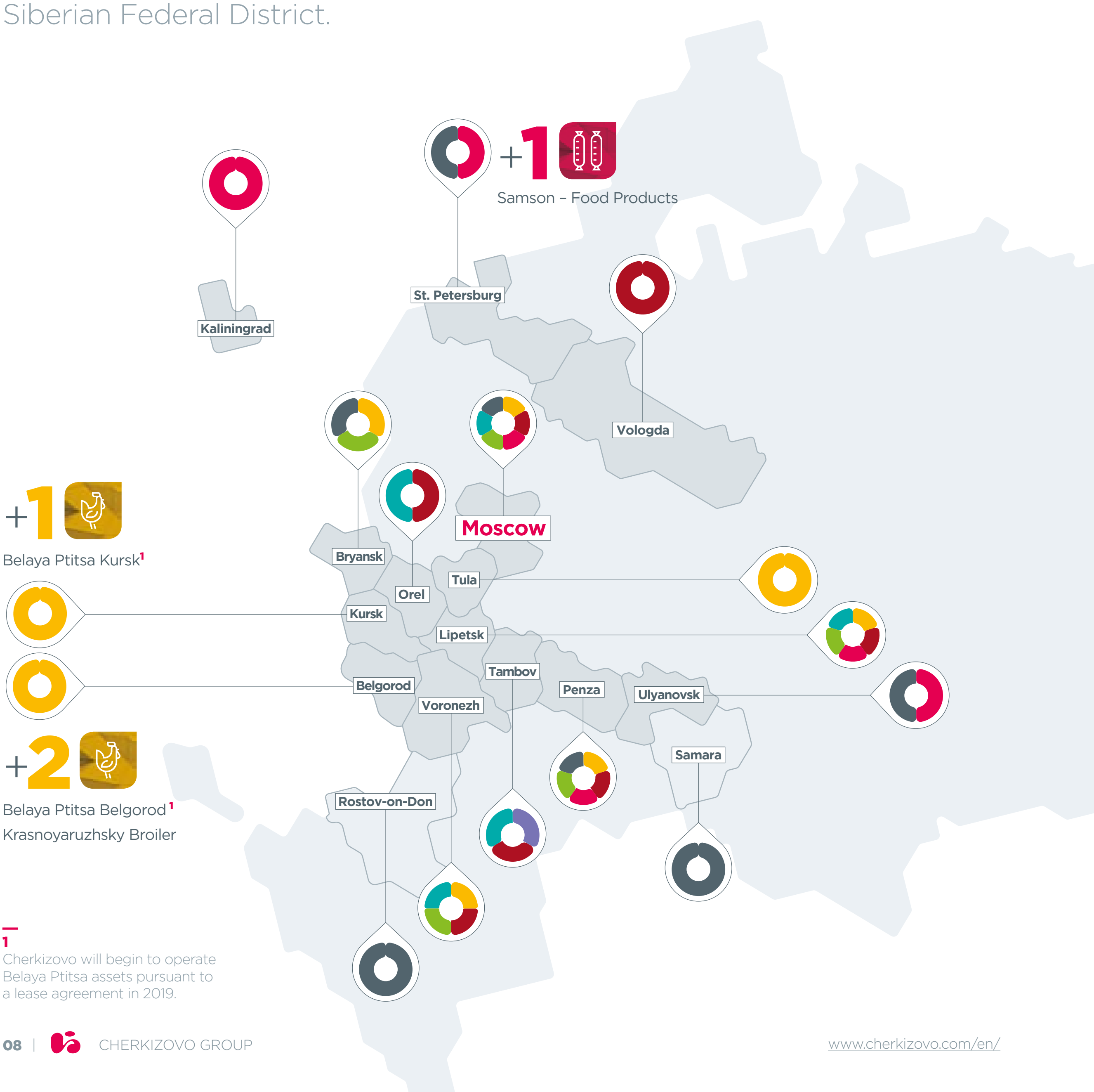
billion

Please see page **70** for details

1 According to Agrifoods ranking.

Geography

Cherkizovo Group's production assets are located in the most densely populated part of Russia – Central Federal District, which is also characterized by the **highest purchasing power** in the country. The geography of our production sites enables us to cater to **over 80% of Russia's population**. The purchase of **new assets** at the tail end of 2018 helped us to expand our sales geography in the Siberian Federal District.



1 Cherkizovo will begin to operate Belaya Ptitsa assets pursuant to a lease agreement in 2019.

7 poultry farms

9 feed mills

1 turkey JV

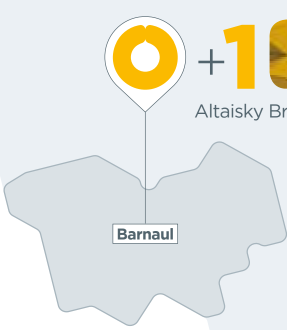
16 pig farms

12 grain elevators

19 own and **11** leased warehouses

8 meat processing and slaughter facilities

~290 th ha total land bank



+**1** Altaisky Broiler

Your Food is Our Passion

Food is not only our business – **making the nation's best meat products is our passion and mission**.

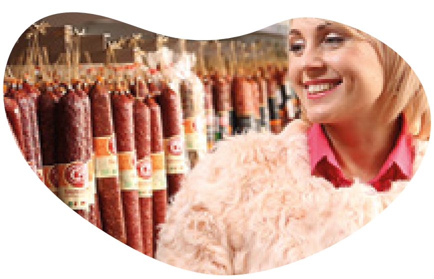
Our brands enjoy the **highest recognition rates** in the Russian meat products market. We work continuously to upgrade the design and packaging of our product lines and to expand the offering to fully meet consumer needs.

TOP BRANDS BY AWARENESS[1]

Cherkizovo is
No. 1 brand
in Russia's sausage and pork products market

Petelinka is
No. 1 brand
in Russia's poultry market

Pava-Pava is
No. 2 brand
in Russia's turkey market



Awareness rate
65.3%

Awareness rate
39.2%

Awareness rate
57.0%

1
2018 data, source: Ipsos Comcon.

The **high quality of our products** is recognized not only by our consumers, but also by industry experts.

The Turkey Carpaccio and Turkey Basturma are the winners of Prodexpo-2018 **Innovative Product award**

The Po-Cherkizovsky hot dogs and Balykovaya Po-Cherkizovsky sausage have won the **Retailers' Choice award** at Prodexpo-2018

The Product of the Year[3] award winner in the **Chicken Meat category**

The Product of the Year award winner in the **Eco-friendly Meat category**

The Domashniye cutlets and meatballs received the Quality Guarantee 2018[2] **gold medal**

Chicken and turkey fillet cutlets won the **gold medal** at the Quality Guarantee 2018 competition

Chopped turkey cutlets won the **gold medal** at the Quality Guarantee 2018 competition

2
Quality Guarantee is an international competition held by the Gorbatov Food Systems Research Center in cooperation with the Agrarian and Food Policy and Environmental Management Committee of the Federation Council of the Russian Federal Assembly.

3
The **Product of the Year** award is given to the most popular FMCG products. It is supported by the National Trade Association, Moscow International Business Association, Chamber of Commerce and Industry of the Russian Federation, and the Moscow Government.

CHERKIZOVO
SINCE 1974

>40 years we have been producing high-quality sausages and deli meats

Consumers and profound understanding of their needs are the top priorities for **Cherkizovo**. We maintain an ongoing dialogue with our customers and partners, including by leveraging the most advanced formats and channels of communication.

Hence, we know all the ins and outs of delivering truly tasty meat products

For more details on Cherkizovo products and recipes, please see our web site at

www.cherkizovo.ru

Your food is our passion

Brothers Petya and Kostya like to quickly fill up on Cherkizovo’s juicy Viennesehot dogs before school.

The hot dogs with a slightly smoked flavour are an ideal choice for a nutritious snack which will fill you up with energy for the rest of the school day.

Our
24 hour
delivery system

ensures the high quality and freshness of the products on offer

For those, who value their time

Natalia is a fan of delicious foods produced to original recipes.

As she lives and works in a big city, Natalia does not always have enough time to cook. This is why she often buys ready-to-cook Cherkizovo products, for example, pork loin for roasting.

Strict quality control across the production chain guarantees a consistently high quality and freshness of our products in full compliance with all the applicable regulations

CHERKIZOVO
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Cherkizovo Group
uses only high-quality natural and fresh ingredients for its products, with a substantial part of processed pork coming from the Group's own pig farms.

We use only natural food additives, such as salt, pepper and spices

Accommodating a wide variety of tastes

Maxim is a king of BBQ parties. He lovingly cooks Cherkizovo branded pork escalopes on a grill and serves them to his friends.

Cherkizovo products come in handy for any occasion, be it a regular lunch at home or a festive get-together with friends.

>100

items in our product range, including a wide variety of sausages, ham, sliced meat, smoked meat and pâtés

For more details on Cherkizovo products and recipes, please see our web site at

www.cherkizovo.ru

CHERKIZOVO
SINCE 1974

Cherkizovo
is one of the leading brands in the Russian meat market. Before launching a new product, we never fail to test it with our customers and consult with restaurateurs and nutritionists to choose the most delicious recipe.

Turkeys for the **Pava-Pava** brand are grown in the Tambov Region known for its green spaces. Special care and the right environment contribute to the top quality of our products.

Convenient packaging

Healthy eating

Maria is keen on keeping fit and puts great emphasis on the dietary profile and calorie count of consumed products.

Pava-Pava turkey contains two times less fat than similar products. This hypoallergenic and easy-to-digest product is an ideal ingredient for baby or diet foods.

50%
less fat

The wide Pava-Pava product range includes whole turkeys, turkey thighs and wings, medallions, diced meat, thinly cut meat, steaks, turkey by-products

For more details on Pava-Pava products and turkey recipes, please see our web site at

http://pava-pava.com

Petelinka
is a popular Russian chilled poultry meat brand.
All Petelinka brands are produced in strict compliance with the process requirements, which guarantees their strong survivability, high quality, freshness and excellent meat flavour.

Own-produced feeds, in-house incubation, diligent growth and fattening of chickens

Quality and safety assurance across the production chain

Products to satisfy the pickiest palate

Natalia likes to cook for the whole family as she feels responsible for the health of her loved ones. She puts great emphasis on a balanced and varied diet, which will be able to accommodate everyone’s taste.

Natalia opts for the Petelinka-branded chicken products, as they do not contain any growth hormones, antibiotics or food additives.

For more details on Petelinka products and chicken recipes, please see our web site at

https://petelinka.ru

Core Strengths

Vertically integrated business model

Cherkizovo Group boasts a strong vertically integrated business model and has evolved into a diversified protein producer for a sustainable and resilient future.

Please see page **40** for details

Robust growth and solid financial position

The Group's financial performance has been steadily improving. In 2018, our revenue rose by 13.5% to RUB 102.6 billion, adjusted EBITDA rose by 39.4% to RUB 20.4 billion, net profit rose by 107% to RUB 12.0 billion, and ROIC rose by 3 p.p to 12%, with dividends increasing by 35%. This growth is driven by business expansion as Cherkizovo develops its existing assets and acquires new ones, while also managing to maintain a stable financial position.

Please see page **80** for details

Combination of organic growth and M&As

The Group pursues a strategy that combines organic growth, driven by investments in new production capacities, and acquisition of operating businesses well suited for integration into the Group's business model. In 2018, production growth was fueled by the launch of new facilities, including the sausage plant in Kashira, seven nursery and finisher sites, and the Tambov Turkey joint venture, which reached full capacity in late 2017. At the end of 2018, Cherkizovo acquired Altaisky Broiler and Krasnoyaruzhsky Broiler, bought out Belaya Ptitsa's debt and purchased 75% of Samson – Food Products.

Please see page **38** for details

Distribution and logistics

The Company controls all elements of the value chain, which enables synergies in production and logistics, reduces costs, and enhances quality control across the production chain. A well-developed logistics system allows Cherkizovo to guarantee prompt delivery of refrigerated products to consumers across the regions where the Company operates. The Group continues to solidify its competitive edge in logistics, in particular by developing the supply chain and centralizing its logistics operations.

Please see page **42** for details

Strong brands

Cherkizovo Group continues to strengthen its brand portfolio, which includes the highly recognizable and popular brands of Cherkizovo and Petelinka. In just two years, the Company's new Pava-Pava brand has become the second largest in the turkey meat market.

Please see page **74** for details

Our team

Our people are our key competitive advantage. At Cherkizovo Group, we have a strong team led by outstanding industry professionals. The Company's executives have significant track record working in major Russian and international companies and have been repeatedly ranked among the Top 1,000 Russian Managers.

Please see page **98** for details

Quality excellence

The Group continues to put quality, safety and taste first. We implement stringent quality assurance and biosafety standards to ensure a consistently high product quality for our consumers. Cherkizovo develops its product offering in line with consumer preferences and latest market trends.

Please see page **74** for details

Technology and innovation

All of our production sites were designed to meet the latest efficiency and veterinary safety requirements. In 2018, the Group launched the cutting-edge sausage plant in Kashira that fully complies with the Industry 4.0 vision. Relying on our in-house R&D expertise, we make sure all Cherkizovo products are covered by comprehensive food quality and safety control. We also have a large-scale research program in place.

Please see page **46** for details

History

Today

1974 Cherkizovsky Meat Processing Plant opens in Moscow	**8** meat processing plants	**230** th tonnes	**No. 1** in Russia by meat production
1995 Cherkizovo Group taps into the pork market by acquiring **the Kuznetsovsky pig farm**	**16** pork production facilities	**237** th tonnes of pork	**No. 2** in Russia by pork production
1998 The Group enters the poultry market after acquiring **the Petelinskaya poultry production facilities**	**7** poultry farms	**544** th tonnes of poultry	**No. 1** in Russia by poultry production
2012 Cherkizovo taps into the crop **farming market**	**290** th hectares hectares of land	**696** th tonnes of crops	

2016
Cherkizovo Group **launches export operations**

exports its products to markets across
the CIS and South-East Asia

2017
Tambov Turkey reaches full production capacity

By the end of 2018
Tambov Turkey
No. 2
in Russia
by sales volume and **Pava-Pava** brand awareness

Key Events

15 January

New nursery and finisher site opens
Cherkizovo Group launched a new nursery and finisher site in Gryzlovo, Lipetsk Region, with a total capacity of 5,100 tonnes of live-weight pork per annum. Later in the year, another six pork facilities were opened.

31 January

Company launches a new turkey product
Cherkizovo Group launched a new turkey product – Herbes de Provence legs. The Company is committed to continuously expanding its product range. In 2018, Pava-Pava became Russia's second largest brand in terms of turkey sales volumes.

1 March

Cherkizovo products win prizes at Prodexpo
Four Cherkizovo-branded products won the Innovative Product and Retailers' Choice awards at Prodexpo 2018. The Innovations in Technology prize is awarded to goods boasting improved consumer properties thanks to the use of new production technologies.

11 May

Cherkizovo officers meet with university students
Cherkizovo held a meeting with students and professors of the Moscow State University of Food Production. The Group runs a special purpose Youth program aimed at attracting young talents. During the year, Cherkizovo staged a number of dedicated events, including an open day at Cherkizovo Lab and meetings at the Russian State Agrarian University – Moscow Timiryazev Agricultural Academy, Razumovsky Moscow State University of Technologies and Management and Moscovia College.

16 May

Board of Directors approves new dividend policy
The amended version of the Dividend Policy sets the minimum dividend payout ratio at 50% of net profit adjusted for net change in fair value of biological assets.

2 July

Group relaunches Cherkizovo brand
Po-Cherkizovsky became the flagship product range for the Cherkizovo brand.

4 July

Petelinka wins acclaim at Loyalty Awards Russia 2018
Petelinka's loyalty program was recognized as the Best FMCG Brand Loyalty Program and won a prize for its Efficient Use of Mobile Technology in Loyalty Program.

17 July

Cherkizovo Group opens a unique robotized meat processing plant in Kashira
Cherkizovo Group launched a robotized dry sausage plant near Kashira. The new plant is expected to produce up to 30,000 tonnes of finished products per annum. With the facility put into operation, Cherkizovo Group will account for 30% of all dry sausages produced domestically.

7 September

Petelinka gets a new design
Cherkizovo Group changed packaging for the entire range of Petelinka-branded cutlets. The move followed the launch of the Clean Label advertising campaign to market Petelinka products as natural and healthy food without any dangerous additives.

18 September

Cherkizovo Lab named top 10 laboratory in Europe
Cherkizovo Lab ranked 9th in interlaboratory comparative tests organized by Fapas (UK) and GD Animal Health (Netherlands). This remarkable achievement confirmed the strong expertise of Cherkizovo Lab's team.

29 October

Cherkizovo Group publishes its Industrial Meat Supply Index
Based on data from the Federal State Statistic Service, Federal Customs Service and Eurasian Economic Commission, the index is one of the few leading indicators giving an idea of the up-and-coming market trends and reflecting changes in meat supply in Russia.

31 October

Cherkizovo Group completes harvesting campaign
The Company achieves high yields through the systematic use of intensive farming technologies, organic and non-organic fertilizers and high-yielding heirloom and hybrid seeds.

19 November

Petelinka and Pava-Pava win Product of the Year awards
Petelinka picked up another win in the Chicken Meat category, while Pava-Pava came in at No. 1 in the Eco-friendly Meat nomination.

29 November

Cherkizovo participates in the first meeting of the FoodNet task force
Cherkizovo stressed the importance of engaging large agricultural companies to implement the FoodNet initiative. FoodNet aims to create a food market of the future by using the smart farming, accelerated breeding and personalized nutrition techniques.

4 December

Cherkizovo Group completes acquisition of Altaisky Broiler
The Group closed a deal to buy Altaisky Broiler for a total cash consideration of RUB 4.6 billion.

Altaisky Broiler is one of the largest poultry producing companies in the Siberian Federal District. The acquisition will boost the Company's share in the Russian poultry market to 12% and open up access to the Siberian market.

25 December

Cherkizovo Group buys out Belaya Ptitsa's debt
The Group acquired Russian Agricultural Bank's rights to claim a total of RUB 6.5 billion from Belaya Ptitsa Kursk, Belaya Ptitsa Belgorod and Zagorye under their loan and security agreements.

25 December (continue)

Belaya Ptitsa Group is a chicken meat manufacturer. Belaya Ptitsa Kursk can produce up to 120,000 tonnes of meat per annum. In 2017, its market share stood at 5% in volume terms.

26 December

Cherkizovo Group closes the deal to buy a 75% stake in St. Petersburg-based Samson – Food Products
The strategic partnership struck between the two companies after the deal will strengthen Cherkizovo's position in St. Petersburg and the North-Western Federal District.

Samson – Food Products is known as a producer of low-fat chilled meat goods. According to the company's own data, its share in the minced meat and meat processing market segment of St. Petersburg and the Leningrad region totals 41%.

Under the terms of identical shareholders' agreements, we have agreed that operational management, including the appointment of the General Director, remains within the authority of the seller until the final sale of the residual 25% stake.

Events after the reporting date

29 March
Based on Cherkizovo Group's performance in 2018, the Annual General Meeting of Shareholders has resolved to pay out dividends on its ordinary shares in the total amount of RUB 4.5 billion.

Message from the Chairman

2018 saw Cherkizovo Group hit an **all-time high in operational and financial performance**, with **sales boosted across all key areas**, a 13.5% increase in revenue, and a 107% rise in net profit year-on-year.

We achieved these strong results in a relatively tough market environment. Although primarily driven by one-time factors, GDP growth also increased by 2.3%. Household final consumption expenditure was up 2.2% from last year's 3.2%, while real disposable income was 0.2% down[1]. Despite the fairly flat consumption profile in the market, the Group managed to push sales up and strengthen its foothold in key segments.

1 Ministry of Economic Development of the Russian Federation. Economy picture, January 2019.

Revenue

RUB **102.6** billion **+13.5%** y-o-y

Net profit

RUB **12.0** billion **+107%** y-o-y

We continue to invest in upgrades for our facilities, optimize our business processes using the latest digital technologies.

The meat product market is now up against some stiff competition. In recent years, the industry has made marked progress, driven in part by the government's import substitution policy. Subsidies granted to poultry manufacturers enabled them to step up poultry meat production, while the government ceased its support at just the right time to balance the market. A period of lower poultry prices due to oversupply forced some of the smaller and less efficient producers to withdraw, bringing about a stabilizing effect on the market.

The government also provided considerable support to pork producers through subsidized interest rates for the industry's investment projects, and a zero tax rate on income from product sales. Over the next two to three years, new capacities are set to be commissioned, but the import substitution itself is coming to an end. This means the need for further state support is expected to dwindle and manufacturers will now seek to prioritize improvements in efficiency over volume.

To maintain growth and balanced development in this changing environment, Cherkizovo Group will be focusing on high value-added products, as well as developing and promoting food which is natural, tasty, and convenient. Our aim is to be a leading FMCG company in the meat product market.

IMPLEMENTING STRATEGY

The Group's strategy is centered on developing a successful and sustainable business, maintaining revenue and profit growth, reducing revenue volatility, and driving shareholder returns. Our vertically-integrated structure helps us to control costs and reduce our OPEX. We are now focused on evolving our offering and promoting our products, while also continuing to enhance operational efficiency. To this end, we continue to invest in upgrades for our facilities, optimize our business processes using the latest digital technologies, and offer our employees and managers more opportunities for further professional development.

We plan to focus our investments on processing, including higher value-added poultry meat products and sausage production. These projects will help us to maintain our balanced, organic growth and pursue a reasonable dividend policy, while also remaining open to opportunities for expansion through M&As.

The Group is committed to strengthening its brands and increasing the selection of branded products in the sales mix. We plan to expand our range of ready-to-eat and ready-to-cook categories and to produce more natural and healthy products, including chicken and turkey meat, and products that are free of antibiotics, E-numbers, and preservatives. We are committed to bringing all of our customers best-in-class products, which are high-quality, tasty, and competitively-priced.

We will also continue to adjust our portfolio where necessary to respond to changes in market trends and consumer preferences.

Nationwide retail chains, including X5 Retail Group and Magnit, are the key sales channel for our products: our sales through retailers were up 15% in 2018. At the same time, we are building on our relationships with fast food chains. In 2018, we became KFC's largest supplier, increased our sales to Burger King significantly, and raised our general HoReCa sales by 50%.

Restaurant chains continue to strengthen their foothold in the Russian market and we are responding to this trend in our strategy. We plan to start supplying McDonald's restaurants in 2019. Last year, we made all the necessary preparations and obtained the required approvals to this end.

One of our greatest achievements in 2018 was the launch of a new fully automated sausage factory in Kashira. With a capacity of 30,000 tonnes per year, the factory is one of the largest of its kind in the world. The Group is now positioned to meet over 30% of Russia's dry sausage market. But we are not stopping there. Over the next few years, the Group will be implementing Kashira 2, a project to build a meat processing facility, which will increase the Company's capacity to 60 tonnes of meat products and 100 tonnes of cold cuts per day.

To strengthen our market position even further, the Group is implementing a strategy for acquiring assets, provided that they meet the Company's strategic priorities, such as reinforcing vertical integration, expanding our capacity to manufacture low-volatility, high value-added products. We made several deals of this kind in 2018, including the acquisition of 75% in Samson – Food Products, Altaisky Broiler, and a number of other deals in the Poultry segment to strengthen the Group's positions in key regions where we operate.

Although we are prioritizing the domestic market, we also plan to increase our exports. As a major food producer, Cherkizovo Group plays an active role in the joint efforts of public and private sectors to expand Russian exports. As per Russia and China's agreement on the supply of poultry meat, by-products, and dairy products in November 2018, Cherkizovo Group has been listed as one of the companies authorized to export products to China. This opens new doors to increase our sales. We also see new opportunities to market our products abroad as part of our work with the HoReCa segment.

In 2018,

our general HoReCa sales grew by by **50%**

One of our greatest achievements in 2018 was the launch of a new fully automated sausage factory in Kashira

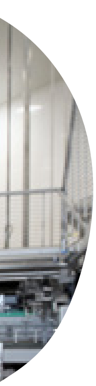
capacity of **30,000** tonnes per year

ENGAGING STAKEHOLDERS

Cherkizovo Group recognizes its responsibility to its stakeholders and actively works with suppliers and consumers, shareholders, employees and local communities.

We are dedicated to catering to the tastes and preferences of the people who purchase our meat products. When expanding our product range, our focus is on the needs and expectations of our customers. Following the current trends, we have focused on highest quality healthy products (e.g. low-fat turkey) and ready-to-eat food free of additives and antibiotics.

The Group's key partners include federal retail chains and HoReCa companies. Our work with such large customers imposing stringent requirements on meat freshness and taste is evidence of the quality and safety of our products. The Group promotes cooperation with its suppliers, consistently strengthens its supply chain, and improves its logistics infrastructure.



The Group is committed to delivering higher shareholder value and maintaining a stable dividend level to secure investor interest.

2018 saw a significant increase in Cherkizovo Group's revenues, and we plan to maintain our growth through our existing strategy. For our shareholders, we have introduced a new Dividend Policy, which raises the target dividend payout from 20% to at least 50% of consolidated net profit for the reporting period[1].

RUB 3.3 billion in dividends was distributed for the 2017 reporting year with a dividend per share of RUB 75.07. RUB 900 million was distributed as interim dividends for 1H 2018 with a dividend per share of RUB 20.48. The Group's Board recommended distributing RUB 4.5 billion as dividends for 2018. The total shareholder return amounts to 8.4% (including dividends paid in 2018).

IMPROVING CORPORATE GOVERNANCE

In its operations, the Company actively deploys the best corporate governance practices. The members of the Board are highly skilled professionals with vast experience in management, strategy, finance, marketing, and agriculture. Last year, the number of independent directors increased to three.

The Board's key committees – the Audit Committee and Personnel and Remuneration Committee – are currently made up entirely of independent directors. 2018 also saw us continue refining our approach to governance and best practices. Innovations of note include the four newly-established subcommittees in the Board's Investment and Strategic Planning Committee.

In conclusion, I would like to extend my gratitude to the Board members, the Company's management, and our employees for their efforts towards achieving the Group's strategic goals. I believe that combining our efforts is the only way for us to ensure that we will continue to develop our Company, strengthen our leadership in the Russian market, and deliver on the targets we have set ourselves.

Evgeny Mikhaylov
Chairman of the Board of Directors

1 Consolidated net profit for the purposes of calculating the dividend may be adjusted for net change in fair value of biological assets and agricultural produce and for incidental profit (loss) not related to current operations.

Message from the CEO

In 2018, Cherkizovo Group's continued focus on its strategic goals produced impressive results. Annual sales **exceeded 1 mt for the first time** in the Company's history, with the Pork, Meat Processing and Poultry divisions adding **18%**, **12%** and **4%** to their respective figures. Our relatively new Tambov Turkey joint venture enjoyed a spike of **49%**. We managed to bolster our positions in the market of meat and poultry products, placing **first in poultry**, **second in pork** and **third in turkey**.

The Group's strong operating and financial performance was mostly driven by greater efficiency and expanded production capacities, including a new sausage factory in Kashira and seven pig sites. Our investment program is focused on processing and product range expansion projects.

Adapting to consumer needs, expectations and preferences are our priority. We offer meat and poultry products for any occasion, from a regular lunch at home to a festive get-together with friends, and cover all income brackets. Our marketing strategy is aimed at expanding the branded portfolio of value-added consumer goods and developing our key brands, including Cherkizovo, Petelinka and Pava-Pava.

We are committed to streamlining our processes to facilitate cooperation with key accounts. The Group's competitive advantages include a supply chain built in line with the world's best practices and overseen by a team of professionals with experience at leading FMCG companies. Handling around 100,000 supplies monthly, we ensure that our chilled products are delivered to a wide range of customers across our footprint right on time. We always seek to purchase goods produced in Russia and support local suppliers.

The Group strictly adheres to HSE standards and puts humane animal rearing and slaughtering at the forefront of its agenda. We embrace advanced technologies to maintain perfect conditions, balanced diets and continuous veterinary care for all animals. In 2018, Cherkizovo Group adopted an HSE strategy to develop its health, safety and environment system in the next few years.

OUR PERFORMANCE

In 2018, sales across the Group's key segments increased a lot, while the average sales price grew mostly on the back of a higher share of value-added products. Our revenue rose by 13.5% to RUB 102.6 bln, with EBITDA reaching RUB 20.4 bln (up 39.4% year-on-year). Stronger revenue and EBITDA contributed to a 3 p.p. surge in ROIC pushing it up to 12%. In February 2019, the Board of Directors recommended paying RUB 4.5 billion in dividends, which represents a 35% increase from a year ago.

In 2018, the Poultry division expanded its sales by 4% to 544.2 kt, while the average sales price added 9% to reach RUB 96.9 per kg mostly owing to a higher share of branded products.

Its key brand, Petelinka has earned a reputation for its range of high-quality natural chicken products. In 2018, the revenue from Petelinka climbed up by 35%. Its leadership in Moscow and St. Petersburg is attested by strong brand awareness at 82% and 66%, respectively. As healthy lifestyles gain traction, our Clean Label range has been offering products that are free of antibiotics, food additives, or preservatives.

At the end of 2018, Cherkizovo Group acquired Altaisky Broiler to expand into the Siberian Federal District market.

Around the same time, we bought out debt of Belaya Ptitsa, a chicken meat manufacturer. Since the Central Federal District is the brand's key region, we hope to gain an ever stronger foothold in its market for poultry products.

The Pork division also performed well, with four new nursery and finisher sites driving production and sales up by 17% to 247.3 kt and by 18% to 236.9 kt, respectively. The average sales price increased by 7% to RUB 98.2 per kg.

Excellent results were shown in terms of costs and production efficiency. In 2018, we became a top 10 pork producer by efficiency, meeting a target set several years before. Our extensive efforts included a genetic program to ensure self-sufficiency in high-quality genetic material.

In 2018, we put into operation seven pig sites in the Lipetsk, Penza and Voronezh regions to add some 180,000 head to our annual capacity in the segment. In 2019, we plan to complete the pork farm of a new type by launching a few more similar nursery and finisher sites in the Penza Region.

In the Meat Processing division, sales rose by 12% to 229.5 kt mostly on the back of expanded production capacities, including the launch in Kashira. The average sales price was almost flat at RUB 169.6 per kg. In 2018, we secured a leading position in the steadily growing dry sausage segment, which boasts great potential amid a shift in consumer perception driving the deli product into the FMCG category.

Cherkizovo – our flagship brand in the pork and sausage categories – offers a wide range of high-quality products. In 2018, it was restructured to focus on mid- and high-end markets for dry and semi-smoked sausages and hams.

In 2018, we launched a fully automated sausage factory in Kashira, one of the world's largest factories of the kind, to satisfy the growing demand for our meat processing products. Cutting-edge technology introduced to embrace the Industry 4.0 vision has enabled its production robots and ERP system to interact directly via AI, eliminating the need for human involvement, reducing production costs and ensuring the highest quality and safety of products.

The launch in Kashira was an important step to further our strategy centered around branded value-added products.

In a move to expand its value-added portfolio, the Group acquired a 75% stake in St. Petersburg-based Samson – Food Products. As Samson is a well-known premium brand in the local market, the acquisition will bolster our position in both the North-Western Federal District and St. Petersburg.

In 2018, the Grain division increased its sales by 54% to 696.1 kt, with grain harvested in 2017 as the main driver. Yields shrank by 24% to 479.7 kt due to smaller crop areas for wheat and corn. The average sales price added 41% to reach RUB 9.9 per kg.

One of the performance highlights was the division's higher margin. More intensive farming, as well as further improvements in operational efficiency and yields, are some of our key priorities for the segment.

As at the year-end, the Group's land bank totalled 290 thousand ha, unchanged from the previous reporting period.

Going forward, we plan to consider using organic and non-organic growth opportunities to expand our land bank amid larger production and sales.

The recent years have been marked by a shift to healthier lifestyles. In 2017, Cherkizovo Group leveraged this trend by entering the turkey market with Pava-Pava. A low in calories type of meat, turkey is an ideal choice for diet enthusiasts. We grow our turkeys in the Tambov Region, which is known for its green spaces, to make products that contain two times less fat than their alternatives.

In 2018, turkey meat sales significantly grew by 49%, to 39.2 kt and the average sales price rising by 2% to RUB 147.9 per kg. Most turkey was sold in Moscow and St. Petersburg, where Pava-Pava holds the second place.

As convenient food gains traction, the demand for ready-to-cook and ready-to-eat products grows, prompting us to build up our high-quality value-added offering. For example, we plan to include ready-to-eat and sausage products in our Pava-Pava and Petelinka ranges.

QUALITY ASSURANCE

At every stage of the production cycle, we are strongly committed to quality and biosafety, making them our priorities from farm to store. The Group always seeks to improve its quality assurance system and invest in voluntary control methods, where Cherkizovo Lab with its own solutions is seen as a major contributor. Trainings help our employees stay up to speed on food safety.

In 2018, the government stepped up its regulatory efforts in respect of the products subject to veterinary control. In July, the Federal Service for Veterinary and Phytosanitary Surveillance of Russia (Rosselkhoznadzor) launched Mercury, a nation-wide information system that tracks animal source products at each stage of their life cycle. Cherkizovo Group fully complies with the Mercury-related requirements.

In 2018, we completed the roll-out of the Hazard Analysis and Critical Control Points (HACCP) system and now look forward to obtaining a certificate verifying our compliance with the applicable standard. The Group also started implementing a new cooling technology to evaluate finished products and identify the stages with potential flaws. Once in place, it will extend the shelf lives of meat processing and pork products. A similar technology has already driven a twofold increase in the poultry shelf lives (from 5–6 days to 12 days).

FURTHER DEVELOPMENT

In 2019 and the medium term, we will continue to expand our portfolio of high-quality pork, chicken and turkey products while implementing projects to strengthen our key brands and improve operational efficiency across the board.

As we look to focus more on the branded products, the share of our valued-added offering is set to grow from 60% to 80% in the medium term, markedly boosting revenue and profit per kg.

Strengthening and expanding cooperation with our key customers – federal retail chains and fast food restaurants – is another strategic priority. In the medium term, we expect our high-quality and competitively priced products and robust customer service to drive the HoReCa segment's share of supplies from 5% to 15–20%.

Over the same period, our solid relationships with retail chains and current focus on the domestic market will see the Group secure a stronger foothold in such regions as the Urals, Siberia and northwestern Russia. In the longer term, we also plan to expand into new markets, including those of Asian countries. The Group's strategic goal is to attain leadership in Russia and become one of the world's most efficient agricultural producers.

Our competitive advantages include vertical integration, a wide range of products catering to every taste, a well-defined strategy, loyal and highly qualified employees and the trust of consumers and our key customers – retail and restaurant chains. I am convinced that all these factors will help us achieve our long-term strategic goals on time.

In 2018, our accomplishments were largely attributable to seamless teamwork, and I would like to thank all the employees, managers and directors for their role in our collective success.

Sergey Mikhailov
CEO of Cherkizovo Group

Market Overview

Supply trends

In 2018, Cherkizovo Group presented and began publishing its Industrial Meat Supply (IMS) Index on a monthly basis.

Based on data from the Federal State Statistic Service, Federal Customs Service and Eurasian Economic Commission, the index reflects changes in meat supply in Russia and gives an idea of meat consumption based on the relative stability of inventories. The composite index includes individual poultry, pork and beef supply indices.

The IMS Index remained almost flat (y-o-y) in January–December 2018 and was driven by the following key factors:

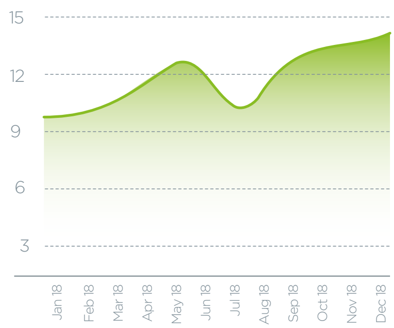
1

Relatively high level of supply in 2017 (high base effect).

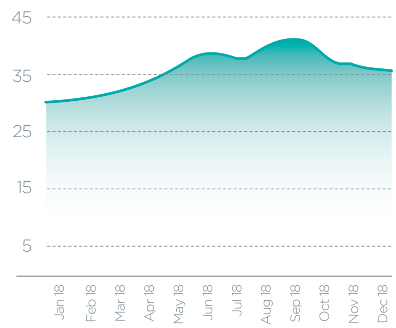
2

Higher production costs largely driven by a significant increase in the cost of grain and soybean meal, which account for up to 70% of the cost of pig and poultry rearing.

Prices for grain, RUB per kg



Prices for soybean meal, RUB per kg



Source: Institute for Agricultural Market Studies (IKAR).

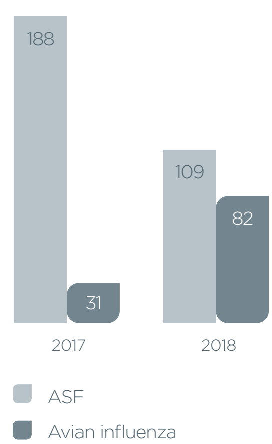
3

Changes in the structure of meat imports by country. This factor influenced pork supplies, with shipments from Brazil banned in late 2017 due to the use of ractopamine (a growth promoter and a possible carcinogen) by Brazilian producers. Supplies resumed on November 1, 2018, however the volumes shipped in December turned out to be insignificant and had no material impact on the market.

4

Challenging epizootic environment: forced culling of livestock and poultry due to African swine fever (ASF) and avian influenza. With increased outbreaks of avian flu and reduced number of ASF incidents, a number of large facilities of leading pork and poultry producers have been affected.

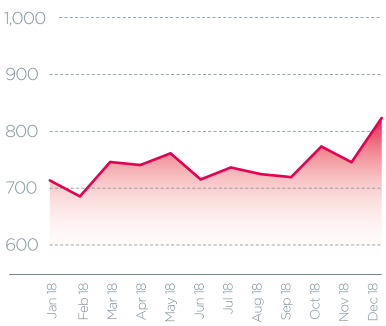
Number of outbreaks



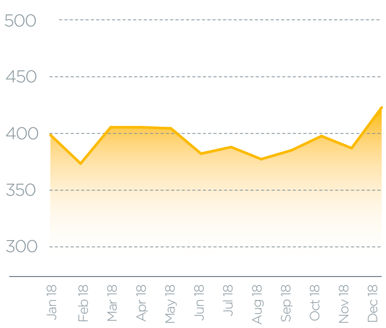
Source: World Organization for Animal Health (OIE).

The **IMS Index** remained almost flat (y-o-y) in January–December 2018[1]

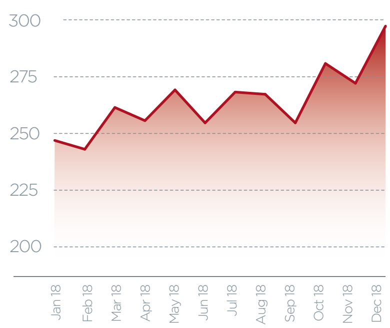
The Industrial Meat Supply Index (composite)



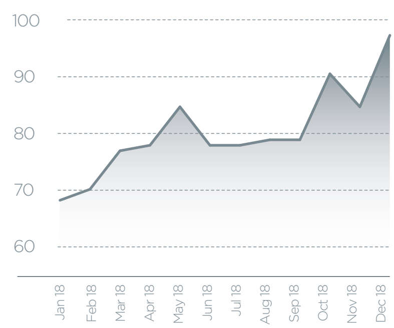
The Industrial Meat Supply Index of poultry



The Industrial Meat Supply Index of pork



The Industrial Meat Supply Index of beef



The Industrial Meat Supply Index of poultry was up 1% in January–December 2018, with a 4% increase posted in December. The index does not trace poultry statistics broken down by turkey and broilers. We estimate that the supply of turkey increased in 2018, while the supply of chicken meat remained flat or declined marginally. In 2019, we expect a slight increase in the supply of chicken meat.

The Industrial Meat Supply Index of pork went down by 1% in January–December 2018. We estimate that the index dynamics will be positive in 2019.

The Industrial Meat Supply Index of beef remained flat in January–December 2018, with an 8% drop posted in December. Import volumes decreased, while the production volumes remained unchanged. In 2018, beef production increased both in farm businesses and farm households, picking up from the negative growth posted earlier.

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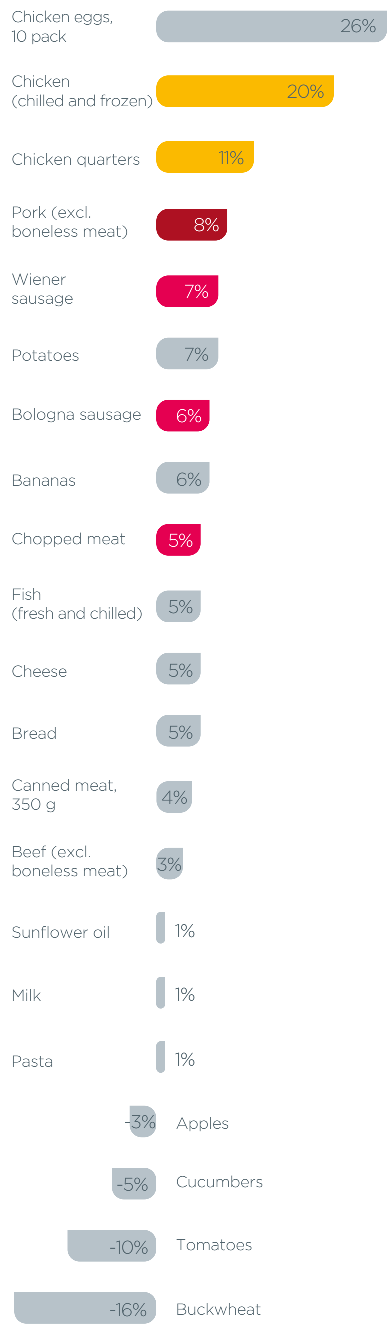
1 Here and throughout this report, changes are measured against the same time period last year.

Demand trends

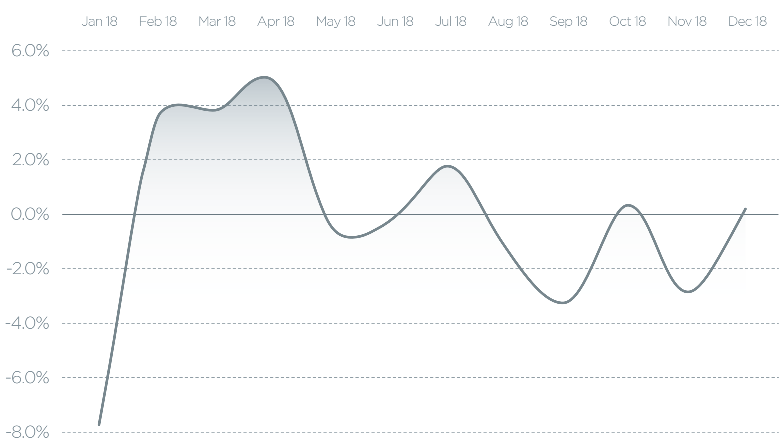
2018 saw the real disposable income of Russian households stabilize, with the annual decline of only -0.2%, which is close to the statistical error. According to Bloomberg's estimates, GDP rose by 1.6% and the household expenditure (a GDP component) continued to grow. Retail prices for pork and chicken meat increased by 1% and 1% respectively.

In 2018, food inflation for many products was primarily driven by a rise in production costs due to a weaker rouble and declining grain harvests in the 2017–2018 season. Importantly, since 2014 meat prices in Russia have been growing much slower than inflation, which signals that the industry has developed high efficiency and strong competition.

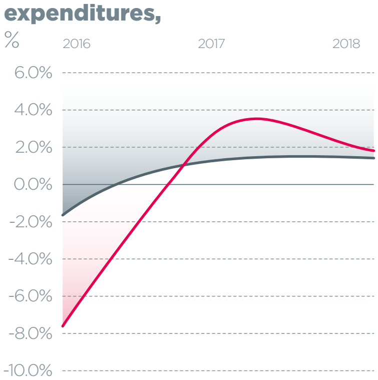
Changes in food prices,
%



Change in disposable household income y-o-y,
%



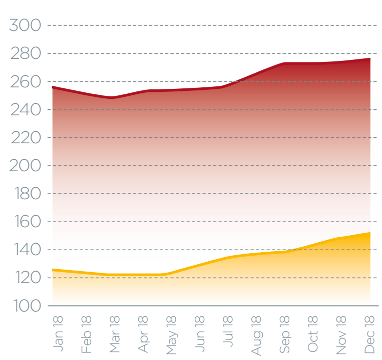
Change in GDP and household expenditures,
%



GDP

Household expenditures

Retail prices for pork and chicken meat,
RUB



Pork

Chicken meat

Source: Bloomberg.

Cherkizovo Group's ranking in industry ratings

Cherkizovo Group is the leading meat producer in Russia, with a share of 6.3%[1]. In 2018, the Company increased its share in the total industrial pork production by 0.6 p.p. to 6.1% and remained second in the rating of Russia's largest pork producers, narrowing the gap with the leader. The increase in the Company's output was driven by the implementation of the program to improve parent stock genetics.

Cherkizovo Group is the largest poultry producer (including chicken and turkey) in Russia with market share equal to 10.1%. In addition to **ramping up poultry production** at its key facilities, the Company acquired Altaisky Broiler in December 2018.

Russian poultry market in 2018

Ranking	Company	Share in the total industrial poultry production in Russia
1	Cherkizovo Group	10.1%
2	Resurs	9.9%
3	Prioskolye	8.2%
4	FA Tkacheva	4.7%
5	Belgrankorm	4.5%
	Other	62.6%

Russian pork market in 2018

Ranking	Company	Share in the total industrial pork production in Russia
1	Miratorg	10.2%
2	Cherkizovo Group	6.1%
3	Agro-Belogorye	5.3%
4	RosAgro	5.3%
5	Velikoluksky	5.2%
	Other	67.9%

Source: the National Union of Swine Breeders.

Russian processed meat market in 2018

Ranking	Company	Share in the total industrial poultry production in Russia
1	Ostankino	6.2%
2	ABI Product	4.8%
3	Cherkizovo	4.2%
4	Talina	3.9%
5	Prodo	3.6%
	Other	77.3%

Russian turkey market in 2018

Ranking	Company	Share in the total industrial poultry production in Russia
1	Damate	32.6%
2	Evrodon*	16.6%
3	Cherkizovo	13.9%
4	Krasnobor	9.1%
5	Other	27.8%

*Ceased operations 2H 2018.

[1] According to Agroinvestor Magazine.

Our Strategy

Cherkizovo Group is the **largest vertically integrated consumer-driven meat producer in Russia**. Our strategy focuses on ensuring **long-term success and sustainability of our business**, supporting revenue and profit growth, and delivering higher shareholder returns, which will help **cement our leadership** in the Russian meat market.

The Group seeks to respond to consumer needs and preferences by producing high-quality and healthy foods.

We increasingly rely on advanced technologies to secure the quality of our products. In particular, we leverage lean and Industry 4.0 techniques to minimize human involvement and deliver

consistently high quality of end products. Additionally, product quality is monitored by our corporate R&D center.

The Company's facilities adhere to the best available biosafety practices, including rigid hygiene standards for employees with access to animals. The Group operates its own logistics network to ensure full control over the vehicles and product safety throughout the production cycle.

Committed to continuous growth, we works tirelessly to upgrade technologies, quality and safety of our meat products.

PLANS FOR 2019 AND THE MEDIUM TERM

① Launching new pig farms

② Designing a project to construct an oil extraction plant

③ Strengthening positions in the poultry and meat processing markets, among other things, through selective acquisitions boosting shareholder value

④ Developing the supply chain, streamlining logistics and supplier management

⑤ Expanding footprint, including export geographies

⑥ Our acquisition of Rosselkhozbank's receivables from Belaya Ptitsa is intended to be the first step in our pending acquisition of Belaya Ptitsa assets, through the recovery of the underlying collateral under the aforementioned security agreements. We currently operate these assets pursuant to a lease agreement.

STRATEGIC PRIORITIES

1 **Strengthening market leadership**

2 **Increasing the share of branded products**

3 **Ranking among top quartile performers globally**

4 **Deepening vertical integration**

STRATEGIC GOALS

1	2	3	4
Sustainable development for the benefit of consumers and other stakeholders	Higher revenue per kilo of live weight and gross profit	Strict cost discipline in the short and long term	Lower profit exposure to FX rates and feed ingredient prices
Facilitating the overall growth of the meat industry	Lower gross revenue dependence on feedstock prices and closer correlation between revenue and higher consumer spending	Continuous improvement at early production stages to boost competitiveness both domestically and abroad	Sustainably high quality and biosafety of end products through direct control along the entire production chain
Achieving economies of scale, among other things, by implementing new IT solutions		Retaining the market share despite a strong price competition	Carefully timed product delivery and supply from farm to fork
Strengthening competitive edge with a focus on advanced technologies and rigid quality control		Creating value to shareholders regardless of the market environment	

IMPORTANT MILESTONES

- Buy-out of Belaya Ptitsa Kursk's debt
- Acquisition of Altaisky Broiler and Krasnoyaruzhsky Broiler
- Launch of Antibiotic-Free Meat project in the Poultry segment
- Construction of seven new nursery and finisher sites
- Acquisition of Samson – Food Products
- Launch of the Kashira plant

Our Strategy

Business model

RESOURCES

Investment in expansion and modernization of production facilities

RUB **15.3** billion

CAPEX in 2018

8

new

production facilities launched in 2018

Key acquisitions in 2018

Altaisky Broiler, one of the largest chicken producing companies in the Siberian Federal District

Samson – Food Products, a leading minced and processed meat producer in St. Petersburg and the Leningrad Region

Acquired rights to claim obligations from **Belaya Ptitsa** Kursk under their loan and security agreements

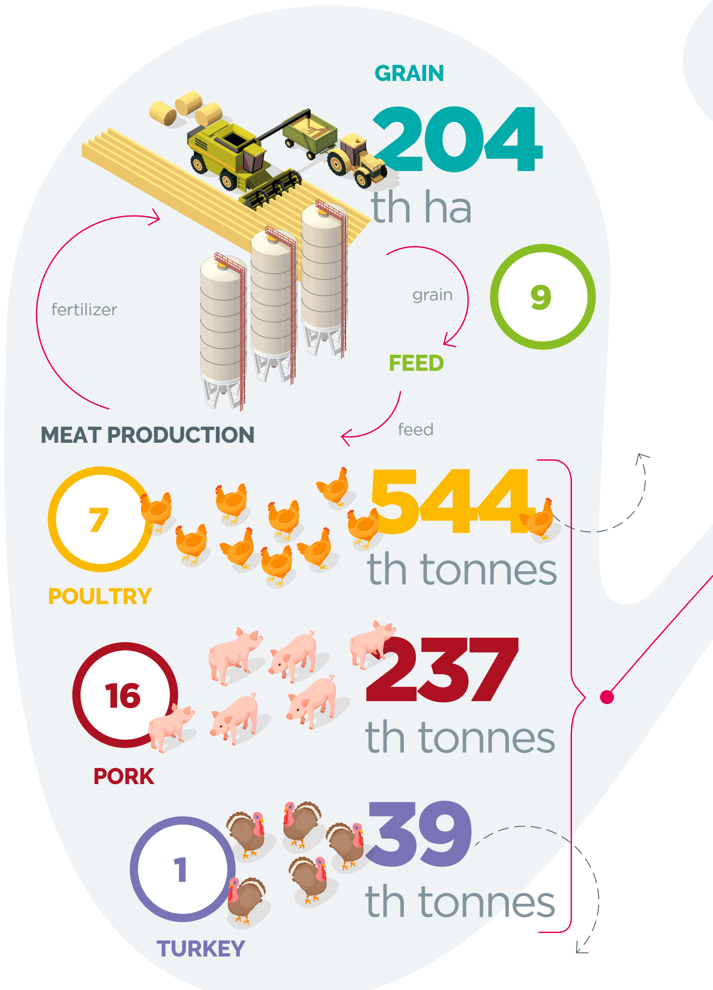
New assets will be integrated in our business model in 2019.

Highly qualified employees

23,496

OUR BUSINESS

Cherkizovo Group uses a vertically integrated business model



Research and development

Own **R&D center**

1,500 sq m of unique laboratory facilities

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

Marketing research, consumer opinion polls

RUB **102.6** billion

Revenue

2.9x

Net debt / EBITDA

9 Number of assets
External sales
Internal sales

PERFORMANCE

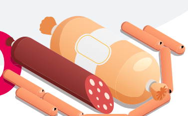
Our vertically-integrated business model offers the following advantages:

① control throughout the production cycle,
② adaptability to market conditions,
③ economies of scale.

meat for processing

8 **MEAT PROCESSING**

230 th tonnes



High-quality, tasty and healthy foods

High level of key brand awareness in Russia

65% Cherkizovo

57% Pava-Pava

39% Petelinka

26% Kurinoe Tsarstvo

Recognition of high-quality products, including the certification of Petelinka and Pava-Pava with the Russian quality mark

Dividends

The Group paid dividends following 2018 results

RUB **5.4** billion

or RUB 122.11 per ordinary share

Youth programs

Dual education programs

at **4** universities

74 students

enrolled in 2018

Sustainable growth underpinned by strong financial position

RUB **20.4** billion

EBITDA

19.9%

EBITDA margin

Benefits for local communities

The Group is a large taxpayer and creates new jobs in the regions of operation

RUB **900** million

The Group regularly runs various sponsorship and charitable projects to support vulnerable social groups

~ RUB **10** million

Strategy

Supply chain

Our robust supply chain built in line with the best international practices **is a major competitive advantage** and the key to successful implementation of the Group's development strategy. Its smooth operation is ensured by a team of highly qualified experts with extensive experience working in leading international FMCG companies.

SUPPLY CHAIN STRUCTURE

Grain and Feed segments

The Group's vertically integrated supply chain starts with the Grain segment. To meet the Group's annual production plans, we purchase seeds, fertilizers and plant protection products, with the bulk of harvested crops sold in-house to our own feed mills.

Our mills source feed ingredients both within the Group and from third-party suppliers. The purchases mostly include soybean meal, grain and fats.

The Group manufactures some 6,000 tonnes of feed per day, all of which is supplied to our own breeding facilities.

Poultry and Pork segments and the Tambov Turkey joint venture

Our poultry and pork facilities procure feed from the Group's feed mills entirely. Tambov Turkey joint venture produces its own feed.

In the Pork segment, animals are first delivered to slaughter facilities in Penza and Dankov. A part of pork carcasses is then sold to third parties, while the remaining portion is shipped to the Group's meat processing plants. Our goal is to increase the share of pork supplied to in-house production facilities. Currently, approximately 250,000 tonnes of half-carcasses are shipped annually.

In the Poultry segment, including the Tambov Turkey joint venture, birds are delivered to slaughter facilities, where they are processed and then sold to retailers. If there are no orders, the Company has the capacity to store some of the products in freezers. Annually, some 600,000 tonnes of birds are transported to slaughter facilities.

Meat Processing segment

The Meat Processing segment is the final element of our supply chain. It involves the production of finished products, including sausages and ready-to-cook items, from the components produced by our animal breeding segments. The meat processing products are supplied to retailers and other customers.

OUR VEHICLE FLEET

We use our own vehicle fleet to transport animals and products between the Company's facilities. This way we are able to ensure the highest biosafety standards, as all our shipments are closely monitored and controlled by veterinarians to prevent any potential biological hazards from spreading across the supply chain. We are also committed to humane treatment of animals and make sure that they are properly transported to avoid any injuries. When needed, we also rent third-party vehicles to deliver our products to customers. Our responsible transportation practices help ensure superior product quality.

IMPLEMENTATION OF MERCURY INFORMATION SYSTEM

In 2018, the government launched Mercury, an electronic veterinary certification system, mandating industry players to obtain electronic shipment certificates to enable animal product tracking from farm to shelf. Cherkizovo Group has successfully implemented the system in its supply chain. Mercury has improved transparency in Russia's meat supply sector, enabling Cherkizovo Group to further strengthen its market position as a responsible producer and supplier of animal products.

SALES

Cherkizovo Group is a leading market player selling chicken, turkey and processed meat products to customers across Russia. Major orders are shipped directly from our meat processing plants. Smaller orders are assembled at the BIKOM distribution center in Moscow and at the Company's subsidiaries in St. Petersburg, Krasnodar, Yekaterinburg, Ulyanovsk and Penza.

The BIKOM center and the Krasnodar subsidiary have recently implemented the SAP system to enable joint shipments of chicken, turkey and ready-to-cook products in the region.

See p. **78** for more sales information.

PROCUREMENT

Cherkizovo Group procures feedstock to meet production needs across its value chain. We always seek to purchase directly from manufacturers to avoid the services of middlemen and make the procurement process more transparent and efficient. Our annual procurement plans are drawn up in a way to purchase the necessary products at the lowest price.

All major feedstock and production components are centrally procured through the Group's single trading company accounting for approximately 80% of all purchases in financial terms. In the reporting year, the Company switched to the TenderPro electronic tender platform for its procurement needs.

We work continuously to improve our supply chain efficiency by always comparing the products we purchase with available alternatives. If the latter are less costly and do not compromise end-product quality, we start using them in our production. A more efficient procurement process also helps reduce the Company's environmental footprint by limiting the use of packaging materials.

The Company works exclusively with reliable trusted partners and maintains a register of responsible suppliers. We verify supplier certificates and conduct on-site audits if necessary.

In the Grain segment, Cherkizovo Group develops annual cultivation plans based on its feed production needs and the crop margins. The Group has sufficient capacity to store a seven-month supply of grain for in-house needs. We seek to purchase grain immediately after the harvest when prices are at their lowest. To free up additional storage space for the purchased grain, we dry and preserve some of our own crop right in the field.

Whenever possible, we seek to purchase Russian-made products. The company supports local suppliers by purchasing feed grain from local producers. Our experts travel to the farms to assess the quality and arrange for grain delivery to feed mills.

.

THE MAIN EXTERNAL PROCUREMENT CATEGORIES BY SEGMENT

Segment	Category
Grain and Feed segments	• Seeds • Fertilizers • Plant protection products • Agricultural machinery and repair parts • Feed ingredients (including soybean meal and fats)
Poultry segment	• Veterinary drugs • Equipment and components • Genetic material
Tambov Turkey joint venture	• Genetic material • Veterinary drugs • Equipment and repair parts • Feed ingredients
Pork segment	• Genetic material • Veterinary drugs • Equipment and repair parts
Meat Processing segment	• Ingredients for end-product manufacturing • Packaging

RUB **48.6** billion

worth of products was procured in 2018,
96% of which from local suppliers.

PLANS FOR 2019

In 2019, we will continue working on reducing our logistics costs, streamlining warehouse and transport logistics and enhancing procurement planning. One of our major priorities is to integrate the assets acquired in late 2018 into the **Company's supply chain**.

In early 2019, we expect to complete the **expansion of the BIKOM distribution center in Moscow**, which will almost double its storage capacity with 4,000 additional pallet positions and help further consolidate shipments.

The project is estimated to cost **RUB 322 million.**

Strategy

Investment program

Cherkizovo Group has been implementing a large-scale investment program, with some **RUB 90 billion invested** in business development over the past decade, including construction of new facilities, improving operational efficiency, and introducing stringent quality control and biosafety assurance mechanisms. **These investments contributed** not only to our own business development, but also to **the growth of the industry at large**. Most of the investment projects were implemented in the Moscow, Lipetsk, and Penza regions.

Today, major investments in pork and poultry production facilities are nearing their completion. Going forward, we are planning to focus on processing facilities, and specifically on increasing production efficiency and expanding high value-added product lines as our core investment priorities.

In 2018, our investments totalled RUB 10.6 billion[1], of which RUB 4.9 billion were invested in the construction and launch of new facilities. The year saw the opening of a unique fully automated smoked sausage plant in Kashira, a groundbreaking event for the Group. In addition, we put into operation seven nursery and finisher sites in the Pork segment.

Information on the meat processing plant in Kashira is provided on page **64**.

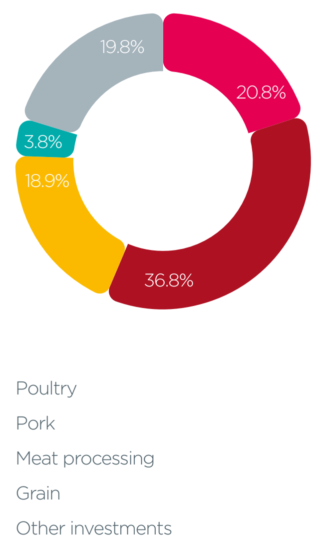
Apart from production facilities, the Group invests in personnel development, logistics optimization, and efficiency improvement projects. One of the priority investment areas in 2018 was to finance the standardization of the production process and construction materials. In addition, we continued investing in development of our vehicle fleet, including leasing new and replacing old vehicles.

Our investment program mostly relies on the Group's own resources and borrowings.

Investments in production projects by segment are described in the operating results sections on page **52**.

Information on personnel development is provided on page **98**.

Share of investments in main segments,
%



1 Figures that relate to investments on this page are based on management accounts.

Quality Management System

At the core of Cherkizovo Group's operations is the **"Quality from farm to fork"** approach, which enables us to offer products that comply with all quality and biosafety requirements.

In order to ensure centralized control and adherence to biosafety standards, the Group enhances its quality assurance system at every stage of production, investing in additional voluntary control methods, improving its internal quality standards, and implementing cutting-edge technologies (that includes Cherkizovo Lab's solutions).

The Group has made a big investment in an innovative cooling and temperature compliance system for the poultry supply chain (Poultry segment), stabilizing the key organoleptic and safety properties of its products and achieving a twofold increase in the poultry shelf lives (from 5–6 days to 12 days). In 2018, Cherkizovo Group started implementing this technology in its Meat Processing segment to extend the shelf lives of finished pork products.

Marking a milestone for the year, the Group completed the roll-out of the Hazard Analysis and Critical Control Points (HACCP) system.

In 2019, all facilities in the Meat Processing segment are expected to undergo international certification to verify HACCP compliance. All slaughterhouses in the Poultry segment have been certified against the Food Safety System Certification (FSSC) international standard.

Three facilities in the Poultry segment have received an international Animal Welfare certificate for compliance with the Humane Husbandry standard. This kind of certification is completely new for Russia, but mandatory when it comes to the EU and leading global companies. Designed to minimize losses and improve meat quality, the standard is outlined to cover animal treatment at every stage from farm to processing. Following its adoption, we saw an increase in the output of AA (premium quality) products. Cherkizovo Group plans further improvements in this area and expects to reconfirm the certificate in 2019.

The quality management system relies on the expertise and experience of our employees, who regularly attend professional training sessions and study new methods of managing food safety risks.

The Group uses effective and safe detergents and disinfectants, and its equipment and production facilities comply with the sanitary and hygienic requirements of good manufacturing practices (GMP).

Cherkizovo Group has been certified under the following international quality standards: GOST R ISO 9001 – 2008 (ISO 9001) for Meat Processing plants and FSSC 22000 for Poultry facilities. The new dry sausages plant in Kashira is expected to undergo Food Safety System Certification in Q1 2019. The Group's products comply with the EU, UAE, Egyptian, Tanzanian, Angolan, Beninese and Chinese standards.

Elements of the Quality Management System

Element	Description	2018 results
Hazard Analysis and Critical Control Points (HACCP)	HACCP is a systematic preventive approach to ensuring food safety and addressing biological, chemical and physical hazards in production processes.	Cherkizovo Group completed the implementation of the necessary system elements.
Mercury	Mercury is a government system for tracking animal source products to enhance veterinary and biological safety and combat counterfeits. Starting 1 July 2018, the use of the Mercury system became mandatory.	Cherkizovo Group strictly adheres to the requirements for the roll-out of the Mercury government information system. The system tracks the Group's products at each stage of their life cycle on the way from farm to fork.
Laboratory control	All stages of the production process feature laboratory studies on an ongoing basis to ensure regulatory compliance.	Control activities are performed regularly and comply with all applicable requirements. In addition to mandatory control procedures, the Company has a voluntary product control system in place that makes use of Cherkizovo Lab's research.
Pest control	Pest control is a complex system that includes humane methods of preventing potential contamination of foods by rodents, insects and birds.	In 2018, the system operated as usual.
Employee training	Regular food safety trainings for everyone to make sure that the highest health and safety standards are met.	Cherkizovo Group performs a knowledge and qualification assessment for each employee to identify any gaps, and organises educational programs on a regular basis. During the year, the Group arranged a series of quality assurance and product safety trainings.
Requirements for contractors and supplier management	Contractors may start working at the Group's facilities only subject to their full compliance with the Group's quality and safety requirements.	In 2018, the Group continued to improve its supplier management system, performing regular quality and safety audits of supplied products and training new contractors.
Consumer feedback management	The Group has two hotlines for clients and makes sure that every complaint is investigated and dealt with. Health-related complaints are looked into within 24 hours, and other complaints are reviewed within a seven-day period. The quality assurance department and heads of segments receive daily reports on all quality-related complaints.	In 2018, Cherkizovo Group continued working to improve its consumer feedback management. In particular, the Group developed and implemented new procedures for receiving complaints, and centralized the complaint handling process.

Innovations and R&D

Cherkizovo Group seeks to **innovate all along** its production chain. We rely on state-of-the-art technologies **to enhance the quality** and taste of our products and make them more competitive.

R&D management

In 2018, the Group's research efforts reached a new milestone as we set up a centralized R&D function – Department of Research and Development aligned with international standards. The R&D[1] management framework capitalizes on the expertise of international majors while also giving attention to the business structure and legacy of Cherkizovo Group.

The R&D function is in charge of cross-functional project interaction between the core divisions of the Group – marketing, production, procurement, financial control, and quality assurance functions.

In order to effectively roll out R&D projects, we cooperate with research institutes: Gorbatov's All-Russian Meat Research Institute (VNIIMP), the Scientific Research Institute of Nutrition at the Russian Academy of Medical Sciences, and the All-Russian Research and Development Institute of Poultry Processing Industry (VNIIPP). The Group also engages international experts from Italy, Spain, Austria, and the US.

We operate two pilot facilities at the sites of Cherkizovsky Meat Processing Plant and Mosselprom specifically for R&D purposes. The facilities are equipped to simulate any process flow in product development.

Production innovations

Cherkizovo Group's research initiatives focus on tangible benefits, mainly by ensuring best-in-class quality of products.

Key R&D projects of 2018:

1

Removal of E number food additives from Petelinka products, which enabled the Group to nearly double the sales of cutlet products.

2

Process support for the launch of a fully automated sausage plant in Kashira. The R&D team has fine-tuned the plant's processes, and implemented and adjusted the manufacturing of Cherkizovo Group's existing and new products at the entirely automated facility.

1 **R&D (Research and Development)** : activities that give rise to launching a new product into production, from academic research to manufacturing of prototypes.

3

Expansion of the Pava-Pava product line with the introduction of seasonal products for roasting (turkey, rolls and spiced ham), chopped ready-to-cook products with stuffing (cutlets with paprika or cheese), and steaks ready for frying.

4

Launch of Cherkizovo chopped bacon that pioneered L-board packaging in the Russian market. The solution helps make the process flow more automated. Also, with L-shaped cardboard, removing bacon from the package is easy – a feature that matters for the end user.

R&D talent pool

We know from experience that the Russian meat processing industry has a shortage of skilled R&D professionals. To source human capital in R&D, Cherkizovo engages graduate students and runs mentoring and training programs.

One of Cherkizovo Group's key formats of cooperation with educational facilities is its dual education program. It combines theoretical classes at a university or college with hands-on workplace experience. This helps young professionals to improve the quality of their education and competencies, and to start working after graduation without any additional onboarding or extensive retraining.

In 2018, students majoring in Technology of Animal Products were engaged by Cherkizovo's R&D function under the dual education program. On top of skill development, students also had an opportunity to learn more about the R&D function, its key focus areas and projects. In 2019, the Group is planning an additional round of recruitment to bring in students for practical R&D training and dual education.

For further details see:

Our Employees 98

Cherkizovo Lab

The R&D unit's strategic partner is Cherkizovo Lab, an innovative in-house R&D center. This experimental laboratory is engaged in the analysis of food products, feeds, packaging and soil, and uses top-class, highly efficient equipment unrivalled in the Russian agricultural sector.

Cherkizovo Lab's mission is to control the quality of food and feeds in line with applicable standards. The center also conducts independent analysis of products for third parties (government agencies and agricultural market players).

Cherkizovo Lab teams up with more than 70 regular external customers. It also holds dedicated training sessions on a paid basis. Since 2017, Cherkizovo Lab has had an educational licence that authorizes it to run training programs for the agricultural sector, and to award official diplomas.

Cherkizovo Lab's cutting-edge equipment enables more than a thousand types of laboratory tests for all agricultural needs ranging from soil analysis to the quality control of finished products and packaging materials.

The center conducts research in biotechnology, genomics, molecular biology, veterinary and sanitary examination, and medicine.

To control product quality, the Lab combines instrumental methods of assessment and control, and independent biosensor evaluation of samples. This helps to track even the slightest fluctuations in product quality and effectively handle them.

The center enables Cherkizovo Group to ensure high quality across its production chain – from farm to fork.

2018 highlights

Feed and animal source products quality control center

The center was one of the first in Russia to successfully test a method for analyzing enzyme activity of beta-mannanase in feed additives, premix compounds and compound feeds, and implement a method for in-vitro assessment of feed and feed component digestibility.

Also in 2018, a set of laboratory methods to identify counterfeit feeds and feed components was put in place. For the first time in Russia, three rounds of interlaboratory comparative tests were organized to focus on vitamin A and E levels in premix compounds and amino acid profiles of compound feeds.

http://cherkizovolab.ru/labs/food/
(only available in Russian)

Veterinary and sanitary examination center

Food products from eight of the Group's poultry and meat processing plants are monitored daily in the veterinary and sanitary examination laboratories.
In 2018, the center developed and implemented methods for the polymerase chain reaction (PCR) detection of Salmonella species and Listeria monocytogenes, which resulted in a considerably higher number of examined samples.
The year also saw a more than fivefold increase in the total number of microbiological tests at the center.

http://cherkizovolab.ru/labs/veterinary/
(only available in Russian)

Genomics and molecular biology center

The center was first in Russia to develop and implement a method for precise PCR typing to distinguish between three Salmonella types.
In 2018, the facility developed and implemented a method for sequencing agents of chicken infections, and successfully tested molecular methods to identify disease agents in potatoes.

http://cherkizovolab.ru/labs/genomics/
(only available in Russian)

Taste tests
(for professionals and consumers)
http://cherkizovolab.com/labs/tasting
(only available in Russian)

In 2018, the **number of tests** run by Cherkizovo Lab **almost doubled**, exceeding **250** th tests

Cherkizovo Lab is a top 10 laboratory, having ranked 9th overall in interlaboratory comparative tests among more than 90 leading European providers and coming in as the leader in a range of categories, including determining mass fractions of moisture, crude fiber, fat-soluble vitamins and micronutrients in feeds, compound feeds and compound feed components.

Cherkizovo Lab has been implementing joint initiatives with Skolkovo, RUSNANO and Sechenov First Moscow State Medical University.

With an average age of 30, the team consists of more than 30 talented Russian scientists. Trained to international standards, who regularly improve their skills through international work placements and workshops.

One of Cherkizovo Lab's strategic priorities is to create a platform harnessing intellectual potential for measurement methodologies and modern technologies for agriculture. Pursuing this aim, the center has been arranging regular training sessions and workshops with world-class experts from Russia and other countries, including the US, Spain, and Germany.

Automation and digitalization of laboratories

In July 2018, Cherkizovo Lab implemented a laboratory information management system (LIMS) offering an integrated information space to all customers and enabling real-time process monitoring. Improving research efficiency and credibility, this solution can become a standard for laboratories across the agricultural sector.

In 2018, Cherkizovo Lab implemented a Russian-made telemetry and climate control system, which had not been done by any of the country's laboratories before that. This will ensure compliance with the world's most stringent standards for laboratories.

Transparency and audit

With trust from customers and laboratory institutions as its priority, Cherkizovo Lab is committed to information transparency and strong technical competencies.

In 2018, it launched a series of open laboratory audits for its counterparties, with a representative of Biovet, a key Cherkizovo Lab customer, becoming the first auditor. Biovet is a subsidiary of Huvepharma, a large Bulgarian pharmaceutical company with a focus on manufacturing human and animal health products.

Industry leadership

In 2018, Cherkizovo Lab enhanced its leadership in laboratory tests, research, diagnostics and examination for the agricultural and food sectors. The center participated in a number of interlaboratory comparative tests related to molecular and biological detection of animal diseases and chemical composition of feeds and premix compounds, as well as microbiological tests. This helped to confirm technical competencies of the center's personnel in all of the areas above.

Operational results
Poultry

The Poultry segment delivered an impressive performance in 2018, with the sales gaining 4% to reach 544 th tonnes vs. 523 th tonnes in 2017.

7
poultry farms

544 +4%
Th tonnes
Sales gaining

96.9 +9%
RUB/kg
Average sales price

2018 PERFORMANCE

The Poultry segment delivered an impressive performance in 2018, with the sales gaining 4% to reach 544 thousands tonnes vs. 523 thousands tonnes in 2017. The growth was driven by increased output at the key sites and the acquisition of Altaisky Broiler in December 2018. The demand-and-supply balance was influenced by the rouble exchange rate, the roll-out of the Mercury government information system, lower supplies by other producers, with some of them even leaving the market after a long period of low prices. The average sales price in 2018 grew by 9% to RUB 96.9, primarily due to a rising share of value-added products in the sales mix.

	2016	2017	2018
Finished product sales, '000 tonnes	500	523	544
Total sales, RUB bln	47.7	47.4	53.8
Average sales price, RUB/kg	94.9	88.8	96.9

New products

In 2018, Petelinka launched a number of new ready-to-cook products for roasting such as Chicken Thighs Tabaka, Drumstick in Herbal Tomato Sauce, Fillet in Creamy Garlic Sauce and Barbecue Wings. Some of the products are sold in upgraded foil packaging with an easy to remove sticker and aluminium tray for baking.

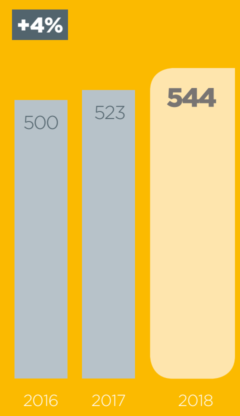
On top of that, the brand launched unique chopped chicken and turkey cutlets containing only natural spices. The mix used in the cutlets is rich in protein and easily digestible. Petelinka has also upgraded the packaging, which is now transparent, with an easy peel film that can be quickly removed with one hand.

The Group will continue developing new products under the Petelinka

Operational performance

Indicator	2016	2017	2018	18/17
Chicks per Hen housed, units	108.6	118.0	111.1	-5.8%
Hatchability, %	77.4%	78.0%	79.1%	1.1 p.p.
Hatchability (hatchery), %	77.7%	77.6%	78.6%	1.0 p.p.
Broilers days on feed, days	36.7	37.4	38.3	2.4%
Feed conversion rate (FCR)	1.66	1.63	1.66	1.8%
Yield, %	84.5%	85.4%	85.8%	0.4 p.p.
Livability, %	94.6%	95.4%	95.2%	-0.2 p.p.
Live weight, gr	2,146	2,267	2,323	2.5%
Density, heads per sq m	20.7	20.7	20.5	-1.0%
Efficiency index (EPEF)	332.0	353.8	347.5	-1.8%

Finished product sales,
'000 tonnes



+14.1%
CAGR

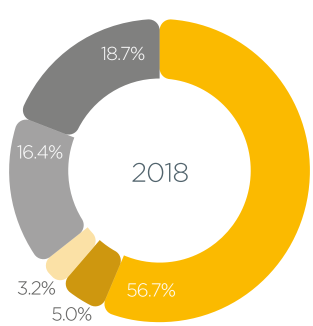
brand – the offering is expected to be expanded to include sausages and new ready-to-eat options.

The Company is also working to expand the sales geography of Petelinka: the brand won a bigger market share in St. Petersburg and the North-Western Federal District, while acquisition of Altaisky Broiler will drive expansion to the Siberian Federal District.

SALES AND BRAND DEVELOPMENT

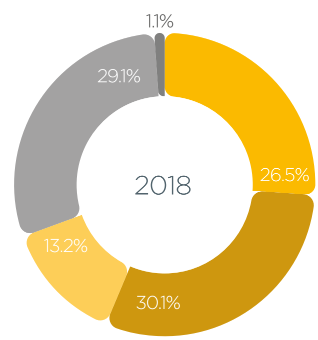
Increasing the share of branded products is among Cherkizovo Group's strategic priorities. The Poultry segment demonstrated strong results on this front as the revenues from Petelinka and Kurinoe Tsarstvo grew by 35% and 24%, respectively.

Poultry sales by channel,
%



- Modern Trade
- HoReCa
- Export
- Traditional Trade
- Wholesale

Poultry sales by brand,
%



- Petelinka
- Kurinoe Tsarstvo
- Other brands
- No brand
- Other

NEW ASSETS

In 2018, Cherkizovo Group achieved significant growth of its Poultry segment through new asset acquisitions.

Altaisky Broiler

In December 2018, Cherkizovo Group completed acquisition of Altaisky Broiler for a total cash consideration of RUB 4.6 billion.

Altaisky Broiler is among the largest poultry producers in Siberia with the annual output of 58,000 tonnes of finished products. The acquisition will boost the sales and provide access to the lucrative market of West Siberia, partially through the expansion of major retail chains, that are Cherkizovo's long-term partners. The region's population stands at about 14 million people, including Novosibirsk, Omsk, Krasnoyarsk, Tomsk, and Kemerovo.

The Company will focus on the promotion of Petelinka and Kurinoe Tsarstvo in the top and medium price categories, respectively. This strategy will facilitate increased production of butchered poultry and drive up the share of value-added products, including ready-to-cook meals, in the Group's portfolio.

Krasnoyaruzhsky Broiler

In 2018, Cherkizovo Group acquired certain assets of Krasnoyaruzhsky Broiler for RUB 1.8 billion. Located in the Belgorod Region, they will improve the Group's own supply of hatching eggs making it less dependent on imports, and strengthen vertical integration for lower production costs.

BUY-OUT OF BELAYA PTITSA'S DEBT

The Group acquired Russian Agricultural Bank's rights to claim a total of RUB 5.6 billion from Belaya Ptitsa Kursk, Belaya Ptitsa Belgorod and Zagorye under their loan and security agreements. The Kursk-based facility can produce up to 120,000 tonnes of finished chicken products annually and includes an incubator, seven growth sites and a poultry-processing plant.

Clean Label

Cherkizovo Group controls the entire production cycle of Petelinka products. Feed formulations are adjusted by age and are produced from the Company's own grain and natural components without added hormones. Petelinka facilities are located in ecologically clean areas of the Moscow, Bryansk and Penza regions.

NEW CERTIFICATES

In 2018, the Group's Vasilyevskaya poultry factory received a national halal certificate from the UAE's Emirates Authority for Standardization and Metrology (ESMA) authorizing it to sell halal products in the states of the Persian Gulf. ESMA's experts had checked the production process and documentation at the factory and confirmed compliance with the strictest requirements.

In addition, the Group worked to ensure compliance of its production processes with the requirements of McDonald's, and was duly certified to work with the iconic fast food brand. The first ready-to-cook products will be supplied to the chain in 2019. In 2018, the Group was already working with such major chains as Burger King and KFC. Over the next 3 to 5 years, the Company intends to significantly grow its HoReCa channel to 15–20% of the total sales mix.

BIOSAFETY

Cherkizovo Group works hard to minimize epizootic risks and protect the bird population. The Group's products are compliant with all applicable pathogen standards of Russia and the Customs Union. Cherkizovo closely cooperates with the Federal Service for Veterinary and Phytosanitary Supervision (Rosselkhoznadzor) to improve the biosafety of its products.

The Group's facilities abide by all oultry farming standards and biosafety requirements, which are on many occasions more strict than in Europe. All employees with access to animals pass through disinfection zones. In 2018, the Group expanded its pig farming practices into the Poultry segment, including separate transportation and improved vehicle disinfection solutions.

In 2018, a single case of avian influenza was recorded at the Company's facilities. It happened on the isolated site in the Penza Region, used for parent stock production, with no food manufactured on the site. The Group promptly localized and destroyed the infection and managed to prevent it from spreading to other sites. The case entailed losses of RUB 100 million.

MAJOR INVESTMENT PROJECTS OF 2018

New cooling system at poultry factories

Investment:
RUB 250 million.

In 2018, the Group commissioned new cooling systems at the slaughter lines of some of its facilities to cool the whole birds and prolong the shelf life.

Completion of the first stage of a capacity increase project at Mosselprom

Investment:
over RUB 270 million.

Cherkizovo Group consistently develops modern capacities and high-tech facilities in the Moscow Region, that enable the Company to increase the volumes of added-value products and supply the Moscow and neighboring regions with high-quality domestically manufactured food.

For instance, the capacity increase at Mosselprom included construction of a cooling unit, doubling the products' shelf life, and upgrade of its slaughter, evisceration, cooling and sorting facilities to boost productivity by 50% to 9,000 heads per hour. The existing cut up line had its speed increased by 20%.

Plans for 2019

In 2019, the Group will continue to enhance efficiency in the Poultry segment – the newly acquired assets will be integrated into the Group's vertical structure and adjusted to meet the production requirements.

Operational excellence and biosafety will remain an important mission for the Group as the best practices continue to be adopted to match the world's best standards.

Operational results
Pork

16
pig farms

237 th tonnes
Finished product sales
+18% y-o-y

98.2 RUB/kg
Average sales price
+7% y-o-y

In 2018, the Pork segment delivered excellent results as production volumes grew by 17%, to 247 th tonnes.

2018 PERFORMANCE

The growth was largely driven by new production capacity that is set to step up production to 300 thousand tonnes of live-weight pork already by 2020, and by genetic improvement of parent stock.

Sales grew by 18%, to 237 thousand tonnes, including products of seven new nursery and finisher sites in the Lipetsk, Voronezh, and Penza regions. This made the Group second in the segment. The Company intends to focus on branded product sales down the road.

The average sales price grew by 7% in 2018 to RUB 98.2 per kg.

EFFICIENCY IMPROVEMENT

In 2018, the Company continued its efficiency improvement efforts that contributed to production cost optimization. Over the recent years, Cherkizovo Group has built one of the most efficient pork production systems in the sector, making our costs competitive both domestically and globally.

The Group has been running its genetic improvement program since 2014. Livestock is replaced within a three-year period. Thus, we reaped all the benefits in 2018. The new population shows better reproductive, nursery and fattening performance. The program is subject to ongoing audits and updates: a comprehensive external audit of the genetic program is semi-annual, while various production phases undergo routine inspections.

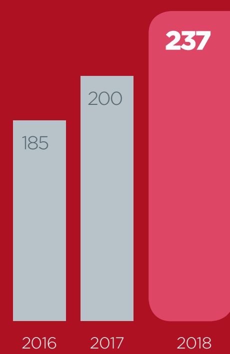
In 2018, the Company kept a high number of live born piglets per sow per litter – 13.1 piglets, up 4.8% year-on-year with finisher loss decreasing by 2 p.p., to 4.6%. Another strong result was a 14.7% increase in kg sold per sow totaling 3,354 kg. The improvement of animal breeding practice contributed to Cherkizovo Group's excellent performance.

Operational performance

	2016	2017	2018	'18/'17, %
Productive females, units	71,148	72,375	72,928	0.8%
Piglets born alive per sow per litter	12.0	12.5	13.1	4.8%
Pre-weaning mortality, %	12.3	10.5	10.2	-0.3 p.p.
Nursery loss, %	3.7	2.5	2.7	0.2 p.p.
Finisher loss, %	8.3	6.6	4.6	-2 p.p.
Average weight, kg	119	119.5	123.2	3.1%
Kg sold per sow	2,597	2,925	3,354	14.7%
Feed conversion finisher	2.66	2.6	2.56	-1.5%

Finished product sales, '000 tonnes,

+18%



247 **+17%**

th tonnes

Production volumes

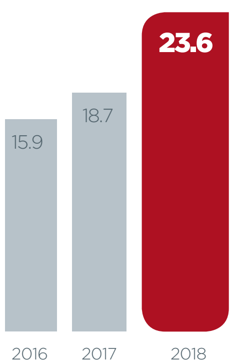
+**26.2**%

CAGR

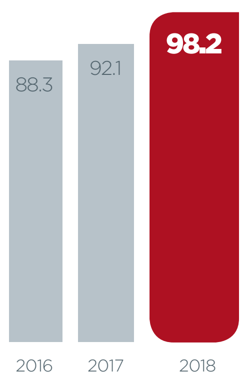
QUALITY AND SAFETY

The Company is committed to highest quality and safety in all production phases. Cherkizovo's facilities were assigned the fourth zoosanitary status as high safety farms. The Group used North American standards to develop proprietary programs intended to protect and improve animal health. The Company is subject to external audits of manufacturing practices and biosafety at its assets on a quarterly basis.

Revenue from product sales, RUB billion



Average sales price, RUB/kg



Cherkizovo's facilities were assigned the fourth zoosanitary status as **high safety farms.**

MAJOR INVESTMENT PROJECTS OF 2018

Finisher sites in the Lipetsk and Penza regions

In 2018, seven new pig sites were put into operation: four in the Voronezh and Penza regions and three in the Lipetsk region.

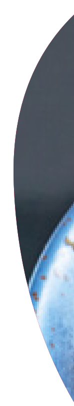
New nursery and finisher sites commissioned in 2018 are based on a standard design identical to that of the sites built in 2017. Each of the sites has a capacity of c. 45 thousand market hogs and 5.8 thousand tonnes of products. The Group prioritizes biosafety in constructing new sites.

All new pig farms in the Penza region are equipped with two staff changing facilities to meet the stricter biosafety requirements. This has become a standard practice for constructing the Group's pig farms, as it earns our sites the highest livestock sanitary status in Russia enabling them to be classified as Compartment IV facilities in terms of biosafety. The advanced design and construction technologies help save time and resources.

Investments in each site:

RUB **550** mln

Each of the sites has a **capacity** of **45 th** market hogs and **5.8 th tonnes** of products.



Caring for animals – quality for the consumer

Cherkizovo Group is committed to humane treatment of animals thus helping us secure the high quality of our products. 2018 saw Cherkizovo Group update its standard operating procedures by adding animal treatment regulations across all production phases.

One of the year's **key health protection initiatives** was the use of the **needle-free injection system** offering a number of benefits:

① painless for animals,
② lower consumption of medicines,
③ no damage to muscle fiber,
④ no risk that needles might penetrate products.

Plans for 2019

Cherkizovo Group will continue to expand its production capacities, as nursery and finisher sites are to be completed at the pig farm in the Penza Region in 2019.

Further improvement of animal breeding practices during all production phases is one of our key priorities in the segment.

In 2019, Cherkizovo plans to consider initiatives related to the procurement of biologically safe feed ingredients. The Company will continue maintaining the maximum possible biosafety level at its assets. As regards animal health protection, the Group intends to roll out the needle-free system to its other assets.

Operating Results

Meat Processing

In 2018, sales in the Meat Processing segment increased by 12% to reach 230 th tonnes.

8
meat processing and slaughter
facilities

230 +12% y-o-y
th tonnes
Sales

RUB **169.6**
per kg
The average sales price

2018 PERFORMANCE

The rise was driven by mixed performance of different product categories:

1. sausage sales went down by 4% to 107,000 tonnes,
2. cuts sales dropped by 24% to 40,000 tonnes,
3. half-carcasses sales increased by 128% to 70,000 tonnes,
4. by-products sales went up by 26% to 12,000 tonnes.

The average sales price[1] was almost flat y-o-y at RUB 169.6 per kg vs. RUB 170.1 per kg in 2017.

The average price changes by product category were as follows:

1. sausage price increased by 6% to RUB 184.4 per kg,
2. cuts price rose by 2% to RUB 205.3 per kg,
3. half-carcasses price hiked by 8% to RUB 146.7 per kg,
4. by-products price dropped by 9% to RUB 53.9 per kg.

PRODUCTION AND SALES OF SAUSAGES

In the reporting period, Cherkizovo Group consolidated its leadership in the smoked and semi-smoked sausage market. In 2018, the sales of finished products decreased from 111,000 tonnes to 107,000 tonnes (down by 4%), while the Group's average sausage price rose by 6% to RUB 184.4 per kg[1] due to higher sales of cured and smoked sausages, the Group's key segments.

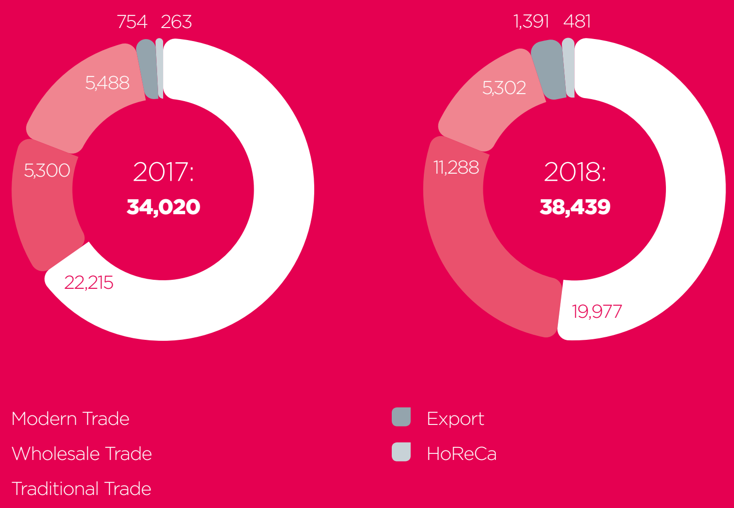
The Group is committed to increasing the share of branded products in the sales mix. Last year, the Cherkizovo brand was revamped in line with the new strategy to focus on mid- and high-end markets, including smoked and semi-smoked sausages and ham. As a result, Cherkizovo's product range no longer includes low-price categories, mainly hot-dogs and cooked sausages.

PRODUCTION AND SALES OF RAW MEAT AND READY-TO-COOK PRODUCTS

Production of meat and by-products increased by 31% to reach 123,000 tonnes. At the same time, cuts sales dropped by 24% to 40,000 tonnes, while half-carcasses sales grew by 128% to 70,000 tonnes and by-products sales increased by 26% to 12,000 tonnes.

1 Excluding VAT.

Sales in the Meat Processing segment by channel, RUB million



+6%

The average sales price
sausage

+2%

The average sales price
cuts

+8%

The average sales price
half-carcasses

Sales in the Meat Processing segment by brand, RUB million

Brand	2017	2018
Total sales	33,981	**38,259**
Cherkizovo	15,350	13,828
Cherkizovo Premium	1,606	2,287
Myasnaya Gubernia	876	1,685
ImperiyaVkusa	1,005	994
Other	1,686	1,825
Private labels	2,457	1,372
Non-branded products	11,001	16,268

IMPROVING EFFICIENCY AND QUALITY CONTROL

In 2018, Cherkizovo Group continued to improve its production efficiency. All of the Group's plants have a lean manufacturing system in place, embracing such tools as 5C, kaizen, training within industry, standardized work and more. Lean technologies are being introduced into the operating culture, with the employees becoming self-supervisors overseeing their activities at all stages of production.

Another 2018 milestone was the launch of the Total Productive Maintenance (TPM) system at the Cherkizovsky Meat Processing Plant and the Dankov Meat Processing Plant. It helped reduce downtime by 25% throughout the entire production chain from slaughtering to product packaging. The TPM system is unrivalled in the Russian meat processing market.

In 2018, the Group achieved FSSC 22000 certification. Independent auditors confirmed that Cherkizovo Group's production processes and employee training programs comply with European standards.

The Group is committed to maintaining consistent taste and organoleptic properties of its products and sets up taste panels and audits of compliance with technological regulations on a daily basis.

The Group's facilities have launched a project focused on ensuring that their raw materials and ready-to-cook products are metal-free. All these measures contribute to maintaining high quality of our products.

For further information on quality control, see p. **46**

Stringent quality assurance

Cherkizovo Group uses only high-quality natural and fresh ingredients for its products, with a substantial part of pork coming from the Group's own pig farms. Beef comes from farms located near Moscow. We use only natural food additives, such as salt, pepper and spices, to manufacture meat products, and natural wood chips shavings to smoke meat.

The use of advanced production technologies is key to making high-quality products as they enable an unmatched level of control throughout the production cycle. The Group's facilities rely on lean techniques as part of a modern approach to organising processes.

MAJOR INVESTMENT PROJECTS IN 2018

Smoked sausage plant in Kashira

Total investments
~ RUB **7** billion

In 2018, the construction of a unique fully automated smoked sausage plant was completed in the Moscow Region's Kashira District. With a capacity of 30,000 tonnes per year, the plant is one of the largest of its kind in the world. The Group is now positioned to meet over 30% of Russia's smoked sausage market.

For further information on the project, see p. **64**

Expanding capacity at the Cherkizovsky Meat Processing Plant

Total investments
RUB **263** million

The Cherkizovsky Meat Processing Plant continued to implement its projects aimed at boosting output and operational efficiency.

For example, a bacon slicing and packaging line with a capacity of 600 tonnes per month reached the pre-commissioning stage, with the commissioning scheduled for 2019.

Also in 2018, the plant increased the throughput of its plate freezers by 15 tonnes per day.

Boosting production capacity at the Penza Branch of the Cherkizovsky Meat Processing Plant

Total investments
RUB **80** million

In 2018, the Penza branch of the Cherkizovsky Meat Processing Plant launched a new sow slaughter facility with a capacity of 100 heads per hour, which will increase the branch's production capacity from 600 to 1,200 tonnes of semi-smoked sausage per month.

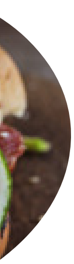
Launching production for KFC

Total investments
RUB **23** million

In spring 2018, the Cherkizovsky Meat Processing Plant launched production of chicken hot dogs for KFC with a capacity of 15 tonnes per day.

Plans for 2019

The Group's priorities for 2019 include **growth** and **consolidation** of its market position through enhancing control over raw materials, all stages of production and packaging quality. We intend to continue increasing the share of higher value-added and high-tech products.



The Group plans to **review its product mix following the launch of the fully automated plant in Kashira**. New technologies at this plant will significantly **increase the shelf life and quality of products**. In addition, the new facility will take over a part of the load of the Cherkizovsky Meat Processing Plant, while the latter will focus on **unique recipes of low-volume manufacturing**.

In 2019, the Group plans to **expand its product range** under the Cherkizovo brand, by introducing fresh products apart from sausages. Following the acquisition of Samson – Food Products, the Group is set to **broaden its branded portfolio of higher value-added products and strengthen its foothold in St. Petersburg and the North-Western Federal District**.

Cherkizovo Group plans to build **another meat processing plant in Kashira**, and the related investment agreement with the Governor of the Moscow region was signed in May 2018. The first stage of the project includes the construction of a meat processing plant with a capacity of up to 60 tonnes per day and a slicing facility with a capacity of up to 100 tonnes per day by 2022. By 2025, we plan to launch a fully-fledged cluster of meat processing facilities in Kashira.

New Plant Opens in Kashira

In June 2018, Cherkizovo Group launched **a new meat processing plant** for the production of dry sausages in the Kashira District of the Moscow Region.

With a 30,000 TPA capacity, the new plant is expected to serve **over 30% of the domestic dry sausage market**, becoming one of the largest in Russia and Europe.

The plant will have the capacity to produce
up to **30** th tonnes
of finished products per year

INDUSTRY 4.0

The project is unrivalled both in scale and use of Industry 4.0 – all production processes are controlled by an AI-powered robotic system. Other cutting-edge technologies used at the plant include software-operated automated guided vehicles (AGV), robotic arms, automated temperature-controlled warehouses, and automated packaging solutions. The automation is not limited to production, but also extends to procurement, planning and sales.

The system is maintained by a team of approximately 170 IT specialists and engineers.

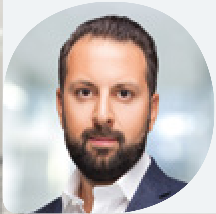
Minimized human involvement helps mitigate human errors and ensures the best quality and biosafety of the products. With staff teams that are significantly compact compared to those normally engaged in conventional production, the plant gives priority to highly skilled professionals rather than cost-cutting.

The facilities have integrated modern sustainable technologies and state-of-the-art equipment from Italy, Germany, Spain, Denmark, Austria, the Czech Republic, the UK and Switzerland. The feedstock is supplied from the Group's own farms.

The plant is expected to reach its design capacity in 2019, and will strengthen the Group's position in the highly lucrative dry sausage market segment.

The introduced technologies will help bring the quality and taste of the products to a whole new level, and set the trend for the meat industry in Russia.

Sergey Mikhaylov
CEO of Cherkizovo Group



«What makes our plant in Kashira one-of-a-kind is that it is fully automated. The idea of automation is not new in itself; similar technologies have been used for decades. What is much more important is that the majority of production processes are now operated by artificial intelligence.

While, previously, robots used to be teamed up with humans, in Kashira we minimized human presence. These technologies help increase production reliability and product quality».

The fully robotic plant is one of a kind in Russia both in terms of safety and installed equipment.

Investment
in the project totalled
> RUB 7 billion

In December 2018, the government of the Moscow Region awarded the meat processing plant in Kashira with **a cup and a winner certificate for Modernization of Processing Facilities of the Moscow Region in 2018**.

For further details see:
Operational Results 60

Operating Results

Grain and Feed

Cherkizovo Group continued to gain ground in the Grain segment. Our sales surged by 54% to 696 th tonnes, partially due to selling crops harvested in 2017.

696 th tonnes
54% y-o-y
Sales

9.9 per kg
+41% y-o-y
The average sales price

2018 PERFORMANCE

The average sales price rose by 41% to RUB 9.9 per kg driven by strong wheat and sunflower sales and a 56% and 17% increase in wheat and corn prices, respectively.

The Group's total land bank remained virtually unchanged year-on-year, totalling 290 thousand hectares.

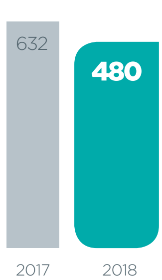
GRAIN

In 2018, the Grain segment saw gross yield go down 24% year-on-year to 480 thousand tonnes due to smaller crop areas for wheat and corn. In planning its sowing campaigns, Cherkizovo Group takes into account both the components required for feed production and crop margins. In the reporting year, the Company closed its harvesting season as early as in October. The Grain segment leverages intensive farming technologies, organic and non-organic fertilizers, high-yielding heirloom and hybrid seeds.

The Group's key crops are wheat, corn, pea, soybean and sunflower. In 2018, the Company reduced the share of sunflower in its portfolio while also increasing the crop area for corn. There were no noteworthy changes to other crops.

Also, this was the first year that saw the Company succeed in growing high-protein soybeans, an essential ingredient of feed that makes up a third of its cost.

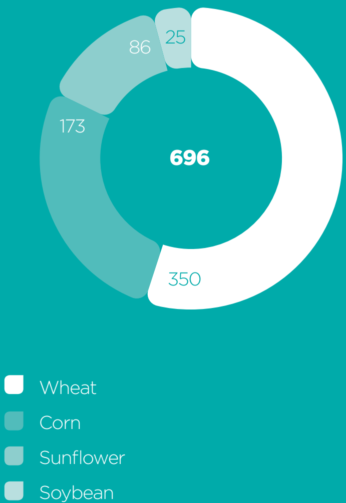
Gross yield, '000 tonnes
-24%



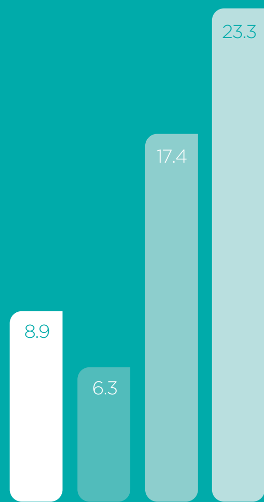
Land bank, '000 ha
+1.0%

CROPS

Sales,
'000 tonnes

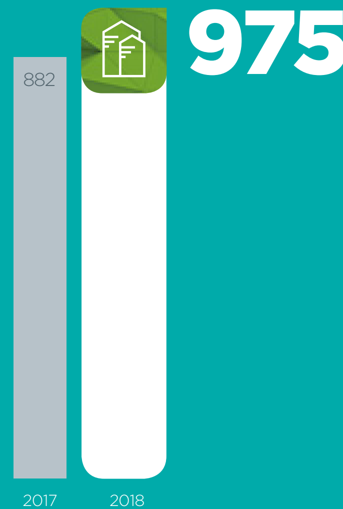


Average sales price,
per kg

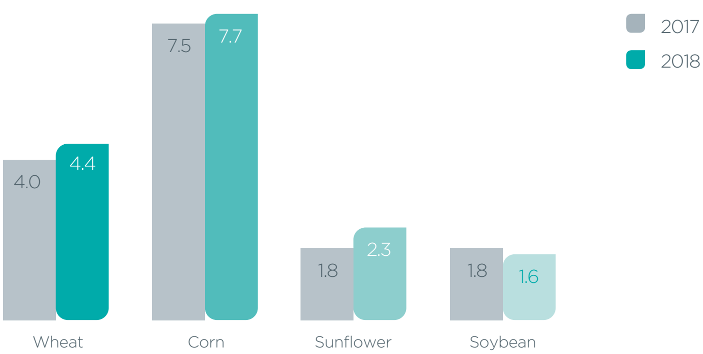


Grain elevator capacity,
'000 tonnes

+10.5%

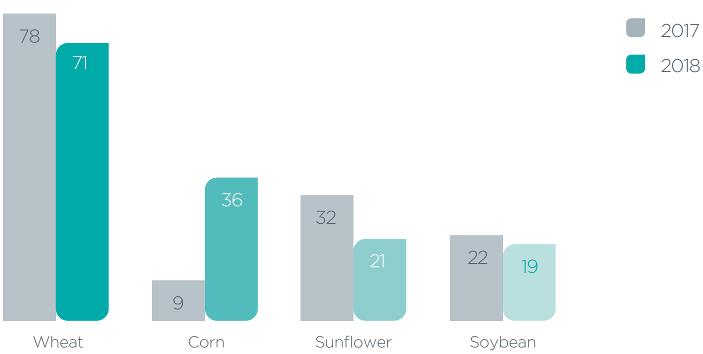


Yield,
t/ha



The majority of Cherkizovo Group's assets are located in the **most fertile Central Black Earth regions**, namely Lipetsk, Orel, Tambov and Voronezh regions

Crop area,
'000 ha



In 2018, the Company kept improving soil and balancing plant nutrition across its land bank. In particular, we

1

continued with **our efforts to maximize the use of our own organic fertilizers**

2

tilled 25,000 hectares as part of our amelioration program to **increase the soil pH from 4.5 to 6**

In the reporting period, the Group worked to improve the segment's management and operational efficiency. One of our priorities was to introduce standard operating procedures (SOPs)[1], a set of step-by-step instructions seeking to help employees carry out complex routine operations. SOPs will be instrumental in securing sustainably high product quality and strong performance across all the Group's assets. The Group also kept upgrading and expanding its fleet of agricultural machinery, including multi-purpose tractors, broadcast self-propelled sprayers, and seed drills with an electronic precision planting system.

FEED

The segment's major focus area is feed manufacturing for internal needs. Cherkizovo's Poultry and Pork segments fully rely on feeds produced in-house. This helps control costs and manufacture high-quality and biosafe products.

In 2018, feed output totalled 1,830,000 tonnes (+ 9.4%).

Over the year, the Group worked to improve its performance in a number of areas, including personnel training, equipment upgrade, and logistics optimization. Cherkizovo places a special emphasis on the quality and well-timed delivery of feeds to its production sites, as this is essential for animal welfare in its other segments.

Operational performance

Indicators	2017	2018	'18/'17, %
Feed mills, pcs[2]	9	9	—
Feed, '000 tonnes	1,672	1,830	9.4%

1 SOP is a set of step-by-step instructions seeking to help employees carry out complex routine operations.

2 Feed segment only.

Full self-sufficiency in feed

Cherkizovo Group monitors feed quality at every stage, from growing crops to delivering feed to breeding farms.

Feed output

1,830 +9.4% y-o-y

th tonnes

Plans for 2019

We plan to continue streamlining the segment's processes and working on a wider application of the best available agricultural practices and our amelioration program.

Going forward, the Group will consider building its own soybean processing plant in the Lipetsk Region.

Operating Results
Turkey

RUB 5,815 million
Revenue from the sale of finished products

39 +49% y-o-y
th tonnes
Sales

147.9 +2% y-o-y
per kg
The average sales price

In 2018, the project delivered the sales of finished products at 39 th tonnes, up 49% year-on-year.

2018 PERFORMANCE

In 2018, Cherkizovo Group continued to gain ground in the Turkey business with Tambov Turkey, its joint venture with Grupo Fuertes. Having reached its design capacity a year before, in 2018, the project delivered the sales of finished products at 39 thousand tonnes, up 49% year-on-year.

In 2018, Pava-Pava, the Group's brand of turkey meat products, became the second largest in the Russian market. The average sales price grew by 2% in 2018 to RUB 147.9 per kg. This increase was driven by the extension of the Pava-Pava product offering in the segments of value-added products, including ready-to-cook products and packaged products for roasting.

Moscow and St. Petersburg are the biggest contributors to Pava-Pava sales, helping the brand rank second in these cities' turkey market just over one year. The growth was driven by robust demand for turkey products coupled with a decline in the market supply, as Eurodon, a major market player, suspended production.

Ramping up production capacities, the Group seeks to gradually expand sales geography in the Volga and Central Federal Districts going forward.

EXTENDING THE PRODUCT RANGE

Among other focus areas in 2018, the joint venture was committed to launching new value-added products, such as ready-to-cook products and packaged products for roasting. The reporting period saw over ten new offerings in the segment.

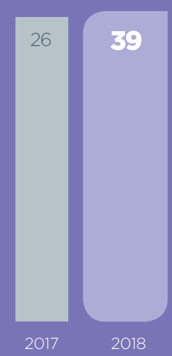
Today, the Pava-Pava product line is complete with a variety of products for a quick and easy cooking experience. These include escalopes, medallions, steaks, cutlets, sausages, kupati, and chilled cuts. The Group will keep on expanding the Pava-Pava product line.

Operational performance

Indicator	2017	2018	y-o-y
Meat yield from live weight, %	73.4	74.0	0.6 p.p.
Feed conversion rate per kg of weight gain	2.44	2.47	1.2%
Growing period, days	112	116	3.6%
Average daily weight gain, g	122	124	1.6%
Survival rate, %	92.2	91.8	-0.4 p.p.

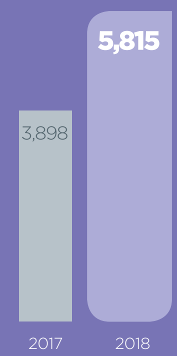
Finished product sales, '000 tonnes

+49%



Revenue from finished product sales, RUB mln

+49%



14%

Market share

by production

In late 2018, Cherkizovo Group offered whole **Pava-Pava turkeys in specially designed packaging** to celebrate the New Year.

When developing new recipes, the Group focuses on best practices from the countries featuring turkey meat as part of their traditional cuisine and uses recipes for other types of meat to offer new turkey products and dishes. As interest in healthy food grows, so will demand for turkey products, including dishes where turkey substitutes other meats.

SAFETY AND EFFICIENCY IMPROVEMENTS

Tambov Turkey applies advanced technology and European state-of-the-art equipment that help deliver consistently high quality in accordance with Russian and international standards. Holding international certificates of compliance with food safety management systems ISO 22000:2005 and FSSC 22000 standards, the facility has developed and implemented the HACCP program along with a number of other initiatives to monitor poultry health and condition.

The producer views high labor efficiency as a clear competitive advantage.

In 2018, the key efficiency improvement areas included:

① ensuring product safety,

② further improving labor efficiency,

③ enhancing profitability,

④ increasing products' shelf life.

Health awareness

A **lean** and hypoallergenic meat and a **low-cal** source of protein, turkey is a go-to option for everyone. It has an **excellent nutrition profile** and easy digestibility. Depending on the right cooking technique, turkey is a great substitute for chicken, beef, and pork.

Strict safety controls as our key competitive advantage

Tambov Turkey is an integrated full-cycle business meaning the manufacturer controls the entire production chain from feed production to slaughtering and processing, and ensures high quality of the product at all the production stages.

Turkey meat is **remarkable for its low fat content**, and Pava-Pava in particular is the leanest turkey option unmatched by the Russian market. We grow the **Hybrid Grade Maker turkey**, which contains 50% less fat than other breeds in Russia. Our facilities are located in the Tambov Region, **Russia's green area**.

Plans for 2019

We believe the turkey meat market has a bright outlook. Taking advantage of the current market share, Tambov Turkey seeks to further strengthen its position. The key operational priorities include ongoing improvements in labor efficiency, profitability, process automation and product safety. Tambov Turkey is committed to expanding the range of ready-to-cook products, sales geography, and entering new segments, including the HoReCa market.

Product Strategy

Cherkizovo Group is dedicated to bringing the **highest quality** products to consumers in line with their preferences and expectations. We have been launching new recipes, tastes and entire product categories to update and **improve our product range** according to global and domestic market trends.

Cherkizovo offers delicious meat products to suit any occasion, be it a daily breakfast with kids or a holiday feast. Pure and natural ingredients ensure that our customers in Russia and around the world enjoy healthy food of top-notch quality. Strict quality control across the production chain guarantees a consistently high quality and freshness of our products in full compliance with all the applicable regulations.

In order to match the increasingly hectic pace of modern life, we are expanding production of higher value added foods, which include ready-to-cook and ready-to-eat products. As healthy lifestyles gain traction, we also focus on turkey and chicken products with their great nutritional properties.

All Petelinka products are free of growth hormones, antibiotics, preservatives and food additives. This is our way of debunking the myth that factory-made ready-to-cook products are unhealthy because they contain harmful ingredients.

Strong brands

The Group's key brands are leaders in their respective segments, with dry sausage, poultry and turkey dominated by Cherkizovo, Petelinka and Pava-Pava in the domestic market.

In 2018, the Group continued to develop its key brands through large-scale marketing initiatives. We take special care to make better-packaged products that are also easier to cook.

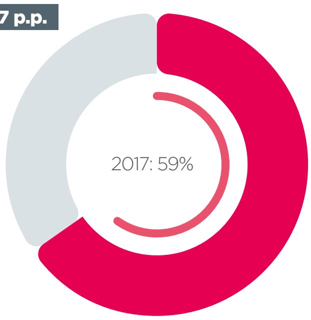
Today, the majority of our promotional activities take place online and make use of tools like social media and trade marketing. In line with the Group's strategic priorities, our advertising campaigns in 2018 focused on promoting such high value added products as dry sausage and ham.

Brand awareness, %

In 2018

65%

5.7 p.p.

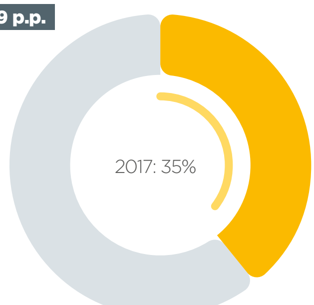


Moscow: 83%
Saint Petersburg: 83%

In 2018

39%

3.9 p.p.

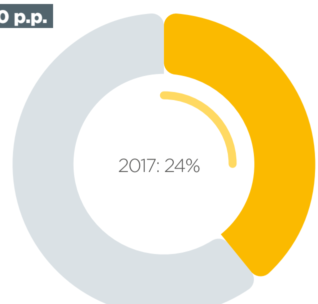


Moscow: 82%
Saint Petersburg: 66%

In 2018

26%

2.0 p.p.



Moscow: 42%
Saint Petersburg: 17%

Relationships with consumers and partners

For us, it is all about the consumer, whose needs drive the development of our product range. This is why we work tirelessly to improve communication with both end consumers and partners.

The Group carries out an extensive marketing research program that covers focus groups, surveys, and analysis of feedback, including that from social networks. In 2018, we conducted a major segmentation study of consumer motivation.

Before launching a new product, we never fail to test it with our customers and consult with professionals, restaurateurs and nutrition experts to choose the most delicious recipe. Key and new products in every segment – from sausages to fresh and ready-to-eat food – are tested on a regular basis.

The Group is committed to bolstering its interaction with customers using digital channels, including our corporate and brand-specific websites, mobile applications, and social media.

Brand's website

https://petelinka.ru

>3 mln visitors

No. 1 in Yandex and Google search results for food products

Top 10 in Google search results for recipes

Petelinka on social media

>100 th followers

>13 mln people – reach

Average engagement rate – >1%

Petelinka is present in all the most popular social media networks, where we can share news and recipes, discuss our products and collect feedback. Over 100,000 people are following the brand on social media.

As part of the Petelinka loyalty program that has been in effect since 2017, buyers can enter promo codes off product packaging on the official website, get bonus points, and eventually exchange them for prizes. To facilitate this process and improve the overall user experience, **Petelinka has its own mobile application**.

At Loyalty Awards Russia 2018, the brand's loyalty program was recognized as the Best FMCG Brand Loyalty Program and won a prize for the Efficient Use of Mobile Technology in Loyalty Program.

Petelinka's loyalty program

won

at Loyalty Awards Russia 2018

1

mln codes entered

~200

th participants

>300

th contacts

Recognition

The Group has been granted numerous awards for its products. In 2018, four Cherkizovo-branded products won at Prodexpo, the largest food, beverage and food raw materials exhibition in Russia and Eastern Europe.

Turkey Carpaccio and Turkey Basturma were the gold medallists in the Innovations in Technology category of the Innovative Product award, while the Po-Cherkizovsky hot dogs and Balykovaya Po-Cherkizovsky sausage of the Group's flagship product range won the Retailers' Choice award.

Petelinka and Pava-Pava received the Product of the Year award in the Chicken Meat and Eco-friendly Meat categories. The award is given to the most popular FMCG products and supported by the National Trade Association, Moscow International Business Association, Chamber of Commerce and Industry of the Russian Federation, and the Moscow Government.

Cherkizovo products won seven gold and silver medals at Quality Guarantee 2018, an international competition held by Gorbatov's All-Russian Meat Research Institute (VNIIMP) and supported by the Federation Council of the Russian Federal Assembly and the Ministry of Agriculture.

Sales

In 2018, Cherkizovo Group worked to further increase the share of branded high value added products in the sales mix as their prices boast lower volatility.

Having secured a strong presence across the European part of Russia, we are now focused on strengthening our foothold beyond the Urals. Sales geography expansion remains a strategic priority for the Group, driven in part by acquisitions. In 2018, we acquired Samson – Food Products to strengthen the Meat Processing segment's position in St. Petersburg and the North-Western Federal District, and Altaisky Broiler to open up access to the Siberian Federal District for the Poultry segment. In the long term, Cherkizovo Group plans to supply products to the largest retail chains nationwide.

60%

of sales are branded and value added

Sales channels

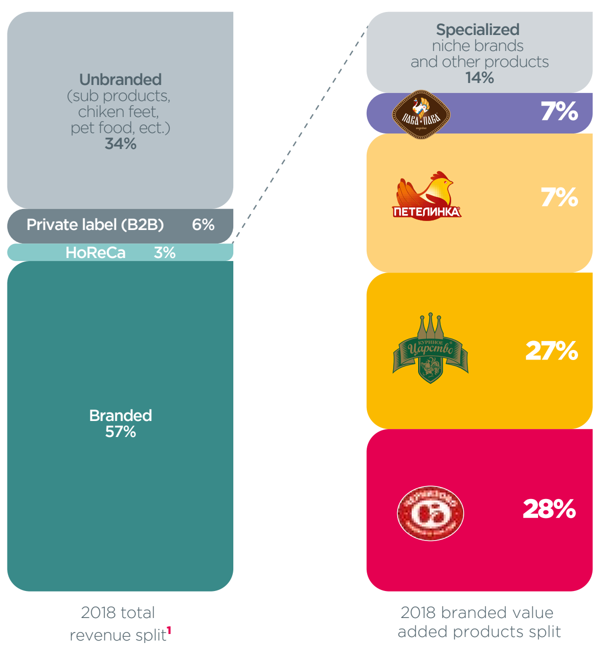
Most of Cherkizovo Group's products are sold via retail networks and its HoReCa customers. Compared to the previous year, the share of products sold via retail networks in 2018 was 5% lower and stood at 71%. Sales via retail chains increased by 6%, mostly driven by nationwide chains.

The Group's key HoReCa customers are fast food restaurants. We are one of Burger King's largest suppliers, and since late 2017 we have been a strategic partner of Yum! Brands, which operates Pizza Hut and KFC.

In 2018, Cherkizovo Group expanded its KFC supplies geography beyond Moscow and St. Petersburg to include the regions, leveraging expanded production and capacities that enabled us to freeze meat in line with the fast food chain's standards. KFC restaurants source chicken meat from our full cycle poultry production facilities.

In 2018, our sales via restaurant chains grew by **50%**

Product sales by type,
%



1 Calculation base is RUB 95.7 billion.

In 2019, Cherkizovo Group plans to become a supplier to McDonald's under a contract signed in 2018. We carried out preparatory works at several of the Group's poultry factories and confirmed our compliance with the chain's standards.

Our contracts with the largest restaurant chains are a testament to the quality and safety of our products and their compliance with the most stringent production standards. The reporting year marked a 50% increase in sales via restaurant chains, with the channel's share in total sales approaching 5%. In the medium term, we plan to bring the share of HoReCa customers to 15–20%.

Export products

To tap into the export markets of Islamic countries and cater to the domestic consumers, the Group has developed a line of halal products under the Latifa and Dajajti brands. Their compliance with the standards was confirmed by Moscow's Halal Certification Center. In 2018, Cherkizovo Group became one of the first Russian poultry exporters to obtain a certificate from the Emirates Authority for Standardization and Metrology (ESMA), gaining access to Gulf markets.

Non-consumable products

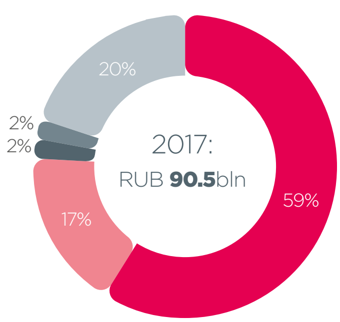
With the maximum operating and economic efficiency as a priority, we seek to minimize production waste and ensure the best use of all resources. The Group has long-term contracts to supply by-products, animal bones and food waste to some of the largest producers of animal feed. We have all the necessary technological processes in place to ensure compliance with rigorous veterinary standards and requirements for the end products.

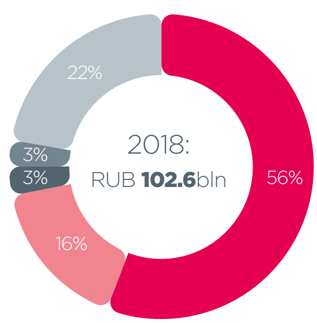
Sales and marketing optimization

In 2018, Cherkizovo Group paid special attention to process automation and standardization as a means to improve sales and marketing performance.

We continued rolling out unified software across our sales departments and developing the electronic document management system. Sausages and meat are sold through a single trading company within the Group. In 2018, we centralized our sales function to integrate supplies, logistics, warehousing and planning into a single service. Another function centralized during the year was strategic marketing.

Product sales by channel,
%





- Federal retailers
- Traditional retail
- HoReCa
- Exports
- Wholesale

Financial Performance Overview

In 2018, Cherkizovo's performance was affected by such macroeconomic factors as gradually improving consumer demand, volatile grain markets, weakening local currency and some market supply dislocations. Despite these issues the Group demonstrated excellent results. For the first time in our history, **meat products sales reached 1 million tonnes**. We will continue to **grow our production** and **enhance operational efficiency** in the future.

1
mln tonnes
Meat sales

Key financial indicators in 2016–2018

	2016	2017	2018
Revenue, RUB bln	82.4	90.5	102.6
Gross profit, RUB bln	17.9	23.6	31.9
Gross margin	*21.7%*	*26.0%*	*31.1%*
Adjusted EBITDA, RUB bln	9.5	14.6	20.4
Adjusted EBITDA margin	*11.5%*	*16.2%*	*19.9%*
Net profit, RUB bln	1.9	5.6	12.0
Net profit margin	*2.3%*	*6.4%*	*11.7%*
Net cash flow from operating activities, RUB bln	9.4	13.0	14.2
Net debt, RUB bln	36.9	48.7	58.6
Net debt / Adjusted EBITDA	*3.9x*	*3.3x*	*2.9x*

RUB **12.0** billion

Net profit

RUB **9.8** billion

Capital expenditures

In 2018, Cherkizovo Group's consolidated revenue increased by 13.5% year-on-year to RUB 102.6 billion, with adjusted EBITDA surging by 39.4% to RUB 20.4 billion and adjusted EBITDA margin rising to 19.9% (up from 16.2% in 2017). Net profit more than doubled to RUB 12.0 billion as compared to RUB 5.6 billion in 2017, while operating cash flow increased by 8.9% to RUB 14.2 billion (RUB 13.0 billion in 2017).

Net debt came in at RUB 58.6 billion (2017: RUB 48.7 billion), with our financials providing sufficient comfort on all debt covenants.

In 2018, total capital expenditures stood at RUB 9.8 billion, with the largest part attributable to the Pork (RUB 3.9 billion) and Meat Processing (RUB 2.2 billion) segments. The remaining CAPEX was distributed among other businesses.

OPERATIONAL PERFORMANCE OVERVIEW

Cherkizovo Group is the largest meat producer in Russia. The Group is a top-3 producer in each of the Russian poultry, pork and processed meat markets.

Cherkizovo Group encompasses nine full cycle poultry production facilities, sixteen modern pork production facilities, eight meat processing plants, nine feed mills and 290 thousand hectares of agricultural land. The Group also includes Tambov Turkey facility, a joint Russian-Spanish venture. In 2018, Cherkizovo Group produced c. 1 mn tonnes of meat and meat products and generated revenue of RUB 102.6 billion.

Thanks to its vertically integrated structure, which includes grain growing and storage, feed production, livestock breeding, fattening and slaughtering, and meat processing, alongside a distribution system. We aim to offer to our consumers the highest quality products catered to their preferences. Our success is based on the well-known brands in our portfolio and the loyalty of our consumers.

Cherkizovo Group shares are traded on the Moscow Exchange (MOEX).

In 2018, Cherkizovo Group's sales totaled 544.2 thousand tonnes of finished products in the Poultry segment, 229.5 thousand tonnes in the Meat Processing segment, 236.9 thousand tonnes in the Pork segment, and over 696.1 thousand tonnes in the Grain segment. The Group also produced some 1.8 million tonnes of feed to cater for its own needs.

We aim to offer to our consumers the highest quality products catered to their preferences. Our success is based on the well-known brands in our portfolio and the loyalty of our consumers.

MARKET AND REGULATORY OVERVIEW

FX exchange rates

In 2018, the Russian rouble demonstrated moderate levels of volatility against the US dollar and the euro, ending the year in a positive territory. According to the Central Bank of Russia, as at 31 December 2018, the USD/RUB and EUR/RUB pairs traded at 69.47 and 79.46, respectively (2017: 57.60 and 68.87). At the end of the year, RUB-denominated liabilities accounted for 95% of the Group's long-term debt and 100% of its short-term debt.

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

Interest rates

In 2018, the Central Bank of Russia delivered multiple rate changes, but at the end of 2018 the key rate ended to be 7.75%, as it was at the end of 2017.

Tax benefits

Russian agricultural producers have a zero corporate income tax rate. However, no tax benefits are provided for sales and distribution, feed production and meat processing. In 2018, our overall effective tax rate was (1.6) %, compared to 2.6% (net of penalties and fines) in 2017. The increase in 2018 was primarily due to a loss carry forward.

The general income tax rate for Russian companies was 20%. On 1 January 2017, amendments to the Russian Tax Code became effective allowing the Group to offset no more than 50% of each subsidiary's taxable income against the accrued carryforward tax losses. No time limit is set for the use of the Group's tax loss carryforward. Hence, the Group does not expect its deferred tax position to be affected.

Loan benefits and government subsidies for interest payments

In accordance with Russian legislation, the Company received certain government grants. The largest of such government grants relate to the reimbursement of interest expense on qualifying loans, which is received directly by the Group 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.

The difference between market rate and the reduced rate equals the Key rate of the Bank of Russia and is compensated by the Ministry of Agriculture to the accredited banks. The Group records interest and reduced rate lending subsidies as an offset to interest expense during the period to which they relate. Total government grants for compensation of interest expense grossed of related interest expense amounted to RUB 1.3 billion.

RUB **1.3** billion

Interest expense reimbursement for subsidized loans

CONSOLIDATED RESULTS OF CHERKIZOVO GROUP

In 2018, Cherkizovo Group's revenue increased by 13.5% to RUB 102.6 billion as compared to RUB 90.5 billion in 2017 as a result of sales volume growth in all of our segments, sales mix shift towards branded and value-added products and favorable pricing environment for chicken and pork products in the second half of 2018.

Gross profit increased by 35.5% to RUB 31.9 billion, (2017: RUB 23.6 billion) driven by revenue growth, operational efficiency gains in Poultry and Pork segments and associated costs savings and increase of net change in fair value of biological assets in Pork and Poultry segments and net revaluation of harvested crops in stock in Grain segment offset by higher input prices for Meat Processing segment. Lower costs and higher sales helped boost gross margin from 26.0% in 2017 to 31.1% in 2018.

Operating expenses increased by 19.8% to RUB 16.3 billion (2017: RUB 13.6 billion) due to higher selling expenses, which in turn is mostly driven by broadening of our distribution network, and G&A expenses largely unchanged from previous year. As percentage of the revenue, though, operating expenses went down from 15.0% in 2017 to 15.9% in 2018.

Operating profit soared by 59.9% to RUB 15.6 billion.

As a result, adjusted EBITDA for 2018 surged by 39.4% year-on-year to RUB 20.4 billion. Adjusted EBITDA margin also demonstrated significant growth spiking at 19.9% compared to 16.2% in 2017 due to higher revenue across segments, improved profitability of Poultry, Pork and Grain segments, and strict cost control on the corporate level. This rise showed that we can boost profits by rolling out our operational excellence enhancement strategy across the Group's segments.

Interest expenses, net declined by 10.8% y-o-y to RUB 3.3 billion. That was mostly as a result of increase of interest expense by 25.5% to RUB 4.6 billion (2017: RUB 3.7 billion) compensated by increase of government grants for compensation of interest expenses by 56.1% to RUB 1.5 billion (without effect of written-off working capital subsides in the amount of 0.57 billion in 2017). The Group's total debt increased by 37.6% to RUB 68.8 billion. Increase of government grants was due to share growth of loans to agricultural producers at reduced rates ("reduced rate lending subsidy") in the loan portfolio in 2018.

Net profit totaled from RUB 5.8 billion in 2017 to RUB 12.0 billion in 2018, while net profit margin rose from 6.4% to 11.7%. Operating cash flow increased from RUB 13.0 billion in 2017 to RUB 14.2 billion, due to higher net income, working capital release, offset by higher interest payments and lower government grants for compensation of interest expense.

Consolidated income statement data for the year ended 31 December 2018

(RUB '000)	Year ended 31 December 2018	Year ended 31 December 2017	Change, %
Revenue	**102,639,145**	**90,465,069**	**13.5%**
Net change in fair value of biological assets	1,836,336	734,141	150.1%
Net revaluation of harvested crops in stock	2,242,187	(882,259)	n.a.
Cost of sales	(74,794,308)	(66,758,340)	12.0%
Gross profit	**31,923,360**	**23,558,611**	**35.5%**
Gross profit margin	31.1%	26.0%	5.1 p.p.
Operating expenses	(16,311,450)	(13,611,664)	19.8%
Share of gain/(loss) of joint ventures and associates	(56,778)	(221,325)	(74.3%)
Operating profit	15,555,132	9,725,622	59.9%
Operating margin	15.2%	10.8%	4.4 p.p.
Profit before income tax	**11,793,208**	**5,955,675**	**98.0%**
Profit attributable to Cherkizovo Group	**12,004,027**	**5,800,371**	**107.0%**
Net profit margin	*11.7%*	*6.4%*	*5.3 p.p.*
Weighted average number of shares outstanding	**41,047,014**	**42,760,328**	**n.a.**
Earnings per share:			
Profit attributable to Cherkizovo Group per share – basic and diluted (RUB)	**292.45**	**135.65**	**115.6%**
Consolidated adjusted EBITDA reconciliation			
Profit before income tax	11,793,208	5,955,675	98.0%
Adjustments for:			
Interest expense, net of subsidies	3,266,694	3,663,093	(10.8%)
Interest income	(289,785)	(277,148)	4.6%
Foreign exchange (gain)/loss, net	829,060	390,426	(78.8%)
Depreciation and amortisation	6,045,330	5,153,486	17.3%
Net change in fair value of biological assets	(1,836,336)	(734,141)	150.1%
Share of (gain)/loss of joint ventures and associates	56,778	221,325	(74.3%)
Share of adjusted EBITDA of joint ventures and associates	165,415	83,448	98.2%
Bonuses to employees under long-term incentive program	658,391	—	n.a.
Depreciation and amortisation accumulated in harvested crops in stock	(272,508)	186,900	n.a.
Consolidated adjusted EBITDA	**20,416,247**	**14,643,064**	**39.4%**
Adjusted EBITDA margin	*19.9%*	*16.2%*	*3.7 p.p.*

Consolidated selected financial data for the year ended 31 December 2018

(RUB '000)	Meat processing	Poultry	Pork
Total Sales	**38,438,972**	**53,797,241**	**23,576,166**
including other sales	669,872	1,074,548	313,946
including sales volume discount	(682,375)	(709,085)	—
Interdivision sales	(179,261)	(1,877,449)	(20,529,684)
Sales to external customers (sales)	38,259,711	51,919,792	3,046,482
% of total sales	*37.3%*	*50.6%*	*3.0%*
Net change in fair value of biological assets	—	1,264,368	899,056
Net revaluation of harvested crops in stock	—	—	—
Cost of sales	(34,202,152)	(41,561,439)	(13,290,802)
Gross profit	**4,236,820**	**13,500,170**	**11,184,420**
Gross margin	*11.0%*	*25.1%*	*47.4%*
Operating expenses	(4,712,174)	(6,097,666)	(769,307)
Share of gain/(loss) of joint ventures and associates	—	—	—
Operating income/ (loss)	**(475,354)**	**7,402,504**	**10,415,113**
Operating margin	*-1.2%*	*13.8%*	*44.2%*
Interest income	19,991	171,402	64,279
Interest expense, net	(121,756)	(621,387)	(588,028)
Other income/ (expenses), net	(471,451)	(52,521)	(3,165)
Division profit / (loss)	**(1,048,570)**	**6,899,998**	**9,888,199**
Division profit margin	*-2.7%*	*12.8%*	*41.9%*
Supplemental information:			
Income tax expense (benefit)	(375,528)	88,334	2,471
Expenditure for segment property, plant and equipment	2,181,464	2,019,862	3,882,879
Division profit / (loss)	**(1,048,570)**	**6,899,998**	**9,888,199**
Add:			
Interest expense, net	121,756	621,387	588,028
Interest income	(19,991)	(171,402)	(64,279)
Foreign exchange loss/(gain)	484,364	74,279	10,416
Depreciation and amortisation	882,526	2,056,073	1,338,876
Net change in fair value of biological assets	—	(1,264,368)	(899,056)
Share of (gain)/loss of joint ventures and associates	—	—	—
Share of adjusted EBITDA of joint ventures and associates	—	—	—
Bonuses to employees under long-term incentive program	38,763	171,990	40,090
Depreciation and amortisation accumulated in harvested crops in stock	—	—	—
Adjusted EBITDA	**458,848**	**8,387,957**	**10,902,274**
Adjusted EBITDA margin	*1.2%*	*15.6%*	*46.2%*

Grain	Feed	Total reportable segments	Corporate	Interdivision	Total without turkey	Turkey	Combined
6,986,006	**31,738,006**	**154,536,391**	**775,725**	**(58,487,602)**	**96,824,514**	**5,814,631**	**102,639,145**
86,972	527,583	2,672,921	775,725	(1,231,845)	2,216,801	—	2,216,801
—	—	(1,391,460)	—	—	(1,391,460)	(81,738)	(1,473,198)
(3,989,632)	(31,210,423)	(57,786,449)	(448,281)	58,487,602	252,872	(252,872)	—
2,996,374	527,583	96,749,942	327,444	—	97,077,386	5,561,759	102,639,145
2.9%	*0.5%*	*94.3%*	*0.3%*	*0.0%*	*94.6%*	*5.4%*	*100.0%*
—	—	2,163,424	—	(327,088)	1,836,336	—	1,836,336
1,297,189	—	1,297,189	—	944,998	2,242,187	—	2,242,187
(6,133,969)	(30,977,130)	(126,165,492)	(554,659)	57,052,214	(69,667,937)	(5,126,371)	(74,794,308)
2,149,226	**760,876**	**31,831,512**	**221,066**	**(817,478)**	**31,235,100**	**688,260**	**31,923,360**
30.8%	*2.4%*	*20.6%*	*28.5%*	*1.4%*	*32.3%*	*11.8%*	*31.1%*
(431,126)	(423,605)	(12,433,878)	(3,726,500)	463,082	(15,697,296)	(614,154)	(16,311,450)
—	—	—	—	—	—	(56,778)	(56,778)
1,718,100	**337,271**	**19,397,634**	**(3,505,434)**	**(354,396)**	**15,537,804**	**17,328**	**15,555,132**
24.6%	*1.1%*	*12.6%*	*-451.9%*	*0.6%*	*16.0%*	*0.3%*	*15.2%*
2,146	55,380	313,198	129,874	(153,287)	289,785	—	289,785
(172,516)	(870,766)	(2,374,453)	(1,045,528)	153,287	(3,266,694)	—	(3,266,694)
545	(276,398)	(802,990)	17,975	—	(785,015)	—	(785,015)
1,548,275	**(754,513)**	**16,533,389**	**(4,403,113)**	**(354,396)**	**11,775,880**	**17,328**	**11,793,208**
22.2%	*-2.4%*	*10.7%*	*-567.6%*	*0.6%*	*12.2%*	*0.3%*	*11.5%*
103,790	14,124	(166,809)	(20,282)	—	(187,091)	—	(187,091)
389,594	299,674	8,773,473	979,019	—	9,752,492	—	9,752,492
1,548,275	**(754,513)**	**16,533,389**	**(4,403,113)**	**(354,396)**	**11,775,880**	**17,328**	**11,793,208**
172,516	870,766	2,374,453	1,045,528	(153,287)	3,266,694	—	3,266,694
(2,146)	(55,380)	(313,198)	(129,874)	153,287	(289,785)	—	(289,785)
(192)	277,409	846,276	(17,216)	—	829,060	—	829,060
809,172	609,025	5,695,672	346,839	—	6,042,511	2,819	6,045,330
—	—	(2,163,424)	—	327,088	(1,836,336)	—	(1,836,336)
—	—	—	—	—	—	56,778	56,778
—	—	—	—	—	—	165,415	165,415
8,353	19,206	278,402	373,100	—	651,502	6,889	658,391
(272,508)	—	(272,508)	—	—	(272,508)	—	(272,508)
2,263,470	**966,513**	**22,979,062**	**(2,784,736)**	**(27,308)**	**20,167,018**	**249,229**	**20,416,247**
32.4%	*3.0%*	*14.9%*	*-359.0%*	*0.0%*	*20.8%*	*4.3%*	*19.9%*

POULTRY

In 2018, revenue increased by 13.5% from RUB 47.4 billion in 2017 to RUB 53.8 billion, driven by a year-on-year rise in volumes and average sales prices. Sales volumes in 2018 increased by 4.1% to 544.2 thousand tonnes (2017: 522.5 thousand tonnes) due to increase the efficiency of production of live weight. The average selling price increased by 9.1% y-o-y to 96.9 RUB/kg due to growth of Petelinka and Kurinoe Tsarstvo sales of 35% and 24% y-o-y respectively.

Gross profit soared by 29.1% to RUB 13.5 billion (2017: RUB 10.5 billion), on higher volumes and sales price, operational efficiency gains resulted in cost savings, the change in fair value of biological assets, offset by higher feed costs. Gross margin rose from 22.1% in 2017 to 25.1% in 2018.

Operating expenses as a percentage of revenue was flat year-on-year at 11.3%. Operating profit increased by 44.8% to RUB 7.4 billion compared to RUB 5.1 billion a year earlier, operating margin went up to 13.8% from 10.8%. Adjusted EBITDA soared by 17.8% from RUB 7.1 billion in 2017 to RUB 8.4 billion in 2018, with adjusted EBITDA margin rising from 15.0% to 15.6%. Net profit came in at RUB 6.9 billion as compared to RUB 4.0 billion in 2017.

(RUB '000)	Year ended December 31, 2018	Year ended December 31, 2017	Change, %
Total sales	53,797,241	47,401,429	13.5%
Interdivision sales	(1,877,449)	(1,902,802)	(1.3%)
Sales to external customers	**51,919,792**	**45,498,627**	**14.1%**
Net change in fair value of biological assets	1,264,368	(71,239)	n.a.
Cost of sales	(41,561,439)	(36,875,483)	12.7%
Gross profit	**13,500,170**	**10,454,707**	**29.1%**
Gross margin	*25.1%*	*22.1%*	*3.0 p.p.*
Operating expenses	(6,097,666)	(5,342,484)	14.1%
Operating profit	**7,402,504**	**5,112,223**	**44.8%**
Operating margin	*13.8%*	*10.8%*	*3.0 p.p.*
Interest income	171,402	164,917	3.9%
Interest expense, net	(621,387)	(1,112,968)	(44.2%)
Other income/(expenses), net	(52,521)	(161,815)	(67.5%)
Division profit before income tax	**6,899,998**	**4,002,357**	**72.4%**
Division profit margin	*12.8%*	*8.4%*	*4.4 p.p.*
Poultry processing division adjusted EBITDA reconciliation			
Division profit before income tax	**6,899,998**	**4,002,357**	**72.4%**
Add:			
Interest expense, net of subsidies	621,387	1,112,968	(44.2%)
Interest income	(171,402)	(164,917)	3.9%
Foreign exchange (gain)/loss, net	74,279	164,118	(54.7%)
Depreciation and amortisation	2,056,073	1,936,437	6.2%
Net change in fair value of biological assets	(1,264,368)	71,239	n.a.
Bonuses to employees under long-term incentive program	171,990	—	n.a.
Poultry processing division adjusted EBITDA	**8,387,957**	**7,122,202**	**17.8%**
Adjusted EBITDA margin	*15.6%*	*15.0%*	*0.6 p.p.*

PORK

Revenue in the Pork segment increased by 26.2% to RUB 23.6 billion (2017: RUB 18.7 billion), on the back of higher volumes and better pricing.

Sales volumes in 2018 increased by 18.3% y-o-y, to 236.9 thousand tonnes (2017: 200.3 thousand tonnes) principally as a result of a shift towards cut-up products in our sales mix, coupled with distribution focused on modern retail trade and a 44% increase in the annual sales of HoReCa products. The average selling price of 98.2 RUB/kg, up by 6.6% y-o-y compared to 92.1 RUB/kg a year ago.

Gross profit increased by 61.2% y-o-y, to RUB 11.2 billion (2017: RUB 6.9 billion) due to higher sales volumes and prices, further improvement in operational KPI's translated into cost savings and a non-cash change in the fair value of biological assets of RUB 0.9 billion. The segment's gross margin improved to 47.4%, from 37.1% a year ago.

Operating expenses as a percentage of sales amounted to 3.3%, compared to 3.4% in 2017.

Operating income was up 65.0% y-o-y, to RUB 10.4 billion from RUB 6.3 billion in 2017. The segment's operating margin increased to 44.2% from 33.8% a year ago. The segment's profit before income tax amounted to RUB 9.9 billion compared to the 2017 result of RUB 5.6 billion. Adjusted EBITDA increased by 60.2% y-o-y to RUB 10.9 billion (2017: RUB 6.8 billion). Adjusted EBITDA margin improved to 46.2% from 36.4% in 2017.

(RUB '000)	Year ended December 31, 2018	Year ended December 31, 2017	Change, %
Total sales	23,576,166	18,688,379	26.2%
Interdivision sales	(20,529,684)	(14,622,070)	40.4%
Sales to external customers	**3,046,482**	**4,066,309**	**(25.1%)**
Net change in fair value of biological assets	899,056	651,235	38.1%
Cost of sales	(13,290,802)	(12,399,563)	7.2%
Gross profit	**11,184,420**	**6,940,051**	**61.2%**
Gross margin	*47.4%*	*37.1%*	*10.3 p.p.*
Operating expenses	(769,307)	(627,148)	22.7%
Operating profit	**10,415,113**	**6,312,903**	**65.0%**
Operating margin	*44.2%*	*33.8%*	*10.4 p.p.*
Interest income	64,279	41,178	56.1%
Interest expense, net	(588,028)	(713,729)	(17.6%)
Other income/(expenses), net	(3,165)	(2,514)	25.9%
Division profit before income tax	**9,888,199**	**5,637,838**	**75.4%**
Division profit margin	*41.9%*	*30.2%*	*11.8 p.p.*
Pork division adjusted EBITDA reconciliation			
Division profit before income tax	**9,888,199**	**5,637,838**	**75.4%**
Add:			
Interest expense, net of subsidies	588,028	713,729	(17.6%)
Interest income	(64,279)	(41,178)	56.1%
Foreign exchange (gain)/loss, net	10,416	6,272	66.1%
Depreciation and amortisation	1,338,876	1,140,851	17.4%
Net change in fair value of biological assets	(899,056)	(651,235)	38.1%
Bonuses to employees under long-term incentive program	40,090	—	n.a.
Pork division adjusted EBITDA	**10,902,274**	**6,806,277**	**60.2%**
Adjusted EBITDA margin	*46.2%*	*36.4%*	*9.8 p.p.*

MEAT PROCESSING

The segment's revenue in 2018 rose by 13% to RUB 38.4 billion (2017: RUB 34.0 billion). Revenue growth was driven by higher volumes of the carcass in the sales mix, on the back of higher volumes of market hogs production in the Pork segment.

Sales volumes in 2018 increased by 12.4% y-o-y to 229.5 thousand tonnes (2017: 204.2 thousand tonnes). The average selling price was unchanged at 169.6 RUB/kg (2017: 170.1 RUB/kg).

Gross profit declined by 28.9% y-o-y to RUB 4.2 billion (2017: RUB 6.0 billion). The gross margin fell to 11.0% from 17.5% a year ago on higher prices of input materials.

Operating expenses as a percentage of sales amounted to 12.3% (2017: 12.5%). Operating income turned to negative RUB 0.5 billion from RUB 1.7 billion in 2017. Operating margin decreased to negative 1.2% from 5.0% in 2017. The segment's loss before income tax was RUB 1.0 billion, compared to a profit RUB 1.4 billion a year ago. Adjusted EBITDA declined by 80.9% to RUB 0.5 billion from RUB 2.4 billion in 2017.

(RUB '000)	Year ended December 31, 2018	Year ended December 31, 2017	Change, %
Total sales	38,438,972	34,020,373	13.0%
Interdivision sales	(179,261)	(39,539)	353.4%
Sales to external customers	**38,259,711**	**33,980,834**	**12.6%**
Cost of sales	(34,202,152)	(28,058,310)	21.9%
Gross profit	**4,236,820**	**5,962,063**	**(28.9%)**
Gross margin	*11.0%*	*17.5%*	*(6.5 p.p.)*
Operating expenses	(4,712,174)	(4,249,598)	10.9%
Operating profit/(loss)	**(475,354)**	**1,712,465**	**(127.8%)**
Operating margin	*-1.2%*	*5.0%*	*(6.3 p.p.)*
Interest income	19,991	16,845	18.7%
Interest expense, net	(121,756)	(181,389)	(32.9%)
Other income/(expenses), net	(471,451)	(123,626)	281.4%
Division profit/(loss) before income tax	**(1,048,570)**	**1,424,295**	**(173.6%)**
Division profit margin	*-2.7%*	*4.2%*	*(6.9 p.p)*
Meat processing division adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	**(1,048,570)**	**1,424,295**	**(173.6%)**
Add:			
Interest expense, net of subsidies	121,756	181,389	(32.9%)
Interest income	(19,991)	(16,845)	18.7%
Foreign exchange (gain)/loss, net	484,364	122,422	295.7%
Depreciation and amortisation	882,526	697,189	26.6%
Bonuses to employees under long-term incentive program	38,763	—	n.a.
Meat processing division adjusted EBITDA*	**458,848**	**2,408,450**	**(80.9%)**
Adjusted EBITDA margin	*1.2%*	*7.1%*	*(5.9 p.p.)*

GRAIN

Sales volumes in 2018 increased by 53.6% y-o-y to 696.1 thousand tonnes (2017: 453.3 thousand tonnes) as we shifted crop acrage towards wheat growing. The segment's revenue increased by 115.7% and reached RUB 7.0 billion (2017: RUB 3.2 billion).

Gross profit turned positive to RUB 2.1 billion (2017: negative RUB 1.3 billion). The gross margin increased to 30.8% from negative 40.8% a year ago on higher volumes and sale price and net revaluation of harvested crops in stock of RUB 1.3 billion.

Operating expenses as a percentage of sales declined to 6.2%, from 8.3% in 2017. Operating income improved to RUB 1.7 billion from RUB a loss of 1.6 billion in 2017. Operating margin came to 24.6% from negative 49.2% in 2017. The segment's profit before income tax was RUB 1.5 billion, compared to a loss of RUB 1.8 billion a year ago. Adjusted EBITDA amounted to RUB 2.3 billion compared to a loss of RUB 1.1 billion in 2017.

(RUB '000)	Year ended December 31, 2018	Year ended December 31, 2017	Change, %
Total sales	6,986,006	3,238,261	115.7%
Interdivision sales	(3,989,632)	(1,468,597)	171.7%
Sales to external customers	**2,996,374**	**1,769,664**	**69.3%**
Net change in fair value of biological assets	—	154,145	n.a.
Net revaluation of harvested crops in stock	1,297,189	(890,759)	(245.6%)
Cost of sales	(6,133,969)	(3,823,384)	60.4%
Gross profit/(loss)	**2,149,226**	**(1,321,737)**	**(262.6%)**
Gross margin	*30.8%*	*-40.8%*	*71.6 p.p.*
Operating expenses	(431,126)	(270,124)	59.6%
Operating profit/(loss)	**1,718,100**	**(1,591,861)**	**(207.9%)**
Operating margin	*24.6%*	*-49.2%*	*73.8 p.p.*
Interest income	2,146	1,649	30.1%
Interest expense, net	(172,516)	(175,685)	(1.8%)
Other income/(expenses), net	545	1,318	(58.6%)
Division profit/(loss) before income tax	**1,548,275**	**(1,764,579)**	**(187.7%)**
Division profit margin	*22.2%*	*-54.5%*	*76.7 p.p.*
Grain division adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	**1,548,275**	**(1,764,579)**	**(187.7%)**
Add:			
Interest expense, net of subsidies	172,516	175,685	(1.8%)
Interest income	(2,146)	(1,649)	30.1%
Foreign exchange (gain)/loss, net	(192)	(859)	(77.6%)
Depreciation and amortisation	809,172	464,492	74.2%
Net change in fair value of biological assets	—	(154,145)	n.a.
Depreciation and amortisation accumulated in harvested crops in stock	(272,508)	186,900	(245.8%)
Bonuses to employees under long-term incentive program	8,353	—	n.a.
Grain division adjusted EBITDA	**2,263,470**	**(1,094,155)**	**(306.9)**
Adjusted EBITDA margin	32.4%	-33.8%	66.2%

LIQUIDITY AND CAPITAL

Capital needs

In addition to our working capital requirements, we require capital to finance the following:

1. capital expenditures, particularly in connection with our Kashira-2 project and wean-to finish pork facilities in our Pork segment as well as development and maintenance capital expenditures;
2. repayment of debt; and
3. potential acquisitions.

We anticipate that capital expenditures, repayment of long-term debt and potential acquisitions will represent the most significant uses of funds for the next several years.

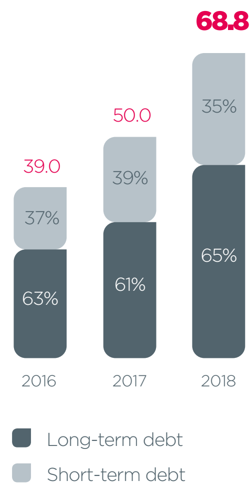
In 2018, the major sources of our funds were our operating cash flows and short and long-term borrowings. We financed our capital expenditures primarily with short and long-term borrowings.

Debt

As at 31 December 2018, net debt came in at RUB 58.6 billion as compared to RUB 48.7 billion at the end of 2017. Total debt increased from RUB 50 billion at the end of 2017 to RUB 68.8 billion.

As at 31 December 2018, long- term debt stood at RUB 44.6 billion, or 65% of the Group's debt portfolio, while short-term debt of RUB 24.2 billion accounted for 35% of the debt portfolio. The effective cost of debt was 4.7% as of December 31, 2018, change from 7.3% in 2017. Subsidised loans and credit facilities made up 40% of the debt portfolio in 2018 (2017: 35%). As at 31 December 2018, cash and cash equivalents totalled RUB 9.6 billion.

Total debt structure, RUB bln



CAPITAL EXPENDITURES

In 2018 Cherkizovo Group's total capital expenditures, excluding acquisitions and investments in joint ventures and associates amounted to RUB 9.8 billion (down 20.9% year-on year) and included:

- RUB 2.2 billion invested in the Meat Processing segment (completion of construction of a new meat processing plant in Kashira, Moscow region, the launch of new sow slaughter facilities, acquisition of equipment for semi-smoked sausages and hot dog production);
- RUB 3.9 billion invested in the Pork segment (construction of seven new wean-to-finish facilities in the Penza region);
- RUB 2.0 billion invested in the Poultry segment (the investments made for the improvement of cooling capacity and acquisition of equipment for the production of value-added products);
- RUB 0.4 billion invested in the Grain segment (construction of a new grain drying facility).

The Group is at the end of the capital intensive phase of the spending and we anticipate that going forward our focus will move towards meat processing.

SUBSIDIES

In 2018, total government grants for compensation of interest expenses amounted to RUB 1.3 billion as compared to RUB 6 million in 2017. In 2018, the share of loans to agricultural producers at reduced rates in the loan portfolio increased. The decrease in the amount of subsidies included in the cost of qualifying assets in 2018 as compared to 2017 was attributable to the completion of the construction of new pork finisher complexes and wean-to-finish facilities.

On December 13, 2017 the Government order was issued, prohibiting regional bodies of the 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 RUB 571 million were written-off in 2017.

Cash flows, RUB bln

The table below represents movements in our cash flows from various activities associated with continuing operations for the two years ended December 31, 2018 and December 31, 2017, respectively:

	2018	2017
Net cash flows from operating activities	14.2	13.0
Net cash used in investing activities	(15.3)	(15.7)
Net cash (used in) / generated from financing activities	10.1	2.4
Net (decrease)/increase in cash and cash equivalents	8.9	(0.3)

Operating activities

Net cash from operating activities in 2018 increased by 8.9% to RUB 14.2 billion from RUB 13.0 billion in 2017. This was primarily attributable to the improvement in net income affected by influence of higher interest payments coupled with lower government grants for compensation of interest expense.

In 2018 working capital was almost at the same level as in 2017 and amounted to RUB 1.0 billion (2017: RUB 1.1 billion).

The key factors affecting cash outflow in working capital include

① RUB 0.8 billion increase in biological assets due to increase in the number of livestock as a result of the commissioning of new production facilities and improvement of key performance indicators;

② RUB 0.7 billion increase in inventory particularly due to the increase in grain stocks and feed components, increase in stocks in connection with the launch of production at Kashira-1 and fertilizers in the Grain segment;

③ RUB 1.3 billion increase in trade receivables primarily due to increase in sales to national retailers;

④ RUB 1.3 billion increase in trade payables due to the increase in deferred payments under contracts;

⑤ RUB 0.6 billion increase in other receivables and other current assets due to the decrease in the recoverable VAT;

⑥ RUB 0.5 billion increase in advances paid due to the decrease in advances for soybean meal.

Investing activities

Use of cash in investing activities was generally at the same level in 2018 and 2017 (with a slight decrease (2.3%, or RUB 368 million) and totaled RUB 15.3 billion (2017: 15.7 billion).

Financing activities

Our net cash flows from financing activities increased more than fourfold to RUB 10.1 billion in 2018 as compared to RUB 2.4 billion in 2017. The change in 2018 was due to the short-term loans issued.

Liquidity

As of December 31, 2018, we had total cash and cash equivalents of RUB 9.6 biillion, which were denominated largely in Roubles. As of December 31, 2018, we had Net Current Assets of RUB 6.3 billion, while as of December 31, 2017 we had negative Net Current Assets of RUB 2.4 billion.

Our Trade Working Capital as of December 31, 2018, which we define as current assets less current (excluding cash and cash equivalents and other current assets) less current liabilities (excluding short-term borrowings and payables for non-current assets), was RUB 21.5 billion as compared to RUB 17.7 billion as of December 31, 2017.

In 2018 our trade receivables, net increased to RUB 5.7 billion from RUB 4.4 billionas of December 31, 2017. The changes in trade receivables was largely due to the increase in sales to national retailers. Trade receivables turnover averaged 20 days as of December 31, 2018 and 18 days as of December 31, 2017.

Allowance for doubtful trade receivables was RUB 119 million and RUB 86 million as of December 31, 2018, 2017, respectively, due to the additional information received regarding insolvency of some of the buyers.

Trade payables increased to RUB 10.8 billion as of December 31, 2018 from RUB 9.0 billion as of December 31, 2017. Trade payables turnover averaged 53 days, 49 days as of December 31, 2018, 2017, respectively.

Advances paid, net decreased to RUB 875 million as of December 31, 2018 from RUB 1.4 billion as of December 31, 2017. The decrease in advances paid was largely due to the decrease in advances for soybean meal.

Our inventory consists primarily of raw materials, spare parts, work-in-progress and finished goods. Our inventories were RUB 12.4 million, RUB 10.0 as of December 31, 2018, 2017, respectively.

The increase in inventories in 2018 was largely due to the increase in grain stocks and feed components and in stocks in connection with the start of production at Kashira-1 and fertilizers in our Grain segment.

Biological assets amounted to RUB 15.4 billion as of December 31 and RUB 11.6 billion as of December 31, 2017. The increase was largely due to the increase of costs and heads in our Poultry.

Other receivables (net) increased from RUB 837 million as of December 31, 2017 to RUB 1.5 billion as of December 31, 2018, largely due to subsidies accrued on the interest expense.

Ludmila Mikhaylova
CFO

Sustainable Development

In every aspect of our operations, Cherkizovo Group is committed to the **principles** of sustainable development, as we seek to ensure that today's **growth ambitions** do not compromise the ability of the future generations to meet their own needs. We believe that business development and commercial gain can and should go hand in hand with efforts to **maximize public** good and **minimize environmental** impact.

As a key element of our sustainable development strategy, Cherkizovo is set to build balanced and harmonious relationships with a wide range of stakeholders, including groups and entities capable of influencing the company's operations. Our stakeholders comprise such categories as shareholders, customers, employees, partners, agricultural industry players, suppliers, local and federal authorities, trade associations, non-profit organizations, and local communities in all regions where we operate.

Shareholders

The Company is committed to maintaining an ongoing dialogue with shareholders and investors in a variety of formats and ensuring full disclosure in compliance with applicable laws. We regularly pay out dividends to our shareholders.

Consumers

Cherkizovo Group is a consumer-driven company. We offer products of superior quality, ensuring strict quality and biosafety control across the production chain.

Today, consumers are increasingly focused on healthy life style, organic products, and environmental protection. Being aware of that, we put sustainability at the heart of our product strategy and technology.

Employees

Cherkizovo Group is a major employer in the regions where it operates. We offer competitive salary, social benefits, and regular training and professional development programs for our employees.

We rely on a variety of forms of stakeholder engagement, including **research, customer and employee** surveys, **public hearings**, and ongoing dialogue with government authorities and local community representatives, as well as **meetings** with partners and suppliers.

Suppliers and business-partners

The Group seeks to engage in effective dialogue with all business partners, including suppliers, b2b-customers, joint ventures, and research organizations.

Cherkizovo works with a wide range of suppliers, boasting RUB 48 billion in annual procurement. The Group is committed to transparent business practices, with a strong emphasis on tender transparency. To qualify as a Cherkizovo contractor, potential business partners need to meet the Company's stringent standards and requirements.

Government relations

Cherkizovo Group is among the industry's major taxpayers. We work in strict compliance with the law and cooperate with regional authorities to implement large-scale investment and social projects in a variety of fields across Russia.

Local communities

We support local communities by creating modern jobs, sponsoring charities, and funding educational and healthcare facilities. Our cutting-edge production technology helps reduce and mitigate the Company's environmental impact.

Agricultural sector

By creating modern and highly efficient production facilities and introducing advanced technologies and innovative solutions, the Group makes a strong contribution to the development of Russia's agricultural sector.

Our Employees

HR POLICY

The highly skilled and effective employees are a key driver behind our industry leadership. We are committed to attracting and retaining the best talent, and creating the right environment for everyone to unlock their full potential. We fully comply with the Russian labour laws with due regard to best international practices.

Cherkizovo Group is among the largest employers in Russia's agricultural and FMCG sectors.

In 2018, the Company employed 23,496 people country-wide, adding 338 employees compared with the previous year. The increase was primarily driven by the launch of new production facilities and new acquisitions.

23,496 employees

Cherkizovo Group's headcount

We seek to develop human capital and foster professional excellence. In 2018, we focused on introducing new systems and advanced solutions in human resources management: In particular, we launched a new leadership program for senior managers, prepared and implemented a plan to cooperate with universities and engage the youth, and continued developing employee training and onboarding programs, including online.

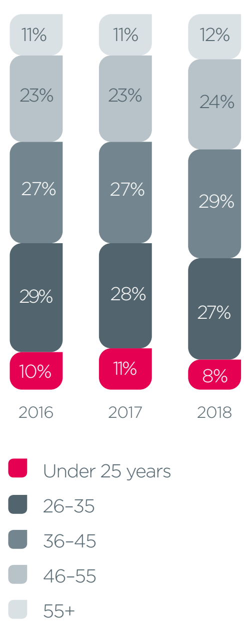
Key HR initiatives in 2018:

Development program for senior management – **Evolution@Cherkizovo. Leaders of Change**;

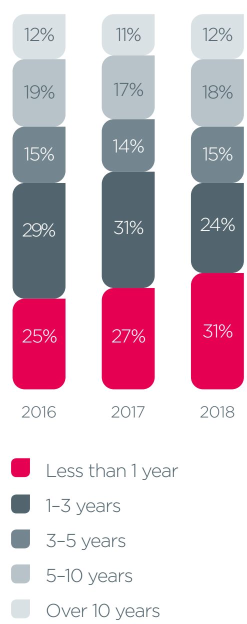
Distance learning system for production and management personnel;

The **Youth project** to attracting and train young professionals; dual education programs in collaboration with the leading higher education and vocational training institutions.

Employee age, %



Years of employment with the Company, %



RECRUITMENT

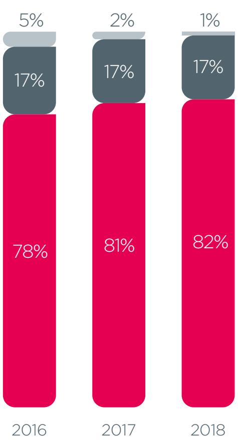
As a major employer, the Group is hiring across the segments where it operates as well as in sales, marketing, R&D, and others.

In 2018, we made major changes in our executive team. We recruited highly qualified Russian and foreign professionals with a strong track record in major international FMCG companies.

We foster sustainable development in the regions where we operate by working with regional authorities and employment centers to hire locally and contribute to economic growth.

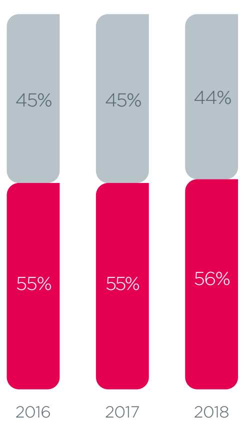
Cherkizovo Group strives to prevent any discrimination by age or gender across its operations. All recruitment decisions are based exclusively on the applicant's qualification.

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



Workers
Administrative personnel
Non-payroll labour

Headcount by gender,
%



Male
Female

INDUCTION AND MENTORING

We use a wide range of programs and tools to help new employees settle into their roles including onboarding meetings, guidelines, and online courses.

In 2018, the Group introduced Culinary Stories, an interactive online course designed as a gamified virtual tour across the Company's manufacturing facilities to help the new hires understand our production processes.

We have implemented a single mentoring program across our production sites, in an effort to effectively adapt and train junior talent as they master their unique manufacturing jobs. Our mentors take part in the recruitment process, prepare induction plans, and train interns.

~100
mentors
were involved in training interns and young professionals in 2018

TRAINING AND DEVELOPMENT

Our professional development programs include advanced training tools, attendance of industry conferences, and internships at industry majors abroad.

In April 2018, the Group launched **Evolution@Cherkizovo. Leaders of Change**, a long-term (18-month long) professional development program for senior management. The program is based on advanced research and practical approaches to the development of human capital and fostering leadership. Each participant is assigned an individual project through which he or she learns to apply new approaches and deliver new results.

850
employees
were assessed in 2018

Another major element of Evolution@ Cherkizovo is teamwork. Working in mixed teams, participants are able to look at the task at hand from a different perspective and find additional solutions to the problem. In 2019, we plan to extend the program to mid-level management personnel.

We annually conduct employee competency assessment, based on which individual development plans and training programs are designed, including various projects, training courses, and self-education opportunities. Since 2017, we have a **centralized program in place to assess and develop management teams** based on the Corporate Management Competency Model. In 2018, 850 employees were assessed under this program.

Across our production sites, we provide **training for various groups of operational staff**, placing particular emphasis on biosecurity, occupational safety, labour productivity, and work quality.

Since 2017, we have been holding **Days of Learning and Development**, with open workshops and master classes in many fields. We continue improving our corporate online library that we created jointly with the Alpina, a publishing house. At some of the Group's facilities, we offer English language classes and English club sessions to help our employees practise their foreign language skills.

Distance learning

The Group seeks to use the latest technologies and approaches to learning. Our employees can access training courses through Cherkizovo **WORLD**, a dedicated **distance learning system**.

In the reporting period, we continued developing our online learning capabilities by upgrading the existing and designing new online courses for production staff that, among other areas, covered soft skills and the Group's internal processes. In 2018, we started involving our employees in workshops to share with colleagues their knowledge of the Company's internal processes, initiatives and regulations.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

Career opportunities for young talent

Our major priorities in human resources management include hiring highly qualified young professionals, building an effective succession system, and raising the prestige of employment in the agricultural sector among young people. In 2018, we created a youth engagement center within our HR Department to develop and run programs set to attract and train young professionals from as early as their student years. As part of the program, over 100 young professionals joined the Group in 2018.

We hold regular events and presentations at leading agricultural universities and take part in job fairs to tell students and recent graduates trained in agriculture about career and professional growth opportunities at the Group.

Cherkizovo Group has entered into cooperation agreements with major national and regional agricultural universities.

>100 

young professionals

joined the Group in 2018 as part of the program

Specifically, we are the main industry partner of Razumovsky Moscow State University of Technologies and Management (First Cossack University) in a project to train engineering professionals. In 2018, we held a corporate presentation at the university for over 320 students to highlight career opportunities at the Group.

In 2018, Cherkizovo Group signed a cooperation agreement with the Russian State Agrarian University – Moscow Timiryazev Agricultural Academy. Under the agreement, new training programs in industrial automation will be launched with the Company serving as the major employer for the graduates.

We actively cooperate with the Voronezh State Agrarian University, the largest agricultural university in Russia's Black Earth region, and the Penza State Agrarian University.

In 2018, we took part in the job fair at the Moskovia vocational school in Kashira, following which the first group of students was selected to pursue internship at Cherkizovo Group.

Continuous education cluster

In 2017, Cherkizovo Group signed an agreement with Razumovsky Moscow State University of Technologies and Management to **create a continuous education cluster**, **the first such cluster in Russia's meat processing industry**. The project covers initiatives to develop educational programs for secondary schools, vocational training institutions, and universities, as well as skills improvement and professional development programs, competitions, and contests. The cluster will boost the prestige of the agricultural sector among young people, increase the number of those whose employment matches their training, and provide Cherkizovo Group with qualified personnel.

At the heart of the project is the **dual education program** enabling students to obtain hands-on production experience in addition to academic training. The program runs in the regions that are home to the university's branches and the Group's production facilities.

This approach helps to ensure that people are trained not only for the headquarters, but also locally, to factor in the needs of specific production sites. In the reporting period, we extended the program to the Poultry and Grain segments and educational institutions in the Kaliningrad and Lipetsk regions. In 2018, there were 90 participating students.

Doors Open Day

In 2018, Cherkizovo Lab joined the **Industrial Open Week**, a nationwide event to promote career choice for schoolchildren and let them see how real-life industrial facilities operate. The event was held by Dr. Sergey Shapovalov, Lab Director, who gave the pupils a tour of the facility. Following the event, the schoolchildren were able to enjoy Cherkizovo products during a food tasting session.

COMPENSATION AND BENEFITS

We are committed to providing a fair and competitive remuneration to our staff in line with the local labor market environment. Salary is commensurate with the employee's position, qualification, and performance.

For management personnel, there is an annual bonus framework in place, based on the performance of individual and corporate targets. Uniform criteria for the establishment and assessment of annual targets provide an objective procedure to assess employee performance and offers a transparent and clear mechanism to calculate the variable part of remuneration (annual bonus).

90

students

became participants
of the dual education program in 2018

Employee remuneration

	2016	2017	2018
Payroll, including bonuses and remuneration, RUB million	12,538	13,534	15,515
Average monthly salary, RUB '000	45,877	48,700	55,030

RUB **55,030**

Average monthly salary

The remuneration structure of the non-managerial staff and workers varies depending on the type of position and its impact on the bottom line. In most cases, there is a variable part of remuneration (bonus) provided that the position has a direct impact on certain performance metrics.

In 2018, payroll, including bonuses and remuneration, increased by 14% to RUB 15,516 million, while the average monthly salary rose by 13%, to RUB 55,030.

SOCIAL BENEFITS

Ensuring our employees' social security is a key element of the Group's human resources policy. We offer an attractive work environment and social benefits to our staff. In addition to the social benefits mandated by the Russian laws and regulations, the Group provides corporate perks and incentives to attract and retain qualified employees and help them cope with difficult situations.

Our fringe benefits include additional paid holiday allowance, vouchers to health resorts and summer camps for employees and their families, financial assistance due to personal circumstances or emergencies.

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

CORPORATE CULTURE

At Cherkizovo Group, we are convinced that teamwork and a friendly working environment are essential for successful business development. We appreciate the contribution of each and every one of our staff members and support an ongoing dialogue between executives and employees. We seek to create new channels for employee feedback and other means of communication to enhance their engagement in the Company life.

In 2018, we launched a recognition **program** called **Thank You** on the Company's intranet site. Our employees can use it to post "thank you" messages to their colleagues. The rating of employees with the biggest number of "thank you" notes is open for all staff to see. Every quarter, the top three of them are awarded by the Group. The Thank You program cultivates a culture of gratitude, helping to create an environment of support and mutual assistance.

For foreign nationals employed at Cherkizovo Group we run a cross-cultural program to help them learn our corporate culture, operations, and the Russian agricultural sector in general.

We intend to further cultivate our corporate culture and promote the Group's visibility as an employer.

Health, Safety and the Environment

Cherkizovo Group seeks to be **No. 1 in the industry** in terms of health, safety and the environment (HSE). The reporting year saw us centralize our HSE efforts. We approved an **HSE strategy** set to consistently develop the HSE management framework further for the next few years.

Occupational health and safety

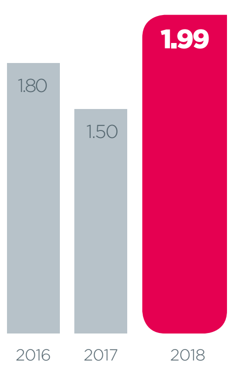
Occupational safety is among Cherkizovo Group's top priorities. We are well aware that the health and safety of our people are key to the Company's success and sustainable development in the long run.

Our facilities monitor compliance with all statutory health and safety requirements, and provide relevant training to their employees. In line with the HSE strategy, the Group seeks to bring incident rates to the best level countrywide and improve health and safety awareness of the management team and personnel.

The Group focuses on the best global HSE practices and seeks to roll them out internally. Personnel training and increasing of their involvement in health and safety matters, improving working conditions, and identifying the causes of injuries are among the key initiatives. The Group seeks to completely eliminate fatalities across all of its assets.

To assess occupational safety performance, the Company employs a number of key indicators, including the lost time injury frequency rate (LTIFR).

LTIFR



Number of injuries in 2016–2018

RUB **283.6** **+72%** year-on-year
million
of occupational health and safety expenses across the Group

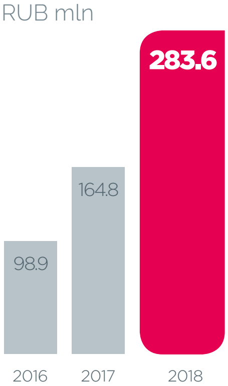
Our occupational safety principles

① Health and safety are our priority in delivering strong operating and financial performance.

② No reasons are acceptable to justify any breach of occupational health and safety requirements.

③ Creating safe and healthy working conditions for employees is the direct responsibility of management at all levels.

Occupational health and safety expenses, RUB mln



Cherkizovo Group investigates causes of accidents and invests consistent efforts to mitigate the risk of their recurrence. On top of that, we raise employee awareness of industrial safety measures at dedicated training events. Despite all efforts made, we still had fatalities in 2018: three employees died due to violations of health and safety rules. The Company held an internal investigation to identify the root causes of the accidents and took measures to eliminate similar tragedies in the future, while also providing aid and support to the families of those employees.

In 2018, we introduced milestone innovations – a Groupwide risk-oriented approach, and HSE audit and review. All in all, we held 65 audits across our assets. Occupational safety assessment at our facilities stands at 60%.

In 2019, we are planning to introduce a framework to assess risks and monitor reports from employees, and to streamline the enterprise control system. We intend to run safety awareness campaigns across all Group assets, further enhance prevention education and the visual impact of relevant initiatives, improve the HSE training system, instructions, and safety briefings, and launch an electronic system to assess safety awareness. We will also hold a corporate safety competition among our employees.

Humane treatment of animals

Cherkizovo Group is actively introducing humane animal treatment practices, such as caring for animals throughout their life and using the most humane methods of slaughter. In rearing and slaughtering animals, the Pork division seeks to adhere to the US National Pork Board's Pork Quality Assurance Plus (PAQ+) and ensure humane treatment.

We maintain optimal conditions for all animals by controlling temperature, air circulation, lighting, and humidity. Food for our animals features a well-balanced mix of proteins, microelements, vitamins and amino acids. All animals are under constant veterinary care, including regular clinical examinations, blood tests, and timely vaccination.

Key results of the Pork division in 2018

- Fully implementing standard operating procedures (SOPs) to improve the well-being of animals throughout their entire life cycle.
- Completing the first stage of the Needle Free technology project. Compared to needle systems, needle free injections enable less painful vaccination, while at the same time improving meat quality and food safety. We expect to roll out the system across all our assets in 2019.
- Conducting a series of tests related to breeding, feeding, genetics and animal health. We are planning to streamline our R&D framework in order to conduct research that will have an official status and confirm the use of the best practices.

Our priorities for 2019 also include ensuring **quality assurance** and **biosafety** in the procurement of ingredients and feedstock, along with control at slaughterhouses.

Cherkizovo Group seeks to mitigate its negative impact on the environment fully in line with regulatory requirements and the best practices. We implement the latest eco-friendly technologies and management systems, pay great attention to the efficient use of natural resources, and run environmental initiatives. All facilities monitor wastewater discharge, air pollution and energy consumption.

The Company liaises with government agencies, business partners, experts from NGOs, and broad industry community: Cherkizovo Group is a member of the National Meat Association and the National Union of Swine Breeders.

We run comprehensive programs to minimize our environmental footprint and reduce consumption of energy and natural resources at our assets. We continue to monitor the state of the environment at our production sites, regularly assess the situation, and do everything needed to prevent emergencies.

Our facilities are well-equipped to mitigate the industry-specific biological risks. To prevent the spreading of infections, all production stages are located in separate areas, segregated by buffer zones of at least 5 km. Each facility accommodates animals of the same generation; production sites are carefully cleaned and disinfected in the intervals between production processes. We have stringent access control at our production sites and limit the number of visitors.

The Group seeks to maintain efficient waste management. In order to completely eliminate manure penetration into the soil, our nursery and finisher sites employ monolithic seamless flooring, which is unrivalled in pig farming and is commonly used in runway construction.

All environmental projects are subject to state expert review, confirming that the Company meets regulatory requirements.

For further details see:
New Plant Opens in Kashira 64

As the new meat processing plant

in Kashira is located next to the forest, minimizing negative environmental impact was an important prerequisite for the project. Hence, even before the construction phase, waste treatment facilities were designed to meet all environmental standards: they are located in a separate building and perform the entire required cleaning cycle, with all industry-specific factors taken into account.

Key environmental projects in 2015–2018

1. Construction of composting facilities at production sites in the Penza and Bryansk regions.
2. Installation of sound attenuators and blockers in ventilation systems at Moscow facilities.
3. Construction of full-cycle treatment facilities in Kashira and Tambov, with.

> RUB 450 million

investments exceeding

In 2019, the construction of full-cycle treatment facilities will kick off in Penza, Dankov (Lipetsk Region), and Liski (Voronezh Region).

Community Relations

At Cherkizovo Group, we **seek to benefit** our regions of operations by creating jobs and making timely tax payments to the federal and regional budgets, which support local communities.

Traditionally, we have been providing aid to enable educational and healthcare facilities to purchase equipment and make repairs, and sponsoring cultural events across our footprint. In particular, the reporting year saw us allocate some RUB 2 million to various projects to support local residents.

Our employees take an active part in events associated with Children's Day (1 June), and on Knowledge Day (1 September) we present orphanages with school supplies, textbooks, and uniforms. Some of the charitable projects are initiated by our team and funded by their personal contributions.

Priority support areas

Education

We pay special attention to supporting education. In 2018, we contributed to a **50/50 program targeting vulnerable population groups**, with financing split equally between regional budgets and private investors.

The Group extended aid to schools in the Semiluksky District (Voronezh Region) covering, among other things, school repairs in Gremyachy Kolodez, Novosilskoye and Nizhnedevitsk.

Support of vulnerable groups

We contribute to dedicated programs and provide **targeted aid to those in need**. The reporting year saw us continue sponsoring social protection organizations that help children from low-income families and disabled kids.

As **patrons of an orphanage** in Ozherelie (Kashira District, Moscow Region), our employees pay regular visits, hold celebrations and hand out gifts to its residents.

In June 2018, we took part in Kursk's **World of Childhood charity marathon**, with proceeds distributed among local children in need and multi-child families.

Support of social projects

As part of our ongoing effort to make a difference across our geographies, we continued to provide assistance to local authorities by funding maintenance and repairs of **social infrastructure**, such as medical and obstetric stations and boiler facilities, and World War II monuments and memorials, and hosting Victory Day (9 May) celebrations.

Corporate Governance

Robust corporate governance to create sustainable enables us value for the benefit of our shareholders, employees, local communities and other stakeholders.

DIRECTORS' STATEMENT

The Company's Board of Directors and management are pleased to present this annual report and the Group's audited financial statements for the year ended on 31 December 2018 and reiterate their strong commitment to meeting all regulatory requirements and following the best corporate governance practices.

For further details see:

Financial Statements **130**

CORPORATE GOVERNANCE FRAMEWORK

Cherkizovo Group maintains its corporate governance framework in line with Russian laws and the Corporate Governance Code (2014) as approved by the Bank of Russia's Board of Directors.

Corporate governance framework development in 2018

In 2018, Cherkizovo Group maintained an effective corporate governance framework conducive to its sustainable development and achievement of its strategic goals. Throughout the reporting period, the Group's corporate governance bodies continued their efforts to enhance the governance approaches and practices, and, in particular, amended four internal regulations.

Four subcommittees have been set up to bolster the performance of the Board of Directors' Investment and Strategic Planning Committee.

The Company's activities are governed by its **Articles of Association and internal regulations**, including:

- the Regulations on General Meeting of Shareholders,
- the Regulations on the Board of Directors,
- the Regulations on the Board of Directors Audit Committee,
- the Regulations on Personnel and Remunerations Committee (amended in 2018),
- the Regulations on Remunerations and Compensations Paid to the Members of the Board of Directors (amended in 2018),
- the Regulations on the Investment and Strategic Planning Committee (amended in 2018),
- the Regulations on the Management Board,
- the Regulations on the General Director,

For further details see:
Members of the Board of Directors 116

For further details see:
Members of the Management Board 121

- the Regulations on the Internal Audit,
- the Regulations on the Revision Committee,
- the Regulations on the Corporate Secretary,
- the Regulations on the Dividend Policy (amended in 2018),
- the Regulations on Insider Information,
- the Regulations on Information Policy in Disclosure and Delivery of Information,
- the Regulations on Liquidation Commission.

The Articles of Association and internal regulations are available on Cherkizovo Group's website in the Corporate Governance section at

http://cherkizovo.com/en/company/corporate-governance/documents/

Shares and GDRs

Cherkizovo Group has been a public company since its IPO in 2006. Its ordinary shares are listed on the Moscow Exchange (MOEX).

In 2018, MOEX decided to relegate the Company's stock from the Level 1 List to the Level 3 List as its free float had remained below 7.5% for six consecutive months. The Group plans to bring its free float back to the level required for its re-inclusion in the top list.

No changes have been made to the Group's corporate governance framework following the move down from the Level 1 to Level 3 listing segment. The Group continues, and will continue, to maintain the high corporate governance standards set for the Level 1 List issuers.

Cherkizovo Group's global depositary receipts (GDRs) had been listed on the London Stock Exchange (LSE) since 2006, with three GDRs representing two ordinary shares.

In November 2017, a decision was made to remove its GDRs from the Official List of the United Kingdom Listing Authority and cancel their listing on the Main Market of the LSE. Another reason was limited trading liquidity of the Group's GDRs on the LSE. The GDRs were last traded in London on 14 February 2018, with the GDR program to remain effective over a limited period of time and be terminated at the Company's discretion.

For further details see:
Shareholder and Investor Highlights 127

CORPORATE GOVERNANCE STRUCTURE [1]

The General Meeting of Shareholders is the supreme governing body of Cherkizovo Group. The corporate governance structure also includes the Board of Directors, the Management Board led by the Chairman who is the Chief Executive Officer, and the Revision Commission.

1 All data is presented as of 31 December 2018.

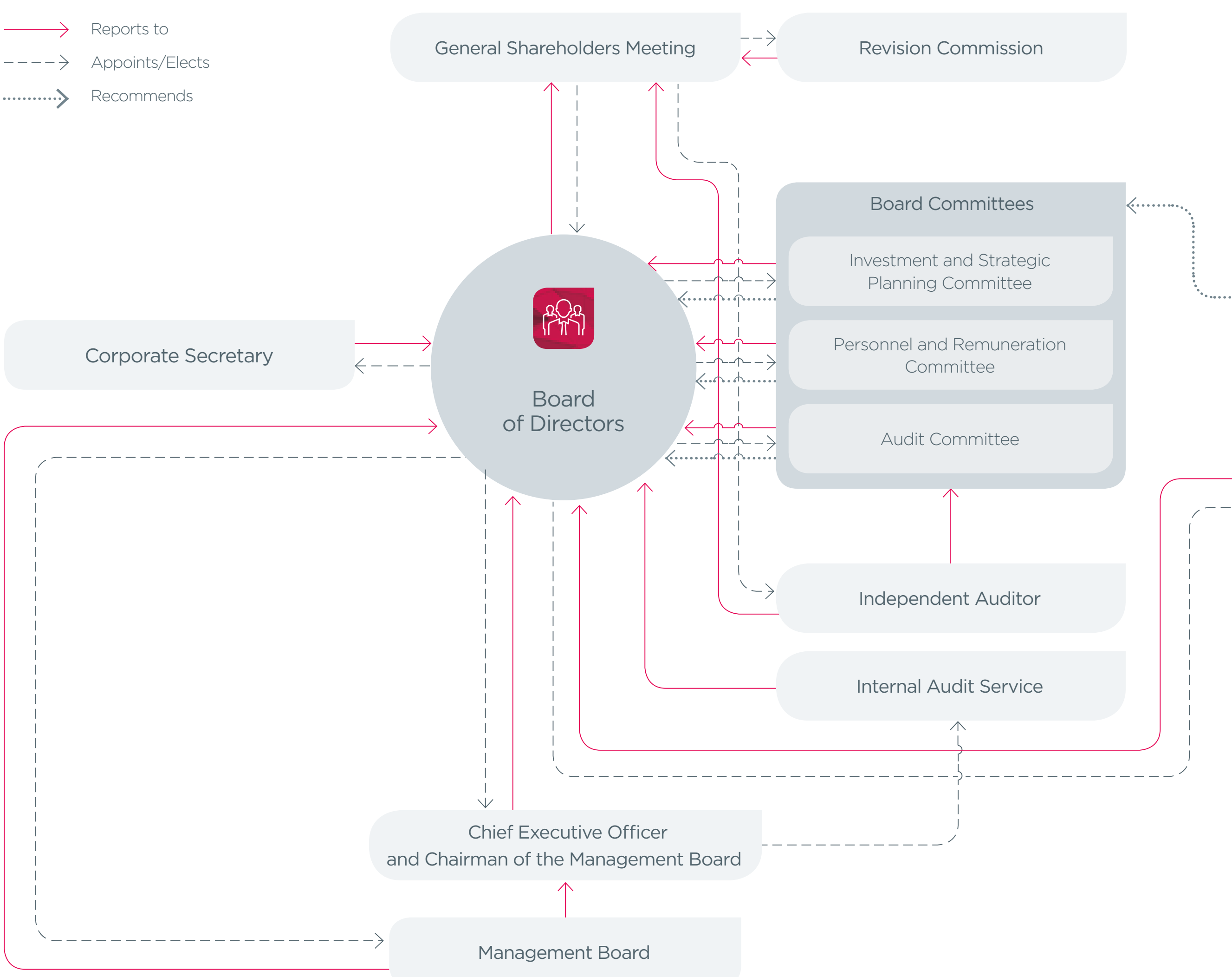
There are three standing Board Committees:

① the Audit Committee,

② the Personnel and Remuneration Committees,

③ the Investment and Strategic Planning Committee.

Corporate Governance Structure



There are four Subcommittees in the structure of the Investment and Strategic Planning Committee of the Board:

① the Cost Visibility and Data Capabilities Subcommittee,

② the Turkey, HoReCa and New Channels Subcommittee,

③ the Strategy and M&A Subcommittee,

④ the Marketing and R&D Subcommittee.

Subcommittees of the Investment and Strategic Planning Committee

- Cost Visibility and Data Capabilities Subcommittee
- Turkey, HoReCa and New Channels Subcommittee
- Strategy and M&A Subcommittee
- Marketing and R&D Subcommittee

Cherkizovo Group annually conducts an independent external audit of its financial (accounting) statements prepared in accordance with Russian and international standards.

GOING CONCERN

The Board of Directors is satisfied that the Company's financial statements have been prepared on a going concern basis and that the same principle is assumed in the preparation of the Company's 2019 budget and long-term plans.

DIVIDENDS

In 2018, the Board of Directors approved the amended Dividend Policy. Cherkizovo Group's dividend policy is based on the principle of rational distribution of profits balancing shareholders' interests with the Group's need for investment to fund its future growth.

The dividend payment is considered by the Board of Directors assisted by the Investment and Strategic Planning Committee, taking into account the Group's current financial standing and the proposed distribution amount. The amended Dividend Policy provides for an increase in the targeted dividend payout from 20% to at least 50% of consolidated net profit for the reporting period[1]. The final decision on approval of the dividend payout is made by the General Meeting of Shareholders.

At its meeting on 14 February 2018, the Company's Board of Directors recommended that the Annual General Meeting of Shareholders held on 23 March 2018 resolve to distribute the Company's net profit for the 2017 reporting year, with RUB 75.07 per ordinary share to be paid in dividends.

In accordance with the decision made at the Annual General Meeting of Shareholders on 23 March 2018 and taking into account the Group's 2017 performance, the total dividend payout for the year amounted to RUB 3.3 billion, with dividend per share of RUB 75.07.

The Extraordinary General Meeting of Shareholders of Cherkizovo Group held on 27 September 2018 in the form of absentee voting, resolved to distribute net profit for 1H 2018 in the amount of RUB 0.9 billion, with a dividend per share of RUB 20.48.

1 Consolidated net profit for the purposes of calculating the dividend adjusted for net change in fair value of biological assets.

GENERAL MEETING OF SHAREHOLDERS

Cherkizovo Group holds the Annual General Meeting of Shareholders (AGM) on an annual basis. The agenda of the AGM always includes such items as:

- approval of Cherkizovo Group's annual report and annual accounting statements,
- approval of profit and loss distribution,
- election of the Board of Directors members,
- election of the Revision Commission members,
- appointment of the Company's auditor.

The agenda of the AGM can be expanded to include other matters in accordance with the established procedure.

The Company's Board of Directors may resolve to convene Extraordinary General Meetings of Shareholders (EGMs) to seek approvals for the matters within the competence of the General Meeting of Shareholders.

In 2018, the AGM was held on 23 March. In accordance with the agenda, the shareholders:

- approved Cherkizovo Group's 2017 annual report and annual accounting (financial) statements for 2017 prepared in accordance with the Russian Accounting Standards,
- resolved to pay the recommended dividend,
- elected the Board of Directors and the Revision Commission members,
- reappointed Deloitte & Touche CIS as Cherkizovo Group's auditor for 2018.

In 2018, the Group convened one Extraordinary General Meeting of Shareholders which was held on 27 September in the form of an absentee meeting. The EGM resolved to pay dividends for 1H 2018 and to approve the amended Regulations on Remunerations and Compensations Paid to the Members of the Board of Directors.

23 March 2018
Annual General Meeting of Shareholders

27 September 2018
Extraordinary General Meeting of Shareholders

BOARD OF DIRECTORS

The Board of Directors is the collective governing body of Cherkizovo Group responsible for its overall management. The Board's terms of reference are determined by Russian laws and the Company's Articles of Association. The key responsibilities of the Board of Directors include:

- performing strategic management,
- approving the Group's internal risk management procedures, assessing their effectiveness and ensuring they are complied with,
- forming the Group's executive bodies,
- approving plans and budgets,
- making recommendations on profit and loss distribution.

In performing its role, the Board of Directors is guided by the following principles:

1. decision-making based on reliable information about the Company's operations,
2. ensuring no limitation of shareholders' rights to participate in the management of the Company, and receive dividend payouts and information about Cherkizovo Group,
3. balancing the interests of various groups of shareholders and ensuring unbiased decision-making for the benefit of all shareholders.

According to the Articles of Association, the Board resolutions are adopted by a majority vote of the directors present at the meeting. Pursuant to Russian laws, certain decisions require more than a simple majority vote. These include:

- major transactions (require approval by a unanimous vote),
- interested-party transactions (decision to be taken by a majority vote of the directors who have no interest in the transaction, and in compliance with the legal requirements).

Meetings of the Board are considered duly convened if the majority of the directors are present.

MEMBERS OF THE BOARD OF DIRECTORS

At the AGM held in March 2018, the following members of the Board were re-elected: Sergey Igorevich Mikhaylov, Evgeny Igorevich Mikhaylov, Emin Tofik oglu Mammadov, Richard Paul Sobel, Rafael Fuertes Quintanilla, Elliot Brinton Jones. In addition, Filip Kegels was elected a member of the Board.

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

The independent directors chair the Audit Committee (Elliot Jones) and the Personnel and Remuneration Committee (Emin Mammadov) and are also members and chairmen of the following subcommittees:

- the Cost Visibility and Data Capabilities Subcommittee (chaired by Elliot Jones),
- the Turkey, HoReCa and New Channels Subcommittee (chaired by Emin Mammadov),
- the Marketing and R&D Subcommittee (chaired by Filip Kegels),
- the Strategy and M&A Subcommittee (chaired by Elliot Jones).

In 2018, the Board of Directors of Cherkizovo Group held

8

meetings

with all the directors present in person

Information on independent and non-executive directors, shares in the authorized capital and share ownership

Member of the Board of Directors	Independent director	Non-executive director	Share in the authorized capital	Share ownership
Elliot Brinton Jones	+	+	—	—
Rafael Fuertes Quintanilla	—	+	Grupo Fuertes 8.01%	-
Richard Paul Sobel	—	+	—	—
Emin Mammadov	+	+	—	—
Evgeny Mikhaylov	—	—	26.27%	26.27%
Sergey Mikhaylov	—	—	26.27%	26.27%
Filip Kegels	+	+	—	—

Evgeny Mikhaylov

Chairman of the Board of Directors

Evgeny Mikhaylov is the Chairman of the Board of Directors of Cherkizovo Group. From 2006 to 2014, he was the Head of Investment Projects at Cherkizovo Group overseeing strategic business development, investment coordination and decision-making on the Group's expansion into new markets.

Since 2016, he is also the Head of Business Development.

Prior to joining Cherkizovo Group in 2004 as First Deputy CEO of AIC Mikhailovsky, he was an assistant to the Vice President at aTelo, Inc, a US telecommunications company, in Washington DC (2001) and worked as a financial analyst at Morgan Stanley in 2002.

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

Sergey Mikhaylov

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

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

In 2006, Mr. Mikhaylov steered Cherkizovo Group to become Russia's first agricultural company to successfully go public on the LSE. Under his leadership, the Company grew into Russia's largest meat and feed producer.

In 2001, Sergey Mikhaylov was appointed Marketing Director of Cherkizovsky Meat Processing Plant. He was promoted to the new role of Deputy CEO for marketing and sales in 2002, and in 2003 he became CEO of AIC Cherkizovsky.

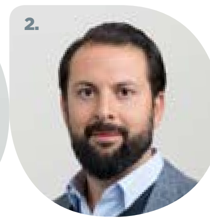
In 1998, he interned as a financial analyst at Goldman Sachs, and in 1999 – at Morgan Stanley. In 1998, he founded and headed aTelo, Inc., a telecommunications company based in Washington, USA.

Sergey Mikhaylov graduated from Georgetown University (USA) in 2000 with a degree in Finance and Economics.

Members of the Board Of Directors

1. Evgeny Mikhaylov
2. Sergey Mikhaylov
3. Emin Mammadov

1.

2.

3.


Emin Mammadov

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

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

He is the President of Global Foodservice at The Kraft Heinz Company.

Prior to that, he led the Heinz Company divisions in India, South Africa, China and Middle East.

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

4. Richard Sobel
5. Rafael Fuertes
6. Elliot Jones
7. Filip Kegels

Richard Sobel

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

Richard Sobel has a wealth of experience in direct investments.

As one of the pioneers of the Russian private equity industry, Mr. Sobel was a senior fund manager at Baring Asset Management and Alfa Capital Partners in the 1990s and early 2000s. He is the founder and manager of Altai Advisors, a consulting company which specializes in providing advice on potential investment opportunities in Russia, CIS, Europe and the USA.

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

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

Rafael Fuertes

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

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

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

He graduated from the University of Murcia, Spain.

Elliot Jones

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

Elliot Jones has a strong track record in the agricultural industry. Over the last 17 years, he has been leading Jones and Jones Consulting, a firm providing consulting advice on strategic development to poultry producers in the USA and other countries.

Prior to that, he worked for a number of US poultry and turkey production companies, including Foster Farms, Zacky Farms, Swift Dairy and Poultry Company, over 20 years.

He graduated from the University of San Francisco, USA.

Filip Kegels

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

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

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

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

BOARD COMMITTEES

There are **three standing Board Committees** in Cherkizovo Group:

1. the Audit Committee,
2. the Personnel and Remuneration Committee,
3. the Investment and Strategic Planning Committee.

The committees serve as consulting and advisory bodies. The functions and tasks of each Committee are defined by the respective committee regulations[1].

In 2018, the Company approved the **following updated committee regulations:**

- the regulations on the Investment and Strategic Planning Committee,
- the regulations on the Personnel and Remuneration Committee.

All Committee members have the skills, experience and resources required to efficiently perform their duties and may engage external consultants to provide advice and recommendations. Each Committee makes recommendations to the Board of Directors within its terms of reference.

The Committees meet as appropriate, with a minimum of five meetings a year for the Personnel and Remuneration Committee and the Investment and Strategic Planning Committee, and four meetings a year for the Audit Committee, respectively. The Committee meetings are held separately from those of the Board of Directors. Each Committee makes decisions by a majority of votes of the members present at the meeting, with each member having one vote. The Chairman of each Committee reports the results of the Committee meeting at the next meeting of the Board of Directors.

In May 2018, the Board of Directors approved the members and Chairmen of all three Committees.

Four subcommittees were established **in the structure of the Investment and Strategic Planning Committee in 2018:**

1. the Cost Visibility and Data Capabilities Subcommittee,
2. the Turkey, HoReCa and New Channels Subcommittee,
3. the Strategy and M&A Subcommittee,
4. the Marketing and R&D Subcommittee.

Attendance of the Board of Directors and Committee meetings

The Company rates the attendance as good. In 2018, five members of the Board of Directors took part in all Board meetings held during their term in office. Two members attended six out of eight Board meetings. All members of the Board Committees participated in every committee meeting held during their term.

1 **The regulations** are available on Cherkizovo Group's website in the Corporate Documents section at

http://cherkizovo.com/en/company/corporate-governance/documents/

3
committees
at the Board of Directors

4
subcommittees
were established in the structure of the Investment and Strategic Planning Committee in 2018

Audit Committee

(operating since 2006)

Key functions

- to monitor completeness, accuracy and reliability of the Company's financial statements,
- to monitor reliability and efficiency of the risk management and internal control system,
- to ensure that the Company's internal and external audits are independent and unbiased,
- to monitor the efficiency of the Company's whistleblowing system.

The Committee includes only independent directors:

Elliot Jones (Chairman),
Emin Mammadov,
Filip Kegels.

Meetings held in 2018

4

Personnel and Remuneration Committee

(operating since 2010)

Key functions

- to develop and regularly review the Company's policy on remuneration of the Board directors, members of the Management Board, the Chief Executive Officer and other key executives,
- to carry out preliminary assessment of the executive management's performance,
- to develop a list of the executive management's KPIs,
- to perform a detailed formalized annual self-assessment or arrange a third-party assessment of the efficiency of the Board of Directors,
- to evaluate the Board's composition by way of assessing its members' professional skills, experience, independence and involvement in the work of the Board of Directors,
- to perform other tasks in line with the Regulations on the Audit Committee and the Regulations on the Personnel and Remuneration Committee.

The Committee includes only independent directors:

Emin Mammadov (Chairman),
Elliot Jones,
Filip Kegels.

Subsequent events:
Current Chairman is Filip Kegels.

Meetings held in 2018

8

Investment and Strategic Planning Committee

(operating since 2012)

Key functions

- to review the proposals submitted to the Board of Directors with regard to setting the Company's business priorities, development strategy and investment policy.

The Committee includes only independent directors:

Sergey Mikhaylov (Chairman),
Richard Sobel,
Emin Mammadov,
Elliot Jones,
Rafael Fuertes,
Filip Kegels.

Subsequent events:
Current Chairman is Emin Mammadov.

Meetings held in 2018

7

REMUNERATION OF THE BOARD OF DIRECTORS

The Board directors are remunerated in line with the Regulations on Remunerations and Compensations Paid to the Members of the Board of Directors. The revised Regulations were approved in 2018, providing for an increase in the base remuneration and amending the annual bonus calculation procedure.

According to the Regulations, the Board directors are paid a fixed annual remuneration for their work in the Board of Directors. The remuneration levels currently offered by the Company to the Board directors are sufficient to incentivize their effective performance. The Regulations on Remunerations determine the base annual remuneration, set out a transparent procedure for the calculation of the variable part of remuneration (the annual bonus) and detail the list of reimbursable expenses and the service level the Board directors are eligible to.

Additionally, the Company maintains liability insurance for all its Board directors for their full term in office as recommended by the Personnel and Remuneration Committee.

MANAGEMENT BOARD

The Management Board is a collective executive governing body of Cherkizovo Group, managing its operations and accountable to the Board of Directors. The Management Board is authorized:

- to approve strategic plans and business priorities of Cherkizovo Group, its subsidiaries and affiliates,
- to review the business performance of the Group's subsidiaries,
- to approve the staff incentive framework for Cherkizovo Group, its subsidiaries and affiliates,
- to review and make decisions on signing collective bargaining agreements and contracts by the Group, its subsidiaries and affiliates.

The Management Board is led by the Chairman of the Management Board, who also acts as Cherkizovo Group's Chief Executive Officer (CEO). The CEO's mission is to:

1. ensure Cherkizovo Group's profitability and competitive performance, its financial and economic sustainability,
2. oversee the observance of shareholders' rights, and
3. ensure the provision of employee benefits to Cherkizovo Group's personnel.

MEMBERS OF THE MANAGEMENT BOARD

As of 31 December 2018, the Management Board consisted of 11 members. The Management Board is chaired by Sergey Mikhaylov, Cherkizovo Group's CEO.

In 2018, the Board saw the following changes:

- in March, the Board of Directors excluded Andrey Cholokyan from the Management Board,
- in May, the Board of Directors excluded Sergey Polyakov from the Management Board.

As of 31 December 2018, the Management Board consisted of

11 members

Sergey Mikhaylov
**Chief Executive Officer,
Chairman of the Management Board**

Sergey Mikhaylov has been CEO of Cherkizovo Group since 2006. He is responsible for the general management of the Company, its sustainable development and strategy.

In 2006, Mr. Mikhaylov steered Cherkizovo Group to become the first Russian agricultural company to successfully go public on the LSE. Under his leadership, the Company grew into Russia's largest meat and feed producer.

In 2001, Sergey Mikhaylov was appointed Marketing Director of Cherkizovsky Meat Processing Plant. He was promoted Deputy CEO for marketing and sales in 2002, and in 2003 he became CEO of AIC Cherkizovsky.

In 1998, he interned as a financial analyst at Goldman Sachs, and in 1999 – at Morgan Stanley.

In 1998, he founded and headed aTelo, Inc., a telecommunications company based in Washington, USA.

Mr. Mikhaylov ranks among the Top 1,000 Russian Managers, leading the charge in the in agricultural industry category.

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

Share in the Company's authorized capital: 26.27%.

Share in the Company's common stock: 26.27%.

Ludmila Mikhaylova
**Chief Financial Officer,
Member of the Management Board**

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

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

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

Ludmila Mikhaylova ranks among the Top 1,000 Russian Managers.

She graduated from the Financial Academy of the Government of the Russian Federation and holds an MBA from York University (Canada).

Share in the Company's authorized capital: 0.39%.

Share in the Company's common stock: 0.39%.

Alexey Skorobogatov

Head of Procurement and Logistics, Member of the Management Board

Alexey Skorobogatov has been Head of Procurement and Logistics at Cherkizovo Group since 2011. He is responsible for the development and coordination of procurement activities, building efficient supply chains and managing stock flows in a cost-effective manner.

Between 2006 and 2009, he was Head of Procurement at Wimm-Bill-Dann Foods OJSC. From 2009 to 2011, he was regional Head of Procurement at Danone Nutricia Baby Food (Eastern Europe) and worked at Mobile TeleSystems OJSC, where he set up and headed the procurement and logistics department, which was later merged into a single logistics department.

He graduated from Pyatigorsk State Linguistic University.

He holds no stake in the Group's authorized capital or common stock.

Maksim Zudin

CEO of Poultry Management Company, Member of the Management Board

Maksim Zudin was appointed CEO of Poultry Management Company in 2017.

Between 2015 and 2018, he was Head of the Agro Division of Cherkizovo Group responsible for the strategic development of the Pork, Feed and Grain segments. Prior to joining Cherkizovo Group, Maksim was Head of Oil Production at Solnechnye Produkty.

Between 2003 and 2013, he was Head of the Agro Division as well as a member of the Management Board at Razgulay Group, where he was responsible for the East branch and led the Krupa project.

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

He holds no stake in the Group's authorized capital or common stock.

Andrey Khizhnyak

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

Andrey Khizhnyak has been Head of Sales and Marketing Strategy at Cherkizovo Group since 2013. He is responsible for strategic planning and allocation of the Company's marketing budget to ensure sales growth across all segments and oversees the marketing program execution within Cherkizovo Group.

Between 2001 and 2004, he was Head of Marketing at Cherkizovsky Meat Processing Plant.

From 2004 to 2007, he was Marketing Director at Exima Agricultural Holding, which incorporates more than 26 enterprises, including Mikoyanovskiy Meet Processing Plant.

Between 2010 and 2012, he was Commercial Director at United Confectioners. Prior to joining the Group, he worked for a range of companies, including OST Group and Betalink.

Mr. Khizhnyak ranks among the Top 1,000 Russian Managers.

He graduated from Moscow State University of Law.

He holds no stake in the Group's authorized capital or common stock.

Yury Dyachuk

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

Yury Dyachuk has worked at Cherkizovo Group for over 20 years. Since 2006, he has been overseeing legal support at Cherkizovo Group, litigation involving the Company, and its regulatory compliance.

He worked as part of the legal team at Cherkizovsky Meat Processing Plant from 1995 to 1996 and was Head of its Legal Department between 1996 and 2000.

In 2005, he was Senior Counsel advising on the restructuring of Cherkizovo Group.

He graduated from Moscow State University of Law.

Share in the Company's authorized capital: 0.086%.

Share in the Company's common stock: 0.086%.

Vladislav Belyaev

Head of IT, Member of the Management Board

Vladislav Belyaev has been Head of IT at Cherkizovo Group since 2012. He is responsible for developing the Group's IT strategy, overseeing its in-house IT projects and the ongoing improvements of the regional IT infrastructure.

Between 2008 and 2012, he was Head of the Management Systems Department at VimpelCom. Prior to this, he held senior management positions at CafeMax and Moscow Industrial Bank.

Vladislav has led the implementation of a SAP ERP system launched in 2013.

In 2015, he oversaw the roll-out of the electronic document management system (EDMS) across the Group and the creation of the unique modern data processing center.

He graduated from Moscow Institute of Radio Engineering, Electronics and Automation and Moscow State University.

He holds no stake in the Group's authorized capital or common stock.

Leonid Izmailov

Head of Investment Projects, Member of the Management Board

Leonid Izmailov has been Head of Investment Projects at Cherkizovo Group since 2014. He is responsible for managing construction as part of major investment projects.

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

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

He holds no stake in the Group's authorized capital or common stock.

Alexander Gusakov
**Security Director,
Member of the Management Board**

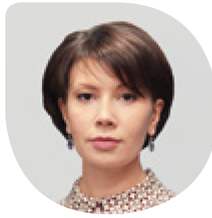
Alexander Gusakov has been Security Director of Cherkizovo Group since February 2016. He is responsible for developing and overseeing safety standards and procedures, maintaining the Group's economic, information and physical security, as well as the coordination and interaction with government authorities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

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

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

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

He holds no stake in the Group's authorized capital or common stock.



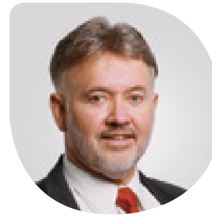
Violetta Shimkevich
**HR Director,
Member of the Management Board**

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

From 2007 to 2010, she was HR Business Partner at Danone's Dairy Products division, moving into the role of the Compensation and Benefits Manager at the Baby Food (Nutrition) division in 2010. Violetta began her career at Metro Cash & Carry, moving up from an HR Specialist to an HR Manager of the Shopping Center Division.

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

She holds no stake in the Group's authorized capital or common stock.



John Ross
**Chief Operating Officer,
Member of the Management Board**

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

He is responsible for production functions across all business segments of the Cherkizovo Group, coordinates activities of main assets and conducts unified management of Grain, Poultry, Pork, Meat Processing segments and Turkey joint venture.

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

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

His career began in the agricultural holding company, Cargill. He is a graduate of Kansas State University with a degree in Agriculture Mechanization.

He holds no stake in the Group's authorized capital or common stock.

CORPORATE SECRETARY

The Corporate Secretary role has been present at Cherkizovo Group since 2012. The Corporate Secretary is a Company officer who ensures effective ongoing communication with the Group shareholders, overviews the protection of the shareholders' rights and interests, supports operations of the Board of Directors and coordinates the activity of the Board subcommittees. The Corporate Secretary operates in accordance with the Regulations on the Corporate Secretary. Anastasia Bakhmacheva has been serving as the Corporate Secretary of the Company since November 2016, following the resolution of the Board of Directors.

Anastasia Bakhmacheva
Corporate Secretary

Anastasia has been in the field of corporate governance for more than 16 years. Prior to joining Cherkizovo Group, she served as the Deputy Head of Legal Department at BLAGOSOSTOYANIE non-state pension fund from 2014 to 2016 and held the position of Director at VTB Bank from 2011 to 2014 overseeing corporate governance across the VTB Group. During 2009–2011, Anastasia was Corporate Secretary at Bashneft, after heading the corporate governance team at VimpelCom (a former NYSE-listed company) from 2003 to 2008.

Anastasia graduated from the International Law Institute under Ministry of Justice of the Russian Federation with a degree in Civil Law and the Higher School of Economics, having completed its Business Law program.

She is a certified financial market specialist and a member of the National Union of Corporate Secretaries. In 2018, Anastasia was rated among 25 best corporate governance executives of Director of the Year award.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors has the overall responsibility for maintaining a sound internal control and risk management system at Cherkizovo Group and ensuring its effectiveness. Internal control is also exercised by the Revision Committee in compliance with the Articles of Association and the Regulations on the Revision Committee. The Revision Committee coordinates financial and business audits at Cherkizovo Group. Its members are elected by the General Meeting of Shareholders for a one-year term.

In March 2018, the AGM elected the Revision Committee consisting of Elena Kozhukalova, Nina Erkovich and Boris Tivilev.

DISCLOSURE

Cherkizovo Group's disclosure goals, targets and principles are set out in its Regulations on Information Policy in Disclosure and Delivery of Information approved by the Board of Directors in December 2017.

As outlined in the Regulations, the Information Policy has the following goals:

1. to ensure stakeholders' right to information they need for decision-making on investment, management and other matters,
2. to promote openness and transparency, enhancing the Group's overall corporate image.

The Group's disclosers are in line with:

- the laws of the Russian Federation,
- the regulations of the Bank of Russia,
- the Moscow Exchange Listing Rules,
- the basic principles of disclosure and provision of information by public joint-stock companies recommended by the Corporate Governance Code.

The key principles of Cherkizovo Group's Information Policy are regularity, consistency, promptness, timeliness, accessibility, reliability, completeness, comparability, neutrality, equitable access and ease of control.

In 2018, the disclosure requirements imposed by the Russian laws did not see any major changes. Although following its delisting from the London Stock Exchange the Group no longer makes LSE disclosures, it is still committed to disclosing full information about its operations to all stakeholders.

Cherkizovo Group discloses information:

- on the corporate website,
- via the Interfax news agency,
- at meetings with stakeholders,
- by other means stipulated the by laws and internal regulations of the Group.

While still reporting its financial performance in 2018 on a quarterly basis as before, the Group switched from quarterly to monthly releases of operating results to ensure improved timeliness of reporting on its performance to the stakeholders.

DISCLOSURE TO AUDITORS

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

Cherkizovo Group's current auditors, Deloitte & Touche CIS, were appointed in March 2018 and are due for reappointment in 2019.

DISCLOSURE OF INSIDER INFORMATION

To protect insider information, the Company approved the Regulations on Insider Information and the List of Insider information. The Company also maintains a list of insiders. The Group informs the insiders about the start of lock-up periods for trading in stocks, GDRs and exchange-traded bonds.

Given that the amendments to Federal Law No. 224-FZ On Countering the Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation dated on 27 July 2010 will be enacted on 1 May 2019, the Company plans to make relevant changes to its internal regulations governing the use of insider information.

Shareholder and Investor Highlights

ORDINARY SHARES

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

As at the beginning of 2018, the Group's global depositary receipts (GDRs) had been listed on the London Stock Exchange (LSE) (LSE ticker: CHE), with three GDRs representing two ordinary shares. In 2017, the Company decided to remove its GDRs from the Official List of the UK Listing Authority and cancel their listing on the Main Market of the London Stock Exchange. The GDRs were last traded in London on 14 February 2018, with the GDR program to remain effective over a limited period of time and be terminated at the Company's discretion.

In 2018, MOEX decided to relegate the Company's stock from the Level 1 List to the Level 3 List as its free float had remained below 7.5% for six consecutive months.

As at the end of 2018, the share price remained almost flat at RUB 1,118 per share.

Total shareholder
return amounted to
8.4%
(including dividends paid in 2018)

Ordinary share price performance in 2018, RUB

As at 31 December 2017	1,117
12M high	1,328
12M low	1,035
As at 31 December 2018	1,118
Average 12M closing price	1,117
12M ADTV, shares	804

Source: Moscow Exchange.
Source: Bloomberg

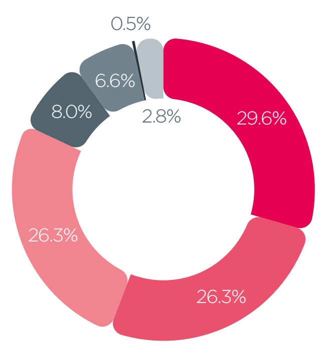
Source: Moscow Exchange.

Cherkizovo Group's ordinary share price performance in 2018

Shareholding structure

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. In the reporting year, no such shares were issued.

2018 saw material changes to Cherkizovo Group's shareholding structure as the Company moved to the Russian jurisdiction. In particular, Lidiya, Sergey and Evgeny Mikhaylov bought out the Group's shares held by MB Capital Europe Ltd.



Lidiya Mikhaylova	29.6%
Evgeny Mikhaylov	26.3%
Sergey Mikhaylov	26.3%
Grupo Corporativo Fuertes, S.L.	8.0%
AIC Mikhailovsky	6.6%
Management	0.5%
Shares in free float	2.8%

BONDS

Cherkizovo Group's BO-001P-01 series bonds (registration number 4B02-01-10797-A-001P) with an annual coupon of 12.5% are listed on the Moscow Exchange. Issued in October 2015, the Group's RUB 5 billion bonds have a maturity period of 5 years.

INVESTOR RELATIONS

Cherkizovo Group places a special emphasis on the transparency of its operations. The Company seeks to attract new investment and is committed to maintaining an ongoing dialogue with shareholders and investors through a variety of formats. These include press releases on its operational and financial performance, conference calls, personal meetings and other special events.

The Group's website features a dedicated investor section with reports, presentations, information about securities and other useful data.

The investor calendar for 2019 is available at:

http://cherkizovo.com/en/investors/calendar/

SHAREHOLDER ACCESS TO INFORMATION

The Group employs a variety of channels to provide timely disclosure of material information.

News releases are available on our website at:

http://cherkizovo.com/en/press/company-news/

Information for shareholders and investors is available on our website at:

http://cherkizovo.com/en/investors/

Corporate action notices and other mandatory disclosures are published on the Group's website and the Corporate Disclosure Centre's website at:

http://www.e-disclosure.ru/portal/company.aspx?id=6652

Consolidated Financial Statements

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

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.

Independent auditor's report

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.

Independent auditor's report

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).

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.

	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	
	Amount	Number of shares
Balances at 1 January 2017	**440**	**43,963,773**
Profit for the year and total comprehensive income	—	—
Additional non-controlling interests recognized on acquisition of subsidiaries (Note 30)	—	—
Purchase of treasury shares (Note 24)	—	—
Dividends (Note 24)	—	—
Balances at 31 December 2017	**440**	**43,963,773**
Profit for the year and total comprehensive income	—	—
Purchase of non-controlling interests	—	—
Dividends (Note 24)	—	—
Balances at 31 December 2018	**440**	**43,963,773**

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

Treasury shares		Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
Amount	Number of shares					
(78,033)	**(108,183)**	**5,588,320**	**47,503,411**	**53,014,138**	**1,026,280**	**54,040,418**
—	—	—	5,800,371	5,800,371	(152,296)	5,648,075
—	—	—	—	—	191,862	191,862
(3,646,528)	(2,808,576)	—	—	(3,646,528)	—	(3,646,528)
—	—	—	(3,453,970)	(3,453,970)	—	(3,453,970)
(3,724,561)	**(2,916,759)**	**5,588,320**	**49,849,812**	**51,714,011**	**1,065,846**	**52,779,857**
—	—	—	12,004,027	12,004,027	(23,728)	11,980,299
—	—	23,124	—	23,124	(52,132)	(29,008)
—	—	—	(3,922,042)	(3,922,042)	—	(3,922,042)
(3,724,561)	**(2,916,759)**	**5,611,444**	**57,931,797**	**59,819,120**	**989,986**	**60,809,106**

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**

* 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.

	2018	2017*
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.

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[2]	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[1]	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%

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.

1
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.

2
Hereinafter poultry includes only chicken.

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.

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

Notes to the consolidated financial statements

For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise indicated)

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.

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

Notes to the consolidated financial statements

For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise indicated)

of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Business combinations

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

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

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

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

Goodwill

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

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

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

Investments in joint 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise indicated)

Property, plant and equipment

Owned assets

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

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

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

Repairs and maintenance

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

Depreciation

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

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

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

Investment property

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

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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.

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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.

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.

Notes to the consolidated financial statements

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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.

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).

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.

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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.

<u>Amortised cost and effective interest method</u>

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.

<u>Impairment of financial assets</u>

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.

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.

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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.

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.

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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.

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.

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.

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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.

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.

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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

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.

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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.

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

	Meat-processing	Pork	Poultry	Grain
Total sales	38,438,972	23,576,166	53,797,241	6,986,006
including other sales	669,872	313,946	1,074,548	86,972
including sales volume discounts	(682,375)	—	(709,085)	—
Intersegment sales	(179,261)	(20,529,684)	(1,877,449)	(3,989,632)
Sales to external customers	38,259,711	3,046,482	51,919,792	2,996,374
Net change in fair value of biological assets	—	899,056	1,264,368	—
Net revaluation of harvested crops in stock	—	—	—	1,297,189
Cost of sales	(34,202,152)	(13,290,802)	(41,561,439)	(6,133,969)
Gross profit (loss)	**4,236,820**	**11,184,420**	**13,500,170**	**2,149,226**
Operating expense[1]	(4,712,174)	(769,307)	(6,097,666)	(431,126)
Share of loss of joint ventures and associates	—	—	—	—
Operating (loss) income	**(475,354)**	**10,415,113**	**7,402,504**	**1,718,100**
Other (expense) income, net[2]	(451,460)	61,114	118,881	2,691
Interest expense, net	(121,756)	(588,028)	(621,387)	(172,516)
(Loss) profit before income tax	**(1,048,570)**	**9,888,199**	**6,899,998**	**1,548,275**
Adjustments for:				
Interest expense, net	121,756	588,028	621,387	172,516
Interest income	(19,991)	(64,279)	(171,402)	(2,146)
Foreign exchange loss (gain)	484,364	10,416	74,279	(192)
Depreciation and amortisation expense	882,526	1,338,876	2,056,073	809,172
Net change in fair value of biological assets	—	(899,056)	(1,264,368)	—
Share of loss of joint ventures and associates	—	—	—	—
Share of adjusted EBITDA of joint ventures and associates[3]	—	—	—	—
Bonuses to employees under long-term incentive program	38,763	40,090	171,990	8,353
Depreciation and amortisation accumulated in harvested crops in stock	—	—	—	(272,508)
Adjusted EBITDA	**458,848**	**10,902,274**	**8,387,957**	**2,263,470**
Supplemental information:				
Segment capital expenditure	2,181,464	3,882,879	2,019,862	389,594
Income tax (benefit) expense	(375,528)	2,471	88,334	103,790

1
Operating expenses include selling, general and administrative expenses and other operating income, net.

2
Other income (expense), net presents interest income and other income/expense as a combined line item.

3
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.

Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey	Total consolidated
31,738,006	154,536,391	775,725	(58,487,602)	96,824,514	5,814,631	102,639,145
527,583	2,672,921	775,725	(1,231,845)	2,216,801	—	2,216,801
—	(1,391,460)	—	—	(1,391,460)	(81,738)	(1,473,198)
(31,210,423)	(57,786,449)	(448,281)	58,487,602	252,872	(252,872)	—
527,583	96,749,942	327,444	—	97,077,386	5,561,759	102,639,145
—	2,163,424	—	(327,088)	1,836,336	—	1,836,336
—	1,297,189	—	944,998	2,242,187	—	2,242,187
(30,977,130)	(126,165,492)	(554,659)	57,052,214	(69,667,937)	(5,126,371)	(74,794,308)
760,876	**31,831,512**	**221,066**	**(817,478)**	**31,235,100**	**688,260**	**31,923,360**
(423,605)	(12,433,878)	(3,726,500)	463,082	(15,697,296)	(614,154)	(16,311,450)
—	—	—	—	—	(56,778)	(56,778)
337,271	**19,397,634**	**(3,505,434)**	**(354,396)**	**15,537,804**	**17,328**	**15,555,132**
(221,018)	(489,792)	147,849	(153,287)	(495,320)	—	(495,320)
(870,766)	(2,374,453)	(1,045,528)	153,287	(3,266,694)	—	(3,266,694)
(754,513)	**16,533,389**	**(4,403,113)**	**(354,396)**	**11,775,880**	**17,328**	**11,793,208**
870,766	2,374,453	1,045,528	(153,287)	3,266,694	—	3,266,694
(55,380)	(313,198)	(129,874)	153,287	(289,785)	—	(289,785)
277,409	846,276	(17,216)	—	829,060	—	829,060
609,025	5,695,672	346,839	—	6,042,511	2,819	6,045,330
—	(2,163,424)	—	327,088	(1,836,336)	—	(1,836,336)
—	—	—	—	—	56,778	56,778
—	—	—	—	—	165,415	165,415
19,206	278,402	373,100	—	651,502	6,889	658,391
—	(272,508)	—	—	(272,508)	—	(272,508)
966,513	**22,979,062**	**(2,784,736)**	**(27,308)**	**20,167,018**	**249,229**	**20,416,247**
299,674	8,773,473	979,019	—	9,752,492	—	9,752,492
14,124	(166,809)	(20,282)	—	(187,091)	—	(187,091)

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Segment information for the year ended at 31 December 2017 comprised:

	Meat-processing	Pork	Poultry	Grain
Total sales	34,020,373	18,688,379	47,401,429	3,238,261
including other sales	680,431	235,960	901,885	75,115
including sales volume discounts	(827,045)	—	(523,618)	—
Intersegment sales	(39,539)	(14,622,070)	(1,902,802)	(1,468,597)
Sales to external customers	33,980,834	4,066,309	45,498,627	1,769,664
Net change in fair value of biological assets	—	651,235	(71,239)	154,145
Net revaluation of harvested crops in stock	—	—	—	(890,759)
Cost of sales	(28,058,310)	(12,399,563)	(36,875,483)	(3,823,384)
Gross profit (loss)	**5,962,063**	**6,940,051**	**10,454,707**	**(1,321,737)**
Operating expense[1]	(4,249,598)	(627,148)	(5,342,484)	(270,124)
Share of loss of joint ventures and associates	—	—	—	—
Operating income (loss)	**1,712,465**	**6,312,903**	**5,112,223**	**(1,591,861)**
Other income (expense), net[2]	(106,781)	38,664	3,102	2,967
Interest expense, net	(181,389)	(713,729)	(1,112,968)	(175,685)
Profit (loss) before income tax	**1,424,295**	**5,637,838**	**4,002,357**	**(1,764,579)**
Adjustments for:				
Interest expense, net	181,389	713,729	1,112,968	175,685
Interest income	(16,845)	(41,178)	(164,917)	(1,649)
Foreign exchange loss (gain)	122,422	6,272	164,118	(859)
Depreciation and amortisation expense	697,189	1,140,851	1,936,437	464,492
Net change in fair value of biological assets	—	(651,235)	71,239	(154,145)
Share of loss of joint ventures and associates	—	—	—	—
Share of adjusted EBITDA of joint ventures and associates[3]	—	—	—	—
Depreciation and amortisation accumulated in harvested crops in stock	—	—	—	186,900
Adjusted EBITDA	**2,408,450**	**6,806,277**	**7,122,202**	**(1,094,155)**
Supplemental information:				
Segment capital expenditure	4,795,938	5,077,199	1,465,739	397,665
Income tax expense (benefit)	100,185	(19,580)	48,452	12,224

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

2 Other income (expense), net presents interest income and other income/expense as a combined line item.

3 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.

Feed	Total reportable segments	Corporate	Intersegment	Total without Turkey	Turkey	Total consolidated
28,169,777	131,518,219	560,007	(45,511,637)	86,566,589	3,898,480	90,465,069
—	1,893,391	560,007	(799,076)	1,654,322	—	1,654,322
—	(1,350,663)	—	—	(1,350,663)	(29,696)	(1,380,359)
(27,186,212)	(45,219,220)	(292,417)	45,511,637	—	—	—
983,565	86,298,999	267,590	—	86,566,589	3,898,480	90,465,069
—	734,141	—	—	734,141	—	734,141
—	(890,759)	—	8,500	(882,259)	—	(882,259)
(26,735,838)	(107,892,578)	(440,325)	45,327,432	(63,005,471)	(3,752,869)	(66,758,340)
1,433,939	**23,469,023**	**119,682**	**(175,705)**	**23,413,000**	**145,611**	**23,558,611**
(368,585)	(10,857,939)	(2,825,222)	283,836	(13,399,325)	(212,339)	(13,611,664)
—	—	—	—	—	(221,325)	(221,325)
1,065,354	**12,611,084**	**(2,705,540)**	**108,131**	**10,013,675**	**(288,053)**	**9,725,622**
(103,986)	(166,034)	156,258	(97,078)	(106,854)	—	(106,854)
(942,325)	(3,126,096)	(634,075)	97,078	(3,663,093)	—	(3,663,093)
19,043	**9,318,954**	**(3,183,357)**	**108,131**	**6,243,728**	**(288,053)**	**5,955,675**
942,325	3,126,096	634,075	(97,078)	3,663,093	—	3,663,093
(2,567)	(227,156)	(147,070)	97,078	(277,148)	—	(277,148)
107,279	399,232	(8,806)	—	390,426	—	390,426
595,260	4,834,229	319,257	—	5,153,486	—	5,153,486
—	(734,141)	—	—	(734,141)	—	(734,141)
—	—	—	—	—	221,325	221,325
—	—	—	—	—	83,448	83,448
—	186,900	—	—	186,900	—	186,900
1,661,340	**16,904,114**	**(2,385,901)**	**108,131**	**14,626,344**	**16,720**	**14,643,064**
206,831	11,943,372	389,316	—	12,332,688	—	12,332,688
3,401	144,682	162,918	—	307,600	—	307,600

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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[1]	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

[1] 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.

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[1]	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]	(1,519,147)	(973,499)
Less: government grants written-off[2]	—	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

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)

1
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.

2
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.

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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**

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.

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11. PROPERTY, PLANT AND EQUIPMENT

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

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.

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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%

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.

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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.

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**

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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.

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

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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[1]	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**

	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.

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

1 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.

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.

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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**

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[1]	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**

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**

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**

1
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.

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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.

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)**

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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.

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.

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%[1]-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%[1]-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%[1]-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**

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.

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.

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

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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

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 [1]	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

1 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.

	1 January 2017	Financing cash flows [1]	Non-cash changes: Restricted cash (used in investing activities)	Non-cash changes: Acquisition of subsidiaries (Note 30)	Non-cash changes: Forex adjustments	Non-cash changes: 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

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**

1
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.

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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[1]	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**

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.

1 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).

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**

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.

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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**

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.

Notes to the consolidated financial statements

For the year ended 31 December 2018
(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.

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

Notes to the consolidated financial statements

For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise indicated)

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	—

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 follow:

	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

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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**

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**

Notes to the consolidated financial statements

For the year ended 31 December 2018
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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.

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.

Appendix

Appendix 1. **About the Report**

Name of the report	Cherkizovo Group's annual report for 2018 "Your food is our passion"
Reporting cycle	Annual, 1 January 2018 – 31 December 2018
International reporting standards	This annual report has been prepared with reference to GRI Sustainability Reporting Standards. The list of the standards referenced in this report is shown in the GRI content index on p. 208
Russian reporting standards	Regulation on Disclosing Information by the Issuers of the Issue-Grade Securities No. 454-P dated 30 December 2014 and approved by the Bank of Russia Corporate Governance Code recommended by the Bank of Russia (Letter No. 06-52/2463 dated 10 April 2014)
Date of the previous report	May 2018
Reporting boundaries	The report discloses information about the operations and performance of Cherkizovo Group.
Verification of the reported information	Reliability of the RAS[1] accounting statements and IFRS[2] consolidated financial statements was confirmed by Deloitte & Touche CIS, an independent audit firm

Cherkizovo Group aims to be a transparent company and develops its public reporting in line with global best practices. The annual report for 2018 is the Group's first report prepared with reference to GRI Sustainability Reporting Standards.

The Company expanded the information it discloses by including details on its supply chain and adding new indicators, including LTIFR.

While preparing the report, the Company relied on GRI reporting principles, including clarity, comparability, and timeliness. The Company selected the most important GRI disclosures relevant to its activities, disclosing a total of 27 general and 4 topic-specific disclosures, all available in the GRI content index.

The Company intends to continue improving its public reporting practices.

1 Auditor's report is available on the Company's website at http://cherkizovo.com/company/information-disclosure/financial-statements/fin-statements/

2 Auditor's report is available on the Company's website at http://cherkizovo.com/investors/reports/financial/financial-msfo/

Appendix 2. **GRI Content IndexGRI**

GRI Standard	Disclosure	Report section	Omissions
GRI 101 Foundation 2016 (does not include any disclosures)			
GRI 102 General Disclosures 2016	**102-1** Name of the organization	About the Company, p. 02	—
	102-2 Activities, brands, products, and services	About the Company, p. 04	—
	102-3 Location of headquarters	Moscow	—
	102-4 Location of operations	About the Company, p. 08	—
	102-5 Ownership and legal form	About the Company, p. 01	—
	102-6 Markets served	About the Company, p. 08	—
	102-7 Scale of the organization	About the Company, p. 02 Business model, p. 40	—
	102-8 Information on employees and other workers	Our employees, p. 98	Breakdowns by gender, region and employment contract type are shown separately.
	102-9 Supply chain	Supply chain, p. 44	—
	102-10 Significant changes to the organization and its supply chain	About the Company, p. 110 Supply chain, p. 104	—
	102-12 External initiatives	Corporate governance, p. 110 Health, safety and environment, p. 104	—
	102-13 Membership of associations	National Union of Swine Breeders, National Meat Association	—
	102-14 Statement from senior decision-maker	Message from the CEO, p. 26 Message from the Chairman, p. 30	—
	102-16 Values, principles, standards, and norms of behavior	About the Company, p. 02	—
	102-18 Governance structure	Corporate governance, p. 110	—
	102-40 List of stakeholder groups	Sustainable development, p. 98	—
	102-45 Entities included in the consolidated financial statements	Financial statements, p. 130	—
	102-46 Defining report content and topic Boundaries	Appendix 1. About the report, p. 207	—
	102-48 Restatements of information	Financial statements, p. 130	Restatements of information are provided for the financials only.
	102-49 Changes in reporting	Appendix 1. About the report, p. 207	—
	102-50 Reporting period	Appendix 1. About the report, p. 207	—
	102-51 Date of most recent report	Appendix 1. About the report, p. 207	—
	102-52 Reporting cycle	Appendix 1. About the report, p. 207	—
	102-53 Contact point for questions regarding the report	Contacts, p. 212	—
	102-54 Claims of reporting in accordance with the GRI Standards	Appendix 1. About the report, p. 207	—
	102-55 GRI content index	—	—
	102-56 External assurance	Appendix 1. About the report, p. 207	—

GRI Standard	Disclosure	Report section	Omissions
GRI 103 Management Approach 2016	**103-1** Explanation of the material topic and its Boundary	Provided for each separate topic.	—
	103-2 The management approach and its components		
GRI 201 Economic Performance 2016	**103-1** Explanation of the material topic and its Boundary	Financial performance overview, p. 80	—
	103-2 The management approach and its components	Financial performance overview, p. 80	—
	201-1 Direct economic value generated and distributed	Financial performance overview, p. 80	Economic value retained is not disclosed.
GRI 401 Employment 2016	**103-1** Explanation of the material topic and its Boundary	Our employees, p. 98	—
	103-2 The management approach and its components	Our employees, p. 98	—
	401-1 New employee hires and employee turnover	Our employees, p. 98	No breakdowns by gender, age and region are provided.
GRI 403 Occupational Health and Safety 2018	**103-1** Explanation of the material topic and its Boundary	Health, safety and environment, p. 104	—
	103-2 The management approach and its components	Occupational health and safety, p. 104	—
	403-9 Work-related injuries	Health, safety and environment, p. 98	Data is provided only for the Company's employees. The rates of fatalities, high-consequence work-related injuries (excluding fatalities) and recordable work-related injuries, as well as the main types of work-related injuries, the number of hours worked and work-related hazards remain undisclosed.
GRI 404 Training and Education 2016	**103-1** Explanation of the material topic and its Boundary	Our employees, p. 98	—
	103-2 The management approach and its components	Our employees, p. 98	—
	404-3 Percentage of employees receiving regular performance and career development reviews	Our employees, p. 98	No breakdown by employee category is provided.

Appendix 3. **Glossary**

Compartmentalization is a method used to classify pig farms by biosafety standards. The Federal Service for Veterinary and Phytosanitary Surveillance of Russia (Rosselkhoznadzor) has four biosafety levels (compartments), with farms vulnerable to biological threats assigned to Compartment I and those boasting high biosafety standards assigned to Compartment IV.

Dual education is a system combining theoretical training in higher education institutions and on-site apprenticeship in a company.

Epizootic risk is a risk associated with the outbreak and spread of infectious diseases in an animal population.

Full-cycle business is an enterprise controlling the entire production chain.

FSSC 22000 is a certification standard for food safety management systems of organizations in the food chain that process or manufacture animal products, perishable vegetal products, products with a long shelf life, food ingredients (such as additives, vitamins and bio-cultures) and food packaging materials.

Genomics is a field of molecular genetics focusing on the genomes and genes of living organisms.

HACCP (hazard analysis and critical control points) is asystematic preventive approach to food safety involving ongoing identification, assessment and management of hazards.

HoReCa is an abbreviation for a dedicated segment of the hospitality industry (hotels and restaurants) and a sales channel involving product consumption at the point of sale.

Industry 4.0 is a new generation of solutions for managing production facilities and value chains across the entire product life cycle, drawing on automation and data exchange technologies (cyber-physical systems, the Internet of things and cloud computing).

ISO 22000:2005 is the first international standard specifying requirements for the implementation and certification of food safety management systems and focusing on reporting, system management and control of food safety hazards.

Lean production is a production facility management concept promoting continuous waste minimization.

Oilseed meal is a concentrated feed obtained as a by-product of oil extraction (extraction of oil from the seeds of oil plants, for example, soybeans).

PCR is a laboratory diagnostics method used to detect infectious agents in animals (PCR – polymerase chain reaction).

R&D is an abbreviation for research and development activities that give rise to launching a new product into production and span a wide range of operations from academic research to the manufacturing of prototypes.

Sequencing is a name given to a variety of methods designed to determine the nucleotide order in a DNA molecule and detect disease agents.

ABBREVIATIONS

CMPP – Cherkizovsky Meat Processing Plant
GDR – global depositary receipt
JV – joint venture
LTIFR – lost time injury frequency rate
MPP – meat processing plant
R&D – research and development
SOP – standard operating procedure

Appendix 4. **Supplementary Information on Staff**

All Cherkizovo Group Employees operate in Russia.

Employee headcount by segment

	2016	2017	2018
Poultry	13,509	13,206	13,223
Pork	1,607	1,670	1,844
Meat Processing	3,993	3,741	3,951
Grain (incl. NAPKO)	770	1,557	1,458
Feed	1,132	1,061	1,057
Group = R&D Center[1] + SSC[2]	570	739	886
Trading Company	1,149	1,184	1,007
Total	**22,730**	**23,158**	**23,496**

Number of employees trained internally[3], man hours

	2017	2018
Total	**11,567**	**37,955**
Classroom training	2,154	23,842
Webinars	—	386
Distance learning	9,413	13,727

Number of employees trained externally[3], man hours

	2017	2018
Total	**55,698**	**9,412**
Classroom training	55,674	9,382
Webinars	—	30
Distance learning	24	—

1 **R&D Center** – research and development centre.

2 **SSC** – shared services centre.

3 Excluding the Tambov Turkey joint venture.

Contact Information

ADDRESS AND CONTACTS
PJSC Cherkizovo Group
5B Lesnaya St., Moscow 125047, Russia
White Square Office Centre
Tel.: +7 495 660 2440

Website:
www.cherkizovo.com

Email:
info@cherkizovo.com

Contact point for questions about public reporting
Andrey Novikov
Email: a.novikov@cherkizovo.com

REGISTRATION NUMBER
1057748318473 of 22 September 2005

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

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

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